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PRESENTATION

Operator

Good morning. Welcome to the Realogy Holdings Corporation second quarter 2013 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 website tomorrow. A webcast replay will also be made available on the Company's website until August 7. At this time, I will like to turn the conference over to Realogy Senior Vice President, Alicia Swift. Please go ahead, Alicia.

Alicia Swift - *Realogy Holdings Corp. - SVP, IR*

Thank you Vanessa. Good morning, and welcome to Realogy's second quarter 2013 earnings conference call. On the call with me today are Realogy's Chairman, CEO, and President, Richard Smith, and Chief Financial Officer, Tony Hull.

As a reminder, if you are the webcast participants you will need to advance the slides by clicking the forward arrow on the bottom right of the screen beneath the webcast player as we move through today's presentation. Starting with slide three, I would like to call your attention to two items. First you should have access to a copy of our financial results press release for the quarter ended June 30, 2013, which we filed with the Securities and Exchange Commission. The press release is available on the Investor information section of our website, as well as a copy of today's webcast slides. Also, certain non-GAAP financial measures will be discussed on this call and these measures are defined and reconciled to the most comparable GAAP measure in our press release.

Second, the Company will be making statements about its future results and other forward-looking statements during the 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.

For those who listen to the rebroadcast of this presentation, we remind you that the remarks made herein are as of today, July 24, and have not been updated subsequent to the initial earnings call. Important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements are specified in our earnings release issued today, our 2012 Form 10-K, our first quarter 2013 form 10-Q, and other SEC filings. We expect to file our second quarter 2013 Form 10-Q on August 2.

Now I will turn the call over to our Chairman, CEO, and President, Richard Smith.

Richard Smith - *Realogy Holdings Corp. - Chairman, President, CEO*

Thank you Alicia, and good morning everyone. We appreciate you joining our call as we report on our second quarter 2013 financial results and operating performance. Our second quarter results were very strong. In looking at key benchmarks for our performance on slide 4, net revenue, adjusted EBITDA, and net income improved significantly from the same period a year ago. The material improvement in our second quarter financial results is largely attributable to the strength of our business model, the strong performance of management, the steps we have taken to deleverage our balance sheet, and the ongoing positive impact of the housing market recovery. Most importantly, we believe we are well-positioned to continue to capitalize on the housing market recovery, which we believe is in its early stages. The following are the highlights from our second quarter results.

Net revenue for the quarter was $1.53 billion, a $224 million increase, or a 17% improvement over the second quarter of 2012. Our adjusted EBITDA was $278 million, which was an increase of 27% over prior year results in the same quarter. Net income for the quarter was $84 million, an improvement of $109 million from the second quarter of 2012, after taking into account approximately $67 million of interest expense, $44 million of depreciation and amortization, $43 million of loss on the early extinguishment of debt, and $26 million of compensation expense related to the April 2013 issuance of common stock under the Phantom value plan. Our financial position has been greatly enhanced by the dramatic reduction of our net corporate debt by $3.2 billion in the last 12 months. Finally, our basic earnings per share for second quarter of 2013 was $0.58 adjusting for the loss on early extinguishment of debt and the Phantom value plan compensation expense, basic earnings per share would have been $1.05.

The significant improvement in our second quarter financial results was driven by our operational performance. Specifically on a combined basis, total sales volume from the franchise and Company owned real estate services segments increased 21% year-over-year, which was 4 percentage points above the top end of the transaction volume range guidance we provided during our May call. Sales volume is calculated as home sale transaction size times average home sale price.

At the business unit level, RFG had a 10% increase in home sale transaction size, and a 10% increase in average home sale price year-over-year during the second quarter to approximately $237,000, while NRT with its concentration in 35 major metropolitan markets had a 12% increase in home sale transaction size, and a 7% increase in average home sale price to approximately $478,000. As you can see, transaction volume growth in the second quarter was strong with the improvement in both home sale transaction size and average sales price. We attribute the increased volume to demand outstripping supply, moderately improved inventory levels, and the continued historically high affordability levels, despite the rising mortgage rate environment at the end of the quarter. And we see continued strength in sales volume growth going into the third quarter as we will discuss in a moment.

Turning to slide five, you see how our results compare to the survey data from the National Association of Realtors. NAR reported a 22% year-over-year increase in sales volume on the same basis for the second quarter of 2013. We note that NAR's survey results will generally vary from our actual sales numbers. Typically, our franchise results track the NAR survey results, while our Company-owned offices don't always correlate to NAR, given their geographic concentration and higher priced markets. For the RFG segment home sale transaction volume increased 22%, which is consistent with NAR's survey results. On a combined Realogy basis volume increased 21%. Given our size and scale, we believe Realogy is a barometer to gauge the pulse of the US existing home sale market. Keep in mind the existing home sale market is 10 times larger than the new home sales market on a total sales volume basis. Our results offer a much broader view of the state of the housing market.

Moving to slide six, our business units and the Company performed well during the second quarter, highlighted by the following accomplishments. The Realogy Franchise Group, herein after referred to as RFG, generated new franchise sales and agent recruiting totaling $58 million in Gross Commission Income, or GCI. Through the first six months of the year, our franchise sales were at $127 million of GCI, trending up 2% over 2012, and our new prospect sales pipeline is strong. For the first half of 2013, our proprietary lead router, lead management system delivered 1.56 million leads to our affiliated brokers and sales associates. Not only is this an increase of 27% from 1.23 million during the same period in 2012, it is a record performance for any six-month period since lead router's launch in 2004.

As announced in June, sales professionals affiliated with our franchisees and Company-owned offices earned one-third of the rankings of the 2013 Real Trends Wall Street Journal report. This report ranks the Top 1,000 residential real estate agents and teams based on 2012 annual sales volume and transaction size. Sales associates affiliated with NRT our Company-owned offices represented 161 of the overall agents and teams in the Top 1,000, including 35%, or 88 of the rankings within the Top 250 agents by sales volume category. In addition, Coldwell Banker placed more agents and teams on Real Trends Wall Street Journal Top 1,000 list than any other national brand, with 155 rankings across the four categories, and the number one performing team based on sales volume. During the second quarter NRT completed three accretive tuck-in acquisitions, two in Florida and one in Connecticut, and overall NRT's footprint currently includes approximately 710 offices, and 41,500 sales associates.

