

REALOGY CORP
Form 10-Q
May 02, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
1934

For the quarterly period ended March 31, 2012

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. 333-179896

DOMUS HOLDINGS CORP.

(Exact name of registrants as specified in its charter)

Commission File No. 333-179896

REALOGY CORPORATION

(Exact name of registrants as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

20-8050955 and 20-4381990
(I.R.S. Employer
Identification Numbers)

One Campus Drive
Parsippany, NJ
(Address of principal executive offices)

07054
(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 Registrants were required to file such reports), and (2) have been subject to such filing requirements for the past 90 days. Yes ☐ No ☒

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 registrant was required to submit and post such files). Yes ☒ 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 filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller reporting company ☐

(Do not check if a smaller reporting company)

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Indicate by check mark whether the Registrants are shell companies (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

There were 105,000 shares of Class A Common Stock, \$0.01 par value, and 200,496,906 shares of Class B Common Stock, \$0.01 par value, of Domus Holdings Corp. outstanding as of May 2, 2012. There were 100 shares of Common Stock, \$0.01 par value, of Realogy Corporation outstanding as of May 2, 2012.

Table of Contents

Table of Contents

	Page
<u>Introductory Note</u>	<u>1</u>
<u>Forward-Looking Statements</u>	<u>2</u>
 PART I FINANCIAL INFORMATION	
Item 1. <u>Financial Statements</u>	<u>5</u>
<u>Report of Independent Registered Public Accounting Firm for Domus Holdings Corp.</u>	<u>5</u>
<u>Report of Independent Registered Public Accounting Firm for Realogy Corporation</u>	<u>6</u>
<u>Condensed Consolidated Statements of Operations for the three months ended March 31, 2012 and 2011</u>	<u>7</u>
<u>Condensed Consolidated Statements of Comprehensive Loss for the three months ended March 31, 2012 and 2011</u>	<u>8</u>
<u>Condensed Consolidated Balance Sheets as of March 31, 2012 and December 31, 2011</u>	<u>9</u>
<u>Condensed Consolidated Statements of Cash Flows for the three months ended March 31, 2012 and 2011</u>	<u>10</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>11</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>37</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risks</u>	<u>62</u>
Item 4. <u>Controls and Procedures</u>	<u>62</u>
PART II <u>OTHER INFORMATION</u>	<u>64</u>
Item 1. <u>Legal Proceedings</u>	<u>64</u>
Item 5. <u>Other Information</u>	<u>65</u>
Item 6. <u>Exhibits</u>	<u>66</u>
<u>Signatures</u>	<u>67</u>

Table of Contents

INTRODUCTORY NOTE

Except as otherwise indicated or unless the context otherwise requires, the terms “we,” “us,” “our,” “our company” and the “Company” refer to Domus Holdings Corp. (“Holdings”) and its consolidated subsidiaries, including Domus Intermediate Holdings Corp., a Delaware corporation (“Intermediate”), and Realogy Corporation, a Delaware corporation (“Realogy”). Holdings is not a party to the senior secured credit facility and certain references in this report to our consolidated indebtedness exclude Holdings with respect to indebtedness under the senior secured credit facility. In addition, while Holdings is a guarantor of Realogy's obligations under the Unsecured Notes, the First Lien Notes and the First and a Half Lien Notes, Holdings is not subject to the restrictive covenants in the agreements governing such indebtedness. Holdings, the indirect parent of Realogy, does not conduct any operations other than with respect to its indirect ownership of Realogy. Intermediate, the parent of Realogy, does not conduct any operations other than with respect to its ownership of Realogy. As a result, the condensed consolidated financial positions, results of operations and cash flows of Holdings, Intermediate and Realogy are the same.

The term "Existing Notes" refers, collectively, to the 10.50% Senior Notes due 2014 (the "10.50% Senior Notes"), the 11.00%/11.75% Senior Toggle Notes due 2014 (the "Senior Toggle Notes") and the 12.375% Senior Subordinated Notes due 2015 (the "12.375% Senior Subordinated Notes").

The term "Extended Maturity Notes" refers collectively to the 11.50% Senior Notes due 2017 (the "11.50% Senior Notes"), the 12.00% Senior Notes due 2017 (the "12.00% Senior Notes") and the 13.375% Senior Subordinated Notes due 2018 (the "13.375% Senior Subordinated Notes") issued on January 5, 2011.

The term "Convertible Notes" refers, collectively, to the 11.00% Series A Convertible Notes due 2018, the 11.00% Series B Convertible Notes due 2018 and the 11.00% Series C Convertible Notes due 2018 issued on January 5, 2011. The term "Unsecured Notes" refers, collectively, to the Existing Notes, the Extended Maturity Notes and the Convertible Notes.

