

AVIS BUDGET GROUP, INC.

Form 10-Q

November 09, 2011

[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**Form 10-Q**

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

For the quarterly period ended September 30, 2011

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. 1-10308

**Avis Budget Group, Inc.**

(Exact name of registrant as specified in its charter)

Edgar Filing: AVIS BUDGET GROUP, INC. - Form 10-Q

**Delaware**  
(State or other jurisdiction)  
**06-0918165**  
(I.R.S. Employer  
Identification Number)  
of incorporation or organization)  
**6 Sylvan Way**  
**Parsippany, NJ**  
(Address of principal executive offices)  
**07054**  
(Zip Code)  
**(973) 496-4700**  
(Registrant's telephone number, including area code)

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. Yes  No

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). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a 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  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of the issuer's common stock was 105,043,123 shares as of October 31, 2011.

**Table of Contents**

**Table of Contents**

	<b>Page</b>	
<b>PART I</b>	Financial Information (Unaudited)	
Item 1.	Financial Statements	
	<u>Consolidated Condensed Statements of Income for the Three and Nine Months Ended September 30, 2011 and 2010 (Unaudited)</u>	3
	<u>Consolidated Condensed Balance Sheets as of September 30, 2011 and December 31, 2010 (Unaudited)</u>	4
	<u>Consolidated Condensed Statements of Cash Flows for the Nine Months Ended September 30, 2011 and 2010 (Unaudited)</u>	5
	<u>Notes to Consolidated Condensed Financial Statements (Unaudited)</u>	7
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	31
Item 3.	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	41
Item 4.	<u>Controls and Procedures</u>	42
<b>PART II</b>	Other Information	
Item 6.	<u>Exhibits</u>	42
	<u>Signatures</u>	43

**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

The forward-looking statements contained herein are subject to known and unknown risks, uncertainties and other factors which 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. These forward-looking statements are based on various facts and were derived utilizing numerous important assumptions and other important factors that 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. Statements preceded by, followed by or that otherwise include the words believes, expects, anticipates, intends, projects, estimates, plans, may increase, may fluctuate and similar expressions or future or conditional verbs such as will, should, would, may are generally forward-looking in nature and not historical facts. You should understand that the following important factors and assumptions could affect our future results and could cause actual results to differ materially from those expressed in such forward-looking statements:

the high level of competition in the vehicle rental industry and the impact such competition may have on pricing and rental volume;

an increase in our fleet costs as a result of an increase in the cost of new vehicles, disruption in the supply of new vehicles, and/or a decrease in the price at which we dispose of used vehicles either in the used vehicle market or under repurchase or guaranteed depreciation programs;

the results of operations or financial condition of the manufacturers of our cars, which could impact their ability to perform their payment obligations under the agreements we have with them, including repurchase and/or guaranteed depreciation arrangements, and/or their willingness or ability to make cars available to us or the rental car industry as a whole on commercially reasonable terms or at all;

any reduction in travel demand, including any reduction in airline passenger traffic;

any weakness in economic conditions generally, including in the housing market, particularly during our peak season or in key market segments;

our ability to continue to achieve and maintain cost savings and successfully implement our business strategies;

our ability to obtain financing for our operations, including the funding of our vehicle fleet via the asset-backed securities and lending market consistent with current costs, and the financial condition of financial-guaranty firms that have insured a portion of our outstanding vehicle-backed debt;

an occurrence or threat of terrorism, pandemic disease, natural disasters or military conflict in the locations in which we operate;

our dependence on third-party distribution channels, third-party suppliers of other services and co-marketing arrangements with third parties;

our ability to utilize derivative instruments, and the impact of derivative instruments we currently utilize, which can be affected by fluctuations in interest rates, gasoline prices and exchange rates, changes in government regulations and other factors;

Edgar Filing: AVIS BUDGET GROUP, INC. - Form 10-Q

our ability to accurately estimate our future results;

a major disruption in our communication network or information systems;

our exposure to uninsured claims in excess of historical levels;

our failure or inability to comply with regulations or contractual obligations or any changes in regulations or contractual obligations, including with respect to personally identifiable information;

any impact on us from the actions of our licensees, dealers and independent contractors;