Turning to slide seven, Cartus signed 29 new clients in the second quarter, and also expanded the scope of relocation related services provided for 102 of its existing clients,the impact of which is expected to benefit future quarters. Cartus results in the quarter benefited from its Affinity business, which reflects its strong and growing position in serving large Affinity or membership organizations. TRG's title and settlement capture rates on NRT home sales improved to 44% in the second quarter, that is up from 42% in the second quarter of last year. TRG's underwriter reported a 45% increase in second quarter net premiums year-over-year, and its underwriting claims experience for the quarter continued at less than 1%, which is substantially better than the average loss ratio for the industry.

In conjunction with Apollo's sale of its remaining shares, which closed this past Monday, two Apollo designated Directors, Ali Rashid and Travis Hennings resigned from our Board. They follow Scott Kleinman, also an Apollo-designated Director who resigned on June 26. We thank them for their service and contributions. I am pleased to report that with the late June appointments of Jessica Bibliowicz and Fiona Dias, the Realogy Board of Directors is now comprised of a majority of independent directors, five of seven directors are independent. Jessica brings to the board a vast and highly successful track record as a CEO of a diverse publicly-traded financial services company, while Fiona's extensive e-commerce experience in both traditional brick and mortar and Internet-based business models will add depth to our strategic planning.

Let's move on to the current operating environment on slide eight,specifically the industry forecasts for the remainder of this year. Consistent with our second quarter results, NAR is forecasting a 19% increase in sales volume for full year 2013. That is made up of a 9% increase in existing home sale units to 5.1 million units for the year, and a 10% increase in median home sale price to $194,800. Fannie Mae is forecasting a 15% increase in 2013 sales volume, comprised of a 7% improvement in existing home sales to 5 million units, and an 8% increase in median sales price to $191,000.

For the past two quarters, the focus on housing has centered around low inventory levels. For reasons we have previously discussed, rising home prices, seasonality, the reduction of the number of underwater equity homes, and increased levels of new home production from the builders have positively impacted the level of sellable inventory. NAR's most recent report showed June inventory at 2.19 million units, which is only 8% lower than a year ago, and equates to a 5.2 months supply. However, from January to June, inventory levels have increased by 24%. As we anticipated, we continue to see inventory increases in the majority of our markets, and we expect inventory levels to steadily improve in the third quarter.

More recently there has been renewed focus on rising mortgage rates, and what impact rising rates will have on the housing recovery. Our first observation is that rising rates have impacted mortgage refinancing volume more so than existing home sales. Secondly, we view rising rates as a reflection of an improving economy, and while a 50 to 100 basis point increase in mortgage rates may put near term pressure on marginal creditworthy home buyers, that needs to be viewed in broader context of affordability. In a recent report, Goldman Sachs analyzed the impact of higher rates on affordability. They used the assumption that the typical homebuyer has an annual household income of $50,000, makes a 20% down payment, and obtains a 30-year fixed mortgage.

Under this scenario, even if 30-year mortgage rates rose to 6%, their model shows that the average priced home would continue to be affordable to median borrowers. Mortgage rates have declined modestly in the past three weeks, and Freddie Mac expects 30-year fixed rates to end the year at around 4.6%. NAR's most recent Home Affordability Index was 172.7, which means that the average family has 172% of the median income necessary to purchase a home at the May median sales price of $208,700 with a 20% down payment.

According to our calculations, for every 50 basis points of mortgage rate increase affordability drops approximately 10 points, and for every 6% increase in the home price, the index falls 10 points as well. In response to higher 30-year fixed rates, we have already seen consumers increase their usage of lower costs adjustable rate mortgages as an alternative. The Mortgage Bankers Association reports that a doubling of ARM usage from 4% in March to 8% in early July. Pending home sales have been above prior year levels for 25 months, and according to NAR in May rose to the highest level since 2006. Again, existing home sales are projected by NAR to increase 9% in 2013, reaching about 5.1 million units, which would be the highest sales total recorded since 2007.

An important indicator we track closely particularly at NRT is cancellation rates. When a borrower signs an agreement to purchase a home, if mortgage rates rise beyond the borrower's expectations, under most circumstances, the contract can be canceled. The NRT cancellation rates remain near historically low levels between 12% and 13%. And we are experiencing continuing declines this year even through the middle of July. Our take-away on rising mortgage rates is that they must be considered in the context of affordability, which remains at historic levels.

All considered, demographics are one of the main drivers of housing demand, and we are encouraged by the household growth projections released by the Harvard Joint Center for Housing Studies earlier this summer, the latest Joint Center projections indicate that household growth should average 1.16 million per year in the decade leading up to 2020.

On the Legislative front, bills recently have been introduced in Congress calling for the eventual wind-down of Fannie Mae and Freddie Mac. We believe as do our advisors that this major policy issue is unlikely to advance through Congress prior to the midterm elections in 2014. Regardless of timing, it is our opinion that a complete shutdown of fanny and Freddie is impractical, has little support, and is highly unlikely. In developing news as of yesterday, regulators in Washington DC now appear to be in serious discussions about several key changes to Dodd-Frank, which would lead to what we believe would be a new and better definition of QRM, or qualified residential mortgage. The regulators are strongly considering removing the 20% down payment rule, and the lender 5% base value retention rule except in rare circumstances, we believe these rules would be positive steps towards easing otherwise over restrictive lending standards. This is far from final, but encouraging nonetheless.

In closing, we remain confident in the ongoing strength of the housing recovery both near and long term. Looking ahead to the third quarter of 2013, based on the visibility we have from our open contracts in June and July and our closed sales to date, we anticipate that our home sale transaction volume will increase 17% to 19% year-over-year in the third quarter of 2012, which will translate into continued strength in our third quarter revenue and EBITDA. With that, I will turn the call over to Tony to review in more detail the second quarter financial results. Tony.

