REALOGY HOLDINGS CORP.
Form 10-K
February 24, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission File No. 001-35674
REALOGY HOLDINGS CORP.
(Exact name of registrant as specified in its charter)
20-8050955
(I.R.S. Employer Identification Number)
Commission File No. 333-148153
REALOGY GROUP LLC
(Exact name of registrant as specified in its charter)
20-4381990
(I.R.S. Employer Identification Number)
Delaware
(State or other jurisdiction of incorporation or organization)
175 Park Avenue
Madison, NJ 07940
(Address of principal executive offices) (Zip Code)
(973) 407-2000
(Registrants' telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

	Title of each class	Name of each exchange on which registered
Realogy Holdings Corp.	Common Stock, par value $0.01 per share	New York Stock Exchange
Realogy Group LLC	None	None

Securities registered pursuant to Section 12(g) of the Act: None

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Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Realogy Holdings Corp. Yes þ No ¨ Realogy Group LLC Yes ¨ No þ
Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
Realogy Holdings Corp. Yes ¨ No þ Realogy Group LLC Yes þ No ¨

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Realogy Holdings Corp. Yes þ No ¨ Realogy Group LLC Yes ¨ No þ
Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).
Realogy Holdings Corp. Yes þ No ¨ Realogy Group LLC Yes þ No ¨
Indicate by check mark if disclosure of delinquent filer pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
Realogy Holdings Corp. þ Realogy Group LLC þ
Indicate by check mark whether the Registrant is a large accelerated filer, accelerated filer, non-accelerated filer, or smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

	Large accelerated filer	Accelerated filer	Non-accelerated filer (Do not check if a smaller reporting company)	Smaller reporting company
Realogy Holdings Corp.	þ	¨	¨	¨
Realogy Group LLC	¨	¨	þ	¨

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Realogy Holdings Corp. Yes ¨ No þ Realogy Group LLC Yes ¨ No þ
The aggregate market value of the voting and non-voting common equity of Realogy Holdings Corp. held by non-affiliates as of the close of business on June 30, 2015 was $6.8 billion. There were 146,752,841 shares of Common Stock, $0.01 par value, of Realogy Holdings Corp. outstanding as of February 19, 2016.
Realogy Group LLC meets the conditions set forth in General Instruction I(1)(a) and (b) of Form 10-K and is therefore filing this Form with the reduced disclosure format applicable to Realogy Group LLC.
DOCUMENTS INCORPORATED BY REFERENCE
Portions of the Proxy Statement prepared for the Annual Meeting of Stockholders to be held May 4, 2016 are incorporated by reference into Part III of this report.

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FORWARD-LOOKING STATEMENTS

Forward-looking statements included in this Annual Report and our other public filings or other public statements that we make from time to time are based on various facts and derived utilizing numerous important assumptions and are subject to known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Forward-looking statements include the information concerning our future financial performance, business strategy, projected plans and objectives, as well as projections of macroeconomic and industry trends, which are inherently unreliable due to the multiple factors that impact economic trends, and any such variations may be material. Statements preceded by, followed by or that otherwise include the words "believes," "expects," "anticipates," "intends," "projects," "estimates," "plans" and similar expressions or future or conditional verbs such as "will," "should," "would," "may" and "could" are generally forward-looking in nature and not historical facts. You should understand that the following important factors could affect our future results and cause actual results to differ materially from those expressed in the forward-looking statements:

- risks related to general business, economic, employment and political conditions and the U.S. residential real estate markets, either regionally or nationally, including but not limited to:

a lack of improvement or a decline in the number of homesales, stagnant or declining home prices and/or a deterioration in other economic factors that particularly impact the residential real estate market and the business segments in which we operate;

a decrease in consumer confidence;

the impact of recessions, slow economic growth, disruptions in the U.S. government or banking system, disruptions in a major geoeconomic region, or equity or commodity markets and high levels of unemployment in the U.S. and abroad, which may impact all or a portion of the housing markets in which we and our franchisees operate;

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

legislative, tax or regulatory changes (including changes in regulatory interpretations or enforcement practices) that would adversely impact the residential real estate market, including changes relating to the Real Estate Settlement Procedures Act ("RESPA") and potential reforms of Fannie Mae and Freddie Mac, and potential tax code reform;

continued or lengthier delays in homesale transaction closings that impact us or other industry participants resulting from the Consumer Financial Protection Bureau's rule relating to integrated mortgage disclosure forms, which became effective for new loan applications beginning October 3, 2015;

a decrease in housing affordability;

high levels of foreclosure activity;

insufficient or excessive home inventory levels by market;

changing attitudes towards home ownership, particularly among potential first-time homebuyers who may delay, or decide not to, purchase a home; and

the inability or unwillingness of current homeowners to purchase their next home due to various factors, including limited or negative equity in their current home, difficult mortgage underwriting standards, attractive rates on existing mortgages and the lack of available inventory in their market;

- our geographic and high-end market concentration, particularly with respect to our company owned brokerage operations;
- our inability to enter into franchise agreements with new franchisees at current net effective royalty rates, or to realize royalty revenue growth from them;
- our inability to renew existing franchise agreements at current net effective royalty rates, or to maintain or enhance our value proposition to franchisees, including but not limited to our ability to successfully develop, license and scale our ZAP℠ technology to our franchisees;
- the lack of revenue growth or declining profitability of our franchisees;
- disputes or issues with entities that license us their tradenames for use in our business that could impede our franchising of those brands;

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- our inability to realize the benefits from acquisitions due to the loss of key personnel of the acquired companies, as well as the possibility that expected benefits and synergies of the transactions may not be achieved in a timely manner or at all;
- actions by our franchisees that could harm our business or reputation, non-performance of our franchisees, controversies with our franchisees or actions against us by their independent sales associates or employees or third parties with which our franchisees have business relationships;
- competition, whether through traditional competitors or competitors with alternative business models, as well as competition for our franchisees and competition for our company owned brokerage business to attract and retain independent sales associates and managers;
- loss or attrition among our senior executives or other key employees;
- we may be unable to achieve or maintain cost savings and other benefits from our restructuring activities;
- our restructuring activities could have an adverse impact on our operations;
- our failure or alleged failure to comply with laws, regulations and regulatory interpretations and any changes in laws and regulations or stricter interpretations of regulatory requirements, including but not limited to (1) state or federal employment laws or regulations that would require reclassification of independent contractor sales associates to employee status; and (2) RESPA or state consumer protection or similar laws;
- any adverse resolution of litigation, governmental or regulatory proceedings or arbitration awards as well as any adverse impact of decisions to voluntarily modify business arrangements or enter into settlement agreements to avoid the risk of protracted and costly litigation or other proceedings;
- the general impact of emerging technologies on our business;
- our inability to obtain new technologies and systems, to replace or introduce new technologies and systems as quickly as our competitors and in a cost-effective manner or to achieve the benefits anticipated from new technologies or systems;
- the failure or significant disruption of our operations from various causes related to our critical information technologies and systems including cybersecurity threats to our data and customer, franchisee and independent sales associate data as well as reputational or financial risks associated with a loss of any such data;
- risks related to our international operations, including compliance with the Foreign Corrupt Practices Act and similar anti-corruption laws as well as risks relating to the master franchisor model that we deploy internationally;
- risks associated with our substantial indebtedness and interest obligations and restrictions contained in our debt agreements, including risks relating to having to dedicate a significant portion of our cash flows from operations to service our debt;
- risks relating to our ability to refinance our indebtedness or incur additional indebtedness;
- changes in corporate relocation practices resulting in fewer employee relocations, reduced relocation benefits or the loss of one or more significant Affinity clients;
- an increase in the claims rate of our title underwriter and an increase in mortgage rates could adversely impact the revenue of our title and settlement services segment;
- our inability to securitize certain assets of our relocation business, which would require us to find an alternative source of liquidity that may not be available, or if available, may not be on favorable terms;
- risks that could materially adversely impact our equity investment in PHH Home Loans LLC, our joint venture with PHH Corporation ("PHH");
- any remaining resolutions or outcomes with respect to contingent liabilities of our former parent, Cendant Corporation ("Cendant"), under the Separation and Distribution Agreement and the Tax Sharing Agreement (described elsewhere in this Report and incorporated by reference as exhibits to this Report), including any adverse impact on our future cash flows; and
- new types of taxes or increases in state, local or federal taxes that could diminish profitability or liquidity.

Other factors not identified above, including those described under "Item 1A.—Risk Factors" and "Item 7.—Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Annual Report, may also cause actual results to differ materially from those described in our forward-looking statements. Most of these factors are difficult to anticipate and are generally beyond our control. You should consider these factors in connection with any forward-looking statements that may be made by us and our businesses generally.

Except for our ongoing obligations to disclose material information under the federal securities laws, we undertake no obligation to release publicly any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events unless we are required to do so by law. For any forward-looking statement contained in this Annual Report, our public filings or other public statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

TRADEMARKS AND SERVICE MARKS

We own or have rights to use the trademarks, service marks and trade names that we use in conjunction with the operation of our business. Some of the more important trademarks that we own or have rights to use that appear in this Annual Report include the CENTURY 21®, COLDWELL BANKER®, ERA®, CORCORAN®, COLDWELL BANKER COMMERCIAL®, SOTHEBY'S INTERNATIONAL REALTY®, BETTER HOMES AND GARDENS® and ZIPREALTY® marks, which are registered in the United States and/or registered or pending registration in other jurisdictions, as appropriate to the needs of our relevant business. Each trademark, trade name or service mark of any other company appearing in this Annual Report is owned by such company.

MARKET AND INDUSTRY DATA AND FORECASTS

This Annual Report includes data, forecasts and information obtained from independent trade associations, industry publications and surveys and other information available to us. Some data is also based on our good faith estimates, which are derived from management's knowledge of the industry and independent sources. As noted in this Annual Report, the National Association of Realtors ("NAR"), the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Corporation ("Freddie Mac") were the primary sources for third-party industry data and forecasts. While data provided by NAR and Fannie Mae are two indicators of the direction of the residential housing market, we believe that homesale statistics will continue to vary between us and NAR and Fannie Mae because:

- they use survey data and estimates in their historical reports and forecasting models, which are subject to sampling error, whereas we use data based on actual reported results;
- there are geographical differences and concentrations in the markets in which we operate versus the national market. For example, many of our company owned brokerage offices are geographically located where average homesale prices are generally higher than the national average and therefore NAR survey data will not correlate with NRT's results;
- comparability is also impaired due to NAR's utilization of seasonally adjusted annualized rates whereas we report actual period-over-period changes and their use of median price for their forecasts compared to our average price;
- NAR historical data is subject to periodic review and revision and these revisions have been and could be material in the future; and
- NAR and Fannie Mae generally update their forecasts on a monthly basis and a subsequent forecast may change materially from a forecast that was previously issued.

While we believe that the industry data presented herein is derived from the most widely recognized sources for reporting U.S. residential housing market statistical data, we do not endorse or suggest reliance on this data alone. Forecasts regarding rates of home ownership, median sales price, volume of homesales, and other metrics included in this Annual Report to describe the housing industry are inherently uncertain or speculative in nature and actual results for any period could materially differ. Industry publications, surveys and forecasts generally state that the information contained therein has been obtained from sources believed to be reliable, but such information may not be accurate or complete. We have not independently verified any of the data from third-party sources nor have we ascertained the underlying economic assumptions relied upon therein. Statements as to our market position are based on market data currently available to us. While we are not aware of any misstatements regarding industry data provided herein, our estimates involve risks and uncertainties and are subject to change based upon various factors, including those discussed under the headings "Risk Factors" and "Forward-Looking Statements." Similarly, we believe our internal research is reliable, even though such research has not been verified by any independent sources.

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PART I

Except as otherwise indicated or unless the context otherwise requires, the terms "we," "us," "our," "our company," "Realogy," "Realogy Holdings" and the "Company" refer to Realogy Holdings Corp., a Delaware corporation, and its consolidated subsidiaries, including Realogy Intermediate Holdings LLC, a Delaware limited liability company ("Realogy Intermediate"), and Realogy Group LLC, a Delaware limited liability company ("Realogy Group"). Neither Realogy Holdings, the indirect parent of Realogy Group, nor Realogy Intermediate, the direct parent company of Realogy Group, conducts any operations other than with respect to its respective direct or indirect ownership of Realogy Group. As a result, the consolidated financial positions, results of operations and cash flows of Realogy Holdings, Realogy Intermediate and Realogy Group are the same.

Realogy Holdings is not a party to the Senior Secured Credit Facility and Term Loan A Facility and certain references in this report to our consolidated indebtedness exclude Realogy Holdings with respect to indebtedness under the Senior Secured Credit Facility and Term Loan A Facility. In addition, while Realogy Holdings is a guarantor of Realogy Group's obligations under its unsecured notes, Realogy Holdings is not subject to the restrictive covenants in the indentures governing such indebtedness.

As used in this report, the terms "3.375% Senior Notes," "4.50% Senior Notes" and "5.25% Senior Notes" refer to our 3.375% Senior Notes due 2016, our 4.50% Senior Notes due 2019 and our 5.25% Senior Notes due 2021, respectively, and referred to collectively with the term "Unsecured Notes".

The terms "9.00% First and a Half Lien Notes" and "7.625% First Lien Notes" refer to our 9.00% Senior Secured Notes due 2020 and our 7.625% Senior Secured Notes due 2020, respectively, which were all redeemed in 2015.

Item 1. Business.

Our Company

We are the preeminent and most integrated provider of residential real estate services in the U.S. We are the world's largest franchisor of residential real estate brokerages with some of the most recognized brands in the real estate industry, the largest owner of U.S. residential real estate brokerage offices, the largest U.S. and a leading global provider of outsourced employee relocation services and a significant provider of title and settlement services.

We estimate that our U.S. market penetration of existing homesale transaction volume was approximately 26.8% for 2015 versus 27.2% in 2014 and 26.2% in 2013. We measure market penetration by the ratio of (a) existing homesale transaction volume (sides times average sales price) in which we and our franchisees participate—on either the buy or sell side of the transaction but not both—to (b) the total existing homesale transaction volume based on NAR's historical survey data and then excluding for-sale-by-owner transactions and non-brokerage transactions.

We estimate that our U.S. market share of all existing homesale transaction volume was approximately 16.3% in 2015 versus 16.7% in 2014 and 16.1% in 2013. We measure our market share by the ratio of (a) the existing homesale transaction volume in which we and our franchisees participate to (b) NAR's existing homesale transaction volume—calculated by doubling the number of existing homesale transactions reported by NAR to account for both the buy and sell sides of a transaction multiplied by average sales price.

Our revenue is derived on a fee-for-service basis, and given our breadth of complementary service offerings, we are able to generate fees from multiple aspects of a residential real estate transaction. Our operating platform is supported by our portfolio of industry leading franchise brokerage brands, including Century 21®, Coldwell Banker®, Coldwell Banker Commercial®, ERA®, Sotheby's International Realty® and Better Homes and Gardens® Real Estate and we also own and operate Corcoran®, Citi Habitats℠ and ZipRealty® brands. Our multiple brands and operations allow us to derive revenue from many different segments of the residential real estate market, in many different geographies and at varying price points.

Segment Overview

We report our operations in four segments, each of which receives fees based upon services performed for our customers: Real Estate Franchise Services ("RFG"), Company Owned Real Estate Brokerage Services ("NRT"), Relocation Services ("Cartus®") and Title and Settlement Services ("TRG"). See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the financial statements, including the notes thereto, included elsewhere in this Annual Report, for further information on our reportable segments.

Real Estate Franchise Services. We are the largest franchisor of residential real estate brokerages in the world through our portfolio of well-known brokerage brands, including Century 21®, Coldwell Banker®, Coldwell Banker Commercial®, ERA®, Sotheby's International Realty® and Better Homes and Gardens® Real Estate. At December 31, 2015, our real estate franchise systems (inclusive of our company owned brokerage operations) had approximately 13,600 offices worldwide in 110 countries and territories. This included approximately 6,000 brokerage offices in the U.S. and approximately 256,800 independent sales associates worldwide, including approximately 181,500 independent sales associates operating under our franchise and proprietary brands in the U.S. The average tenure among U.S. franchisees is approximately 21 years as of December 31, 2015. Our franchisees pay us fees for the right to operate under one of our trademarks and to enjoy the benefits of the systems and business enhancing tools provided by our real estate franchise operations. In addition to highly competitive brands that provide unique offerings to our franchisees, we support our franchisees with dedicated national marketing and servicing programs, technology, training and education to facilitate our franchisees in growing their business and increasing their revenue and profitability. We believe that one of our strengths is the strong relationships that we have with our franchisees, as evidenced by our 99% retention rate as of December 31, 2015. Our retention rate represents the annual franchisee gross commission income as of December 31 of the previous year generated by our franchisees that remain in our franchise systems one year later, measured against the annual gross commission income of all franchisees as of December 31 of the previous year. In August 2014, we acquired ZipRealty, an innovative residential real estate brokerage and developer of proprietary technology platforms for real estate brokerages, independent sales associates and customers. During 2015, we installed ZipRealty's comprehensive, integrated ZAP℠ technology platform with approximately 390 of our approximately 2,700 franchisees and, consistent with our previously disclosed plan, anticipate rolling this product out to a broader franchisee base over the next two years. We believe the ZAP technology platform will increase the value proposition to our franchisees, their independent sales associates and their customers.

Company Owned Real Estate Brokerage Services. We own and operate the largest residential real estate brokerage business in the U.S. under the Coldwell Banker®, Corcoran®, Sotheby's International Realty®, ZipRealty® and Citi Habitats℠ brand names. We offer full-service residential brokerage services through approximately 790 company owned brokerage offices with approximately 47,000 independent sales associates in more than 50 of the 100 largest metropolitan areas of the U.S. NRT, as the broker for a home buyer or seller, derives revenues primarily from gross commission income received at the closing of real estate transactions. NRT also has relationships with developers, primarily in major cities, to provide marketing and brokerage services in new developments. In addition, we participate in the mortgage process through our 49.9% ownership of PHH Home Loans LLC ("PHH Home Loans"), our home mortgage venture with PHH. Our home mortgage joint venture with PHH is the exclusive recommended provider of mortgages for our real estate brokerage and relocation service customers (unless the relocation client expresses another arrangement or exclusivity is waived by PHH). To complement its residential brokerage services, NRT offers home ownership services that include comprehensive single-family residential property management in many of the nation's largest rental markets.

Relocation Services. We are a leading global provider of outsourced employee relocation services. We are the largest provider of such services in the U.S. and also operate in key international relocation destinations. We offer a broad range of world-class employee relocation services designed to manage all aspects of an employee's move to facilitate a smooth transition in what otherwise may be a complex and difficult process for the employee and employer. Our relocation services business serves corporations, including 58% of the Fortune 50 companies. We also service affinity organizations such as insurance companies and credit unions that provide our services to their members. In 2015, we assisted in approximately 168,000 corporate and affinity relocations in nearly 150 countries for approximately 1,000 active clients. As of December 31, 2015, our top 25 relocation clients had an average tenure of approximately 20 years with us.

Title and Settlement Services. We assist with the closing of real estate transactions by providing full-service title and settlement (i.e., closing and escrow) services to customers, real estate companies, including our company owned real estate brokerage and relocation services businesses, as well as a targeted channel of large financial institution clients, including PHH. In 2015, TRG was involved in the closing of approximately 169,000 transactions of which approximately 59,000 related to NRT. In addition to our own title and settlement services, we also coordinate a nationwide network of attorneys, title agents and notaries to service financial institution and relocation clients on a national basis. We also serve as an underwriter of title insurance policies in connection with residential and commercial real estate transactions.

* * *

Our headquarters is located at 175 Park Avenue, Madison, New Jersey 07940. Our general telephone number is (973) 407-2000. We were incorporated on December 14, 2006 in the State of Delaware. The Company files electronically with the Securities and Exchange Commission (the "SEC") required reports on Form 8-K, Form 10-Q and Form 10-K; proxy materials; ownership reports for insiders as required by Section 16 of the Securities Exchange Act of 1934;

registration statements and other forms or reports as required. Certain of the Company's officers and directors also file statements of changes in beneficial ownership on Form 4 with the SEC. The public may read and copy any materials that the Company has filed with the SEC at the SEC's Public Reference Room located at 100 F Street, NE, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 800-SEC-0330. Such materials may also be accessed electronically on the SEC's Internet site (www.sec.gov). We maintain an Internet website at http://www.realogy.com and make available free of charge on or through our website our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Section 16 reports and any amendments to these reports in the Investor Relations section of our website as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. Our website address is provided as an inactive textual reference. The contents of our website are not incorporated by reference herein or otherwise a part of this Annual Report.

Industry Trends

Industry definition. We primarily operate in the U.S. residential real estate industry, which is approximately a $1.6 trillion industry based on 2015 transaction volume (i.e. average homesale price times number of new and existing homesale transactions) and derive substantially all of our revenues from serving the needs of buyers and sellers of existing homes rather than those of new homes. Residential real estate brokerage companies typically realize revenues in the form of a commission that is based on a percentage of the price of each home sold. As a result, the real estate industry generally benefits from rising home prices and increasing homesale transactions (and conversely is adversely impacted by falling prices and lower homesale transactions). We believe that existing homesale transactions and the services associated with these transactions, such as mortgage origination, title services and relocation services, represent the most attractive segment of the residential real estate industry for the following reasons:

- the existing homesales segment represents a significantly larger addressable market than new homesales. Of the approximately 5.8 million homesales in the U.S. in 2015, NAR estimates that approximately 5.3 million were existing homesales, representing approximately 91% of the overall sales as measured in units;
- existing homesales afford us the opportunity to represent either the buyer or the seller and in some cases both the buyer and the seller; and
- we are able to generate revenues from ancillary services provided to our customers.

We also believe that the traditional broker-assisted business model compares favorably to alternative channels of the residential brokerage industry, such as discount brokers and "for sale by owner" for the following reasons:

- a real estate transaction has certain characteristics that we believe are best suited for full-service brokerages, such as:
  - the average homesale transaction size is very high and generally is the largest transaction one does in a lifetime;
  - homesale transactions occur infrequently;
  - there is a high variance in price, depending on neighborhood, floor plan, architecture, fixtures, and outdoor space;
  - there is a compelling need for personal service as home preferences are unique to each buyer;
  - a high level of support is required given the complexity associated with the process; and
  - there is a need for specific marketing and technology services and support given the complexity of the transaction.
- while substantially all homebuyers start their search for a home using the internet, according to NAR, 87% of homes were sold using an agent or broker in 2015 compared to 79% in 2001. We believe that the enhanced service and value offered by a traditional agent or broker is such that using a traditional agent or broker will continue to be the primary method of buying and selling a home in the long term.

Cyclical nature of industry. The U.S. residential real estate industry is cyclical, but has historically shown strong growth over time. Based on information published by NAR, existing homesale units increased at a compound annual growth rate, or CAGR, of 2.0% from 1972 through 2015, with 27 annual increases, versus 16 annual decreases. During that same period, median existing homesale prices increased at a CAGR of 4.9% (not adjusted for inflation) from 1972 through 2015, a period that included four economic recessions. According to NAR, the existing homesale transaction volume (median homesale price times existing homesale transactions) grew at a CAGR of 7.0% from 1972 through 2015.

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Commencing in the second half of 2005 and continuing through 2011, the U.S. residential real estate industry was in a significant and lengthy downturn. Based upon data published by NAR from 2005 to 2011, the number of annual U.S. existing homesale units declined by 40% and the median existing homesale price declined by 24%.

Beginning in 2012, the U.S. residential real estate industry began its recovery. According to NAR, in the first two years of the current housing recovery—2012 and 2013—homesale transaction volume (average homesale price multiplied by homesale transactions) improved 15% and 19%, respectively, and the industry experienced significant refinancing activity. We believe that the improvement in 2012 and 2013 was driven by high affordability of home ownership and demand that built up during an extended period of economic uncertainty, as well as historically low mortgage rates and lower home inventory levels leading to increases in homesale prices.

During 2014, homesale transaction volume growth slowed to 1% compared to 2013 according to NAR, with an increase in average home prices offsetting the year-over-year decline in homesale transactions. During 2015, homesale transaction volume increased 11% compared to 2014 according to NAR. The homesale transaction volume gain in 2015 was driven by an increase in the number of homesale transactions and increasing average home prices. In summary, based upon data published by NAR from 2011 to 2015, the number of annual U.S. existing homesale units and the median existing homesale price improved by 23% and 33%, respectively.

As of their most recent releases, Fannie Mae and NAR are forecasting a 3% and 2% increase in existing homesale transactions in 2016 compared to 2015, respectively. With respect to homesale prices, Fannie Mae and NAR are forecasting a 5% and 4% increase in median existing homesale prices for 2016 compared to 2015, respectively. For 2017, Fannie Mae and NAR are forecasting a 2% and 4% increase in homesale transactions compared to 2016, respectively. With respect to homesale prices, Fannie Mae and NAR are both forecasting a 4% increase in median existing homesale prices in 2017 compared to 2016.

Favorable long-term demographics. We believe that long-term demand for housing and the growth of our industry is primarily driven by affordability, the economic health of the U.S. economy, positive demographic trends such as population growth, increases in the number of U.S. households, low interest rates, increases in renters that qualify as homebuyers and locally based factors. We believe that the residential real estate market will benefit over the long term from expected positive fundamentals, including the following factors:

- based on U.S. Census data and NAR, from 1991 through 2015, the average number of existing homesale transactions as a percentage of U.S. households was approximately 4.4%, compared to an average of approximately 3.9% from 2007 through 2015. During the same period, the number of U.S. households grew from 94 million in 1991 to 125 million in 2015. We believe that as the U.S. economy stabilizes, the number of existing homesale transactions as a percentage of U.S. households will progress to the 4.4% mean level and the number of annual existing homesale transactions will increase; and
- according to the 2015 State of the Nation's Housing Report compiled by the Harvard Joint Center for Housing Studies, household growth is projected to return to its longer-run average of just under 1.2 million annually in 2015 through 2025. The sheer size of the millennial generation, which is already larger than the baby boom generation at the same stage of life, will drive most of this growth.

Participation in Multiple Aspects of the Residential Real Estate Market

We participate in services associated with many aspects of the residential real estate market. Our four complementary businesses and mortgage joint venture work together, allowing us to generate revenue at various points in a residential real estate transaction, including the purchase or sale of homes, corporate relocation and affinity services, settlement and title services, and franchising of our brands. The businesses each benefit from our deep understanding of the industry, strong relationships with real estate brokers, sale associates and other real estate professionals and expertise across the transactional process. Unlike other industry participants who offer only one or two services, we can offer homeowners, our franchisees and our corporate and affinity clients ready access to numerous associated services that facilitate and simplify the home purchase and sale process. These services provide further revenue opportunities for our owned businesses and those of our franchisees. Specifically, our brokerage offices and those of our franchisees participate in purchases and sales of homes involving relocations of corporate transferees and affinity members using

Cartus® relocation services and we offer customers (purchasers and sellers) of both our owned and franchised brokerage businesses convenient title and settlement services. These services produce incremental revenues for our businesses and franchisees. In addition, we participate in the mortgage process through our 49.9% ownership of PHH Home Loans. All four of our businesses and our mortgage joint venture can derive revenue from the same real estate transaction.

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Our Brands

Our brands are among the most well-known and established real estate brokerage brands in the real estate industry. Our real estate franchise brands are listed in the following chart, which includes information as of December 31, 2015 for both our franchised and company owned offices:

Franchise Brands (1)						
Worldwide Offices (2)	6,900	3,000	2,350	835	300	160
Worldwide Brokers and Sales Associates (2)	101,400	84,800	36,800	18,800	10,200	2,100
U.S. Annual Sides	411,731	730,128	120,919	100,297	62,738	N/A
# of Countries with Owned or Franchised Operations	78	45	34	63	2	44
Characteristics	World's largest residential real estate sales organization Identified by consumers as the most recognized name in real estate Significant international office footprint	Longest running national real estate brand in the U.S. (since 1906) Known for innovative consumer services, marketing and technology	Driving value through innovation and collaboration Highest percentage of international offices among international brands	Synonymous with luxury Strong ties to auction house established in 1744 Rapid international growth	Growing real estate brand launched in July 2008 Unique relationship with a leading media company, including largest lifestyle magazine in the U.S.	A commercial real estate franchise organization Serves a wide range of clients from corporations to small businesses to individual clients and investors

(1) Does not include Corcoran®, ZipRealty® and Citi Habitats℠.

(2) Includes an aggregate of 7,600 offices and 75,250 related brokers and sales associates of franchisees of master franchisors, based upon information reported to us by the master franchisors.

Real Estate Franchise Services

Our primary objectives as the largest franchisor of residential real estate brokerages in the world are to sell new franchises, retain and expand existing franchises and most importantly, provide branding and support to our franchisees. At December 31, 2015, our real estate franchise systems had approximately 13,600 offices worldwide in 110 countries and territories in North and South America, Europe, Asia, Africa, the Middle East and Australia, including approximately 6,000 brokerage offices in the U.S.

We derive substantially all of our real estate franchising revenues from royalties received under long-term franchise agreements with our domestic franchisees (typically ten years in duration) and NRT. These royalties are based on a percentage of the franchisees' sales commission earned from closed homesale sides (either the "buy" side or the "sell" side of a real estate transaction), which we refer to as gross commission income. Our franchisees pay us royalties, net of volume incentives achieved (other than NRT), for the right to operate under one of our trademarks and to utilize the benefits of the franchise systems. We provide our franchisees with certain systems and tools that are designed to help our franchisees serve their customers and attract new or retain existing independent sales associates, and support our franchisees with servicing programs, technology, education and market information, as well as branding-related marketing which is funded through contributions by our franchisees and us (including NRT). We operate and maintain an Internet-based reporting system for our domestic franchisees which generally allows them to electronically transmit listing information and other relevant reporting data to our websites. We also own and operate websites for each of our brands for the benefit of our franchisees.

The 2014 acquisition of ZipRealty reflects the Company's ongoing commitment to enhancing the value proposition we provide to our franchisees, including technology-enabled solutions. During 2015, we installed ZipRealty's comprehensive,

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integrated ZAP℠ technology platform with approximately 390 of our approximately 2,700 franchisees, ahead of a broader rollout of these tools. We believe the ZAP platform will increase the value proposition to our franchisees, their independent sales associates and their customers by:

- aiding in generating additional homesale transactions for our franchisees and their independent sales associates;
- connecting those associates to a predictive customer relationship management (CRM) tool; and
- informing them with valuable client insight to help those associates increase their productivity.

ZipRealty has developed the ZAP℠ platform from a real estate brokerage perspective to enhance the real estate transaction experience for customers, independent sales associates and our franchisees.

RFG's domestic annual net royalty revenues from franchisees other than our company owned brokerages can be represented by multiplying (1) that year's total number of closed homesale sides in which those franchisees participated by (2) the average sale price of those homesales by (3) the average brokerage commission rate charged by these franchisees by (4) RFG's net effective royalty rate. The net effective royalty rate represents the average percentage of our franchisees' commission revenues paid to us as a royalty, net of volume incentives achieved. The net effective royalty rate does not include the effect of non-standard incentives granted to some franchisees. The domestic royalty revenue from NRT is also calculated by multiplying homesale sides by average sale price by average brokerage commission rate by 6% royalty rate. NRT does not get volume incentives. In addition to domestic royalty revenue, RFG earns royalty revenue from international affiliates, marketing fees, upfront international fees and preferred alliance program and other revenue. The following chart illustrates the key drivers for revenue earned by RFG:

We believe one of our strengths is the strong relationships that we have with our franchisees as evidenced by the retention rate of 99% as of December 31, 2015. Our retention rate represents the annual franchisee gross commission income as of December 31 of the previous year generated by our franchisees that remain in our franchise systems on an annual basis, measured against the annual gross commission income of all franchisees as of December 31 of the previous year. On average, our domestic franchisees' tenure with our brands was approximately 21 years as of December 31, 2015. During 2015, none of our franchisees (other than NRT) generated more than 1% of our real estate franchise business revenues.

The franchise agreements impose restrictions on the business and operations of the franchisees and require them to comply with the operating and identity standards set forth in each brand's policy and procedures manuals. A franchisee's failure to comply with these restrictions and standards could result in a termination of the franchise agreement. The franchisees generally are not permitted to terminate the franchise agreements prior to their expiration, and in those cases where termination rights do exist, they are very limited (e.g., if the franchisee retires, becomes disabled or dies). Generally, new domestic franchise agreements have a term of ten years and require the franchisees to pay us an initial franchise fee for the franchisee's principal office plus, upon the receipt of any commission income, a royalty fee in most cases equal to 6% of their commission income. Each of our franchise systems (other than Coldwell Banker Commercial®) offers a volume incentive program, whereby each franchisee is eligible to receive a refund of a portion of the royalties paid upon the satisfaction of certain conditions. The volume incentive is calculated for each franchisee as a progressive percentage of each franchisee's annual gross revenue subject to royalty payments for each calendar year. Under the current form of the franchise agreements, the volume incentive varies for each franchise system, and generally ranges from zero to 3% of gross revenues. We provide a detailed table to each franchisee that describes the gross revenue thresholds required to achieve a volume incentive and the corresponding incentive amounts. We reserve the right to increase or decrease the percentage and/or dollar amounts in the table on an annual basis, subject to certain limitations. Our company owned brokerage offices do not participate in the volume incentive program.

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Each franchise system requires all franchisees and company owned offices to make monthly contributions to marketing funds maintained by each brand. These contributions are used for the development, implementation, production, placement and payment of national and regional advertising, marketing, promotions, public relations and/or other marketing-related activities, such as lead generation, all to promote and further the recognition of each brand and its independent franchisees. In addition to the contributions from franchisees and company owned offices, the Real Estate Franchise Services group is generally required to make contributions to one of the marketing funds and may make discretionary contributions (at its option) to any of the marketing funds.

Under certain circumstances, we extend conversion notes (development advance notes were issued prior to 2009) to eligible franchisees for the purpose of providing an incentive to join the brand, to renew their franchise agreements, or to facilitate their growth opportunities. Growth opportunities include the expansion of franchisees' existing businesses by opening additional offices, through the consolidation of operations of other franchisees, as well as through the acquisition of independent sales associates and offices operated by independent brokerages. Many franchisees use the proceeds from the conversion notes to change stationery, signage and marketing materials, upgrade technology and websites, or to assist in acquiring companies or recruiting agents. The notes are not funded until appropriate credit checks and other due diligence matters are completed and the business is opened and operating under one of our brands. Upon satisfaction of certain revenue performance based thresholds, the notes are forgiven ratably over the term of the franchise agreement. If the revenue performance thresholds are not met, franchisees are required to repay all or a portion of the outstanding notes.

In addition to offices owned and operated by our franchisees, we, through NRT, own and operate approximately 750 offices under the Coldwell Banker®, Coldwell Banker Commercial® and Sotheby's International Realty® brand names. NRT pays intercompany royalty fees and marketing fees to our Real Estate Franchise Services Segment in connection with its operation of these offices. These fees are recognized as income or expense by the applicable segment level and eliminated in the consolidation of our businesses. NRT is not eligible for any volume incentives.

In the U.S., we employ a direct franchising model whereby we contract with and provide services directly to independent owner-operators. Elsewhere, for all brands other than Sotheby's International Realty, we generally employ a master franchise model, whereby we contract with a qualified third party to build a franchise network in the country or region in which franchising rights have been granted. In the case of Sotheby's International Realty, a direct franchising model is generally utilized. Under both the direct and the master franchise model, we typically enter into long-term franchise agreements (often 25 years in duration) and receive an initial area development fee and ongoing royalties. Under the master franchise model, the ongoing royalties we receive are generally a percentage of the royalties received by the master franchisor from its franchisees with which it contracts. Under the direct franchise model, a royalty fee is paid to us on transactions conducted by our franchisees in the applicable country or region.

We also offer third-party service providers an opportunity to market their products to our franchisees and their independent sales associates and customers through our preferred alliance program. To participate in this program, service providers generally agree to provide preferred pricing to our franchisees and/or their customers or independent sales associates and to pay us some combination of an initial licensing or access fee, subsequent marketing fees and/or commissions based upon our franchisees' or independent sales associates' usage of the preferred alliance vendors.

We own the trademarks Century 21®, Coldwell Banker®, Coldwell Banker Commercial®, ERA® and related trademarks and logos, and such trademarks and logos are material to the businesses that are part of our real estate franchise segment. Our franchisees and our subsidiaries actively use these trademarks, and all of the material trademarks are registered (or have applications pending) with the United States Patent and Trademark Office as well as with corresponding trademark offices in major countries worldwide where these businesses have significant operations.

We have an exclusive license to own, operate and franchise the Sotheby's International Realty® brand to qualified residential real estate brokerage offices and individuals operating in eligible markets pursuant to a license agreement with SPTC Delaware LLC, a subsidiary of Sotheby's ("Sotheby's"). Such license agreement has a 100-year term, which consists of an initial 50-year term ending February 16, 2054 and a 50-year renewal option. We pay a licensing fee to Sotheby's for the use of the Sotheby's International Realty® name equal to 9.5% of the net royalties earned by our Real Estate Franchise Services Segment attributable to franchisees affiliated with the Sotheby's International Realty® brand, including our company owned offices.

In October 2007, we entered into a long-term license agreement to own, operate and franchise the Better Homes and Gardens® Real Estate brand from Meredith. The license agreement between Realogy and Meredith is for a 50-year term, with a renewal option for another 50 years at our option. We paid an annual minimum licensing fee of $4 million in 2015.

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Each of our brands has a consumer website that offers real estate listings, contacts and services. Century21.com, coldwellbanker.com, coldwellbankercommercial.com, sothebysrealty.com, era.com and bhgrealestate.com are the official websites for the Century 21®, Coldwell Banker®, Coldwell Banker Commercial®, Sotheby's International Realty®, ERA® and Better Homes and Gardens® Real Estate franchise systems, respectively. The contents of these websites are not incorporated by reference herein or otherwise a part of this Annual Report.

Company Owned Real Estate Brokerage Services

Through our subsidiary, NRT, we own and operate a full-service real estate brokerage business in more than 50 of the 100 largest metropolitan areas in the U.S. Our company owned real estate brokerage business operates under the Coldwell Banker® and Sotheby's International Realty® franchised brands as well as proprietary brands that we own, but do not currently franchise, such as Corcoran®, ZipRealty® and Citi Habitats℠. As of December 31, 2015, we had approximately 790 company owned brokerage offices, approximately 5,100 employees and approximately 47,000 independent sales associates working with these company owned offices.

Our company owned real estate brokerage business derives revenue primarily from gross commission income received serving as the broker at the closing of real estate transactions. For the year ended December 31, 2015, our average homesale broker commission rate was 2.46% which represents the average commission rate earned on either the "buy" side or the "sell" side of a homesale transaction. Gross commission income is also earned on non-sale transactions such as home rentals. NRT, as a franchisee of RFG, pays a royalty fee of 6% per transaction to RFG from the commission earned on a real estate transaction. The following chart illustrates the key drivers for revenue earned by NRT:

In addition, as a full-service real estate brokerage company, we promote the complementary services of our relocation and title and settlement services businesses, as well as PHH Home Loans. We believe we provide integrated services that enhance the customer experience.

