

**Realogy Corporation**  
**Q4 and Full Year 2007 Earnings Call Transcript**  
**March 24, 2008**

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***Note: The following is a verbatim transcription of the Realogy Corporation fourth quarter and full-year 2007 earnings conference call. It has been edited from its original version for transcription errors.***

Good afternoon and welcome to the Realogy Corporation fourth quarter and full-year 2007 earnings conference call. Today's call is being recorded, and a written transcript will be made available on the Company's Web site tomorrow, March 25. Audio and web replays will also be made available with those details also located on the Investor Information section of the Company's web site.

I am **Alicia Swift**, Vice President of Financial Planning, and 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 fourth quarter and full-year 2007 earnings results, I would like to call your attention to two items.

First, you should have all reviewed a copy of our financial results press release and our 2007 Annual Report filed on Form 10-K with the Securities and Exchange Commission on March 19, 2008. The 2007 full-year results are 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 January 1, 2007 to April 9, 2007, and the successor period, from April 10, 2007 through December 31, 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.

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 Form 10-K for the year ended December 31, 2007 under the sections "Forward-Looking Statements" and "Risk Factors" and other periodic reports that we file.

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Let me briefly review the headlines from our release issued on March 19<sup>th</sup> regarding our fourth quarter and full-year 2007 results. Specifically ...

- Full-year 2007 Pro Forma Combined Revenue was \$6.0 billion
- Full-year 2007 Pro Forma Combined Adjusted EBITDA – which is used for our covenant calculation – was \$816 million
- Full-year Pro Forma Combined Net Loss of \$605 million, which includes a non-cash intangible assets and goodwill impairment charge
- And, lastly, we finished 2007 with a year-end cash balance of \$153 million and no draw outstanding under our revolver.

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

**SMITH:**

Thank you, Alicia.

Good afternoon and thank you all for attending our investor call.

Starting on a corporate governance note, we are very pleased that Ann Hailey was appointed as an independent member of our Realogy Board of Directors in February of this year. Ann, who now chairs our audit committee, is a retired executive vice president of Limited Brands where she served as CFO from 1997 to 2006 and as a member of their Board of Directors from 2001 to 2006. She is also a Director and Chair of the Audit Committee of the Federal Reserve Bank of Cleveland and serves as a Director of W.W. Grainger, Inc., and we're very pleased to have Ann on board.

Turning to market conditions, while there is a great deal of discussion among economists and in the media as to whether or not the United States economy is currently in a recession, there is no doubt that we are in the third year of a housing downturn. As has been widely reported, the current downward cycle in residential real estate began in the summer of 2005, most likely in July or August, and continues to be a difficult market today.

While we have not been immune to the current challenging macroeconomic environment and continued downward pressures on housing, we believe our business model demonstrated its resiliency and, under the circumstances, performed well in 2007.

What we experienced in the fourth quarter of 2007 was a continuation of the same downward trend that affected the real estate industry throughout the first three quarters of the year. For the full year, our Franchise Services segment reported existing homesale transaction sides down 19% and our Company-Owned Brokerage Services segment – NRT – reported sides down 17%. Recall that a side is on the buy or sell side of a home sale transaction – we or our

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franchisees get commissioned on one or the other, or both. These results are generally reflective of industry trends, as was the case this year with Fannie Mae and the National Association of Realtors both reporting a 13% decrease in annual homesale units in 2007. Of course, when comparing our performance to industry statistics you need to consider our substantial presence in California, Florida and the Northeast.

Our second equally important business driver is the average sale price of the homes we sell. For the Realty Franchise Group (RFG), price was down 1% for the year whereas NRT, our company-owned brokerages, reported an 8% year-over-year gain in price. NRT's results reflect its mix of business and geography. NRT's operations tend to be in larger metropolitan markets with much higher sales prices than the national average. This favorability in sales prices partially mitigated the unit volume declines at NRT.

By comparison, NAR reported that median price was down 1% in 2007 while Fannie Mae reported that the median price was down 5% and the OFHEO (the Office of Federal Housing Enterprise Oversight) Home Price Index was down 1% year-over-year in December. Based on NAR data, this marks the first reported decline in the national median price of homes in more than 50 years. To give this context, the compound annual growth rate of median home prices in the U.S. since 1972 has been 6%, and that includes the negative dip in 2007.

With those market figures as the backdrop, I will address our recent strategic and operating accomplishments, and conclude with a summary of the trends we are seeing in the real estate market overall.

Throughout 2007, Realty management took a number of decisive actions to reduce overhead and contain costs. Already in 2008, we renegotiated certain marketing contracts, reduced administrative overhead and have identified an additional 70 NRT locations that will be consolidated or reduced in size during the first and second quarters of 2008. Also in early 2008, we modified components of our employee cost structure, temporarily moving some expenses from a fixed cost basis to a variable cost. Collectively, the 2008 initiatives equate to savings of approximately \$50 million and this is in addition to the \$170 million of fixed cost takeouts we completed in 2006 and 2007, which was accomplished through the closure and consolidation of approximately 200 NRT offices, among many other initiatives.

These actions will give us greater flexibility as we progress through a market that has proved difficult to forecast. Tony will speak in greater detail on this point later.

I would like to highlight several key accomplishments of our business units.

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With respect to the **Realogy Franchise Group**:

- In October, we announced a licensing agreement with Meredith Corporation that gives us world-wide exclusive rights to the Better Homes and Gardens Real Estate brand for a 50-year term with a 50-year renewal at Realogy's option. We are currently building a franchise company around this brand, which is on track to launch to the public in July of this year. We believe Better Homes and Gardens Real Estate can eventually grow from scratch to be one of the largest residential real estate brands in the U.S. We have filed our franchise documentation in all 50 states; have been approved to begin selling franchises in 48 states and are awaiting approval in the remaining two. Since the October 2007 announcement, outside broker interest in this brand continues to gain momentum. We executed a similar re-launch for Sotheby's International Realty in 2004, which has been an overwhelming success.
- On the sales front, domestic franchise sales were \$421 million GCI for the full-year 2007, down approximately 15% from \$497 million in GCI, or Gross Commission Income, achieved in 2006. This was expected, as our Franchise sales team focused almost exclusively on larger conversions rather than start-ups and smaller independents. As a result, the average GCI per newly franchised company grew by 39% on a year-over-year basis. The average company GCI in 2007 was \$1.5 million per new affiliation, which is up from \$1.1 million per company in 2006.
- Consistent with our international growth strategy, international revenues at the Franchise Group increased 73% for the year to \$50 million. This \$21 million of growth comes primarily from \$14 million for licensing our brand names in certain countries and international regions, and an increase in revenue from foreign franchisees of \$7 million, of which \$3 million is related to our acquisition of the Canadian Coldwell Banker master franchise, which occurred in May 2007. Also in February of this year, Realogy made a minority equity investment in our existing Century 21 master franchisor in China. Century 21 China Real Estate directly owns and operates 300 offices in Shanghai and Beijing, and it has franchisees with an additional 950 offices in 40 cities across 16 provinces.
- We are often asked about the health of our franchisees, the broker/owners who sign long-term contracts to operate their businesses under one of our brands. I'll address that in two parts.
  - Looking at the retention rate for our existing franchisees, the Realogy Franchise Group exceeded its full-year retention goals by retaining 98% of our existing franchisees' Gross Commission Income in 2007. The total value of the GCI retained and added as a result of new franchise sales was \$1.3 billion dollars, compared with only \$211 million that was either terminated or not renewed by the broker. That strong retention rate is a reflection of the value we

