

**Realogy Corporation  
Third Quarter 2008 Earnings Call Transcript  
November 7, 2008**

***Note:*** *This is a verbatim transcription of the Realogy Corporation Third Quarter 2008 earnings conference call. It has been edited from its original version for transcription errors.*

**OPERATOR:** Good morning and welcome to the Realogy Corporation Third Quarter 2008 earnings conference call via Webcast. Today's call is being recorded, and a written transcript will be made available in the Investor Information section of the Company's Web site by the close of business today. A webcast replay will also be made available on the Company's Web site. At this time, I would like to turn the conference over to Alicia Swift, Vice President of Financial Planning. Please go ahead, Alicia.

**SWIFT:**

Thank you, Katherine. Good morning and welcome to Realogy's third quarter 2008 earnings conference call. On the call with me today are Realogy's President & CEO, Richard Smith; and Chief Financial Officer, Tony Hull.

Before we discuss the Company's third quarter 2008 financial results, I would like to call your attention to three items.

First, you should have all reviewed a copy of our financial results press release issued on November 5, 2008, and our third quarter 2008 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission that same day. As we stated in the Form 10-Q, the 2007 results for the nine months ended September 30, 2007 have been reported on a pro forma combined basis. They have been prepared to give effect to the Company's April 10, 2007 acquisition by Apollo Management, L.P. and the related financing transactions as if they had occurred on January 1, 2007 and combine the Company's financial results for the predecessor period from the beginning of the period -- January 1, 2007 through April 9, 2007, and the successor period, from April 10, 2007 through September 30, 2007.

Second, the Company will be making statements about its future results and other forward-looking statements during this call. Statements about future results made during the call constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on current expectations and the current economic environment. Forward-looking statements and projections are inherently subject to significant economic, competitive and other uncertainties and contingencies, many of which are beyond the control of management. The Company cautions that these statements are not guarantees of future performance. Actual results may differ materially from those expressed or implied in the forward-looking statements.

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Important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements and projections are specified in our 2007 Form 10-K and Form 10-Q for the quarter ended September 30, 2008 under the sections "Forward-Looking Statements" and "Risk Factors" and other periodic reports that we file.

Third, we will be referring to certain non-GAAP financial measures during the call. Our November 5 press release, which is posted on the investor information section of our Web site, contains definitions of these terms, a reconciliation of these terms to their most comparable GAAP measure, and a discussion of why we believe these non-GAAP financial measures are useful to our investors.

Let me briefly review the headlines from our release issued on November 5 regarding Realogy's third quarter 2008 results. Specifically for the quarter ended September 30, 2008, we reported:

- Revenue of \$1.3 billion,
- EBITDA of \$129 million; which includes \$45 million in equity losses and impairment charges related to our investment in the joint venture with PHH Home Loans; and
- A Net Loss of \$50 million – which is after \$152 million of interest expense and \$54 million of depreciation and amortization, partially offset by \$27 million in income tax benefit.
- And finally, our Senior Secured Net Debt to Adjusted EBITDA Leverage Ratio for the trailing 12 months ended September 30, 2008 was 4.8 to 1, in compliance with the terms of our credit facility.

Now, I'd like to turn the call over to Realogy's President and CEO, Richard Smith.

**SMITH:**

Thank you, Alicia. Good morning everyone, and thank you for attending our Third Quarter 2008 earnings call.

The current economic conditions of this country are weighing heavily on consumer confidence and thus on the housing industry. We are in the midst of one of the most protracted housing downturns in the history of our nation. What began in August of 2005 continues to this day, the fourth year of a very difficult housing market. The national macroeconomic shocks and the influence of global economic instability over the past month have given rise to an even greater housing challenge.

We are not immune. The strain on our nation's credit and financial markets, the inevitable recession and the attendant rising unemployment levels are all

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resulting in very weak consumer confidence and thus declining home sales and prices. It is unlikely that people will buy houses when they are worried about their jobs, their futures and the economy in general.

In spite of these unpredictable and extraordinarily difficult circumstances, we have remained focused on reducing costs and investing in the growth of our business.

We believe that our size and scale, coupled with our efficient, shared-services approach to back-office operations, are distinguishing factors that provide us with various competitive advantages in our industry, especially during this downturn. Here are just a few of our competitive strengths that I'd encourage you to keep in mind as we discuss the overall housing market and our operating performance and business unit accomplishments:

- We are the only major real estate services provider to successfully manage multiple national and international real estate brands.
- By design, our business model affords us cost efficiencies and advantages not enjoyed by our competitors.
- Our business has a number of favorable countercyclical characteristics that help mitigate some of the impact of the current downturn.
- Last, and certainly not least, we have demonstrated a disciplined approach to conserving cash. This has enabled us the flexibility to invest in strategic long-term growth opportunities such as a new franchise brand and superior technology, in spite of the environment.
- In the past two years, our management team has improved our operating efficiencies by more than \$350 million through brokerage office consolidations, business optimization activities and other cost-saving measures.