The term "Senior Subordinated Notes" refers, collectively, to the 12.375% Senior Subordinated Notes and the 13.375% Senior Subordinated Notes.

The term "Existing First and a Half Lien Notes" refers to the 7.875% Senior Secured Notes due 2019, issued on February 3, 2011. The term "New First and a Half Lien Notes" refers to the 9.00% Senior Secured Notes due 2020, issued on February 2, 2012 and the term "First and a Half Lien Notes" refers, collectively, to the Existing First and a Half Lien Notes and the New First and a Half Lien Notes.

The term "First Lien Notes" refers to the 7.625% Senior Secured First Lien Notes due 2020 issued on February 2, 2012.

The term "2012 Senior Secured Notes Offering" refers to the issuance and sale of the First Lien Notes and the New First and a Half Lien Notes on February 2, 2012 in a private offering and the application of the proceeds therefrom.

Table of Contents

FORWARD-LOOKING STATEMENTS

Forward-looking statements in this report and our other public filings or other public statements 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 or other public statements. These forward-looking statements were based on various facts and were derived utilizing numerous important assumptions and other important factors, and changes in such facts, assumptions or factors could cause actual results to differ materially from those in the 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 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:

we have substantial leverage as a result of our April 2007 acquisition by affiliates of Apollo Management VI, L.P. and the related financings (the "Merger Transactions"). Since the Merger Transactions, we have needed to incur additional debt in order to fund negative cash flows, principally due to the significant level of interest expense arising from our substantial leverage. As of March 31, 2012, our total debt (excluding the securitization obligations) was \$7,232 million. The housing industry and economy have experienced significant declines since the time of the Merger Transactions, which have negatively impacted our operating results. We have been, and continue to be, challenged by our heavily leveraged capital structure, negative cash flows and significant level of interest expense; under our senior secured credit facility, our senior secured leverage ratio of total senior secured net debt to trailing four quarter EBITDA, as those terms are defined in the senior secured credit facility, calculated on a "pro forma" basis pursuant to the senior secured credit facility, may not exceed 4.75 to 1.0 on the last day of each fiscal quarter. For the twelve months ended March 31, 2012, we were in compliance with the senior secured leverage ratio covenant with a ratio of 4.02 to 1.0. While the housing market has shown signs of modest recovery in the most recent quarter, there remains substantial uncertainty with respect to the timing and scope of a full housing recovery and if a housing recovery is delayed or is weak or if general macroeconomic or other factors do not significantly improve, we may be subject to additional pressure in maintaining compliance with our senior secured leverage ratio covenant; if we experience an event of default under our senior secured credit facility, including but not limited to a failure to pay our cash interest obligations under such facility, or under our indentures or relocation securitization facilities, or a failure to maintain, or a failure to cure a default of, the applicable senior secured leverage ratio under such instruments, or other lack of liquidity caused by substantial leverage and the adverse conditions in the housing market or other factors, such an event would materially and adversely affect our financial condition, results of operations and business;

we will continue to evaluate potential financing transactions, including refinancing certain tranches of our indebtedness, issuing incremental debt, obtaining incremental letters of credit facilities and extending maturities as well as potential transactions pursuant to which third parties, Apollo or its affiliates may provide financing to us or otherwise engage in transactions to provide liquidity to us. 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 also can be no assurance that financing or refinancing will be available to us on acceptable terms or at all. In addition, the conversion of all or a portion of our existing \$2.1 billion of outstanding Convertible Notes at the option of the holders thereof would improve our liquidity position;

If a housing recovery is delayed or weak, we may need to continue to defer or further reduce spending, including capital expenditures. There can be no assurance that we would be able to delay or further reduce expenses or that any such actions would not materially and adversely impact our business and results of operations;

• adverse developments or the absence of sustained improvement in general business, economic, employment and political conditions;

Table of Contents

adverse developments or the absence of sustained improvement in 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, further declines in home prices caused by either absolute price decreases or a change in the mix of business that we conduct 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 future recessions, slow economic growth and high levels of unemployment in the U.S. and abroad;
- increasing mortgage rates and down payment requirements and/or reduced availability of mortgage financing, including but not limited to the potential impact of various provisions of the Dodd-Frank Act and regulations that may be promulgated thereunder relating to mortgage financing, including restrictions imposed on mortgage originators as well as potential retention levels required to be maintained by sponsors to securitize certain mortgages;
- legislative, tax or regulatory changes that would adversely impact the residential real estate market, including but not limited to potential reform relating to Fannie Mae, Freddie Mac and other government sponsored entities that provide liquidity to the U.S. housing and mortgage markets and potential reform of the Internal Revenue Code, which could involve reform that reduces 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;
- continuing high levels of foreclosure activity including but not limited to the release of homes for sale by financial institutions;
- excessive or insufficient regional home inventory levels;
- the inability or unwillingness of homeowners to enter into homesale transactions due to negative equity in their existing homes;
- lower homeownership rates due to various factors, including, but not limited to, high unemployment levels, reduced demand or preferred use by households of rental housing due in part to uncertainty regarding future home values;
- our geographic and high-end market concentration, particularly with respect to our company-owned brokerage operations; and
- local and regional conditions in the areas where our franchisees and brokerage operations are located;