Tony Hull - *Realogy Holdings Corp. - CFO*

Thank you Richard. Let me make some brief comments before I discuss the results for the second quarter of 2013 in detail on slide nine. For the second quarter of 2013 Realogy's net revenue was $1.53 billion, a 17% increase compared to the second quarter of 2012, and adjusted EBITDA was $278 million, up 27% year-over-year. Revenue improved 17% compared to the volume increase of 21%. Revenue gains did not align with volume gains because NRT revenue was up 19% in line with its volume growth. Cartus revenue was essentially flat in the second quarter of 2013 versus second quarter of 2012, and RFG's marketing revenue declined $6 million versus the second quarter of 2012, along with related spending due to the timing of spending in the year.

The adjusted EBITDA margin improved approximately 140 basis points from the second quarter a year ago. And incremental margins were 26% calculated by dividing the $224 million of incremental revenue into $59 million of incremental adjusted EBITDA. Net income for the quarter was $84 million, an improvement of approximately $109 million compared to the second quarter of 2012, due to the improved operating results and lower interest expense. Basic earnings per share for the second quarter of 2013 was $0.58, adjusting out the loss on early extinguishment of debt and Phantom value plan compensation expense, basic earnings per share were $1.05. Realogy's net debt at June 30 was $4 billion, with $140 million drawn on the revolver. As of today the revolver has been reduced to $95 million, and we expect it to be fully repaid by the end of the third quarter. Finally the Company had 145.8 million shares outstanding as of June 30.

Next I will discuss our key revenue drivers on slide 10. Realogy home sales size increased 10% year-over-year in Q2, and average home sale price also gained 10%. RFG's price increase was influenced by the higher priced Sotheby's international realty volume in the mix. Its size increased 26% during Q2 2013 versus Q2 2012. NRT home sale size increased 12% year-over-year in Q2 compared to the 2012 second quarter,and its average home sale price gained 7%. NRT continues to see the same shift in mix it has experienced since late 2011 to more volume in its lower-priced markets, which is why size growth outperformed average sales price growth.

The greatest increases in unit sales occurred in Connecticut, Westchester, New Jersey, Chicago, Salt Lake City, Philadelphia, and Denver. These NRT markets all experienced size increases between 20% and 40%, with price improvements ranging from flat to the high-single digits. Florida sales volume was up 22% evenly split between size and price, New England had low single-digit size and price increases, although open contract volume for the quarter was up 19%, so we will see the results of that later in the year. Southern California which had inventory declines of 20% year-over-year experienced size increases of 3%, but an average sales price increase of 19%. In Northern California, which has inventory declines only in the single digits, size were up 7%, and prices were up 9%.

For the third quarter 2013, based on what we were seeing in our July closings as well as our pending contracts, we expect to see a 9% to 10% increase in transaction size year-over-year for RFG and NRT combined. Average sales prices indicated up 8% to 9% on a combined basis. As a result, we expect our transaction volume to increase between 17% and 19% on a combined basis in the third quarter, which includes the impact of one additional business day in Q3 2013. Remember that in the second half of 2012, the housing market experienced significant improvement so the volume increases for Q3 2013 are building upon the strong gains in Q3 2012. This will also impact fourth quarter 2013 comparative results.

Average broker commission rates for both NRT and RFG were flat year-over-year, both despite increasing average sales price. Also, the Realogy Franchise Group's net effective royalty rate declined 13 basis points to 4.51%, as larger affiliates continued to achieve incentives for higher volumes. RFG's Top 250 companies represented 61% of the total franchisee gross commission income or GCI in Q2 of 2013 versus 58% in 2012,as larger companies continue to grow at a quicker rate than our smaller franchisees.

Cartus referrals for Q2 increased 19%, and initiations increased 5%. We continue to see stronger results from our Affinity business. As the year progresses, increased relocation volume from existing and new corporate clients should lead to incremental relocation revenue. At TRG, Q2 2013 purchase unit volume increased 14%, which was consistent with NRT home sale gains. TRG's refinance title and closing units increased 30% in Q2 2013 compared to 2012. However, with rising mortgage rates, we expect refinance activity to moderate in the second half of 2013 compared to the same period in 2012.

Now let's look at revenue and EBITDA by business unit for the second quarter of 2013 as shown on slide 11. Total revenue at RFG increased $23 million in Q2 2013 versus 2012, while EBITDA improved $34 million. The 14% revenue increase was due to higher home sale size and average price, partially offset by a decrease in marketing revenue, that matches marketing funds expended and varies from last year to the timing of spending within the year. RFG's EBITDA margin increased 69% from 58% in Q2 2012,driven by higher revenue and lower legal expenses.

The largest component of the Company's revenue line is NRT. In the second quarter NRT revenue increased $188 million, or 19%, in line with its higher home sale transaction volume. NRT EBITDA increased $24 million, and its margin increased by 100 basis points year-over-year. Improved revenue was partially offset by a $138 million increase in commission expense paid to real estate agents as a result of the increase in volume. Also overall commission splits increased to 68% in the quarter. We expect that the commission split we saw in Q2 will hold for the full year. Other items impacting EBITDA royalties to RFG increased $12 million, operating expenses increased $6 million, due primarily to the absence of legal reserve reductions recorded in 2012. Employee related costs increased $5 million, due primarily to the Phantom plan charge and higher branch manager incentive accruals, finally our equity and earnings related to PHHL decreased to $3 million.

Drilling down to the incremental margin at RFG and NRT combined for the quarter. EBITDA for the two businesses increased $59 million on revenue of $212 million. This equates to an incremental margin of 28%. NRT's incremental margin alone in the second quarter was 13%. This is below the 20% to 25% expected for two reasons.

First, it was adversely affected by commission splits which increased approximately 100 basis points from Q2 of 2012 to Q2 of 2013. This decreased NRT's incremental margin by approximately 5 percentage points. The higher share of commissions to our agents is due to the fact that our top two quartile sales associates continue to conduct more of NRT's overall transaction volume. Second, PHH home loans, our joint venture earnings decreased by $3 million in Q2 2013 versus Q2 2012, due to lower margins on originations, this negatively impacted incremental margins by two percentage points.