During our call in August, we stated there were some early signs of a developing bottom. And at the time, there were.

Since then, however, the National Association of Realtors dropped its full-year 2008 forecast further. In the last three months, NAR has gone from being down 9% and 6% on sales and price, respectively, to being down 11% and 8%.

In terms of unit sales, NAR is now projecting 5.0 million existing home sales in 2008. Fannie Mae continues to forecast 4.9 million existing home sales, which would be a 14% decline over 2007. This narrow range should come as no surprise since NAR's seasonally adjusted annualized home sale unit number has remained between 4.9 to 5.0 million units for approximately 12 months, ticking up to 5.2 million units in September.

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As to average sales price, Fannie Mae is forecasting a median 2008 price of approximately \$200,000 while NAR is at approximately \$201,000, which puts their respective year-over-year declines at about 8%.

In the third quarter, Realogy's real estate business drivers experienced declines that were directionally in line with NAR and Fannie Mae. During this period, our year-over-year home sale transaction sides declined by 15% at the Realogy Franchise Group (RFG) and were down 10% at NRT, our company-owned brokerage unit. As to price, RFG's average home sale price decreased 7% while NRT's average price dropped 12%. These price declines were driven by various factors, including high inventory levels, the increased prominence of short sale and foreclosure activity, and particularly as it relates to NRT, a continued relative shift in the mix of transactions from higher price ranges to lower- and middle-range homes, substantially influenced by the sale of foreclosed homes.

Now, let's discuss highlights of our operating performance as well as select business unit accomplishments.

The **REALOGY FRANCHISE GROUP** has continued to expand and strengthen its brand networks:

- Our domestic real estate franchise services business is approximately three times larger than our nearest competitor when measured by sales associates, which is approximately 300,000. We estimate that brokers under our brands represented the buyer or seller in approximately 1 out of every 4 single-family homesale transactions, based on volume that involved a broker last year.
- As noted during our last call, we officially launched the Better Homes and Gardens Real Estate brand in July and introduced our first franchisee, a Pennsylvania firm. In October, we announced the signing of two new franchisees, including a firm ranked in the nation's Top 100 by both transactions and sales volume. The company, which has 29 offices in New England, signed a 15-year franchise agreement and is our largest addition thus far. The most recent new affiliate launch was in the Chicago suburb of Oak Park. To date, Better Homes and Gardens Real Estate has signed agreements with franchisees representing 40 offices operating in six states. We have a strong pipeline of prospects, and we expect to announce additional new affiliations in the coming months.
- In the third quarter, RFG reported total domestic franchise sales of \$100 million in gross commission income, or GCI, for all brands. Year-to-date through September, the Franchise Group has achieved \$367 million in franchise sales, a 12% increase over the first three quarters of 2007.

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- Total GCI as a result of new franchise sales and renewals was \$1 billion dollars during the last 12 months. About \$300 million was either terminated by Realogy or not renewed by the broker.
  - Now there is no question that the weak housing market and economy are negatively affecting our franchisees. As we have discussed previously, RFG created a strategic development team last year to proactively identify and assist brokers who have been adversely affected by the housing downturn. Through mergers, acquisitions and various work-out strategies, this team has retained approximately \$150 million in GCI.
- In October, three of our brands were recognized by Franchise Times as being among the Top 100 U.S.-based franchise companies across all industries both in worldwide sales and worldwide office locations. This is the ninth consecutive year in which CENTURY 21, Coldwell Banker and ERA earned this distinction.
- The REAL Trends/Wall Street Journal “Real Estate Top 200” rankings for individual agents and teams was issued earlier this morning. Realogy led the way with winners in 3 of the top 4 categories belonging to a combination of sales agents and teams from NRT and our brand affiliates.

**NRT**, our company-owned brokerage services segment, on an annual basis, generates about three and a half times the sales volume of its nearest domestic competitor. For this and numerous other reasons, in its industry NRT has proven to be in a class all by itself.

NRT management has been very successful in reducing brick-and-mortar office costs through office consolidations. Since the end of 2005, we have consolidated, merged or closed approximately 300 company-operated facilities, approximately 20% of the total, with comparatively little impact on revenues.

As to NRT management’s ability to attract and retain top-producing agents, as in prior periods, NRT retained approximately 92% of GCI from its top two quartiles of sales associates in the third quarter. The top two quartiles generate approximately 88% of NRT’s revenue.

In its efforts to increase efficiency and reduce its operating overhead, NRT continues to consolidate the back-office support functions of its individual local operating companies into larger regional support centers. By the second quarter of 2009, NRT will have streamlined more than 25 service centers into six regional service centers.

NRT’s REO division, one of the largest independent Real Estate Owned asset management companies in the United States, has grown materially this year.

