Realogy Corporation
First Quarter 2008 Earnings Call Transcript
May 16, 2008

Note: ***The following is a verbatim transcription of the Realogy Corporation first 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 first 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 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, Dennis. Good morning and welcome to Realogy's first 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 first 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 May 14, 2008, and our 2008 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission that same day.

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.

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 March 31, 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 May 14 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 May 14 regarding Realogy's first quarter 2008 results. Specifically we reported …

- Revenue of $1.05 billion for the first quarter,
- Reported EBITDA of $4 million,
- A Net Loss of $132 million, which includes interest expense of $164 million,
- And, the Senior Secured Net Debt to Adjusted EBITDA Leverage Ratio for the 12 months ended March 31, 2008 was 4.2 times to 1, which is well below the limit of 5.6 times in 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 and thank you for attending our first quarter 2008 earnings call.

It has been less than two months since we had our in-depth call covering both Realogy's full-year 2007 results and guidance for the first quarter of 2008. As you will see, the color we shared back on March 24 regarding the first quarter of 2008 was on target. As Tony Hull will discuss in greater detail, we expected reported EBITDA to be break-even in the first quarter, and with $4 million in EBITDA, we finished the first quarter modestly above our expectations.

Due to the seasonality of the real estate market, the first quarter of any year is historically our slowest quarter. Since we have completed only one quarter of the year, we still have most of our annual EBITDA opportunity in front of us, and, of course, that's where our focus lies.

Now, before we get into our operating performance and business unit accomplishments, let's briefly discuss what has happened on a larger macroeconomic level since our last call.

As you all know, GDP grew by less than 1% for the second straight quarter, the Federal Reserve cut its Fed Funds rate by a quarter percentage point last month and the April jobs report was better than most economists had anticipated. With regard to the federal economic stimulus package, while the first of an expected 130 million rebate checks were mailed to American taxpayers at the beginning of May, we are still waiting for the Fannie Mae and Freddie Mac components of the package to impact housing in a favorable way. The government's effort raised the size of a conforming mortgage loan from $417,000 to as much as $729,750 in higher-priced markets around the country in March. This increase in FHA loan limits was designed to help consumers struggling with the current credit crisis. Unfortunately the process necessary to close a loan under these new limits is burdensome and somewhat awkward, and has had little impact on housing thus far. Once improvements to the process are in place, we should see a positive impact on sales. We were recently encouraged that the Office of Federal Housing Enterprise Oversight (OFHEO) has recently relaxed some of the regulatory restraints it had placed on Fannie Mae. OFHEO said that once Fannie completes its efforts to raise $6 billion in capital, it would loosen the excess capital it is required to keep on hand to 15% from its current requirement of 20%. Fannie will also be able to drop that to 10% in September. These actions should add liquidity to the mortgage market.

The late breaking news from Fannie Mae is that the declining market restrictions adopted in December 2007 which required high down payments based on perceived market risks will be replaced effective June 2008 with a new national policy on conforming mortgages that will accept up to 97 percent loan to value ratios for conventional conforming mortgages. This is very good news and coupled with the current attractive rates should favorably impact the second half of this year.

While there has not been any official declaration of a recession, the U.S. is in the third year of a protracted housing downturn. Our research indicates that in six prior recessions dating back to the late 1960s, all previous housing downturns have recovered in advance of the general economic recovery. This historical precedent indicates that by the time a recession is formally declared by the National Bureau of Economic Research, the housing market would already be in the midst of a recovery.

On a related note, Wellesley College Professor Karl Case, of Case-Shiller Index fame, recently shared a graph with the Wall Street Journal that charted new housing starts since 1972. Case

told the Journal on May 7 that it was "remarkable how much where we are today looks like the bottom we've had in the last three cycles." Case's research showed that every time in the last three housing downturns when new housing starts dipped below the one million mark, it proved to be the bottom of a recession. As you know, housing starts dropped below one million in March 2008.

Focusing now on national existing residential housing market factors, here are the notable recent trends:

- The National Association of Realtors recently reported that existing home sales declined in March. NAR's monthly survey showed that existing home sales were down 2% month-over-month and 19% year-over-year in March. Its April report for seasonally adjusted annualized existing home sales was 4.9 million units. This is the fifth consecutive month that NAR has reported an annualized number in the 4.9 to 5.0 million unit range.
- The *REAL Trends* Housing Market Report, which uses actual closed sales data, reported that national existing home sales in March were down 28% year-over-year, and average home sale prices down 7% versus March 2007. The *REAL Trends* report encompasses information from brokers in all 50 states and includes actual closed sale data from a variety of realty firms representing the majority of metropolitan areas in the country.
- By contrast, the S&P / Case-Shiller Home Price Index released in April, which is limited to 20 cities, showed a composite home price decline of 13% in February of this year compared to February of last year. In our view, the Case-Shiller Index is a theoretical, academic exercise and does not accurately reflect what we are seeing or what the industry is reporting in terms of actual closed home sales activity in markets across the country.
- NAR's full-year 2008 forecast calls for 5.4 million existing home sales, a 5% decrease from 2007, and a median existing home price of $213,700, which is a 2% decrease over last year.
- Fannie Mae's full-year forecast for 2008 is 4.8 million existing home sales, a 16% decrease from 2007, and median existing home sales price of approximately $191,000, which would be an 8% decrease from the prior year. It should be noted that Fannie Mae has improved its 2008 unit forecast in each of the past three months.
- If you bracket the NAR and Fannie forecasts, expectations for existing home sales are in a range between being down 5% and down 16%, respectively, when comparing 2008 forecasts to 2007 actual results. The two entities anticipate a decrease in median sales price for existing homes in the range of down 2% to down 8%, respectively, on a year-over-year basis.
- The NAR Housing Affordability Index remained above 130 points for the third consecutive month and affordability was 15% greater in March 2008 compared to March 2007, when the Index was at 113 points. Also by way of comparison, the current Housing Affordability Index is 26 points better than the recent low Index of 104 in July 2007.
- The number of homes entering some stage of the foreclosure filing process rose by 23% in the first quarter of 2008 compared to Q4 of 2007, and increased by 112% on a year-over-year basis. According to RealtyTrac, of the 650,000 homes that were in some stage of the foreclosure filing process, only approximately 155,000 were actually lost to foreclosure during the first quarter. I would remind you that we are the largest independent REO or Real Estate Owned asset management company in the United States, so we have some unique perspective on what is happening in this marketplace.
- Recent remittance report data from Wachovia Capital Markets showed that the number of subprime borrowers who were delinquent on their home loans rose at a slower pace in April than in March. It was the third month in a row in which the delinquency rate slowed and while the delinquency rate still rose by 1.2% that compares favorably to a 2.6% rate of increase in January 2008. By no means is the subprime issue over, but, directionally speaking, the trends are somewhat encouraging.

- On May 14, the Mortgage Bankers Association reported a 3% increase in application volume in its weekly mortgage loan survey and also reported that the average interest rate for 30-year fixed mortgages decreased to 5.82 from 5.91 percent. One thing that is interesting to us is that FHA loan usage is becoming a more significant part of PHH's book of business. They and other mortgage originators are anecdotally reporting that upwards of 30 percent of their loans are originated under FHA guidelines which serve as a replacement for subprime lending.
- Jumbo rates for 30-year fixed mortgages are just above 7% according to bankrate.com.
- Lastly, according to NAR, the number of existing homes listed for sale in March was 4.1 million homes, which represents 9.9 months of inventory on a seasonally adjusted basis. This relatively high level of inventory continues to add downward pressure on the price of existing home sales.

Looking at the first quarter of 2008, Realogy certainly has felt the effects of the challenging macroeconomic environment and continued downward pressures on housing. Nonetheless, we believe our business model continues to demonstrate its resiliency, and that our proactive cost management measures will position us well to capitalize on the eventual recovery in the housing market.

Now I would like to highlight several key operating accomplishments by our business units in the first quarter.

Alex Perriello, the **Realogy Franchise Group's** CEO, and his team have been very busy:

- The licensing agreement between Realogy and Meredith Corporation becomes operational in July 2008, which is when we plan to launch the Better Homes and Gardens Real Estate brand. Since October of 2007 we have assembled a top-notch management team, built a strong offering of values around one of the best trademarks in residential real estate and are now ready to launch the company. A strong pipeline of prospective franchisees bodes well for the early development years of this new company.
- The franchise sales pipeline is as strong as we have seen it in some time. Continuing a positive trend that we have now seen for the last four quarters, the average Gross Commission Income per newly franchised company grew on a year-over-year basis. During the first quarter of 2008, the average company GCI was $1.8 million per new affiliation, which is an increase of approximately 94% from the $900,000 per company GCI we saw in the first quarter of 2007. This reflects our focus on conversions of larger, established brokerages rather than start-ups and smaller independents.
- Consistent with our international growth strategy, Sotheby's International Realty signed seven new international master franchise agreements in the first quarter for the following countries and regions: Hong Kong, Czech Republic, Greece, Cyprus, two markets in Germany, and a major market in Italy.
- The total GCI retained and added in the last 12 months as a result of new franchise sales and renewals were $1.2 billion dollars, compared with only $219 million that was either terminated or not renewed by the broker.
    - You recall we created a strategic development team last year to proactively identify and assist brokers who have been adversely affected by the housing downturn. This team assists those franchisees who are having difficulty managing through the downturn with solutions that are unique to our multi-branded company. Since its inception in mid-2007, this team has retained approximately $87 million in GCI.
- One other item of particular note in the Franchise Group from the first quarter is that Sotheby's International Realty Affiliates won *Franchise Business Review's* "Franchisee Satisfaction Award" as the best in category for the real estate industry, and finished in the Top 50 among companies across all industries for client satisfaction. In a short four

years, Sotheby's International Realty has grown into a best-in-class status, joining the balance of our real estate companies that enjoy similar industry standings.

Now, on to **NRT**, our Company-Owned Brokerage Services segment. During the first quarter of 2008, NRT continued to reduce its operating costs while improving its operating efficiency and retaining its productivity at forecasted levels, a significant accomplishment given the current challenges. Bruce Zipf, NRT's CEO, and his team have done an outstanding job of managing through this downturn.

In April, NRT was named as the No. 1 residential real estate brokerage company in the nation by *REAL Trends* magazine for the 11th consecutive year, in both the rankings by sales volume and transaction sides.