**Table of Contents**

substantial increases in the cost, or decreases in the supply, of fuel, vehicle parts, energy, labor or other resources on which we depend to operate our business;

risks related to our indebtedness, including our substantial amount of debt and our ability to incur substantially more debt;

our ability to meet the financial and other covenants contained in the agreements governing our indebtedness;

the terms of agreements among us and our former real estate, hospitality and travel distribution businesses following the separation of those businesses from us during third quarter 2006, particularly with respect to the allocation of assets and liabilities, including contingent liabilities and guarantees, the ability of each of the separated companies to perform its obligations, including its indemnification obligations, under these agreements, and the former real estate business' right to control the process for resolving disputes related to contingent liabilities and assets;

risks associated with litigation involving the Company;

risks related to tax obligations and the effect of future changes in accounting standards;

risks related to the acquisition of Avis Europe plc (now known as Avis Budget EMEA Limited) ( "Avis Europe" ), including our ability to realize synergies contemplated by the transaction, the incurrence of incremental indebtedness to help fund such acquisition, and our ability to promptly and effectively integrate the businesses of Avis Europe and Avis Budget Group, Inc.;

risks related to other potential acquisitions of, or investments in, our current or prospective licensees, including any incurrence of incremental indebtedness to help fund such transactions and our ability to promptly and effectively integrate any acquired businesses; and

other business, economic, competitive, governmental, regulatory, political or technological factors affecting our operations, pricing or services.

Other factors and assumptions not identified above, including those described under "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2010 Annual Report on Form 10-K and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, were also involved in the derivation of these forward-looking statements, and the failure of such other assumptions to be realized, as well as other factors, may also cause actual results to differ materially from those projected. Most of these factors are difficult to predict accurately and are generally beyond our control.

You should consider the areas of risk described above, as well as those described under "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2010 Annual Report on Form 10-K and in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2011, and those that may be disclosed from time to time in filings with the Securities and Exchange Commission, in connection with any forward-looking statements that may be made by us and our businesses generally. Except to the extent of our obligations under the federal securities laws, we undertake no obligation to release any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events. For any forward-looking statements contained in any document, 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****Avis Budget Group, Inc.****CONSOLIDATED CONDENSED STATEMENTS OF INCOME**

(In millions, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
<b>Revenues</b>				
Vehicle rental	\$ 1,211	\$ 1,145	\$ 3,163	\$ 2,972
Other	412	367	1,106	987
Net revenues	1,623	1,512	4,269	3,959
<b>Expenses</b>				
Operating	783	705	2,166	1,956
Vehicle depreciation and lease charges, net	304	352	840	988
Selling, general and administrative	190	156	511	430
Vehicle interest, net	74	80	205	230
Non-vehicle related depreciation and amortization	22	24	65	70
Interest expense related to corporate debt, net:				
Interest expense	48	40	143	122
Early extinguishment of debt				40
Transaction-related costs	66	5	102	8
Restructuring charges		6	1	9
Total expenses	1,487	1,368	4,033	3,853
<b>Income before income taxes</b>	136	144	236	106
Provision for income taxes	54	54	95	28
<b>Net income</b>	\$ 82	\$ 90	\$ 141	\$ 78
<b>Earnings per share</b>				
Basic	\$ 0.78	\$ 0.88	\$ 1.34	\$ 0.76
Diluted	\$ 0.65	\$ 0.73	\$ 1.14	\$ 0.66

See Notes to Consolidated Condensed Financial Statements (Unaudited).