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The REO division's closed sales volume increased to 10,500 units in the third quarter of 2008 up from 5,600 the same quarter in 2007. For the nine months ending September 30, 2008, NRT's REO division has closed approximately 28,000 transaction sides. The REO division's activity is brokered by NRT, our franchisees and, in some instances, third parties. Although the price points of REO sales are much lower than our NRT average sales price, this is an important countercyclical business that capitalizes on the near-term growth of foreclosure sales.

**CARTUS** is the largest employee relocation firm in the United States and is approximately twice as large as its closest competitor when measured by the volume of transferred employees.

During the third quarter, Cartus added 50 new clients with expanded services to several others. Among the new signings and expansions were The Coca-Cola Company, Houghton Mifflin and Textron. Year-to-date through September, Cartus has signed 135 new clients and expanded services it provides to an additional 55 existing clients.

Although revenues at Cartus in the third quarter dropped by 11%, its EBITDA improved by 18%, largely due to an \$11 million profit improvement from exiting the government business. We are still on track to recognize a total cash benefit of \$50 million in 2008 from our earlier decision to exit from the Cartus "at-risk" government business.

The **TITLE RESOURCE GROUP** management team continues to diversify its revenues to address its dependence on unit volume from NRT brokerage offices. Specifically, TRG has grown its underwriting business, generating record levels of net premiums in newly licensed states, particularly Florida and New Jersey.

TRG has continued to increase its capture rates on NRT's REO division, primarily in Florida and California. And year-to-date, TRG has increased its REO closed business by more than 95%.

As we previously mentioned, TRG developed a Web-based transaction management software platform called HomeBase. This innovative system was piloted in approximately 210 NRT brokerage offices and will be expanded to an additional 240 by year end. We expect to have all NRT offices operational on HomeBase sometime in late 2009.

Now, I'd like to discuss several noteworthy regional trends and provide some current color from various local markets of interest.

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At NRT, Florida continued to show signs of improvement through September with unit sales up 13% for the three months ended September 30, 2008 versus 2007. And similar to last quarter, San Diego and Sacramento showed signs of rebound with a year-over-year increase in unit sales. For the three months ended September 30, 2008 versus September 30, 2007, unit sales increased 32% and 91% in San Diego and Sacramento, respectively. Most of this unit sale increase was from foreclosed homes, and as a result, the year-over-year average sales price in the third quarter decreased by 29% and 40%, respectively. The California Association of Realtors reported similar increases in the third quarter.

As for New York City, in response to the pressures on Wall Street, the Corcoran Group saw a decline in units in the third quarter of 2008 and the initial stages of pressure on price. Connecticut, Westchester and New Jersey also continue to be negatively influenced by the job losses on Wall Street and the related economic consequences.

In our Franchise Group, our Western region again performed the best in the third quarter with unit increases of 4%. California had unit increases of 44%, which were offset by price declines of about 27%. In contrast, Washington State experienced unit declines of 28% and price declines of 11%. The Northeast region was hardest hit again in the third quarter with volume declines of 28%. New Jersey and New York had volume declines between 19% and 25%. As you can see, the dynamics vary greatly from market to market, illustrating once again that all real estate is local.

In the month of September, the trend line indicated a narrow range of single-digit declines to slightly positive unit increases -- a trend we thought would continue. The trend did not repeat in October, obviously in response to the credit shock and its impact on financial markets. Instead, the year-over-year transaction volume range for the month of October widened from down 9% for our real estate franchise operations to up 1% for our company-owned brokerage operations. Regionally, October 2008 transaction volume for NRT was down about 17% in the New York metropolitan area and improved by 57% in California and 24% in Florida.

The average year-over-year sale price of homes sold in September and October were down 7% for our franchise operations. For NRT, the decline in high-end home sales and the substantial influence of REO sales, resulted in year-over-year average sale price decreases of 14% in September and 18% in October.

We believe the slowdown in October was in response to macroeconomic events. The resulting sudden and unexpected increase in mortgage rates in October -- especially on jumbo loans -- has compounded the problem. And to date nothing

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coming out of Washington has adequately addressed that issue. We are seeing a recurring theme – namely, that there are significant numbers of credit-worthy buyers waiting for lower mortgage rates.

Homebuyers are sitting on the sidelines, waiting for a signal that it's OK for them to enter the market with confidence. According to a national survey of more than 1,000 homeowners conducted in October for Realty by a leading market research company, 27% said the current U.S. economic environment was causing them to put their plans on hold for the purchase of a new or existing home. However, even in today's challenging economic environment, 9 out of 10 respondents believe that owning a home is still their best long-term investment.

We believe there are millions of credit-worthy people ready to jump back into the housing market, but they need to be motivated. In our view, and 95% of a representative sampling of our franchisees surveyed last month, the incentive of substantially lower mortgage rates would directly stimulate the housing market. In response, Realty recently made a proposal to the U.S. Department of Treasury calling for a short-term government buy-down of mortgage rates to 4.5% or lower on the purchase of homes sold up to a \$1 million price tag. We think the pent-up consumer demand for housing, if encouraged, is more than sufficient to stimulate both existing and new home sales, reduce home inventory levels and stabilize home prices. When home sales increase, housing-related consumer purchasing follows, and, ultimately, we would expect this to help accelerate the U.S. economic recovery.