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- bring to our franchisees, particularly in a challenging market, and is in keeping with our historically high retention track record.
- Nonetheless, we have had brokers who have been adversely affected by the housing downturn. This is a relationship business, and we have been proactive in reaching out to that comparatively small group of distressed franchisees. In mid-2007, our Franchise Group formed a strategic development team whose sole charge was to proactively identify and reach out to those troubled franchisees and to help them find solutions to sustain their businesses through the cycle. This RFG team has worked diligently to assist franchisees in one of three ways, all of which are positive outcomes for Realogy:
    - 1) In-brand M&A solutions, where we help locate an interested buyer from within the same franchise system;
    - 2) Cross-brand M&A solutions, where we look at the market and help locate an interested buyer from one of our other Realogy brands;
    - 3) Or in cases where the firm would otherwise close its doors and lose its productive agents to the market generally, we have helped facilitate the movement of agents and their production to NRT company-owned brokerages, or or that of one of our franchisees.
  - In 2007, the RFG strategic development team was responsible for retaining \$60 million in affiliate GCI and helping keep 2,000 sales associates working under the Realogy brand umbrella.
  - All things considered, we believe our brokers are managing their business well through this difficult market.
  - With regard to our online listing distribution strategy, our 700,000+ franchise and company-owned property listings appear on sites that include some of the most highly-visited consumer Web site destinations such as: Google, Trulia, Yahoo, Zillow, AOL Real Estate, Cyberhomes, Frontdoor and Homescape, among others.

Looking at **NRT**, our Company-Owned Brokerage Services segment continued to improve its operating efficiency in 2007. The following factors contributed to the improvement:

- NRT's average broker commission rate, or ABCR, remained at 2.47% per side for the full-year 2007 and has held within about 3 basis points of this figure for the last 10 quarters;
- For calendar year 2007, NRT improved its share of commission splits with agents by 65 basis points, which equates to approximately \$25 million of annualized savings.
- NRT successfully consolidated 67 locations and retained more than 90% of the production by moving sales associates to nearby company offices.

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- During the past two years, NRT has consolidated nearly 20%, or 200, of its company-owned offices.
- NRT also has identified an additional 70 locations that will be consolidated or downsized during the first and second quarters of 2008. Again, this is a strong indicator of our commitment to reduce costs.
  - These latest office consolidations include the recent divestiture of five locations in northwest Florida, a market that we do not view as strategic. These five offices were acquired by one of our largest Coldwell Banker franchisees. The acquisition will advance our franchisee's plans for expansion in that region and enables us to retain royalties from those offices.

We are pleased to report that NRT management has retained approximately 92% of the GCI from its sales associates in the top two quartiles for the quarter and on a full-year basis. Collectively, the top two quartiles generate approximately 88% of our company-owned store revenue.

In 2007, NRT acquired 9 real estate firms representing approximately \$30 million in gross commission income at a cost of \$5 million. These were small, tuck-in acquisitions in local markets with 1 to 5 offices each. In 2008, NRT has made 2 acquisitions year-to-date, one each in Florida and Long Island. We continue to seek acquisitions for NRT, but as always, only those that are cash accretive.

As mentioned earlier in the RFG discussion, NRT is also benefitting from aggressive yet selective recruiting of high production sales associates. In some markets, our recruiting campaigns have essentially replaced traditional M&A, which means that we have been able to grow our sales force on a relatively low-cost basis.

As you may be aware, we are the largest independent Real Estate Owned, or REO, asset management company in the country. With primary offices located in Florida and California, we source business from a significant number of major lenders all across the United States. Our REO operations are able to distribute foreclosed homes as listings to NRT, our franchisees and independent agents across the country. In 2007, the group closed on more than 21,000 REO properties. This is a counter-cyclical business and capitalizes on our strength in the overall real estate market.

Given our involvement in this business on a national scale we have good insight into REO asset trends. The most important observation regarding foreclosures is that the REO properties are selling. Our REO group estimates that 70% to 80% of its properties are being sold to individual owner/occupants, versus 50% to 60% in 2007. The balance are sold to investors.

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Our **TITLE RESOURCE GROUP** continues to expand its lender channel and is now working with three of the Top 10 national lenders as a provider of settlement services. The lender channel is expected to be a long term 20-plus percent growth opportunity and will diversify TRG's sources of revenue.

In support of NRT's operations, TRG commenced direct title underwriting operations through its wholly owned underwriter in 7 new markets last year. TRG is now operating as an underwriter in 10 states.

On the relocation side of our business, **CARTUS** serves a global client base from five strategic service centers on three separate continents. Cartus closed the year with 190 new client engagements, and more than 230 expanded commitments from existing clients. Our new business development momentum should continue in 2008 as our pipeline is very strong.

As Tony will discuss in greater detail, we made the strategic decision to exit our Cartus at-risk government business. At-risk means that you assume the loss on sale. Although it has been profitable in the past, the current housing market makes the assumption of that risk very unattractive. The fixed-fee pricing model required by the U.S. General Services Administration for most government agencies is not viable, and thus Cartus is focusing on the "cost-plus" clients that represent the bulk of its business. As Tony will explain later, this change in strategy will have a positive impact on cash flow in 2008.

Moving on to the current year, the National Association of Realtors and Fannie Mae are reporting that 2008 will be another year of decreasing year-over-year sales and price declines – although their forecasts differ greatly as to the size and degree of the anticipated declines. As of its March report, NAR's 2008 forecast calls for existing homesales to be down 5% year over year and existing home prices to be down 1% year-over-year. By contrast, Fannie Mae's March projection for 2008 has existing homesales down 21% and prices down 6%. In February, Fannie Mae had significantly reduced its 2008 estimates from its earlier January forecast, in which it previously said it expected units to be down 13% with price down 4.5%.

Currently, Fannie Mae and NAR have 2008 full year total existing homesale forecasts of 4.5 and 5.4 million units, respectively. This variance of approximately 900 hundred thousand units is unprecedented, and speaks to the difficulties of forecasting today's housing market.

Now to give you color on the first quarter, we started 2008 based on weaker than expected December open contracts at both RFG and NRT, which led to weaker than expected closing activity in January. However, January and February opens improved, and our March open business is currently meeting our expectations. In addition to open contracts, we closely monitor open contract cancellation rates.

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Thus far, our cancellation rates are in line with our historical run rates, which have been in the low- to mid-teens. Having said that, the mortgage market today is extremely volatile, so cancellation rates could still impact the quarter, and, as you would expect, we are watching that carefully.

In terms of the average sales price in Q1, we expect year-over-year declines at RFG in the 4% to 6% range and expect to see price flat at NRT. This is due to the relative mix of high priced homes NRT brokered compared to our overall homesides in the first two months of the year. Excluding the New York tri-state area, the trend in many of our company-owned markets is that the average sales price is coming down as the number of more moderately priced homes – including REO properties -- in the mix increases.

Both NAR and Fannie Mae are reporting that a housing recovery will begin in 2009. Although Fannie cited a combination of below-trend economic growth and continued disruptions in the mortgage market as forces that will continue to challenge existing home sales this year, it did say that it expected sales to stabilize in the middle of 2008 with sustained gains beginning in 2009. NAR, whose lead economist was last week named one of the top 10 economic forecasters by USA Today, called its most recent forecast “uncertain” and said that home sales in the second half of 2008 will be notably higher than in the first half of the year.