At Cartus revenue was down $1 million year-over-year, and EBITDA decreased $3 million. Revenue decreased because of lower relocation volume, although it was partially offset by higher referrals. EBITDA declines were driven by lower revenue and the absence of a $2 million net reduction in insurance loss reserves recognized in 2012. At TRG revenue improved $24 million or 23%, as a result of increases in resale and refinancing transactions and underwriting revenue. EBITDA increased $6 million to $20 million, and margins gained 200 basis points to 15%. TRG revenue and EBITDA benefited from the addition of lender channel clients last year, which will continue through the rest of 2013. This increased volume should help mitigate any overall decrease in refinancing transactions.

Corporate and other EBITDA decreased $60 million to negative $78 million, primarily due to a $43 million loss on the early extinguishment of debt, related to redemption of the notes in April. In addition, the Company recorded a $4 million restructuring charge due to the headquarters relocation, and $17 million related to the Phantom, to the corporate portion of the compensation expense recognized under the Phantom value plan for the secondary offering that was completed in April.

Turning to slide 12, cash interest expense should be about $300 million in 2013, which includes the higher cost debt which was paid down during April of 2013. Annual run rate cash interest expense is now approximately $255 million, with a current capital structure reflecting all the paydowns and refinancings completed in the second quarter. Capital expenditures will be about $60 million for the full year. Cash taxes will be approximately $15 million to $20 million. This relates to foreign, state, and alternative minimum taxes. Cash legacy payments will be $5 million to $10 million. Working capital is expected to be an use of $60 million to $65 million in 2013, which includes the premiums we paid on the debt retirement. Finally, Apollo's July block sale of its remaining shares in Realogy common stock will result in a Phantom value plan charge of $18 million in the third quarter. No further shares will be issued under the plan.

Turning to slide 13, our anticipated growth of 17% to 19% in Q3 transaction income volume factors in the current mortgage rate environment, and reflects our belief in the continuing strength of the housing recovery. We remain commit to deleveraging any profitable market share, and keeping costs contained. This along with the long term forecast of housing market improvements, will enable us to continue utilizing free cash flow to reduce debt and move toward our goal of reducing leverage 3 times net debt to EBITDA over the next several years.

With that, I will turn it over to the operator, who will open this call for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Your first question comes from the line of Adam Rudiger from Wells Fargo Securities

Richard Smith - *Realogy Holdings Corp. - Chairman, President, CEO*

Adam, are you there?

Operator

One moment, please, for your first question. Sir, your line is open.

Adam Rudiger - *Wells Fargo Securities - Analyst*

Can you hear me now?

Richard Smith - *Realogy Holdings Corp. - Chairman, President, CEO*

Yes, we can.

Adam Rudiger - *Wells Fargo Securities - Analyst*

Thanks. Thank you for taking my call. Tony, can you go back over a little bit the commission split you were talking about? I didn't follow it as well as I would have liked. I think in the fourth quarter you talked about some of that pressure being increased by competitors knowing when contracts were up, and so you were going to stagger things, and that seemed to have a positive impact on the first quarter. That number fell down a bit, and then it picked back up again this quarter, so can you explain all the puts and takes, and to reiterate you said you expect that number to be the same for the rest of the year, so it is that mid-68 number?

Tony Hull - *Realogy Holdings Corp. - CFO*

Yes, we expect it to be 68. The discussion we had on, we are obviously looking for ways to keep the split rate in check. And NRT management works hard to do that. One of the ways that you referred to was at one point, many of our markets had an annual sort of reset on sales associates commission split, and all of our competitors knew that was the date they could basically go after those agents to try to recruit them away from us, and one of the things that NRT did to combat that was move the reset dates on agents commission plan to their anniversary date, as opposed January 1 or January 2. So therefore it was more difficult for our competitors to try to recruit away our agents. So that is one of the many initiatives that NRT has in place to keep the commission split in check. As you said, 68% is where it came in. It was about 100 basis points worse than a year earlier,again, because more of the top producing agents are doing more of the business. They are more productive with technology, that sort of thing. And we are using technology ourselves to, we have initiatives in place with leads management, that sort of thing, to mitigate the increases that are coming from our top quartile agents

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Adam Rudiger - *Wells Fargo Securities - Analyst*

Is there anything else driving that increase, because it looks like between the fourth quarter of last year and this quarter it looks as far back of the data we have, those are the two highest numbers that we have seen, are those top quartile producers doing an outsized portion relative to--?

Tony Hull - *Realogy Holdings Corp. - CFO*

The top two quartitles do 90% of our revenue, so top 50% of our agents do 90% of the revenue, and with technology they become more productive. It is win/win, it is great for us that they are more productive because we are making incremental dollars on all of their business. So it is kind of a high-class problem, but it is something that we obviously focus on regardless.

Adam Rudiger - *Wells Fargo Securities - Analyst*

Okay. And just my other question relates more to your visibility. How quickly for your pending contracts from when a buyer puts down a deposit or signs a purchase and sale agreement, does that information filter up to the data that you see?

Tony Hull - *Realogy Holdings Corp. - CFO*

It is immediate. I mean as soon as it open, as soon as they sign it, it is in their system, it is in NRT's system.

Adam Rudiger - *Wells Fargo Securities - Analyst*

So when you are giving your guidance you have visibility to activity even this past weekend?

Tony Hull - *Realogy Holdings Corp. - CFO*

Oh, yes.

Adam Rudiger - *Wells Fargo Securities - Analyst*

Alright. That was it. Thanks very much.

Tony Hull - *Realogy Holdings Corp. - CFO*

Okay.

Operator

Your next question comes from the line of David Katz from JPMorgan.

Tony Hull - *Realogy Holdings Corp. - CFO*

Hey, Dave.

David Katz - *JPMorgan - Analyst*

I know that you gave a lot of numbers and I appreciate that, but I think I lost a little bit of the thread there. I was curious looking at the operating costs of 353 and the general and admin cost of 93, what portion of that represented one-time costs, and then as a follow-up to that, where will the $18 million in 3Q, what line item will that go into?

Tony Hull - *Realogy Holdings Corp. - CFO*

Well, on adjusted EBITDA, just to answer your second question first, the $18 million will be adjusted EBITDA out of adjusted EBITDA just like it was it was in the second quarter, because is a stock compensation expense, which is added to adjusted EBITDA. But other than that, there is a little piece in every business unit, because it is relevant to the CEOs of each business unit, and then about three or four people at corporate. So it is spread around on the reported EBITDA, but it is adjusted out overall in the adjusted EBITDA number. And it is all in G&A at the end of the day.