When we assist the seller in a real estate transaction, independent sales associates generally provide the seller with a full-service marketing program, which may include developing a direct marketing plan for the property, assisting the seller in pricing the property and preparing it for sale, listing it on multiple listing services, advertising the property (including on websites), showing the property to prospective buyers, assisting the seller in sale negotiations, and assisting the seller in preparing for closing the transaction. When we assist the buyer in a real estate transaction, independent sales associates generally help the buyer in locating specific properties that meet the buyer's personal and financial specifications, show properties to the buyer, assist the buyer in negotiating (where permissible) and preparing for closing the transaction.

At December 31, 2015, we operated approximately 90% of our offices under the Coldwell Banker® brand name, 5% of our offices under the Sotheby's International Realty® brand name and 5% of our offices under the Corcoran®, Citi Habitats℠ and ZipRealty® brand names combined. Our offices are geographically diverse with a strong presence in the east and west coast areas, where home prices are generally higher. We operate our Coldwell Banker® offices in numerous regions throughout the U.S., our Sotheby's International Realty® offices in several regions throughout the U.S, and Corcoran® offices in New York City, the Hamptons (New York), and Palm Beach, Florida.

We intend to grow our business both organically and through strategic acquisitions. To grow organically, we will focus on working with office managers to attract, retain and effectively coordinate with independent sales associates who can successfully engage and promote transactions from new and existing clients.

We have a dedicated group of professionals whose function is to identify, evaluate and complete acquisitions. We are continuously evaluating acquisitions that will allow us to enter into new markets and to profitably expand our existing markets through "tuck-in" acquisitions. Following the completion of an acquisition, we tend to consolidate the newly acquired operations with our existing operations. By consolidating operations, we reduce or eliminate duplicative costs, such as advertising, rent and administrative support. By utilizing our existing infrastructure to coordinate with a broader network of independent sales associates and revenue base, we can enhance the profitability of our operations. We also seek

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to enhance the profitability of newly acquired operations by strategies that increase the productivity of the newly affiliated independent sales associates. We offer these independent sales associates supplemental tools and marketing information that are often unavailable at smaller firms, such as access to sophisticated information technology and ongoing technical support, increased brand advertising and brand marketing support, relocation referrals, and a wide offering of brokerage-related services.

Our real estate brokerage business has a contract with Cartus under which the brokerage business provides brokerage services to relocating employees of the clients of Cartus. When receiving a referral from Cartus, our brokerage business seeks to assist the relocating employee in completing a homesale or home purchase. Upon completion of a homesale or home purchase, our brokerage business receives a commission on the purchase or sale of the property and is obligated to pay Cartus a portion of such commission as a referral fee. We believe that these fees are comparable to the fees charged by other relocation companies.

PHH Home Loans, our home mortgage venture with PHH, a publicly traded company, has a 50-year term, subject to earlier termination. We own 49.9% of the home mortgage venture and PHH owns the remaining 50.1%. PHH Home Loans is the exclusive recommended provider of mortgages for our real estate brokerage and relocation service customers (unless the relocation client expresses another arrangement or exclusivity is waived by PHH). Either party has the right to terminate the joint venture upon the occurrence of certain events, such as a material breach or the insolvency of the other party. In addition, we may terminate the joint venture upon a change of control of PHH involving certain entities enumerated by us (and which may be updated by us once every two years) or any competitor of ours. Upon any termination of the joint venture by us as a result of any of the events described in this paragraph, we may require that PHH purchase our interest or sell its interest to a buyer designated by us.

In addition, we may terminate the joint venture at our election by providing two years' prior notice to PHH at any time and PHH may terminate the venture at its election effective January 31, 2030, by notice delivered no earlier than three years, but not later than two years, before such date. If we exercise our two-year termination right, we may require that PHH purchase our interest or sell its interest to a buyer designated by us. The purchase price of the joint venture interest being sold by Realogy or PHH, as the case may be, will be the fair value of such interest determined through a valuation process and in the case of Realogy putting its shares to PHH, taking into account the automatic termination of all other agreements.

All mortgage loans originated by the venture are sold to PHH or other third-party investors after a hold period, and PHH Home Loans does not hold any mortgage loans for investment purposes or perform servicing functions for any loans it originates. Accordingly, we have no mortgage servicing rights asset risk.

Relocation Services

Through our subsidiary, Cartus, we are a leading global provider of outsourced employee relocation services. We primarily offer corporate clients employee relocation services, such as:

- homesale assistance, including:
  - the valuation, inspection, purchasing and selling of a transferee's home;
  - the issuance of home equity advances to transferees permitting them to purchase a new home before selling their current home (these advances are generally guaranteed by the client);
  - certain home management services;
  - assistance in locating a new home; and
  - closing on the sale of the old home, generally at the instruction of the client;
- expense processing, relocation policy counseling, relocation-related accounting, including international assignment compensation services, and other consulting services;
- arranging household goods moving services, approximately 60,000 domestic and international shipments in 2015, and providing support for all aspects of moving a transferee's household goods, including the handling of insurance and claim assistance, invoice auditing and quality control;
- coordinating visa and immigration support, intercultural and language training, and expatriation/repatriation counseling and destination services; and

- group move management services providing coordination for moves involving a large number of transferees to or from a specific regional area over a short period of time.

The wide range of our services allows our Cartus clients to outsource their entire relocation programs to us.

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In 2015, we assisted in approximately 168,000 corporate and affinity relocations in nearly 150 countries for approximately 1,000 active clients, including 58% of the Fortune 50 companies as well as affinity organizations. Cartus has operations in the U.S. and internationally in the United Kingdom, Canada, Hong Kong, Singapore, China, India, Brazil, Germany, France, Switzerland and the Netherlands.

Substantially all homesale service transactions for clients are classified as "no risk." Under "no risk" business, the client is responsible for reimbursement of all direct expenses associated with the homesale. Such expenses include, but are not limited to, appraisal, inspection and real estate brokerage commissions. The client also bears the risk of loss on the resale of the transferee's home. Clients are responsible for reimbursement of all other direct costs associated with the relocation including, but not limited to, costs to move household goods, mortgage origination points, temporary living and travel expenses. Generally, we fund the direct expenses associated with the homesale as well as those associated with the relocation on behalf of the client and the client then reimburses us for these costs plus interest charges on the advanced money. This limits our exposure on "no risk" homesale services to the credit risk of our clients rather than to the potential fluctuations in the real estate market or to the creditworthiness of the individual transferring employee. Historically, due to the credit quality of our clients, we have had minimal losses with respect to these "no risk" homesale services.

The "at risk" business that we conduct is minimal. In "at risk" homesale service transactions, we acquire the home being sold by relocating employees, pay for all direct expenses (acquisition, carrying and selling costs) associated with the homesale and bear any loss on the sale of the home.

Substantially all of our contracts with our relocation clients are terminable at any time at the option of the client and are non-exclusive. If a client terminates its contract, we will be compensated for all services performed up to the time of termination and reimbursed for all expenses incurred to the time of termination.

There are a number of different revenue streams associated with relocation services. We earn referral commissions primarily from real estate brokers and household goods moving companies that provide services to the transferee. Clients may also pay transactional fees for the services performed. We also earn net interest income which represents interest earned from clients on the funds we advance on behalf of the transferring employee net of costs associated with the securitization obligations used to finance these payments. Cartus measures operating performance based on initiations, which represent the total number of transferees and affinity members we serve, and referrals, which represent the number of referrals from which we earn revenue from real estate brokers.

About 12% of our relocation revenue in 2015 was derived from our affinity services, which provides real estate services, including home buying and selling assistance, as well as mortgage assistance to organizations such as insurance companies and credit unions that have established members who are buying or selling a home. Often these organizations offer our affinity services to their members at no cost and, where permitted, provide their members with a financial incentive for using these services. These member benefits and services help the organizations attract new members and retain current members.

We also manage the Cartus Broker Network, which is a network of real estate brokers consisting of our company owned brokerage operations, select franchisees and independent real estate brokers who have been approved to become members. Cartus requires experienced brokers and independent sales associates and obtains background checks on all members of the network. Member brokers of the Cartus Broker Network receive referrals from our relocation services, affinity business and each other in exchange for a referral fee. The Cartus Broker Network closed approximately 88,000 real estate transactions in 2015 related to relocation, affinity, and broker-to-broker activity.

The following chart illustrates the key drivers for revenue generated by Cartus:

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Title and Settlement Services

Our title and settlement services business, TRG, provides full-service title and settlement (i.e., closing and escrow) services to real estate companies and financial institutions. We act in the capacity of a title agent and sell title insurance to property buyers and mortgage lenders. We are licensed as a title agent in 42 states and Washington, D.C., and have physical locations in 24 states and Washington, D.C. We issue title insurance policies on behalf of large national underwriters as well as through our Dallas-based subsidiary, Title Resources Guaranty Company ("Title Resources"). Title Resources is a title insurance underwriter licensed in 28 states and Washington, D.C. We operate mostly in major metropolitan areas. As of December 31, 2015, we had approximately 411 offices, approximately 222 of which are co-located within one of our company owned brokerage offices.

Virtually all lenders require their borrowers to obtain title insurance policies at the time mortgage loans are made on real property. The terms and conditions upon which the real property will be insured are determined in accordance with the standard policies and procedures of the title underwriter. When our title agencies sell title insurance, the title search and examination function is performed by the agent. The title agent and underwriter split the premium. The amount of such premium "split" is determined by agreement between the agency and underwriter, or is promulgated by state law. We derive revenue through fees charged in real estate transactions for rendering the services described above, fees charged for escrow and closing services, and a percentage of the title premium on each title insurance policy sold. We have entered into underwriting agreements with various underwriters, which state the conditions under which we may issue a title insurance policy on their behalf. For policies issued through our agency operations, assuming no negligence on our part, we are not typically liable for losses under those policies; rather the title insurer is typically liable for such losses.

Our company owned brokerage operations are the principal source of our title and settlement services business for homesale transactions. Other sources of our title and settlement services homesale business include our real estate franchise business, Cartus and unaffiliated brokerage operations. For refinance transactions, we generate title and escrow revenues from PHH and other financial institutions throughout the mortgage lending industry. Many of our offices have subleased space from, and are co-located within, our company owned brokerage offices. The capture rate of our title and settlement services business from company owned brokerage operations was approximately 41% in 2015.

We coordinate a national network of escrow and closing agents (some of whom are our employees, while others are attorneys in private practice and independent title companies) to provide full-service title and settlement services to a broad-based group that includes lenders, home buyers and sellers, developers and independent real estate sales associates. Our role is generally that of an intermediary managing the completion of all the necessary documentation and services required to complete a real estate transaction.

Our title and settlement services business measures operating performance based on purchase and refinance closing units and the related title premiums and escrow fees earned on such closings. In addition, we measure net title premiums earned for title policies issued by our underwriting operation.

The following chart illustrates the key drivers for revenue generated by our title and settlement services business:

We intend to grow our title and settlement services business by attracting title and escrow sales associates in existing markets and by completing acquisitions to expand our geographic footprint or complement existing operations. We also intend to continue to increase our capture rate of title business from our NRT homesale sides. In addition, we expect to continue to grow and diversify our lender channel and our underwriting businesses by expanding and adding clients and increasing our agent base, respectively.

Competition

Real Estate Franchise Business. Competition among the national real estate brokerage brand franchisors to grow their franchise systems is intense. Our largest national competitors in this industry include, but are not limited to, three large franchisors: Keller Williams Realty, Inc.; HSF Affiliates LLC—a joint venture controlled by HomeServices of America that operates Berkshire Hathaway HomeServices, Prudential Real Estate and Real Living Real Estate; and RE/MAX International, Inc. In addition, a real estate broker may choose to affiliate with a regional chain or choose not to affiliate with a franchisor and remain unaffiliated. We believe that competition for the sale of franchises in the real estate brokerage industry is based principally upon the perceived value and quality of the brand, tools and services, the nature of those services offered to franchisees including the availability of financing, the fees the franchisees must pay and by the state of the housing industry.

The ability of our real estate brokerage franchisees to compete with other real estate brokerages is important to our prospects for growth. Their ability to compete may be affected by the quality of independent sales associates, the location of offices, the services provided to independent sales associates, the number of competing offices in the vicinity, affiliation with a recognized brand name, community reputation, technology and other factors. A franchisee's success may also be affected by national, regional and local economic conditions.

Real Estate Brokerage Business. The real estate brokerage industry is highly competitive, particularly in the metropolitan areas in which our owned brokerage businesses operate. In addition, the industry has relatively low barriers to entry for new participants. Companies compete for sales and marketing business primarily on the basis of services offered, reputation, personal contacts and brokerage commissions. We compete with other national independent real estate organizations, including HomeServices of America (generally doing business as Berkshire Hathaway) in certain of our markets, franchisees of our brands and of other national real estate franchisors such as Keller Williams Realty, Inc. and RE/MAX International, Inc., franchisees of local and regional real estate franchisors, regional independent real estate organizations such as Weichert Realtors and Long & Foster Real Estate, discount and limited service brokerages, smaller niche companies competing in local areas and companies employing technologies intended to disrupt the traditional brokerage model.

We compete to attract and retain successful independent sales associates and their teams based upon various factors including recognized brand name, the value and breadth of the services offered by the brokerage, compensatory arrangements, the location of brokerage offices and marketing tools

Relocation Business. Competition in our relocation business is based on capabilities, price and quality. We compete primarily with global and regional outsourced relocation services providers. The larger outsourced relocation services providers that we compete with include Brookfield Global Relocation Services, SIRVA, Inc. and Weichert Relocation Resources, Inc. As the relocation business continues to become more global in nature with greater emphasis on relocation of employees throughout the world, we expect to face greater competition from firms that provide global services.

Title and Settlement Business. The title and settlement business is highly competitive and fragmented. The number and size of competing companies vary in the different areas in which we conduct business. We compete with other title insurers, title agents and vendor management companies. The title and settlement business competes with a large, fragmented group of smaller underwriters and agencies. In addition, we compete with the various brands of national competitors including Fidelity National Title Insurance Company, First American Title Insurance Company, Stewart Title Guaranty Company and Old Republic Title Company.

Marketing

Real Estate Franchise Operations. Each of our franchise brands operates a marketing fund that is funded by our franchisees and us. The primary focus of each marketing fund is to build and maintain brand awareness, which is accomplished through a variety of media, including increased use of Internet advertising. Our Internet presence, for the most part, features our entire listing inventory on our brand websites in our regional and national markets, plus community profiles, home buying and selling advice, relocation tips and mortgage financing information. Each brand manages a comprehensive system of marketing tools, systems and sales information and data that can be accessed through free-standing brand intranet sites to assist independent sales associates in becoming the best marketer of their listings. In addition to the Sotheby's International Realty® brand, a leading luxury brand, our franchisees and our company owned brokerages also participate in luxury marketing programs, such as Century 21 Fine Homes & Estates®, Coldwell Banker Previews International® and ERA® International Collection.

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According to NAR, among buyers who used the Internet during their home search, 87% of buyers found photos and 84% found detailed information about properties for sale very useful. Advertising is primarily used by the brands to drive consumers to their respective websites. Significant focus is placed on developing websites for each brand to create value to the real estate consumer. Each brand website focuses on streamlined, easy search processes for listing inventory and rich descriptive details and multiple photos to market the real estate listing. Additionally, each brand website serves as a national distribution point for independent sales associates to market themselves to consumers to enhance the customer experience. We also place significant emphasis on distributing our real estate listings with third-party websites to expand a homebuyer's access to such listings, at times enhancing the presentation of the listings on third-party websites to make the listings more attractive to consumers. Consumers seeking more detailed information about a particular listing on a third-party website are able to click through to a brand website or a company owned brokerage website or telephone the franchisee or company owned brokerage directly.

In order to improve our response times to buyers and sellers seeking real estate services, we developed LeadRouter™, our proprietary patented lead management system. We believe LeadRouter provides a competitive advantage by improving the speed at which a brokerage can begin working with a customer. The system converts text to voice and transfers the lead to our agents within a matter of seconds, providing our agents with the ability to quickly respond to the needs of a potential home buyer or seller. Additionally, LeadRouter provides the broker with an accountability tool to manage their associates and evaluate productivity.

During 2015, we installed ZipRealty's comprehensive, integrated ZAP℠ technology platform with approximately 390 of our approximately 2,700 franchisees and, consistent with our previously disclosed plan, anticipate rolling this product out to a broader franchisee base over the next two years. We believe the ZAP technology platform will increase the value proposition to our franchisees, their independent sales associates and their customers. In 2015, LeadRouter was integrated into ZAP to enhance our value proposition for all brokers on the platform.

Company Owned Brokerage Operations. Our company owned brokerages sponsor a wide array of marketing programs, materials and opportunities to complement the sales work of our affiliated independent sales associates and increase brand awareness. The effectiveness and quality of marketing programs play a significant role in attracting and retaining independent sales associates.

NRT's sponsored marketing programs and initiatives primarily focus on attracting potential new home buyers and sellers to NRT's affiliated independent sales associates. These programs and initiatives also complement the awareness of our brands by increasing the local recognition of our agents and local brokerages.

Much of our marketing efforts are geared toward showcasing the inventory of our real estate listings and the affiliated independent sales associates who are the selling agents of these listings. In addition to prominently placing the listing property and related selling agent information on numerous real estate websites, we promote the selling agents and their properties on social media sites and offer tools and systems intended to enhance the home buying and home selling experiences of our customers. We also offer the independent sales associates broad-based advertising, mailings and other campaigns to generate leads, interest and recognition.

The Internet has become the primary advertising channel in our industry and we have sought to become a leader among full-service residential real estate brokerage firms in the use and application of marketing technology. We place our property listings on hundreds of real estate websites and we operate a variety of our own websites.

NRT also utilizes both proprietary and third-party technology to offer independent sales associates tools that may enhance their productivity and increase their understanding of their local markets and the impact of their marketing efforts. Some of these tools include the HomeBase Transaction Management and InTouch CRM systems, as well as MarketQuest and e-Marketing reporting tools.

Education and Marketing Updates

Each real estate brand provides continuing education and marketing-related materials to its franchisees to assist them in ongoing business operations. Each brand's engagement program contains different materials and delivery methods. The marketing materials include a detailed description of the services offered by our franchise systems (which will be available to the independent sales associate). Live instructors at conventions and orientation seminars deliver some engagement modules while other modules can be viewed by brokers anywhere in the world through virtual classrooms over the Internet. Most of the programs and materials are then made available in electronic form to franchisees over the respective system's private intranet site. Many of the materials are customizable to allow franchisees to achieve a personalized look and feel and make modifications to certain content as appropriate for their business and marketplace.

For our company owned brokerage operations, we focus on attracting and retaining sales associates through a number of programs in order to drive revenue growth.

Employees

At December 31, 2015, we had approximately 11,400 employees, including approximately 880 employees outside of the U.S. None of our employees are represented by a union. We believe that our employee relations are good.

Government Regulation

Franchise Regulation. In the U.S., the sale of franchises is regulated by various state laws, as well as by the Federal Trade Commission (the "FTC"). The FTC requires that franchisors make extensive disclosure to prospective franchisees but does not require registration. A number of states require registration and/or disclosure in connection with franchise offers and sales. In addition, several states have "franchise relationship laws" or "business opportunity laws" that limit the ability of the franchisor to terminate franchise agreements or to withhold consent to the renewal or transfer of these agreements. The states with relationship or other statutes governing the termination of franchises include Arkansas, California, Connecticut, Delaware, Hawaii, Illinois, Indiana, Iowa, Michigan, Minnesota, Mississippi, Missouri, Nebraska, New Jersey, Virginia, Washington and Wisconsin. Puerto Rico and the Virgin Islands also have statutes governing termination of franchises. Some franchise relationship statutes require a mandated notice period for termination and some require a notice and cure period. In addition, some require that the franchisor demonstrate good cause for termination. These statutes do not have a substantial effect on our operations because our franchise agreements generally comport with the statutory requirements for cause for termination, and they provide notice and cure periods for most defaults. When the franchisee is granted a statutory period longer than permitted under the franchise agreement, we extend our notice and/or cure periods to match the statutory requirements. In some states, case law requires a franchisor to renew a franchise agreement unless a franchisee has given cause for non-renewal. Failure to comply with these laws could result in civil liability to the affected franchisees. While our franchising operations have not been materially adversely affected by such existing regulation, we cannot predict the effect of any future federal or state legislation or regulation. Internationally, many countries have similar laws affecting franchising.

Real Estate Regulation. RESPA and state real estate brokerage laws restrict payments which real estate brokers, title agencies, mortgage bankers, mortgage brokers and other settlement service providers may receive or pay in connection with the sales of residences and referral of settlement services (e.g., mortgages, homeowners insurance and title insurance). Such laws may to some extent restrict preferred alliance and other arrangements involving our real estate franchise, real estate brokerage, settlement services and relocation businesses. In addition, with respect to our company owned real estate brokerage, relocation and title and settlement services businesses, RESPA and similar state laws require timely disclosure of certain relationships or financial interests with providers of real estate settlement services.

RESPA and related regulations do, however, contain a number of provisions that allow for payments or fee splits between providers, including fee splits between brokers and agents and market-based fees for the provision of actual goods or services. In addition, RESPA allows for referrals to affiliated entities, including joint ventures, when specific requirements have been met. We rely on these provisions in conducting our business activities and believe our arrangements comply with RESPA. RESPA compliance, however, has become a greater challenge in recent years for most industry participants offering settlement services, including mortgage companies, title companies and brokerages, because of changes in the regulatory environment.

Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank"), administration of RESPA has been moved from the Department of Housing and Urban Development ("HUD") to the Consumer Financial Protection Bureau (the "CFPB"). The CFPB has taken a much stricter approach toward interpretation of RESPA and related regulations than HUD and has significantly increased the use of enforcement proceedings. In the face of this changing regulatory landscape, various industry participants, while disagreeing with the CFPB’s narrow interpretation of RESPA, have nevertheless decided to modify or terminate long-standing business arrangements to avoid the risk of protracted and costly litigation defending such arrangements. While we have made, and anticipate making, changes to our RESPA-related business practices, we do not expect these changes to have a material impact on our operations. Beyond the CFPB enforcement practices, the new practices have triggered private RESPA litigation, including an action recently filed against us, our joint venture and PHH that is described under "Item 3.—Legal Proceedings."

Beginning on October 3, 2015, CFPB's rule, known as TILA-RESPA Integrated Disclosure ("TRID"), became effective for new loan applications. TRID integrates certain mortgage disclosure forms and outlines new requirements related to the closing of certain real estate transactions, including mandating the use of a new closing disclosure to be delivered three business days before closing of the loan. The new regulations have caused closing delays throughout the industry, including at Realogy for both its company owned and franchised operations. NAR Economists' Outlook report published on December 22, 2015 stated that the time from contract to close for U.S. homesales rose to an average of 40.5 days in November of 2015 from 35.9 in November of 2014, a 12.8% increase (4.6 days).

Our company owned real estate brokerage business is also subject to numerous federal, state and local laws and regulations that contain general standards for and limitations on the conduct of real estate brokers and sales associates, including those relating to the licensing of brokers and sales associates, fiduciary and agency duties, administration of trust funds, collection of commissions, restrictions on information sharing with affiliates, fair housing standards and advertising and consumer disclosures. Under state law, our company owned real estate brokers have certain duties to supervise and are responsible for the conduct of their brokerage businesses. Although real estate sales associates historically have been classified as independent contractors, newer rules and interpretations of state and federal employment laws and regulations, including those governing employee classification and wage and hour regulations, may impact industry practices and our company owned brokerage operations. Real estate licensing laws generally permit brokers to engage sales associates as independent contractors but require that the broker supervise their activities.

Regulation of Title Insurance and Settlement Services. Many states license and regulate title agencies/settlement service providers or certain employees and underwriters through their Departments of Insurance or other regulatory body. In many states, title insurance rates are either promulgated by the state or are required to be filed with each state by the agent or underwriter, and some states promulgate the split of title insurance premiums between the agent and underwriter. States sometimes unilaterally lower the insurance rates relative to loss experience and other relevant factors. States also require title agencies and title underwriters to meet certain minimum financial requirements for net worth and working capital. In addition, the insurance laws and regulations of Texas, the jurisdiction in which our title insurance underwriter subsidiary, TRGC, is domiciled, generally provide that no person may acquire control, directly or indirectly, of a Texas domiciled insurer, unless the person has provided required information to, and the acquisition is approved or not disapproved by, the Texas Department of Insurance. Generally, any person acquiring beneficial ownership of 10% or more of our voting securities would be presumed to have acquired indirect control of our title insurance underwriter subsidiary unless the Texas Department of Insurance, upon application, determines otherwise. Our insurance underwriter is also subject to a holding company act in its state of domicile, which regulates, among other matters, investment policies and the ability to pay dividends.

Certain states in which we operate have "controlled business" statutes which impose limitations on affiliations between providers of title and settlement services, on the one hand, and real estate brokers, mortgage lenders and other real estate service providers, on the other hand. We are aware of the states imposing such limits and monitor the others to ensure that if they implement such a limit that we will be prepared to comply with any such rule. "Controlled business" typically is defined as sources controlled by, or which control, directly or indirectly, the title insurer or agent. Pursuant to legislation enacted in the State of New York in late 2014 requiring the licensing of title agents, the New York Department of Insurance has issued regulations that provide that title agents with affiliated businesses may not accept referrals from affiliated sources unless they also have significant and multiple sources of non-affiliated business. We are not aware of any other recent or pending controlled business legislation. A company's failure to comply with such statutes could result in the non-renewal of the Company's license to provide title and settlement services. We provide our services not only to our affiliates but also to third-party businesses in the geographic areas in which we operate. Accordingly, we manage our business in a manner to comply with any applicable "controlled business" statutes by ensuring that we generate sufficient business from sources we do not control. We have never been cited for failing to comply with a "controlled business" statute.

Dodd-Frank Act. Dodd-Frank endows the CFPB with rulemaking, examination and enforcement authority involving consumer financial products and services, including mortgage finance. The CFPB has issued a myriad of proposed and final rules which could materially and adversely affect the mortgage and housing industries. Dodd-Frank establishes new standards and practices for mortgage originators, including determining a prospective borrower's ability to repay its mortgage and restricting the fees that mortgage originators may collect.

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Item 1A. Risk Factors.

You should carefully consider each of the following risk factors and all of the other information set forth in this Annual Report. The risk factors generally have been separated into three groups: (1) risks relating to our business; (2) risks relating to our indebtedness; and (3) risks relating to an investment in our common stock. Based on the information currently known to us, we believe that the following information identifies the most significant risk factors affecting our Company and our common stock. However, the risks and uncertainties are not limited to those set forth in the risk factors described below. In addition, past financial performance may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods.

Risks Related to Our Business

The residential real estate market is cyclical and we are negatively impacted by downturns in this market.

The residential real estate market tends to be cyclical and typically is affected by changes in general economic conditions which are beyond our control. Commencing in the second half of 2005 and continuing through 2011, the U.S. residential real estate industry was in a significant and lengthy downturn. Beginning in 2012, the U.S. residential real estate industry began its current recovery. We cannot predict the duration or continued strength of the housing recovery. If the residential real estate market or the economy as a whole does not continue to improve or worsens, our business, financial condition and liquidity may be materially adversely affected, including our ability to access capital and grow our business.

Any of the following could halt or limit a recovery in the housing market and have a material adverse effect on our business by causing a lack of sustained growth or a decline in the number of homesales and/or prices which in turn, could adversely affect our revenues and profitability:

- high levels of unemployment and the continued slow recovery of wages;
- a period of slow economic growth or recessionary conditions;
- weak credit markets;
- a low level of consumer confidence in the economy and/or the residential real estate market due to macroeconomic events domestically or internationally;
- instability of financial institutions;
- legislative or regulatory changes (including changes in regulatory interpretations or regulatory practices) that would adversely impact the residential real estate market as well as federal and/or state income tax changes and other tax reform affecting real estate and/or real estate transactions;
- increasing mortgage rates and down payment requirements and/or constraints on the availability of mortgage financing;
- insufficient or excessive regional home inventory levels;
- renewed high levels of foreclosure activity including but not limited to the release of homes already held for sale by financial institutions;
- adverse changes in local or regional economic conditions;
- the inability or unwillingness of homeowners to enter into homesale transactions due to first-time homebuyer concerns about investing in a home and move-up buyers having limited or negative equity in their existing homes;
- a decrease in the affordability of homes including the impact of rising mortgage rates, home price appreciation and wage stagnation and/or wage increases that do not keep pace with inflation;
- decreasing home ownership rates, declining demand for real estate and changing social attitudes toward home ownership; and/or
- natural disasters, such as hurricanes, earthquakes and other events that disrupt local or regional real estate markets.

A continuing housing recovery should result in an increase in our revenues but could put downward pressure on brokerage commissions or increase competition due to new entrants or expansion by existing competitors, which could negatively impact the rate of our revenue growth. In addition, in a growing housing market, sales associates, under certain circumstances, may achieve a higher proportion of the commissions earned on a homesale transaction, which could adversely affect the operating margins of our company owned residential brokerages. Similarly, our revenue growth could be negatively affected if the net effective royalty rate for our real estate franchise segment receives from our franchisees falls. In general, most of our third-party franchisees are entitled to volume incentives. These incentives decrease during

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times of declining homesale transaction volumes and increase during market recoveries when there is a corresponding increase in homesale transaction volume.

Adverse developments in general business and economic conditions could have a material adverse effect on our financial condition and our results of operations.

Our business and operations and those of our franchisees are sensitive to general business and economic conditions in the U.S. and worldwide. These conditions include short-term and long-term interest rates, inflation, fluctuations in debt and equity capital markets, levels of unemployment, consumer confidence and the general condition of the U.S. and the world economy.

The residential real estate market also depends upon the strength of financial institutions, which are sensitive to changes in the general macroeconomic environment. Lack of available credit or lack of confidence in the financial sector could materially and adversely affect our business, financial condition and results of operations.

A host of factors beyond our control could cause fluctuations in these conditions, including the political environment, disruptions in a major geoeconomic region, or equity or commodity markets and acts or threats of war or terrorism which could have a material adverse effect on our financial condition and our results of operations.

Tightened mortgage underwriting standards could continue to reduce homebuyers' ability to access the credit markets on reasonable terms.

During the past several years, many lenders have significantly tightened their underwriting standards and many alternative mortgage products have become less available in the marketplace. Underwriting standards could be further tightened as a result of changes in regulations, including regulations enacted to increase guarantee fees of federally insured mortgages and/or to reduce the maximum loan limits on mortgage guarantees by Fannie Mae and Freddie Mac. More stringent mortgage underwriting standards could adversely affect the ability and willingness of prospective buyers to finance home purchases or to sell their existing homes, which would adversely affect our operating results.

Monetary policies of the federal government and its agencies may have a material impact on our operations.

Our business is significantly affected by the monetary policies of the federal government and its agencies. We are particularly affected by the policies of the Federal Reserve Board, which regulates the supply of money and credit in the U.S. The Federal Reserve Board's policies impact the real estate market through their effect on interest rates as well as the cost of our interest-bearing liabilities.

We could be negatively impacted by any rising interest rate environment. As mortgage rates rise, the number of homesale transactions may decrease as potential home sellers choose to stay with their lower mortgage rate rather than sell their home and pay a higher mortgage rate with the purchase of another home, and potential home buyers choose to rent rather than pay higher mortgage rates. An increase in mortgage rates would also be expected to reduce the number of homesale refinancing transactions, which could materially adversely impact our earnings from the PHH Home Loans joint venture as well as the revenue stream of our title and settlement services segment. Changes in the Federal Reserve Board's policies, the interest rate environment and mortgage market are beyond our control, are difficult to predict and could have a material adverse effect on our business, results of operations and financial condition.

Our company owned brokerage operations are subject to geographic and high-end real estate market risks, which could adversely affect our revenues and profitability.

Our subsidiary, NRT, owns real estate brokerage offices located in and around large metropolitan areas in the U.S. Local and regional economic conditions in these locations could differ materially from prevailing conditions in other parts of the country. NRT realizes 60% of its revenues in the higher end markets it serves in California, Florida and the New York metropolitan area. For the year ended December 31, 2015, NRT realized approximately 27% of its revenues from California, 23% from the New York metropolitan area and 10% from Florida. A downturn in residential real estate demand or economic conditions that is concentrated in these regions could result in a decline in NRT's total gross commission income and profitability disproportionate to the downturn experienced throughout the U.S. and could have a material adverse effect on us. In addition, given the significant geographic overlap of our title and settlement services business with our company owned brokerage offices, such regional declines affecting our company owned brokerage operations could have a disproportionate adverse effect on our title and settlement services business as well. A downturn in residential real estate demand or economic conditions in these states could result in a decline in our overall revenues and have a material adverse effect on us.

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NRT has a significant concentration of transactions at the higher end of the U.S. real estate market. A shift in NRT's mix of property transactions from the high range to lower and middle range homes would adversely affect the average price of NRT's closed homesales. Such a shift, absent an increase in transactions, would have an adverse effect on our operating results. In addition, NRT continues to face heightened competition because of its prominent position in the higher end housing markets.

Our financial results are affected by the operating results of our franchisees.

Our real estate franchise services segment receives revenue in the form of royalties, which are based on a percentage of gross commission income earned by our franchisees. Accordingly, the financial results of our real estate franchise services segment are dependent upon the operational and financial success of our franchisees. If industry trends or economic conditions are not sustained or do not continue to improve, our franchisees' financial results may worsen and our royalty revenues may decline. In addition, we may have to increase our bad debt and note reserves. We may also have to terminate franchisees due to non-payment.

Gross closed commission income of our new franchisees may never materialize and accordingly we may not receive any material royalty revenues from new franchisees. Further, if franchisees fail to renew their franchise agreements, or if we decide to restructure franchise agreements in order to induce franchisees to renew these agreements, then our royalty revenues may decrease, and profitability from franchisees may be lower than in the past due to reduced net royalty rates, non-standard incentives and higher expenses from licensing fees.

Most of our franchisees are entitled to volume incentives calculated for each franchisee as a progressive percentage of each franchisee's annual gross revenue subject to royalty payments for each calendar year. To the extent the royalties from our larger franchisees increase as a percentage of our total real estate franchise segment's revenues, our operating margin for RFG could be adversely impacted.

Our franchisees and their independent sales associates could take actions that could harm our business.

Our franchisees are independent business operators and we do not exercise control over their day-to-day operations. Our franchisees may not successfully operate a real estate brokerage business in a manner consistent with industry standards, or may not affiliate with effective independent sales associates or employees. If our franchisees or their independent sales associates were to provide diminished quality of service to customers, our image and reputation may suffer materially and adversely affect our results of operations. Improper actions involving our franchisees, including regarding their relationships with independent sales associates, clients and employees, may also lead to direct claims against us based on theories of vicarious liability, negligence, joint operations and joint employer liability which, if determined adversely, could increase costs, negatively impact the business prospects of our franchisees and subject us to incremental liability for their actions.

Additionally, franchisees and their independent sales associates may engage or be accused of engaging in unlawful or tortious acts, such as violating the anti-discrimination requirements of the Fair Housing Act. Such acts or the accusation of such acts could harm our brands' image, reputation and goodwill.

Franchisees, as independent business operators, may from time to time disagree with us and our strategies regarding the business or our interpretation of our respective rights and obligations under the franchise agreement. This may lead to disputes with our franchisees and we expect such disputes to occur from time to time in the future as we continue to offer franchises. To the extent we have such disputes, the attention of our management and our franchisees will be diverted, which could have a material adverse effect on our business, financial condition, results of operations or cash flows.

We may not be able to successfully develop, license and scale our ZAP℠ technology to our franchisees, which could adversely affect our ability to retain existing franchisees and recruit new franchisees.

In August 2014, we acquired ZipRealty, an innovative residential real estate brokerage and developer of proprietary technology platforms for real estate brokerages, independent sales associates and customers. During 2015, we installed ZipRealty's comprehensive, integrated ZAP℠ technology platform that includes a CRM system, to certain of our franchisees, ahead of a broader rollout of these tools. We may incur unforeseen expenses in the development of a scalable ZAP platform and may encounter delays in the broader roll out of this product to our franchisees. In addition, we may be unable to attract and retain employees involved in developing the technology due to the low levels of unemployment in the areas around the ZipRealty offices. There also can be no assurance that even if the ZAP platform becomes scalable that our franchisees will have a demand for the ZAP platform or related products. Further, franchisees that seek a CRM tool may

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license products from third parties, and franchisees that have existing CRM systems may not switch to the ZAP platform. In addition, the local Multiple Listing Services ("MLS") may not provide us with access to their property listings, thereby reducing the number of local property listings on our website. Our inability to successfully license the ZAP platform to a significant portion of our franchisee base could adversely affect our ability to retain existing franchisees or recruit new franchisees.

Actions by the independent sales associates engaged by our company owned brokerages could materially and adversely affect our reputation and subject us to liability.

Our company owned brokerage operations rely on the performance of independent sales associates. If the independent sales associates were to provide lower quality services to our customers, our image and reputation could be materially adversely affected. In addition, we could also be subject to litigation and regulatory claims arising out of their performance of brokerage services, which if adversely determined, could materially and adversely affect us.

Clients of our relocation business may terminate their contracts with us at any time.

Substantially all of our contracts with our relocation clients are terminable at any time at the option of the client and are non-exclusive. If a client terminates its contract, we will only be compensated for services performed up to the time of termination and reimbursed for expenses incurred up to the time of termination. If a significant number of our relocation clients terminate their contracts with us or we lose one or more significant Affinity clients, our results of operations would be materially adversely affected. Our business could also be materially adversely affected if there is a material reduction in the volume of business we receive from these customers.

We are reliant on third-party vendors to perform services on our behalf.

Aspects of our business, such as our relocation segment, are performed on our behalf by third-party vendors. In many instances these suppliers are in direct contact with our customers in order to deliver services on our behalf. If our third-party suppliers were to provide diminished services to our customers or face cybersecurity breaches of their information technology systems, our image and reputation could be materially adversely affected. In addition, we could also be subject to litigation and regulatory claims arising out of the performance of our third-party suppliers based on theories of vicarious liability, negligence or failure to comply with laws and regulations including the Foreign Corrupt Practices Act.

We may be unable to achieve or maintain cost savings and other benefits from our restructuring activities.

We continue to engage in business optimization initiatives that focus on maximizing the efficiency and effectiveness of the cost structure of each of the Company's business units. The action is designed to improve client service levels across each of the business units while enhancing the Company's profitability and incremental margins. Expected restructuring costs of approximately $37 million are currently anticipated to be incurred through the end of 2016. Cost savings related to the restructuring initiatives are estimated to be approximately $40 million on an annual run rate basis and are anticipated to offset some or all of our inflation-related annual cost increases. We may not be able to achieve these improvements in the efficiency and effectiveness of our operations. We also may incur greater costs than currently anticipated to achieve these savings and we may not be able to maintain these cost savings and other benefits in the future.

We may not realize anticipated benefits from acquisitions.

Integrating acquired companies involves complex operational and personnel related challenges, including:

- the possible defection of a significant number of employees and independent sales associates;
- the disruption of our respective ongoing businesses;
- possible inconsistencies in policies and procedures, as well as business and IT controls;
- the failure to maintain important business relationships and contracts;
- unanticipated costs of terminating or relocating facilities and operations;
- unanticipated expenses related to the integration;
- increased amortization of intangibles; and
- potential unknown liabilities associated with acquired businesses.

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A prolonged diversion of management's attention and any delays or difficulties encountered in connection with the integration of any business acquisition could prevent us from realizing the anticipated cost savings and revenue growth from our acquisitions.

We may not have the ability to complete future acquisitions.