Now, let’s discuss the residential real estate market and the macro factors that are currently affecting housing.

It is clear that the weak 2007 housing market was caused by a number of factors, not the least of which were the subprime lending issues and a material decline in consumer confidence.

In 2008 the residential real estate industry is receiving important support from the federal government. From the President to Congress to the Federal Reserve and Treasury, the U.S. government is working diligently to put forth solutions that will help stimulate a recovery in housing. Clearly, our policy makers in Washington understand the housing sector comprises approximately 20% of the U.S. GDP and, as such, is a critical component of our overall economy. Few if any industries have that level of support from our policy makers, a fact that should not be overlooked.

We are greatly encouraged by the potential impact that the recently enacted economic stimulus package should bring to homebuyers and sellers across America, especially in markets with higher-priced homes where the increase in conforming loan limits will be most helpful. New HUD guidelines were released in early March and are anticipated to be put in place by Fannie Mae on or about

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April 1. In some markets, the FHA and Fannie Mae and Freddie Mac conforming loan limits will be raised from \$417,000 to as much as \$729,750.

The current March 19 mortgage applications survey from the Mortgage Bankers Association showed the Government Purchase Index -- largely FHA -- was up 8% from the prior week on an unadjusted basis, although overall purchase applications were down 1% on the same basis. The MBA also reported that the average contract interest rate for 30-year fixed mortgages decreased 39 basis points, down to 5.98% from 6.37% in the prior week. As you know, jumbo rates for a 30-year fixed mortgage have risen to 7.1% or 7.12% according to bankrate.com, as the spread between jumbo and conforming loan rates continues to widen. We view the current spread as abnormal based on historical averages. These housing barometers change direction each week, which are greatly impacted by broader constraints in the credit markets.

The National Association of Realtors estimates that the economic impact of increasing Fannie Mae's and Freddie Mac's conforming loan limits would result in as many as 500,000 re-financed loans and could reduce foreclosures by as many as 210,000. In addition, over 300,000 additional home sales could be generated (that's about 5% of last year's total activity). Housing inventory would be reduced and home prices could be strengthened by 2 to 3 percentage points, all clearly good news for housing.

The dramatic Fed rate reductions in January, coupled with its significantly expanded loans of cash and securities to commercial and investment banks announced earlier this month, and its 75 basis point cut on March 18 along with OFHEO's lowering of Fannie and Freddie's capital requirements to 20% also last week should -- at some point -- have a positive impact on mortgage origination, home equity loan rates, certain mortgage rates and overall consumer confidence, especially in concert with the increase in conforming loan limits.

There is an abundance of industry-related data available to you for the purpose of building your models. Lately, the media has focused on certain industry data sources and has chosen to downplay others. We would like to highlight the third-party resources that we consider when building our forecasts.

First, we would suggest that you look at both NAR and Fannie Mae, whose 2008 forecasts we have already discussed. Between those two entities, you can generally establish the upper and lower brackets as an approximate range to where the actual housing market results will likely end up each year. Although both approach the market with different agendas, we believe they are good benchmarks when considered in the proper context.

In addition, REAL Trends is a publication which publishes actual monthly real estate data from brokers involved in more than 35% of the nation's annual

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existing homesales. REAL Trends uses actual closed transaction data, not survey data. The Harvard University Joint Center for Housing Studies issues annual and periodic research that discusses its outlook for important factors that drive the real estate market, including housing-specific demographic trends. There is an area of our Web site that is dedicated to Real Estate Industry Resources and contains links to all of the information that I just mentioned.

A significant percentage of our real estate businesses are concentrated in California and Florida, both of which report monthly numbers through their respective state Realtor trade organizations, CAR and FAR -- the California Association of Realtors and the Florida Association of Realtors. In the Northeast, where we also generate a substantial portion of our revenue, the Massachusetts Association of Realtors also reports monthly results. While these sources will not give you all the answers, they are helpful in establishing local housing trends.

The Joint Center for Housing Studies at Harvard University recently made several astute points about housing downturns that I think are worth sharing:

- No two downturns are the same, although they have commonalities. Dating back to 1959, there is a wide variation in the length and magnitude of past declines. The duration of the current period is currently on the longer end of past downturns.
- All but one housing downturn preceded a recession. The declaration of a recession may not be all bad for housing. History strongly suggests that it would signal the beginning of a housing recovery.
- False bottoms are common. Predicting housing recoveries is no easy task, and we can expect to see a period of up-and-down results as we first enter a recovery. The signals that most often distinguish real from false bottoms are:
  - If we are in a recession or just coming out of one
  - The months supply of housing inventory consistently declines
  - Mortgage rates may be at or near a trough

In the face of negative housing news, there is one positive piece of news and that is affordability is on the rise.

According to NAR, the latest Housing Affordability Index released in February had reached 130, which was the fifth consecutive monthly increase. This represents the highest level for the index since March 2004. That's a positive indicator for activity levels in the near term as lower mortgage rates, higher incomes and weakening home prices help fuel affordability.

Although cyclical patterns are typical in the housing industry, the depth and length of the current downturn has proved exceedingly difficult to predict, especially as compounded by the volatile credit and mortgage market challenges

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that seem to change on a daily basis. Despite the current downturn, we believe that the housing market will benefit from expected positive long-term demographic trends and economic fundamentals.

Again, 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 finally, we believe that Realogy's size, scale and strong franchise brands will enable us to manage through the current downturn and best position the company to capitalize on the recovery which is inevitable.

With that, I will turn the call over to Tony to discuss Realogy's fourth quarter and full-year 2007 results along with our expectations for first quarter of 2008 in each of our business segments. ... Tony.

**HULL:** Thank you, Richard.

On a go-forward basis, the Adjusted EBITDA that we will report is the one that pertains to our credit agreement covenant calculation. So to be clear, the Pro Forma Combined Adjusted EBITDA calculation that you see in on page 71 of our 10-K annual report and Table 5 of our press release is the number used when calculating the Senior Secured Leverage ratio covenant in our credit facility. Our first measurement date on a trailing 12-month basis is March 31, 2008 at which point the ratio must be 5.6 times or less. If you look at Table 5 of our March 19<sup>th</sup> press release, you'll see the adjustments made to calculate Adjusted EBITDA from pro forma net income for 2007. Let me briefly describe some of the larger adjustments shown there that you should expect to see going forward:

- The exclusion of separation, restructuring and former parent legacy costs
- Non-cash charges are backed out including impairment, bad debt expense, net of write-offs, stock compensation expense, and reserves for at-risk homes, net of realized losses
- The pro forma effect of acquisitions and new, worldwide franchise sales for RFG and acquisitions for NRT are factored in as if they had occurred on the 1st day of the 12-month measurement period.
- In addition, we adjust for the pro forma effect of cost savings to reflect the unrealized portion of actions management took during the period to reduce operating expenses such as headcount reductions and office consolidations as if those actions had been taken on the 1st day of the measurement period.

The adjustments for 2007 totaled \$888 million, \$221 million excluding the impairment charge. We would expect to see a similar level of add-backs in our March 31, 2008 calculation. Our Pro Forma Combined Adjusted EBITDA for the 12 months ending December 31, 2007 was \$816 million. As of December 31,

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2007, our Senior Secured leverage ratio was 3.8 times, which is well within the 5.6 times that will be required at March 31, 2008.