And then on the one-time costs, there was a $4 million restructuring charge taken for basically closing down our one campus facility, and moving to 175 Park. There was $43 million for the premium we paid to take out, mostly for all of the debt reductions and financing we did, but most of it was for taking out the 11.5s, the premium we paid to take out the 11.5s, and then there was the Phantom charge of $26 million. Those are really the one-time costs.

David Katz - *JPMorgan - Analyst*

Okay. And then when looking at the interest, in the first half it was about 156 cash interest, I would assume it was less than that. You are guiding to 300 for the year, but you are stating that the annual run rate right now is around 255. So just curious why is the second half going to be so high, if the run rate is lower now?

Tony Hull - *Realogy Holdings Corp. - CFO*

Well, I don't know, all I know is if you take our current capital structure, and run it out, it is currently at 255 is the cash. The first half has basically four months or actually five months of the 11.5% of the high cost debt still in it.

David Katz - *JPMorgan - Analyst*

Okay. Thank you very much.

Operator

Your next question comes from the line of Anthony Paolone from JPMorgan.

Anthony Paolone - *JPMorgan Chase & Co. - Analyst*

Thanks. Good morning. On the royalty rate, I am trying to understand what is happening there. When franchise agreements come due, and if I recall correctly I think that these are ten-year type deals, are the economics or sort of the break points where they start to get discounts, are those renegotiated, and if so, are we seeing those coming down?

Richard Smith - *Realogy Holdings Corp. - Chairman, President, CEO*

Anthony, those occur at the stage of, this is Richard. Those occur when you sign the agreement with the franchisee. They are per schedules that are disclosed to them and the franchise offerings that are public documents. They are negotiated again when they renew their franchise agreements some ten years later. Often they are renewed on the same terms, and often not depending on what that franchisee has done over that ten-year period, in terms of growth and expansion. And that is essentially the way the industry works. We are not different from any of our competitors in that regard.

Anthony Paolone - *JPMorgan Chase & Co. - Analyst*

I understand. Then as some of these are coming up now, though, we are in a different real estate market than perhaps where their volumes were a number of years ago. On balance, are these break points being reduced or--?

Richard Smith - *Realogy Holdings Corp. - Chairman, President, CEO*

I don't see any material change. Remember, we renew a very high percentage of our franchisees are eligible to renew in a given 12-month period, in the mid to high-90s, but I don't see a material change in that. What you often see is the franchisee asking for consideration to grow the business, which is a good, strong, positive problem to tackle. But I don't see big changes in their volume discounts

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Tony Hull - *Realogy Holdings Corp. - CFO*

I mean the biggest driver, Anthony, is the fact that they are just doing very well. Our Top 250 franchisees are running their businesses very well, and they are doing more of the business and that is putting pressure on the royalty rate. But again, they are focusing on recruiting. They can do it, they are focusing on growing their footprint by doing M&A, tuck-ins like NRT does, and it is a win, just like with the slow rates, it is a win/win, we are making a lot more money when they are doing better, so if we are giving up a few basis points here and there on royalty rate, it is a very high-class problem to have.

Anthony Paolone - *JPMorgan Chase & Co. - Analyst*

Yes. I understand. But it seems like on the payouts and the royalty rates, as the recovery continues to unfold, I think the logic here makes sense that you have got a disproportionate amount of activity from your top folks and franchisees. But I am just wondering at what point do you see those third and fourth quartiles start to shift that mix, or stabilize those numbers?

Tony Hull - *Realogy Holdings Corp. - CFO*

I think it will be in the middle and latter stages of the recovery. So you will see it over the next several years. But again, as they start, the third and fourth quartile agents will start to become more productive, and that will take pressure off of splits. And our big franchisees I think they grew in the mid-20s in the second quarter, and they can't do that forever, and at some point they will start having more normalized growth and our smaller franchisees will grow more, and it will take pressure off of the discount on the rebates on the royalty rates, so it won't happen tomorrow, and it is probably not going to happen this year, but it will certainly happen over time as the recovery continues

Anthony Paolone - *JPMorgan Chase & Co. - Analyst*

Okay. And then in your guidance for 3Q, you guys probably have very good visibility for 30 days, but as you start to look into September, what kind of assumptions did you make there to get to the 17% to 19%?

Tony Hull - *Realogy Holdings Corp. - CFO*

I mean we have good visibility into September right now, because we know what the opens were in June, and we know what the opens were in, we know what the opens are in July. July seems to be a very, very strong month so far, and what we are seeing in the month which is almost completed. And we have 60% of our franchisees giving us their opens, and those close, a big proportion of those opens close in September. So we have very good visibility through September at this point. So we feel very good about that range for Q3 that we gave you.

Anthony Paolone - *JPMorgan Chase & Co. - Analyst*

Okay. And then in NRT, the PHH homes venture, how much of that is driven by refinancing versus purchase originations?

Tony Hull - *Realogy Holdings Corp. - CFO*

It is less and less every day, but I think last year it was about 25% was refinancing. Maybe up to 30% last year, and it is probably more like 25% this year, and next year if things continue it will be 20%, so that is clearly putting pressure on those earnings, and we will see some of that. We saw it a little bit in Q2, their earnings were down $3 million year-over-year. I think that will be more exaggerated. Those will be bigger numbers in the future

Anthony Paolone - *JPMorgan Chase & Co. - Analyst*

Okay. And last question, just accounting-wise, how does the expensing of income tax work going forward? I think at some point, you guys start to recognize an income tax expense.

Tony Hull - *Realogy Holdings Corp. - CFO*

Yes. Right now we have a valuation allowance so our taxes are minimal. But at some point when the evidence is there, we will reverse that value. We will reverse that valuation allowance, and we will be recording taxes at the normal, at the 40% rate, and then we will still get, obviously we will still have the NOL benefit on a cash basis. But we have to have a few quarters of overwhelming evidence before that happens. But the bottom line is the cash taxes will remain regardless of that accounting change, the cash taxes will remain very low for the foreseeable future

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Anthony Paolone - *JPMorgan Chase & Co. - Analyst*

Okay. So it doesn't sound that you will recognize income tax, like GAAP taxes at the normal level in 2013 still?