Our proposal has been well received and we are working together with leading homebuilders, the Business Roundtable, and National Association of Realtors to encourage the government to develop a subsidized mortgage program.

Despite what we saw in October, there are still a number of encouraging signs in the housing market, most notably:

- Total housing inventory fell to a 9.9-month supply through September, that's down from a 10.6-month supply in August. This marks three consecutive monthly declines since inventories hit an 11.1-month supply in June. By all accounts, a 6-month supply is indicative of a healthy, balanced housing market.
- The NAR Housing Affordability Index jumped to 135, approximately a 12-point gain from August to September and the highest monthly index since March of 2008.
- And last, two leading banks, Bank of America and JPMorgan Chase, announced plans in October to modify home loans for approximately 800,000 of their customers. By lowering interest rates on existing mortgages and temporarily reducing loan balances for as many as

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400,000 homeowners each, these banks are working to stem the rising number of foreclosures. This is similar to the plan put in place at IndyMac after FDIC took it over in July, but on a much larger scale.

Looking ahead, the current NAR and Fannie Mae forecasts for 2009 are once again divergent on both sides and price, underscoring the difficulty in forecasting the housing market in this economic environment. With regard to units, NAR anticipates 5.4 million existing home sales in 2009, an 8% increase over its 2008 forecast. Fannie Mae is forecasting 4.9 million units in 2009, which is flat year over year. NAR also estimates median home prices will be \$206,000 next year, which would be a 3% year-over-year increase. By contrast, Fannie Mae forecasts and projects a further 7% decline in median price in 2009, dropping down to about \$187,000.

Now, before I turn this over to Tony, let me say that although we see an improvement in affordability and a reduction in the number of homes in inventory, until consumer confidence, the credit markets and the economy improve, we do not expect the housing market to materially improve. Eventually, of course, it will, and until it does, we will continue to manage the levers under our control, which I am proud to say we have managed quite well.

With that, I will turn the call over to Tony.

**HULL:** Thank you, Richard.

I am going to discuss details of our third quarter financial results as well as address certain capitalization issues and review our October business drivers. I will be referring to the tables in the press release as well as several pages of the 10-Q.

Looking at Table 1 of the press release, total net revenue was \$1.3 billion in the latest quarter as compared with \$1.6 billion in the third quarter of 2007, a 17% decrease that was mainly a result of lower transaction volumes at RFG and NRT. The breakdown by revenue category is as follows:

- Gross commission income totaled \$1.0 billion at NRT.
- Service revenues totaled \$202 million, primarily from Cartus activities, and also TRG revenue relating to purchase and refinance closing activity as well as title underwriting revenue.
- Franchise fees totaled \$88 million and consisted of both upfront and on-going RFG domestic and international franchisee fees.
- Other revenue of \$44 million includes marketing fees that RFG collects from its franchisees, management fee revenue from NRT's REO business and net interest income from Cartus' relocation services.

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Moving onto the expense side of the income statement:

- Total commission expense of \$656 million decreased 20% or \$165 million quarter over quarter mostly as a result of lower transaction volume. Looking at NRT's gross margin as calculated by dividing commission costs by commission income, you will note that the margin improved from 34% in Q3 2007 to 35% in Q3 2008.
- Operating expenses of \$398 million were \$62 million or 13% lower quarter over quarter as we continue to see the impact of storefront and other cost reduction initiatives.
- Marketing expenses of \$50 million were down \$15 million or 23% in the third quarter of 2008 versus the third quarter of 2007.
- Finally, general and administrative expenses of \$59 million decreased 5%.

Looking on Table 3 of the press release at those same categories for the nine months ended September 30<sup>th</sup>:

- Operating expenses of \$1.2 billion were \$108 million or 8% lower year to date
- Marketing expenses of \$165 million were down \$44 million or 21% lower year to date
- General and administrative expenses of \$177 million decreased \$27 million or 13% lower year to date

Next I would like to discuss our key business drivers for the third quarter. Feel free to follow along with Table 4 of the press release.

RFG home sale sides decreased 15% in the third quarter of 2008 compared to the third quarter of 2007. NRT home sale sides decreased 10%. Results at both RFG and NRT were directionally in line with NAR, which reported existing home sale unit declines for the third quarter of 8 percent.

To put a finer point on this as we discussed during our last call, we saw our unit declines follow the pattern we were expecting in September. RFG had year-over-year unit declines of 2% in September and NRT had year-over-year unit increases of 9%. However, the financial market volatility in late September and October caused this pattern to weaken. In October, RFG had unit declines of 9% while NRT unit increases dropped to 1%. We cannot predict how long the current volatility in the financial markets will affect home sales.