As we mentioned on our last call, NRT identified a total of 70 office locations that will be consolidated or downsized by the end of the second quarter of 2008. Approximately 50 of those location consolidations have already occurred during the first quarter. NRT has been extremely successful in implementing its office consolidation plans and over the past two plus years the company consolidated approximately 240 locations, retained 95% of the Gross Commission Income and reduced storefront costs by about $70 million dollars on an annualized basis.

NRT management has retained approximately 92% of the GCI from its top two quartiles of productive sales associates for the first quarter of 2008. As we have noted in the past, the top two quartiles of productive agents at NRT generate approximately 88% of our company-owned store revenue.

On the acquisition front, NRT currently is focused more on roll-ins and walkovers than on acquisitions. As you may recall from previous calls, a roll-in or walk-over is in its simplest terms the recruitment of a group of sales associates in a single transaction, less the brick and mortar and related attributes of a traditional acquisition. It is a very efficient and fairly traditional growth strategy for a brokerage company.

CARTUS, our relocation services firm, led by CEO Kevin Kelleher and his team, continues its very impressive new client signings, earning contracts with Accenture LLP, Rolls-Royce International, Louis Dreyfus Corp and other leading firms in the first quarter. In addition to its strong new business development pipeline, Cartus also has a significant number of existing clients that are expanding their agreements to include additional services including clients such as Daimler Financial, Jones Lang LaSalle, and GTECH.

On our last call, we discussed Cartus' decision to exit the "fixed-fee" government employee relocation services segment of its business. This strategy will all but eliminate the Company's exposure to the purchase of "at-risk" homes by year end and also have a net positive impact on Realogy's cash flow by freeing up $50 million for the year, the majority of which will be realized in the second half of 2008. Cartus is currently winding down services for those relocating employees of client companies who were authorized under the programs up to April 15, 2008, which was the approximate date we concluded the program.

At **TITLE RESOURCE GROUP,** CEO Don Casey and his team continue to grow their lender channel business as a provider of settlement services for three of the top 10 national lenders. We see significant growth potential in this channel in coming quarters, as evidenced by TRG's 50% growth in re-fi closing volume during the first quarter with lenders using our Mail Away Closing product.

In March 2008, TRG signed a pair of agreements concerning two separate joint ventures. First, in Northern California, TRG agreed to buy out its partner, First American Title Company, in the

Cornerstone Title Company joint venture. Cornerstone serves many NRT brokerage offices in the Northern California region. In addition, TRG agreed to exit its Censtar Title Insurance Company joint venture, also with First American Title Company. Upon closing, we expect to receive net cash proceeds of more than $10 million from this particular transaction. The majority of the venture's activities will be assumed by TRG's own underwriter.

TRG is also leading the internal development of a proprietary transaction management software platform called Realogy Homebase. This Web-based system manages a sales contract from start to finish and offers a variety of innovative online benefits for both our consumers and vendors. The system currently is being piloted by approximately 40 NRT offices across the country.

Overall, Realogy is still on track to realize total savings of $73 million from its 2007 and 2008 restructuring initiatives along with benefits from business optimization initiatives such as the exit of Cartus fixed-fee government business. Management continues to focus on reducing overhead and increasing productivity. In April, for example, Realogy disposed of the leased corporate jet it inherited in the spin from Cendant and realized more than $13 million dollars in cash. NRT, which has been extremely proactive in managing its fixed costs, continues to fine-tune its front and back office configurations. Likewise, TRG has already implemented a number of branch office consolidations and headcount reductions in the first quarter. Like NRT, TRG has been proactive in realigning the size of its field workforce and office locations based on volumes in the various local markets it serves across the country.

April was a month that may lend credence to the full-year unit improvement trends being forecasted by Fannie Mae and NAR. While one month does not a trend make, the stark contrast between March and April is worth noting. On a closed basis, RFG sides and average sales price, combined, declined 20% in April, compared to 38% in March and 32% in first quarter 2008. For NRT, April closed sides and price declined 20% compared to 38% in March and 28% for the first quarter of 2008. More encouraging is that NRT open contract activity for the month of April – a precursor for the remainder of the second quarter -- was down only 22% from last year. Although we expect to see mixed results in the coming months, we are encouraged by these positive signs of activity in April.

In terms of specific market activity based on April open contracts at NRT, the markets worth noting that appear to be stabilizing are Florida (with the exception of Miami), San Diego, Sacramento, San Francisco peninsula, Dallas and portions of the Northeast. The balance of our markets continue to show weakness, although the rates of decline have slowed. The reasons vary by market, but suffice it to say that in markets that are experiencing disproportionate REO or foreclosure activity, such as Sacramento, Denver and Atlanta, we are seeing pressure on our average sales price. In markets that have lower foreclosure activity, volume – more than price – continues to post year-over-year declines. We believe that financing remains the culprit in these markets and as mentioned earlier, that should improve over the next several months. In the higher-end markets served by Sotheby's International Realty and the Corcoran Group, the common issue they are experiencing is difficult year-over-year comparisons. While employment issues in the financial services sector may cause a slowdown for properties at certain price points in some of their markets, Manhattan in particular, foreign buyers and increased inventory should continue to partially mitigate such a decline. Reduced activity from our higher-priced markets will put pressure on NRT's overall average sales price, but all considered, we expect our Corcoran and Sotheby's operations in the New York City area to turn in relatively strong performances for the year.