**Table of Contents****Avis Budget Group, Inc.****CONSOLIDATED CONDENSED BALANCE SHEETS****(In millions, except share data)****(Unaudited)**

	September 30, 2011	December 31, 2010
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,002	\$ 911
Restricted cash	395	10
Receivables	370	315
Deferred income taxes	133	130
Other current assets	256	272
Total current assets	2,156	1,638
Property and equipment, net	394	425
Deferred income taxes	634	587
Goodwill	76	76
Other intangibles, net	475	481
Other non-current assets	267	255
Total assets exclusive of assets under vehicle programs	4,002	3,462
Assets under vehicle programs:		
Program cash	21	4
Vehicles, net	7,792	6,422
Receivables from vehicle manufacturers and other	167	149
Investment in Avis Budget Rental Car Funding (AESOP) LLC related party	329	290
	8,309	6,865
<b>Total assets</b>	<b>\$ 12,311</b>	<b>\$ 10,327</b>
<b>Liabilities and stockholders' equity</b>		
Current liabilities:		
Accounts payable and other current liabilities	\$ 1,053	\$ 925
Current portion of long-term debt	6	8
Total current liabilities	1,059	933
Long-term debt	2,492	2,494
Other non-current liabilities	527	535
Total liabilities exclusive of liabilities under vehicle programs	4,078	3,962
Liabilities under vehicle programs:		
Debt	807	528
Debt due to Avis Budget Rental Car Funding (AESOP) LLC related party	5,326	3,987
Deferred income taxes	1,461	1,333
Other	87	107



Edgar Filing: AVIS BUDGET GROUP, INC. - Form 10-Q

	7,681	5,955
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Preferred stock, \$0.01 par value authorized 10 million shares; none issued and outstanding		
Common stock, \$0.01 par value authorized 250 million shares; issued 137,015,293 and 136,982,068 shares		
	1	1
Additional paid-in capital	8,501	8,828
Accumulated deficit	(2,496)	(2,637)
Accumulated other comprehensive income	81	92
Treasury stock, at cost 31,564,090 and 33,247,139 shares	(5,535)	(5,874)
Total stockholders' equity	552	410
<b>Total liabilities and stockholders' equity</b>	<b>\$ 12,311</b>	<b>\$ 10,327</b>

See Notes to Consolidated Condensed Financial Statements (Unaudited).

**Table of Contents****Avis Budget Group, Inc.****CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS****(In millions)****(Unaudited)**

	<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Operating Activities</b>		
Net income	\$ 141	\$ 78
Adjustments to reconcile net income to net cash provided by operating activities exclusive of vehicle programs:		
Non-vehicle related depreciation and amortization	65	70
Net change in assets and liabilities, excluding the impact of acquisitions and dispositions:		
Receivables	(36)	(34)
Income taxes and deferred income taxes	58	(93)
Accounts payable and other current liabilities	83	107
Reimbursement from Realogy and Wyndham for taxes paid		99
Reimbursement from Wyndham for tax attributes		86
Other, net	(73)	44
<b>Net cash provided by operating activities exclusive of vehicle programs</b>	<b>238</b>	<b>357</b>
<i>Vehicle programs:</i>		
Vehicle depreciation	1,034	981
	1,034	981
<b>Net cash provided by operating activities</b>	<b>1,272</b>	<b>1,338</b>
<b>Investing Activities</b>		
Property and equipment additions	(30)	(39)
Proceeds received on asset sales	9	11
Acquisition-related restricted cash	(401)	
Other, net	(11)	(7)
<b>Net cash used in investing activities exclusive of vehicle programs</b>	<b>(433)</b>	<b>(35)</b>
<i>Vehicle programs:</i>		
(Increase) decrease in program cash	(19)	123
Investment in vehicles	(6,701)	(6,549)
Proceeds received on disposition of vehicles	4,379	4,445
Investment in debt securities of Avis Budget Rental Car Funding (AESOP) LLC related party	(400)	(380)
Proceeds from debt securities of Avis Budget Rental Car Funding (AESOP) LLC related party	400	380
	(2,341)	(1,981)
<b>Net cash used in investing activities</b>	<b>(2,774)</b>	<b>(2,016)</b>



**Table of Contents****Avis Budget Group, Inc.****CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Continued)****(In millions)****(Unaudited)**