At varying times, we have pursued an active acquisition strategy as a means of strengthening and expanding our businesses and have sought to integrate acquisitions into our operations to achieve economies of scale. The success of our future acquisition strategy will continue to depend upon our ability to fund such acquisitions given our total outstanding indebtedness, find suitable acquisition candidates on favorable terms and for target companies to find our acquisition proposals more favorable than those made by companies with which we compete.

Loss or attrition among our senior executives or other key employees could adversely affect our financial performance.

Our success is largely dependent on the efforts and abilities of our executive officers and other key employees, particularly those who have many years of experience in the residential real estate market. Our ability to retain our executive officers and key employees is generally subject to numerous factors, including the compensation and benefits we pay. If we were to lose several of our executive officers or key employees in a relatively short period of time and were unable to promptly fill their positions with comparably qualified individuals, our business may be adversely affected.

We are subject to certain risks related to litigation filed by or against us, and adverse results may harm our business and financial condition.

We cannot predict with certainty the cost of defense, the cost of prosecution, insurance coverage or the ultimate outcome of litigation and other proceedings filed by or against us, including remedies or damage awards, and adverse results in such litigation and other proceedings, including treble damages and penalties. Adverse outcomes may harm our business and financial condition. Such litigation and other proceedings may include, but are not limited to:

- actions relating to claims alleging violations of RESPA (see Strader litigation described under "Item 3.—Legal Proceedings") or state consumer fraud statutes, intellectual property, commercial arrangements, franchising arrangements, negligence and fiduciary duty claims arising from franchising arrangements or company owned brokerage operations;
- employment law claims, including claims challenging the classification of sales associates as independent contractors as well as wage and hour and joint employer claims;
- cybersecurity incidents and data breach claims;
- actions against our title company for defalcations on closing payments or alleging it knew or should have known others were committing mortgage fraud;
- brokerage disputes like the failure to disclose hidden defects in the property as well as other brokerage claims associated with listing information and property history;
- vicarious or joint liability based upon the conduct of individuals or entities traditionally outside of our control, including franchisees and independent sales associates;
- antitrust and anti-competition claims;
- general fraud claims; and
- compliance with wage and hour regulations.

In addition, class action lawsuits can often be particularly vexatious litigation given the breadth of claims, the large potential damages claimed and the significant costs of defense. The risks of litigation become magnified and the costs of settlement increase in class actions in which the courts grant partial or full certification of a large class. In the case of intellectual property litigation and proceedings, adverse outcomes could include the cancellation, invalidation or other loss of material intellectual property rights used in our business and injunctions prohibiting our use of business processes or technology that is subject to third-party patents or other third-party intellectual property rights. In addition, we may be required to enter into licensing agreements (if available on acceptable terms or at all) and pay royalties. Insurance coverage may be unavailable for certain types of claims and even where available, insurance carriers may dispute coverage for various reasons, including the cost of defense, and such insurance may not be sufficient to cover the losses we incur.

Adverse decisions in litigation against companies unrelated to us could impact our business practices and those of our franchisees in a manner that adversely impacts our financial condition and results of operations.

Litigation, claims and regulatory proceedings against other participants in the residential real estate industry may impact the Company when the rulings in those cases cover practices common to the broader industry. Examples may include claims associated with RESPA compliance, broker fiduciary duties, and sales agent classification. Similarly, the Company may be impacted by litigation and other claims against companies in other industries. Rulings on matters such as the enforcement of arbitration agreements and worker classification may adversely affect the Company and other residential real estate industry participants as a result of the classification of sales associates as independent contractors, irrespective of the fact that the parties subject to the rulings are in a different industry. There is active worker classification litigation in numerous jurisdictions, including Massachusetts, California, New Jersey and New York, against a variety of industries where the plaintiffs seek to reclassify independent contractors as employees or to challenge the use of federal and state minimum wage and overtime exemptions. To the extent plaintiffs are successful in these types of litigation matters, and we or our franchisees cannot distinguish our or their practices (or our industry's practices), we and our franchisees could face significant liability and could be required to modify certain business relationships, either of which could materially and adversely impact our financial condition and results of operations.

Our relationship with our employees is subject to an array of different employment, tax reporting and regulatory obligations and any significant failure to comply with these obligations could materially and adversely affect our business.

These obligations relate to federal and state tax codes, federal and state wage and hour laws, state unemployment, workers' compensation and disability tax laws, right to organize and anti-discrimination and workplace safety laws. Each state has unique wage and hour laws, which have been the subject of increasing litigation nationwide. In addition, federal agencies and each state have its own rules and tests for classification of independent contractors as well as to determine whether employees meet exemptions from minimum wages and overtime laws. These tests consider many factors that also vary from state to state. The tests have evolved based on state case law decisions, regulations and legislative changes, and frequently involve factual analysis. In addition, states have laws and regulations concerning the licensing of real estate agents. While these laws and regulations may have separate provisions related to the classification of sales associates as independent contractors, there can be no assurance that courts will follow the tests in these real estate specific laws and regulations when they differ from those in labor statutes and regulations. When companies are found to have misclassified workers as independent contractors instead of employees, courts can impose significant penalties and damages.

The legal relationship between residential real estate brokers and licensed sales associates throughout the industry historically has been that of independent contractor. Although we believe our classification practices are proper and consistent with the legal framework for such classification, our company owned brokerage operations could face substantial litigation or disputes in direct claims or regulatory procedures, including the risk of court or regulatory determinations that certain groups of real estate agents should be reclassified as employees and entitled to unpaid minimum wage, overtime, benefits, expense reimbursement and other employment obligations. Significant reclassification determinations in the absence of available exemptions from minimum wage or overtime laws, including damages and penalties for prior periods, could be disruptive to our business, constrain our operations in certain jurisdictions and have a material adverse effect on the operational and financial performance of the Company. In addition, real estate agent reclassification could have a material adverse effect on the operational and financial performance of our franchisees and our competitors.

We are reliant upon information technology to operate our business and maintain our competitiveness.

Our business, including our ability to attract employees and independent sales associates, increasingly depends upon the use of sophisticated information technologies and systems, including technology and systems (mobile and otherwise) utilized for communications, marketing, productivity tools, lead generation, records of transactions, business records (employment, accounting, tax, etc.), procurement, call center operations and administrative systems.

The operation of these technologies and systems is dependent upon third-party technologies, systems and services, for which there are no assurances of continued or uninterrupted availability and support by the applicable third-party vendors on commercially reasonable terms. We also cannot assure that we will be able to continue to effectively operate and maintain our information technologies and systems. In addition, our information technologies and systems are expected to require refinements and enhancements on an ongoing basis, and we expect that advanced new technologies and systems will continue to be introduced. We may not be able to obtain such new technologies and systems, or to replace or introduce new technologies and systems as quickly as our competitors or in a cost-effective manner. Also, we may not achieve the benefits anticipated

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or required from any new technology or system, and we may not be able to devote financial resources to new technologies and systems in the future.

Cybersecurity incidents could disrupt business operations, result in the loss of critical and confidential information, and adversely impact our reputation and results of operations.

Global cybersecurity threats and incidents can range from uncoordinated individual attempts to gain unauthorized access to information technology systems to sophisticated and targeted measures known as advanced persistent threats, directed at the Company and/or its third-party service providers. In the ordinary course of our business, we and our third-party service providers collect and store sensitive data, including our proprietary business information and intellectual property, and that of our clients and personally identifiable information of our customers. Additionally, we increasingly rely on third-party data storage providers, including cloud storage solution providers. The secure processing, maintenance and transmission of this information are critical to our operations and with respect to information collected and stored by our third-party service providers, we are reliant upon their security procedures. While we and our third-party service providers have experienced, and expect to continue to experience, these types of threats and incidents, none of them to date have been material to the Company. Although we employ comprehensive measures to prevent, detect, address and mitigate these threats (including access controls, data encryption, vulnerability assessments and maintenance of backup and protective systems), and conduct diligence on the security measures employed by key third-party service providers, cybersecurity incidents, depending on their nature and scope, could potentially result in the misappropriation, destruction, corruption or unavailability of critical data and confidential or proprietary information (our own or that of third parties, including personally identifiable information) and the disruption of business operations. Our corporate errors and omissions and cybersecurity breach insurance may be insufficient to compensate us for losses that may occur. The potential consequences of a material cybersecurity incident include reputational damage, litigation with third parties, diminution in the value of the services we provide to our customers, and increased cybersecurity protection and remediation costs, which in turn could adversely affect our competitiveness and results of operations.

The weakening or unavailability of our intellectual property rights could adversely impact our business.

Our trademarks, trade names, domain names and other intellectual property rights are fundamental to our brands and our franchising business. The steps we take to obtain, maintain and protect our intellectual property rights may not be adequate and, in particular, we may not own all necessary registrations for our intellectual property. Applications we have filed to register our intellectual property may not be approved by the appropriate regulatory authorities. Our intellectual property rights may not be successfully asserted in the future or may be invalidated, circumvented or challenged. We may be unable to prevent third parties from using our intellectual property rights without our authorization or independently developing technology that is similar to ours. Also, third parties may own rights in similar trademarks. Any unauthorized use of our intellectual property by third parties could reduce our competitive advantages or otherwise harm our business and brands. If we had to litigate to protect these rights, any proceedings could be costly, and we may not prevail. Our intellectual property rights, including our trademarks, may fail to provide us with significant competitive advantages in the U.S. and in foreign jurisdictions that do not have or do not enforce strong intellectual property rights.

We cannot be certain that our intellectual property does not and will not infringe issued intellectual property rights of others. We may be subject to legal proceedings and claims in the ordinary course of our business, including claims of alleged infringement of the patents, trademarks and other intellectual property rights of third parties. Any such claims, whether or not meritorious, could result in costly litigation. Depending on the success of these proceedings, we may be required to enter into licensing or consent agreements (if available on acceptable terms or at all), or to pay damages or cease using certain service marks or trademarks.

We franchise our brands to franchisees. While we try to ensure that the quality of our brands is maintained by all of our franchisees, we cannot assure that these franchisees will not take actions that hurt the value of our intellectual property or our reputation.

Our license agreement with Sotheby's for the use of the Sotheby's International Realty® brand is terminable by Sotheby's prior to the end of the license term if certain conditions occur, including but not limited to the following: (1) we attempt to assign any of our rights under the license agreement in any manner not permitted under the license agreement, (2) we become bankrupt or insolvent, (3) a court issues a non-appealable, final judgment that we have committed certain breaches of the license agreement and we fail to cure such breaches within 60 days of the issuance of such judgment, or (4) we discontinue the use of all of the trademarks licensed under the license agreement for a period of twelve consecutive months.

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Our license agreement with Meredith Corporation ("Meredith") for the use of the Better Homes and Gardens® Real Estate brand is terminable by Meredith prior to the end of the license term if certain conditions occur, including but not limited to the following: (1) we attempt to assign any of our rights under the license agreement in any manner not permitted under the license agreement, (2) we become bankrupt or insolvent, or (3) a trial court issues a final judgment that we are in material breach of the license agreement or any representation or warranty we made was false or materially misleading when made.

We do not own two of our brands and must manage cooperative relationships with both owners.

The Sotheby's International Realty® and Better Homes and Gardens® Real Estate brands are owned by the companies that founded these brands. We are the exclusive party licensed to run brokerage services in residential real estate under those brands, whether through our franchisees or our company owned operations. Our future operations and performance with respect to these brands requires the continued cooperation from the owners of those brands and successful protection of those brands. In particular, Sotheby's has the right to approve our international Sotheby's International Realty® franchisees and the material terms of our international franchise agreements governing our relationships with our Sotheby's International Realty® franchisees located outside the U.S., which approval cannot be unreasonably withheld or delayed. If Sotheby's unreasonably withholds or delays its approval for new international franchisees, our relationship with Sotheby's could be disrupted. Any significant disruption of the relationships with the owners of these brands could impede our franchising of those brands and have a material adverse effect on our operations and performance. In addition, any significant difficulties in the business of the brand owners could negatively reflect on the brand and the brand value.

We do not control the joint venture PHH Home Loans and PHH as the managing partner of that venture may make decisions that are contrary to our best interests.

Under our Operating Agreement with PHH relating to PHH Home Loans, we own a 49.9% equity interest but do not have control of the operations of the joint venture. Rather, our joint venture partner, PHH, is the managing partner of the venture and may make decisions with respect to the operation of the venture, which may harm the joint venture or be contrary to our best interests and may adversely affect our results of operations or equity interest in the joint venture.

The earnings and dividends we receive from our joint venture PHH Home Loans may be materially adversely affected by developments in the mortgage industry as well as operational or liquidity risks to the joint venture or PHH.

Our joint venture may continue to be materially adversely impacted by changes affecting the mortgage industry, including but not limited to regulatory changes, increases in mortgage interest rates and decreases in operating margins. Earnings and dividends from PHH Home Loans also could be materially adversely affected by the impact and outcome of litigation and investigations affecting the joint venture or PHH as well as operational or liquidity risks to the joint venture or PHH.

In the event of a termination of our joint venture PHH Home Loans, we may not be able to find an alternative partner, which could negatively impact our business.

We may terminate the joint venture at our election by providing two years' prior notice to PHH at any time and PHH may terminate the venture at its election effective January 31, 2030, by notice delivered no earlier than three years, but not later than two years, before such date. Either party also has the right to terminate the joint venture upon the occurrence of certain events, such as a material breach, or the insolvency of the other party. In addition, we may terminate the joint venture upon a change of control of PHH involving certain entities that we have enumerated (and which may be updated by us once every two years) or any competitor of ours. Upon any termination of the joint venture by us as a result of any of the events described in this paragraph, we may require that PHH purchase our interest or sell its interest to a buyer designated by us.

If the joint venture is terminated, we may not be able to replace PHH with a new joint venture partner on terms comparable to us as those contained in the existing agreements governing the joint venture and, even if successful in finding a replacement partner, may incur expenses or a loss of earnings during any such transition. In addition, we might be unsuccessful in engaging in the loan origination business without a partner. In the event of a termination of the joint venture, our earnings derived from the business that had been conducted by the joint venture could be materially adversely affected.

We may experience significant claims relating to our operations, and losses resulting from fraud, defalcation or misconduct.

We issue title insurance policies which provide coverage for real property to mortgage lenders and buyers of real property. When acting as a title agent issuing a policy on behalf of an underwriter, our insurance risk is typically limited to the first five thousand dollars for claims on any one policy, though our insurance risk is not limited if we are negligent. Our title underwriter typically underwrites title insurance policies of up to $1.5 million. For policies in excess of $1.5 million, we typically obtain a reinsurance policy from a national underwriter to reinsure the excess amount. To date, our title underwriter has experienced claims losses that are significantly below the industry average; however, our claims experience could increase in the future, which could negatively impact the profitability of that business. We may also be subject to legal claims or additional claims losses arising from the handling of escrow transactions and closings by our owned title agencies or our underwriter's independent title agents. We carry errors and omissions insurance for errors made by our company owned brokerage business during the real estate settlement process as well as errors by us related to real estate services. Our franchise agreements also require our franchisees to name us as an additional insured on their errors and omissions and general liability insurance policies. The occurrence of a significant claim in excess of our insurance coverage (including any coverage under franchisee insurance policies) in any given period could have a material adverse effect on our financial condition and results of operations during the period. In addition, insurance carriers may dispute coverage for various reasons and there can be no assurance that all claims will be covered by insurance.

Fraud, defalcation and misconduct by employees are also risks inherent in our business, particularly given our high transactional volumes in our company owned brokerage, title and settlement services and our relocation businesses. We may also from time to time be subject to liability claims based upon the fraud or misconduct of our franchisees. To the extent that any loss or theft of funds substantially exceeds our insurance coverage, our business could be materially adversely affected.

In addition, we rely on the collection and use of personally identifiable information from customers to conduct our business. We disclose our information collection and dissemination practices in a published privacy statement on our websites, which we may modify from time to time. We may be subject to legal claims, government action and damage to our reputation if we act or are perceived to be acting inconsistently with the terms of our privacy statement, customer expectations or the law. The occurrence of a significant claim in excess of our insurance coverage in any given period could have a material adverse effect on our financial condition and results of operations during the period. In the event we or the vendors with which we contract to provide services on behalf of our customers were to suffer a breach of personally identifiable information, our customers, such as our Cartus corporate or affinity clients, franchisees, independent sales associates and lender channel clients, could terminate their business with us. Further, we may be subject to claims to the extent individual employees or independent contractors breach or fail to adhere to Company policies and practices and such actions jeopardize any personally identifiable information. In addition, concern among potential home buyers or sellers about our privacy practices could keep them from using our services or require us to incur significant expense to alter our business practices or educate them about how we use personally identifiable information.

We could be subject to significant losses if banks do not honor our escrow and trust deposits.

Our company owned brokerage business and our title and settlement services business act as escrow agents for numerous customers. As an escrow agent, we receive money from customers to hold until certain conditions are satisfied. Upon the satisfaction of those conditions, we release the money to the appropriate party. We deposit this money with various banks and while these deposits are not assets of the Company (and therefore excluded from our consolidated balance sheet), we remain contingently liable for the disposition of these deposits. The banks may hold a significant amount of these deposits in excess of the federal deposit insurance limit. If any of our depository banks were to become unable to honor any portion of our deposits, customers could seek to hold us responsible for such amounts and, if the customers prevailed in their claims, we could be subject to significant losses. These escrow and trust deposits totaled $308 million at December 31, 2015.

Title insurance regulations limit the ability of our insurance underwriter to pay cash dividends to us.

Our title insurance underwriter is subject to regulations that limit its ability to pay dividends or make loans or advances to us, principally to protect policy holders. Generally, these regulations limit the total amount of dividends and distributions to a certain percentage of the insurance subsidiary's surplus, or 100% of statutory operating income for the previous calendar year. These restrictions could limit our ability to receive dividends from our insurance underwriter, and utilize the cash to fund on-going operations.

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We may be unable to continue to securitize certain of our relocation assets, which may adversely impact our liquidity.
At December 31, 2015, $247 million of securitization obligations were outstanding through special purpose entities monetizing certain assets of our relocation services business under two lending facilities. We have provided a performance guaranty which guarantees the obligations of our Cartus subsidiary and its subsidiaries, as originator and servicer under the Apple Ridge securitization program. The securitization markets have experienced, and may again experience, significant disruptions which may have the effect of increasing our cost of funding or reducing our access to these markets in the future.
In addition, the Apple Ridge securitization facility contains terms which if triggered may result in a termination or limitation of new or existing funding under the facility and/or may result in a requirement that all collections on the assets be used to pay down the amounts outstanding under such facility. The triggering events include but are not limited to: (1) those tied to the age and quality of the underlying assets; (2) a change of control; (3) a breach of our senior secured leverage ratio covenant under our Senior Secured Credit Facility if uncured; and (4) the acceleration of indebtedness under our Senior Secured Credit Facility, unsecured notes or other material indebtedness. The occurrence of a trigger event under the Apple Ridge securitization facility could restrict our ability to access new or existing funding under this facility or result in termination of the facility. If securitization financing is not available to us for any reason, we could be required to borrow under the Revolving Credit Facility, which would adversely impact our liquidity, or we may be required to find additional sources of funding which may be on less favorable terms or may not be available at all.
Competition in the residential real estate and relocation business is intense and may adversely affect our financial performance.
We generally face intense competition in the residential real estate services business.
As a real estate brokerage franchisor, our products are our brand names and the support services we provide to our franchisees and our ability to grow our franchisor business is also dependent on the operational and financial success of our franchisees.

- Upon the expiration of a franchise agreement, a franchisee may choose to franchise with one of our competitors or operate as an independent broker. Competitors may offer franchisees whose franchise agreements are expiring or prospective franchisees products and services similar to us at rates that are lower than we charge.
- We face the risk that currently unaffiliated brokers may not enter into franchise agreements with us because they believe they can compete effectively in the market without the need to license a brand of a franchisor and receive services offered by a franchisor. Additionally, unaffiliated brokers may decide not to enter into a franchise relationship with us as they may believe that their business will be more attractive to a prospective purchaser without the existence of a franchise relationship.
- Regional and local franchisors as well as franchisors offering different franchise models or services provide additional competitive pressure in certain areas. To remain competitive in the sale of franchises and to retain our existing franchisees, we may have to reduce the fees we charge our franchisees or increase the amount of non-standard incentives we issue to be competitive with fees charged by competitors, which may accelerate if market conditions deteriorate.
- Our ability to succeed as a franchisor is largely dependent on the efforts and abilities of our franchisees to attract and retain independent sales associates, which is subject to numerous factors, including the sales commissions they receive and their perception of brand value. If our franchisees fail to attract and retain successful independent sales associates or they fail to replace departing successful independent sales associates with similarly productive independent sales associates, our franchisees' gross commission income may decrease, resulting in a reduction in royalty fees paid to us.
- Listing aggregators and other web-based real estate service providers may also begin to compete for part of our franchisor service revenue through referral or other fees and could disintermediate our relationships with our franchisees and our franchisees' relationships with their independent sales associates and buyers and sellers of homes.

Our company owned brokerage business, like that of our franchisees, generally faces intense competition. We compete with other national independent real estate organizations, franchisees of our brands and of other national real estate franchisors, franchisees of local and regional real estate franchisors, regional independent real estate organizations, discount brokerages, and smaller niche companies competing in local areas. Real estate brokers compete for sales and marketing business primarily on the basis of services offered, reputation, utilization of technology, personal contacts and brokerage commission.

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- Competition is particularly severe in the densely populated metropolitan areas in which we operate.
- In addition, the real estate brokerage industry has minimal barriers to entry for new participants, including participants pursuing non-traditional methods of marketing real estate, such as Internet-based brokerage or brokers who discount their commissions. Discount brokers have had varying degrees of success and, while they were negatively impacted by the prolonged downturn in the residential housing market, they may adjust their model and increase their market presence in the future. Listing aggregators and other web-based real estate service providers may also begin to compete for our company owned brokerage business by establishing relationships with independent sales associates and/or buyers and sellers of homes.
- Our average homesale commission rate per side in our Company Owned Real Estate Services segment has declined from 2.62% in 2002 to 2.46% for the year ended December 31, 2015. As with our real estate franchise business, a decrease in the average brokerage commission rate may adversely affect our revenues.
- We also compete for the services of qualified licensed independent sales associates. Some of the firms competing for sales associates use a different model of compensating agents, in which agents are compensated for the revenue generated by other agents that they attract to those firms. This business model may be appealing to certain agents and hinder our ability to attract and retain those agents. The ability of our company owned brokerage offices to retain independent sales associates is generally subject to numerous factors, including the sales commissions they receive and their perception of brand value. Competition for sales associates could reduce the commission amounts retained by our Company after giving effect to the split with independent sales associates and possibly increase the amounts that we spend on marketing.

In our relocation services business, we compete primarily with global and regional outsourced relocation service providers. As the relocation business continues to become more global in nature with greater emphasis on relocation of employees throughout the world, we expect to face greater competition from firms that provide services on a global basis.

The title and settlement services business is highly competitive and fragmented. The number and size of competing companies vary in the different areas in which we conduct business. We compete with other title insurers, title agents and vendor management companies. The title and settlement services business competes with a large, fragmented group of smaller underwriters and agencies as well as national competitors.

Several of our businesses are highly regulated and any failure to comply with such regulations or any changes in such regulations could adversely affect our business.

The sale of franchises is regulated by various state laws as well as by the FTC. The FTC requires that franchisors make extensive disclosure to prospective franchisees but does not require registration. A number of states require registration and/or disclosure in connection with franchise offers and sales. In addition, several states have "franchise relationship laws" or "business opportunity laws" that limit the ability of franchisors to terminate franchise agreements or to withhold consent to the renewal or transfer of these agreements.

Our company owned real estate brokerage business must comply with the requirements governing the licensing and conduct of real estate brokerage and brokerage-related businesses in the jurisdictions in which we do business. These laws and regulations contain general standards for and limitations on the conduct of real estate brokers and sales associates, including those relating to licensing of brokers and sales associates, fiduciary and agency duties, administration of trust funds, collection of commissions, advertising and consumer disclosures. Under state law, our real estate brokers have certain duties and are responsible for the conduct of their brokerage business.

Our company owned real estate brokerage business, our relocation business, our mortgage origination joint venture, our title and settlement service business and the businesses of our franchisees (excluding commercial brokerage transactions) must comply with the Real Estate Settlement Procedures Act ("RESPA"). RESPA and comparable state statutes prohibit providing or receiving payments, or other things of value, for the referral of business to settlement service providers in connection with the closing of real estate transactions involving federally-backed mortgages. RESPA and related regulations do, however, contain a number of provisions that allow for payments or fee splits between providers, including fee splits between brokers and agents, fees splits between brokers, and market-based fees for the provision of actual goods or services. In addition, RESPA allows for referrals to affiliated entities, including joint ventures, when specific requirements have been met. We rely on these provisions in conducting our business activities and believe our arrangements comply with RESPA. RESPA, however, has become a greater challenge in recent years for most industry participants offering settlement services, including mortgage companies, title companies and brokerages, because of changes in the regulatory environment. With the passage of Dodd-Frank in 2010, primary responsibility for enforcement of RESPA has shifted to the CFPB. The CFPB has taken a much stricter approach toward interpretation of RESPA and related regulations than the prior regulatory authority (the Department of Housing and Urban Development) and has become significantly more active in the use of enforcement proceedings. In the face of this changing regulatory landscape, various industry participants, while disagreeing with the CFPB's narrow interpretation of RESPA, have nevertheless decided to modify or terminate long-standing business arrangements to avoid the risk of protracted and costly litigation defending such arrangements. While we have made, and anticipate making, changes to our RESPA-related business practices, we do not expect these changes to have a material impact on our operations. RESPA also has been invoked by plaintiffs in private litigation for various purposes, including an action recently filed against us, our joint venture and PHH that is described under "Item 3.—Legal Proceedings."

Our title insurance business also is subject to regulation by insurance and other regulatory authorities in each state in which we provide title insurance. State regulations may impede or impose burdensome conditions on our ability to take actions that we may want to take to enhance our operating results.

We are also, to a lesser extent, subject to various other rules and regulations such as "controlled business" statutes, which impose limitations on affiliations between providers of title and settlement services, on the one hand, and real estate brokers, mortgage lenders and other real estate providers, on the other hand, or similar laws or regulations that would limit or restrict transactions among affiliates in a manner that would limit or restrict collaboration among our businesses.

In all of our business units there is a risk that we could be adversely affected by current laws, regulations or interpretations or that more restrictive laws, regulations or interpretations could increase responsibilities and duties to customers and franchisees and other parties, the adoption of which could make compliance more difficult or expensive. There is also a risk that a change in current laws could adversely affect our business. In addition, any adverse changes in regulatory interpretations, rules and laws that would place additional limitations or restrictions on affiliated transactions could have the effect of limiting or restricting collaboration among our business units. We cannot assure you that future changes in legislation, regulations or interpretations will not adversely affect our business operations.

Regulatory authorities also have relatively broad discretion to grant, renew and revoke licenses and approvals and to implement regulations. Accordingly, such regulatory authorities could prevent or temporarily suspend us from carrying on some or all of our activities or otherwise penalize us if our financial condition or our practices were found not to comply with the then current regulatory or licensing requirements or any interpretation of such requirements by the regulatory authority. Our failure to comply with any of these requirements or interpretations could limit our ability to renew current franchisees or sign new franchisees or otherwise have a material adverse effect on our operations.

Our international business activities, and in particular our relocation business, must comply with applicable laws and regulations, including the Foreign Corrupt Practices Act and U.K. Bribery Act that impose sanctions on improper payments.

Our failure to comply with any of the foregoing laws and regulations may subject us to fines, penalties, injunctions and/ or potential criminal violations. Any changes to these laws or regulations or any new laws or regulations may make it more difficult for us to operate our business and may have a material adverse effect on our operations.

Potential reform of Freddie Mac and Fannie Mae or a reduction in U.S. government support for the housing market could have a material impact on our operations.

Numerous pieces of legislation seeking various types of changes for government sponsored entities or GSEs have been introduced in Congress to reform the U.S. housing finance market including, among other things, changes designed to reduce government support for housing finance and the winding down of Freddie Mac and Fannie Mae over a period of years. Legislation, if enacted, or additional regulation which curtails Freddie Mac and/or Fannie Mae's activities and/or results in the wind down of these entities could increase mortgage costs and could result in more stringent underwriting guidelines imposed by lenders or cause other disruptions in the mortgage industry, any of which could have a material adverse effect on the housing market in general and our operations in particular.

Changes in accounting standards, subjective assumptions and estimates used by management related to complex accounting matters could have an adverse effect on results of operations.

Generally accepted accounting principles in the United States and related accounting pronouncements, implementation guidance and interpretations with regard to a wide range of matters, such as revenue recognition, lease accounting, stock-based compensation, asset impairments, valuation reserves, income taxes and fair value accounting, are highly complex and involve many subjective assumptions, estimates and judgments made by management. Changes in these rules or their

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interpretations or changes in underlying assumptions, estimates or judgments made by management could significantly change our reported results.

Our international operations are subject to risks not generally experienced by our U.S. operations.

Our relocation services business operates worldwide, and to a lesser extent, our real estate franchise services segment has international franchisees and master franchisees. For the year ended December 31, 2015, revenues from these operations represented approximately 2% of our total revenues. Our international operations are subject to risks not generally experienced by our U.S. operations. The risks involved in our international operations and relationships that could result in losses against which we are not insured and therefore affect our profitability include:

- fluctuations in foreign currency exchange rates;
- exposure to local economic conditions and local laws and regulations, including those relating to our employees;
- potential adverse changes in the political stability of foreign countries or in their diplomatic relations with the U.S.;
- restrictions on the withdrawal of foreign investment and earnings;
- government policies against businesses owned by foreigners;
- onerous employment laws;
- diminished ability to legally enforce our contractual rights and use of our trademarks in foreign countries;
- difficulties in registering, protecting or preserving trade names and trademarks in foreign countries;
- difficulties in complying with franchise disclosure and registration requirements in foreign countries;
- restrictions on the ability to obtain or retain licenses required for operations;
- withholding and other taxes on third party cross-border transactions as well as remittances and other payments by subsidiaries;
- changes in foreign taxation structures;
- compliance with the Foreign Corrupt Practices Act, the U.K. Bribery Act or similar laws of other countries; and
- data protection and privacy laws.

We may incur substantial and unexpected liabilities arising out of our pension plan.

We have a defined benefit pension plan for which participation was frozen as of July 1, 1997; however, the plan is subject to minimum funding requirements. Although the Company to date has met its minimum funding requirements, the pension plan represents a liability on our balance sheet and will continue to require cash contributions from us, which may increase beyond our expectations in future years based on changing market conditions. In addition, changes in interest rates, mortality rates, health care costs, early retirement rates, investment returns and the market value of plan assets can affect the funded status of our pension plan and cause volatility in the future funding requirements of the plan.

Our ability to use our net operating losses ("NOLs") and other tax attributes may be limited.

Our ability to utilize NOLs and other tax attributes could be limited by the "ownership change" we underwent within the meaning of Section 382 of the Internal Revenue Code of 1986, as amended (the "Code"), as a result of the sale of our common stock in our initial public offering and the related transactions. An ownership change is generally defined as a greater than 50 percentage point increase in equity ownership by 5% stockholders in any three-year period. Pursuant to rules under Section 382 of the Code and a published Internal Revenue Service (the "IRS") notice, a company's "net unrealized built-in gain" within the meaning of Section 382 of the Code may reduce the limitation on such company's ability to utilize NOLs resulting from an ownership change. Although there can be no assurance in this regard, we believe that the limitation on our ability to utilize our NOLs resulting from our ownership change should be significantly reduced as a result of our net unrealized built-in gain. Even assuming we are able to use our unrealized built-in gain, the cash tax benefit from our NOLs is dependent upon our ability to generate sufficient taxable income. Although we believe that we will be able to generate sufficient taxable income to fully utilize our NOLs, we may be unable to earn enough taxable income prior to the expiration of our NOLs.

We are responsible for certain of Cendant's contingent and other corporate liabilities.

Although we have resolved various Cendant contingent and other corporate liabilities and have established reserves for most of the remaining unresolved claims of which we have knowledge, adverse outcomes from the unresolved

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liabilities for which Realogy Group has assumed partial liability under the Separation and Distribution Agreement could be material with respect to our earnings or cash flows in any given reporting period.

Risks Related to Our Indebtedness

Our significant indebtedness and interest obligations could prevent us from meeting our obligations under our debt instruments and could adversely affect our ability to fund our operations, react to changes in the economy or our industry, or incur additional borrowings under our existing facilities.

We are significantly encumbered by our debt obligations. As of December 31, 2015, our total debt, excluding our securitization obligations, was $3,702 million (without giving effect to outstanding letters of credit). Our liquidity position has been, and is expected to continue to be, negatively impacted by the substantial interest expense on our debt obligations. While we have utilized a substantial portion of our free cash flow to reduce our outstanding indebtedness over the past three years, there can be no assurance that we will be able to continue to generate free cash flow from operations in order to reduce our indebtedness in the future.

Our leverage could have important consequences, including the following:

- it causes a substantial portion of our cash flows from operations to be dedicated to the payment of interest and required amortization on our indebtedness and not be available for other purposes, including our operations, capital expenditures, share repurchases, dividends and future business opportunities or principal repayment;
- it could cause us to be unable to comply with the senior secured leverage ratio covenant under our Senior Secured Credit Facility and Term Loan A Facility;
- it could cause us to be unable to meet our debt service requirements under our Senior Secured Credit Facility, the Term Loan A Facility or the indentures governing the Unsecured Notes or meet our other financial obligations;
- it may limit our ability to incur additional borrowings under our existing facilities or securitizations, to obtain additional debt or equity financing for working capital, capital expenditures, business development, debt service requirements, acquisitions or general corporate or other purposes, or to refinance our indebtedness;
- it exposes us to the risk of increased interest rates because a portion of our borrowings, including borrowings under our Senior Secured Credit Facility and Term Loan A Facility, are at variable rates of interest;
- it may limit our ability to adjust to changing market conditions and place us at a competitive disadvantage compared to our competitors that have less debt;
- it may cause a downgrade of our debt and long-term corporate ratings;
- it may limit our ability to repurchase shares;
- it may limit our ability to attract acquisition candidates or to complete future acquisitions;
- it may cause us to be more vulnerable to periods of negative or slow growth in the general economy or in our business, or may cause us to be unable to carry out capital spending that is important to our growth; and
- it may limit our ability to attract and retain key personnel.

An event of default under our Senior Secured Credit Facility, the Term Loan A Facility or the indentures governing our other material indebtedness would adversely affect our operations and our ability to satisfy obligations under our indebtedness.

The Senior Secured Credit Facility and Term Loan A Facility contain restrictive covenants, including a requirement that we maintain a specified senior secured leverage ratio, which is defined as the ratio of our total senior secured debt (net of unrestricted cash and permitted investments) to trailing four quarter Adjusted EBITDA. If we are unable to comply with the senior secured leverage ratio covenant or other restrictive covenants and we fail to remedy or avoid a default as permitted under the Senior Secured Credit Facility and Term Loan A Facility, there would be an "event of default" under the Senior Secured Credit Facility and Term Loan A Facility.

Other events of default include, without limitation, nonpayment of principal or interest, material misrepresentations, insolvency, bankruptcy, certain material judgments, change of control, and cross-events of default on material indebtedness as well as failure to obtain an unqualified audit opinion by 90 days after the end of any fiscal year. Upon the occurrence of any event of default under the Senior Secured Credit Facility and Term Loan A Facility, the lenders:

- will not be required to lend any additional amounts to us;

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- could elect to declare all borrowings outstanding, together with accrued and unpaid interest and fees, to be immediately due and payable;
- could require us to apply all of our available cash to repay these borrowings; or
- could prevent us from making payments on the Unsecured Notes, any of which could result in an event of default under the indentures governing the Unsecured Notes or our Apple Ridge Funding LLC securitization program.

If we were unable to repay the amounts outstanding under our Senior Secured Credit Facility and Term Loan A Facility, the lenders and holders of such debt under our Senior Secured Credit Facility and Term Loan A Facility could proceed against the collateral granted to secure the Senior Secured Credit Facility and Term Loan A Facility. We have pledged a significant portion of our assets as collateral to secure such indebtedness. If the lenders under our Senior Secured Credit Facility or Term Loan A Facility accelerate the repayment of borrowings, we may not have sufficient assets to repay the Senior Secured Credit Facility and Term Loan A Facility and our other indebtedness or borrow sufficient funds to refinance such indebtedness. In the future, we may need to seek new financing or explore the possibility of amending the terms of our Senior Secured Credit Facility and Term Loan A Facility, and we may not be able to do so on commercially reasonable terms or terms that are acceptable to us, if at all.

In addition, if an event of default is continuing under our Senior Secured Credit Facility, Term Loan A Facility, the indentures governing the Unsecured Notes or our other material indebtedness, such event could cause a termination of our ability to obtain future advances under, and amortization of, our Apple Ridge Funding LLC securitization program.

Variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.

At December 31, 2015, $2,502 million of our borrowings under our Senior Secured Credit Facility and Term Loan A Facility was at variable rates of interest thereby exposing us to interest rate risk. If interest rates increase from their current historically low rates, our debt service obligations on the variable rate indebtedness would increase even if the amount borrowed remained the same, and our net income would decrease. Although we have entered into interest rate swaps involving the exchange of floating for fixed rate interest payments to reduce interest rate volatility for a portion of our variable rate borrowings, such interest rate swaps do not eliminate interest rate volatility for all of our variable rate indebtedness at December 31, 2015.

Restrictive covenants under our Senior Secured Credit Facility, Term Loan A Facility, Unsecured Letter of Credit Facility and indentures may limit the manner in which we operate.

Our Senior Secured Credit Facility, Term Loan A Facility, Unsecured Letter of Credit Facility and the indentures governing the Unsecured Notes contain, and any future indebtedness we may incur may contain, various negative covenants that restrict our ability to, among other things:

- incur or guarantee additional indebtedness, or issue disqualified stock or preferred stock;
- pay dividends or make distributions to our stockholders;
- repurchase or redeem capital stock;
- make investments or acquisitions;
- incur restrictions on the ability of certain of our subsidiaries to pay dividends or to make other payments to us;
- enter into transactions with affiliates;
- create liens;
- merge or consolidate with other companies or transfer all or substantially all of our assets;
- transfer or sell assets, including capital stock of subsidiaries; and
- prepay, redeem or repurchase certain indebtedness.

As a result of these covenants, we are limited in the manner in which we conduct our business and we may be unable to engage in favorable business activities, repurchase shares of our common stock or finance future operations or capital needs.

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Risks Related to an Investment in Our Common Stock

The price of our common stock may fluctuate significantly.