As far as the Realogy Franchise Group is concerned, it is interesting to note that the unit activity in the lower average sales price points is outperforming the higher average sales price points. This is a reversal of what we saw last year and is indicative, in our view, of a bottom-up strengthening of the overall housing market. In terms of April closed sides activity, we saw some

of the same trends experienced in NRT metros on a broader national scale. In particular sides declines in the southern states improved 4 percentage points year over year in April compared to year-to-date declines including April. In the western states year-over-year side declines improved 15 percentage points in April compared to year-to-date declines including April. As it is discussed so much in the press, we should point out that Nevada sides were actually up 10% in April while price was down 3%, compared to year-to-date sides and price declines –including April -- of 22% and 10%, respectively. California sides were flat in April and price was down 5%, compared to year-to-date sides and price declines –including April -- of 27% and 10%, respectively. Also interestingly, on a national basis, year-over-year price declines were 2% in April compared to 5% for the year to date including April.

As you monitor housing market conditions, we caution you to not rely on any single source for housing market data. We reiterate that surveys and indexes, such as the S&P/Case-Shiller Index, should be viewed only in the context of their inherent limitations. A 20-city index, as an example, is hardly the standard for the entire country. Actual closed sales are the best indication of the state of the housing market.

A good example of this is the April *Real Trends* survey of brokers across the country. Its compilation of actual transaction activity covering 35% of U.S. homes indicated the same trends in April compared to March that we experienced. According to *Real Trends*, April sides declined 16% compared to 28% in March, and average sales price was down 4.5% compared to down 6% in March.

Real estate is a local business, and rarely do the national averages have relevance, although the media would have you believe that all housing markets behave the same. As NAR chief economist Lawrence Yun recently remarked in a MarketWatch article, “Just like saying the average nationwide temperature today is 57 degrees doesn’t tell you anything, the same is true for real estate prices.”

In spite of the challenging macroeconomic factors, our business model has performed exceptionally well. Management continues to invest in growth while simultaneously reducing overhead and increasing productivity. Despite the current downturn, our long-term view of this industry remains intact. Housing and housing growth are fundamental to our national economy. We believe that Realogy’s size, scale and strong franchise brands along with increasing efficiencies and new initiatives put in place across all of our businesses will enable us to manage through the current downturn and capitalize on the recovery, which is inevitable.

With that, I will turn the call over to Tony to discuss our first quarter 2008 results. … Tony.

HULL: Thank you, Richard.

I am going to review the details of our first quarter financial results as well as address certain capitalization issues. I will be referring to the tables in the press release as well as pages 5 and 6 of the 10-Q.

Looking at Table 1 of the press release, total net revenue was $1.1 billion as compared with $1.4 billion in the first quarter of 2007, a 23% decrease that was mainly a result of lower transaction volume at RFG and NRT. The breakdown by revenue category is as follows:

- Gross commission income totaled $749 million at NRT. This is the product of home sale side transactions times average price times the average broker commission rate per side at the Company-owned brokerage operation.

- Service revenues totaled $184 million, primarily from Cartus activities and TRG revenue relating to purchase and refinance closing activity as well as title underwriting revenue.
- Franchise fees totaled $73 million and that consists of both upfront and ongoing RFG domestic and international franchisee fees from third parties.
- Other revenue of $48 million includes approximately $14 million in marketing fees that RFG collects from its franchisees, revenue from NRT's REO business, net interest income from Cartus' relocation services and earnings from our PHH Home Loans Joint Venture.

Total commission expense of $486 million decreased $187 million period over period mostly as a result of lower NRT transaction volume. Looking at NRT's gross profit as calculated by dividing commission costs by commission income, you will note that margins improved more than 100 basis points from 34% in Q1 2007 to 35% in Q1 2008.

Operating expenses of $428 million were $16 million lower period over period as we continue to see the impact of storefront cost reductions.

Marketing expenses of $55 million were down $19 million in the first quarter of 2008 versus the first quarter of 2007 as a result of our continued efforts to migrate toward more affordable and effective media solutions.

Finally, general and administrative costs of $65 million decreased 6% as a result of lower corporate overhead expenses.

Next I would like to discuss our key business drivers for the first quarter, which are shown on Table 2 of the press release.

RFG home sale sides decreased 25% in the first quarter of 2008 compared to the first quarter of 2007. NRT home sale sides decreased 27%. Between the two units, we were involved in 263,000 homesale transaction sides during the first quarter of 2008, and we were within the range we guided to in our last call. Results at both RFG and NRT were consistent with NAR and Fannie Mae, which both reported existing home sale unit declines for first quarter of 22 percent. NRT's results were also in line with the California Association of Realtors' Q1 results -- down 28% -- and the Florida Association of Realtors' Q1 results -- down 25%.