Now, let me go through the major differences between our preliminary results released on January 18<sup>th</sup> and our reported \$816 million of Pro Forma Adjusted EBITDA mentioned above. The differences include:

- the pro forma effect of acquisitions and new franchise sales of \$14 million -- this reflects the full year effect of activity as if all transactions and franchise sales had been completed on January 1, 2007
- the pro forma effect of cost savings of \$63 million – which similarly adjusts for cost savings activity we executed during 2007 as if all such actions had been completed on January 1, 2007
- incremental securitization costs of \$5 million reflect additional interest expense we incurred on our securitization programs due to our sale to Apollo
- the reversal of the non-cash bad debt reserves of \$35 million, net of actual write-offs that are included in 2007 financial results
- And finally, other year-end adjustments to the preliminary results totaling \$5 million that were either timing-related or non-cash in nature. These changes came out of our normal year-end review process.

The Company performed its annual impairment review of goodwill and intangible assets at October 1, 2007 under SFAS 142. This review resulted in a non-cash impairment charge of \$667 million (\$445 million net of an income tax benefit). The charge represents less than 7% of our overall intangibles and goodwill balances. The intangible assets and goodwill recorded on the Company's opening balance sheet at April 10, 2007 were \$9.7 billion, comprised of \$5.7 billion of intangible assets and \$4.0 billion of goodwill. The impairment charge reduced intangible assets by \$550 million and reduced goodwill by \$117 million – all pre-tax. The impairment is the result of lower 2007 performance and reduced projections than expected at the time of acquisition as well as a higher weighted average cost of capital due to the market prices at which our debt is currently trading. I want to emphasize that this is entirely non-cash and in no way effects our covenant calculation.

On the business side, earlier this month we restructured the Kenosia securitization to facilitate the exit from the government “fixed fee” business. To give you a little background on our “fixed fee” business – Cartus as of December 31, 2007, was at-risk for approximately \$180 million, net of reserves, for homes it had purchased from employees of the U.S. government and certain private employers as part of its contractual arrangements with those customers. Including other non at-risk assets related to those customers, Cartus's total fixed fee receivables were \$240 million, again net of reserves, at year end.

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On the at-risk portion of these receivables, Cartus bears the risk with respect to movements in the fair value of the homes between the date it takes the home into inventory and the date of resale of such home. As mentioned earlier, the U.S. Government business became unprofitable in 2007. Cartus went from generating EBITDA of approximately \$25 million on the government fixed fee business in 2005 to losing \$20 million in 2007 on revenue of \$110 million. Consequently, in late 2007 we began making plans to exit the business.

In order to terminate our contract with the U.S. Government -- which constitutes all but approximately \$20 million of our fixed fee activity -- the Kenosia securitization, which is used to finance \$175 million of those assets, required an amendment. Before its restructuring, an amortization event would have occurred with that facility if we had terminated a contract that represented more than 30% of the total assets in the facility. We completed the required amendment for the Kenosia facility in mid March. During the remainder of 2008, we will exit that business and free up \$50 million of working capital that today is committed to the fixed fee business. To accommodate an orderly exit from that business we also modified Kenosia, relaxing certain other amortization event triggers to reflect the fact that we will not be adding new inventory to the facility. While the tradeoff for these accommodations was a lowered advance rate to 50% and a 50 basis point increase in interest cost to LIBOR plus 150 basis points, the overall result is positive. The lower advance rate required an immediate pay-down of \$38 million dollars of Kenosia debt and the facility now terminates in June of next year. The termination may require a modest use of working capital for corporate clients that are not converted to cost plus by that time, but, as mentioned, the liquidation of the at-risk homes during 2008 is expected to generate \$50 million of cash. In addition, this will be considered a discontinued operation for the purposes of our credit agreement covenant calculation so any losses we have incurred over the past 12 months and incur to exit the business will be an add-back to Adjusted EBITDA beginning in March.

Now I am going to discuss some of the details of our fourth quarter and full year financial results, along with our outlook for the first quarter and some cash guidance for full year 2008. I will be referring to the tables in the press release as well as pages 74, F-4 and F-5 of the 10-K.

For the year ended December 31, 2007 shown on Table 2 of the press release, total company net revenue was \$6 billion on a pro forma basis as compared with \$6.5 billion in 2006, an 8% 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 \$4.5 billion at NRT. This is the product of home sale side transactions times average price times the average broker commission rate per side at the NRT-owned brokerage operation.

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- Service revenues totaled \$849 million; approximately 60% from Cartus activities, and the remainder is TRG revenue relating to purchase and refinance closing activity as well as title underwriting premiums.
- Franchise fees totaled \$424 million and consists of RFG domestic and international franchisee royalties. This amount does not include the intercompany royalty RFG receives from NRT.
- Other revenue of \$190 million includes approximately \$50 million in marketing revenue that RFG collects from its franchisees, and then spends at least that amount on their behalf on national advertising efforts. Other revenues also includes NRT's REO business revenues.

Total commission expense of \$3.0 billion decreased \$337 million year over year driven by lower transaction volume at NRT and aided by a 65 basis point reduction in the commission split percentage from 67.35% last year to 66.7% this year.

Operating expenses of \$1.8 billion were flat year over year as store front cost reductions were offset by increases in expenses associated with the government business at Cartus, which is now being wound down. As we have discussed, the largest portion of NRT operating expenses are store front and related costs, which account for approximately two-thirds of the total. By proactively consolidating our leases for these offices, we reduced storefront and related expenses by approximately \$60 million in 2007, net of inflation.

Marketing expenses of \$266 million were down \$25 million in 2007 versus 2006, and this was a result of our continued efforts to migrate toward more affordable and effective solutions, especially Web-based marketing.

Finally, general and administrative expenses of \$256 million increased mainly as a result of the full-year impact of required corporate expenses, since we were only a stand alone company for 4 months in 2006, plus it includes the Apollo management fee.

We continue to focus on cost savings in 2008 and will take further action as warranted by market conditions. In fact, already in 2008, we have temporarily modified the employee cost structure to make certain items variable rather than fixed, renegotiated certain marketing contracts and have identified an additional 70 NRT locations to be consolidated. These actions in aggregate equate to an annualized savings of approximately \$50 million. With other initiatives we are exploring, we anticipate that we can reduce run-rate operating costs by another \$10 million, bringing the total savings in 2008 to \$60 million.

Next I will discuss our key business drivers for the fourth quarter and full year ended December 31, 2007. Feel free to follow along on Table 3 of the press

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release. December in particular was by far the worst month of the fourth quarter and year for RFG. As a result, its home sale sides of 255,000 were down 25% in Q4 compared to 2006. For the full year 2007, RFG closed home sale sides totaled 1.2 million, which was down 19% from 2006. Average home sale price at RFG of \$223,000 decreased 5% in the fourth quarter compared with 1% up for the first 9 months of the year. For the full year, average sales price declined 1% versus 2006 to \$230,000.

For RFG, the net effective royalty rate was 5.03 percent, up 16 basis points for 2007 versus 2006, driven mostly by volume reductions and in turn, the inability of our franchisees to achieve volume discounts on their royalty rates. As a reminder, our company owned offices pay a full royalty rate of 6% without any volume discounts plus a \$29 million dollar per year fixed royalty fee to RFG.