Average home sale price decreased 7% at RFG and 12% at NRT in the third quarter of 2008. RFG's numbers were slightly better than those reported by NAR. At NRT, the mix of business and the impact of foreclosure and short sale activity continued to put downward pressure on its average price. NRT's year-on-year

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average price change went from minus 8% in the second quarter to minus 12% in the third. The number of foreclosure sales brokered by NRT offices represented about 10% of NRT's units in the third quarter of 2008. The increasing percentage of REO activity on NRT units is continuing to negatively affect the average sales price at NRT.

The price side of the equation continues to be extremely hard to predict. As Richard mentioned, year-over-year price declines in October were 7% at RFG and 18% at NRT. To put the NRT numbers in perspective, in the fourth quarter of 2007, NRT's average home sale price was approximately \$516,000. In October 2008 its average was approximately \$425,000. This dramatic drop is due to increased short sale and foreclosure activity as well as continued pressure in the upper end homes in all of the markets NRT serves. This is not unexpected given the financial turmoil experienced in October and the continued constraints on jumbo mortgage availability.

October open contract activity at NRT was even more concerning. Open contracts generally close within 45 to 60 days. Once closed, they are reported as revenue at NRT. In October the average sales price of open contracts at NRT was \$370,000 compared to an average closed sales price of approximately \$425,000 in the same month. Open units were down 10% from 2007 levels so the stabilization we saw in September on units was disrupted. While weaker than expected, the unit declines were not as significant as the year-over-year decline trends we saw during the first eight months of 2008. The New York metropolitan area was particularly weak in terms of both units and price in October opens.

Another factor that we have discussed previously is cancellation rates – or the percentage of open contracts that fail to close. This number is generally in the low- to mid-teens, but for the month of October it increased to about 20%.

Taking a look at the drivers for our two other business segments, at Cartus we experienced a 10% increase in initiations due to new global client signings. At TRG, purchase title and closing units declined 21% which follows the sales volume declines experienced at NRT. Refinance units declined 9% year over year due to the overall level of mortgage rates.

I will now discuss revenue and EBITDA by business unit for the third quarter ended September 30, 2008 as reflected on page 60 of the 10-Q. On a consolidated basis, EBITDA for the quarter totaled \$129 million. Adjusting for \$60 million in Q3 of 2008 and \$12 million in Q3 of 2007 for equity earnings or losses, impairment and restructuring charges, EBITDA was down 13%.

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Total revenue at RFG was \$172 million compared with \$217 million in 2007. The 21% revenue decline is in line with the change in home sale sides and average home sale price shown on the driver table along with lower intercompany royalties from our company-owned segment NRT. Offsetting these declines was a 3 basis point increase in average broker commission rate charged by our franchisees. Total EBITDA at RFG was down 32% for the third quarter 2008 versus 2007. This was a result of the revenue decreases discussed above. Lower costs realized from initiatives put in place over the past four quarters were offset by increases in non-cash bad debt reserves, higher development advance note amortization and our investment in Better Homes and Gardens Real Estate.

At NRT, total EBITDA was a loss of \$9 million. This includes a \$45 million non-cash equity loss and impairment charge from our investment in PHH Home Loans as well as restructuring charges of \$11 million. Absent these factors, EBITDA was basically flat year over year. Revenue declines of \$227 million due to lower unit and price activity was almost entirely offset by lower commission and royalty expenses along with \$13 million of marketing and \$34 million of other operating expense reductions positively impacting the quarter.

EBITDA at Cartus shown for the third quarter of 2008 was \$39 million, up 18% from the prior year comparable quarter. EBITDA benefited from our decision to exit the government "at-risk" business.

I would like to take a moment to update you on Cartus' exit from our government relocation business. As of September 30, 2008, we had approximately \$74 million of assets (homes and other receivables related to the government "at-risk" business), down from \$179 million at end of June. At the end of October, there were 57 unsold government "at-risk" inventory homes remaining, down from about 450 at December 31, 2007. Our intent is to sell these homes as quickly and as close to their acquired value as possible. Remember that we took an incremental reserve of \$14 million in 2007 to reflect the updated values of the at-risk homes that were in inventory at that point in time. We currently anticipate that the reserve will be adequate. Through the third quarter, we have recognized approximately \$40 million of the \$50 million cash benefit from the exit from this business in 2008.

At TRG, revenue decreased \$10 million as a result of lower unit volume. The revenue decline was offset by reduced expenses. EBITDA increased primarily as a result of \$5 million in gains from two joint venture exits that occurred during the quarter.

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Corporate and other expense was \$8 million in Q3 2008, compared to \$19 million last year. The reduction was due to insurance proceeds received in the quarter, lower legacy costs and lower employee-related costs.