The market price for our common stock could fluctuate significantly for various reasons, many of which are outside our control, including those described above and the following:

- sales of common stock by members of our management team or future sales of substantial amounts of our common stock in the public market, including but not limited to shares we may issue from time to time as consideration for future acquisitions or investments;
- our operating and financial performance and prospects;
- housing and mortgage finance markets;
- the incurrence of additional indebtedness or other adverse changes relating to our debt;
- our quarterly or annual earnings or those of other companies in our industry;
- future announcements concerning our business or our competitors' businesses;
- the public's reaction to our press releases, other public announcements and filings with the SEC;
- changes in earnings estimates or recommendations by sell-side securities analysts who track our common stock or ratings changes or commentary by rating agencies on our debt;
- the timing and amount of share repurchases, if any;
- market and industry perception of our success, or lack thereof, in pursuing our growth strategy;
- strategic actions by us or our competitors, such as acquisitions or restructurings;
- actual or potential changes in laws, regulations and regulatory interpretations;
- changes in demographics relating to housing such as household formation;
- changing consumer attitudes concerning home ownership;
- changes in accounting standards, policies, guidance, interpretations or principles;
- arrival and departure of key personnel;
- adverse resolution of new or pending litigation, arbitration or regulatory proceedings against us; and
- changes in general market, economic and political conditions in the United States and global economies or financial markets, including those resulting from natural disasters, terrorist attacks, acts of war and responses to such events.

These broad market and industry factors may materially reduce the market price of our common stock, regardless of our operating performance. In addition, price volatility may be greater if the public float and trading volume of our common stock is low.

If any of the foregoing occurs, it could cause our stock price to fall and may expose us to litigation, including class action lawsuits that, even if unsuccessful, could be costly to defend and a distraction to management.

Texas insurance laws and regulations may delay or impede purchases of our common stock.

The insurance laws and regulations of Texas, the jurisdiction in which our title insurance underwriter subsidiary is domiciled, generally provide that no person may acquire control, directly or indirectly, of a Texas domiciled insurer, unless the person has provided required information to, and the acquisition is approved or not disapproved by, the Texas Department of Insurance. Generally, any person acquiring beneficial ownership of 10% or more of our voting securities would be presumed to have acquired indirect control of our title insurance underwriter subsidiary unless the Texas Department of Insurance, upon application, determines otherwise. Certain purchasers of our common stock could be subject to approvals from the Texas Department of Insurance which could significantly delay or otherwise impede their ability to complete such purchase.

We have no plans to pay regular dividends on our common stock, so stockholders may not receive funds without selling their common stock.

We have no plans to pay regular dividends on our common stock and anticipate that a significant amount of any free cash flow generated from our operations will be utilized to redeem or prepay outstanding indebtedness and accordingly would not be available for dividends. Any declaration and payment of future dividends to holders of our common stock will

be at the sole discretion of our Board of Directors and will depend on many factors, including our financial condition, earnings, capital requirements, level of indebtedness, statutory and contractual restrictions applying to the payment of dividends and other considerations that our Board of Directors deems relevant.

Certain of our debt instruments contain covenants that restrict the ability of our subsidiaries to pay dividends to us. Furthermore, we will be permitted under the terms of our debt instrument to incur additional indebtedness, which may restrict or prevent us from paying dividends on our common stock. Agreements governing any future indebtedness, in addition to those governing our current indebtedness, may not permit us to pay dividends on our common stock.

Delaware law and our organizational documents may impede or discourage a takeover, which could deprive our investors of the opportunity to receive a premium for their shares.

We are a Delaware corporation, and the anti-takeover provisions of Delaware law impose various impediments to the ability of a third party to acquire control of us, even if a change of control would be beneficial to our existing stockholders. In addition, provisions of our amended and restated certificate of incorporation and amended and restated bylaws may make it more difficult for, or prevent a third party from, acquiring control of us without the approval of our Board of Directors. Among other things, these provisions:

- do not permit cumulative voting in the election of directors, which would otherwise allow less than a majority of stockholders to elect director candidates;
- delegate the sole power to a majority of the Board of Directors to fix the number of directors;
- provide the power to our Board of Directors to fill any vacancy on our Board of Directors, whether such vacancy occurs as a result of an increase in the number of directors or otherwise;
- authorize the issuance of "blank check" preferred stock without any need for action by stockholders;
- eliminate the ability of stockholders to call special meetings of stockholders;
- prohibit stockholders from acting by written consent; and
- establish advance notice requirements for nominations for election to our Board of Directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

The foregoing factors could impede a merger, takeover or other business combination or discourage a potential investor from making a tender offer for our common stock which, under certain circumstances, could reduce the market value of our common stock and our investors' ability to realize any potential change-in-control premium.

We may issue shares of preferred stock in the future, which could make it difficult for another company to acquire us or could otherwise adversely affect holders of our common stock, which could depress the price of our common stock.

Our amended and restated certificate of incorporation authorizes us to issue one or more series of preferred stock. Our Board of Directors will have the authority to determine the preferences, limitations and relative rights of shares of preferred stock and to fix the number of shares constituting any series and the designation of such series, without any further vote or action by our stockholders. Our preferred stock could be issued with voting, liquidation, dividend and other rights superior to the rights of our common stock. The potential issuance of preferred stock may delay or prevent a change in control of us, discouraging bids for our common stock at a premium to the market price, and materially and adversely affect the market price and the voting and other rights of the holders of our common stock.

Our business could be negatively impacted as a result of actions by activist stockholders or others.

Stockholder activism at public companies has been rising and we may be subject to actions or requests—either formal or informal—from activist stockholders or others. Responding to such actions could be costly and time-consuming, may not align with our business strategies and could divert the attention of our Board of Directors and senior management from the pursuit of our business strategies. Perceived uncertainties as to our future direction as a result of stockholder activism may lead to the perception of a change in the direction of the business or other instability and may make it more difficult to attract and retain qualified personnel, independent sales associates and business partners and may affect our relationships with vendors, customers and other third parties. In addition, actions of activist stockholders may cause significant fluctuations of our stock price based on temporary or speculative market perceptions or other factors that do not necessarily reflect the underlying fundamentals and prospects of our business.

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Item 2. Properties.

Corporate headquarters. Our corporate headquarters is located at 175 Park Avenue in Madison, New Jersey with a lease term expiring in December 2029 and consists of approximately 270,000 square feet of space.

Real estate franchise services. Our real estate franchise business conducts its main operations at our leased office at 175 Park Avenue in Madison, New Jersey.

Company owned real estate brokerage services. As of December 31, 2015, our company owned real estate brokerage segment leased approximately 4.9 million square feet of domestic office space under approximately 1,015 leases. Its corporate headquarters and one regional headquarters facility are located in leased offices at 175 Park Avenue, Madison, New Jersey. As of December 31, 2015, NRT leased 7 facilities serving as regional headquarters, 37 facilities serving as local administration, training facilities or storage, and approximately 790 brokerage sales offices under 971 leases. These offices are generally located in shopping centers and small office parks, typically with lease terms of one to five years. Included in the 4.9 million square feet is approximately 105,000 square feet of vacant and/or subleased space, principally relating to brokerage sales office consolidations.

Relocation services. Our relocation business has its main corporate operations in a leased building in Danbury, Connecticut with a lease term expiring in November 2030. There are leased offices in the U.S., located in Lisle, Illinois; Irving, Texas; Omaha, Nebraska; Folsom, California; St. Louis Park, Minnesota; and Bellevue, Washington. International offices include leased facilities in the United Kingdom, Hong Kong, Singapore, China, Brazil, Germany, France, Switzerland, Canada and the Netherlands.

Title and settlement services. Our title and settlement services business conducts its main operations at a leased facility in Mount Laurel, New Jersey, pursuant to a lease expiring in December 2021. As of December 31, 2015, this business also has leased regional and branch offices in 24 states and Washington, D.C.

We believe that all of our properties and facilities are well maintained.

Item 3. Legal Proceedings.

Legal—Real Estate Business

Bararsani v. Coldwell Banker Residential Brokerage Company. On November 15, 2012, plaintiff Ali Bararsani filed a putative class action complaint in Los Angeles Superior Court, California, against Coldwell Banker Residential Brokerage Company ("CBRBC") alleging that CBRBC had misclassified current and former affiliated sales associates as independent contractors when they were actually employees. The Company believes that CBRBC has properly classified the sales associates as independent contractors, would have significant defenses to the claims asserted in this action and continues to operate in a manner consistent with applicable law, and longstanding, widespread industry practice for many decades. To avoid further litigation expense, we entered into a settlement on May 5, 2015. The settlement requires court approval and was accrued for as of June 30, 2015. In entering into this settlement, CBRBC made no admission of wrongdoing or liability, and is not obligated to change its business structures. The court granted final approval of the settlement in January 2016.

Strader and Hall v. PHH Corporation, et al. (U.S. District Court for the Central District of California). This is a purported class action brought by two California residents against 15 defendants, including Realogy and certain of its subsidiaries, PHH Corporation and PHH Home Loans, LLC (a joint venture between Realogy and PHH), alleging violations of Section 8(a) of RESPA. Plaintiffs seek to represent two subclasses comprised of all persons in the United States who, since January 31, 2005, (1) obtained a RESPA-covered mortgage loan from either (a) PHH Home Loans, LLC or one of its subsidiaries, or (b) one of the mortgage services managed by PHH Corporation for other lenders, and (2) paid a fee for title insurance or settlement services to TRG or one of its subsidiaries. Plaintiffs allege, among other things, that PHH Home Loans, LLC operates in violation of RESPA and that the other defendants violate RESPA by referring business to one another under agreements or arrangements that are prohibited by RESPA. Plaintiffs seek treble damages and an award of attorneys' fees, costs and disbursements. On February 5, 2016, the defendants filed a motion to dismiss the case claiming that not only to do the claims lack merit, but they are time-barred under RESPA's one-year statute of limitations. In seeking a dismissal of the case, the defendants assert that the plaintiffs are not entitled to "equitable tolling" or suspension of the statute of limitations because they have failed to prove that (1) they pursued their rights diligently and (2) an extraordinary circumstance outside of their control caused their delay in bringing the action.

The case raises significant and various previously unlitigated claims. As with all class action litigation, the case is inherently complex and subject to many uncertainties. We believe that we and the joint venture have complied with RESPA, the regulations promulgated thereunder and existing regulatory guidance. There can be no assurance, however, that if the action continues and a large class is subsequently certified, the plaintiffs will not seek a substantial damage award, penalties and other remedies. Given the early stage of this case and the novel claims and issues presented, we cannot estimate a range of reasonably potential losses for this litigation. The Company will vigorously defend this action.

The Company is involved in certain other claims and legal actions arising in the ordinary course of our business. Such litigation and other proceedings may include, but are not limited to, actions relating to intellectual property, commercial arrangements, franchising arrangements, actions against our title company alleging it knew or should have known that others were committing mortgage fraud, brokerage disputes like the failure to disclose hidden defects in the property such as mold, other brokerage claims associated with listing information and property history, vicarious liability based upon conduct of individuals or entities outside of our control, including franchisees and independent sales associates, antitrust and anti-competition claims, general fraud claims, employment law claims, including claims challenging the classification of our sales associates as independent contractors, wage and hour classification claims and claims alleging violations of RESPA or state consumer fraud statutes. While the results of such claims and legal actions cannot be predicted with certainty, we do not believe based on information currently available to us that the final outcome of current proceedings against the Company will have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Legal—Cendant Corporate Litigation

Pursuant to the Separation and Distribution Agreement dated as of July 27, 2006 among Cendant, Realogy Group, Wyndham Worldwide and Travelport, each of Realogy Group, Wyndham Worldwide and Travelport have assumed certain contingent and other corporate liabilities (and related costs and expenses), which are primarily related to each of their respective businesses. In addition, Realogy Group has assumed 62.5% and Wyndham Worldwide has assumed 37.5% of certain contingent and other corporate liabilities (and related costs and expenses) of Cendant or its subsidiaries, which are not primarily related to any of the respective businesses of Realogy Group, Wyndham Worldwide, Travelport and/or Cendant’s vehicle rental operations, in each case incurred or allegedly incurred on or prior to the date of the separation of Travelport from Cendant.

* * *

The Company believes that it has adequately accrued for legal matters as appropriate. The Company records litigation accruals for legal matters which are both probable and estimable.

Litigation and other disputes are inherently unpredictable and subject to substantial uncertainties and unfavorable resolutions could occur. In addition, class action lawsuits or regulatory proceedings challenging practices that have broad impact can be costly to defend and, depending on the class size and claims, could be costly to settle. As such, the Company could incur judgments or enter into settlements of claims with liability that are materially in excess of amounts accrued and these settlements could have a material adverse effect on the Company’s financial condition, results of operations or cash flows in any particular period.

Litigation and claims against other participants in the residential real estate industry may impact the Company when the rulings in those cases cover practices common to the broader industry. Examples may include claims associated with RESPA compliance, broker fiduciary duties, and sales agent classification. Similarly, the Company may be impacted by litigation and other claims against companies in other industries. Rulings on matters such as the enforcement of arbitration agreements and worker classification may adversely affect the Company and other residential real estate industry participants as a result of the classification of sales associates as independent contractors, irrespective of the fact that the parties subject to the rulings are in a different industry. There is active worker classification litigation in numerous jurisdictions, including Massachusetts, California, New Jersey and New York, against a variety of industries where the plaintiffs seek to reclassify independent contractors as employees or to challenge the use of federal and state minimum wage and overtime exemptions. To the extent the defendants are unsuccessful in these types of litigation matters, and we or our franchisees cannot distinguish our or their practices (or our industry’s practices), we and our franchisees could face significant liability and could be required to modify certain business relationships, either of which could materially and adversely impact our financial condition and results of operations. There also are changing employment-related regulatory interpretations at both the federal and state levels that could create risks around historic practices and that could require changes in business practices, both for us and our franchisees.

Item 4. Mine Safety Disclosures.

None.

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PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market Price of Common Stock

Our common stock is listed on the New York Stock Exchange ("NYSE") under the symbol "RLGY". As of February 19, 2016, the number of stockholders of record was 25. The following table sets forth the quarterly high and low sales prices per share of RLGY common stock as reported by the NYSE, for the years ended December 31, 2014 and 2015:

2014	High	Low
First Quarter	$51.35	$43.05
Second Quarter	$45.04	$34.77
Third Quarter	$41.86	$35.99
Fourth Quarter	$46.94	$32.91

2015	High	Low
First Quarter	$49.32	$42.23
Second Quarter	$49.69	$44.80
Third Quarter	$49.75	$36.97
Fourth Quarter	$43.51	$35.96

Dividend Policy

We do not currently anticipate paying dividends on our common stock. Any declaration and payment of future dividends to holders of our common stock will be at the discretion of our Board of Directors and will depend on many factors, including our financial condition, earnings, cash flows, capital requirements, level of indebtedness, statutory and contractual restrictions applicable to the payment of dividends and other considerations that our Board of Directors deems relevant. See "Item 1A.—Risk Factors—Risks Related to an Investment in Our Common Stock—We have no plans to pay regular dividends on our common stock, so stockholders may not receive funds without selling their common stock." Because Realogy Holdings is a holding company and has no direct operations, we will only be able to pay dividends from our available cash on hand and any funds we receive from our subsidiaries. The terms of our indebtedness restrict our subsidiaries from paying dividends to us. Our title insurance underwriter is subject to regulations that limit its ability to pay dividends or make loans or advances to us, principally to protect policyholders. Under Delaware law, dividends may be payable only out of surplus, which is our net assets minus our liabilities and our capital or, if we have no surplus, out of our net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. As a result, we may not pay dividends according to our policy or at all if, among other things, we do not have sufficient cash to pay the intended dividends, if our financial performance does not achieve expected results or the terms of our indebtedness prohibit it.

Share Repurchase Program

On February 24, 2016 the Company announced that its Board of Directors authorized a share repurchase program of up to $275 million of the company’s common stock. Repurchases may be made at management's discretion from time to time on the open market or through privately negotiated transactions. The size and timing of these repurchases will depend on price, market and economic conditions, legal and contractual requirements and other factors. The repurchase program has no time limit and may be suspended or discontinued at any time. The Company had approximately 146.7 million shares of common stock outstanding as of December 31, 2015.

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Stock Performance Graph

The stock performance graph set forth below is not deemed filed with the Securities and Exchange Commission and shall not be deemed incorporated by reference into any of our prior or future filings made with the Securities and Exchange Commission.

The following graph compares Realogy's cumulative total shareholder return with the cumulative total return of the S&P 500 index and the S&P Home Builders Select Industry Index or XHB Index. We have included the XHB Index because it provides a diversified group of holdings representing home building, building products, home furnishings and home appliances, which we believe correlate with the housing industry as a whole. A portion of our 2015 long-term incentive compensation awards are also tied to the relative performance of our total stockholder return to that index over the three-year period ending December 31, 2017. The cumulative total shareholder return for the index as well as the XHB Index includes the reinvestment of dividends. Last year, we included a Company constructed peer group of real estate and franchise companies and have retained that peer group in the chart below for comparability. The graph assumes that the value of the investment in the Company's common shares, the index and the peer group was $100 on October 11, 2012 and updates the value through December 31, 2015.

Cumulative Total Return

	October 11, 2012	December 31, 2012	December 31, 2013	December 31, 2014	December 31, 2015
Realogy Holdings Corp.	$100.00	$122.69	$144.65	$130.09	$107.22
SPDR S&P Homebuilders ETF (XHB) index	$100.00	$107.42	$117.51	$130.94	$142.13
S&P 500	$100.00	$100.07	$132.48	$150.62	$152.70
Other real estate related and franchise companies (a)	$100.00	$103.53	$140.87	$181.09	$182.55

(a) Other real estate related and franchise companies include H&R Block, G&K Services, Cintas, CBRE Group, Jones Lang LaSalle, HFF, Marriott, Intercontinental Hotels Group, Weight Watchers, Dunkin' Brands Group, Domino's Pizza, Rollins and Choice Hotels.

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Item 6. Selected Financial Data.

The following table presents our selected historical consolidated financial data and operating statistics. The consolidated statement of operations data for the years ended December 31, 2015, 2014, and 2013 and the consolidated balance sheet data as of December 31, 2015 and 2014 have been derived from our audited consolidated financial statements included elsewhere herein. The statement of operations data for the year ended December 31, 2012 and 2011 and the consolidated balance sheet data as of December 31, 2013, 2012 and 2011 have been derived from our consolidated financial statements not included elsewhere herein, which have been recast for the change in method of accounting for the presentation of debt issuance costs and the balance sheet classification of deferred taxes due to the adoptions of ASU - Simplifying the Presentation of Debt Issuance Costs and ASU - Balance Sheet Classification of Deferred Taxes in 2015.

Neither Realogy Holdings, the indirect parent of Realogy Group, nor Realogy Intermediate, the direct parent company of Realogy Group, conducts any operations other than with respect to its respective direct or indirect ownership of Realogy Group. As a result, the consolidated financial positions and results of operations of Realogy Holdings, Realogy Intermediate and Realogy Group are the same.

The selected historical consolidated financial data and operating statistics presented below should be read in conjunction with our annual consolidated financial statements and accompanying notes and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included elsewhere herein. Our annual consolidated financial information may not be indicative of our future performance.

	As of or for the Year Ended December 31,				
	2015	2014	2013	2012	2011
	(In millions, except per share data and operating statistics)				
Statement of Operations Data:					
Net revenue	$5,706	$5,328	$5,289	$4,672	$4,093
Total expenses	5,424	5,103	5,114	5,235	4,526
Income (loss) before income taxes, equity in earnings and noncontrolling interests	282	225	175	(563)	(433)
Income tax expense (benefit) (a)	110	87	(242)	39	32
Equity in earnings of unconsolidated entities	(16)	(9)	(26)	(62)	(26)
Net income (loss)	188	147	443	(540)	(439)
Less: Net income attributable to noncontrolling interests	(4)	(4)	(5)	(3)	(2)
Net income (loss) attributable to Realogy Holdings and Realogy Group	$184	$143	$438	$(543)	$(441)
Earnings (loss) per share attributable to Realogy Holdings:					
Basic earnings (loss) per share	$1.26	$0.98	$3.01	$(14.41)	$(55.01)
Diluted earnings (loss) per share	$1.24	$0.97	$2.99	$(14.41)	$(55.01)
Weighted average common and common equivalent shares used in:					
Basic	146.5	146.0	145.4	37.7	8.0
Diluted	148.1	147.2	146.6	37.7	8.0
Balance Sheet Data:					
Cash and cash equivalents	$415	$313	$236	$376	$143
Securitization assets (b)	281	286	268	299	357
Total assets (c)	7,531	7,304	7,092	7,350	7,229
Securitization obligations	247	269	252	261	327
Long-term debt, including short-term portion (c)	3,702	3,855	3,857	4,325	7,096

Equity (deficit)	2,422	2,183	2,013	1,519	(1,499)

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	For the Year Ended December 31,				
	2015	2014	2013	2012	2011
Operating Statistics:					
Real Estate Franchise Services (d) (e)					
Closed homesale sides (f)	1,101,333	1,065,339	1,083,424	988,624	909,610
Average homesale price (g)	$263,894	$250,214	$233,011	$213,575	$198,268
Average homesale brokerage commission rate (h)	2.51 %	2.52 %	2.54 %	2.54 %	2.55 %
Net effective royalty rate (i)	4.48 %	4.49 %	4.49 %	4.63 %	4.84 %
Royalty per side (j)	$309	$296	$276	$262	$256
Company Owned Real Estate Brokerage Services (e) (k)					
Closed homesale sides (f)	336,744	308,332	316,640	289,409	254,522
Average homesale price (g)	$489,673	$500,589	$471,144	$444,638	$426,402
Average homesale brokerage commission rate (h)	2.46 %	2.47 %	2.50 %	2.49 %	2.50 %
Gross commission income per side (l)	$12,730	$13,072	$12,459	$11,826	$11,461
Relocation Services					
Initiations (m)	167,749	171,210	165,705	158,162	153,269
Referrals (n)	99,531	96,755	91,373	79,327	72,169
Title and Settlement Services					
Purchasing title and closing units (o)	130,541	113,074	115,572	105,156	93,245
Refinance title and closing units (p)	38,544	27,529	76,196	89,220	62,850
Average fee per closing unit (q)	$1,861	$1,780	$1,504	$1,362	$1,409

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(a) For the year ended December 31, 2013, the Company recorded an income tax benefit of $242 million which was primarily due to a $341 million release of the domestic deferred tax valuation allowance, partially offset by income taxes for 2013 income.

(b) Represents the portion of relocation receivables and advances and other related assets that collateralize our securitization obligations. Refer to Note 8, "Short and Long-Term Debt" in the consolidated financial statements for further information.

(c) Total assets and Long-term debt for 2014 and prior periods are restated to reflect the retrospective adoption of Accounting Standards Updates "Simplifying the Presentation of Debt Issuance Costs" and "Balance Sheet Classification of Deferred Taxes" issued by the Financial Accounting Standards Board in 2015. See Note 2, "Summary of Significant Accounting Policies" in the consolidated financial statements for additional information on the early adoption of these standards.

(d) These amounts include only those relating to third-party franchisees and do not include amounts relating to the Company Owned Real Estate Brokerage Services segment.

(e) In April 2015, the Company Owned Real Estate Brokerage Services segment acquired Coldwell Banker United, a large franchisee of the Real Estate Franchise Services segment. As a result of the acquisition, the drivers of the acquired entity shifted from the Real Estate Franchise Services segment to the Company Owned Real Estate Brokerage Services segment. Closed homesale sides for the Company Owned Real Estate Brokerage segment included 16,746 sides related to the acquisition of Coldwell Banker United in 2015.

(f) A closed homesale side represents either the "buy" side or the "sell" side of a homesale transaction.

(g) Represents the average selling price of closed homesale transactions.

(h) Represents the average commission rate earned on either the "buy" side or "sell" side of a homesale transaction.

(i) Represents the average percentage of our franchisees’ commission revenue (excluding NRT) paid to the Real Estate Franchise Services segment as a royalty, net of volume incentives achieved. The net effective royalty rate does not include the effect of non-standard incentives granted to some franchisees. Royalty fees are charged to all franchisees pursuant to the terms of the relevant franchise agreements and are included in each of the real estate brands' franchise disclosure documents. Non-standard incentives may be used as consideration for new or renewing franchisees. Most of our franchisees do not receive these non-standard incentives and in contrast to royalties and volume incentives they are not homesale transaction based. We have accordingly excluded the non-standard incentives from the calculation of the net effective royalty rate. Had these non-standard incentives been included, the net effective royalty rate would be lower by approximately 21, 18, 16, 16 and 16 basis points for the years ended December 31, 2015, 2014, 2013, 2012 and 2011 respectively.

(j) Represents net domestic royalties earned from our franchisees (excluding NRT) divided by the total number of our franchisees’ closed homesale sides.

(k) Our real estate brokerage business has a significant concentration of offices and transactions in geographic regions where home prices are at the higher end of the U.S. real estate market, particularly the east and west coasts. The real estate franchise business has franchised offices that are more widely dispersed across the United States than our real estate brokerage operations. Accordingly, operating results and homesale statistics may differ between our brokerage and franchise businesses based upon geographic presence and the corresponding homesale activity in each geographic region.

(l) Represents gross commission income divided by closed homesale sides. Gross commission income includes commissions earned in homesale transactions and certain other activities, primarily leasing and property management transactions.

(m) Represents the total number of transferees and affinity members served by the relocation services business.

(n) Represents the number of referrals from which we earned revenue from real estate brokers.

(o) Represents the number of title and closing units processed as a result of home purchases. The amount presented for the year ended December 31, 2015 includes 13,304 purchase units as a result of the acquisition of Independence Title on July 1, 2015.

(p) Represents the number of title and closing units processed as a result of homeowners refinancing their home loans. The amount presented for the year ended December 31, 2015 includes 3,403 refinance units as a result of the acquisition of Independence Title on July 1, 2015.

(q) Represents the average fee we earn on purchase title and refinancing title units.

In presenting the financial data above in conformity with general accepted accounting principles, we are required to make estimates and assumptions that affect the amounts reported. See "Item 7.—Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies" for a detailed discussion of the accounting policies that we believe require subjective and complex judgments that could potentially affect reported results.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis should be read in conjunction with our consolidated financial statements and accompanying notes thereto included elsewhere herein. Unless otherwise noted, all dollar amounts in tables are in millions. This Management's Discussion and Analysis of Financial Condition and Results of Operations contain forward-looking statements. See "Forward-Looking Statements" and "Item 1A.—Risk Factors" for a discussion of the uncertainties, risks and assumptions associated with these statements. Actual results may differ materially from those contained in any forward-looking statements.

OVERVIEW

We are a global provider of real estate and relocation services and report our operations in the following four segments:

- Real Estate Franchise Services (known as Realogy Franchise Group or RFG)—franchises the Century 21®, Coldwell Banker®, Coldwell Banker Commercial®, ERA®, Sotheby's International Realty® and Better Homes and Gardens® Real Estate brand names. As of December 31, 2015, our franchise systems had approximately 13,600 franchised and company owned offices and approximately 256,800 independent sales associates operating under our franchise and proprietary brands in the U.S. and 109 other countries and territories around the world. We franchise our real estate brokerage franchise systems to real estate brokerage businesses that are independently owned and operated. We provide a license to use the brand names and provide certain systems, programs and tools that are designed to help our franchisees serve their customers and attract new or retain existing independent sales associates. Such systems and tools include national and local marketing programs, listing and agent affiliation tools as well as technology, education and purchasing discounts through our preferred vendor programs. Franchise revenue principally consists of royalty and marketing fees from our franchisees. In addition to royalties received from our independently owned franchisees, our Company Owned Real Estate Brokerage Services segment pays royalties to RFG. The royalty received is primarily based on a percentage of the franchisee's gross commission income. Royalty fees are accrued as the underlying franchisee revenue is earned (upon closing of the homesale transaction). Annual volume incentives given to certain franchisees on royalty fees are recorded as a reduction to revenue and are accrued for in relative proportion to the recognition of the underlying gross franchise revenue. In the U.S. and generally in Canada, we employ a direct franchising model whereby we contract with and provide services directly to independent owner-operators. In other parts of the world, we employ either a master franchise model, whereby we contract with a qualified, experienced third party to build a franchise enterprise in such third party's country or region or a direct franchising model in the case of Sotheby's International Realty. Under the master franchise model, we typically enter into long-term franchise agreements (often 25 years in duration) and receive an initial area development fee and ongoing royalties. In August 2014, we acquired ZipRealty, an innovative residential real estate brokerage and developer of proprietary technology platforms for real estate brokerages, independent sales associates and customers. During 2015, we rolled out ZipRealty's comprehensive, integrated ZAP℠ technology platform to approximately 390 of our approximately 2,700 franchisees and, consistent with our previously disclosed plan, anticipate rolling this product out to a broader franchisee base over the next two years. We believe the ZAP technology platform will increase the value proposition to our franchisees, their independent sales associates and their customers.

- Company Owned Real Estate Brokerage Services (known as NRT)—operates a full-service real estate brokerage business principally under the Coldwell Banker®, Corcoran®, Sotheby's International Realty®, Citi Habitats℠ and ZipRealty® brand names with approximately 47,000 independent sales associates. As an owner-operator of real estate brokerages, we assist home buyers and sellers in listing, marketing, selling and finding homes. We earn commissions for these services recorded upon the closing of a real estate transaction (i.e., purchase or sale of a home), which we refer to as gross commission income. We then pay commissions to independent real estate agents that are recognized concurrently with the associated revenues. NRT also has relationships with developers, primarily in major cities, to provide marketing and brokerage services in new developments. In addition, we participate in the mortgage process through our 49.9% ownership of PHH Home Loans, our home mortgage venture with PHH. PHH Home Loans is the exclusive recommended provider of mortgages for our real estate brokerage and relocation service customers (unless exclusivity is waived by PHH). To complement its residential brokerage services, NRT offers home ownership services that include comprehensive single-family residential property management in many of the nation's largest rental markets.
- Relocation Services (known as Cartus®)—primarily offers clients employee relocation services such as homesale assistance, providing home equity advances to transferees (generally guaranteed by the client), home finding and other destination services, expense processing, relocation policy counseling and consulting services, arranging household goods moving services, coordinating visa and immigration support, intercultural and language training and group move management services. We provide these relocation services to corporate clients for the transfer of their employees. In addition, we provide home buying and selling assistance to members of affinity clients. We earn revenues from fees charged to clients for the performance and/or facilitation of these services and recognize such revenue as services are provided. In the majority of relocation transactions, the gain or loss on the sale of a transferee's home is generally borne by the client. For all homesale transactions, the value paid to the transferee is either based on the value per the underlying third-party buyer contract with the transferee, which results in no gain or loss, or the appraised value as determined by independent appraisers. We earn referral commission's revenue from real estate brokers and other third-party service providers. We recognize such fees from real estate brokers at the time the underlying property closes. For services where we pay a third-party provider on behalf of our clients, we generally earn a referral commission, which is recognized at the time of completion of services. In addition, we generally earn interest income on the funds we advance on behalf of the transferring employee, typically based on prime rate or London Interbank Offer Rate ("LIBOR") and recorded within other revenue (as is the corresponding interest expense on the securitization borrowings) in the Consolidated Statement of Operations.
- Title and Settlement Services (known as Title Resource Group or TRG)—provides full-service title and settlement services to real estate companies, affinity groups, corporations and financial institutions with many of these services provided in connection with the Company's real estate brokerage and relocation services business. We provide title and closing services (also known as settlement services), which include title search procedures for title insurance policies, homesale escrow and other closing services. Title revenues, which are recorded net of amounts remitted to third-party insurance underwriters, and title and closing service fees are recorded at the time a homesale transaction or refinancing closes. We provide many of these services to third-party clients in connection with transactions generated by our Company Owned Real Estate Brokerage and Relocation Services segments as well as various financial institutions in the mortgage lending industry. We also serve as an underwriter of title insurance policies in connection with residential and commercial real estate transactions.

RECENT DEVELOPMENTS

On February 24, 2016, the Company announced that its Board of Directors authorized a share repurchase program of up to $275 million of the company's common stock. Repurchases may be made at management's discretion from time

to time on the open market or through privately negotiated transactions. The size and timing of these repurchases will depend on price, market and economic conditions, legal and contractual requirements and other factors. The repurchase program has no time limit and may be suspended or discontinued at any time. The Company had approximately 146.7 million shares of common stock outstanding as of December 31, 2015.
During the fourth quarter of 2015, the Company implemented a business optimization initiative that focuses on maximizing the efficiency and effectiveness of the cost structure of each of the Company's business units. The action is

designed to improve client service levels across each of the business units while enhancing the Company's profitability and incremental margins. The plan focuses on several key areas of opportunity which include process improvement efficiencies, office footprint optimization, leveraging technology and media spend, centralized procurement and organizational design. Total expected restructuring costs of approximately $37 million are currently anticipated to be incurred through the end of 2016. Cost savings related to the restructuring initiatives are estimated to be approximately $40 million on an annual run rate basis and are anticipated to offset some or all of our inflation-related annual cost increases.

In October 2015, Realogy Group amended its Revolving Credit Facility and entered into a new Term Loan A Agreement. The amendment to its Revolving Credit Facility increased the borrowing capacity from $475 million to $815 million and extended its maturity date from March 2018 to October 2020. The Term Loan A Facility was issued in the amount of $435 million with a maturity date of October 2020. The Company used the net proceeds from the Term Loan A Facility and revolver borrowings to redeem all of the outstanding $593 million of First Lien Notes and pay related premiums and accrued interest of $45 million. Additionally, on November 30, 2015, with cash on hand and revolver borrowings, the Company redeemed all of the outstanding $196 million of First and a Half Lien Notes and paid related premiums and accrued interest of $17 million.

CURRENT INDUSTRY TRENDS

Commencing in the second half of 2005 and continuing through 2011, the U.S. residential real estate industry was in a significant and lengthy downturn. Based upon data published by NAR from 2005 to 2011, the number of annual U.S. existing homesale units declined by 40% and the median existing homesale price declined by 24%.

Beginning in 2012, the U.S. residential real estate industry began its current recovery. According to NAR, in the first two years of the current housing recovery—2012 and 2013—homesale transaction volume (average homesale price multiplied by homesale transactions) improved 15% and 19%, respectively, and the industry experienced significant refinancing activity. We believe that the improvement in 2012 and 2013 was driven by high affordability of home ownership and demand that built up during an extended period of economic uncertainty, as well as historically low mortgage rates and lower home inventory levels leading to increases in homesale prices.

During 2014, homesale transaction volume growth slowed to 1% compared to 2013 according to NAR. The homesale transaction volume gain in 2014 was primarily driven by increasing average home prices, while the number of homesale transactions in 2014 declined year-over-year due to higher mortgage rates and affordability concerns.

During 2015, we experienced an increase in homesale transaction volume of 8% primarily due to higher volume at the $100,000 to $500,000 price range of the housing market while volume growth at the high-end was somewhat muted, which negatively impacted NRT. In 2014, NRT benefited from an increase in volume in certain high-priced markets such as New York City and San Francisco. In 2015, we saw a moderation of these markets in resale units as they returned to a more normalized trend and NRT experienced a shift in the mix of homesale transactions from these high-priced markets to low and mid-priced markets in the geographic footprint served by NRT. In addition, NRT continued to experience inventory constraints in several markets which led to a more modest level of organic growth.

Beginning on October 3, 2015, CFPB's rule, known as TILA-RESPA Integrated Disclosure ("TRID"), became effective for new loan applications. TRID integrates certain mortgage disclosure forms and outlines new requirements related to the closing of certain real estate transactions, including mandating the use of a new closing disclosure to be delivered three business days before closing of the loan. The new regulations have caused closing delays throughout the industry, including at Realogy for both its company-owned and franchised operations. The National Association of Realtors NAR Economists' Outlook report published on December 22, 2015 reported that the time from contract-to-close for U.S. homesales rose to an average of 40.5 days in November of 2015 from 35.9 in November of 2014, a 12.8% increase (4.6 days).

According to NAR, the inventory of existing homes for sale in the U.S. was 1.8 million and 1.9 million homes at the end of December 2015 and December 2014, respectively. The December 2015 inventory represents a national average supply of 3.9 months at the current homesales pace which is below the 6.3 month 25-year average.

As reported by NAR, the housing affordability index has continued to be at historically favorable levels. An index above 100 signifies that a family earning the median income has sufficient income to purchase a median-priced home, assuming a 20 percent down payment and ability to qualify for a mortgage. The composite housing affordability index was 164 for 2015, 166 for 2014 and 177 for 2013. The housing affordability index, which has declined since 2013, remains significantly higher than the average of 117 for the period from 1970 through 2005.

Mortgage rates continue to be at low levels by historical standards, which we believe has helped stimulate demand in the residential real estate market. According to Freddie Mac, mortgage rates on commitments for a 30-year, conventional, fixed-rate first mortgage averaged 6.5% for 2000 to 2005, 5.7% for 2006 to 2010 and 4.1% for 2011 through 2014. While the average mortgage rate increased during 2014 to an annual average of 4.2%, the average mortgage rate for 2015 was 3.9%. In addition, consumers also have financing alternatives such as adjustable rate mortgages which can be utilized to obtain a lower mortgage rate than a 30-year fixed-rate mortgage.

Partially offsetting the positive impact of low mortgage rates are low housing inventory levels and the ongoing rise in home prices, conservative mortgage underwriting standards, increased down payment requirements and certain homeowners having limited or negative equity in homes. Mortgage credit conditions tightened significantly during the recent housing downturn, with banks limiting credit availability to more creditworthy borrowers and requiring larger down payments, stricter appraisal standards, and more extensive mortgage documentation. Although mortgage credit conditions appear to be easing, mortgages remain less available to some borrowers and it frequently takes longer to close a homesale transaction due to current mortgage and underwriting requirements.

Mortgage refinancing activity declined significantly in 2014 compared to levels experienced in 2013 and 2012. According to Fannie Mae, in 2012, refinancing originations totaled $1,540 billion and decreased to $1,123 billion in 2013. In 2014, refinancing originations significantly declined further to $518 billion resulting in a 54% decline from 2013 levels. The reduction in refinancing activity in 2014 adversely impacted our share of earnings from our PHH Home Loans venture as well as refinancing related revenue and profitability at TRG. According to Fannie Mae, in 2015, refinancing originations totaled $795 billion resulting in a 53% increase from 2014 due to lower mortgage rates. These lower rates positively impacted our share of earnings from our PHH Home Loans venture, as well as refinancing related revenue at TRG in 2015.

RESPA has become a greater challenge in recent years for most industry participants offering settlement services, including mortgage companies, title companies and brokerages, because of changes in the regulatory environment. With the passage of Dodd-Frank in 2010, primary responsibility for enforcement of RESPA has shifted to the CFPB. The CFPB has taken a much stricter approach toward interpretation of RESPA and related regulations than the prior regulatory authority (the Department of Housing and Urban Development) and has significantly increased the use of enforcement proceedings. In the face of this changing regulatory landscape, various industry participants, while disagreeing with the CFPB's narrow interpretation of RESPA, have nevertheless decided to modify or terminate long-standing business arrangements to avoid the risk of protracted and costly litigation defending such arrangements. While we have made, and anticipate making, changes to our RESPA-related business practices, we do not expect these changes to have a material impact on our operations. Beyond the CFPB enforcement practices, the new practices have triggered private RESPA litigation, including an action recently filed against us, our joint venture and PHH that is described under "Item 3.—Legal Proceedings."

Existing Homesales

According to NAR, existing homesale transactions for 2015 increased to 5.3 million homes or up 6% compared to 2014. For the year ended December 31, 2015, RFG and NRT homesale transactions increased 3% and 9%, respectively.

As a result of the acquisition of Coldwell Banker United in the second quarter of 2015, the Coldwell Banker United homesale transactions shifted from RFG to NRT. Closed homesale sides, including Coldwell Banker United, would have resulted in an increase in homesale transactions for RFG of 5% for the year ended December 31, 2015 compared to 2014. The 9% increase in homesale transactions for NRT for the year ended December 31, 2015 reflects 7 percentage points due to the inclusion of transactions from acquisitions with an individual purchase price of over $20 million (ZipRealty brokerage operations and Coldwell Banker United acquisitions). In addition, there were inventory constraints in several of NRT's higher priced markets which caused homesale transactions in those markets to decline or be flat versus last year.