NRT 4th quarter home sale sides of 64,500 were down 22 percent, however, average sales price during the period was \$516,000, up 4 percent relative to 2006. For the year at NRT, closed home sale sides totaled 326,000, down 17% from 2006, while average home sale price was up 8% to \$534,000. Consistent with the trend we saw in all of 2007, our business mix toward the higher end markets continued to positively influence the average home sale price at NRT. Although we have seen continued gains in average sales price in January and February of this year, we expect this to moderate or even decline as we progress further into 2008.

Turning to Cartus, employee relocation initiations totaled 132,000 and were up 1% in 2007 driven by increases in our global relocation business. The volume of referrals was down 7%, reflecting the trends we are seeing for relocating employees similar to those in residential real estate generally. Relocating employees are being cautious about buying a home in their destination city until they see how the market evolves. This affects the total number of referrals shown on the driver page. A related impact of the current market on referral revenue is that homes are taking longer to sell in the departure city.

Finally at TRG, purchase title units totaled 139,000, down 14%, and this was consistent with NRT's unit trends while refinance title units of 37,000 were down 9%.

I will now discuss revenue, EBITDA and margins by business unit for the full year ended December 31, 2007 as reflected in the chart on page 74 of the 10-K. EBITDA and margins will exclude non-cash impairment charges.

On a pro forma combined basis total revenue at RFG was \$818 million compared with \$879 million in 2006. This was driven by declines in home sale sides and average home sale price along with lower intercompany royalties from our company owned segment, NRT. Offsetting these declines was an increase in

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international franchise sales and royalties, as well as the 16 basis point increase in royalty rate that I mentioned earlier. Total EBITDA shown here excluding the impairment charge at RFG was down 15% for the full year 2007 versus 2006 as a result of revenue decreases noted above, along with increases in bad debt reserves, customer service and sales related expenses, which together totaled approximately \$36 million. As a result, margins at RFG decreased 7 percentage points.

At NRT, total EBITDA was flat on 9% lower revenue as a result of our continued efforts to reduce fixed costs and improve commission splits.

Total revenue at Cartus shown on page 74 for 2007 versus 2006 increased 4% to \$531 million, and total EBITDA was down 11%. The EBITDA decline was primarily due to increased costs relating to our at-risk transactions which we are winding down.

At TRG, margins deteriorated mainly as a result of lower homesale and refinancing volume resulting in a decline in revenue of 9% and a decline in EBITDA of 53% versus last year. As a reminder, late in 2007 we took \$18 million out of TRG's cost structure, which should benefit its margins in 2008.

I will now discuss the balance sheet located on page F-4 of the 10-K. Our cash balance at December 31, 2007 was \$153 million, and this includes about \$56 million of cash that is otherwise committed for statutory purposes. Balances were bolstered by the \$80 million dollars received before year end as the settlement of the Ernst & Young litigation. Our net debt balance after deducting the \$97 million of available cash was \$6.1 billion on December 31. This excludes securitization debt.

Relocation receivables increased by \$54 million from 2006 to 2007. Remember that relocation receivables on the balance sheet are generated under contracts with many diverse, corporate clients who bear all of the risk of any losses on the resale of the underlying home. We have historically experienced virtually no credit losses from that group. On the much smaller at-risk portion of our business, reflected in relocation properties held for sale line, the decrease of \$14 million from 2006 resulted from a decline in the number of at-risk inventory units.

More importantly we will see that at-risk number decline materially as the year progresses as we wind down the business. The total outstanding borrowings under our securitization facilities on the righthand side of the balance sheet at December 31, 2007 was \$1 billion \$14 million with an available remaining unused capacity of \$209 million among the two cost-plus business lending facilities. As part of the Kenosia restructuring, the \$175 million of Kenosia facility capacity we had at the end of the year will decline to \$100 million in July, \$70

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million by year end 2008, \$20 million by March of next year and to zero by next June.

Accrued expenses and other current liabilities increased from \$545 million to \$652 million at December 31, 2007 due mainly to higher accrued interest in anticipation of our second quarter interest payments.

Contingent Liability reserves reflected in the "Due to former parent line" on our balance sheet decreased almost \$100 million, to \$550 million from \$648 million at the end of 2006. The cash out of pocket for these items since our sale to Apollo to year-end 2007 was \$24 million.

At December 31, 2007 we had long-term debt of \$6.2 billion, of which \$3.15 billion is variable and subject to changing LIBOR rates. We have entered into floating to fixed interest rate swap agreements on \$775 million of our variable debt at an average interest rate of 4.9%. The remaining balance of approximately \$2.4 billion remains variable. We benefit from lower LIBOR rates and estimate that the Fed's actions to date have already resulted in approximately \$60 million in cash interest savings for 2008 compared to the \$642 million pro forma cash interest amount in 2007. Every 100 basis point drop in LIBOR is equivalent to saving approximately \$20 to \$25 million of cash interest expense.

Turning to our statement of cash flows on page F-5 of the 10-K, cash from operations for 2007 equaled \$216 million compared to \$245 million in 2006. Capital expenditures for the full year 2007 were \$102 million, down from \$130 million in 2006. For the year, acquisition spend totaled \$56 million, of which \$30 million was as a result of earn-out payments from prior year deals. As you can see, acquisition investment decreased \$112 million in 2007 vs. 2006. We have recast our M&A activity from traditional acquisitions to walkovers of experienced agents and recruiting to build our offices and market presence.

As mentioned on our prior call we will not issue full-year 2008 guidance. Instead we have provided you with cost savings and cash spending expectations so that you may create your own models utilizing these figures along with your own assumptions as to the outlook for the housing market using the 2007 sensitivity analysis provided in the 10-K.

We do have good visibility into the first quarter, assuming no dramatic mortgage disruptions occur. In terms of drivers, and based on actual results for January and February and open activity for March, we expect first quarter 2008 RFG and NRT sides to be down between 25% to 28% compared to the first quarter 2007. As a reminder, the first quarter of 2007 was our most robust quarter for the year in terms of having the smallest year over year declines compared to 2006. We also anticipate RFG average price will be down 4% to 6% in the first quarter of 2008 while NRT average price will be flat versus first quarter 2007.

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Realogy's first quarter EBITDA is expected to be about breakeven compared to \$88 million in the first quarter of 2007, and that \$88 million excludes a gain of \$25 million on the sale of Affinion preferred stock. Remember that the first quarter of any year is historically our slowest quarter and EBITDA in that period is reflective of the seasonality of our business. The expected negative variance in EBITDA, from \$88 million in first quarter 2007 to breakeven in first quarter 2008, is due to the impact on revenue of lower home sale sides at RFG and NRT which flows through to EBITDA.

We anticipate that our Senior Secured Leverage Ratio at March 31, 2008 is going to be between 4.2 and 4.4 times, well within our 5.6 times limit. Our trailing 12 month Pro Forma Adjusted EBITDA at March 31<sup>st</sup> will include the unrealized portion of the \$50 million of run rate cost savings instituted in 2008 thus far, and continued benefit from the 2007 actions that were discussed earlier, albeit at lower absolute levels as some of those savings are in reported EBITDA. That figure will also reflect the impact of the discontinuation of the government business, which will be additive by approximately \$27 million. We expect our revolver borrowings at the end of this quarter to total approximately \$50 million.