	<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Financing Activities</b>		
Proceeds from borrowings		444
Principal payments on borrowings	(6)	(458)
Debt financing fees	(33)	(32)
Other, net	1	4
<b>Net cash used in financing activities exclusive of vehicle programs</b>	<b>(38)</b>	<b>(42)</b>
<i>Vehicle programs:</i>		
Proceeds from borrowings	8,235	7,196
Principal payments on borrowings	(6,568)	(6,391)
Net change in short-term borrowings		67
Debt financing fees	(20)	(17)
	1,647	855
<b>Net cash provided by financing activities</b>	<b>1,609</b>	<b>813</b>
Effect of changes in exchange rates on cash and cash equivalents	(16)	6
Net increase in cash and cash equivalents	91	141
Cash and cash equivalents, beginning of period	911	482
<b>Cash and cash equivalents, end of period</b>	<b>\$ 1,002</b>	<b>\$ 623</b>

See Notes to Consolidated Condensed Financial Statements (Unaudited).

---

**Table of Contents**

**Avis Budget Group, Inc.**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)**

**(Unless otherwise noted, all dollar amounts in tables are in millions, except per share amounts)**

**1. Basis of Presentation and Recently Issued Accounting Pronouncements**

***Basis of Presentation***

Avis Budget Group, Inc. provides car and truck rentals and ancillary services to businesses and consumers in the United States and internationally. The accompanying unaudited Consolidated Condensed Financial Statements include the accounts and transactions of Avis Budget Group, Inc. and its subsidiaries ( *Avis Budget* ), as well as entities in which Avis Budget directly or indirectly has a controlling financial interest (collectively, the *Company* ), and have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ( *SEC* ) for interim financial reporting.

The Company operates in the following business segments:

**Domestic Car Rental** provides car rentals and ancillary products and services in the United States.

**International Car Rental** provides vehicle rentals and ancillary products and services primarily in Argentina, Australia, Canada, New Zealand, Puerto Rico and the U.S. Virgin Islands.

**Truck Rental** provides truck rentals and related services to consumers and commercial users in the United States.

In presenting the Consolidated Condensed Financial Statements in accordance with accounting principles generally accepted in the United States of America ( *GAAP* ), management makes estimates and assumptions that affect the amounts reported and related disclosures. Estimates, by their nature, are based on judgments and available information. Accordingly, actual results could differ from those estimates. In management's opinion, the Consolidated Condensed Financial Statements contain all normal recurring adjustments necessary for a fair presentation of interim results reported. The results of operations reported for interim periods are not necessarily indicative of the results of operations for the entire year or any subsequent interim period. These financial statements should be read in conjunction with the Company's 2010 Annual Report on Form 10-K.

*Vehicle Programs.* The Company presents separately the financial data of its vehicle programs. These programs are distinct from the Company's other activities since the assets under vehicle programs are generally funded through the issuance of debt that is collateralized by such assets. The income generated by these assets is used, in part, to repay the principal and interest associated with the debt. Cash inflows and outflows relating to the generation or acquisition of such assets and the principal debt repayment or financing of such assets are classified as activities of the Company's vehicle programs. The Company believes it is appropriate to segregate the financial data of its vehicle programs because, ultimately, the source of repayment of such debt is the realization of such assets.

***Acquisition of Avis Europe plc***

In June 2011, the Company reached an agreement with Avis Europe plc ( *Avis Europe* ) to acquire all outstanding shares of Avis Europe for approximately £635 million (approximately \$1 billion). In August 2011, the shareholders of Avis Europe voted to approve the acquisition and it was subsequently approved by the court. The Company completed the acquisition in October 2011. As a result of the acquisition, as of October 2011, the Company now provides vehicle rental and ancillary products and services in Europe, the Middle East, Africa and Asia. As part of the agreement to acquire Avis Europe, the Company established an escrow account and purchased £246 million to be used in the funding of the acquisition. As a result, this cash has been classified as restricted cash on the Company's Consolidated Condensed Balance Sheets as of September 30, 2011.