Turning to the balance sheet on page 7 of the 10-Q, we ended the third quarter with a \$280 million balance on our revolving credit facility along with a reported cash balance of \$269 million. This total includes \$226 million of available cash from a draw-down on our revolver. We elected to hold cash because of current market uncertainty. The total cash balance above also includes \$43 million of statutory cash required for our title business. Our revolver balance at October 30, 2008 was \$405 million. The increase in net borrowings from September 30<sup>th</sup> was primarily due to our October semi-annual interest payments. We continue to hold over \$100 million of cash. We expect our revolver balance net of cash to be lower by year end.

Also on the balance sheet, relocation properties held for sale, which includes our government fixed fee business, dropped 67% to \$60 million, bringing total relocation assets to \$1 billion against total securitization debt of \$846 million. The working capital we have committed to relocation assets was \$193 million at the end of the quarter. This includes \$50 million of financing over and above our UK securitization facility. As you may recall the Cartus' UK Relocation securitization facility was at its maximum capacity due to the deteriorating state of the UK housing market at the end of the second quarter. Since our last call, many of our UK clients have agreed to self-fund their forward business and repay outstanding balances under this facility. This is expected to generate approximately \$25 million of cash flow which we will receive in the fourth quarter. While it does not completely resolve the over-funding issue, it significantly reduces the amount Realogy has to borrow under the revolver to support the UK business.

At September 30, 2008, our total debt was \$6.5 billion, which included \$3.4 billion of senior secured debt and \$3.1 billion of unsecured debt. We have a \$750 million revolver of which \$280 million was drawn out of the \$620 million available, subject to being in compliance with our covenants under our Credit Agreement. The difference between the \$750 million and the \$620 million reflects letters of credit we had outstanding.

Capital expenditure spending is shown on the cash flow statement on page 8 of the 10-Q. Capital expenditure spending was \$36 million year to date versus \$72 million for the same 9 month in 2007, and the reduction is a result of our ongoing effort to be conservative with cash spending. Similarly, M&A spending dropped from \$44 million during the first nine months of last year to \$12 million this year.

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Of the \$12 million spent so far in 2008, \$8 million related to earn-out payments on prior-year deals.

On page 75 of the 10-Q, we present the senior secured leverage ratio calculation. We've put in additional detail so that you can see how to tie various reporting periods into the trailing 12-month period used. Adjusted EBITDA is calculated based on EBITDA of negative \$398 million for the 12 months ended September 30, 2008. The first three major adjustments to the reported 12 month trailing number are merger, restructuring, separation and former parent legacy costs and the 2007 and 2008 impairment charges, which aggregate to \$814 million. With those items adjusted out, the starting point for the trailing 12-month period is \$416 million. To that we add a total of \$245 million of adjustments that are prescribed in our credit agreement. These include:

- The remaining pro forma impact of Q4 2007 cost savings of \$7 million. This factors in the total Q4 2007 completed restructuring actions of \$58 million to reflect what their impact would have been had they been put in place on October 1, 2007;
- The pro forma impact of 2008 cost savings of \$43 million. This includes \$55 million of completed actions taken in the first nine months of the year and reflects what their impact would have been had they been put in place on October 1, 2007;
- The removal of \$73 million of losses or expenses incurred in the last 12 months relating to business optimization initiatives. This figure includes the impact of a number of completed actions that we have discussed previously as well as additional initiatives completed in Q3;
- \$67 million of non-cash charges which includes a \$54 million change in the allowance for doubtful accounts and reserves for development advance notes, \$7 million for stock based compensation and \$7 million related to foreign exchange losses;
- Purchase accounting adjustments of \$6 million;
- Pro forma effect of NRT acquisitions and RFG new franchise sales of \$15 million had they occurred as of the beginning of the 12-month period
- Apollo Management fees of \$14 million; and
- Wright Express proceeds of \$11 million.

At September 30, 2008, total Senior Secured Debt plus capitalized lease obligations less readily available cash totaled \$3.2 billion. That divided by Adjusted EBITDA of \$661 million for the 12 months ended September 30th, results in the senior secured net debt to Adjusted EBITDA ratio of 4.8 to 1. Although the maximum permitted ratio dropped to 5.35 at September 30<sup>th</sup>, we continued to stay well below that amount in Q3, which we attribute to our continued proactive actions to generate operating efficiencies.

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Let me update you on our current cash flow expectations for 2008:

- We currently expect to pay approximately \$575 million in cash interest expense in 2008. This figure reflects one semi-annual interest payment of approximately \$30 million on the senior toggle notes that we paid in kind in October as well as the negative arbitrage we are incurring from maintaining higher cash reserves. Based on current LIBOR rates and paying interest in kind on the senior toggle notes for two interest periods, the run-rate cash interest expense would be approximately \$520 million;
- Capital expenditures are expected to be about \$55 million for the full year;
- Changes in relocation assets, net of changes in securitization borrowings, are expected to generate between \$20 to \$30 million of cash. This includes the benefit from the exit of government business and the UK self-funding impact; and finally,
- Funding of legacy activities are expected to total about \$10 to \$20 million for the full year.