We also wanted to update you on our expectations for cash requirements and inflows for full year 2008:

- Capital expenditures for our businesses, including for items such as storefront refurbishment and technology initiatives, of \$60 to \$75 million,
- Better Homes and Gardens Real Estate start-up costs of \$17 million, which includes Development Advance Notes.
- Development advance notes, excluding BH&G, of about \$15 to \$20 million, which is net of \$19 million of amortization above the EBITDA line. These funds – which are distributed to less than 3% of our new and renewing franchisee GCI -- are used to renew and expand select expiring franchisees and new, large franchisees, both of which have attractive returns.
- Changes in relocation assets, net of changes in securitization borrowings, are expected to generate between \$30 million and \$35 million of cash. This consists of the \$50 million benefit from exiting the government at-risk business partially offset by \$15 to \$20 million of working capital needs to fund the growth in Cartus's cost-plus business.
- Residual payments on closed office leases and the like will require \$15 to \$20 million of cash.
- Funding of legacy activities is expected to total about \$25 to \$35 million in 2008 and
- M&A spending, including earn-out payments is expected to total \$15 to \$20 million in 2008.

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On the inflow side, we continue to expect to receive our share from the Wright Express (WEX) agreement that existed prior to our spin from Cendant. This \$12 million of annual cash inflow, which is expected for the next 12 years or so, has become a cash item only in 2008.

Another notable item is our plan to use the PIK option on our PIK Toggle notes for our interest payment in October 2008. We intend to exercise this option, in addition to the other cash savings initiatives discussed previously, to be conservative on our use of cash until we have better visibility into the remainder of 2008. This action will reduce our cash interest expense by \$30 million in the fourth quarter. As a result and assuming another 50 basis point Fed action beyond the March reduction, we anticipate our 2008 cash interest expense will be approximately \$550 million as compared to \$642 million on a pro forma basis in 2007.

In summary we have announced the following initiatives to maximize financial flexibility through these uncertain times:

- Our plan to use the PIK toggle feature for the next interest period
- Minimized capital expenditures
- Reduced NRT marketing spend and further office consolidations
- Temporary modification of our employee cost structure to convert otherwise fixed costs to variable costs
- Exit from the government at-risk relocation business and
- Reduced run-rate fixed costs of \$220 million, including actions taken to date in 2008 on top of actions taken in 2006 and 2007.

The reason for all of these conservative moves and ones we will continue to take proactively is that we are being cautious. With all but a modest amount of funded revolver and continued focus on cost containment, we are confident we will weather whatever might be remaining of this downturn over the foreseeable future.

With that, I'll turn it over to Alicia to review the questions that were submitted in advance of our call.

**SWIFT:** Thanks, Tony.

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

HULL: Based on what we are seeing today, we do not foresee issues with being in compliance under our covenant. In addition, there are a number of near-term controllable actions we can take if we foresee any constraints in our covenant cushion.

**2. What is the leverage ratio covenant that becomes operative in March 2008?**

HULL: At March 31, 2008, our Senior Secured net debt to trailing 12-month Adjusted EBITDA ratio becomes operative. The ratio may not exceed 5.6 times to 1 during the first two quarters of calculation, and that ratio steps down to 5.35 at September 30, 2008, 5.0 to 1 by September 30, 2009 and 4.75 to 1 at March 31, 2011 and thereafter. At December 31, 2007 our Senior Secured debt to Pro Forma Combined Adjusted EBITDA ratio was 3.8 times. As we discussed earlier we expect our senior secured debt leverage ratio for the first quarter to be approximately 4.2 to 4.4 times based on our forecasted EBITDA for the trailing 12 month period, the adjustments we make to EBITDA according to the credit agreement and our modest revolver draw expected at that time.

**3. Why did you elect to PIK?**

HULL: We intend to exercise this option, in addition to the other cost- and cash-saving initiatives discussed previously, to be conservative until we have better visibility into the remainder of 2008.

**4. How will the Toggle Feature be paid?**

HULL: We must elect the form of interest payment prior to the beginning of each interest period in April or October. We announced in our prepared remarks that we do intend to use the PIK feature on our 11% PIK Toggle Notes for the October 2008 interest payment. With our election to use the PIK interest feature for this period, PIK Toggle Note holders will receive \$32 million of 11% PIK Toggle notes in lieu of cash interest of \$30 million. The outstanding toggle notes will increase from \$550 million to \$582 million. We registered for up to \$650 million of toggle notes in our bond registration so all of the new bonds are separately and freely tradable.

**5. Did you achieve the \$704 million EBTIDA number that you preannounced in an 8-K?**

HULL: As we stated earlier, there were adjustments related to goodwill and intangible impairments, certain bad debt and valuation reserves since our January 18th announcement but these were non-cash adjustments. We will now report on Adjusted EBITDA which is the EBITDA pertinent to our investors as it is used when calculating our credit facility Senior Secured debt to adjusted EBITDA covenant. The calculation of adjusted EBITDA for 2007 is detailed in Table 5 of our press release as well as in our 10-K.

**6. How is the cash benefit from exiting the government business calculated?**

HULL: The \$50 million represents the total working capital that we currently have committed to our at-risk business that is expected to be released in calendar

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2008. There should also be more to come in 2009 as we wind down the at-risk business completely, but that will depend on the proceeds from homesales. The big picture calculation is as follows:

- At 12/31/07 we had \$240 million of homes held for sale, net of reserves, and including \$55 million non at-risk receivables related to this business.
- This was partially funded by a \$175 million draw under the Kenosia facility. Thus, the amount of cash, net of reserves, we had invested in this business at year end 2007 was approximately \$65 million, which is \$240 million of assets less the \$175 million of debt.

The amount that we recover over the next 15 to 18 months – as we wind down this business -- and after consideration of carrying and closing costs, will depend on the net proceeds we get on the homes we hold for sale, but we expect that number to be at least \$50 million.

**7. What is the Adjusted EBITDA effect to Cartus of getting out of the government business? Is it an add back for the covenant calculation?**

HULL: The government at-risk business will be considered a discontinued operation and added back to calculate our Adjusted EBITDA for covenant purposes.

**8. What do you think is the impact of foreclosure business on your business in 2008?**

SMITH: Before I answer that question, I just wanted to inform everyone that we have 35 questions to go through, so bear with us.

Regarding the foreclosure business, specifically our NRT REO business will benefit from increased activity it receives from its clients, which are mostly financial institutions. Generally speaking, an increase in foreclosure sales will put pressure on our average sales price but will be somewhat offset by an increase in unit sales. We are certainly seeing this influence on many of our owned metros already. NRT is forecasting 36,000 closed REO sales in its REO group, which would be a year-over-year unit increase of approximately 70%, which certainly will accrue to the benefit of that business unit.

**9. What is the effect on Realogy of the increasing lending restrictions in the mortgage market and difficulty in getting mortgages approved?**

SMITH: So far, we are not seeing an impact on cancellation rates. That said, purchasing decisions are clearly being influenced by tougher lending standards.

We are particularly concerned about the ever-widening spread between jumbo and conforming loan rates. Jumbo rates from certain lenders for a 30-year fixed mortgage have risen to as high as 7.2% compared to 5.6% for conforming

loans. We expect that the actions taken recently by the government, which will be effective in early April, will reduce this troubling spread.