*Transaction-related Costs*

As noted above, the Company completed the acquisition of Avis Europe on October 3, 2011. In addition, in September 2011, the Company announced that it had decided not to pursue the acquisition of Dollar Thrifty Automotive Group, Inc. ( Dollar Thrifty ) at this time in light of current market conditions. Transaction-related costs including due-diligence, financing and other costs associated with the Company's acquisition of Avis Europe and its previous efforts to acquire Dollar Thrifty, are now being classified separately in the Consolidated Condensed Statements of Income for the three and nine months ended September 30, 2011 and 2010. Related costs from the three and nine months ended September 30, 2010

**Table of Contents**

have been reclassified from selling, general and administrative expenses to transaction-related costs to conform to the current presentation. This reclassification had no impact on total expenses, income before income taxes, net income or earnings per share. Transaction-related costs in the future are also expected to include costs for the integration of the acquired business.

**Adoption of New Accounting Standards**

In May 2011, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards ( IFRS ) , to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRS. The Company will adopt this guidance on January 1, 2012, as required, and it is not expected to have a significant impact on its financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income , which requires companies to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The Company plans to adopt this guidance on January 1, 2012, as required, and is assessing the manner in which it will present the required information.

In September 2011, the FASB issued ASU No. 2011-08, Testing Goodwill for Impairment , which provides companies the option to bypass the annual quantitative goodwill impairment assessment and assess qualitative factors to determine whether there are events or circumstances which would lead to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The Company is currently assessing whether it will elect to adopt this guidance in fourth quarter 2011, as permitted, or on January 1, 2012, as required, but it is not expected to have a significant impact on its financial statements.

In September 2011, the FASB issued ASU No. 2011-09, Disclosures about an Employer's Participation in a Multiemployer Plan , which requires employers that participate in multiemployer pension plans to provide additional quantitative and qualitative disclosures regarding their participation in multiemployer pension plans. The Company plans to adopt this guidance on December 31, 2011, as required, and it is not expected to have an impact on the Company's financial statements; however, it will result in incremental disclosure about the Company's participation in multiemployer pension plans.

**2. Restructuring Charges**

Beginning in late 2008, the Company implemented initiatives within the Company's Domestic Car Rental, International Car Rental and Truck Rental segments to reduce costs, enhance organizational efficiency and consolidate and rationalize existing processes and facilities. The Company incurred associated restructuring charges primarily for severance, outplacement services and other costs associated with the employee terminations.

As of September 30, 2011, the remaining liability relating to restructuring actions amounted to \$1 million, primarily for Domestic Car Rental facility-related lease obligation costs for vacated locations which are expected to be paid through 2015. The Company has substantially completed its activities under this plan.

The utilization of the restructuring liability is recorded within the Company's segments as follows:

	<b>Domestic Car Rental</b>	<b>Total</b>
Balance as of January 1, 2011	\$ 6	\$ 6
Incremental charge	1	1
Cash payment/utilization	(6)	(6)
Balance as of September 30, 2011	\$ 1	\$ 1





## Table of Contents

### 3. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share ( EPS ):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income for basic EPS	\$ 82	\$ 90	\$ 141	\$ 78
Convertible debt interest, net of tax	2	2	5	6
Net income for diluted EPS	\$ 84	\$ 92	\$ 146	\$ 84
Basic weighted average shares outstanding	105.4	103.2	105.1	103.0
Options, warrants and non-vested stock	2.3	2.2	2.6	2.2
Convertible debt	21.2	21.2	21.2	21.2
Diluted weighted average shares outstanding	128.9	126.6	128.9	126.4
<i>Earnings per share:</i>				
Basic	\$ 0.78	\$ 0.88	\$ 1.34	\$ 0.76
Diluted	\$ 0.65	\$ 0.73	\$ 1.14	\$ 0.66

The following table summarizes the Company's outstanding common stock equivalents that were anti-dilutive and therefore excluded from the computation of diluted EPS:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Options <sup>(a)</sup>	1.1	2.0	1.2	2.0
Warrants <sup>(b)</sup>	21.2	21.2	21.2	21.2

(a) The weighted average exercise price for anti-dilutive options for the three and nine months ended September 30, 2011 was \$24.59 and \$24.59, respectively. For the three and nine months ended September 30, 2010, the weighted average exercise price for anti-dilutive options was \$20.92.