Average home sale price decreased 1% at NRT in the first quarter of 2008. The mix of business and the impact of the REO, or Real Estate Owned, foreclosure business put a point more of downward pressure on our results than we had forecast in March. The number of REO transactions managed by NRT more than doubled in the first quarter of 2008 relative to 2007 and represented about 3% of NRT's transaction volume. More broadly at NRT, we saw a relative shift in mix of property transaction from the high range to lower- and middle-range homes. This will continue to put pressure on NRT's average sale price comparisons for the remainder of the year, but should begin to have a positive impact on unit transaction trends during that period.

RFG's average sales price declined 7% for the quarter. This was in line with NAR and Fannie Mae, which both reported that the national median home price was down 7% to $198,700 in the first quarter.

In Q1, the net effective royalty rate at RFG improved 2 basis points from first quarter 2007, and the average broker commission rate held flat at NRT and was actually up one basis point at RFG. These are continuing positive effects of current market conditions.

Taking a top-level look at the drivers for our two other business segments, at Cartus we experienced a 6% increase in the number of initiations, or transferees we serve, as a result of some contract expansions and new client signings in late 2007. However, Cartus' referral volume declined 22%. This tracks similarly to the volume declines we saw in our brokerage and franchise units during the first quarter.

At TRG, we saw refinance unit volume increase by 16% in the first quarter of 2008 compared to Q1 2007, which was attributable to some major dips we saw in mortgage rates in January and March as well as the growth in the lender channel we have been targeting over the last 12 months. The increase in refi activity was offset by a 25% decline in purchase title and closing units, which goes hand-in-hand with the sales volume declines experienced at NRT.

I will now discuss revenue and EBITDA by business unit for the first quarter ended March 31, 2008 as reflected in Table 3 of the press release.

Total revenue at RFG was $152 million compared to $197 million in 2007. The 23% 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 an increase in international franchise royalties, as well as the 2 basis point increase in royalty rate mentioned earlier. Total EBITDA at RFG was down 34% for the first quarter 2008 versus 2007. This was a result of the revenue decreases noted above. Lower costs realized from restructuring initiatives put in place over the past two quarters were offset by increases in non-cash bad debt reserves and development advance note amortization, which is also non-cash.

At NRT, total EBITDA was down $39 million based on a revenue decline of $263 million due to lower home sale transactions. This was partially offset by lower commission and royalty variable expense along with $31 million of marketing and other operating expense reductions, which positively impacted the quarter.

Revenue at Cartus shown on Table 3 for 2008 versus 2007 decreased 13% and EBITDA was break-even, down $20 million from the prior year comparable quarter. The declines were due to two main factors on the revenue side: first, lower referral units and related revenue, as the time it takes to close transactions has increased from last year and second, lower net interest income due to the deterioration of the spread between the rate we charge our customers compared to the rate we pay on our securitization borrowings. Further impacting EBITDA, on the expense side, costs relating to our fixed fee government activity increased $4 million due to higher losses on homes in inventory.

At TRG, EBITDA declined as a result of lower home sale volume. This was offset to a degree by increased re-fi activity and a lower cost structure that was implemented last November.

Now we will refer to the balance sheet and cash flow statements in the 10-Q. Turning to the balance sheet on page 5 of the 10-Q, I would like draw your attention to one line item, which is in current assets and called "relocation properties held for sale." This reflects the at-risk properties that we will be unwinding from our Cartus operation as a result of our exit from the government business. While the number is only down $12 million from year end, you should see this number decrease more dramatically during the balance of 2008 when many more of the underlying homes will be disposed of.

I would like to take a moment to update you on the exit from our government relocation business. As of March 31, 2008, we had approximately $272 million of assets (which includes homes and other related receivables) in the Kenosia facility and $137 million of borrowings outstanding on that facility. At the beginning of May, there were 393 unsold inventory homes remaining under

this facility, down from just under 500 at December 31. Our intent is to sell these homes as quickly and as close to their acquired value as possible. The impact of this effort will be most prominent in the third and fourth quarters. As of today we still fully expect that the exit from this business will generate $50 million of cash in 2008. We will update you on our progress during our second quarter earnings call.

Turning back to the balance sheet, we ended the first quarter with a $45 million balance on our revolving credit facility and $2 million of available cash. Balance sheet cash was $34 million but included $32 million of statutory cash which is required for our title insurance businesses.

The available cash balance of $97 million at December 31, 2007 decreased to $2 million at March 31, 2008 as a result of low seasonal operating activity, cash interest expense and working capital usage in the first quarter. In the first quarter, we pay volume rebates to our franchisees as well as year-end accrued NRT office manager incentive payments. These payments always take place in this period, based on prior year accruals and therefore result in negative working capital.

Capital expenditure spending is shown on the cash flow statement on page 6 of the 10-Q. It was $11 million in the first quarter 2008 versus $29 million in the first quarter of last year as a result of our ongoing effort to be conservative with cash spending until we have further visibility into 2008. Similarly, M&A spending dropped from $22 million last year to $7 million this year. Of the $7 million spent in 2008, $6 million related to earn-out payments on prior-year deals.

