REALOGY HOLDINGS CORP.
Form 10-Q
November 04, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2013
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. 333-179896
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)

Indicate by check mark whether the Registrants (1) have 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) have 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 Registrants have 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 Registrants were required to submit and post such files).
Realogy Holdings Corp. Yes þ No ¨ Realogy Group LLC Yes þ No ¨
Indicate by check mark whether the Registrants are large accelerated filers, accelerated filers, non-accelerated filers, or smaller reporting companies. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

	Large accelerated	Accelerated filer	Non-accelerated filer	Smaller reporting

	filer		(Do not check if a smaller reporting company)	company
Realogy Holdings Corp.	¨	¨	þ	¨
Realogy Group LLC	¨	¨	þ	¨

Indicate by check mark whether the Registrants are 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
There were 146,009,766 shares of Common Stock, $0.01 par value, of Realogy Holdings Corp. outstanding as of October 31, 2013.

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INTRODUCTORY NOTE

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 certain references in this report to our consolidated indebtedness exclude Realogy Holdings with respect to indebtedness under the senior secured credit facility. In addition, while Realogy Holdings is a guarantor of Realogy Group's obligations under its secured and unsecured notes, Realogy Holdings is not subject to the restrictive covenants in the indentures governing such indebtedness.

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FORWARD-LOOKING STATEMENTS

Forward-looking statements included in this 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 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 lack of improvement in consumer confidence;

the impact of recessions, slow economic growth, disruptions in the U.S. government or banking system and high levels of unemployment in the U.S. and abroad;

increasing mortgage rates and down payment requirements and/or constraints on the availability of mortgage financing, including but not limited to the potential impact of changes in the policies and programs of the Federal Reserve Board, various provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) and regulations that may be promulgated thereunder relating to mortgage financing as well as other factors that tighten underwriting standards;

legislative, tax or regulatory changes that would adversely impact the residential real estate market, including potential reforms of the Federal National Mortgage Association ("Fannie Mae"), the Federal Home Loan Mortgage Corporation (“Freddie Mac") and the Federal Housing Administration, and potential tax code reform, which could reduce the amount that taxpayers would be allowed to deduct for home mortgage interest;

negative trends and/or a negative perception of the market trends in value for residential real estate;

renewed high levels of foreclosure activity including but not limited to the release of homes already held for sale by financial institutions;

insufficient or excessive regional home inventory levels; and

a lack of stability in home ownership levels in the U.S.;

- 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 or to realize royalty revenue growth from them;
- our inability to renew existing franchise agreements or maintain franchisee satisfaction with our brands;
- existing franchisees may incur operating losses if sales volume decreases which may impede their ability to grow or continue operations. Additionally, debt incurred by our franchisees during the downturn may hinder long-term growth and their ability to pay back indebtedness;
- disputes or issues with entities that license us their trade names for use in our business that could impede our franchising of those brands;
- 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 third parties with which our franchisees have business relationships;
- competition in our existing and future lines of business whether through traditional competitors or competitors with alternative business models;

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- our failure to comply with laws, regulations and regulatory interpretations and any changes in laws, regulations and regulatory interpretations, including but not limited to state or federal employment laws or regulations that would require classification of independent contractor sales associates to employee status, and wage and hour regulations;
- seasonal fluctuations in the residential real estate brokerage business which could adversely affect our business or financial condition;
- the loss of any of our senior management or key managers or employees or other significant labor or employment issues;
- the failure or significant disruption of business from various causes related to our critical information technologies and systems;
- adverse effects of natural disasters or environmental catastrophes;
- risks related to our international operations;
- risks associated with our substantial indebtedness and interest obligations and restrictions contained in our debt agreements;
- changes in corporate relocation practices resulting in fewer employee relocations or reduced relocation benefits;
- an increase in the claims rate of our title underwriter;
- 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"), including increases in mortgage interest rates, decreases in operating margins, the impact of regulatory changes, litigation, investigations and inquiries or a change in control of PHH;
- any remaining resolutions or outcomes with respect to Cendant's contingent liabilities under the Separation and Distribution Agreement and the Tax Sharing Agreement, including any adverse impact on our future cash flows;
- any adverse resolution of litigation, governmental proceedings or arbitration awards; 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 the headings “Forward-Looking Statements,” “Risk Factors” and “Management's Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the year ended December 31, 2012 (the “2012 Form 10-K”), filed with the Securities and Exchange Commission (“SEC”), 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 considering 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 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.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Realogy Holdings Corp.:

We have reviewed the accompanying condensed consolidated balance sheet of Realogy Holdings Corp. and its subsidiaries as of September 30, 2013, and the related condensed consolidated statements of operations and comprehensive income (loss) for the three and nine-month periods ended September 30, 2013 and September 30, 2012 and the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2013 and September 30, 2012. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of operations, comprehensive loss, equity (deficit), and cash flows for the year then ended (not presented herein), and in our report dated February 25, 2013, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2012, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP
Florham Park, New Jersey
November 4, 2013

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder of Realogy Group LLC:

We have reviewed the accompanying condensed consolidated balance sheet of Realogy Group LLC and its subsidiaries as of September 30, 2013, and the related condensed consolidated statements of operations and comprehensive income (loss) for the three and nine-month periods ended September 30, 2013 and September 30, 2012 and the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2013 and September 30, 2012. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2012, and the related consolidated statements of operations, comprehensive loss, equity (deficit), and cash flows for the year then ended (not presented herein), and in our report dated February 25, 2013, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2012, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP
Florham Park, New Jersey
November 4, 2013

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REALOGY HOLDINGS CORP. AND REALOGY GROUP LLC
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except per share data)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues				
Gross commission income	$1,168	$939	$3,013	$2,528
Service revenue	255	231	671	611
Franchise fees	94	76	242	206
Other	36	35	117	120
Net revenues	1,553	1,281	4,043	3,465
Expenses				
Commission and other agent-related costs	796	633	2,050	1,697
Operating	363	336	1,043	979
Marketing	50	44	149	147
General and administrative	88	74	248	230
Former parent legacy costs (benefit), net	1	(1)	—	(4)
Restructuring costs	—	2	4	7
Depreciation and amortization	44	42	130	131
Interest expense, net	74	187	230	533
Loss on the early extinguishment of debt	22	—	68	6
Other (income)/expense, net	—	—	—	1
Total expenses	1,438	1,317	3,922	3,727
Income (loss) before income taxes, equity in earnings and noncontrolling interests	115	(36)	121	(262)
Income tax expense	9	18	25	33
Equity in earnings of unconsolidated entities	(4)	(21)	(26)	(46)
Net income (loss)	110	(33)	122	(249)
Less: Net income attributable to noncontrolling interests	(1)	(1)	(4)	(2)
Net income (loss) attributable to Realogy Holdings and Realogy Group	$109	$(34)	$118	$(251)
Earnings (loss) per share attributable to Realogy Holdings:				
Basic earnings (loss) per share:	$0.75	$(4.24)	$0.81	$(31.31)
Diluted earnings (loss) per share:	$0.74	$(4.24)	$0.81	$(31.31)
Weighted average common and common equivalent shares of Realogy Holdings outstanding:				
Basic:	145.6	8.0	145.3	8.0
Diluted:	146.8	8.0	146.5	8.0

See Notes to Condensed Consolidated Financial Statements.

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REALOGY HOLDINGS CORP. AND REALOGY GROUP LLC
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In millions)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income (loss)	$ 110	$ (33)	$ 122	$ (249)
Currency translation adjustment	3	2	(1)	3
Defined benefit pension plan - amortization of actuarial loss to periodic pension cost	1	1	2	4
Other comprehensive income, before tax	4	3	1	7
Income tax expense related to other comprehensive income (loss) amounts	1	1	1	2
Other comprehensive income, net of tax	3	2	—	5
Comprehensive income (loss)	113	(31)	122	(244)
Less: comprehensive income attributable to noncontrolling interests	(1)	(1)	(4)	(2)
Comprehensive income (loss) attributable to Realogy Holdings and Realogy Group	$ 112	$ (32)	$ 118	$ (246)

See Notes to Condensed Consolidated Financial Statements.

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REALOGY HOLDINGS CORP. AND REALOGY GROUP LLC
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions, except share data)
(Unaudited)

	September 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 173	$ 376
Trade receivables (net of allowance for doubtful accounts of $40 and $51)	137	122
Relocation receivables	325	324
Relocation properties held for sale	6	9
Deferred income taxes	54	54
Other current assets	92	93
Total current assets	787	978
Property and equipment, net	191	188
Goodwill	3,310	3,304
Trademarks	732	732
Franchise agreements, net	1,579	1,629
Other intangibles, net	373	399
Other non-current assets	210	215
Total assets	$ 7,182	$ 7,445
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 153	$ 148
Securitization obligations	247	261
Due to former parent	68	69
Revolving credit facilities and current portion of long-term debt	64	110
Accrued expenses and other current liabilities	410	427
Total current liabilities	942	1,015
Long-term debt	3,891	4,256
Deferred income taxes	459	444
Other non-current liabilities	217	211
Total liabilities	5,509	5,926
Commitments and contingencies (Notes 8 and 10)		
Equity:		
Realogy Holdings preferred stock: $.01 par value; 50,000,000 shares authorized, none issued and outstanding at September 30, 2013 and December 31, 2012.	—	—
Realogy Holdings common stock: $.01 par value; 400,000,000 shares authorized, 146,032,716 shares outstanding at September 30, 2013 and 145,369,453 shares outstanding at December 31, 2012.	1	1
Additional paid-in capital	5,627	5,591
Accumulated deficit	(3,927)	(4,045)
Accumulated other comprehensive loss	(31)	(31)
Total stockholders' equity	1,670	1,516
Noncontrolling interests	3	3
Total equity	1,673	1,519
Total liabilities and equity	$ 7,182	$ 7,445