**10. How has consolidation affected the company's ability to compete?**

SMITH: Looking at market share and retention, it appears that the consolidation actions we have taken to date have not affected our market positioning. Our market share at NRT as reported to us directly from our metro office locations using actual data from that particular metro compared to the relevant MLS, or multiple listing service, data have mostly improved in the last year. Comparing Q4 2007 to Q4 2006 we maintained or gained market share in 24 of our 34 markets where we have company-owned operations. From an overall Realogy standpoint, as noted in the 10-K, the sum of industry gross commission income earned by our franchisees and our owned brokerages compared to industry totals recorded in 2007 increased 100 basis points from 23 to 24 percent. This is according to Real Trends. We are also pleased to report that once again, NRT retained 92% of its most productive sales associates.

**11. Are you seeing any negative trends as it relates to franchisees making royalty payments or the general health of the franchisees?**

SMITH: As of December 31, 2007 we have seen a modest increase in days receivable from our franchisees. As Tony mentioned earlier, we increased reserves on development advance notes by approximately \$10 million to reflect the fact that a small percentage of our franchisees are not achieving the performance levels required under their respective note agreements.

As you know, our franchised brokers are smart, local entrepreneurs with businesses that don't require significant fixed costs. They can -- and they do -- adjust their operations quickly to reflect market conditions just as we have at NRT. In 2007, RFG terminated franchisees representing about \$200 million in GCI, less than 3% of our \$7.2 billion of franchisee GCI. As mentioned, through retention and new franchise sales we've added \$1.3 billion of GCI for the year ending December 31, 2007.

**12. What impact can we expect the international business to have on your revenues going forward? What is your strategy with this business?**

SMITH: Cartus is a global provider of relocation services and delivers services in about 150 countries. As its clients have increased their global business activities, Cartus has grown revenues in its global business more than 20% over each of the last three years.

With respect to the Franchise Group, our international strategy is to sell Master Franchise Agreements to companies capable of serving as a master franchisor in countries around the world, and to generate recurring and growing royalties over the typical 25-year terms from these agreements. We currently have

master franchises operating on behalf of our brands in 87 countries. In the near term, we believe this is the best growth strategy for RFG. And thus far, it has been very successful.

The anticipated combined EBITDA from international activity from RFG and Cartus is forecasted to total approximately \$100 million in 2008.

**13. What are the covenants in the Apple Ridge, Kenosia and UK Receivables agreements? What are the current levels and how do those levels compare to the covenant limitations? Do those covenant levels step down over time and if so when and to what levels?**

HULL: All three securitization facilities contain cross defaults to the material indebtedness of Realogy and a covenant requiring weekly rather than monthly reporting based on certain levels of the Realogy leverage ratio. Other than that there are no Realogy-related EBITDA covenants that impact the securitizations. We've discussed the Kenosia facility and the amendment in detail, so we will focus on the other two cost plus business securitizations. For Apple Ridge, the advance rate at December 31, 2007 was 85%, which means we can borrow 85 cents of every dollar of receivables in that facility. The advance rate can swing modestly around the current advance rate depending on various factors. These include concentration limits, average age of homes in inventory, resale loss levels on inventory homes, accounts receivable and inventory homes over a certain age and default levels on accounts receivable.

There are also certain amortization event triggers linked to performance ratios and calculations in Apple Ridge. These are primarily based on the age of homes in inventory, and the levels of defaults on accounts receivable. An amortization event is not a default, nor would it cause a cross default with Realogy's Senior Secured or unsecured debt. It simply means that no more assets can be sold to the facility and all cash from receivable collections goes to retire Apple Ridge debt prior to allowing Realogy to recapture its working capital committed to the facility. At December 31, 2007 the performance of the assets in the Apple Ridge securitization were well within any of these trigger limits.

For the UK Facility the advance rate was 94% at year end – its highest possible level. This can move lower, for instance last April it was 88%. There are certain factors that can influence the advance rate levels in the facility, including client concentration limits, average age of homes in inventory, declines in market value of inventory homes, accounts receivable, and inventory homes over a certain age, and default levels on accounts receivable.

Unlike Apple Ridge, there is no amortization event triggers linked to performance ratios or calculations under the U.K. facility.

**14. Could you please discuss your asset securitization facility? Are most of their assets relocation properties held for resale? Given the recent credit tightening, is there risk that these A/R facilities could be cancelled or not funded?**

HULL: A large component of the relocation-related asset base is properties held for resale. However, the majority of the risk associated with the resale of the properties resides with the corporate relocation client. At December 31, 2007, only about 15% of the overall relocation asset base comprised properties that were "at risk" to Realogy and, as discussed previously, we are exiting that business over the next 15 to 18 months.

Our Apple Ridge and UK securitization facilities were arranged as five-year committed structures in April of 2007. Cartus's client base bears the risk of these assets. Whether funded by commercial paper or bank loans, these facilities are expected to be fully available for their remaining term.

**15. Can you provide a breakdown of your fixed versus variable costs by business unit and for Realogy in total?**

HULL: Overall Realogy has about a 75/25 split between variable costs and fixed costs. The 75% variable cost is spread by business unit primarily related to the portion of gross commission income that NRT pays to its sales agents. The 25% fixed expense portion consists of operating expenses at RFG and NRT, store fronts at NRT and TRG, and general and administrative expenses.

**16. How should we model working capital for Realogy? What is the seasonality?**

HULL: Seasonally we require use of cash in Q1 to pay year-end office manager incentives and deferred compensation payments at NRT and prior year earned royalty rebates to our franchisees at RFG. For the remainder of the year, working capital builds by that same amount and bolsters cash flow.

In an improving market, we would expect this seasonality to be a net source of cash on a calendar-year basis. In a declining market, we would expect this activity to be a net use of cash on a calendar-year basis.

The relocation business will generate a significant level of working capital this year as we exit the at-risk government business. To the extent the non at-risk portion of the business grows, this would require an investment in working capital that equates to the difference between the increase in client relocation receivables and the amount of that increase that cannot be financed by our securitization advances.

On the restructuring front, any residual rents that are due on offices that have been consolidated but are not sublet or terminated are an ongoing use of working capital.

**17. What are your options if free cash flow becomes negative?**

HULL: We can draw on our revolver to the extent permitted by our senior secured debt to Adjusted EBITDA covenant to fund operations if free cash flow becomes negative. If that ratio is getting close to the minimums dictated in our credit agreement, we can impact the Adjusted EBITDA levels in the covenant calculation by continuing to proactively reduce costs. We can also reduce capital expenditures, minimize acquisition spending and utilize the PIK feature as we expect to do for the upcoming period to reduce cash requirements. A significant mitigant we are seeing this year is interest expense reductions -- at 1.75% LIBOR beginning in April and the one PIK election this year we would expect cash interest expense to total \$550 million in 2008 compared to \$642 million pro forma in 2007.

**18. Do you anticipate any payments on your contingent liabilities in the next 6 months?**

HULL: We will expend funds to continue to try to overturn the Credentials case -- the last remaining CUC related litigation -- that is reserved at \$60 million. We are unable to predict the timing of the resolution of this case. Absent the final determination in that case, we would expect to spend between \$25 million to \$35 million net on Contingent Liabilities in 2008.

**19. Please discuss the contingent liabilities and potential settlement in more detail, including a discussion of your expectations for cash flow impact in 2008.**

HULL: As you know, the \$500 million letter of credit at the close of our sale covers the estimated value of the contingent liabilities as determined by a third party. Approximately \$300 million of the \$500 million relates to potential tax exposures that we inherited from Cendant that for the most part are unlikely to be determined until the IRS audits for those years are complete. This is estimated to be in late 2009 with a payment, if any, some time in 2010.