We believe that the fourth quarter homesale transaction sides throughout the industry as well as for both RFG and NRT were impacted by transaction closing delays due to the implementation of TRID in early October, which began to delay transaction closings from mid-November through the end of the year. We further believe that most if not all of these delayed transactions will close in 2016, and that the TRID implementation is a timing issue, rather than a change to homebuyer activity, although the time needed to close a transaction may not revert to pre-TRID levels in 2016.

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The annual and quarterly year-over-year trends in homesale transactions are as follows:

Number of Existing Homesales	2013 vs. 2012	2014 vs. 2013	2015 vs. 2014
Industry			
NAR (a)	9 %	(3)%	6 %
Fannie Mae (b)	9 %	(3)%	6 %
Realogy			
RFG	10 %	(2)%	3 %(c)
NRT	9 %	(3)%	9 %(d)

Number of Existing Homesales	2015 vs. 2014 First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Industry				
NAR (a)	7 %	8 %	8 %	2 %
Fannie Mae (b)	6 %	8 %	8 %	2 %
Realogy				
RFG	4 %	5 %(c)	4 %(c)	1 %(c)
NRT	6 %	13 %(d)	12 %(d)	4 %(d)

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(a) Historical existing homesale data is as of the most recent NAR press release, which is subject to sampling error.

(b) Existing homesale data, on a seasonally adjusted basis, is as of the most recent Fannie Mae press release.

(c) As a result of the acquisition of Coldwell Banker United, the Coldwell Banker United drivers shifted from RFG to NRT. Closed homesale sides for RFG, including the drivers of Coldwell Banker United, would have increased 5% for the year ended December 31, 2015 compared to 2014 and would have increased 7%, 6% and 2% for the second, third and fourth quarter of 2015, respectively, compared to 2014.

(d) Closed homesale sides for NRT, excluding the impact of larger acquisitions with an individual purchase price greater than $20 million, would have increased 2% for the year ended December 31, 2015 compared to 2014 and would have increased 4%, increased 3% and decreased 2% for the second, third and fourth quarter of 2015, respectively, compared to 2014.

As of their most recent releases, NAR is forecasting existing homesales to increase 2% in 2016 compared to 2015 while Fannie Mae is forecasting an increase in existing homesale transactions of 3% for 2016 compared to 2015. In addition, NAR and Fannie Mae are forecasting an increase of 4% and 2% in existing homesale transactions for 2017 compared to 2016, respectively.

Existing Homesale Price

In 2015, the percentage change in the average price of homes brokered by RFG and NRT increased 5% and decreased 2%, respectively, compared to 2014. For the year ended December 31, 2015 compared to 2014, NAR existing homesale average price increased 4%, while RFG and NRT average homesale price on a combined basis increased 3%. The decrease in average sales price for NRT for 2015 was due to (i) the impact of larger acquisitions (those with an individual purchase price in excess of $20 million) completed during or after the third quarter of 2014, which have substantially lower average homesales prices than NRT's core operations and (ii) a modest shift in mix in transactions from high-priced markets to low and mid-priced markets in the geographic footprint served by NRT. Excluding the impact of (i) above, NRT's average homesale price would have increased 1% year-over-year in 2015 compared to 2014.

The annual and quarterly year-over-year trends in the price of homes are as follows:

Price of Existing Homes	2013 vs. 2012	2014 vs. 2013	2015 vs. 2014
Industry			
NAR (a)	9 %	4 %	4 %

Fannie Mae (b)	11 %	6 %	6 %
Realogy			
RFG	9 %	7 %	5 % (c)
NRT	6 %	6 %	(2)% (d)

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Price of Existing Homes	2015 vs. 2014 First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Industry				
NAR (a)	4 %	5 %	3 %	4 %
Fannie Mae (b)	6 %	8 %	5 %	6 %
Realogy				
RFG	6 %	5 % (c)	5 % (c)	6 % (c)
NRT	3 %	(4)% (d)	(4 %) (d)	(2)% (d)

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(a) Historical homesale price data is for existing homesale average price and is as of the most recent NAR press release.

(b) Existing homesale price data is for median price and is as of the most recent Fannie Mae press release.

(c) The acquisition of Coldwell Banker United by NRT did not have a significant impact on the average homesale price for RFG.

(d) Average homesale price for NRT, excluding the impact of larger acquisitions with an individual purchase price greater than $20 million, would have increased 1% for the year ended December 31, 2015 compared to 2014, would have remained flat for both the second and third quarters of 2015 compared to 2014 and would have increased 1% for the fourth quarter of 2015 compared to 2014.

As of their most recent releases, NAR is forecasting a 4% increase in the 2016 median existing homesale price compared to 2015 while Fannie Mae is forecasting a 5% increase in the 2016 median existing homesale price compared to 2015. For 2017, NAR and Fannie Mae are both forecasting an increase of 4% in median existing homesale price compared to 2016.

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We believe that long-term demand for housing and the growth of our industry are primarily driven by the affordability of housing, the economic health of the U.S. economy, positive demographic trends such as population growth, the increase in household formation, mortgage rate levels and mortgage availability, job growth, the inherent attributes of homeownership versus renting and the influence of local housing dynamics of supply versus demand. At this time, these factors are generally trending favorably. Factors that may negatively affect a sustained housing recovery include:

- higher mortgage rates due to increases in long-term interest rates as well as reduced availability of mortgage financing;
- insufficient inventory levels leading to lower unit sales;
- changing attitudes towards home ownership, particularly among potential first-time homebuyers who may delay, or decide not to, purchase homes;
- the impact of limited or negative equity of current homeowners, as well as the lack of available inventory may limit their proclivity to purchase an alternative home;
- reduced affordability of homes;
- high levels of unemployment and associated lack of consumer confidence;
- unsustainable economic recovery in the U.S. or a weak recovery resulting in only modest economic growth;
- a decline in home ownership levels in the U.S.;
- geopolitical and economic instability; and
- legislative or regulatory reform, including but not limited to reform that adversely impacts the financing of the U.S. housing market or amends the Internal Revenue Code in a manner that negatively impacts home ownership such as reform that reduces the amount that certain taxpayers would be allowed to deduct for home mortgage interest.

Many of the trends impacting our businesses that derive revenue from homesales also impact Cartus, which is a global provider of outsourced employee relocation services. In addition to general residential housing trends, key drivers of Cartus are global corporate spending on relocation services, which has not returned to levels that existed prior to the most recent recession, as well as employment relocation trends. Cartus is subject to a competitive pricing environment and lower average revenue per relocation as a result of a shift in the mix of services and number of services being delivered per move. These factors have and may continue to put pressure on the growth and profitability of this segment.

* * *

While data provided by NAR and Fannie Mae are two indicators of the direction of the residential housing market, we believe that homesale statistics will continue to vary between us and NAR and Fannie Mae because:

- they use survey data and estimates in their historical reports and forecasting models, which are subject to sampling error, whereas we use data based on actual reported results;
- there are geographical differences and concentrations in the markets in which we operate versus the national market. For example, many of our company owned brokerage offices are geographically located where average homesale prices are generally higher than the national average and therefore NAR survey data will not correlate with NRT's results;
- comparability is also impaired due to NAR's utilization of seasonally adjusted annualized rates whereas we report actual period-over-period changes and their use of median price for their forecasts compared to our average price;
- NAR historical data is subject to periodic review and revision and these revisions have been and could be material in the future; and
- NAR and Fannie Mae generally update their forecasts on a monthly basis and a subsequent forecast may change materially from a forecast that was previously issued.

While we believe that the industry data presented herein is derived from the most widely recognized sources for reporting U.S. residential housing market statistical data, we do not endorse or suggest reliance on this data alone. We also note that forecasts are inherently uncertain or speculative in nature and actual results for any period could materially differ.

KEY DRIVERS OF OUR BUSINESSES

Within RFG and NRT, we measure operating performance using the following key operating statistics: (i) closed homesale sides, which represents either the "buy" side or the "sell" side of a homesale transaction, (ii) average homesale price, which represents the average selling price of closed homesale transactions, (iii) average homesale broker commission rate, which represents the average commission rate earned on either the "buy" side or "sell" side of a homesale transaction and (iv) net effective royalty rate, which represents the average percentage of our franchisees' commission revenues payable to RFG, net of volume incentives achieved.

From 2007 through December 2013, the average homesale broker commission rate remained fairly stable; however, in 2014 and 2015 we experienced a modest decline in the average broker commission rate. We expect that over the long term the average brokerage commission rates could modestly decline as a result of increases in average homesale prices. This is particularly relevant in periods when there is constrained housing inventory. A continuing housing recovery should result in an increase in our revenues, although such increases could be offset by modestly declining brokerage commissions.

In general, most of our third-party franchisees are entitled to volume incentives which are calculated for each franchisee as a progressive percentage of each franchisee's annual gross revenues. These incentives decrease during times of declining homesale transaction volumes and increase during market recoveries when there is a corresponding increase in homesale transaction volume. As a result, the net effective royalty rate may be impacted by the cyclical residential housing market. From 2009 to 2013, the net effective royalty rate declined due to several factors including a consolidation of distressed franchisees into viable affiliates and company owned operations, the termination of certain franchisees that generally were not sizable enough to earn significant rebates and, in 2012 and 2013, an increase in overall homesale transactions. In 2014, the net effective royalty rate remained at the 2013 level and in 2015 the net effective royalty rate decreased modestly compared to 2014. We expect that over the long term the net effective royalty rate will modestly decline as a result of increases in homesale transaction volume.

Royalty fees are charged to all franchisees pursuant to the terms of the relevant franchise agreements and are included in each of the real estate brands' franchise disclosure documents. Non-standard incentives may be used as consideration for new or renewing franchisees. Most of our franchisees do not receive these non-standard incentives and, in contrast to royalties and volume incentives, they are not homesale transaction based. We have accordingly excluded the non-standard incentives from the calculation of the net effective royalty rate. Had these non-standard incentives been included, the net effective royalty rate would be lower by approximately 21, 18 and 16 basis points for the years ended December 31, 2015, 2014 and 2013, respectively.

NRT has a significant concentration of real estate brokerage offices and transactions in geographic regions where home prices are at the higher end of the U.S. real estate market, particularly the east and west coasts, while RFG has franchised offices that are more widely dispersed across the United States. Accordingly, operating results and homesale statistics may differ between NRT and RFG based upon geographic presence and the corresponding homesale activity in each geographic region. In addition, the share of commissions earned by sales associates directly impacts the margin earned by NRT. Such share of commissions earned by sales associates varies by region and commission schedules are generally progressive to incentivize sales associates to achieve higher levels of production. The level of commissions earned by sales associates are generally subject to review and reset on the anniversary of the sales associates' engagement with the broker. While competition has and will continue to put pressure on the commission splits necessary to attract and maintain relationships with highly productive sales associates, the lead generation and other initiatives implemented by NRT have enabled commission splits in the aggregate to remain relatively flat.

Within Cartus, we measure operating performance using the following key operating statistics: (i) initiations, which represent the total number of new transferees and the total number of real estate closings for affinity members and (ii) referrals, which represent the number of referrals from which we earn revenue from real estate brokers.

In TRG, operating performance is evaluated using the following key metrics: (i) purchase title and closing units, which represent the number of title and closing units we process as a result of home purchases, (ii) refinance title and closing units, which represent the number of title and closing units we process as a result of homeowners refinancing their home loans, and (iii) average fee per closing unit, which represents the average fee we earn on purchase title and refinancing title sides. An increase or decrease in homesale transactions will impact the financial results of TRG; however, the financial results are not significantly impacted by a change in homesale price. In addition, although the average mortgage rate declined in 2015 compared to 2014 and refinancing transactions increased as a result, we believe that an increase in mortgage rates in the future will most likely have a negative impact on refinancing title and closing units.

A decline in the number of homesale transactions and decline in homesale prices could adversely affect our results of operations by: (i) reducing the royalties we receive from our franchisees, (ii) reducing the commissions our company owned brokerage operations earn, (iii) reducing the demand for our title and settlement services, (iv) reducing the referral fees we earn in our relocation services business, and (v) increasing the risk of franchisee default due to lower homesale volume. Our results could also be negatively affected by a decline in commission rates charged by brokers or greater commission payments to sales associates.

The following table presents our drivers for the years ended December 31, 2015, 2014 and 2013. See "Results of Operations" below for a discussion regarding the effect of these drivers on our business for the periods presented.

	Year Ended December 31, 2015	Year Ended December 31, 2014	% Change	Year Ended December 31, 2014	Year Ended December 31, 2013	% Change
RFG (a) (b)						
Closed homesale sides	1,101,333	1,065,339	3 %	1,065,339	1,083,424	(2 %)
Average homesale price	$263,894	$250,214	5 %	$250,214	$233,011	7 %
Average homesale broker commission rate	2.51 %	2.52 %	(1) bps	2.52 %	2.54 %	(2) bps
Net effective royalty rate	4.48 %	4.49 %	(1) bps	4.49 %	4.49 %	—
Royalty per side	$309	$296	4 %	$296	$276	7 %
NRT						
Closed homesale sides (c)	336,744	308,332	9 %	308,332	316,640	(3 %)
Average homesale price (d)	$489,673	$500,589	(2 %)	$500,589	$471,144	6 %
Average homesale broker commission rate	2.46 %	2.47 %	(1) bps	2.47 %	2.50 %	(3) bps
Gross commission income per side	$12,730	$13,072	(3 %)	$13,072	$12,459	5 %
Cartus						
Initiations	167,749	171,210	(2 %)	171,210	165,705	3 %
Referrals	99,531	96,755	3 %	96,755	91,373	6 %
TRG						

Purchase title and closing units (e)	130,541	113,074	15	%	113,074	115,572	(2	%)
Refinance title and closing units (f)	38,544	27,529	40	%	27,529	76,196	(64	%)
Average fee per closing unit	$1,861	$1,780	5	%	$1,780	$1,504	18	%

(a) Includes all franchisees except for NRT.

(b) In April 2015, NRT acquired Coldwell Banker United, a large franchisee of RFG. As a result of the acquisition, the drivers of Coldwell Banker United shifted from RFG to NRT. Closed homesale sides for RFG, excluding the impact of the acquisition, would have increased 5% for the year ended December 31, 2015 compared to 2014. The acquisition did not have a significant impact on the change in average homesale price for RFG.

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(c) Closed homesale sides for NRT, excluding the impact of larger acquisitions with an individual purchase price greater than $20 million, would have increased 2% for the year ended December 31, 2015 compared to 2014.

(d) Average homesale price for NRT, excluding the impact of larger acquisitions with an individual purchase price greater than $20 million, would have increased 1% for the year ended December 31, 2015 compared to 2014.

(e) The amount presented for the year ended December 31, 2015 includes 13,304 purchase units as a result of the acquisition of Independence Title on July 1, 2015.

(f) The amount presented for the year ended December 31, 2015 includes 3,403 refinance units as a result of the acquisition of Independence Title on July 1, 2015.

RESULTS OF OPERATIONS

Discussed below are our consolidated results of operations and the results of operations for each of our reportable segments. The reportable segments presented below represent our operating segments for which separate financial information is available and which is utilized on a regular basis by our chief operating decision maker to assess performance and to allocate resources. In identifying our reportable segments, we also consider the nature of services provided by our operating segments. Management evaluates the operating results of each of our reportable segments based upon revenue and EBITDA. EBITDA is defined as net income (loss) before depreciation and amortization, interest (income) expense, net (other than Cartus' interest on securitization assets and securitization obligations) and income taxes, each of which is presented on our Consolidated Statements of Operations. Our presentation of EBITDA may not be comparable to similarly titled measures used by other companies.

Year Ended December 31, 2015 vs. Year Ended December 31, 2014

Our consolidated results were comprised of the following:

	Year Ended December 31,		
	2015	2014	Change
Net revenues	$5,706	$5,328	$378
Total expenses (1)	5,424	5,103	321
Income before income taxes, equity in earnings and noncontrolling interests	282	225	57
Income tax expense (benefit)	110	87	23
Equity in earnings of unconsolidated entities	(16)	(9)	(7)
Net income	188	147	41
Less: Net income attributable to noncontrolling interests	(4)	(4)	—
Net income attributable to Realogy Holdings and Realogy Group	$184	$143	$41

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(1) Total expenses for the year ended December 31, 2015 includes $48 million related to the loss on the early extinguishment of debt and $10 million of restructuring costs, partially offset by a net benefit of $15 million for former parent legacy items. Total expenses for the year ended December 31, 2014 includes $47 million related to the loss on the early extinguishment of debt and $10 million of transaction and integration costs related to the ZipRealty acquisition, partially offset by a net benefit of $10 million for former parent legacy items and the reversal of prior year restructuring reserves of $1 million.

Net revenues increased $378 million (7%) for the year ended December 31, 2015 compared with the year ended December 31, 2014, principally due to increases in revenue at NRT and RFG primarily driven by an increase in homesale transaction volume, as well as an increase in revenue at TRG driven by an increase in resale and refinance volume.

Total expenses increased $321 million primarily due to:

- a $176 million increase in commission and other sales associate-related costs due to the increase in homesale transaction volume at NRT and its related revenue increase of $266 million;
- a $152 million increase in operating and general and administrative expenses driven by:

a $63 million increase in employee-related costs of which $52 million represents the change in incentive accruals due to the achievement of higher incentive levels, merit increases and increased stock-based compensation expense as a result of the estimated achievement of certain performance goals;
$38 million of additional employee-related costs associated with acquisitions completed during and after the third quarter of 2014; and
a $50 million increase in variable operating costs at TRG as a result of acquisitions completed in 2015 and increases in volume;

partially offset by,

- the absence in 2015 of $10 million of transaction and integration costs related to the ZipRealty acquisition;
- a $12 million increase in marketing expenses due to higher advertising spending primarily related to acquisitions at NRT; and
- an $11 million increase in restructuring charges due to $10 million of restructuring costs related to the business optimization initiative in 2015 compared to a $1 million reversal of prior year restructuring reserves in 2014;

partially offset by,

- a $36 million decrease in interest expense for the year ended December 31, 2015 compared to the year ended December 31, 2014 primarily due to a reduction in total outstanding indebtedness and a lower weighted average interest rate, as well as the impact of mark-to-market adjustments for our interest rate swaps which resulted in losses of $20 million in 2015 compared to losses of $32 million in the same period of 2014.

Equity in earnings of unconsolidated entities improved $7 million primarily due to an increase in earnings from PHH Home Loans.

During the fourth quarter of 2015, the Company implemented a business optimization initiative that focuses on maximizing the efficiency and effectiveness of the cost structure of each of the Company's business units. The action is designed to improve client service levels across each of the business units while enhancing the Company's profitability and incremental margins. The plan focuses on several key areas of opportunity which include process improvement efficiencies, office footprint optimization, leveraging technology and media spend, centralized procurement and organizational design. Total expected restructuring costs of approximately $37 million are currently anticipated to be incurred through the end of 2016. We incurred $10 million of restructuring charges during 2015 which consisted of personnel-related costs, facility-related costs and other restructuring-related costs. Cost savings related to the restructuring initiatives are estimated to be approximately $40 million on an annual run rate basis and are anticipated to offset some or all of our inflation-related annual cost increases. See Note 11, "Restructuring Costs", in the consolidated financial statements for additional information.

The provision for income taxes was $110 million for the year ended December 31, 2015 compared to $87 million for the year ended December 31, 2014. Our effective tax rate was 37% for both years ended December 31, 2015 and December 31, 2014. The effective tax rate was positively impacted in 2015, primarily by a reduction in our deferred tax liabilities, driven by changes to state tax legislation and was positively impacted in 2014, primarily by a reduction to the valuation allowance.

Following is a more detailed discussion of the results of each of our reportable segments for the years ended December 31, 2015 and 2014:

	Revenues (a)		%	EBITDA (b)		%	Margin		
	2015	2014	Change	2015	2014	Change	2015	2014	Change
RFG	$755	$716	5 %	$495	$463	7 %	66 %	65 %	1
NRT	4,344	4,078	7	199	193	3	5	5	—
Cartus	415	419	(1)	105	102	3	25	24	1
TRG	487	398	22	48	36	33	10	9	1
Corporate and Other	(295)	(283)	*	(121)	(107)	*			
Total Company	$5,706	$5,328	7 %	$726	$687	6 %	13 %	13 %	—
Less: Depreciation and amortization				201	190				
Interest expense, net				231	267				
Income tax expense				110	87				
Net income attributable to Realogy Holdings and Realogy Group				$184	$143				

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* not meaningful

(a) Includes the elimination of transactions between segments, which consists of intercompany royalties and marketing fees paid by NRT of $295 million and $283 million during the year ended December 31, 2015 and 2014, respectively.

(b) EBITDA for the year ended December 31, 2015 includes $48 million related to the loss on early extinguishment of debt and $10 million of restructuring costs, partially offset by a net benefit of $15 million for former parent legacy items. EBITDA for the year ended December 31, 2014 includes $47 million related to the loss on early extinguishment of debt and $10 million of transaction and integration costs related to the ZipRealty acquisition, partially offset by a net benefit of $10 million for former parent legacy items and the reversal of prior year restructuring reserves of $1 million.

As described in the aforementioned table, EBITDA margin for "Total Company" expressed as a percentage of revenues remained flat at 13%.

On a segment basis, RFG's margin increased 1 percentage point to 66% from 65% due to an increase in franchisee royalty revenue driven by an increase in homesale transactions and higher price. NRT's margin remained flat at 5%. Cartus' margin increased 1 percentage point to 25% from 24% primarily due to the net positive impact from foreign currency exchange rates, partially offset by higher employee costs. TRG's margin increased 1 percentage point to 10% from 9% due to an increase in resale and refinance volume.

Corporate and Other EBITDA for the year ended December 31, 2015 decreased by $14 million to negative $121 million (which includes $48 million related to the loss on early extinguishment of debt in 2015 compared to $47 million in 2014). The decrease in Corporate and Other EBITDA was primarily due to:

- a $16 million increase in employee-related costs of which $8 million relates to greater performance incentive accruals in 2015 compared to 2014, as well as an increase in ZipRealty employee costs;
- a $6 million increase in costs related to the settlement of a legal matter, certain transaction costs related to acquisitions and professional fees during the year ended December 31, 2015 compared to 2014; and
- a $4 million increase in restructuring costs related to the Company's business optimization plan which was implemented during the fourth quarter of 2015;

partially offset by,

- a $5 million increase in the net benefit of former parent legacy items as a result of a tax liability adjustment during the year ended December 31, 2015 compared to the same period in 2014; and
- the absence in 2015 of $10 million of transaction and integration costs incurred for the ZipRealty acquisition.

Real Estate Franchise Services (RFG)

Revenues increased $39 million to $755 million and EBITDA increased $32 million to $495 million for the year ended December 31, 2015 compared with the same period in 2014.

The increase in revenue was primarily driven by a $23 million increase in third-party domestic franchisee royalty revenue due to a 5% increase in the average homesale price and a 3% increase in the number of homesale transactions, as well as a $15 million increase in royalties received from NRT and a $9 million increase in other revenue primarily related to other marketing-related activities. The increases in revenue were partially offset by a $4 million decrease in international revenues. Brand marketing revenue and expense both decreased $3 million primarily due to the timing of advertising spending during the year ended December 31, 2015 compared with the same period in 2014.

The intercompany royalties received from NRT of $284 million and $269 million during the years ended December 31, 2015 and 2014, respectively, are eliminated in consolidation. See "Company Owned Real Estate Brokerage Services" for a discussion of the drivers related to intercompany royalties paid to RFG.

The $32 million increase in EBITDA was principally due to the $39 million increase in revenues and $3 million decrease in brand marketing expense discussed above, partially offset by an $11 million increase in employee-related costs, which include higher incentive performance accruals and staffing costs related to the rollout of the ZAP℠ platform to our franchisees.

Company Owned Real Estate Brokerage Services (NRT)

Revenues increased $266 million to $4,344 million and EBITDA improved $6 million to $199 million for the year ended December 31, 2015 compared with the same period in 2014.

Revenue increased $67 million primarily due to an increase in commission income earned on homesale transactions and $199 million due to acquisitions completed during and after the third quarter of 2014. The revenue increase was driven by a 9% increase in the number of homesale transactions partially offset by a 2% decrease in the average price of homes. The 9% increase in homesale transactions was due to two factors: (i) 7% from the acquisition of ZipRealty and Coldwell Banker United and (ii) 2% from higher activity in most of the geographic regions we serve. The 2% decrease in the average price of homes was diluted as a result of these recently acquired brokerage operations which operate in markets with lower average

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sales prices. The average sales price, excluding these acquisitions, would have increased 1% for the year ended December 31, 2015 compared with the same period in 2014 as a result of robust volume in the high-end markets in 2014 compared to 2015.

NRT was impacted in the fourth quarter of 2015 by transaction closing delays due to TILA-RESPA Integrated Disclosure ("TRID") requirements that were effective in early October. We believe that the requirements resulted in delaying the closing of certain housing transactions and moved approximately $45 million of revenue and $9 million of EBITDA out of the fourth quarter of 2015 and into 2016.

EBITDA increased $6 million primarily due to the increase in revenue discussed above and a $6 million increase in equity earnings related to our investment in PHH Home Loans, partially offset by:

- a $176 million increase in commission expenses paid to independent real estate sales associates from $2,755 million in 2014 to $2,931 million, as a result of the increase in revenues in 2015. The increase includes $132 million attributable to acquisitions completed during and after the third quarter of 2014;
- a $47 million increase in employee-related costs, of which $23 million was attributable to acquisitions completed during and after the third quarter of 2014 and $12 million for incremental incentive compensation accruals;
- a $15 million increase from $269 million in 2014 to $284 million in 2015 in royalties paid to RFG, of which $12 million relates to acquisitions completed during and after the third quarter of 2014;
- a $13 million increase in occupancy costs, of which $11 million relates to acquisitions completed during and after the third quarter of 2014;
- a $12 million increase in marketing expenses, of which $8 million relates to acquisitions completed during and after the third quarter of 2014; and
- a $5 million increase in restructuring costs related to the Company's business optimization plan which was implemented during the fourth quarter of 2015.

Relocation Services (Cartus)

Revenues decreased $4 million to $415 million and EBITDA increased $3 million to $105 million for the year ended December 31, 2015 compared with the same period in 2014.

Revenues decreased $4 million as a result of a $4 million decrease in international revenue primarily due to the impact of foreign exchange rates, a $3 million decrease in at-risk revenue due to lower transaction volume and a $1 million decrease in other relocation revenue, partially offset by a $4 million increase in referral revenue primarily due to higher volume and average fees.

EBITDA increased $3 million which was driven by a $10 million net positive impact from foreign currency exchange rates and a decrease in certain other expenses, partially offset by the decrease in revenues discussed above and a $5 million increase in employee-related costs excluding the impact of foreign currency exchange rates.

Title and Settlement Services (TRG)

Revenues increased $89 million to $487 million and EBITDA increased $12 million to $48 million for the year ended December 31, 2015 compared with the same period in 2014.

The increase in revenues was driven by a $45 million increase in resale title and closing revenue as a result of a 15% increase in resale title and closing units, a $34 million increase in underwriter revenue and a $9 million increase in refinancing revenue due to a 40% increase in refinance title and closing units. Acquisitions completed in 2015 contributed $36 million to the revenue increases discussed above and accounted for 11% of the increase in resale title and closing units and 12% of the increase in refinance and closing units.

EBITDA increased $12 million as a result of the $89 million increase in revenues discussed above, partially offset by an increase of $50 million in variable operating costs due to the increase in volume discussed above and an increase of $27 million in employee-related costs, primarily related to acquisitions.

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Year Ended December 31, 2014 vs. Year Ended December 31, 2013

Our consolidated results were comprised of the following:

	Year Ended December 31,		
	2014	2013	Change
Net revenues	$5,328	$5,289	$39
Total expenses (1)	5,103	5,114	(11)
Income before income taxes, equity in earnings and noncontrolling interests	225	175	50
Income tax expense (benefit)	87	(242)	329
Equity in earnings of unconsolidated entities	(9)	(26)	17
Net income (2)	147	443	(296)
Less: Net income attributable to noncontrolling interests	(4)	(5)	1
Net income attributable to Realogy Holdings and Realogy Group	$143	$438	$(295)

(1) Total expenses for the year ended December 31, 2014 includes $47 million related to the loss on the early extinguishment of debt, $10 million of transaction and integration costs related to the ZipRealty acquisition and $2 million related to the Phantom Value Plan, partially offset by a net benefit of $10 million for former parent legacy items and the reversal of prior year restructuring reserves of $1 million. Total expenses for the year ended December 31, 2013 include $68 million related to the loss on the early extinguishment of debt, $47 million related to the Phantom Value Plan and $4 million of restructuring costs, partially offset by a net benefit of $4 million for former parent legacy items.

(2) Net income for the year ended December 31, 2013, includes an income tax benefit of $242 million which was primarily due to a $341 million release of the domestic deferred tax valuation allowance, partially offset by income taxes for 2013 income.

Net revenues increased $39 million (1%) for the year ended December 31, 2014 compared with the year ended December 31, 2013, principally due to an increase in revenues for NRT and RFG primarily driven by an increase in homesale price, partially offset by lower refinancing transactions at TRG.

Total expenses decreased $11 million primarily due to:

- a $55 million decrease in operating and general and administrative expenses driven by:
  - a $50 million decrease in variable operating costs at TRG as a result of a decrease in refinancing and refinance-related underwriter transactions; and
  - a $37 million decrease in employee-related costs primarily due to a $45 million decrease in Phantom Value Plan charges and a $33 million decrease in annual bonus, partially offset by a $41 million increase in other employee-related expenses;

  partially offset by
  - a $33 million increase in costs primarily related to NRT brokerage acquisitions completed during the year ended December 31, 2014; and
  - a $10 million increase in transaction and integration costs related to the ZipRealty acquisition;
- a $21 million decrease in the loss on the early extinguishment of debt due to the refinancing transactions, note redemption and note repurchase transactions completed in 2014 vs. 2013; and
- a $14 million decrease in interest expense for the year ended December 31, 2014 compared to the year ended December 31, 2013 due to $50 million of lower interest expense as a result of a lower weighted average interest rate due to refinancing activities, partially offset by a net increase of $36 million due to the impact of mark-to-market adjustments for our interest rate swaps which resulted in losses of $32 million in 2014 compared to gains of $4 million in the same period of 2013;

partially offset by,

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- a $64 million increase in commission and other sales associate-related costs, due to the increase in revenue and the impact of a higher proportion of transactions occurring in regions with less favorable commission splits; and
- a $15 million increase in marketing expense related to advertising initiatives for the brands, online marketing costs incurred by ZipRealty and the ERA rebranding.

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Equity in earnings of unconsolidated entities decreased $17 million primarily due to lower earnings from our investment in PHH Home Loans as a result of the significant decrease in refinancing transaction volume as well as a decrease in margins in the mortgage origination business.

The provision for income taxes was an expense of $87 million for the year ended December 31, 2014 compared to a benefit of $242 million for the year ended December 31, 2013. Our effective tax rate for 2014 was 37% and is not comparable to 2013 due to the income tax benefit recognized. In 2013, the Company recorded an income tax benefit of $242 million which was primarily due to a $341 million release of the domestic deferred tax valuation allowance, partially offset by income taxes for 2013 income.

Following is a more detailed discussion of the results of each of our reportable segments for the years ended December 31, 2014 and 2013:

	Revenues (a)		%	EBITDA (b)		%	Margin		
	2014	2013	Change	2014	2013	Change	2014	2013	Change
RFG	$716	$690	4 %	$463	$448	3 %	65 %	65 %	—
NRT	4,078	3,990	2	193	206	(6)	5	5	—
Cartus	419	419	—	102	104	(2)	24	25	(1)
TRG	398	467	(15)	36	50	(28)	9	11	(2)
Corporate and Other	(283)	(277)	*	(107)	(155)	*			
Total Company	$5,328	$5,289	1 %	$687	$653	5 %	13 %	12 %	1
Less: Depreciation and amortization				190	176				
Interest expense, net				267	281				
Income tax expense (benefit)				87	(242)				
Net income attributable to Realogy Holdings and Realogy Group				$143	$438				

* not meaningful

(a) Includes the elimination of transactions between segments, which consists of intercompany royalties and marketing fees paid by NRT of $283 million and $277 million during the year ended December 31, 2014 and 2013, respectively.

(b) EBITDA for the year ended December 31, 2014 includes $47 million related to the loss on early extinguishment of debt, $10 million of transaction and integration costs related to the ZipRealty acquisition and $2 million related to the Phantom Value Plan, partially offset by a net benefit of $10 million for former parent legacy items and the reversal of prior year restructuring reserves of $1 million. EBITDA for the year ended December 31, 2013 includes $68 million related to the loss on early extinguishment of debt, $47 million related to the Phantom Value Plan and $4 million of restructuring costs, partially offset by a net benefit of $4 million for former parent legacy items. Excluding the items noted above, the Total Company margin would have been 14% and 15% for the year ended December 31, 2014 and 2013, respectively.

As described in the aforementioned table, EBITDA margin for "Total Company" expressed as a percentage of revenues increased 1 percentage point to 13% from 12% the year ended December 31, 2014 compared to the same period in 2013 primarily due to a $45 million decrease in Phantom Value Plan charges and a $21 million decrease in the loss on the early extinguishment of debt, offset by a $16 million decrease in earnings from our investment in PHH Home Loans and an increase in net marketing expense.

On a segment basis, RFG's margin remained flat at 65%. NRT's margin remained flat at 5% due to lower PHH Home Loans earnings of $16 million as a result of the significant decrease in refinancing transaction volume and higher operating expenses primarily driven by recently completed brokerage acquisitions, offset by an increase in gross commission income per transaction. Cartus' margin decreased 1 percentage point to 24% from 25%. TRG's margin decreased 2 percentage points to 9% from 11% due to a significant decrease in refinancing transactions as well as a decrease in refinance-related underwriter revenue.

Corporate and Other EBITDA for the year ended December 31, 2014 improved $48 million to negative $107 million primarily due to a $21 million decrease in the loss on the early extinguishment of debt, a $26 million decrease in employee-related costs primarily due to the Phantom Value Plan charges incurred in 2013 and a $6 million net benefit for former parent legacy items, partially offset by a $10 million increase in transaction and integration costs related to the ZipRealty acquisition.

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Real Estate Franchise Services (RFG)

Revenues increased $26 million to $716 million and EBITDA increased $15 million to $463 million for the year ended December 31, 2014 compared with the same period in 2013.

The increase in revenue was primarily driven by a $13 million increase in third-party domestic franchisee royalty revenue net of incentives due to a 7% increase in the average homesale price, partially offset by a 2% decrease in the number of homesale transactions. Marketing revenue and expense increased $8 million and $10 million, respectively primarily due to higher advertising for the brands and the ERA rebranding in 2014.

The increase in revenue was also attributable to a $4 million increase in royalties received from NRT to RFG. These intercompany royalties of $269 million and $265 million during the year ended 2014 and 2013, respectively, are eliminated in consolidation. See "Company Owned Real Estate Brokerage Services" for a discussion of the drivers related to intercompany royalties paid to RFG.

The $15 million increase in EBITDA was principally due to the $17 million increase in domestic royalty revenues discussed above, partially offset by an increase of $2 million in licensing fees primarily related to higher revenues for the Sotheby's brand and the $2 million increase in net marketing expense discussed above.

Company Owned Real Estate Brokerage Services (NRT)

Revenues increased $88 million to $4,078 million and EBITDA decreased $13 million to $193 million for the year ended December 31, 2014 compared with the same period in 2013.

The increase in revenues of $88 million was due to an increase in commission income earned on homesale transactions which was primarily driven by a 6% increase in the average homesale price, partially offset by a 3% decrease in the number of homesale transactions. The 6% increase in the average price of homes is benefiting from a shift in activity away from the low end of the housing market and is being impacted by constrained inventory in many of our markets. The 3% decrease in homesale transactions was due to lower activity in most of the geographic regions we serve. Without the addition of larger acquisitions (in excess of a $20 million purchase price) in the last year, homesale transactions would have decreased 5% for the year.

EBITDA decreased $13 million primarily due to:

- a $64 million increase in commission expenses paid to independent real estate sales associates as a result of the increase in revenues;
- an $18 million net increase in other operating expense due to a $33 million increase in costs related to NRT brokerage acquisitions completed during the year ended December 31, 2014 and $3 million in integration-related costs due to office closures for ZipRealty, partially offset by an $18 million decrease in costs related to existing operations;
- a $16 million decrease in equity earnings related to our investment in PHH Home Loans as a result of a significant decrease in refinancing transaction volume;
- a $4 million increase in royalties paid to RFG; and
- a $5 million increase in marketing expenses primarily due to $3 million of online marketing costs incurred by ZipRealty and other advertising initiatives;

partially offset by,

- the $88 million increase in revenues discussed above; and
- a $7 million decrease in employee-related costs primarily related to a $21 million decrease in annual bonus and a $5 million decrease in Phantom Value Plan charges, partially offset by a $19 million increase in other employee-related expenses.

Relocation Services (Cartus)

Revenues remained flat at $419 million and EBITDA decreased $2 million to $102 million for the year ended December 31, 2014 compared with the same period in 2013.

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Revenues remained flat as a $6 million increase in affinity referrals due to growth in transaction volume and a $6 million net increase in other relocation fees were offset by a $7 million decrease in relocation referrals, a $2 million decrease in international revenue and a $3 million decrease in at-risk revenue, all of which were primarily driven by lower volume.

EBITDA decreased $2 million as a result of a $3 million increase in employee-related costs, partially offset by a $1 million net impact resulting from foreign currency exchange rate gains in 2014 compared to losses in 2013.

Title and Settlement Services (TRG)

Revenues decreased $69 million to $398 million and EBITDA decreased $14 million to $36 million for the year ended December 31, 2014 compared with the same period in 2013.

The decrease in revenues was primarily driven by a $50 million decrease in refinancing revenue and a $20 million decrease in refinance-related underwriter revenue. Refinance title and closing units decreased 64% and resale title and closing units decreased 2% while average price per closing increased 18% for the year ended December 31, 2014 compared with the same period in 2013 as a result of a shift in business to resale activities where we earn a higher fee.

EBITDA decreased $14 million as a result of the $69 million decrease in revenues discussed above, partially offset by a $50 million decrease in variable operating costs as a result of the decrease in refinancing and underwriter transactions and a $6 million decrease in employee-related costs primarily related to management incentives and Phantom Value Plan charges.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Financial Condition

	December 31, 2015	December 31, 2014	Change
Total assets	$7,531	$7,304	$227
Total liabilities	5,109	5,121	(12)
Total equity	2,422	2,183	239

For the year ended December 31, 2015, total assets increased $227 million primarily due to a $102 million increase in cash, a $141 million increase in goodwill from acquisitions at NRT and TRG, a $33 million increase in other non-current assets due to an increase in payments made for franchise renewals and sales incentives and a $25 million increase in trade receivables driven by increases in volume, partially offset by a $92 million net decrease in franchise agreements and other intangible assets due to amortization.