(b) Represents all outstanding warrants for the three and nine months ended September 30, 2011 and 2010. The exercise price for the warrants outstanding for the three and nine months ended September 30, 2011 and 2010 was \$22.50.

### 4. Intangible Assets

Intangible assets consisted of:

	As of September 30, 2011			As of December 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<i>Amortizable Intangible Assets</i>						
Franchise agreements	\$ 73	\$ 26	\$ 47	\$ 73	\$ 24	\$ 49
Customer lists	19	10	9	19	10	9
Other	2	1	1	2	1	1
	\$ 94	\$ 37	\$ 57	\$ 94	\$ 35	\$ 59

Edgar Filing: AVIS BUDGET GROUP, INC. - Form 10-Q

*Unamortizable Intangible Assets*

Goodwill	\$ 76	\$ 76
Trademarks <sup>(a)</sup>	\$ 418	\$ 422

<sup>(a)</sup> The decrease in trademarks is primarily due to fluctuations in foreign currency. Amortization expense relating to all intangible assets was approximately \$1 million during third quarter 2011 and 2010. For the nine months ended September 30, 2011 and 2010, amortization expense was approximately \$2 million.

**Table of Contents**

Based on the Company's amortizable intangible assets at September 30, 2011, the Company expects amortization expense of approximately \$1 million for the remainder of 2011 and approximately \$3 million for each of the five fiscal years thereafter.

**5. Financial Instruments**

The fair value of the Company's financial instruments is generally determined by reference to market values resulting from trading on a national securities exchange or in an over-the-counter market. In some cases where quoted market prices are not available, prices are derived by considering the yield of the benchmark security that was issued to initially price the instruments and adjusting this rate by the credit spread that market participants would demand for the instruments as of the measurement date. The carrying amounts of cash and cash equivalents, restricted cash, available-for-sale securities, accounts receivable, program cash and accounts payable and accrued liabilities approximate fair value due to the short-term maturities of these assets and liabilities.

**Debt Instruments**

The carrying amounts and estimated fair values of debt instruments are as follows:

	As of September 30, 2011		As of December 31, 2010	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
<b>Corporate debt</b>				
Current portion of long-term debt	\$ 6	\$ 6	\$ 8	\$ 8
Long-term debt, excluding convertible debt	2,147	2,006	2,149	2,211
Convertible debt	345	334	345	407
<b>Debt under vehicle programs</b>				
Vehicle-backed debt due to Avis Budget Rental Car Funding (AESOP) LLC	\$ 5,326	\$ 5,403	\$ 3,987	\$ 4,045
Vehicle-backed debt	805	834	521	526

**Derivative Instruments and Hedging Activities**

The Company uses foreign exchange forward contracts to manage its exposure to changes in foreign currency exchange rates associated with its foreign currency denominated receivables and forecasted royalties, forecasted earnings of foreign subsidiaries and forecasted foreign currency denominated acquisitions, including the announced agreement to acquire Avis Europe. The Company primarily hedges its foreign currency exposure to the Canadian, Australian and New Zealand dollars, the Euro and the British pound sterling. The majority of forward contracts do not qualify for hedge accounting treatment. With the exception of forecasted foreign currency denominated acquisitions, fluctuations in the value of these forward contracts largely offset the impact of changes in the value of the underlying risk they economically hedge. Forward contracts used to hedge forecasted third party receipts and disbursements up to twelve months are designated and do qualify as cash flow hedges. The amount of gains or losses reclassified from accumulated other comprehensive income to earnings resulting from ineffectiveness or from excluding a component of the forward contracts' gain or loss from the effectiveness calculation for cash flow hedges during the three and nine months ended September 30, 2011 and 2010 was not material, nor is the amount of gains or losses the Company expects to reclassify from accumulated other comprehensive income to earnings over the next twelve months.