While we cannot predict the macro impact the economy at large or how the latest financial crisis will effect our business, we are committed to maximizing operating efficiencies as warranted by market conditions wherever possible for as long as necessary. Based on actions that we have planned and new opportunities we have identified that will be rolled out over the next 4 quarters, and despite sudden weakness in October, we continue to expect that we will remain in compliance with our covenant over the next 12 months. This assumes our future results align with the current forecasts of Fannie Mae and NAR although our visibility is less reliant on those forecasts in nearer term.

With that, I'll turn it over to Alicia to review the questions that were submitted in advance of our call that we have not already addressed in our prepared remarks.

**SWIFT:** Thank you, Tony. As we move into Q&A, our prepared remarks have addressed many of your questions, and we have tried to consolidate similar questions and provide a single response.

**SMITH:**

**1. Do you see any issue meeting covenant compliance?**

Despite the sudden weakness in October, based upon our current forecast we expect to continue to be in compliance with the senior secured leverage ratio, as Tony mentioned.

Our current forecast, which does not contemplate additional debt or equity financing, takes into account NAR and Fannie Mae 2009 projections and includes a number of identified new business optimization and productivity

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initiatives that we expect to execute over the next year. However, if market conditions or the company's performance were to underperform current expectations, we could initiate additional business optimization and productivity measures.

If the Company were to be in default of the covenant, our parent company also has the right but not the obligation to cure such default through the infusion of additional equity. And of course, as you would expect, there are no guarantees.

**HULL:**

**2. Did Apollo buy any of the debt this quarter?**

Any questions about Apollo's actions should be directed to Apollo.

**HULL:**

**3. Has Realogy repurchased any of its debt to date?**

As reflected on the balance sheet, Realogy has not repurchased any of its debt.

**HULL:**

**4. The Company expected to reduce revolver debt in the second half of 2008 but revolver increased. Why did this happen and does company still expect to materially pay down the revolver by year end 2008?**

The net revolver balance at September 30<sup>th</sup> was \$54 million, down from the net revolver balance of \$180 million at June 30<sup>th</sup>. As of today the net balance is about \$300 million. Most of the increase from September to today was due to the interest payments made in early October. Based on what we know today, we expect that the net balance will decrease considerably from today's level by year end.

**HULL:**

**5. Explain the \$30 million reserve for development advance notes and promissory note add-back which just surfaced in third quarter 2008. What segment(s) EBITDA do the increases in the allowance for doubtful accounts and the reserve on development advance notes impact?**

The development advance note reserves are now separated from the accounts receivable reserves in the footnotes to the covenant calculation. These reserves are not new, and the combined balance was \$36 million in Q2. These reserves are substantially related to the Franchise Group.

**HULL:**

**6. Can we expect more charges from PHH Home Loan and what is the company's remaining exposure?**

As of quarter end, our investment is recorded at fair value. Our remaining investment in the joint venture is \$47 million.

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**HULL:**

**7. Is the difference between “readily available cash” as defined for the leverage test and “Cash and cash equivalents.” as it appears on the face of the balance sheet just cash at any of Realogy’s insurance subsidiaries?**

Yes, the difference is the cash held for regulatory purposes primarily for the title business.

**SMITH:**

**8. What percentage of NRT's revenue is generated in the Manhattan and Hamptons markets?**

in keeping with our past, we do not specifically break out revenue generation for Manhattan and The Hamptons markets, or any other market for that matter.

**SMITH:**

**9. What is the outlook for Relocation given the slowdown in corporate spending and headcount reductions? Are you still seeing organic growth?**

Our clients are affected by a weak economy and clearly it stands to reason that as a result they may reduce their relocation activity. That said, we continue to add additional clients and expand services to our existing clients.

**SMITH:**

**10. Is the increase in the average fee at TRG a function of mix or true price growth?**

The average fee at TRG is entirely increased due to mix of business so it’s literally a mix-of-business issue.

**HULL:**

**11. Why were purchase units at TRG so much weaker than closed sides in RFG and NRT?**

This is also a mix of business issue. In an REO sale, the lender decides who will provide title services and TRG does not have the opportunity to market to that segment of the market. So, when an REO sale is handled by NRT or RFG, the lender provides the title service – not TRG. So given the fact that more of our business is REO than in the past, that would explain why purchase units at TRG were more adversely affected.

**SMITH:**

**12. Can you please explain to us why the franchisees seem to be losing market share? What is happening with market share at RFG and NRT?**

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We believe our franchisees' market share has remained relatively stable. Our data indicates that NRT has held or improved its market share in about three quarters of its markets.

**HULL:**

**13. Why did the maximum availability of the UK facility decrease by \$21 million?**

The difference in the maximum availability is due to exchange rate fluctuations. In Pounds, the UK facility remained at 100 million pounds sterling.

**SMITH:**

**14. Has there been any loss of clients from asking UK relocation customers to "self fund"?**

We have lost very few clients in the UK in making that request but it has not affected profitability.