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;

limitations on flexibility in operating our business due to restrictions contained in our debt agreements;

our inability to sustain the improvements we have realized during the past several years in our operating efficiency through cost savings and business optimization efforts;

we may not be successful in our efforts to enter into franchise agreements with new franchisees or to realize material royalty revenue from them and/or we may not be able to renew franchise agreements or maintain franchisee satisfaction with our brands;

existing franchisees may not survive the ongoing challenges of the real estate market or may not be able to grow their businesses;

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 or 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, including, but not limited to, higher costs to retain or attract sales agents for residential real estate brokerages, and the financial resources of competitors. In addition, listing aggregators and other web-based real estate service providers may also begin to compete for part of the service revenue through referral or other fees;

Table of Contents

our failure to comply with laws and regulations and any changes in laws and regulations;
seasonal fluctuations in the residential real estate brokerage business could adversely affect our business, financial condition and liquidity, particularly during periods in which we have significant fixed cash obligations due to our fixed expenses, such as interest payments, facilities costs and personnel-related costs;
the loss of any of our senior management or key managers or employees;
adverse effects of natural disasters or environmental catastrophes;
any remaining resolutions or outcomes with respect to Cendant's (as defined herein) contingent liabilities under the Separation and Distribution Agreement (as defined herein) and the Tax Sharing Agreement (as defined herein), including any adverse impact on our future cash flows;
the cumulative effect of adverse litigation, governmental proceedings or arbitration awards against us and the adverse effect of new regulatory interpretations, rules and laws, including any changes that would (1) require classification of independent contractors to employee status, (2) place additional limitations or restrictions on affiliated transactions, which could have the effect of limiting or restricting collaboration among our business units, or (3) interpret the Real Estate Settlement Procedures Act or RESPA in a manner that would adversely affect our business operations and business arrangements; 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" and "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2011 (the "2011 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.

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have reviewed the accompanying condensed consolidated balance sheet of Domus Holdings Corp. and its subsidiaries as of March 31, 2012, and the related condensed consolidated statements of operations and comprehensive loss for the three-month periods ended March 31, 2012 and March 31, 2011 and the condensed consolidated statements of cash flows for the three-month periods ended March 31, 2012 and March 31, 2011. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews 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 reviews, 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, 2011, 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 March 2, 2012, 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, 2011, 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
May 2, 2012

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholder of Realogy Corporation:

We have reviewed the accompanying condensed consolidated balance sheet of Realogy Corporation and its subsidiaries as of March 31, 2012, and the related condensed consolidated statements of operations and comprehensive loss for the three-month periods ended March 31, 2012 and March 31, 2011 and the condensed consolidated statements of cash flows for the three-month periods ended March 31, 2012 and March 31, 2011. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews 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 reviews, 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, 2011, 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 March 2, 2012, 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, 2011, 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
May 2, 2012

Table of ContentsDOMUS HOLDINGS CORP. AND REALOGY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In millions)

(Unaudited)

	Three Months Ended March	
	31,	2011
	2012	2011
Revenues		
Gross commission income	\$ 606	\$ 575
Service revenue	172	164
Franchise fees	54	51
Other	43	41
Net revenues	875	831
Expenses		
Commission and other agent-related costs	402	374
Operating	318	318
Marketing	51	43
General and administrative	77	71
Former parent legacy costs (benefit), net	(3	) (2
Restructuring costs	3	2
Depreciation and amortization	45	46
Interest expense, net	170	179
Loss on the early extinguishment of debt	6	36
Other (income)/expense, net	1	—
Total expenses	1,070	1,067
Loss before income taxes, equity in earnings and noncontrolling interests	(195	) (236
Income tax expense	7	1
Equity in earnings of unconsolidated entities	(10) —
Net loss	(192	) (237
Less: Net income attributable to noncontrolling interests	—	—
Net loss attributable to Domus Holdings and Realogy	\$ (192	) \$ (237
Earnings (loss) per share attributable to Domus Holdings:		
Basic loss per share:	(0.96	) (1.18
Diluted loss per share:	(0.96	) (1.18
Weighted average common and common equivalent shares of Domus Holdings outstanding:		
Basic:	200.4	200.4
Diluted:	200.4	200.4

See Notes to Condensed Consolidated Financial Statements.