Tony Hull - *Realogy Holdings Corp. - CFO*

That is up to the accountants to determine, but I think that is a fair assessment.

Anthony Paolone - *JPMorgan Chase & Co. - Analyst*

And do you think you will use any of the NOLs in 2013, like given all of the stuff that is gone on still in the organization?

Tony Hull - *Realogy Holdings Corp. - CFO*

We are using the NOLs because we have income and we are not paying taxes, so we are using some of the NOLs this year.

Anthony Paolone - *JPMorgan Chase & Co. - Analyst*

Okay. Thank you.

Richard Smith - *Realogy Holdings Corp. - Chairman, President, CEO*

Thanks.

Operator

Your next question comes from the line of David Ridley-Lane from Bank of America Merrill Lynch.

David Ridley-Lane - *Bank ofAmerica Merrill Lynch - Analyst*

The goal of being under 3 times net debt to EBITDA, is that the point at which you would start to consider returning cash to shareholders?

Tony Hull - *Realogy Holdings Corp. - CFO*

Yes. We want to get to that level to be in a good position for whatever the macro throws at us at that point, and have a comfortable leverage ratio. But I think at that point also we will be in a position to begin returning capital to shareholders in whatever form we decide to do it at that time. So as we get closer we will start looking into that. But that is our goal is to get to 3 times, and then start returning, finding ways to return capital to shareholders

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David Ridley-Lane - *Bank ofAmerica Merrill Lynch - Analyst*

And then can you talk about acquisition spending in the quarter? I believe there were one or two tuck-ins in the NRT segment, and then maybe your appetite for acquisition the remainder of the year, or maybe the number of conversations you are engaged in?

Richard Smith - *Realogy Holdings Corp. - Chairman, President, CEO*

This is Richard. They were small tuck-in acquisitions, which we have a track record of doing those extremely well. They are very accretive. We essentially buy assets. We do not buy the stock of these companies. We are buying the agents essentially, we roll them into our existing footprint. The are very synergistic. We can do as many of those as we can find. We are very disciplined. We never overpay for any asset, and we will continue that discipline, so if it meets our very high thresholds then they are a candidate for acquisition. We have a very strong pipeline, probably the strongest pipeline we have ever had of prospective acquisitions. You can appreciate that the targeted acquisitions are enjoying the upside of improving housing market, so they are trying to capitalize on that in the near term and increase the value of their company, at least the value as we might see it, in terms of what multiple we might pay. So it is a happy marriage that is working its way through the year, and we are pretty encouraged by what we see out there.

Tony Hull - *Realogy Holdings Corp. - CFO*

But the pipeline, just to be clear, the pipeline is robust. There are still very accretive tuck-in acquisitions that don't require a lot of capital up front, and have modest earn-outs but they are, they will, out of NRT's overall revenue, you won't be able to see a big impact from those, but they certainly help the profitability of the different regions, and the offices where they are at. And so it is a very disciplined but very productive path we take to grow. It is basically a mass agent recruiting process, as opposed to one-on-one recruiting, so it works out well.

Richard Smith - *Realogy Holdings Corp. - Chairman, President, CEO*

What is unique about our ability is our footprint, so when I said they are very synergistic, we literally collapse these into our existing operations and enjoy the cost reductions as a result of that, we have been doing this for over ten years, we know it very well, again we are very disciplined. These are on a multiple basis these are incredibly attractive, and we will continue doing that. But again, on a very disciplined basis that we demonstrated for a very long time.

David Ridley-Lane - *Bank ofAmerica Merrill Lynch - Analyst*

Got it. And maybe one last one, if I could. RFG's EBITDA margin in the third quarter is generally flat with the second quarter. Are there any investments that you are making in RFG, or maybe trends that you are seeing in the market that would cause RFG's margin to be significantly different than it was this quarter?

Tony Hull - *Realogy Holdings Corp. - CFO*

No.

David Ridley-Lane - *Bank ofAmerica Merrill Lynch - Analyst*

Got it. Thank you very much

Richard Smith - *Realogy Holdings Corp. - Chairman, President, CEO*

You are welcome.

Operator

Your next question comes from the line of Will Randow from Citi.

Will Randow - *Citigroup - Analyst*

Thank you for taking my question, and good morning.

Tony Hull - *Realogy Holdings Corp. - CFO*

Good morning

Richard Smith - *Realogy Holdings Corp. - Chairman, President, CEO*

Good morning.

Will Randow - *Citigroup - Analyst*

A lot of the questions specifically of the company have been asked, so I was curious on the inventory front, and what we are seeing in regards to trends is as more inventory coming back to the market year-to-date versus the past number of years, which is good obviously, for volume. Do you have any thoughts in terms of where we might be at year-end, and the impact on volume as well as price?

Richard Smith - *Realogy Holdings Corp. - Chairman, President, CEO*

The problem with inventory, inventory is improving, but it is selling as fast as we can get it. It is about 5.2 months now. It is going to be somewhere in that five to six month range throughout the year. It is improving, it is up about 24% since January. It is only about 8% trailing last year. So it is going in the right direction. I mean literally in most of our markets, as soon as we get the inventory, we sell it. So we still have the inventory issue, but it is improving, the underwater equity component is contributing. Builders are adding new inventory,which stimulates the move up buyer, which makes it possible for first time buyers to be more involved in the market, because they are at pretty low levels right now. So I think it is slowly getting better. I don't know what it is going to be next year, but I think this year it is going to be in that 5.2 to 6 month range, give or take.

Will Randow - *Citigroup - Analyst*

Thanks for that. Do you have any view on, so therefore, you think the price trend will continue kind of where it is at through the year-end it sounds like?

Richard Smith - *Realogy Holdings Corp. - Chairman, President, CEO*

Yes. I think prices just reacting to demand. So demand is outstripping supply, prices reacting to that. There are countless markets where that is evident, where you have very low inventory levels prices often in the double-digit range, so I think price is going to continue to react to low inventory levels, and the demand that is following. So I think you will see a very healthy price market through the balance of this year at the very minimum.