Total liabilities decreased $12 million primarily due to a $153 million decrease in corporate debt as a result of the redemption of all of the outstanding $593 million of First Lien Notes and $196 million of First and a Half Lien Notes, partially offset by the issuance of the new Term Loan A Facility in the amount of $435 million and $200 million of borrowings under the Revolving Credit Facility. These decreases were partially offset by a $96 million increase in deferred tax liabilities and a $37 million increase in accrued expenses and other current liabilities, of which $17 million related to an increase in contingent consideration as a result of acquisitions and $20 million was attributable to an increase in accrued payroll and related employee costs primarily due to higher incentive accruals in 2015.

Total equity increased $239 million primarily due to net income of $184 million for the year ended December 31, 2015 and $56 million of additional paid in capital primarily related to stock-based compensation.

Liquidity and Capital Resources

Our primary liquidity needs have been to service our debt and finance our working capital and capital expenditures, which we have historically satisfied with cash flows from operations and funds available under our revolving credit facilities and securitization facilities. Given the significant reduction in our indebtedness and annual interest expense that resulted from our October 2012 initial public offering and related transactions, as well as our indebtedness repayments and refinancings, we generated positive cash flows from operations in 2013, 2014 and 2015. After giving effect to the debt refinancing transactions completed during 2013, 2014 and 2015 and debt repurchases from cash generated from operations, our outstanding indebtedness, excluding securitizations, has been reduced by approximately $623 million since the beginning of 2013. Based upon our current debt projections for 2016, we expect our cash interest run rate to be reduced to approximately $170 million.

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We intend to use future cash flow primarily to reduce indebtedness, fund acquisitions and acquire stock under our share repurchase program. On February 24, 2016, the Company announced that its Board of Directors authorized a share repurchase program of up to $275 million of the company's common stock. We may also from time to time seek to repurchase our outstanding notes through tender offers, open market purchases, privately negotiated transactions or otherwise. Such repurchases, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors.

We believe that we are experiencing a recovery in the residential real estate market; however, we are not certain of the length, timing or improvement level that may be associated with this recovery. Moreover, if the residential real estate market or the economy as a whole does not continue to improve or worsens, our business, financial condition and liquidity may be materially adversely affected, including our ability to access capital and grow our business.

Historically, operating results and revenues for all of our businesses have been strongest in the second and third quarters of the calendar year. A significant portion of the expenses we incur in our real estate brokerage operations are related to marketing activities and commissions and therefore are variable. However, many of our other expenses, such as interest payments, facilities costs and certain personnel-related costs, are fixed and cannot be reduced during a seasonal slowdown. Consequently, our debt balances are generally at their highest levels at or around the end of the first quarter of every year.

Our liquidity position has significantly improved but continues to be impacted by our remaining interest expense and would be adversely impacted by: (i) a halt in the recovery of the residential real estate market, (ii) a significant increase in LIBOR or ABR, or (iii) our inability to access our relocation securitization programs.

We will continue to evaluate potential refinancing and financing transactions. There can be no assurance as to which, if any, of these alternatives we may pursue as the choice of any alternative will depend upon numerous factors such as market conditions, our financial performance and the limitations applicable to such transactions under our existing financing agreements and the consents we may need to obtain under the relevant documents. There can be no assurance that financing will be available to us on acceptable terms or at all.

Cash Flows

Year ended December 31, 2015 vs. Year ended December 31, 2014

At December 31, 2015, we had $415 million of cash and cash equivalents, an increase of $102 million compared to the balance of $313 million at December 31, 2014. The following table summarizes our cash flows for the years ended December 31, 2015 and 2014:

	Year Ended December 31,		
	2015	2014	Change
Cash provided by (used in):			
Operating activities	$544	$423	$121
Investing activities	(209)	(298)	89
Financing activities	(231)	(46)	(185)
Effects of change in exchange rates on cash and cash equivalents	(2)	(2)	—
Net change in cash and cash equivalents	$102	$77	$25

For the year ended December 31, 2015, $121 million of incremental cash was provided by operating activities compared to the same period in 2014. The change was principally due to $42 million of additional cash provided by operating results, $81 million less cash used for accounts payable, accrued expenses and other liabilities primarily due to higher incentive accruals in 2015 and $15 million more cash provided due to a net decrease in relocation and trade receivables, partially offset by $20 million of cash used due to an increase in other assets.

For the year ended December 31, 2015, we used $89 million less cash for investing activities compared to the same period in 2014. The change was primarily due to $88 million less cash used for acquisition related payments in 2015 compared to 2014.

For the year ended December 31, 2015, $231 million of cash was used in financing activities compared to $46 million of cash used during the same period in 2014. For the year ended December 31, 2015, $231 million of cash was used for:

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- the redemption of all of the outstanding $593 million of First Lien Notes and $196 million of First and a Half Lien Notes;
- $32 million of other financing payments related to interest rate swaps, contingent consideration and capital leases;
- quarterly amortization payments of the Term Loan B Facility totaling $19 million; and
- payment of $10 million of debt transaction costs related to the Revolving Credit Facility amendment and issuance of the new Term Loan A Facility;

partially offset by,

- $435 million of proceeds from the issuance of the Term Loan A Facility; and
- $200 million of incremental borrowings under the Revolving Credit Facility.

For the year ended December 31, 2014, $46 million of cash was used for the repurchase of $729 million of First and a Half Lien Notes, $44 million of debt transaction costs primarily related to the issuance of the 4.50% Senior Notes, including a portion of premiums, and the 5.25% Senior Notes, $19 million of repayments of the Term Loan B Facility and $27 million of other financing related payments, partially offset by net cash provided by financing activities as a result of $750 million proceeds from issuances of the 4.50% Senior Notes and 5.25% Senior Notes and a $17 million increase in net securitization obligations borrowings.

Year ended December 31, 2014 vs. Year ended December 31, 2013

At December 31, 2014, we had $313 million of cash and cash equivalents, an increase of $77 million compared to the balance of $236 million at December 31, 2013. The following table summarizes our cash flows for the years ended December 31, 2014 and 2013:

	Year Ended December 31,		
	2014	2013	Change
Cash provided by (used in):			
Operating activities	$423	$492	$(69)
Investing activities	(298)	(102)	(196)
Financing activities	(46)	(530)	484
Effects of change in exchange rates on cash and cash equivalents	(2)	—	(2)
Net change in cash and cash equivalents	$77	$(140)	$217

For the year ended December 31, 2014, $69 million less cash was provided by operating activities compared to the same period in 2013. The change was principally due to $84 million less cash provided due to a net increase in relocation and trade receivables, $39 million more cash used for accounts payable, accrued expenses and other liabilities primarily due to the payment of the 2013 bonus in the first quarter of 2014, whereas substantially all of the 2012 bonus was paid in December 2012, and $37 million less cash dividends received from unconsolidated entities in 2014 compared to 2013. These changes were partially offset by $77 million of incremental cash provided by operating results in 2014 compared to 2013 and $16 million of less cash utilized for taxes paid related to net share settlements of stock-based compensation in 2014 compared to 2013.

For the year ended December 31, 2014, we used $196 million more cash for investing activities compared to the same period in 2013. The change was primarily due to $183 million more cash used for acquisition related payments and $9 million more cash used for property and equipment additions in 2014 compared to 2013.

For the year ended December 31, 2014, $484 million less cash was used in financing activities compared to the same period in 2013. For the year ended December 31, 2014, our $46 million use of cash was comprised of the repurchases of $729 million of First and a Half Lien Notes, $44 million of debt transaction costs primarily related to the issuance of the 4.50% Senior Notes, including a portion of premiums, and the 5.25% Senior Notes, $19 million of repayments of the term loan facility and $27 million of other financing related payments, partially offset by net cash provided by financing activities as a result of $750 million proceeds from issuances of the 4.50% Senior Notes and 5.25% Senior Notes and a $17 million increase in net securitization obligations borrowings.

For the year ended December 31, 2013, $530 million of cash was used for the redemption of Realogy Group's 11.50% Senior Notes, 12.00% Senior Notes, 12.375% Senior Subordinated Notes and 13.375% Senior Subordinated Notes of

$821 million, the repurchase of $100 million of the 9.00% First and a Half Lien Notes, a net repayment of revolver borrowings of $110 million, payment of $28 million of debt transaction costs, quarterly amortization payments on the term loan facility of

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$15 million, and $31 million of other financing related payments. This was partially offset by $500 million of net proceeds from the issuance of 3.375% Senior Notes and $79 million of additional net proceeds from the extension of the term loan facility.

Financial Obligations

In October 2015, Realogy Group amended its Revolving Credit Facility and entered into a new Term Loan A Agreement. The amendment to its Revolving Credit Facility increased the borrowing capacity from $475 million to $815 million and extended its maturity date from March 2018 to October 2020. The Term Loan A Facility was issued in the amount of $435 million with a maturity date of October 2020. The Company used the net proceeds from the Term Loan A Facility and revolver borrowings to redeem all of the outstanding $593 million of First Lien Notes and pay related premiums and accrued interest of $45 million. Additionally, on November 30, 2015, with cash on hand and revolver borrowings, the Company redeemed all of the outstanding $196 million of First and a Half Lien Notes and paid related premiums and accrued interest of $17 million.

As of December 31, 2015, the Company's borrowing arrangements were as follows:

	Interest Rate	Expiration Date	Principal	Unamortized Discount and Debt Issuance Costs	Net
Senior Secured Credit Facility:					
Revolving Credit Facility (1)	(2)	October 2020	$200	*	$200
Term Loan B Facility	(3)	March 2020	1,867	28	1,839
Term Loan A Facility	(4)	October 2020	435	2	433
Senior Notes	3.375%	May 2016	500	1	499
Senior Notes	4.50%	April 2019	450	16	434
Senior Notes	5.25%	December 2021	300	3	297
Securitization obligations: (5)					
Apple Ridge Funding LLC (6)		June 2016	238	*	238
Cartus Financing Limited (7)		August 2016	9	*	9
Total (8)			$3,999	$50	$3,949

* The debt issuance costs related to our Revolving Credit Facility and Securitization Obligations remain classified as a deferred asset within other assets.

(1) As of December 31, 2015, the Company had $815 million of borrowing capacity under its Revolving Credit Facility leaving $615 million of available capacity. On February 19, 2016, the Company had $200 million outstanding borrowings on the Revolving Credit Facility and no outstanding letters of credit on such facility, leaving $615 million of available capacity.

(2) Interest rates with respect to revolving loans under the Term Loan A Facility at December 31, 2015 were based on, at the Company's option, (a) adjusted LIBOR plus an additional margin or (b) ABR plus an additional margin, in each case subject to adjustment based on the then current senior secured leverage ratio. Based on the September 30, 2015 senior secured leverage ratio, the LIBOR margin was 2.00% and the ABR margin was 1.00%.

(3) The Term Loan B Facility provides for quarterly amortization payments totaling 1% per annum of the original principal amount. The interest rate with respect to the Term Loan B Facility is based on, at the Company's option, (a) adjusted LIBOR plus 3.00% (with a LIBOR floor of 0.75%) or (b) JPMorgan Chase Bank, N.A.'s prime rate ("ABR") plus 2.00% (with an ABR floor of 1.75%).

(4) The Term Loan A Facility provides for quarterly amortization payments, commencing March 31, 2016, totaling per annum 5%, 5%, 7.5%, 10.0% and 12.5% of the original principal amount of the Term Loan A Facility in 2016, 2017, 2018, 2019 and 2020, respectively. The interest rates with respect to term loans under the new Term Loan A Facility are based on, at the Company's option, (a) adjusted LIBOR plus an additional margin or (b) ABR plus an

additional margin, in each case subject to adjustment based on the then current senior secured leverage ratio. Based on the September 30, 2015 senior secured leverage ratio, the LIBOR margin was 2.00% and the ABR margin was 1.00%.

(5) Available capacity is subject to maintaining sufficient relocation related assets to collateralize these securitization obligations.

(6) As of December 31, 2015, the Company had $325 million of borrowing capacity under the Apple Ridge Funding LLC securitization program leaving $87 million of available capacity.

(7) Consists of a £20 million revolving loan facility and a £5 million working capital facility. As of December 31, 2015, the Company had $38 million of borrowing capacity under the Cartus Financing Limited securitization program leaving $29 million of available capacity.

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(8) Not included in this table, the Company had $134 million of outstanding letters of credit at December 31, 2015, of which $53 million was under the synthetic letter of credit facility with a rate of 4.25% and $81 million was under the unsecured letter of credit facility with a rate of 2.98%.

See Note 8, "Short and Long-Term Debt", in the consolidated financial statements for additional information on the Company's indebtedness.

Covenants under the Senior Secured Credit Facility, Term Loan A Facility and Indentures

The Senior Secured Credit Facility, Term Loan A Facility, the Unsecured Letter of Credit Facility and the indentures governing the Unsecured Notes contain various covenants that limit (subject to certain exceptions) Realogy Group's ability to, among other things:

- incur or guarantee additional debt or issue disqualified stock or preferred stock;
- pay dividends or make distributions to Realogy Group's stockholders, including Realogy Holdings;
- repurchase or redeem capital stock;
- make loans, investments or acquisitions;
- incur restrictions on the ability of certain of Realogy Group's subsidiaries to pay dividends or to make other payments to Realogy Group;
- enter into transactions with affiliates;
- create liens;
- merge or consolidate with other companies or transfer all or substantially all of Realogy Group's and its material subsidiaries' assets;
- transfer or sell assets, including capital stock of subsidiaries; and
- prepay, redeem or repurchase subordinated indebtedness.

As a result of the covenants to which we remain subject, we are limited in the manner in which we conduct our business and we may be unable to engage in favorable business activities or finance future operations or capital needs. In addition, the Senior Secured Credit Facility and Term Loan A Facility require us to maintain a senior secured leverage ratio.

The senior secured leverage ratio, not to exceed 4.75 to 1.00, is tested quarterly. In this report, the Company refers to the term "Adjusted EBITDA" to mean EBITDA as so defined for purposes of determining compliance with the senior secured leverage covenant. The senior secured leverage ratio measured at any applicable quarter end is Realogy Group's total senior secured net debt divided by the trailing twelve month Adjusted EBITDA. Total senior secured net debt does not include unsecured indebtedness, including the Unsecured Notes, as well as the securitization obligations.

See Note 8, "Short and Long-Term Debt—Senior Secured Credit Facility" and "Short and Long-Term Debt—Term Loan A Facility" in the consolidated financial statements for additional information.

Non-GAAP Financial Measures

The SEC has adopted rules to regulate the use in filings with the SEC and in public disclosures of "non-GAAP financial measures," such as EBITDA and Adjusted EBITDA and the ratios related thereto. These measures are derived on the basis of methodologies other than in accordance with GAAP.

EBITDA is defined by us as net income (loss) before depreciation and amortization, interest expense, net (other than relocation services interest for securitization assets and securitization obligations) and income taxes. Adjusted EBITDA calculated for a twelve-month period is presented to demonstrate our compliance with the senior secured leverage ratio covenant in the Senior Secured Credit Facility and the Term Loan A Facility. Adjusted EBITDA calculated for a twelve-month period corresponds to the definition of "EBITDA," calculated on a "pro forma basis," used in the Senior Secured Credit Facility and the Term Loan A Facility to calculate the senior secured leverage ratio. Adjusted EBITDA includes adjustments to EBITDA for restructuring costs, former parent legacy cost (benefit) items, net, loss on the early extinguishment of debt, non-cash charges and incremental securitization interest costs, as well as pro forma cost savings for restructuring initiatives, the pro forma effect of business optimization initiatives and the pro forma effect of acquisitions and new franchisees, in each case calculated as of the beginning of the twelve-month

period.
We present EBITDA and Adjusted EBITDA because we believe EBITDA and Adjusted EBITDA are useful as supplemental measures in evaluating the performance of our operating businesses and provide greater transparency into our

results of operations. Our management, including our chief operating decision maker, uses EBITDA as a factor in evaluating the performance of our business. EBITDA and Adjusted EBITDA should not be considered in isolation or as a substitute for net income or other statement of operations data prepared in accordance with GAAP.

We believe EBITDA facilitates company-to-company operating performance comparisons by backing out potential differences caused by variations in capital structures (affecting net interest expense), taxation, the age and book depreciation of facilities (affecting relative depreciation expense) and the amortization of intangibles, which may vary for different companies for reasons unrelated to operating performance. We further believe that EBITDA is frequently used by securities analysts, investors and other interested parties in their evaluation of companies, many of which present an EBITDA measure when reporting their results.

EBITDA and Adjusted EBITDA have limitations as analytical tools, and you should not consider EBITDA or Adjusted EBITDA either in isolation or as substitutes for analyzing our results as reported under GAAP. Some of these limitations are:

- these measures do not reflect changes in, or cash required for, our working capital needs;
- these measures do not reflect our interest expense (except for interest related to our securitization obligations), or the cash requirements necessary to service interest or principal payments on our debt;
- these measures do not reflect our income tax expense or the cash requirements to pay our taxes;
- these measures do not reflect historical cash expenditures or future requirements for capital expenditures or contractual commitments;
- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often require replacement in the future, and these measures do not reflect any cash requirements for such replacements; and
- other companies may calculate these measures differently so they may not be comparable.

In addition to the limitations described above, Adjusted EBITDA includes pro forma cost savings, the pro forma effect of business optimization initiatives and the pro forma full year effect of acquisitions and new franchisees. These adjustments may not reflect the actual cost savings or pro forma effect recognized in future periods.

A reconciliation of net income attributable to Realogy Group to EBITDA and Adjusted EBITDA for the year ended December 31, 2015 is set forth in the following table:

	For the Year Ended December 31, 2015
Net income attributable to Realogy Group	$ 184
Income tax expense	110
Income before income taxes	294
Interest expense, net	231
Depreciation and amortization	201
EBITDA	726
Covenant calculation adjustments:	
Restructuring costs and former parent legacy benefit, net (a)	(5)
Loss on the early extinguishment of debt	48
Pro forma effect of business optimization initiatives (b)	14
Non-cash charges (c)	46
Pro forma effect of acquisitions and new franchisees (d)	12
Incremental securitization interest costs (e)	4
Adjusted EBITDA	$ 845
Total senior secured net debt (f)	$ 2,180
Senior secured leverage ratio	2.58x

(a) Consists of $10 million of restructuring costs offset by a net benefit of $15 million of former parent legacy items.
(b) Represents the twelve-month pro forma effect of business optimization initiatives.

(c) Represents the elimination of non-cash expenses, including $57 million of stock-based compensation expense less $11 million for the change in the allowance for doubtful accounts and notes reserves.

(d) Represents the estimated impact of acquisitions and franchise sales activity, net of brokerages that exited our franchise system as if these changes had occurred on January 1, 2015. Franchisee sales activity is comprised of new franchise agreements as well as growth through acquisitions and sales agent recruitment by existing franchisees with our assistance. We have made a number of assumptions in calculating such estimates and there can be no assurance that we would have generated the projected levels of EBITDA had we owned the acquired entities or entered into the franchise contracts as of January 1, 2015.

(e) Incremental borrowing costs incurred as a result of the securitization facilities refinancing for the twelve months ended December 31, 2015.

(f) Represents total borrowings under the Senior Secured Credit Facility and borrowings secured by a first priority lien on our assets of $2,502 million plus $26 million of capital lease obligations less $348 million of readily available cash as of December 31, 2015. Pursuant to the terms of our Senior Secured Credit Facility and Term Loan A Facility, total senior secured net debt does not include our securitization obligations or unsecured indebtedness, including the Unsecured Notes.

Contractual Obligations

The following table summarizes our future contractual obligations as of December 31, 2015:

	2016	2017	2018	2019	2020	Thereafter	Total
Revolving Credit Facility (a)	$—	$—	$—	$—	$200	$ —	$200
Term Loan B Facility (b)	19	19	19	19	1,791	—	1,867
Term Loan A Facility (c)	22	22	33	44	314	—	435
3.375% Senior Notes	500	—	—	—	—	—	500
4.50% Senior Notes	—	—	—	450	—	—	450
5.25% Senior Notes	—	—	—	—	—	300	300
Interest payments on long-term debt (d)	161	143	135	115	48	16	618
Securitized obligations (e)	247	—	—	—	—	—	247
Operating leases (f)	151	125	93	72	53	179	673
Capital leases (including imputed interest)	12	9	5	1	—	1	28
Purchase commitments (g)	49	18	9	6	6	235	323
Total (h)(i)(j)	$1,161	$336	$294	$707	$2,412	$ 731	$5,641

(a) The Company's $815 million Revolving Credit Facility expires in October 2020; however outstanding borrowings under this facility are classified on the balance sheet as current due to the revolving nature of the facility.

(b) The Company’s Term Loan B Facility has quarterly amortization payments totaling 1% per annum of the $1,905 million original principal amount of the Term Loan B Facility issued under the First Amendment with the balance payable in March 2020.

(c) The Company’s Term Loan A Facility has quarterly amortization payments, commencing March 31, 2016, totaling per annum 5%, 5%, 7.5%, 10.0% and 12.5% of the $435 million original principal amount of the Term Loan A Facility in 2016, 2017, 2018, 2019 and 2020, respectively, with the balance payable in October 2020.

(d) Interest payments are based on applicable interest rates in effect at December 31, 2015 and include the impact of derivative instruments designed to fix the interest rate of a portion of the Company's variable rate debt.

(e) The Apple Ridge securitization facility expires in June 2016 and the Cartus Financing Limited agreements expire in August 2016. These obligations are classified as current on the balance sheet due to the current classification of the underlying assets that collateralize the obligations.

(f) The operating lease amounts included in the above table do not include variable costs such as maintenance, insurance and real estate taxes.

(g) Purchase commitments include a minimum licensing fee that the Company is required to pay to Sotheby’s from 2009 through 2054. The annual minimum licensing fee is approximately $2 million. Purchase commitments also include a minimum licensing fee to be paid to Meredith from 2009 through 2058 for the licensing of the Better Homes and Gardens Real Estate brand. The annual minimum fee is $4 million in 2015 and will generally remain the same thereafter.

(h) In April 2007, the Company established a standby irrevocable letter of credit for the benefit of Avis Budget Group Inc. in accordance with the Separation and Distribution Agreement. At December 31, 2015, the letter of credit was at $53 million. This letter of credit is not included in the contractual obligations table above.

(i) The contractual obligations table does not include other non-current liabilities such as pension liabilities of $40 million and unrecognized tax benefits of $78 million as the Company is not able to estimate the year in which these liabilities could be paid.

(j) The contractual obligations table does not include non-standard incentives offered to some franchisees which are paid at certain points during the franchise agreement period provided the franchisee maintains a certain level of annual gross commission income and the franchisee is in compliance with the terms of the franchise agreement at the time of payment. If current annual gross commission income levels are maintained by our franchisees, we would pay a total of $8 million over the next two years.

Critical Accounting Policies

The preparation of our consolidated financial statements in accordance with generally accepted accounting principles is based on the selection and application of accounting policies that require us to make significant estimates and assumptions about the effects of matters that are inherently uncertain. Several of the estimates and assumptions we are required to make relate to matters that are inherently uncertain as they pertain to future events. We consider the accounting policies discussed below to be critical to the understanding of our financial statements and involve subjective and complex judgments that could potentially affect reported results. Actual results could differ from our estimates and assumptions and any such differences could be material to our consolidated financial statements.

Allowance for doubtful accounts

We estimate the allowance necessary to provide for uncollectible accounts receivable. The estimate is based on historical experience, combined with a review of current developments, and includes specific accounts for which future payment is unlikely. The process by which we calculate the allowance begins in the individual business units where specific problem accounts are identified and reserved and an additional reserve is generally recorded driven by the age profile of the receivables. Our allowance for doubtful accounts was $20 million and $27 million at December 31, 2015 and 2014, respectively.

Impairment of goodwill and other indefinite-lived intangible assets

Goodwill represents the excess of acquisition costs over the fair value of the net tangible assets and identifiable intangible assets acquired in a business combination. Indefinite-lived intangible assets primarily consist of trademarks acquired in business combinations. Goodwill and indefinite-lived assets are not amortized, but are subject to impairment testing. The aggregate carrying value of our goodwill and other indefinite-lived intangible assets was $3,618 million and $756 million, respectively, at December 31, 2015 and are subject to impairment testing annually as of October 1, or whenever events or changes in circumstances indicate that the carrying amount may not be fully recoverable. This testing compares carrying values to fair values and, when appropriate, the carrying value is reduced to fair value. In testing goodwill, the fair value of our reporting units is estimated using a discounted cash flow approach utilizing long-term cash flow forecasts and our annual operating plans adjusted for terminal value assumptions.

We determine the fair value of our reporting units utilizing our best estimate of future revenues, operating expenses, cash flows, market and general economic conditions as well as assumptions that we believe marketplace participants would utilize including discount rates, cost of capital, trademark royalty rates, and long-term growth rates. The trademark royalty rate was determined by reviewing similar trademark agreements with third parties. Although we believe our assumptions are reasonable, actual results may vary significantly. These impairment tests involve the use of accounting estimates and assumptions, changes in which could materially impact our financial condition or operating performance if actual results differ from such estimates and assumptions. To address this uncertainty we perform sensitivity analysis on key estimates and assumptions.

Based upon the impairment analysis performed in the fourth quarter of 2015, there was no impairment of goodwill or other indefinite-lived intangible assets for 2015. However, significant negative industry or economic trends, disruptions to our business, unexpected significant changes or planned changes in use of the assets, divestitures and market capitalization declines may have a negative effect on the fair values. Management evaluated the effect of lowering the estimated fair value for each of the reporting units by 10% and determined that no impairment of goodwill or other indefinite-lived intangible assets would have been recognized under this evaluation.

Common stock valuation

On occasion, we grant stock-based awards to certain senior management, employees and directors. These awards are measured based on the fair value on the grant date. The fair value of restricted stock, restricted stock units and performance share units without a market condition is equal to the closing sale price of the Company's common stock on the date of grant. The fair value of options is estimated on the date of grant using the Black-Scholes option-pricing model and the fair value of performance share units with market conditions is estimated on the date of grant using the Monte Carlo Simulation method. Expense for stock-based awards is recognized over the service period based on the vesting requirements, or when requisite performance metrics or milestones are achieved. Determining the fair value of stock-based awards at the grant date requires considerable judgment, including estimating expected volatility, expected term and risk-free rate.

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Our expected volatility is based on the average volatility rates of the Company and similar actively traded companies since we only have trading history as a public company since October 2012. The expected term is calculated based on the simplified method and is estimated to be 6.25 years for time vesting stock options. The risk-free rate is derived from the U.S. Treasury yield curve in effect at the time of the grant using the estimated grant holding period. If factors change and we employ different assumptions, the fair value of future awards and resulting stock-based compensation expense may differ significantly from what we have estimated historically.

Income taxes

Deferred tax assets and liabilities are determined based on the difference between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. Our provision for income taxes is based on domestic and international statutory income tax rates in the jurisdictions in which we operate. Significant judgment is required in determining income tax provisions as well as deferred tax asset and liability balances, including the estimation of valuation allowances and the evaluation of tax positions.

Net deferred tax assets and liabilities are primarily comprised of temporary differences, net operating loss carryforwards and tax credit carryforwards that are available to reduce taxable income in future periods. The determination of the amount of valuation allowance to be provided on deferred tax assets involves estimates regarding (1) the timing and amount of the reversal of taxable temporary differences, (2) expected future taxable income, and (3) the impact of tax planning strategies.

Significant judgment is required in determining income tax provisions and in evaluating tax positions. We establish additional reserves for income taxes when, despite the belief that tax positions are fully supportable, there remain certain positions that do not meet the minimum recognition threshold. The approach for evaluating certain and uncertain tax positions is defined by the authoritative guidance and this guidance determines when a tax position is more likely than not to be sustained upon examination by the applicable taxing authority. In the normal course of business, the Company and its subsidiaries are examined by various federal, state and foreign tax authorities. We regularly assess the potential outcomes of these examinations and any future examinations for the current or prior years in determining the adequacy of our provision for income taxes. We continually assess the likelihood and amount of potential adjustments and adjust the income tax provision, the current tax liability and deferred taxes in the period in which the facts that give rise to a revision become known.

Recently Adopted Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update ("ASU")—Simplifying the Presentation of Debt Issuance Costs, requiring that debt issuance costs related to a debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Prior to the amendment, debt issuance costs were recognized as deferred charges and recorded as other assets. The amendments in this ASU are effective for the Company’s fiscal year beginning January 1, 2016 and subsequent interim periods, with earlier adoption permitted.

The Company elected to early adopt this ASU in the fourth quarter of 2015. The election requires retrospective application to all prior periods presented in the financial statements and represents a change in accounting principle. Adoption of the ASU resulted in the reclassification of debt issuance costs from deferred financing costs in other assets to a reduction in the carrying amount of the related debt liability within the Company’s consolidated balance sheets. As a result of the adoption, the December 31, 2014 indebtedness table has been restated as follows:

	December 31, 2014		
	Previously Reported Balance	Effect of Accounting Principle Adoption	Adjusted Balance
Senior Secured Credit Facility:			
Term Loan B Facility	$1,871	$18	$1,853

7.625% First Lien Notes	593	7	586
9.00% First and a Half Lien Notes	196	2	194
3.375% Senior Notes	500	3	497
4.50% Senior Notes	450	21	429
5.25% Senior Notes	300	4	296
Total Short-Term & Long-Term Debt	$3,910	$55	$3,855

The debt issuance costs related to our revolving credit facilities, including securitization obligations, remain classified as an asset within other assets.

In November 2015, the FASB issued ASU—Balance Sheet Classification of Deferred Taxes, requiring an entity to present deferred tax assets and deferred tax liabilities as non-current in its classified balance sheet. The ASU simplifies current guidance, which requires an entity to separately present deferred tax assets and deferred tax liabilities as current and non-current in its classified balance sheet. Entities are permitted to apply the amendments either prospectively or retrospectively. The ASU is effective for annual and interim periods beginning after December 15, 2016, with early adoption permitted.

The Company elected to early adopt this ASU in the fourth quarter of 2015 and applied its provisions retrospectively to all prior periods presented in the financial statements. The election represents a change in accounting principle.

As a result of the early adoption of these two ASUs, the December 31, 2014 Consolidated Balance Sheet is restated as follows:

	December 31, 2014			
		Effect of Accounting Principle Adoption		
	Previously Reported Balance	Simplifying the Presentation of Debt Issuance Costs	Balance Sheet Classification of Deferred Taxes	Adjusted Balance
ASSETS				
Current assets:				
Deferred income taxes	$180	$—	$(180)	$—
Total current assets	1,026	—	(180)	846
Other non-current assets	230	(55)	1	176
Total assets	7,538	(55)	(179)	7,304
LIABILITIES AND EQUITY				
Long-term debt	$3,891	$(55)	$—	$3,836
Deferred income taxes	350	—	(179)	171
Total liabilities	5,355	(55)	(179)	5,121
Total liabilities and equity	7,538	(55)	(179)	7,304

Recently Issued Accounting Pronouncements

The Company considers the applicability and impact of all Accounting Standards Updates ("ASU"). ASUs not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on our consolidated financial position or results of operations.

In May 2014, the FASB and IASB issued a converged standard on revenue recognition that will have an effect on most companies to some extent. The objective of the revenue standard is to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries, and across capital markets. The revenue standard contains principles that an entity will apply to determine the measurement of revenue and the timing of revenue recognition. The new standard, as initially released, would be effective for fiscal years, and interim periods within those years, beginning after December 15, 2016 and early adoption would not be permitted. In July 2015, the FASB deferred the effective date of the new revenue standard by one year resulting in the new revenue standard being effective for fiscal years and interim periods beginning after December 15, 2017 and allowing entities to adopt one year earlier if they so elect. The new standard permits for two alternative implementation methods, the use of either (1) full retrospective application to each prior reporting period presented or (2) modified retrospective application in which the cumulative effect of initially applying the revenue standard is recognized as an adjustment to the opening balance of retained earnings in the period of adoption. The

Company plans to adopt the new standard in the first quarter of 2018 but has not yet determined the method by which the standard will be adopted. The Company is currently evaluating the impact of the standard on its consolidated financial statements but does not expect the new standard to have a material impact on the financial results of the Company as the majority of our revenue is recognized at the completion of a homesale transaction and will not be impacted by this new revenue recognition guidance.

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Item 7A. Quantitative and Qualitative Disclosures about Market Risks.

We are exposed to market risk from changes in interest rates primarily through our senior secured debt. At December 31, 2015, our primary interest rate exposure was to interest rate fluctuations, specifically LIBOR, due to its impact on our variable rate borrowings of our Revolving Credit Facility and Term Loan B Facility under the Senior Secured Credit Agreement and the Term Loan A Facility. Given that our borrowings under the Senior Secured Credit Agreement and Term Loan A Facility are generally based upon LIBOR, this rate will be the Company's primary market risk exposure for the foreseeable future. We do not have significant exposure to foreign currency risk nor do we expect to have significant exposure to foreign currency risk in the foreseeable future.

We assess our market risk based on changes in interest rates utilizing a sensitivity analysis. The sensitivity analysis measures the potential impact on earnings, fair values and cash flows based on a hypothetical change (increase and decrease) in interest rates. We exclude the fair values of relocation receivables and advances and securitization borrowings from our sensitivity analysis because we believe the interest rate risk on these assets and liabilities is mitigated as the rate we earn on relocation receivables and advances and the rate we incur on our securitization borrowings are based on similar variable indices.

At December 31, 2015, we had variable interest rate long-term debt from our outstanding term loans and revolver of $2,502 million, which excludes $247 million of securitization obligations. The weighted average interest rate on the outstanding term loans and revolver at December 31, 2015 was 3.48%. The interest rate with respect to the Term Loan B Facility is based on adjusted LIBOR plus 3.00% (with a LIBOR floor of 0.75%). The interest rate with respect to the Term Loan A Facility and Revolving Credit Facility is based on adjusted LIBOR plus an additional margin subject to adjustment based on the current senior secured leverage ratio. Based on the December 31, 2015 senior secured leverage ratio, the LIBOR margin was 2.25%. At December 31, 2015 the one-month LIBOR rate was 0.43%; therefore we have estimated that a 0.25% increase in LIBOR would have a $2 million impact on our annual interest expense.

We have entered into interest rate swaps with a notional value of $1,475 million to manage a portion of our exposure to changes in interest rates associated with our variable rate borrowings. Our interest rate swaps are as follows:

Notional Value (in millions)	Commencement Date	Expiration Date
$225	July 2012	February 2018
$200	January 2013	February 2018
$600	August 2015	August 2020
$450	November 2017	November 2022

The swaps help protect our outstanding variable rate borrowings from future interest rate volatility. The fixed interest rates on the swaps range from 2.07% to 2.89%. The Company had a liability for the fair value of the interest rate swaps of $47 million and $40 million at December 31, 2015 and 2014, respectively. The fair value of these interest rate swaps is subject to movements in LIBOR and will fluctuate in future periods. We have estimated that a 0.25% increase in the LIBOR yield curve would increase the fair value of our interest rate swaps by $13 million and would decrease interest expense. While these results may be used as a benchmark, they should not be viewed as a forecast of future results.

Item 8. Financial Statements and Supplementary Data.

See "Index to Financial Statements" on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

Not applicable.

Item 9A. Controls and Procedures.

Controls and Procedures for Realogy Holdings Corp.

(a) Realogy Holdings Corp. ("Realogy Holdings") maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its filings under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the periods specified in the rules and forms of the Securities and Exchange Commission. Such information is accumulated and communicated to its management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Realogy Holdings' management, including the Chief Executive Officer and the Chief Financial Officer, recognizes that any set of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

(b) As of the end of the period covered by this Annual Report on Form 10-K, Realogy Holdings has carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Realogy Holdings' disclosure controls and procedures are effective at the "reasonable assurance" level.

(c) There has not been any change in Realogy Holdings' internal control over financial reporting during the period covered by this Annual Report on Form 10-K that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting for Realogy Holdings Corp.

Realogy Holdings' management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Realogy Holdings' internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Realogy Holdings' internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of Realogy Holdings' assets;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of Realogy Holdings' management and directors; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Realogy Holdings' assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of Realogy Holdings' internal control over financial reporting as of December 31, 2015. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its 2013 Internal Control-Integrated Framework. Based on this assessment, management determined that Realogy Holdings maintained effective internal control over financial reporting as of December 31, 2015.

Auditor Report on the Effectiveness of Realogy Holdings Corp.'s Internal Control Over Financial Reporting

PricewaterhouseCoopers LLP, the independent registered public accounting firm that audited the financial statements included in this Annual Report, has issued an attestation report on the effectiveness of Realogy Holdings' internal control over financial reporting, which is included within their audit opinion on page F-2.

* * *

Controls and Procedures for Realogy Group LLC

(a) Realogy Group LLC ("Realogy Group") maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in its filings under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized and reported within the periods specified in the rules and forms of the Securities and Exchange Commission. Such information is accumulated and communicated to its management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Realogy Group's management, including the Chief Executive Officer and

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the Chief Financial Officer, recognizes that any set of controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

(b) As of the end of the period covered by this Annual Report on Form 10-K, Realogy Group has carried out an evaluation, under the supervision and with the participation of its management, including its Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of its disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that Realogy Group's disclosure controls and procedures are effective at the "reasonable assurance" level.

(c) There has not been any change in Realogy Group's internal control over financial reporting during the period covered by this Annual Report on Form 10-K that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

Management’s Report on Internal Control Over Financial Reporting for Realogy Group LLC

Realogy Group’s management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Realogy Group’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Realogy Group’s internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of Realogy Group’s assets;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of Realogy Group’s management and directors; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of Realogy Group’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of Realogy Group’s internal control over financial reporting as of December 31, 2015. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in its 2013 Internal Control-Integrated Framework. Based on this assessment, management determined that Realogy Group maintained effective internal control over financial reporting as of December 31, 2015.

Auditor Report on the Effectiveness of Realogy Group LLC's Internal Control Over Financial Reporting

PricewaterhouseCoopers LLP, the independent registered public accounting firm that audited the financial statements included in this Annual Report, has issued an attestation report on the effectiveness of Realogy Group's internal control over financial reporting, which is included within their audit opinion on page F-3.

Item 9B. Other Information.

Severance Agreements with the Named Executive Officers Who Report to the CEO

On February 23, 2016, Realogy Holdings Corp. (the “Company”) entered into severance agreements with Messrs. Hull, Casey, Perriello and Zipf (each, a “Severance Agreement”). The Severance Agreements replaced and superseded the executives' employment agreements that were scheduled to expire in April 2016. While the terms of the employment agreement and the new severance agreement are substantially similar there are certain modifications to reflect current executive compensation best practices.

The Severance Agreements provide for severance protections upon certain terminations of employment not related to a change in control, in addition to protections for certain terminations in connection with a change in control as was similarly provided in the employment agreements. The material terms and conditions of the Severance Agreements

are summarized below.
Term. Each Severance Agreement will commence on February 23, 2016 and expire on February 23, 2019. If a change in control of the Company (as defined in the Severance Agreement) occurs during the term, the term will expire twenty-four (24) months following the date of the change in control (or February 23, 2019, if later).
Annual Compensation. The following chart provides each executive's annual base salary and annual target cash incentive percentage. Each executive may also be eligible for long-term incentive compensation awards as determined by the Compensation Committee of the Board of Directors in its sole discretion.