**SMITH:**

**15. Can you discuss some of the possible future business optimization plans that you have identified to avoid a covenant breach?**

Our goal has and will continue to be to optimize the business given the changing environment, and the majority of our initiatives have been with that in mind. Historically, we have discussed our various initiatives after the fact, and that's a practice that we will continue. For over two years, we have delivered on our commitment to take out costs, and we have a high degree of confidence in our ability to continue to do so.

**HULL:**

**16. Do you have any concern that you will not be able to renew the short-term borrowing facilities for the title business?**

And there are no certainties in the financial markets for anyone but we have successfully managed these issues to date.

**SMITH:**

**17. Through 3Q08, have you continued to accrue bonuses for senior management?**

We are not accruing incentive bonuses for senior management of Realogy. We do have modest targeted retention plans in place however.

**SMITH:**

**18. According to the Case-Shiller index home prices have decline by 20% year over year and yet in neither of your segments (owned or franchised) do you seem to be experiencing that significant of a drop in pricing? Do you expect your businesses to experience this significant pricing decline?**

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Our sales price data is based on actual transactions rather than a theoretical analysis, which you often see in the surveys. As you saw in Q3, the sales price declines that RFG reported were directionally in line with both NAR and Fannie Mae. NRT results were below those indices due to a change in their mix of business in the quarter.

**HULL:**

**19. Please provide additional detail around the 2008 cost savings initiatives. What are these initiatives? When during the year were these actions taken. How much has been realized to date and in which line items do we see the benefit.**

The additional cost savings in Q3 reflect additional NRT office closures and consolidations, the continuation of consolidation of a number of back-office support functions at NRT and some reductions in force in the business units. These actions were all completed prior to the end of the third quarter.

The cost savings are expected to be realized over a 12-month period depending on when the actions were initiated. For example, the full impact of 2007 cost savings should be realized by year end 2008. The year to date 2008 actions should be fully realized by the end of third quarter 2009.

**HULL:**

**20. What is your outlook for EBITDA, adjusted pro forma EBITDA and net revenue for the fourth quarter of 2008?**

We are not giving guidance for Q4 2008.

**SMITH:**

**21. With the cost reduction initiatives the Company has completed, will the sensitivity to EBITDA declines based on the fall in home sale sides and average home price, be lower than the impact indicated using 2007 numbers?**

It stands to reason that the sensitivity to EBITDA would decrease as our cost structure improves so yes, that's the case.

**SMITH:**

**22. Any update on the timing or outcome of the contingent tax liability? What about Credentials and other contingent liabilities?**

The timing of the contingent tax liability, or Credentials, has not changed from what we have previously reported.

**SMITH:**

**23. Can commission split improvements be continued or enhanced in a continued declining housing market?**

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In a declining housing market, any number of our costs change and that includes how we compensate our independent sales associates.

**HULL:**

**24. Do you expect tax refunds related to legacy matters in 2009 and 2010?**

Most of the tax refunds related to legacy matters have been received.

**HULL:**

**25. Please provide some clarification on the significant decline in Depreciation & Amortization for last 12 months ended 9/30/08 compared with last 12 months ended 6/30/08.**

The majority of the declines pertain to pendings and listings amortization that was a byproduct of our merger with Apollo and related purchase accounting adjustments that rolled off after June 30, 2008.

**HULL:**

**26. Under the break-up of "business optimization initiatives" in Adjusted EBITDA, \$25 million is under "Other". Would you please provide some information on what items are included under that line?**

This is a variety of completed smaller actions that add up to the \$25 million.

**HULL:**

**27. Does Lehman hold any portion of your revolver?**

No, Lehman does not hold our revolver.

**HULL:**

**28. Why did the liability due to former parent increase to \$561 million?**

On July 9, 2008, an amendment to the Tax Sharing Agreement between Realogy and its former sister companies was signed, to clarify the intent of the parties upon signing the Tax Sharing Agreement in 2006. This amendment resulted in certain balance sheet reclassifications between amounts due to/from former parent and tax accounts in the third quarter of 2008. There was no impact to the statement of operations as a result of this tax amendment and the balance sheet reclassifications did not increase the Company's net exposure for contingent tax liabilities.

**HULL:**

**29. What is fixed and variable breakdown by business unit?**

RFG and TRG are approximately 70 fixed to 30 variable percent split. For NRT, the breakdown is 80 percent variable to 20 percent fixed, and Cartus is approximately 60 percent variable to 40 percent fixed.

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**SWIFT:** That concludes the Q&A portion of our call. Thank you, Richard and Tony. I have two quick points of information to add, and then we will conclude today's call:

- First, we will make a transcript of this call available on the Investor Information section of the Realogy.com Web site by the close of business today.
- Second, we anticipate announcing our Full Year 2008 results in March, with the exact date still to be determined.

We thank you for taking the time to join us on the call, and we look forward to speaking with you next year. Thank you.

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