Turning back to the press release tables, as shown on Table 4 of the press release, Adjusted EBITDA for the 12 months ended March 31 was $768 million. Adjusted EBITDA is calculated based on Combined EBITDA of negative $357 million for the 12 months ended March 31, 2008. The first two major adjustments to the reported 12 month trailing number are merger, restructuring, separation and former parent legacy costs and the 2007 Impairment charge, which together total $897 million. With those two items adjusted out, the starting point for the 12 trailing month period is $540 million. To that we add a total of $228 million of adjustments that are prescribed in our credit agreement. These include:

- The Pro forma impact of Q4 2007 initiated costs savings of $36 million. This factors in the total Q4 2007 restructuring actions of $58 million to reflect what their impact would have been had they been put in place on April 1, 2007,
- The Pro forma impact of Q1 2008 initiated cost savings of $15 million. This reflects what their impact would have been had they been put in place on April 1, 2007,
- The removal of $70 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 activities including the movement of certain employee-related fixed costs to variable, the renegotiation of an NRT marketing contract and the exit from the government fixed fee at-risk home sale business.
- $42 million of non-cash charges are added back. This includes $35 million for the change in allowance for doubtful accounts and reserves for development advance notes and $6 million for stock based compensation,
- Purchase accounting adjustments of $19 million,
- The Pro Forma effect of NRT and RFG acquisitions or franchise sales of $14 million are added back had they occurred as of the beginning of the 12-month period,
- Apollo management fees of $15 million are added back,
- Wright Express contingent asset proceeds of $11 million that we actually received are added back,
- Incremental securitization costs of $5 million are added back,
- And finally, start-up costs relating to BH&G Real Estate franchise brand launch of $1 million are added back.

At March 31, 2008, total Senior Secured Debt plus capitalized lease obligations less readily available cash totaled $3.2 billion. That, divided by Adjusted EBITDA of $768 million for the 12 months ended March 31, 2008, results in the ratio of 4.2 times as shown on Table 4.

While we are not giving guidance for the second quarter or the year, one way to get a feel for our outlook is to look at NAR and Fannie Mae's forecast for the balance of 2008. NAR's forecast for 2008 has remained fairly consistent over the last couple months despite March existing home sale results which were lower than expected. NAR currently expects 2008 existing home sale units of 5.4 million, a 5% decrease from 2007. On the other end of the spectrum, Fannie Mae currently expects existing home sale units of 4.8 million, a 16% decrease from last year. This is the second revision from its February 2008 forecast that previously showed a 22% decline in existing home sale units for 2008. While we still don't know who is right about 2008, both entities are forecasting a reduction of year-over year unit sales declines as the year progresses. NAR is forecasting that we will end up 400,000 units above the current run rate of 5 million units for the year and Fannie Mae forecasts that we will end up 200,000 units below the current run rate. To get to their full-year estimate, NAR is forecasting that Q4 2008 units will be up 16% from Q4 2007. That was a very weak quarter as you recall, given it was the height of the credit crunch. Fannie Mae thinks fourth-quarter units will be down a further 7% from the weak Q4 2007 results.

On the median price side of the equation, NAR expects a 2% full-year decline while Fannie Mae expects an 8% decline. Given first quarter actuals, price will need to begin to improve in Q3 and Q4 in order to achieve NAR's forecast and to get modestly weaker in order to achieve Fannie Mae's forecast.

Again, while it is unclear who will be right, or if either will be right for that matter, we are encouraged by three factors: First, that the NAR and Fannie Mae unit forecasts are now coming together. Second, our April closed sales and open contracts point directionally to the fact that Q2 sides decline that NAR and Fannie Mae are indicating, are in line with forecast, and third, even before the benefits from Fannie, Freddie and FHA policy easing initiatives are being widely utilized by consumers, we are starting to see a reduction in year-over-year unit declines.

Our Revolver balance as of May 12 was $340 million, up from the $45 million balance at the end of March. The increase was due to $239 million of April cash interest payments along with $76 million in net repayments of our securitization facilities since we liquidated assets in the first quarter. We currently expect the revolver draw to decrease by the end of the second quarter by about $100 million. Similarly in the third quarter, we forecast that we will generate positive cash flow from our seasonally strong operational period and the benefit from the impact of liquidating our fixed-fee inventory of homes. This will allow us to retire most of our revolver in preparation for October cash interest payments. As a note, these cash interest payments will be less than the April payments due to lower LIBOR rates and our election to PIK on the senior toggle notes.

Since there can be no assurance that either NAR or Fannie Mae's second half forecasts will hold, or that our activity levels will track their forecasts of improving year-over year trends it is unclear whether the revolver reductions that we currently expect will come to fruition to the full extent as outlined above. In that regard, we will continue to be conservative with our cash spending and focus on maximizing operating efficiencies in 2008 as warranted by market conditions. That being said, we are very pleased with the cost savings we have been able to achieve in all of our business segments. With these efficiencies, we believe we are better positioned to capitalize on the inevitable growth that will happen in our industry.

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.

1. You have mentioned in your prior calls that 75% of your overall expenses are variable and 25% are fixed. I am assuming all of the commission expense is variable and the marketing and G&A fall more into the “fixed bucket”. Could you please elaborate on how much of your operating cost expense line is fixed vs. variable?
HULL: The operating expenses line itself also has an approximately 75%/25% fixed/variable split. The largest fixed component of this line item is NRT storefront costs. As you are aware, we have reduced these fixed costs over the past 18 months through consolidation activity. Accordingly, storefront costs in Q1 2008 were $16 million lower than during the same period in 2007.