Name	Annual Base Salary	Annual Target Cash Incentive Percentage of Eligible Earnings
Anthony E. Hull	$675,000	100%
Donald J. Casey	$450,000	100%
Alexander E. Perriello, III	$600,000	100%
Bruce Zipf	$625,000	100%

Non-Change-in-Control Severance. If the executive experiences a "qualifying termination" (as described below) not in connection with a change in control of the Company, the Company will provide the executive with the following severance payments and benefits, subject to the executive's continued compliance with his restrictive covenants and the execution and non-revocation of a release of claims:

- an amount equal to one times (or with respect to Mr. Hull, two times) the sum of the executive's annual base salary and annual bonus, payable in twenty-four equal monthly installments;
- the continuation of medical and dental benefits on terms no less favorable to the executive than those terms in effect immediately prior to the termination of employment for a period of up to eighteen months; and
- outplacement services for a period of up to twelve months, the value of such services not to exceed $50,000.

Change in Control Severance. If the executive experiences a qualifying termination within 24 months following a change in control of the Company, the Company will provide the executive with the following severance payments and benefits, subject to the executive's continued compliance with his restrictive covenants and the execution and non-revocation of a release of claims:

- an amount equal to two times the sum of the executive's annual base salary and annual bonus, payable in lump sum;
- the continuation of medical and dental benefits on terms no less favorable to the executive than those terms in effect immediately prior to the termination of employment for a period of up to eighteen months; and
- outplacement services for a period of up to twelve months, the value of such services not to exceed $50,000.

Pro-Rata Bonus. Upon a qualifying termination, the executives will also receive a pro-rata bonus in respect of the fiscal year in which the executive's termination of employment occurs, determined based on the Company's actual performance and payable at such time such bonuses are payable to other employees of the Company.
Qualifying Termination. A "qualifying termination" means the executive's employment is terminated by the Company without cause or the executive resigns with good reason, in either case, during the term of the agreement.

Section 280G. The Severance Agreement provides that if payments and benefits provided to the executive would constitute an “excess parachute payment” for purposes of Section 280G of the tax code, the executive will either have his payments and benefits reduced to the highest amount that could be paid without triggering Section 280G or receive the after-tax amount of his payment and benefits, whichever results in the greater after-tax benefit, taking into account the excise tax imposed under Section 4999 of the tax code and any applicable federal, state and local taxes.

Restrictive Covenants and Clawback. Under the Severance Agreement, the executive is subject to a non-compete period of two years and a non-solicitation period of three years following the executive’s termination of employment for any reason. The Company’s Clawback Policy applies in the event the executive breaches his restrictive covenants under the Severance Agreement.

The foregoing description of the material terms of the Severance Agreements do not purport to be a complete description and is qualified in its entirety by reference to the Severance Agreements, which are filed as exhibits to this Annual Report.

Director Not Standing for Re-Election

On February 23, 2016, Brett White notified Realogy Holdings Corp. of his decision not to stand for re-election to the Board of Directors (the "Board") when his current term expires at the Realogy Holdings Corp. 2016 Annual Meeting of Stockholders. Mr. White will continue to serve as a member of the Board until the 2016 Annual Meeting of Stockholders. Mr. White’s decision is based solely on his time commitments as Chairman and Chief Executive Officer of Cushman Wakefield (formerly DTZ Holdings plc). These commitments increased significantly last September with DTZ Holding plc's acquisition of Cushman & Wakefield and his appointment as Chairman and Chief Executive Officer of the combined company, having previously served as Executive Chairman of DTZ Holdings plc.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Identification of Directors

The information required by this item is included in the Proxy Statement under the caption "Election of Directors" and is incorporated by reference to this report.

Identification of Executive Officers

The following provides information regarding individuat fair value. The investment securities are held for the purpose of providing the funding source to pay professional liability claims covered by the insurance subsidiary. Management performs a quarterly assessment of individual investment securities to determine whether declines in market value are temporary or other-than-temporary. Management s investment securities evaluation process involves multiple subjective judgments, often involves estimating the outcome of future events, and requires a significant level of professional judgment in determining whether an impairment has occurred. We evaluate, among other things, the financial position and near term prospects of the issuer, conditions in the issuer s industry, liquidity of the investment, changes in the amount or timing of expected future cash flows from the investment, and recent downgrades of the issuer by a rating agency, to determine if, and when, a decline in the fair value of an investment below amortized cost is considered other-than-temporary. The length of time and extent to which the fair value of the investment is less than amortized cost and our ability and intent to retain the investment, to allow for any anticipated recovery of the investment s fair value, are important components of management s investment securities evaluation process.

Goodwill

Goodwill is not amortized, but is subject to annual impairment tests. In addition to the annual impairment reviews, impairment reviews are performed whenever circumstances indicate a possible impairment may exist. Impairment testing for goodwill is done at the reporting unit level. Reporting units are one level below the business segment level, and our impairment testing is performed at the operating division or market level. We compare the fair value of the reporting unit assets to the carrying amount, on at least an annual basis, to determine if there is potential impairment. If the fair value of the reporting unit assets is less than their carrying value, we compare the fair value of the goodwill to its carrying value. If the fair value of the goodwill is less than its carrying value, an impairment loss is recognized. Fair value of goodwill is estimated based upon internal evaluations of the related long-lived assets for each reporting unit that include quantitative analyses of revenues and cash flows and reviews of recent sales of similar facilities. No goodwill impairment losses were recognized during 2007, 2006 or 2005.

During 2007, goodwill increased by $44 million related to acquisitions, decreased by $45 million related to facility sales and increased by $29 million related to foreign currency translation and other adjustments. During 2006, goodwill increased by $38 million related to acquisitions, decreased by $86 million related to facility sales and increased by $23 million related to foreign currency translation and other adjustments.

HCA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 ACCOUNTING POLICIES (Continued)

Physician Recruiting Agreements

In order to recruit physicians to meet the needs of our hospitals and the communities they serve, we enter into minimum revenue guarantee arrangements to assist the recruited physicians during the period they are relocating and establishing their practices. In November 2005, the Financial Accounting Standards Board (the FASB) issued FASB Staff Position No. 45-3, Application of FASB Interpretation No. 45 to Minimum Revenue Guarantees Granted to a Business or Its Owners (FSP FIN 45-3). Under FSP FIN 45-3, a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the stand-ready obligation undertaken in issuing the guarantee.

FSP FIN 45-3 is effective for minimum revenue guarantees issued or modified on or after January 1, 2006. For periods before January 1, 2006, we expensed physician recruitment agreement amounts as the expenses to be reimbursed were incurred by the recruited physicians, which was generally over a 12 month period. For post January 1, 2006 minimum revenue guarantees, we expense the total estimated guarantee liability amount at the time the physician recruiting agreement becomes effective. We determined that expensing the total estimated liability amount at the agreement effective date was the proper accounting treatment as we could not justify recording a contract-based asset based upon our analysis of the related control, regulatory and legal considerations.

The physician recruiting liability of $22 million and $14 million at December 31, 2007 and 2006, respectively, represents the amount of expense recognized in excess of estimated payments made through December 31, 2007 and 2006, respectively. At December 31, 2007 the maximum amount of all effective, post January 1, 2006 minimum revenue guarantees that could be paid prospectively was $66 million.

Professional Liability Claims

A substantial portion of our professional liability risks is insured through a wholly-owned insurance subsidiary. Reserves for professional liability risks were $1.513 billion and $1.584 billion at December 31, 2007 and 2006, respectively. The current portion of the reserves, $280 million and $275 million at December 31, 2007 and 2006, respectively, is included in other accrued expenses in the consolidated balance sheet. Provisions for losses related to professional liability risks were $163 million, $217 million and $298 million for 2007, 2006 and 2005, respectively, and are included in other operating expenses in our consolidated income statement. Provisions for losses related to professional liability risks are based upon actuarially determined estimates. Loss and loss expense reserves represent the estimated ultimate net cost of all reported and unreported losses incurred through the respective consolidated balance sheet dates. The reserves for unpaid losses and loss expenses are estimated using individual case-basis valuations and actuarial analyses. Those estimates are subject to the effects of trends in loss severity and frequency. The estimates are continually reviewed and adjustments are recorded as experience develops or new information becomes known. Adjustments to the estimated reserve amounts are included in current operating results. The declining provision for losses trend reflects the recognition by the external actuaries of our improving claim frequency and severity trends. This improving frequency and moderating severity can be primarily attributed to tort reforms enacted in key states, particularly Texas, and our risk management and patient safety initiatives, particularly in the area of obstetrics. The reserves for professional liability risks cover approximately 2,600 and 3,000 individual claims at December 31, 2007 and 2006, respectively, and estimates for unreported potential claims. The time period required to resolve these claims can vary depending upon the jurisdiction and whether the claim is settled or litigated. During

2007 and 2006, $236 million and $253 million, respectively, of payments (net of reinsurance recoveries of $5 million during each year) were made for professional and general liability claims. The estimation of the timing of payments beyond a year can vary significantly. Although considerable variability is inherent in professional liability reserve estimates, management believes that the reserves for losses and loss expenses are adequate; however, there can be no assurance that the ultimate liability will not exceed management s estimates.

HCA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 ACCOUNTING POLICIES (Continued)

Professional Liability Claims (Continued)

Subject to a $5 million per occurrence self-insured retention (in place since January 1, 2007), our facilities are insured by our wholly-owned insurance subsidiary for losses up to $50 million per occurrence. The insurance subsidiary has obtained reinsurance for professional liability risks generally above a retention level of $15 million per occurrence. We also maintain professional liability insurance with unrelated commercial carriers for losses in excess of amounts insured by our insurance subsidiary.

The obligations covered by reinsurance contracts are included in the reserves for professional liability risks, as the insurance subsidiary remains liable to the extent the reinsurers do not meet their obligations under the reinsurance contracts. The amounts receivable under the reinsurance contracts of $44 million and $42 million at December 31, 2007 and 2006, respectively, are included in other assets (including $30 million and $10 million December 31, 2007 and 2006, respectively, included in other current assets).

Financial Instruments

Derivative financial instruments are employed to manage risks, including foreign currency and interest rate exposures, and are not used for trading or speculative purposes. We recognize derivative instruments, such as interest rate swap agreements and foreign exchange contracts, in the consolidated balance sheets at fair value. Changes in the fair value of derivatives are recognized periodically either in earnings or in stockholders equity, as a component of other comprehensive income, depending on whether the derivative financial instrument qualifies for hedge accounting, and if so, whether it qualifies as a fair value hedge or a cash flow hedge. Generally, changes in fair values of derivatives accounted for as fair value hedges are recorded in earnings, along with the changes in the fair value of the hedged items that relate to the hedged risk. Gains and losses on derivatives designated as cash flow hedges, to the extent they are effective, are recorded in other comprehensive income, and subsequently reclassified to earnings to offset the impact of the hedged items when they occur. In the event the forecasted transaction to which a cash flow hedge relates is no longer likely, the amount in other comprehensive income is recognized in earnings and generally the derivative is terminated. Changes in the fair value of derivatives not qualifying as hedges, and for any portion of a hedge that is ineffective, are reported in earnings.

The net interest paid or received on interest rate swaps is recognized as interest expense. Gains and losses resulting from the early termination of interest rate swap agreements are deferred and amortized as adjustments to interest expense over the remaining term of the debt originally covered by the terminated swap.

Minority Interests in Consolidated Entities

The consolidated financial statements include all assets, liabilities, revenues and expenses of less than 100% owned entities that we control. Accordingly, we have recorded minority interests in the earnings and equity of such entities.

Recent Pronouncements

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (SFAS 157). SFAS 157 establishes a generally accepted accounting principles (GAAP) framework for measuring fair value, clarifies the definition of fair value within that framework and expands disclosures about the use of fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We do not expect the adoption of SFAS 157 to have a material effect on our financial position or results of operations.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 allows entities to voluntarily

HCA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 1 ACCOUNTING POLICIES (Continued)

Recent Pronouncements (Continued)

choose, at specified election dates, to measure many financial assets and financial liabilities (as well as certain nonfinancial instruments that are similar to financial instruments) at fair value. The election is made on an instrument-by-instrument basis and is irrevocable. If the fair value option is elected for an instrument, then all subsequent changes in fair value for that instrument should be reported in results of operations. SFAS 159 is effective for fiscal years beginning after November 15, 2007. Differences between the amounts recognized in the statements of financial position prior to the adoption of SFAS 159 and the amounts recognized after adoption will be accounted for as a cumulative effect adjustment recorded to the beginning balance of retained earnings. We do not expect the adoption of SFAS 159 to have a material effect on our financial position or results of operations.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), Business Combinations (SFAS 141(R)). This new standard will change the financial accounting and reporting of business combination transactions in consolidated financial statements. SFAS 141(R) replaces FASB Statement No. 141, Business Combinations (SFAS 141). SFAS 141(R) retains the fundamental requirements in SFAS 141 that the acquisition method of accounting (which SFAS 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS 141(R) defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. The scope of SFAS 141(R) is broader than that of SFAS 141, which applied only to business combinations in which control was obtained by transferring consideration. SFAS 141(R) applies the acquisition method to all transactions and other events in which one entity obtains control over one or more other businesses. SFAS 141(R) is effective for business combination transactions for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51 (SFAS 160). This new standard will change the financial accounting and reporting of noncontrolling (or minority) interests in consolidated financial statements. SFAS 160 applies to all entities that prepare consolidated financial statements, except not-for-profit organizations. SFAS 160 amends certain of ARB 51 s consolidation procedures to provide consistency with the requirements of SFAS 141(R). SFAS 160 is required to be adopted concurrently with SFAS 141(R) and is effective for the first annual reporting period beginning on or after December 15, 2008. SFAS 160 will require retroactive restatement to provide for consistent presentation of noncontrolling interests for all periods presented. We are currently evaluating the impact of SFAS 160.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2007 presentation.

NOTE 2 MERGER AND RECAPITALIZATION

On July 24, 2006, we entered into an Agreement and Plan of Merger (the Merger Agreement) with Hercules Holding II, LLC, a Delaware limited liability company (Hercules Holding), and Hercules Acquisition Corporation, a Delaware corporation and a wholly-owned subsidiary of Hercules Holding (Merger Sub). Our board of directors approved the Merger Agreement on the unanimous recommendation of a special committee comprised entirely of disinterested directors. The Merger was approved by a majority of HCA s shareholders at a special meeting of shareholders held on November 16, 2006.

On November 17, 2006, pursuant to the terms of the Merger Agreement, the Investors consummated the acquisition of the Company through the merger of Merger Sub with and into the Company. The Company was the surviving corporation in the Merger. At December 31, 2007, 97.5% of our common stock is owned directly by

HCA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2 MERGER AND RECAPITALIZATION (Continued)

Hercules Holding, with the remainder being owned by certain members of management of the Company. Affiliates of each of the Sponsors indirectly own 24.8% of the common stock of the Company through their ownership in Hercules Holding, and affiliates of the Frist Entities and certain coinvestors directly and indirectly own 23.1% of the common stock of the Company through direct ownership and through their ownership in Hercules Holding. On the effective date of the Merger, each outstanding share of HCA common stock, other than shares contributed by the rollover shareholders or shares owned by HCA, Merger Sub or any shareholders who were entitled to appraisal rights, were cancelled and converted into the right to receive $51.00 in cash. The aggregate purchase price paid for all of the equity securities of the Company was $20.364 billion and was funded by $3.782 billion of equity contributions from the Investors, certain members of management and certain other coinvestors and by incurring $19.964 billion of indebtedness through bank credit facilities and the issuance of debt securities.

The Recapitalization transactions included retaining $7.750 billion of the Company s existing indebtedness, the retirement of $3.182 billion of the Company s existing indebtedness and the payment of $745 million of Recapitalization related fees and expenses.

Rollover and Stockholder Agreements And Equity Securities with Contingent Redemption Rights

In connection with the Merger, the Frist Entities and certain members of our management entered into agreements with the Company and/or Hercules Holding, pursuant to which they elected to invest in the Company, as the surviving corporation in the Merger, through a rollover of employee stock options, a rollover of shares of common stock of the Company, or a combination thereof. Pursuant to the rollover agreements the Frist Entities and management team made rollover investments of $885 million and $125 million, respectively.

The stockholder agreements, among other things, contain agreements among the parties with respect to restrictions on the transfer of shares, including tag along rights and drag along rights, registration rights (including customary indemnification provisions) and other rights. Pursuant to the management stockholder agreements, the applicable employees can elect to have the Company redeem their common stock and vested stock options in the events of death or permanent disability, prior to the consummation of the initial public offering of common stock by the Company. At December 31, 2007, 1,513,400 common shares and 2,249,100 vested stock options were subject to these contingent redemption terms.

Management Agreement

Affiliates of the Investors entered into a management agreement with us pursuant to which such affiliates will provide us with management services. Under the management agreement, the affiliates of the Investors are entitled to receive an aggregate annual management fee of $15 million, which amount will increase annually, beginning in 2008, at a rate equal to the percentage increase in our EBITDA in the applicable year compared to the preceding year, and reimbursement of out-of-pocket expenses incurred in connection with the provision of services pursuant to the agreement. The management agreement has an initial term expiring on December 31, 2016, provided that the term will be extended annually for one additional year unless we or the Investors provide notice to the other of their desire not to automatically extend the term. The management agreement provided that affiliates of the Investors receive aggregate transaction fees of $175 million in connection with certain services provided in connection with the Merger and related transactions. In addition, the management agreement provides that the affiliates of the Investors are entitled to receive a fee equal to 1% of the gross transaction value in connection with certain financing, acquisition, disposition, and change of control transactions, as well as a termination fee based on the net present value of future payment obligations under the management agreement in the event of an initial public offering or under certain other circumstances. The agreement also contains customary exculpation and indemnification provisions in favor of the Investors and their affiliates.

HCA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2 MERGER AND RECAPITALIZATION (Continued)

Recapitalization Transaction Costs

For the year ended December 31, 2006, our results of operations include the following expenses related to the Recapitalization (dollars in millions):

Compensation expense related to accelerated vesting of stock options and restricted stock, and other employee benefits	$ 258
Consulting, legal, accounting and other transaction costs	131
Loss on extinguishment of debt	53
Total	$ 442

In addition to these amounts, approximately $77 million of transaction costs were recorded directly to shareholders deficit, and an additional $568 million of transaction costs were capitalized as deferred loan costs.

NOTE 3 SHARE-BASED COMPENSATION

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards No. 123(R), Share-Based Payment (SFAS 123(R)), using the modified prospective application transition method. Under this method, compensation cost is recognized, beginning January 1, 2006, based on the requirements of SFAS 123(R) for all share-based awards granted after the effective date, and based on Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123), for all awards granted to employees prior to January 1, 2006 that were unvested on the effective date. Prior to January 1, 2006, we applied Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25) and related interpretations in accounting for our employee stock benefit plans. Accordingly, no compensation cost was recognized for stock options granted under the plans because the exercise prices for options granted were equal to the quoted market prices on the option grant dates and all option grants were to employees or directors. Results for periods prior to January 1, 2006 have not been restated.

As a result of adopting SFAS 123(R), income before taxes for 2006 was lower by $78 million ($48 million after tax), than if we had continued to account for share-based compensation under APB 25. Upon consummation of the Merger, all outstanding stock options (other than certain options held by certain rollover shareholders) became fully vested, were cancelled and converted into the right to receive a cash payment equal to the number of shares underlying the options multiplied by the amount (if any) by which $51.00 exceeded the option exercise price. The acceleration of vesting of stock options resulted in the recognition of $42 million of additional share-based compensation expense for 2006.

Certain management holders of outstanding HCA stock options were permitted to retain certain of their stock options (the Rollover Options) in lieu of receiving the merger consideration (the amount, if any, by which $51.00 exceeded the option exercise price). The Rollover Options remain outstanding in accordance with the terms of the governing stock incentive plans and grant agreements pursuant to which the holder originally received the stock option grants. However, immediately after the Recapitalization, the exercise price and number of shares subject to the rollover option agreement were adjusted so that the aggregate intrinsic value for each applicable option holder was maintained and the exercise price for substantially all the options was adjusted to $12.75 per option. Pursuant to the rollover option agreement, 10,967,500 prerecapitalization HCA stock options were converted into 2,285,200 Rollover Options, of which 2,249,100 are outstanding and exercisable at December 31, 2007.

SFAS 123(R) requires that the benefits of tax deductions in excess of amounts recognized as compensation cost be reported as a financing cash flow, rather than an operating cash flow, as required under prior accounting guidance. Tax benefits of $1 million and $97 million from tax deductions in excess of amounts recognized as

HCA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 SHARE-BASED COMPENSATION (Continued)

compensation cost were reported as financing cash flows in 2007 and 2006, respectively, compared to $163 million being reported as operating cash flows for 2005.

For periods prior to the adoption of SFAS 123(R), SFAS 123 required us to determine pro forma net income as if compensation cost for our employee stock option and stock purchase plans had been determined based upon fair values at the grant dates. For 2005, reported net income of $1.424 billion would have been reduced to $1.401 billion on a pro forma basis.

During the year ended December 31, 2007 we had the following share-based compensation plans:

2006 Stock Incentive Plan

In connection with the Recapitalization, the 2006 Stock Incentive Plan for Key Employees of HCA Inc. and its Affiliates (the 2006 Plan) was established. The 2006 Plan is designed to promote the long term financial interests and growth of the Company and its subsidiaries by attracting and retaining management and other personnel and key service providers and to motivate management personnel by means of incentives to achieve long range goals and further the alignment of interests of participants with those of our stockholders through opportunities for increased stock, or stock-based, ownership in the Company. The 2006 Plan permits the granting of awards covering 10% of our fully diluted equity immediately after consummation of the Recapitalization. A portion of the options under the 2006 Plan vests solely based upon continued employment over a specific period of time, and a portion of the options vest based both upon continued employment over a specific period of time and upon the achievement of predetermined performance Investor return and market targets over time. We granted 9,328,000 options under the 2006 Plan during 2007. As of December 31, 2007, no options granted under the 2006 Plan have vested, and there were 1,733,700 shares available for future grants under the 2006 Plan.

2005 Equity Incentive Plan

Prior to the Recapitalization, the HCA 2005 Equity Incentive Plan was the primary plan under which stock options and restricted stock were granted to officers, employees and directors. Upon consummation of the Recapitalization, all shares of restricted stock became fully vested, were cancelled and converted into the right to receive a cash payment of $51.00 per restricted share. During 2006 and 2005, we recognized $247 million and $30 million, respectively, of compensation costs related to restricted share grants. The acceleration of vesting of restricted stock resulted in the recognition of $201 million of the total compensation expense related to restricted stock for 2006.

HCA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 SHARE-BASED COMPENSATION (Continued)

2005 Equity Incentive Plan (Continued)

A summary of restricted share activity during 2006 and 2005 follows (share amounts in thousands):

	Number of Shares	Weighted Average Grant Date Fair Value
Restricted shares, December 31, 2004	1,520	$ 40.43
Granted	3,277	44.45
Vested	(908)	42.20
Cancelled	(141)	43.07
Restricted shares, December 31, 2005	3,748	43.42
Granted	2,979	49.11
Vested	(494)	41.40
Cancelled	(232)	45.98
Settled in Recapitalization	(6,001)	46.31
Restricted shares, December 31, 2006		

Employee Stock Purchase Plan (ESPP)

Prior to the Recapitalization, our ESPP provided an opportunity to purchase shares of HCA common stock at a discount (through payroll deductions over six-month periods) to substantially all employees. During 2006 and 2005, ESPP purchases of 931,000 shares and 1,662,400 shares, respectively, were made. Due to the Recapitalization, the second six-month ESPP purchase for 2006 was cash settled. The fair value of the right to purchase ESPP shares was estimated using a valuation model with the weighted average assumptions indicated in the following table.

	2006	2005
Risk-free interest rate	4.58%	2.78%
Expected volatility	14%	23%
Expected life, in years	0.5	0.5
Expected dividend yield	0.79%	1.20%
Grant date fair value	$ 9.38	$ 9.98

Management Stock Purchase Plan (MSPP)

Prior to the Recapitalization, our MSPP allowed eligible employees to defer an elected percentage (not to exceed 25%) of their base salaries through the purchase of restricted stock at a 25% discount from the average market price. Purchases of restricted shares were made twice a year and the shares vested after three years. During 2006 and 2005, MSPP purchases of 156,600 shares and 145,600 shares, respectively, were made at weighted average purchase date discounted (25% discount) fair values of $35.77 per share and $33.22 per share, respectively. For the plan period July 1, 2006 through November 17, 2006, the MSPP was cash settled due to the Recapitalization. The purchase date discounted price for this period would have been $36.79.

Stock Option Activity All Plans

The fair value of each stock option award is estimated on the grant date, using option valuation models and the weighted average assumptions indicated in the following table. Awards under the 2006 Plan generally vest based on continued employment and based upon achievement of certain financial and Investor return-based targets. Each

HCA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 3 SHARE-BASED COMPENSATION (Continued)

Stock Option Activity All Plans (Continued)

grant is valued as a single award with an expected term equal to the average expected term of the component vesting tranches. We use historical option exercise behavior data and other factors to estimate the expected term of the options. The expected term of the option is limited by the contractual term, and employee post-vesting termination behavior is incorporated in the historical option exercise behavior data. Compensation cost is recognized on the straight-line attribution method. The straight-line attribution method requires that total compensation expense recognized must at least equal the vested portion of the grant-date fair value. The expected volatility is derived using historical stock price information of certain peer group companies for a period of time equal to the expected option term. The risk-free interest rate is the approximate yield on United States Treasury Strips having a life equal to the expected option life on the date of grant. The expected life is an estimate of the number of years an option will be held before it is exercised.

	2007	2006	2005
Risk-free interest rate	**4.86%**	4.70%	3.99%
Expected volatility	**30%**	24%	33%
Expected life, in years	**5**	5	5
Expected dividend yield		1.09%	1.27%

Information regarding stock option activity during 2007, 2006 and 2005 is summarized below (share amounts in thousands):

	Stock Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (dollars in millions)
Options outstanding, December 31, 2004	52,262	$ 34.94		
Granted	2,644	49.25		
Exercised	(27,034)	34.87		
Cancelled	(66)	42.54		
Options outstanding, December 31, 2005	27,806	36.35		
Granted	2,566	48.64		
Exercised	(5,220)	26.24		
Cancelled	(1,008)	49.76		
Settled in Recapitalization	(13,177)	36.22		

Rolled over in Recapitalization	existing	(10,967)	42.98		
Rolled over in Recapitalization	new	2,285	12.50		
Options outstanding, December 31, 2006		2,285	12.50		
Granted		9,328	51.34		
Exercised		(36)	12.75		
Cancelled		(405)	51.00		
Options outstanding, December 31, 2007		11,172	43.54	8.2	$ 195
Options exercisable, December 31, 2007		2,249	$ 12.50	4.3	$ 109

The weighted average fair values of stock options granted during 2007, 2006 and 2005 were $16.01, $10.76 and $15.53 per share, respectively. The total intrinsic value of stock options exercised in the year ended December 31, 2007 was $1.5 million.

HCA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 4 ACQUISITIONS AND DISPOSITIONS

During 2007, we received proceeds of $661 million and recognized a net pretax gain of $443 million ($272 million after tax) on the sales of three hospitals. We also received proceeds of $106 million and recognized a net pretax gain of $28 million ($18 million after tax) on the sales of real estate investments. During 2006, we received proceeds of $560 million and recognized a net pretax gain of $176 million ($85 million after tax) on the sales of nine hospitals. We also received proceeds of $91 million and recognized a net pretax gain of $29 million ($18 million after tax) on the sales of real estate investments and our equity investment in a hospital joint venture. During 2005, we received proceeds of $260 million and recognized a net pretax gain of $49 million ($19 million after tax) on the sales of five hospitals, and we received proceeds of $60 million and recognized a net pretax gain of $29 million ($17 million after tax) related to the sales of real estate investments.

During 2007 and 2005, we did not acquire any hospitals, but paid $32 million and $126 million, respectively, for other health care entities. During 2006, we paid $63 million to acquire three hospitals and $49 million to acquire other health care entities. Purchase price amounts have been allocated to the related assets acquired and liabilities assumed based upon their respective fair values. The purchase price paid in excess of the fair value of identifiable net assets of acquired entities aggregated $44 million, $38 million and $129 million in 2007, 2006 and 2005, respectively. The consolidated financial statements include the accounts and operations of the acquired entities subsequent to the respective acquisition dates. The pro forma effects of the acquired entities on our results of operations for periods prior to the respective acquisition dates were not significant.

NOTE 5 IMPAIRMENTS OF LONG-LIVED ASSETS

During 2007, we recorded a pretax charge of $24 million to adjust the value of a building in our Central Group to estimated fair value. The carrying value for a hospital closed during 2006 was reduced to fair value of $5 million, based upon estimates of sales value, resulting in a pretax charge of $16 million that affected our Corporate and Other Group. During 2006 we also decided to terminate a construction project and incurred a pretax charge of $8 million that affected our Corporate and Other Group. No asset impairment charges were incurred during 2005.

The asset impairment charges did not have a significant impact on our operations or cash flows and are not expected to significantly impact cash flows for future periods. The impairment charges affected our property and equipment asset category.

NOTE 6 INCOME TAXES

The provision for income taxes consists of the following (dollars in millions):

	2007	2006	2005
Current:			
Federal.	**$566**	$ 993	$ 668
State	**37**	62	63
Foreign	**32**	35	37

Deferred:			
Federal	**(391)**	(426)	(39)
State	**(62)**	(43)	4
Foreign	**134**	5	(3)
	$316	$ 626	$ 730

HCA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 INCOME TAXES (Continued)

A reconciliation of the federal statutory rate to the effective income tax rate follows:

	2007	2006	2005
Federal statutory rate	**35.0%**	35.0%	35.0%
State income taxes, net of federal income tax benefit	**0.2**	0.4	2.1
Change in liability for uncertain tax positions	**(7.2)**		
Settlements of tax examinations			(2.2)
Nondeductible intangible assets		1.5	0.6
Repatriation of foreign earnings			(1.1)
Other items, net	**(1.4)**	0.7	(0.5)
Effective income tax rate	**26.6%**	37.6%	33.9%

Based on new information received in 2007, related primarily to tax positions taken in prior taxable periods, we reduced our provision for income taxes by $85 million. During 2007, we also recorded reductions to the provision for income taxes of $39 million to adjust 2006 state tax accruals to the amounts recorded on completed tax returns and based upon an analysis of the Recapitalization costs. During 2005, we recognized tax benefits of $48 million related to a favorable tax settlement regarding our divestiture of certain noncore business units in 1998 and 2001 and $24 million related to the repatriation of foreign earnings.

A summary of the items comprising the deferred tax assets and liabilities at December 31 follows (dollars in millions):

	2007		2006	
	Assets	Liabilities	Assets	Liabilities
Depreciation and fixed asset basis differences	**$**	**$ 329**	$	$ 485
Allowances for professional liability and other risks	**197**		118	
Accounts receivable	**884**		424	
Compensation	**156**		129	
Other	**633**	**259**	475	215
	$ 1,870	**$ 588**	$ 1,146	$ 700

The tax benefits associated with share-based compensation decreased the current tax payable by $1 million in 2007 and increased the current tax receivable by $97 million and $163 million in 2006 and 2005, respectively. Such benefits were recorded as increases to stockholders equity.

At December 31, 2007, state net operating loss carryforwards (expiring in years 2008 through 2027) available to offset future taxable income approximated $106 million. Utilization of net operating loss carryforwards in any one year may be limited and, in certain cases, result in an adjustment to intangible assets. Net deferred tax assets related to such carryforwards are not significant.

We are currently contesting before the Appeals Division of the Internal Revenue Service (the IRS) certain claimed deficiencies and adjustments proposed by the IRS in connection with its examination of the 2001 and 2002 federal income tax returns for HCA and 15 affiliates that are treated as partnerships for federal income tax purposes (affiliated partnerships). We expect the IRS will complete its examination of the 2003 and 2004 federal income tax returns for HCA and 19 affiliated partnerships during the first quarter of 2008 and intend to contest certain claimed deficiencies and adjustments proposed by the IRS in connection with these audits before the IRS Appeals Division.

HCA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 INCOME TAXES (Continued)

The disputed items pending before the IRS Appeals Division for 2001 and 2002, or proposed by the IRS Examination Division for 2003 and 2004, include the deductibility of a portion of the 2001 and 2003 government settlement payments, the timing of recognition of certain patient service revenues in 2001 through 2004, the method for calculating the tax allowance for doubtful accounts in 2002 through 2004, and the amount of insurance expense deducted in 2001 and 2002.

Thirty-two taxable periods of HCA, its predecessors, subsidiaries and affiliated partnerships ended in 1987 through 2000, for which the primary remaining issue is the computation of the tax allowance for doubtful accounts, are pending before the IRS Examination Division or the United States Tax Court as of December 31, 2007. HCA, its predecessors and subsidiaries are also subject to examination in approximately 36 states for taxable periods ended in 1987 through 2007. Our international operations are subject to examination by United Kingdom taxing authorities for taxable periods from 2004 through 2007 and by Swiss taxing authorities for taxable periods from 2002 through 2007.

The IRS began an audit of the 2005 and 2006 federal income tax returns for HCA during the first quarter of 2008. We expect the IRS will open examinations of the 2005 and 2006 federal income tax returns for one or more affiliated partnerships during 2008.

Effective January 1, 2007, we adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). FIN 48 creates a single model to address uncertainty in income tax positions and clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. It also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 applies to all tax positions related to income taxes subject to FASB Statement No. 109, Accounting for Income Taxes. Interest expense of $17 million related to taxing authority examinations is included in the provision for income taxes for the year ended December 31, 2007.

Differences of $38 million between the amounts recognized in the statements of financial position prior to the adoption of FIN 48 and the amounts recognized after adoption were recorded as a cumulative effect adjustment, decreasing our liability for unrecognized tax benefits and increasing the balance of our retained earnings as of January 1, 2007.

The following table summarizes the activity related to our unrecognized tax benefits (dollars in millions):

Balance at January 1, 2007	$ 555
Additions based on tax positions related to the current year	70
Additions for tax positions of prior years	112
Reductions for tax positions of prior years	(101)
Settlements	2
Lapse of applicable statutes of limitations	(16)
Balance at December 31, 2007	$ 622

Unrecognized tax benefits of $271 million, plus accrued interest of $218 million, as of December 31, 2007, would affect the effective tax rate, if realized. Our liability for unrecognized tax benefits was $760 million and $828 million, including accrued interest of $209 million and $218 million and excluding $4 million and $12 million that were recorded as reductions of the related deferred tax assets, as of January 1, 2007 and December 31, 2007, respectively. The liability for unrecognized tax benefits does not reflect deferred tax assets related to the deductibility of interest and state taxes included therein or a $215 million refundable deposit that we made in 2006, which is recorded in noncurrent assets.

HCA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 6 INCOME TAXES (Continued)

Depending on the resolution of the IRS disputes, the completion of examinations by federal, state or international taxing authorities, or the expiration of statutes of limitation for specific taxing jurisdictions, we believe it is reasonably possible that our liability for unrecognized tax benefits may significantly increase or decrease within the next twelve months. However, we are currently unable to estimate the range of any possible change.

NOTE 7 INVESTMENTS OF INSURANCE SUBSIDIARY

A summary of the insurance subsidiary s investments at December 31 follows (dollars in millions):

	2007			
		Unrealized Amounts		
	Amortized Cost	Gains	Losses	Fair Value
Debt securities:				
States and municipalities	$ 1,675	$ 23	$ (2)	$ 1,696
Asset-backed securities	59	1		60
Corporate and other	5			5
Money market funds	109			109
	1,848	24	(2)	1,870
Equity securities:				
Preferred stocks	26		(1)	25
Common stocks	4			4
	30		(1)	29
	$ 1,878	$ 24	$ (3)	1,899
Amounts classified as current assets				(230)
Investment carrying value				$ 1,669

HCA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 INVESTMENTS OF INSURANCE SUBSIDIARY (Continued)

	Amortized Cost	2006 Unrealized Amounts Gains	Losses	Fair Value
Debt securities:				
States and municipalities	$ 1,174	$ 24	$ (3)	$ 1,195
Asset-backed securities	64	4		68
Corporate and other	8			8
Money market funds	858			858
	2,104	28	(3)	2,129
Equity securities:				
Preferred stocks	10		(1)	9
Common stocks	4	1		5
	14	1	(1)	14
	$ 2,118	$ 29	$ (4)	2,143
Amounts classified as current assets				(257)
Investment carrying value				$ 1,886

At December 31, 2007 and 2006 the investments of our insurance subsidiary were classified as available-for-sale. The fair value of investment securities is generally based on quoted market prices. Changes in temporary unrealized gains and losses are recorded as adjustments to other comprehensive income. At December 31, 2007 and 2006, $106 million and $111 million, respectively, of our investments were subject to the restrictions included in insurance bond collateralization and assumed reinsurance contracts.

Scheduled maturities of investments in debt securities at December 31, 2007 were as follows (dollars in millions):

	Amortized Cost	Fair Value
Due in one year or less	$ 226	$ 227
Due after one year through five years	327	333
Due after five years through ten years	344	356

Due after ten years		892		894
		1,789		1,810
Asset-backed securities		59		60
	$	1,848	$	1,870

The average expected maturity of the investments in debt securities approximated 2.1 years at December 31, 2007. Expected and scheduled maturities may differ because the issuers of certain securities may have the right to call, prepay or otherwise redeem such obligations.

HCA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 INVESTMENTS OF INSURANCE SUBSIDIARY (Continued)

The cost of securities sold is based on the specific identification method. Sales of securities for the years ended December 31 are summarized below (dollars in millions):

	2007	2006	2005
Debt securities:			
Cash proceeds	**$ 272**	$ 401	$ 173
Gross realized gains	**8**	1	2
Gross realized losses	**1**	2	1
Equity securities:			
Cash proceeds	**$ 87**	$ 1,509	$ 440
Gross realized gains	**1**	256	63
Gross realized losses		12	9

NOTE 8 FINANCIAL INSTRUMENTS

Interest Rate Swap Agreements

We have entered into interest rate swap agreements to manage our exposure to fluctuations in interest rates. These swap agreements involve the exchange of fixed and variable rate interest payments between two parties based on common notional principal amounts and maturity dates. Pay-fixed interest rate swaps effectively convert LIBOR indexed variable rate instruments to fixed interest rate obligations. The net interest payments, based on the notional amounts in these agreements, generally match the timing of the related liabilities. The notional amounts of the swap agreements represent amounts used to calculate the exchange of cash flows and are not our assets or liabilities. Our credit risk related to these agreements is considered low because the swap agreements are with creditworthy financial institutions. The interest payments under these agreements are settled on a net basis.

The following table sets forth our interest rate swap agreements, which have been designated as cash flow hedges, at December 31, 2007 (dollars in millions):

	Notional Amount	Termination Date	Fair Value
Pay-fixed interest rate swap	$ 4,000	November 2011	$ (141)
Pay-fixed interest rate swap	4,000	November 2011	(123)

The fair value of the interest rate swaps at December 31, 2007 represents the estimated amounts we would pay upon termination of these agreements.

Cross Currency Swaps

The Company and certain subsidiaries have incurred obligations and entered into various intercompany transactions where such obligations are denominated in a currency (Euro), other than the functional currencies (United States Dollar and Great Britain Pound) of the parties executing the trade. In order to better match the cash flows of our obligations and intercompany transactions with cash flows from operations, we entered into various cross currency swaps. Our credit risk related to these agreements is considered low because the swap agreements are with creditworthy financial institutions.