Will Randow - *Citigroup - Analyst*

Thanks. Just as a follow-up on NRT, in regards to tuck-in acquisitions, would you think about specifically targeting augmenting your footprint to a specific region, let's say the Southeast, or is it more looked at on a one-off basis?

Richard Smith - *Realogy Holdings Corp. - Chairman, President, CEO*

No. First of all, we are very opportunistic so we look for those synergistic acquisitions in the markets, the three I mentioned just in the second quarter, two in Florida and one in Connecticut, those were existing markets. We have said a number of times over the past year that in particular we are interested in the Southwest and somewhat the Southeast, we are also finding a little bit more interest in the Midwest. So those are the markets that are interesting, but again we are very careful, very disciplined, and we are looking for those opportunities that will occur over the next several years.

Will Randow - *Citigroup - Analyst*

Thanks again guys, and great quarter.

Richard Smith - *Realogy Holdings Corp. - Chairman, President, CEO*

Thank you very much.

Operator

Your next question comes from the line of Brandon Dobell from William Blair.

Tony Hull - *Realogy Holdings Corp. - CFO*

Hey, Brandon.

Brandon Dobell - *William Blair & Company - Analyst*

Good morning. Within NRT, any color on where you guys are with broker head count, and expectation for that may go this year?

Tony Hull - *Realogy Holdings Corp. - CFO*

We have, just between Q1 and Q2 we added about 300 agents, so that is net of people recruiting away from us, but we net added, so that is obviously moving in a good direction, and that is one of NRT's major focuses this year in addition to split rate is recruiting profitable agents, and managers at offices, part of their compensation is tied to recruiting, and so far that effort is up 10% year-over-year. So it seems to be working. And it is just a part of their daily job is to recruit. And NRT management spends a lot of time every month on recruiting calls to make sure everyone is following up on that. And so it seems to be working. So again, we recruit through M&A effectively, and we recruit through one-on-one activities of the 700 managers we have throughout the country, or in the 35 markets that we serve.

Brandon Dobell - *William Blair & Company - Analyst*

And as you are bringing those new agents in, I guess kind of tied back to the conversation about splits in commission rates, how much flexibility do you give the local guys, if you need to add people but at a certain commission rate or certain split, and how do you manage that process now?

Tony Hull - *Realogy Holdings Corp. - CFO*

Well, they are very sensitive to bringing in new agents based on their existing agents. So they manage that very carefully, just like they manage the process. Generally the splits are much better for new agents who are green. When we bring in the new agents, inexperienced agents they have much lower splits, but experienced agents will have the splits, but they don't vary from what top, if they are a top quartile agent, they will be in line with a top quartile agent in that office, and every market is different so the splits paid in LA are much different than the splits paid in New England, so they adhere to whatever the local practice is.

Richard Smith - *Realogy Holdings Corp. - Chairman, President, CEO*

This is Richard. Just also take note of a couple of initiatives. One, believe it or not, there are agents who do nothing but list. They are not generally active on the buy side. They have built their businesses around listings and listing inventories. So we very specifically through a couple of initiatives at NRT are focused on recruiting listing agents. That is often a very, very attractive split basis for us. And also they are very active in recruiting, training, and hiring new agents, because they are on a very attractive split basis for us,until they mature into the top quartile. So that is sort of the balance that you look for. You recruit top producing agents for the business they bring to the Company, and then you recruit sort of new entrants to the business which are very attractive, like we are getting high quality recruits out of a variety of different business disciplines, that are going to come in at very attractive sort of 50/50 kind of splits, and we are encouraged by the production, and that is an initiative that will be ongoing for the next several years at NRT.

Brandon Dobell - *William Blair & Company - Analyst*

Okay. And then you mentioned, I guess let's call it lead flow up in the quarter. How do you guys think about the, call it conversion rates and efficiency metrics. Are you getting better economics on those leads, are they converting at a better rate, I know there is, obviously tight inventory, so it will be a pretty tight churn, but how do you guys drive as much economic efficiency into that lead process as you can?

Richard Smith - *Realogy Holdings Corp. - Chairman, President, CEO*

There are two ways of looking at that, if you generate a lead that is a lead that then is delivered to an agent because she, as an example, had the listing, that the economics are very different from the lead that we generate at the Company level and then distribute on a completely different set of economics. So the leads that are generated in the broad market and that are generated by the agent and generated by the local market initiatives that are typical of the business, are generally along the lines of some of these splits that we have been discussing over the years. The leads that are generated by the Company through its own initiatives, through its own investment, and then delivered to the agent are delivered on a different set of economics. They are very attractive. The economics are far, far better for us, and there are a couple major initiatives, at least in NRT, and I know our franchisees do the exact same thing, but at NRT they are generating Company leads, that are then distributed to agents on a different set of economics. So that is becoming a bigger part of our business. You will see that in the quarters to come. You will hear us talk a lot about that because the point you make they are more efficient, they are more effective, and far more profitable.

Brandon Dobell - *William Blair & Company - Analyst*

Okay. Thanks a lot. Appreciate it.

Richard Smith - *Realogy Holdings Corp. - Chairman, President, CEO*

You are welcome.

Operator

Your next question comes from the line of Michael Kim from CRT Capital Group.

Michael Kim - *CRT Capital Group - Analyst*

Nice earnings results. My first question is on Cartus, just noticing that we are seeing a greater composition from referrals, and the average relocation fees per transaction has come down from last year as a result. I am just curious how initiation fees per transaction have been trending, and do you expect better contribution from initiations to relocation services this year, where we could perhaps see more flat sales for Cartus, or even some growth on a year-over-year basis?

Tony Hull - *Realogy Holdings Corp. - CFO*

No. We expect revenues to grow at Cartus. I mean, Michael, the initiations were down last year and they were down in the first quarter year-over-year. So it shouldn't come, and that was for all of the reasons we talked about last year, in terms of what was going on with the economy.

Michael Kim - *CRT Capital Group - Analyst*

Right.