The Company uses various hedging strategies including interest rate swaps and interest rate caps to create an appropriate mix of fixed and floating rate assets and liabilities. The Company uses interest rate swaps, designated as cash flow hedges, to manage the risk related to its floating rate corporate debt. In connection with such cash flow hedges, the Company records the effective portion of changes in the fair value of these cash flow hedges to other comprehensive income, net of tax, and subsequently reclassifies these amounts into earnings in the period during which the hedged transaction is recognized. The changes in fair values of hedges that were determined to be ineffective are immediately reclassified from accumulated other comprehensive income into earnings. During the nine months ended September 30, 2010, the Company reclassified \$36 million from accumulated other comprehensive income to earnings in connection with the early termination of certain interest rate swaps related to the repayment of a portion of the Company's floating rate term loan. The Company estimates that approximately \$37 million of losses deferred in accumulated other comprehensive income will be recognized over the next twelve months, which is expected to be offset in earnings by the impact of the underlying hedged items.



**Table of Contents**

To manage the risk associated with its floating rate vehicle-backed debt, the Company uses derivatives. These derivatives include freestanding derivatives and derivatives designated as cash flow hedges. In connection with such cash flow hedges, the Company records the effective portion of the change in fair value in other comprehensive income, net of tax. The Company records the gains or losses related to freestanding derivatives in its consolidated results of operations.

The Company periodically enters into derivative commodity contracts to manage its exposure to changes in the price of unleaded gasoline. Changes in the fair value of these freestanding derivatives are recorded in the Company's consolidated results of operations.

Certain of the Company's derivative instruments contain collateral support provisions that require the Company to post cash collateral to the extent that these derivatives are in a liability position. The aggregate fair value of such derivatives that are in a liability position and the aggregate fair value of assets needed to settle these derivatives as of September 30, 2011 was approximately \$5 million, for which the Company has posted cash collateral in the same amount in the normal course of business.

As of September 30, 2011, the Company held derivative instruments with notional values as follows: interest rate caps of approximately \$4.0 billion, interest rate swaps of \$132 million, foreign exchange forward contracts of approximately \$1.4 billion, foreign exchange swaps of \$19 million and commodity contracts for the purchase of 14 million gallons of unleaded gasoline.

The Company used significant observable inputs (Level 2 inputs) to determine the fair value of its derivative assets and liabilities. Derivatives entered into by the Company are typically executed over-the-counter and are valued using various valuation techniques, as no quoted market prices exist for such instruments. The valuation technique and inputs depend on the type of derivative and the nature of the underlying exposure. The principal techniques used to value these instruments are discounted cash flows and Black-Scholes option valuation models. These models take into account a variety of factors including, where applicable, maturity, commodity prices, interest rate yield curves of the Company and counterparties, credit curves, counterparty creditworthiness and currency exchange rates. These factors are applied on a consistent basis and are based upon observable inputs where available.

Fair values of derivative instruments are as follows:

	As of September 30, 2011		As of December 31, 2010	
	Fair Value, Asset Derivatives	Fair Value, Liability Derivatives	Fair Value, Asset Derivatives	Fair Value, Liability Derivatives
<b>Derivatives designated as hedging instruments</b> <sup>(a)</sup>				
Interest rate swaps <sup>(b)</sup>	\$	\$ 4	\$	\$ 4
<b>Derivatives not designated as hedging instruments</b> <sup>(a)</sup>				
Foreign exchange forward contracts <sup>(c)</sup>		31		3
Foreign exchange swaps <sup>(c)</sup>		1		
Interest rate swaps <sup>(b)</sup>				1
Interest rate contracts <sup>(d)</sup>	2	2	1	7
Commodity contracts <sup>(c)</sup>		3		
<b>Total</b>	<b>\$ 2</b>	<b>\$ 41</b>	<b>\$ 1</b>	<b>\$ 15</b>

<sup>(a)</sup> Amounts in this table exclude derivatives issued by Avis Budget Rental Car Funding (AESOP) LLC (Avis Budget Rental Car Funding), as it is not consolidated by the Company; however, certain amounts related to the derivatives held by Avis Budget Rental Car Funding are included within accumulated other comprehensive income, as discussed in Note 12 Stockholders' Equity.

<sup>(b)</sup> Included in other non-current liabilities.

<sup>(c)</sup> Included in other current liabilities.

<sup>(d)</sup> Included in assets under vehicle programs and liabilities under vehicle programs.