7

Table of ContentsDOMUS HOLDINGS CORP. AND REALOGY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(In millions)

(Unaudited)

	Three Months Ended March	
	31,	
	2012	2011
Net loss	\$ (192	) \$ (237)
Currency Translation Adjustment	2	1
Defined Benefit Pension Plan - amortization of actuarial loss to periodic pension cost	1	—
Cash Flow Hedges:		
Less: interest rate hedge losses to interest expense	—	(1)
Less: de-designation of interest rate hedges to interest expense	—	(17)
Cash flow hedges	—	18
Other comprehensive income, before tax	3	19
Income tax expense related to other comprehensive income amounts	1	8
Other comprehensive income, net of tax	2	11
Comprehensive loss	(190	) (226)
Less: comprehensive income attributable to noncontrolling interests	—	—
Comprehensive loss attributable to Domus Holdings and Realogy	\$ (190	) \$ (226)

See Notes to Condensed Consolidated Financial Statements.

8

Table of ContentsDOMUS HOLDINGS CORP. AND REALOGY CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(In millions)

(Unaudited)

	March 31, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 148	\$ 143
Trade receivables (net of allowance for doubtful accounts of \$65 and \$64)	122	120
Relocation receivables	385	378
Relocation properties held for sale	7	11
Deferred income taxes	62	66
Other current assets	101	88
Total current assets	825	806
Property and equipment, net	155	165
Goodwill	2,617	2,614
Trademarks	732	732
Franchise agreements, net	2,825	2,842
Other intangibles, net	428	439
Other non-current assets	215	212
Total assets	\$ 7,797	\$ 7,810
LIABILITIES AND EQUITY (DEFICIT)		
Current liabilities:		
Accounts payable	\$ 180	\$ 184
Securitization obligations	302	327
Due to former parent	76	80
Revolving credit facilities and current portion of long-term debt	111	325
Accrued expenses and other current liabilities	641	520
Total current liabilities	1,310	1,436
Long-term debt	7,121	6,825
Deferred income taxes	892	890
Other non-current liabilities	172	167
Total liabilities	9,495	9,318
Commitments and contingencies (Notes 8 and 9)		
Equity (deficit):		
Domus Holdings common stock: \$.01 par value; 4,450,000,000 shares authorized, 105,000 Class A shares outstanding, 200,426,906 Class B shares outstanding at March 31, 2012 and December 31, 2011 (Realogy common stock: \$.01 par value, 100 shares authorized, issued and outstanding at March 31, 2012 and December 31, 2011)	2	2
Additional paid-in capital	2,032	2,031
Accumulated deficit	(3,703)	(3,511)
Accumulated other comprehensive loss	(30)	(32)
Total Domus Holdings stockholders' deficit	(1,699)	(1,510)
Noncontrolling interests	1	2
Total equity (deficit)	(1,698)	(1,508)
Total liabilities and equity (deficit)	\$ 7,797	\$ 7,810

See Notes to Condensed Consolidated Financial Statements.

Table of ContentsDOMUS HOLDINGS CORP. AND REALOGY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Three Months Ended March	
	31,	
	2012	2011
Operating Activities		
Net loss	\$(192	) \$(237)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	45	46
Deferred income taxes	6	(1)
Amortization of deferred financing costs and discount on unsecured notes	4	5
Loss on the early extinguishment of debt	6	36
De-designation of interest rate hedge	—	17
Equity in earnings of unconsolidated entities	(10) —
Other adjustments to net loss	3	9
Net change in assets and liabilities, excluding the impact of acquisitions and dispositions:		
Trade receivables	(2	) (9)
Relocation receivables and advances	(6	) (7)
Relocation properties held for sale	5	3
Other assets	(4	) (6)
Accounts payable, accrued expenses and other liabilities	103	62
Due (to) from former parent	(4	) (6)
Other, net	14	1
Net cash used in operating activities	(32	) (87)
Investing Activities		
Property and equipment additions	(9	) (11)
Net assets acquired (net of cash acquired) and acquisition-related payments	(4	) (2)
Purchases of certificates of deposit, net	(3	) (5)
Change in restricted cash	(4) —
Other, net	—	(1)
Net cash used in investing activities	(20	) (19)
Financing Activities		
Net change in revolving credit facilities	(208	) (33)
Proceeds from term loan extension	—	98
Repayments of term loan credit facility	(629	) (702)