Tony Hull - *Realogy Holdings Corp. - CFO*

So the initiations are a really good leading indicator of what revenue is going to be in the following quarter, so it is not surprising that revenue is off $1 million when initiations were off 5% or 6%, in I forget what the exact number was, in the first quarter. So in the second quarter initiations were up, and we should see the benefit of those initiations in greater revenue in the outlying quarters. So I think it is just a question, that is a combination of more activity from our base book of business, and adding clients earlier in the year that are going to start to convert into revenue generating in the latter part of the year.

Michael Kim - *CRT Capital Group - Analyst*

Okay. Understood. I guess Richard you mentioned some potential changes to Dodd-Frank, and I was wondering if you are could go over some of those potential that are changes being discussed, and kind of the current timing for advancing discussion, and wonder if we can see this done by year-end, and based on your understanding, how long would it take to impact your business in terms of implementation and the flow down?

Richard Smith - *Realogy Holdings Corp. - Chairman, President, CEO*

Great question. We think the inability of the regulators to define certain definitions under Dodd-Frank, specifically QM and the latest is qualified residential mortgage, QRM, but there is a great article in the Wall Street Journal this morning, that we became aware of over the past several days, that are giving strong indications that the regulators recognize the two provisions under QRM, namely the 20% down payment requirement to meet the qualified residential mortgage standard, and also the 5% retention rule from lenders, if they lended to borrowers outside of the QRM rule, those two are being considered to be revised in a less onerous fashion. Those two, we believe, have led to lenders lending to the highest possible underwriting standards, so they become so restrictive that it is very, very difficult, you have seen average FICO scores of 750-plus, which is almost 100 basis points higher than it should be.

The regularities are indicating their desire to resolve this before year end. If that is the case, then you will start seeing, I think the benefit of that early next year, as lenders adjust their lending, their underwriting standards to reflect these new guidelines, so late breaking news, but it hit the Wall Street Journal last night, so that is very encouraging. Our legislative sources and our regulatory sources tell us that the article is fairly accurate, and all indications are that this will be resolved before year end. Remember this is a regulatory solution, not a legislative solution. So if the regulators get it right, they will have it done before the end of the year.

Michael Kim - *CRT Capital Group - Analyst*

That is very helpful. Thank you very much

Richard Smith - *Realogy Holdings Corp. - Chairman, President, CEO*

You are very welcome.

Operator

Your final question comes from the line of Stephen Kim from Barclays.

Stephen Kim - *Barclays Capital - Analyst*

Thank you very much, guys. Just had a question regarding the industry volumes. I know we have talked a lot about the growth opportunities that we see in existing home sales, and price over the next say year or so. Longer term though, existing home sales essentially is just housing turnover, and there should be some relationship between mobility trends and the overall housing stock, and the stock really doesn't change much, so as you look at that kind of analysis, do you have a sense for where sort of normalized existing home sales ought to be in your mind when we get to sort of a midpoint in the cycle, sort of a normalized level of housing turnover?

Richard Smith - *Realogy Holdings Corp. - Chairman, President, CEO*

Clearly, the normalized run rate needs to be much higher than it is now, so we will start with that. The normal inventory turns over about 4.5% a year, you get back to sort of the normal run rate which would put this in the high-5s. So if you want to look at what is normal, nothing is normal lately, but back during the good old days with a normal housing market, housing stock turned over about 4.5% a year. It is trailing that materially now. So it has got a long ways to go. But given what is interesting about the housing market is it is not static. This is a very dynamic population. You have got the increased contribution of household formations, you have got the traditional ebb and flow of housing, probate, estate marriage, divorce, household creations, all of those things that make it a very dynamic market. So listen, when we bought in this business in 1995, we were told that housing units would never exceed 3 million units per year, well they failed to take into account all of those dynamics so I assume we will be talking about a normal run rate of 6 million-plus in just existing home markets in the not-too-distant future.

Stephen Kim - *Barclays Capital - Analyst*

Great. I agree. The last question relates to NRT and the technological improvements that you have been making there. And I know you talked a lot about the lead generation initiatives, which clearly will be beneficial not only to the top line but also to your split. But I was also curious about if you could talk about some of the initiatives beyond lead generation. It seemed to us that a lot of the technological improvements made really do benefit your brokers. You have them. It seems like right now I think that you are doing that only in NRT, and I was curious whether or not you were intending to rolling those out to RFG, and what the long-term goal is for this kind of logical platform, whether it is to simply have all of your brokers gain share, or if there is some other initiative such as reducing overall expenses?

Richard Smith - *Realogy Holdings Corp. - Chairman, President, CEO*

That is a great question. This industry has historically been a paper industry. Everything from the listing all of the way to the closing contract was a series of documents and papers held by brokers and agents, in a not-to-secure fashion. So clearly that has to change. NRT several years ago in conjunction with one of our sister companies, built a system called Home Base, which literally takes using cloud technology the listing all of the way to the close, every document held on a web-based format, eliminating the paper processing. That clearly makes NRT far more efficient than 95%, if not higher, than its competitors, it creates greater stickiness, if you will, between the agent and the consumer and the company. It creates a far better marketing venue for us. It is a far more efficient real business kind of approach to managing the relationship with the buyer/seller and also with the agent.

That same technology is being piloted to determine its applicability to our franchisees. We think it has broad application to our franchise environment, and we think that it will be unique to us, and it will be unique to our brands, and it will make them more efficient than they are today, and create the same kind of marketing opportunities and business opportunities enjoyed by NRT today. So we are careful. We don't deliver systems like that to our franchisees until all of the bugs are worked out. We are doing that now. We are piloting through a number of our brands, and we expect to have news along those lines sometime late this year or early next year. But great point. It is technology is having a very positive impact in our industry, both from the lead generation perspective, but also from the perspective of how we manage the business. So we are making timely and very constructive investments in terms of technology, both on the NRT side and the franchise side, so thank you for that question.

Stephen Kim - *Barclays Capital - Analyst*

Sure. Great. Thanks very much, guys.

Richard Smith - *Realogy Holdings Corp. - Chairman, President, CEO*

You are welcome.

Operator

There are no further questions at this time. I will now turn the call back over to the presenters for closing remarks.

Alicia Swift - *Realogy Holdings Corp. - SVP, IR*

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

Operator

This does conclude today's conference call. You may now disconnect.