See Notes to Condensed Consolidated Financial Statements.

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REALOGY HOLDINGS CORP. AND REALOGY GROUP LLC
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)
(Unaudited)

	Nine Months Ended September 30, 2013	Nine Months Ended September 30, 2012
Operating Activities		
Net income (loss)	$122	$(249)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	130	131
Deferred income taxes	14	25
Amortization of deferred financing costs and discount on unsecured notes	11	12
Non-cash portion of the loss on the early extinguishment of debt	14	6
Equity in earnings of unconsolidated entities	(26)	(46)
Stock-based compensation	55	3
Other adjustments to net income (loss)	5	8
Net change in assets and liabilities, excluding the impact of acquisitions and dispositions:		
Trade receivables	(15)	(24)
Relocation receivables and advances	(1)	(34)
Relocation properties held for sale	3	4
Other assets	5	(2)
Accounts payable, accrued expenses and other liabilities	(7)	144
Due (to) from former parent	1	(6)
Dividends received from unconsolidated entities	41	28
Taxes paid related to the net share settlement for stock-based compensation	(21)	—
Other, net	(1)	(1)
Net cash provided by (used in) operating activities	330	(1)
Investing Activities		
Property and equipment additions	(40)	(34)
Net assets acquired (net of cash acquired) and acquisition-related payments	(5)	(5)
Change in restricted cash	(2)	(6)
Other, net	(3)	(6)
Net cash used in investing activities	(50)	(51)
Financing Activities		
Net change in revolving credit facilities	(70)	(188)
Proceeds from amended term loan facility	79	—
Repayments of term loan credit facility	(5)	(640)
Proceeds from issuance of First Lien Notes	—	593
Proceeds from issuance of First and a Half Lien Notes	—	325
Repurchase of First and a Half Lien Notes	(100)	—
Proceeds from issuance of Senior Notes	500	—
Redemption of Senior Notes and Senior Subordinated Notes	(821)	—
Net change in securitization obligations	(13)	(18)
Debt issuance costs	(28)	(17)
Proceeds from issuance of common stock for stock options	1	—
Other, net	(26)	(6)
Net cash (used in) provided by financing activities	(483)	49

Effect of changes in exchange rates on cash and cash equivalents	—	1
Net decrease in cash and cash equivalents	(203)	(2)
Cash and cash equivalents, beginning of period	376	143
Cash and cash equivalents, end of period	$173	$141
Supplemental Disclosure of Cash Flow Information		
Interest payments (including securitization interest expense)	$274	$415
Income tax payments, net	10	5

See Notes to Condensed Consolidated Financial Statements.

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REALOGY HOLDINGS CORP. AND REALOGY GROUP LLC
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unless otherwise noted, all amounts are in millions)
(Unaudited)

1. BASIS OF PRESENTATION

Realogy Holdings Corp. (“Realogy Holdings,” "Realogy" or the "Company") is a holding company for its consolidated subsidiaries including Realogy Intermediate Holdings LLC (“Realogy Intermediate”) and Realogy Group LLC (“Realogy Group”). Neither Realogy Holdings, the indirect parent of Realogy Group, nor Intermediate, the direct parent company of Realogy Group, conducts any operations other than with respect to its 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 was incorporated on December 14, 2006. On April 10, 2007, Realogy Holdings, then wholly owned by investment funds affiliated with, or co-investment vehicles managed by, Apollo Management VI, L.P., an entity affiliated with Apollo Management, L.P. (collectively referred to as “Apollo”), acquired the outstanding shares of Realogy Group (then known as Realogy Corporation, a Delaware corporation) pursuant to a merger of its wholly owned subsidiary Domus Acquisition Corp., with and into Realogy Group (the “Merger”) with Realogy Holdings becoming the indirect parent company of Realogy Group. Prior to the consummation of the Realogy Holdings initial public offering and related transactions in October 2012, Realogy Holdings was owned by Apollo and members of the Company’s management.