HCA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 8 FINANCIAL INSTRUMENTS (Continued)

Cross Currency Swaps (Continued)

The cross currency swaps were not designated as hedges and changes in fair value are recognized in results of operations. The following table sets forth our cross currency swap agreements at December 31, 2007 (amounts in millions):

		Notional Amount	Termination Date	Fair Value
Euro	United States Dollar Currency Swap	568 Euro	December 2011	$ 107
Euro	Great Britain Pound (GBP) Currency Swap	41 GBP	December 2011	7

The fair value of the cross currency swaps at December 31, 2007 represents the estimated amounts we would receive upon termination of these agreements.

Fair Value Information

At December 31, 2007 and 2006, the fair values of cash and cash equivalents, accounts receivable and accounts payable approximated carrying values due to the short-term nature of these instruments. The estimated fair values of other financial instruments subject to fair value disclosures are generally determined based on quoted market prices. The estimated fair values and the related carrying amounts are as follows (dollars in millions):

	2007		**2006**	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Assets:				
Investments of insurance subsidiary	**$ 1,899**	**$ 1,899**	$ 2,143	$ 2,143
Interest rate swaps (Other assets)			47	47
Cross currency swaps (Other assets)	**114**	**114**	17	17
Liabilities:				
Long-term debt	**$ 27,308**	**$ 26,127**	$ 28,408	$ 28,096
Interest rate swaps (Income taxes and other liabilities)	**264**	**264**		
Physician recruiting liability (Income taxes and other liabilities)	**22**	**22**	14	14

HCA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9 LONG-TERM DEBT

A summary of long-term debt at December 31, including related interest rates at December 31, 2007, follows (dollars in millions):

	2007	2006
Senior secured asset-based revolving credit facility (effective interest rate of 6.4%)	**$ 1,350**	$ 1,830
Senior secured revolving credit facility		40
Senior secured term loan facilities (effective interest rate of 7.0%)	**12,317**	12,870
Other senior secured debt (effective interest rate of 6.7%)	**427**	445
First lien debt	**14,094**	15,185
Senior secured cash-pay notes (effective interest rate of 9.6%)	**4,200**	4,200
Senior secured toggle notes (effective interest rate of 10.0%)	**1,500**	1,500
Second lien debt	**5,700**	5,700
Senior unsecured notes payable through 2095 (effective interest rate of 7.3%)	**7,514**	7,523
Total debt (average life of seven years, rates averaging 7.6%)	**27,308**	28,408
Less amounts due within one year	**308**	293
	$ 27,000	$ 28,115

Senior Secured Credit Facilities

In connection with the November 2006 Recapitalization, we entered into (i) a $2.000 billion senior secured asset-based revolving credit facility with a borrowing base of 85% of eligible accounts receivable, subject to customary reserves and eligibility criteria ($650 million available at December 31, 2007) (the ABL credit facility) and (ii) a senior secured credit agreement (the cash flow credit facility and, together with the ABL credit facility, the senior secured credit facilities), consisting of a $2.000 billion revolving credit facility ($1.857 billion available at December 31, 2007 after giving effect to certain outstanding letters of credit), a $2.750 billion term loan A ($2.638 billion outstanding at December 31, 2007), a $8.800 billion term loan B ($8.712 billion outstanding at December 31, 2007) and a 1.0 billion European term loan (663 million, or $967 million, outstanding at December 31, 2007) under which one of our European subsidiaries is the borrower.

Borrowings under the senior secured credit facilities bear interest at a rate equal to, as determined by the type of borrowing, either an applicable margin plus, at our option, either (a) a base rate determined by reference to the higher of (1) the federal funds rate plus 1/2 of 1% or (2) the prime rate of Bank of America or (b) a LIBOR rate for the currency of such borrowing for the relevant interest period, plus, in each case, an applicable margin. The applicable margin for borrowings under the senior secured credit facilities, with the exception of term loan B where the margin is static, may be reduced subject to attaining certain leverage ratios. On February 16, 2007, we amended the cash flow credit facility to reduce the applicable margins with respect to the term loan borrowings thereunder. On June 20, 2007, we amended the ABL credit facility to reduce the applicable margin effective January 1, 2008, with respect to borrowings thereunder.

The ABL facility and the $2.000 billion revolving credit facility portion of the cash flow credit facility expire November 2012. We began making required, quarterly installment payments on each of the term loan facilities during March 2007. The final payment under term loan A is in November 2012. The final payments under term loan B and the European term loan are in November 2013. The senior secured credit facilities contain a number of covenants that restrict, subject to certain exceptions, our (and some or all of our subsidiaries) ability to incur additional indebtedness, repay subordinated indebtedness, create liens on assets, sell assets, make investments,

HCA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9 LONG-TERM DEBT (Continued)

Senior Secured Credit Facilities (Continued)

loans or advances, engage in certain transactions with affiliates, pay dividends and distributions, and enter into sale and leaseback transactions. In addition, we are required to satisfy and maintain a maximum total leverage ratio covenant under the cash flow facility and, in certain situations under the ABL credit facility, a minimum interest coverage ratio covenant.

We use interest rate swap agreements to manage the floating rate exposure of our debt portfolio. In the fourth quarter of 2006, we entered into two interest rate swap agreements, in a total notional amount of $8 billion, in order to hedge a portion of our exposure to variable rate interest payments associated with the senior secured credit facility. The interest rate swaps expire in November 2011. The effect of the interest rate swaps is reflected in the effective interest rate for the senior secured credit facilities.

Senior Secured Notes

In November 2006, we issued $4.200 billion of senior secured notes (comprised of $1.000 billion of 91/8% notes due 2014 and $3.200 billion of 91/4% notes due 2016), and $1.500 billion of 95/8% senior secured toggle notes (which allow us, at our option, to pay interest in-kind during the first five years) due 2016, which are subject to certain standard covenants.

Significant 2006 Financing Activities

Proceeds from the senior secured credit facilities and the senior secured notes were used in connection with the closing of the Recapitalization. Amounts owed under our previous bank credit agreements were repaid at the close of the Recapitalization. In connection with the Recapitalization, we also tendered for all amounts outstanding under the 8.85% notes due 2007, the 7.00% notes due 2007, the 7.25% notes due 2008, the 5.25% notes due 2008 and the 5.50% notes due 2009 (collectively, the Notes). Approximately 97% of the $1.365 billion total outstanding amount under the Notes was repurchased pursuant to the tender.

In February 2006, we issued $1.000 billion of 6.5% notes due 2016. Proceeds were used to refinance amounts outstanding under a bank term loan and to pay down amounts advanced under a prior bank revolving credit facility.

General Information

The senior secured credit facilities and senior secured notes are fully and unconditionally guaranteed by substantially all existing and future, direct and indirect, wholly-owned material domestic subsidiaries that are Unrestricted Subsidiaries under our Indenture dated December 16, 1993 (except for certain special purpose subsidiaries that only guarantee and pledge their assets under our ABL credit facility). In addition, borrowings under the European term loan are guaranteed by all material, wholly-owned European subsidiaries.

Maturities of long-term debt in years 2009 through 2012 are $400 million, $1.506 billion, $1.091 billion and $4.097 billion, respectively.

The estimated fair value of our long-term debt was $26.127 billion and $28.096 billion at December 31, 2007 and 2006, respectively, compared to carrying amounts aggregating $27.308 billion and $28.408 billion, respectively. The estimates of fair value are generally based upon the quoted market prices for the same or similar issues of long-term debt with the same maturities.

HCA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10 CONTINGENCIES

Significant Legal Proceedings

We operate in a highly regulated and litigious industry. As a result, various lawsuits, claims and legal and regulatory proceedings have been and can be expected to be instituted or asserted against us. The resolution of any such lawsuits, claims or legal and regulatory proceedings could have a material, adverse affect on our results of operations or financial position in a given period.

In 2005, the Company and certain of its executive officers and directors were named in various federal securities law class actions and several shareholders filed derivative lawsuits purportedly on behalf of the Company. Additionally, a former employee filed a complaint against certain of our executive officers pursuant to the Employee Retirement Income Security Act (ERISA), and the Company was served with a shareholder demand letter addressed to our Board of Directors. The securities and derivative actions have been settled. We have also reached an agreement in principle to settle the ERISA action, subject to court approval.

In connection with the Merger, eight asserted class action lawsuits related to the Merger were filed against us, certain of our executive officers, our directors and the Sponsors, and one lawsuit was filed against us and one of our affiliates seeking enforcement of contractual obligations allegedly arising from the Merger. These lawsuits have all been settled.

General Liability Claims

We are subject to claims and suits arising in the ordinary course of business, including claims for personal injuries or wrongful restriction of, or interference with, physicians staff privileges. In certain of these actions the claimants may seek punitive damages against us which may not be covered by insurance. It is management s opinion that the ultimate resolution of these pending claims and legal proceedings will not have a material, adverse effect on our results of operations or financial position.

Investigations

In January 2001, we entered into an eight-year Corporate Integrity Agreement (CIA) with the Office of Inspector General of the Department of Health and Human Services. Violation or breach of the CIA, or violation of federal or state laws relating to Medicare, Medicaid or similar programs, could subject us to substantial monetary fines, civil and criminal penalties and/or exclusion from participation in the Medicare and Medicaid programs. Alleged violations may be pursued by the government or through private *qui tam* actions. Sanctions imposed against us as a result of such actions could have a material, adverse effect on our results of operations or financial position.

NOTE 11 CAPITAL STOCK AND STOCK REPURCHASES

Capital Stock

In connection with the Recapitalization, the Company s certificate of incorporation and by-laws were amended and restated, effective November 17, 2006, so that they read, in their entirety, as the certificate of incorporation and by-laws of Merger Sub read immediately prior to the effective time of the Merger. Among other things, the restated certificate of incorporation reduced the number of shares of common stock the Company is authorized to issue from 1,650,000,000 shares to 125,000,000 shares and the amended and restated by-laws set the number of directors constituting the board of directors of the Company at not less than one nor more than 15.

Stock Repurchase Programs

In October 2005, we announced the authorization of a modified Dutch auction tender offer to purchase up to $2.500 billion of our common stock. In November 2005, we closed the tender offer and repurchased 28.7 million shares of our common stock for $1.437 billion ($50.00 per share). The shares repurchased represented

HCA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 11 CAPITAL STOCK AND STOCK REPURCHASES (Continued)

Stock Repurchase Programs (Continued)

approximately 6% of our outstanding shares at the time of the tender offer. During 2005, we also repurchased 8.0 million shares of our common stock for $412 million, through open market purchases. During 2006, we repurchased 13.0 million shares of our common stock for $651 million, through open market purchases, which completed this authorization.

During 2006 and 2005, the share repurchase transactions reduced stockholders equity by $653 million and $1.856 billion, respectively.

NOTE 12 EMPLOYEE BENEFIT PLANS

We maintain noncontributory, defined contribution retirement plans covering substantially all employees. Benefits are determined as a percentage of a participant s salary and vest over specified periods of employee service. Retirement plan expense was $203 million for 2007, $190 million for 2006 and $210 million for 2005. Amounts approximately equal to retirement plan expense are funded annually.

We maintain contributory, defined contribution benefit plans that are available to employees who meet certain minimum requirements. Certain of the plans require that we match specified percentages of participant contributions up to certain maximum levels (generally 50% of the first 3% of compensation deferred by participants). The cost of these plans totaled $86 million for 2007, $71 million for 2006 and $60 million for 2005. Our contributions are funded periodically during each year.

We maintain a Supplemental Executive Retirement Plan (SERP) for certain executives. The plan is designed to ensure that upon retirement the participant receives the value of a prescribed life annuity from the combination of the SERP and our other benefit plans. Compensation expense under the plan was $20 million for 2007, $15 million for 2006 and $9 million for 2005. Accrued benefits liabilities under this plan totaled $109 million at December 31, 2007 and $107 million at December 31, 2006.

We maintain defined benefit pension plans which resulted from certain hospital acquisitions in prior years. Compensation expense under these plans was $27 million for 2007, $31 million for 2006, and $29 million for 2005. Accrued benefits liabilities under these plans totaled $48 million at December 31, 2007 and $79 million at December 31, 2006.

Adoption of Statement 158

During September 2006, the FASB issued Statement No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R) (SFAS 158). SFAS 158 requires an entity to: recognize in its balance sheet an asset for a defined benefit postretirement plan s overfunded status or a liability for a plan s underfunded status; measure a defined benefit postretirement plan s assets and obligations that determine its funded status as of the end of the employer s fiscal year; and recognize changes in the funded status of a defined benefit postretirement plan in comprehensive income in the year in which the changes occur. On December 31, 2006, we adopted the recognition and disclosure provisions of SFAS 158. On January 1, 2008, we adopted the measurement date provisions of SFAS 158. We do not expect the adoption of these provisions to have a material effect on our financial position or results of operations. SFAS 158 required us to recognize the funded status (the difference between the fair value of plan assets and the projected benefit obligations) of our defined benefit plans in the December 31, 2006 consolidated balance sheet, with a corresponding adjustment to accumulated other comprehensive income, net of tax. The adjustment to accumulated other comprehensive income at adoption represents the unrecognized actuarial losses and unrecognized prior service costs. In periods subsequent to December 31, 2006, these amounts are being recognized as components of net periodic pension cost.

HCA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12 EMPLOYEE BENEFIT PLANS (Continued)

Adoption of Statement 158 (Continued)

The incremental effects of adopting the provisions of SFAS 158 in our consolidated balance sheet at December 31, 2006 are presented in the following table. The adoption of SFAS 158 had no effect on our consolidated income statement for 2006, or for any prior period presented.

	At December 31, 2006		
	Prior to Adopting SFAS 158	Effect of Adopting SFAS 158	As Reported
Intangible pension asset	$ 31	$ (31)	$
Accrued pension liability	128	71	199
Deferred income taxes	6	36	42
Accumulated other comprehensive income	(15)	(94)	(109)

NOTE 13 SEGMENT AND GEOGRAPHIC INFORMATION

We operate in one line of business, which is operating hospitals and related health care entities. During the years ended December 31, 2007, 2006 and 2005, approximately 24%, 26% and 27%, respectively, of our revenues related to patients participating in the fee-for-service Medicare program.

Our operations are structured into three geographically organized groups: the Eastern Group includes 49 consolidating hospitals located in the Eastern United States, the Central Group includes 52 consolidating hospitals located in the Central United States and the Western Group includes 54 consolidating hospitals located in the Western United States. We also operate six consolidating hospitals in England, and these facilities are included in the Corporate and other group.

Adjusted segment EBITDA is defined as income before depreciation and amortization, interest expense, gains on sales of facilities, impairment of long-lived assets, transaction costs, minority interests and income taxes. We use adjusted segment EBITDA as an analytical indicator for purposes of allocating resources to geographic areas and assessing their performance. Adjusted segment EBITDA is commonly used as an analytical indicator within the health care industry, and also serves as a measure of leverage capacity and debt service ability. Adjusted segment EBITDA should not be considered as a measure of financial performance under generally accepted accounting principles, and the items excluded from adjusted segment EBITDA are significant components in understanding and assessing financial performance. Because adjusted segment EBITDA is not a measurement determined in accordance with generally accepted accounting principles and is thus susceptible to varying calculations, adjusted segment EBITDA, as presented, may not be comparable to other similarly titled measures of other companies. The geographic distributions of our revenues, equity in earnings of affiliates, adjusted segment EBITDA, depreciation and amortization, assets and goodwill are summarized in the following table (dollars in millions):

	For The Years Ended December 31, 2007	2006	2005
Revenues:			
Eastern Group	**$ 8,204**	$ 7,775	$ 7,341
Central Group	**6,302**	5,917	5,667
Western Group	**11,378**	10,495	9,733
Corporate and other	**974**	1,290	1,714
	$ 26,858	$ 25,477	$ 24,455

HCA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 13 SEGMENT AND GEOGRAPHIC INFORMATION (Continued)

	For The Years Ended December 31, 2007	2006	2005
Equity in earnings of affiliates:			
Eastern Group	**$ (2)**	$ (6)	$ (5)
Central Group	**8**	(3)	(6)
Western Group	**(212)**	(187)	(210)
Corporate and other		(1)	
	$ (206)	$ (197)	$ (221)
Adjusted segment EBITDA:			
Eastern Group	**$ 1,268**	$ 1,196	$ 1,299
Central Group	**1,082**	975	998
Western Group	**2,196**	2,088	1,994
Corporate and other	**46**	211	(8)
	$ 4,592	$ 4,470	$ 4,283
Depreciation and amortization:			
Eastern Group	**$ 369**	$ 363	$ 355
Central Group	**364**	329	321
Western Group	**529**	492	480
Corporate and other	**164**	207	218
	$ 1,426	$ 1,391	$ 1,374
Adjusted segment EBITDA	**$ 4,592**	$ 4,470	$ 4,283
Depreciation and amortization	**1,426**	1,391	1,374
Interest expense	**2,215**	955	655
Gains on sales of facilities	**(471)**	(205)	(78)
Impairment of long-lived assets	**24**	24	
Transaction costs		442	
Income before minority interests and income taxes	**$ 1,398**	$ 1,863	$ 2,332

	As of December 31, 2007	2006

Assets:		
Eastern Group	**$ 4,928**	$ 4,803
Central Group	**5,157**	4,930
Western Group	**8,152**	7,714
Corporate and other	**5,788**	6,228
	$ 24,025	$ 23,675

HCA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 13 SEGMENT AND GEOGRAPHIC INFORMATION (Continued)

	Eastern Group	Central Group	Western Group	Corporate and Other	Total
Goodwill:					
Balance at December 31, 2006	$ 585	$ 1,001	$ 735	$ 280	$ 2,601
Acquisitions	34	4	6		44
Sales		(1)		(44)	(45)
Foreign currency translation and other	9	11	8	1	29
Balance at December 31, 2007	$ 628	$ 1,015	$ 749	$ 237	$ 2,629

NOTE 14 OTHER COMPREHENSIVE INCOME (LOSS)

The components of accumulated other comprehensive income (loss) are as follows (dollars in millions):

	Unrealized Gains on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Benefit Plans	Change in Fair Value of Derivative Instruments	Total
Balances at December 31, 2004	$ 148	$ 67	$ (22)	$	$ 193
Unrealized gains on available-for-sale securities, net of $3 of income taxes	3				3
Gains reclassified into earnings from other comprehensive income, net of $20 of income taxes	(33)				(33)
Foreign currency translation adjustments, net of $19 income tax benefit		(37)			(37)
Defined benefit plans, net of $2 of income taxes			4		4
Balances at December 31, 2005	118	30	(18)		130
Unrealized gains on available-for-sale securities, net of $30 of income taxes	53				53
Gains reclassified into earnings from other comprehensive income, net of $88 of income taxes	(155)				(155)
Foreign currency translation adjustments, net of $10 of income taxes		19			19
			(49)		(49)

Defined benefit plans, net of $30 income tax benefit					
Change in fair value of derivative instruments, net of $10 of income taxes				18	18
Balances at December 31, 2006	16	49	(67)	18	16
Unrealized gains on available-for-sale securities, net of $1 of income taxes	3				3
Foreign currency translation adjustments, net of $3 income tax benefit		(7)			(7)
Gains reclassified into earnings from other comprehensive income, net of $3 and $5, respectively, of income taxes	(5)	(8)			(13)
Defined benefit plans, net of $14 of income taxes			23		23
Change in fair value of derivative instruments, net of $112 income tax benefit				(194)	(194)
Balances at December 31, 2007	$ 14	$ 34	$ (44)	$ (176)	$ (172)

HCA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 15 ACCRUED EXPENSES AND ALLOWANCE FOR DOUBTFUL ACCOUNTS

A summary of other accrued expenses at December 31 follows (dollars in millions):

	2007	2006
Professional liability risks	**$ 280**	$ 275
Interest	**223**	228
Employee benefit plans	**217**	208
Income taxes	**190**	
Taxes other than income	**139**	168
Other	**342**	314
	$ 1,391	$ 1,193

A summary of activity for the allowance of doubtful accounts follows (dollars in millions):

	Balance at Beginning of Year	Provision for Doubtful Accounts	Accounts Written off, Net of Recoveries	Balance at End of Year
Allowance for doubtful accounts:				
Year ended December 31, 2005	$ 2,942	$ 2,358	$ (2,403)	$ 2,897
Year ended December 31, 2006	2,897	2,660	(2,129)	3,428
Year ended December 31, 2007	3,428	3,130	(2,269)	4,289

NOTE 16 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION AND OTHER COLLATERAL-RELATED INFORMATION

The senior secured credit facilities and senior secured notes described in Note 9 are fully and unconditionally guaranteed by substantially all existing and future, direct and indirect, wholly-owned material domestic subsidiaries that are Unrestricted Subsidiaries under our Indenture dated December 16, 1993 (except for certain special purpose subsidiaries that only guarantee and pledge their assets under our ABL credit facility).

Our condensed consolidating balance sheets at December 31, 2007 and 2006 and condensed consolidating statements of income and cash flows for each of the three years in the period ended December 31, 2007, segregating the parent company issuer, the subsidiary guarantors, the subsidiary non-guarantors and eliminations, follow.

HCA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 16 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION AND OTHER COLLATERAL-RELATED INFORMATION (Continued)

HCA INC.
CONDENSED CONSOLIDATING INCOME STATEMENT
For The Year Ended December 31, 2007
(Dollars in millions)

	Parent Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Condensed Consolidated
Revenues	$	$ 15,598	$ 11,260	$	$ 26,858
Salaries and benefits		6,441	4,273		10,714
Supplies		2,549	1,846		4,395
Other operating expenses	(2)	2,279	1,964		4,241
Provision for doubtful accounts		1,942	1,188		3,130
Gains on investments			(8)		(8)
Equity in earnings of affiliates	(2,245)	(90)	(116)	2,245	(206)
Depreciation and amortization		779	647		1,426
Interest expense	2,161	(95)	149		2,215
Gains on sales of facilities		(3)	(468)		(471)
Impairment of long-lived assets			24		24
Management fees		(392)	392		
	(86)	13,410	9,891	2,245	25,460
Income (loss) before minority interests and income taxes	86	2,188	1,369	(2,245)	1,398
Minority interests in earnings of consolidated entities		28	180		208
Income (loss) before income taxes	86	2,160	1,189	(2,245)	1,190
Provision for income taxes	(788)	712	392		316
Net income (loss)	$ 874	$ 1,448	$ 797	$ (2,245)	$ 874

HCA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 16 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION AND OTHER COLLATERAL-RELATED INFORMATION (Continued)

HCA INC.
CONDENSED CONSOLIDATING INCOME STATEMENT
For The Year Ended December 31, 2006
(Dollars in millions)

	Parent Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Condensed Consolidated
Revenues	$	$ 14,913	$ 10,564	$	$ 25,477
Salaries and benefits		6,319	4,090		10,409
Supplies		2,487	1,835		4,322
Other operating expenses		2,253	1,803		4,056
Provision for doubtful accounts		1,652	1,008		2,660
Gains on investments			(243)		(243)
Equity in earnings of affiliates	(1,995)	(79)	(118)	1,995	(197)
Depreciation and amortization		755	636		1,391
Interest expense	895	(99)	159		955
Gains on sales of facilities		7	(212)		(205)
Impairment of long-lived assets		5	19		24
Transaction costs	429	25	(12)		442
Management fees		(377)	377		
	(671)	12,948	9,342	1,995	23,614
Income (loss) before minority interests and income taxes	671	1,965	1,222	(1,995)	1,863
Minority interests in earnings of consolidated entities		21	180		201
Income (loss) before income taxes	671	1,944	1,042	(1,995)	1,662
Provision for income taxes	(365)	612	379		626
Net income (loss)	$ 1,036	$ 1,332	$ 663	$ (1,995)	$ 1,036

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HCA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 16 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION AND OTHER COLLATERAL-RELATED INFORMATION (Continued)

HCA INC.
CONDENSED CONSOLIDATING INCOME STATEMENT
For The Year Ended December 31, 2005
(Dollars in millions)

	Parent Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Condensed Consolidated
Revenues	$	$ 14,254	$ 10,201	$	$ 24,455
Salaries and benefits		6,032	3,896		9,928
Supplies		2,376	1,750		4,126
Other operating expenses		2,234	1,800		4,034
Provision for doubtful accounts		1,409	949		2,358
Gains on investments		1	(54)		(53)
Equity in earnings of affiliates	(1,792)	(88)	(133)	1,792	(221)
Depreciation and amortization		762	612		1,374
Interest expense	593	(70)	132		655
Gains on sales of facilities		(7)	(71)		(78)
Management fees		(387)	387		
	(1,199)	12,262	9,268	1,792	22,123
Income (loss) before minority interests and income taxes	1,199	1,992	933	(1,792)	2,332
Minority interests in earnings of consolidated entities		15	163		178
Income (loss) before income taxes	1,199	1,977	770	(1,792)	2,154
Provision for income taxes	(225)	711	244		730
Net income (loss)	$ 1,424	$ 1,266	$ 526	$ (1,792)	$ 1,424

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HCA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 16 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION AND OTHER COLLATERAL-RELATED INFORMATION (Continued)

HCA INC.
CONDENSED CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2007
(Dollars in millions)

	Parent Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Condensed Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$	$ 165	$ 228	$	$ 393
Accounts receivable, net		2,248	1,647		3,895
Inventories		432	278		710
Deferred income taxes	592				592
Other		123	492		615
	592	2,968	2,645		6,205
Property and equipment, net		6,960	4,482		11,442
Investments of insurance subsidiary			1,669		1,669
Investments in and advances to affiliates		221	467		688
Goodwill		1,644	985		2,629
Deferred loan costs	539				539
Investments in and advances to subsidiaries	17,190			(17,190)	
Other	798	18	37		853
	$ 19,119	$ 11,811	$ 10,285	$ (17,190)	$ 24,025
LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY					
Current liabilities:					
Accounts payable	$	$ 883	$ 487	$	$ 1,370
Accrued salaries		515	265		780
Other accrued expenses	411	372	608		1,391

Long-term debt due within one year	271		37		308
	682	1,770	1,397		3,849
Long-term debt	26,439	103	458		27,000
Intercompany balances	1,368	(6,524)	5,156		
Professional liability risks			1,233		1,233
Income taxes and other liabilities	1,004	238	137		1,379
Minority interests in equity of consolidated entities		117	821		938
	29,493	(4,296)	9,202		34,399
Equity securities with contingent redemption rights	164				164
Stockholders (deficit) equity	(10,538)	16,107	1,083	(17,190)	(10,538)
	$ 19,119	$ 11,811	$ 10,285	$ (17,190)	$ 24,025

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HCA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 16 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION AND OTHER COLLATERAL-RELATED INFORMATION (Continued)

HCA INC.
CONDENSED CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2006
(Dollars in millions)

	Parent Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Condensed Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	$	$ 282	$ 352	$	$ 634
Accounts receivable, net		2,145	1,560		3,705
Inventories		408	261		669
Deferred income taxes	476				476
Other	171	134	289		594
	647	2,969	2,462		6,078
Property and equipment, net		7,130	4,539		11,669
Investments of insurance subsidiary			1,886		1,886
Investments in and advances to affiliates		227	452		679
Goodwill		1,629	972		2,601
Deferred loan costs	614				614
Investments in and advances to subsidiaries	14,945			(14,945)	
Other	69	22	57		148
	$ 16,275	$ 11,977	$ 10,368	$ (14,945)	$ 23,675
LIABILITIES AND STOCKHOLDERS (DEFICIT) EQUITY					
Current liabilities:					
Accounts payable	$	$ 1,052	$ 363	$	$ 1,415
Accrued salaries		442	233		675
Other accrued expenses	228	345	620		1,193
Long-term debt due within one year	254	4	35		293

	482	1,843	1,251		3,576
Long-term debt	26,651	194	1,270		28,115
Intercompany balances		(5,289)	5,289		
Professional liability risks			1,309		1,309
Income taxes and other liabilities	391	441	185		1,017
Minority interests in equity of consolidated entities		129	778		907
	27,524	(2,682)	10,082		34,924
Equity securities with contingent redemption rights	125				125
Stockholders (deficit) equity	(11,374)	14,659	286	(14,945)	(11,374)
	$ 16,275	$ 11,977	$ 10,368	$ (14,945)	$ 23,675

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HCA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 16 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION AND OTHER COLLATERAL-RELATED INFORMATION (Continued)

HCA INC.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2007
(Dollars in millions)

	Parent Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Condensed Consolidated
Cash flows from operating activities:					
Net income	$ 874	$ 1,448	$ 797	$ (2,245)	$ 874
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Provision for doubtful accounts		1,942	1,188		3,130
Depreciation and amortization		779	647		1,426
Income taxes	(105)				(105)
Gains on sales of facilities		(3)	(468)		(471)
Impairment of long-lived assets			24		24
Equity in earnings of affiliates	(2,245)			2,245	
Decrease in cash from operating assets and liabilities	(6)	(2,127)	(1,482)		(3,615)
Change in minority interests		16	24		40
Share-based compensation	24				24
Other	85	18	(34)		69
Net cash provided by (used in) operating activities	(1,373)	2,073	696		1,396
Cash flows from investing activities:					
Purchase of property and equipment		(640)	(804)		(1,444)
Acquisition of hospitals and health care entities		(11)	(21)		(32)
Disposal of hospitals and health care entities		24	743		767
Change in investments		3	204		207
Other		(8)	31		23
Net cash provided by (used in) investing activities		(632)	153		(479)

Cash flows from financing activities:					
Issuances of long-term debt			24		24
Net change in revolving bank credit facility	(520)				(520)
Repayment of long-term debt	(255)	(4)	(491)		(750)
Issuances of common stock	100				100
Repurchases of common stock	(2)				(2)
Payment of debt issuance costs	(9)				(9)
Changes in intercompany balances with affiliates, net	2,059	(1,554)	(505)		
Other			(1)		(1)
Net cash provided by (used in) financing activities	1,373	(1,558)	(973)		(1,158)
Change in cash and cash equivalents		(117)	(124)		(241)
Cash and cash equivalents at beginning of period		282	352		634
Cash and cash equivalents at end of period	$	$ 165	$ 228	$	$ 393

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HCA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 16 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION AND OTHER COLLATERAL-RELATED INFORMATION (Continued)

HCA INC.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2006
(Dollars in millions)

	Parent Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Condensed Consolidated
Cash flows from operating activities:					
Net income	$ 1,036	$ 1,332	$ 663	$ (1,995)	$ 1,036
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Provision for doubtful accounts		1,652	1,008		2,660
Depreciation and amortization		755	636		1,391
Income taxes	(552)				(552)
Gains on sales of facilities		7	(212)		(205)
Impairment of long-lived assets		5	19		24
Equity in earnings of affiliates	(1,995)			1,995	
Increase (decrease) in cash from operating assets and liabilities	78	(1,552)	(1,466)		(2,940)
Change in minority interests		18	40		58
Share-based compensation	324				324
Other	74	2	(27)		49
Net cash provided by (used in) operating activities	(1,035)	2,219	661		1,845
Cash flows from investing activities:					
Purchase of property and equipment		(1,058)	(807)		(1,865)
Acquisition of hospitals and health care entities		(29)	(83)		(112)
Disposal of hospitals and health care entities		108	543		651
Change in investments		13	13		26
Other		(4)	(3)		(7)
Net cash used in investing activities		(970)	(337)		(1,307)

Cash flows from financing activities:					
Issuances of long-term debt	21,207		551		21,758
Net change in revolving bank credit facility	(435)				(435)
Repayment of long-term debt	(3,621)	(3)	(104)		(3,728)
Issuances of common stock	108				108
Repurchases of common stock	(653)				(653)
Recapitalization-repurchase of common stock	(20,364)				(20,364)
Recapitalization-equity contributions	3,782				3,782
Payment of debt issuance costs	(586)				(586)
Payment of cash dividends	(201)				(201)
Changes in intercompany balances with affiliates, net	1,719	(1,095)	(624)		
Other	79				79
Net cash provided by (used in) financing activities	1,035	(1,098)	(177)		(240)
Change in cash and cash equivalents		151	147		298
Cash and cash equivalents at beginning of period		131	205		336
Cash and cash equivalents at end of period	$	$ 282	$ 352	$	$ 634

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HCA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 16 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION AND OTHER COLLATERAL-RELATED INFORMATION (Continued)

HCA INC.
CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005
(Dollars in millions)

	Parent Issuer	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Condensed Consolidated
Cash flows from operating activities:					
Net income	$ 1,424	$ 1,266	$ 526	$ (1,792)	$ 1,424
Adjustments to reconcile net income to net cash provided by (used in) operating activities:					
Provision for doubtful accounts		1,409	949		2,358
Depreciation and amortization		762	612		1,374
Income taxes	162				162
Gains on sales of facilities		(7)	(71)		(78)
Equity in earnings of affiliates	(1,792)			1,792	
Increase (decrease) in cash from operating assets and liabilities	18	(1,505)	(791)		(2,278)
Change in minority interests		4	(17)		(13)
Share-based compensation	30				30
Other			(8)		(8)
Net cash provided by (used in) operating activities	(158)	1,929	1,200		2,971
Cash flows from investing activities:					
Purchase of property and equipment		(816)	(776)		(1,592)
Acquisition of hospitals and health care entities		(33)	(93)		(126)
Disposal of hospitals and health care entities		141	179		320
Change in investments		12	(323)		(311)
Other		(4)	32		28
Net cash used in investing activities		(700)	(981)		(1,681)
Cash flows from financing activities:					

Issuances of long-term debt	800		58		858
Net change in revolving bank credit facility	(225)				(225)
Repayment of long-term debt	(721)	(2)	(16)		(739)
Issuances of common stock	1,009				1,009
Repurchases of common stock	(1,856)				(1,856)
Payment of cash dividends	(258)				(258)
Changes in intercompany balances with affiliates, net	1,410	(1,166)	(244)		
Other	(1)				(1)
Net cash provided by (used in) financing activities	158	(1,168)	(202)		(1,212)
Change in cash and cash equivalents		61	17		78
Cash and cash equivalents at beginning of period		70	188		258
Cash and cash equivalents at end of period	$	$ 131	$ 205	$	$ 336

HCA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 16 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION AND OTHER COLLATERAL-RELATED INFORMATION (Continued)

Healthtrust, Inc. The Hospital Company (Healthtrust) is the first-tier subsidiary of HCA Inc. The common stock of Healthtrust has been pledged as collateral for the senior secured credit facilities and senior secured notes described in Note 9. Rule 3-16 of Regulation S-X under the Securities Act requires the filing of separate financial statements for any affiliate of the registrant whose securities constitute a substantial portion of the collateral for any class of securities registered or being registered. We believe the separate financial statements requirement applies to Healthtrust due to the pledge of its common stock as collateral for the senior secured notes. Due to the corporate structure relationship of HCA and Healthtrust, HCA s operating subsidiaries are also the operating subsidiaries of Healthtrust. The corporate structure relationship, combined with the application of push-down accounting in Healthtrust s consolidated financial statements related to HCA s debt and financial instruments, results in the consolidated financial statements of Healthtrust being substantially identical to the consolidated financial statements of HCA. The consolidated financial statements of HCA and Healthtrust present the identical amounts for revenues, expenses, net income, assets, liabilities, total stockholders (deficit) equity, net cash provided by operating activities, net cash used in investing activities and net cash used in financing activities. Certain individual line items in the HCA consolidated statements of stockholders (deficit) equity and cash flows are combined into one line item in the Healthtrust consolidated statements of stockholder s (deficit) equity and cash flows.

Reconciliations of the HCA Inc. Consolidated Statements of Stockholders (Deficit) Equity and Consolidated Statements of Cash Flows presentations to the Healthtrust, Inc. The Hospital Company Consolidated Statements of Stockholder s (Deficit) Equity and Consolidated Statements of Cash Flows presentations for the years ended December 31, 2007, 2006 and 2005 are as follows (dollars in millions):

	2007	2006	2005
Presentation in HCA Inc. Consolidated Statements of Stockholders (Deficit) Equity:			
Recapitalization-repurchase of common stock	**$**	$ (21,373)	$
Recapitalization-equity contribution		4,477	
Cash dividends declared		(139)	(257)
Stock repurchases		(653)	(1,856)
Stock options exercised		163	1,106
Employee benefit plan issuances		366	102
Equity contributions	**60**		
Share-based compensation	**24**		
Other	**28**		
Presentation in Healthtrust, Inc. The Hospital Company Consolidated Statements of Stockholder s (Deficit) Equity:			
Distributions from (to) HCA Inc., net of contributions to (from) HCA Inc.	**$ 112**	$ (17,159)	$ (905)

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HCA INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 16 SUPPLEMENTAL CONDENSED CONSOLIDATING FINANCIAL INFORMATION AND OTHER COLLATERAL-RELATED INFORMATION (Continued)

	2007	2006	2005
Presentation in HCA Inc. Consolidated Statements of Cash Flows (cash flows from financing activities):			
Issuances of common stock	**$ 100**	$ 108	$ 1,009
Repurchases of common stock	**(2)**	(653)	(1,856)
Recapitalization-repurchase of common stock		(20,364)	
Recapitalization-equity contributions		3,782	
Payment of cash dividends		(201)	(258)
Presentation in Healthtrust Inc. The Hospital Company Consolidated Statements of Cash Flows (cash flows from financing activities):			
Net cash distributions from (to) HCA Inc.	**$ 98**	$ (17,328)	$ (1,105)

Due to the consolidated financial statements of Healthtrust being substantially identical to the consolidated financial statements of HCA, except for the items presented in the tables above, the separate consolidated financial statements of Healthtrust are not presented.

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HCA INC.
QUARTERLY CONSOLIDATED FINANCIAL INFORMATION
(UNAUDITED)
(Dollars in millions)

	2007			
	First	**Second**	**Third**	**Fourth**
Revenues	$ 6,677	$ 6,729	$ 6,569	$ 6,883
Net income	$ 180(a)	$ 116(b)	$ 300(c)	$ 278(d)

	2006			
	First	**Second**	**Third**	**Fourth**
Revenues	$ 6,415	$ 6,360	$ 6,213	$ 6,489
Net income	$ 379	$ 295(e)	$ 240(f)	$ 122(g)
Cash dividends declared per common share	$ 0.17	$ 0.17	$	$

(a) First quarter results include $2 million of gains on sales of facilities (See NOTE 4 of the notes to consolidated financial statements).

(b) Second quarter results include $7 million of gains on sales of facilities (See NOTE 4 of the notes to consolidated financial statements) and $15 million of costs related to the impairment of long-lived assets (See NOTE 5 of the notes to consolidated financial statements).

(c) Third quarter results include $193 million of gains on sales of facilities (See NOTE 4 of the notes to consolidated financial statements).

(d) Fourth quarter results include $88 million of gains on sales of facilities (See NOTE 4 of the notes to consolidated financial statements).

(e) Second quarter results include $4 million of gains on sales of facilities (See NOTE 4 of the notes to consolidated financial statements).

(f) Third quarter results include $25 million of gains on sales of facilities (See NOTE 4 of the notes to consolidated financial statements) and $6 million of transaction costs related to the recapitalization (See NOTE 2 of the notes to consolidated financial statements).

(g) Fourth quarter results include $74 million of gains on sales of facilities (See NOTE 4 of the notes to consolidated financial statements), $303 million of transaction costs related to the recapitalization (See NOTE 2 of the notes to consolidated financial statements) and $15 million of costs related to the impairment of long-lived assets (See NOTE 5 of the notes to consolidated financial statements).