2. Do you see any issue meeting covenant compliance? Please walk us through the "cure" process by Apollo and the logistics of it.
HULL: Based on our current forecast, we currently expect to be in compliance with our covenant. That being said, we continue to be conservative on cash and proactive in any steps necessary to maintain compliance.

As indicated in our credit facility, Apollo can inject equity into Realogy in order to cure a default if necessary, after the fact. The cash infusion is counted as EBITDA in the senior secured debt to adjusted EBITDA covenant calculation only up to the amount required to cure such default. Apollo can elect this option 3 out of 4 quarters of any fiscal year. Any debt they purchase cannot be used to cure a covenant default.

3. The March 31 Cash balance was $34 million and you said you will get another $13 million from the aircraft lease termination which is $47 million pro forma, however Q1 2008 Cash Flow From Operations was ($104 million) negative. Are there other non-operating benefits (for example the wind-down of the Cartus government business) that should boost or reduce cash balance and based on your operating assumptions do you expect cash flow from operations to be positive going forward?
HULL: As discussed earlier, in the first quarter we pay volume rebates to our franchisees as well as year-end accrued NRT office manager incentive payments. These payments take place in that period based on prior year accruals and result in a use of working capital. During the balance of the year, we forecast that we will build working capital during our seasonally strong operational period and benefit from the positive impact of liquidating our fixed-fee inventory of homes.

   a. **Cash from operations was positive $70 million in Q1 of 2007 compared to a use of $104 million in Q1 2008. Can you explain the variance?**

HULL: Outside of the seasonal working capital items just mentioned, there were several factors that positively impacted Q1 2007. First we received $88 million of proceeds from the sale of the affinion preferred and warrants, of which $66 million was included in cash from operations. Second we received a $26 million legacy tax refund. Finally Q1 2007 predates our going private transaction. Accordingly cash interest expense was $70 million lower.

4. Can you please give us an update of your expected cash needs in 2008?
HULL: The cash spending estimates we provided on the March conference call remain unchanged.

5. Countrywide UK, UK's biggest real estate agent, recently drew down on its revolver even though it didn't need to do so. The company said that its parent, Apollo, was reviewing all of its portfolio companies' revolvers. Can you comment on whether Apollo has looked at fully drawing down on your revolver and what the current thoughts are on that subject?

SMITH: This concept has not been discussed with Apollo. The Countrywide situation bears no relevance to ours and given the negative arbitrage that would be incurred in that scenario, it would be very contrary to our cash conservation strategy.

6. What is the average number of agents at your company owned and franchised offices, and how has that changed over time?
SMITH: At March 31, we and our franchisees had approximately 307,000 sales associates worldwide down from 318,000 at December 31, 2006. This is normal attrition you would expect in the current market conditions. Importantly, over the past 18 months NRT has retained 91-92 percent of its top two productive quartile agents who generate 88% of NRT's revenue.

7. Could you please provide us with the guidance for 2Q08 with regard to sides/volume/EBITDA?
HULL: We are not giving specific guidance for the second quarter.

8. The Q1 08 10-Q suggested that "affiliates" have purchased a portion of the debt. What tranche(s) of the debt were purchased? Was it bank debt or bonds?
SMITH: Although we understand that affiliates of ours have in the past purchased a portion of our debt, we have no knowledge about the extent or specifics of our affiliate's current holdings of Realogy debt. Realogy has not repurchased any debt to date.

9. How much fixed cost savings should we be expecting for the full-year? Can you discuss additional cost savings opportunities identified for the future, but not yet undertaken?
SMITH: As previously indicated, thus far, we have identified $73 million in cost savings in Q4 2007 and Q1 2008 of which $22 million have been realized. We will continue to focus on maximizing operating efficiencies in 2008 and that will be in part based on market conditions

10. Per the covenant calculation, adjusted EBITDA includes an adjustment of $230 million at March 31, 2008. This total includes certain items that were not in the December 31, 2007 EBITDA calculation, can you reconcile the two?
HULL: The starting point for the Form 10-K Adjusted EBITDA calculation at December 31, 2007 was on a pro forma combined basis instead of just a combined basis as reflected in the Form 10-Q as of March 31, 2008. The primary difference in the starting point for the calculations is that on the pro forma basis certain non-operating cost adjustments were already removed from the numbers as noted on page 66 of the Form 10-K. For example, the merger costs of $104 million, the separation benefits of $50 million and the fair value adjustments for purchase accounting of $18 million were already excluded in the pro forma combined net loss of $605 starting point in the December 31 adjusted EBITDA calculation. For the March 31, 2008 calculation these costs were not already excluded from the financial results and therefore needed to be adjusted as part of the March 31calculation.

11. Do we see any of the $50 million of anticipated savings from the closing of the government relocation business yet in the operating results? If so in which line item do we see the savings?
HULL: The $50M is a cash benefit we expect to be realized by the end of 2008. From an earnings and operating expense standpoint, we lost approximately $27 million from the government business in the past 12 months and expect to lose significantly less from an income statement perspective in 2008, even as we wind down the business.