**20. If the Company needs to satisfy any of its contingent obligations, will the funds come from the revolver to satisfy the cash owed under the synthetic LC? If the revolver were to be fully drawn, would these funds be available through some type of conversion of the synthetic LC facility into a term or revolving facility?**

HULL: The Company expects to satisfy any potential payments of its contingent liabilities through either cash from operations or drawing on its main source of liquidity, its \$750 million revolver. In the unlikely event our \$500 million LC was drawn by our former sister companies to satisfy such a contingent obligation, we would immediately repay the LC using our revolver.

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Funds drawn on the LC are immediately repayable and cannot be converted into revolver or term loan borrowings.

**21. Has Apollo syndicated, to outside third parties (other than management), any portion of its contribution to the \$2 billion of equity capital?**

SMITH: Apollo has co-investors in its Realogy investment. I think that's adequately described in the 10-K.

**22. Is there a maximum limit to the amount of cash Apollo can inject into Realogy to cure a covenant default. Please confirm that Apollo can inject cash, which gets added back to EBITDA, to cure a default in any three of four quarters.**

HULL: As indicated in our credit facility, Apollo can provide equity to Realogy in order to cure a covenant default if necessary, and do so after the fact. The equity 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.

**23. Did you buy back any senior or subordinated bonds?**

HULL: We will release a prior public announcement if we intend to repurchase any bonds.

**24. Please walk through non-cash charges added back in your calculation of 2007 Adjusted EBITDA. Will these add backs reverse to the extent there are actual losses charged against the reserves?**

HULL: The \$61 million of non-cash charges consists of \$35 million for the change in allowance for doubtful accounts and reserves for development advance and promissory notes, \$14 million of reserves for at-risk homes and \$10 million of stock compensation expense. To the extent any of the reserves are actually written off that would count as a deduction to adjusted EBITDA in the future.

**25. What was Q4 EBITDA and how did it compare to Q4 2006 EBITDA and 2007 Q4 guidance?**

HULL: Based on the post January 18th adjustments described earlier, we did not achieve the implied Q4 range that we previously indicated, which was \$64 million to \$89 million.

**26. For accrued expense, what is the \$260 million of "other"?**

HULL: The major components of "other" accrued expenses include: sales associate commissions, franchisee rebates, self-insurance and advertising expense.

**27. How does the \$816 million of pro forma combined Adjusted EBITDA break down quarterly and by segment?**

HULL: The Adjusted EBITDA is calculated on a rolling 12-month basis, which is in accordance with the Credit Agreement. We suggest that you take the trailing 12 months' results as we report them quarterly, and then apply the Credit Agreement adjustments on an annualized basis similar to the way we have done on page 71 of the 10-K, rather than apply those adjustments quarterly or by segment.

**28. What do the \$63 million in cost savings added back in the Pro Forma calculation relate to, and what further opportunities exist for cost savings?**

SMITH: We talked about the opportunity for further 2008 cost savings in the same \$60 million range as last year, but to clarify that point, last year's \$68 million of instituted cost savings included these items:

The Realogy Franchise Group streamlined support and field service functions, resulting in savings of approximately \$5 million on an annual run-rate basis. NRT's closed or consolidated a total of 67 offices. The impact of these closures and other actions will save \$34 million on an annualized basis. In keeping with Title Resource Group's lower volume forecast, management took actions to reduce overhead by \$18 million on an annual run-rate basis. In similar fashion, Cartus management reduced overhead by approximately \$8 million, again on an annual run rate basis. And finally, at the corporate level, we reduced overhead by approximately \$3 million, again on an annual basis.

With these items, less the \$5 million we realized in 2007 on these actions, the remaining amount -- had we put them in place on January 1, 2007 -- would have been approximately \$63 million in aggregate savings in 2008.

**29. What is driving the \$35 million increase in allowance for doubtful accounts and reserves for the Development Advance Notes?**

HULL: In the current housing market environment, we're taking an appropriate posture with respect to our receivables.

**30. What comprises franchise revenue?**

HULL: Franchise revenue includes: initial franchise fees from new affiliates; the royalty revenue we collect from our franchisees (e.g., RFG sides x average price x average broker commission rate x royalty rate); in addition, it includes international royalties and area developer fees.

**31. What is your reaction to today's NAR release on February Existing Home Sales?**

SMITH: In summary, the report showed that seasonally adjusted existing home sales increased 3% in February compared to January, increasing from 4.9

million to 5 million annualized home sale units. This was offset by price decreases of about 2% month over month. This is consistent with the trend we would expect to see of price relief being more than offset by unit sales activity. Inventory dropped from 10.2 months to 9.6 months, which is also encouraging given that we are entering the historically strong spring selling season so we view the report positively.

**32. Has the pro forma combined Adjusted EBITDA calculation provided in the earnings release been approved by the appropriate lending parties?**

HULL: First, the covenant calculation that utilizes Adjusted EBITDA is not required to be provided until 45 days after March 31, 2008, and will be based on trailing 12 month numbers at that time. Second, the calculation we provided in the 10-K for informational purposes and what we will report on a go-forward basis is determined in accordance with the relevant definitions in the credit facility.

**33. Please comment on the progress you are making with respect to negotiating lower splits with your agents.**

SMITH: As noted earlier, we improved the commission split 65 basis points in 2007, that was from 67.35 in 2006 to 66.7 basis points at the end of 2007. In 2008 we have initiatives in place to improve the commission split by at least another 50 basis points, which will add \$20 million to our profitability. Just for the record, that is specific to our NRT agents, not our franchisee agents.

**34. Are you seeing increased signs of weaker competitors succumbing to market conditions thereby taking excess capacity out of the system?**

SMITH: The current housing market has indeed had an affect on the number of brokers and individual agents in the business. While there are no reliable statistics available on brokers, the National Association of Realtors reported a 1.5% decrease in membership from 2006 to 2007; this after 9 straight years of membership increases.

Even more recently, the number of Realtors dropped 3% on a month-over-month basis from January 2008 to February of this year. In terms of raw numbers, NAR reported 1.25 million agents as of February 2008, compared with 1.29 million agents at the end of January 2008, and 1.34 million in December 2007. That's a drop of approximately 88,000 agents in three months, or about 7%.

**35. And our last question, please provide any color possible on the New York metropolitan real estate market in light of the announced head count reductions at several large financial services firms. How should this affect NRT's Corcoran Group and Sotheby's International Realty businesses?**

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SMITH: In the recent past, one-third of our activity in New York City has been from foreign buyers and that relates to the weak dollar. Inventory of high-quality apartments is always at a premium in New York City, so if inventory levels increase as a result of these financial services job losses, we expect the inventory to be absorbed quickly and will directly benefit the Corcoran Group and Sotheby's International Realty company-owned offices. As it relates to the tri-state area outside of New York City -- and presumably the Hamptons -- perhaps we will see more pressure on price from these job actions, but it is too early to tell what the overall impact on our business might be.

**SWIFT:** Thank you, Richard and Tony.

With that, I have one calendar item to share, and then we will conclude today's call. We anticipate announcing our Q1 2008 results sometime in May 2008, the exact date still to be determined.

We thank you all for joining us, and we look forward to speaking with you next quarter. Thank you.

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