On April 16, 2013, Apollo sold 40.25 million shares of Realogy Holdings common stock at $44.00 per share in a public offering. On July 16, 2013, Apollo sold its remaining 25.13 million shares of Realogy Holdings' common stock at $47.57 per share in a public offering.

Realogy is a global provider of residential real estate services. Realogy Group (then Realogy Corporation) was incorporated in January 2006 to facilitate a plan by Cendant Corporation (now known as Avis Budget Group, Inc.) to separate into four independent companies—one for each of Cendant's business units—real estate services or Realogy, travel distribution services (“Travelport”), hospitality services, including timeshare resorts (“Wyndham Worldwide”), and vehicle rental (“Avis Budget Group”). On July 31, 2006, the separation (“Separation”) from Cendant became effective.

The accompanying Condensed Consolidated Financial Statements include the financial statements of Realogy Holdings and Realogy Group. Realogy Holdings' only asset is its investment in the common stock of Realogy Intermediate, and Realogy Intermediate's only asset is its investment in Realogy Group. Realogy Holdings' only obligations are its guarantees of certain borrowings and certain franchise obligations of Realogy Group. All expenses incurred by Realogy Holdings and Realogy Intermediate are for the benefit of Realogy Group and have been reflected in Realogy Group's consolidated financial statements. The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America and with Article 10 of Regulation S-X. Interim results may not be indicative of full year performance because of seasonal and short-term variations. The Company has eliminated all material intercompany transactions and balances between entities consolidated in these financial statements. In presenting the Condensed Consolidated Financial Statements, management makes estimates and assumptions that affect the amounts reported and the related disclosures. Estimates, by their nature, are based on judgment and available information. Accordingly, actual results could differ materially from those estimates.

In management's opinion, the accompanying Condensed Consolidated Financial Statements reflect all normal and recurring adjustments necessary to present fairly the Realogy Holdings and Realogy Group's financial position as of September 30, 2013 and the results of operations and comprehensive income (loss) for the three and nine months ended September 30, 2013 and 2012 and cash flows for the nine months ended September 30, 2013 and 2012.

As the interim Condensed Consolidated Financial Statements are prepared using the same accounting principles and policies used to prepare the annual financial statements, they should be read in conjunction with the Consolidated Financial Statements for the year ended December 31, 2012 included in the Annual Report on Form 10-K for the year ended December 31, 2012.

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Financial Instruments

The following tables present the Company’s assets and liabilities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy. The fair value hierarchy has three levels based on the reliability of the inputs used to determine fair value.

Level Input:	Input Definitions:
Level I	Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
Level II	Inputs other than quoted prices included in Level I that are observable for the asset or liability through corroboration with market data at the measurement date.
Level III	Unobservable inputs that reflect management’s best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The availability of observable inputs can vary from asset to asset and is affected by a wide variety of factors, including, for example, the type of asset, whether the asset is new and not yet established in the marketplace, and other characteristics particular to the transaction. To the extent that valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires more judgment. Accordingly, the degree of judgment exercised by the Company in determining fair value is greatest for instruments categorized in Level III. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, for disclosure purposes, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

The fair value of financial instruments is generally determined by reference to quoted market values. In cases where quoted market prices are not available, fair value is based on estimates using present value or other valuation techniques, as appropriate. The fair value of interest rate swaps is determined based upon a discounted cash flow approach.

The following table summarizes fair value measurements by level at September 30, 2013 for assets/liabilities measured at fair value on a recurring basis:

	Level I	Level II	Level III	Total
Interest rate swaps (included in other non-current liabilities)	$—	$25	$—	$25
Deferred compensation plan assets (included in other non-current assets)	1	—	—	1

The following table summarizes fair value measurements by level at December 31, 2012 for assets/liabilities measured at fair value on a recurring basis:

	Level I	Level II	Level III	Total
Interest rate swaps (included in other non-current liabilities)	$—	$29	$—	$29
Deferred compensation plan assets (included in other non-current assets)	1	—	—	1

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The following table summarizes the carrying amount of the Company's indebtedness compared to the estimated fair value, primarily determined by quoted market values, at:

Debt	September 30, 2013		December 31, 2012	
	Carrying Amount	Estimated Fair Value (a)	Carrying Amount	Estimated Fair Value (a)
Senior Secured Credit Facility:				
Revolving credit facility	$40	$40	$110	$110
Term loan facility	1,897	1,906	1,822	1,831
7.625% First Lien Notes	593	663	593	673
7.875% First and a Half Lien Notes	700	768	700	763
9.00% First and a Half Lien Notes	225	262	325	366
3.375% Senior Notes	500	501	—	—
11.50% Senior Notes	—	—	489	