12. At the end of 2007 management identified $63 million of cost savings that had not been achieved at that point. How much of the $63 million was achieved in the first quarter of 2008? Where specifically did we see these savings – operating expenses, G&A? What is

left to achieve? What are the $15 million of savings that were identified in the first quarter of 2008? What is the timing on achieving these savings?
HULL: We re-categorized a few of the Q4 and Q1 savings items into the business optimization category to match the credit agreement definitions more accurately. The annualized aggregated cost savings from restructuring activities and the impact of business optimization actions on the last quarter call totaled $145 million, and that included the "at-risk" government exit. That number is now $148 million. Of the $148 million, $28 million has been realized in Q4 of 2007 and Q1 of 2008, bringing the aggregate pro forma adjustment on the adjusted EBITDA schedule to $120 million. This is the amount that EBITDA would have improved by between April 1, 2007 and March 31, 2008 had the restructuring and business optimization initiatives taken place on April 1, 2007.

The $15 million of restructuring savings that were identified in the first quarter of 2008 relate to NRT and TRG location consolidations. These savings should be realized in EBITDA in the next 12 months.

13. It looks like price at the owned operations while down year over year 2008 in Q1 performed better than Q4 2007. Can you comment on this?
SMITH: NRT average price can be impacted by a few, very large transactions, particularly in Q1 and Q4 of any given year. That said, the mix of business is such that Q1 average price was also greater than the preceding Q4 average price change in 2005 versus 2006 and the first quarter, again 2006 versus 2007.

14. Discuss contingency plans to ensure sufficient liquidity if housing market conditions continue to worsen.
HULL: We can draw on our revolver to the extent permitted by our senior secured debt to Adjusted EBITDA covenant ratio to fund operations if free cash flow becomes negative. To the extent that ratio is getting close to the levels dictated in our credit agreement, we can impact the Adjusted EBITDA covenant calculation by continuing to proactively reduce costs if market conditions warrant such action. We can also reduce capital expenditures, minimize acquisition spending and continue to utilize the PIK feature as we have elected for the upcoming interest period to reduce cash requirements in any given period.

15. Please explain why the $550 million contingent liability is booked as a current liability whereas on your Q4 07 conference call you said that the IRS audit will likely not be determined until late 2009 with a payment in 2010.
HULL: Liabilities are classified as non-current if there is a contractual agreement that the amount would not be required to be paid within the next 12 months. Given the nature of these contingent liabilities and the fact that there is no contractual agreement to support a long-term classification, the liabilities are classified as current. The Company continues to believe that the precise amount of most of these tax liabilities may not be determined until late 2009 and paid thereafter.

16. NRT EBITDA was negative $60 million for the quarter, and based on Wall Street projections could be negative for the full year. This raises concern on the health of the franchise fee stream from NRT to RFG.
HULL: NRT's negative EBITDA for the first quarter of 2008 is after $57 million of royalties reflected in RFG's EBITDA. In addition, the loss includes $9 million of restructuring charges that will benefit future period profitability. Adjusting for those two items, NRT's Q1 results were positive $5 million. As we have discussed, Q1 is the weakest period for brokerage firms generally due to seasonality. In that regard, NRT's reported EBITDA has been negative in the first quarter of the past six years — each and every one — including 2005 when NRT generated $250 million of EBITDA for the year. Therefore, NRT's Q1 results are not necessarily indicative of full year EBITDA.

17. Disclosure of the bank covenant calculation in footnote "m" of the 10-Q indicates there are $43 million of capital leases outstanding. In which line item on the balance sheet are these capital leases included and in which line item of "Note 6. Short and Long Term Debt" breakout are they included?
HULL: The short term capital leases are included in Accrued expenses and other current liabilities on the balance sheet while long term capital leases are included in Other non-current liabilities. Also, we should note as a result of the plane lease disposition, the capital lease balance will come down by $28 million, and that is in addition to the $13 million of cash we received upon the plane lease termination

18. How have open contract cancellation rates trended in 1Q08 and into 2Q08?
SMITH: Through April, cancellation rates remain in the low to mid teens, so, essentially unchanged.

19. Is the strength in refinancing units continuing in the Title & Settlement business?
SMITH: The strength in the refinancing units depends almost entirely on current mortgage rates. Refinance units continued to be above 2007 levels through the end of April of this year.

20. Can you help us understand the timing and magnitude of when the adjustments will roll off the last 12 months' covenant EBITDA?
HULL: We expect the adjustments in the trailing 12 months EBITDA determination to be substantially the same in Q2 as they were in Q1 with the exception of the restructuring and business optimization savings which will continue to decrease as those savings are realized in each subsequent quarter.

21. At what metrics (financial or operational) would management consider re-election of the cash pay interest on the Toggle Notes?
HULL: At this time we have elected to pay interest on our Toggle notes using the PIK option. We continue to be conservative with cash and wait to see how 2008 progresses. Until we properly notify otherwise, the PIK election will stay in place.

22. Of the $219 million of RFG franchisee attrition over the last 12 months, how much of this occurred in Q108?
SMITH: We had one large franchisee leave the system in the first quarter of this year. This was more than offset by new franchise sales which closed in the first quarter.

23. How much cannibalization (if any) do you expect from the launch of the Better Homes and Gardens brand in July?
SMITH: We do not expect any cannibalization from the launch of the Better Homes and Gardens brand in July. None whatsoever.

SWIFT: 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 second quarter 2008 results in August, 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 quarter. Thank you.

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