**Table of Contents**

The effect of derivatives recognized in the Company's Consolidated Condensed Financial Statements are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
<b>Derivatives designated as hedging instruments</b>				
Interest rate swaps <sup>(a)</sup>	\$ 8	\$ 8	\$ 24	\$ 22
<b>Derivatives not designated as hedging instruments</b>				
Foreign exchange forward contracts <sup>(b)</sup>	\$ (12)	\$ (1)	\$ (33)	\$ (1)
Foreign exchange swaps <sup>(c)</sup>	(1)	16	4	15
Interest rate contracts <sup>(d)</sup>			(1)	(2)
Commodity contracts <sup>(c)</sup>	(3)		(2)	

(a) Amounts are recognized as a component of other comprehensive income within stockholders' equity, net of tax.

(b) For the three months ended September 30, 2011, includes a \$14 million loss in transaction-related costs and a \$2 million gain in operating expenses. For the nine months ended September 30, 2011, includes a \$31 million loss in transaction-related costs and \$2 million loss in operating expenses. For the three and nine months ended September 30, 2010, the amounts are included in operating expenses.

(c) Included in operating expenses.

(d) Included in interest expense.

**6. Vehicle Rental Activities**

The components of the Company's vehicles, net within assets under vehicle programs are as follows:

	As of September 30, 2011	As of December 31, 2010
Rental vehicles	\$ 8,074	\$ 7,007
Less: Accumulated depreciation	(1,087)	(1,135)
	6,987	5,872
Vehicles held for sale	805	550
<b>Vehicles, net</b>	<b>\$ 7,792</b>	<b>\$ 6,422</b>

The components of vehicle depreciation and lease charges, net are summarized below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Depreciation expense	\$ 370	\$ 355	\$ 1,034	\$ 981
Lease charges	10	6	30	25
Gain on sales of vehicles, net and vehicle disposition costs	(76)	(9)	(224)	(18)
<b>Vehicle depreciation and lease charges, net</b>	<b>\$ 304</b>	<b>\$ 352</b>	<b>\$ 840</b>	<b>\$ 988</b>

For the three months ended September 30, 2011 and 2010, vehicle interest, net, on the accompanying Consolidated Condensed Statements of Income excludes \$49 million and \$43 million, respectively, and for the nine months ended September 30, 2011 and 2010, vehicle interest, net

## Edgar Filing: AVIS BUDGET GROUP, INC. - Form 10-Q

excludes \$150 million and \$127 million, respectively, of interest expense related to the Company's convertible senior notes and the fixed and floating rate borrowings of the Company's Avis Budget Car Rental, LLC (Avis Budget Car Rental) subsidiary.

### **7. Income Taxes**

The Company's effective tax rate for the nine months ended September 30, 2011 is a provision of 40.3%. Such rate differs from the Federal statutory rate of 35.0% primarily due to state taxes and the non-deductibility of certain transaction-related costs.



**Table of Contents**

The Company's effective tax rate for the nine months ended September 30, 2010 is a provision of 26.4%. Such rate differs from the Federal statutory rate of 35.0% primarily due to an \$11 million benefit relating to additional tax depreciation within the Company's operations in Australia.

**8. Accounts Payable and Other Current Liabilities**

Accounts payable and other current liabilities consisted of:

	As of September 30, 2011	As of December 31, 2010
Accounts payable	\$ 218	\$ 209
Accrued payroll and related	158	155
Public liability and property damage insurance liabilities - current	93	93
Advertising and marketing	70	53
Other	514	415
	\$ 1,053	\$ 925

**9. Long-term Debt and Borrowing Arrangements**

Long-term debt consisted of:

	Maturity Dates	As of September 30, 2011	As of December 31, 2010
Floating rate term loan <sup>(a)</sup>	April 2014	\$ 268	\$ 271
Floating rate notes	May 2014	250	250
7 <sup>5</sup> / <sub>8</sub> % notes	May 2014	200	200
3 <sup>1</sup> / <sub>2</sub> % convertible notes	October 2014	345	345
7 <sup>3</sup> / <sub>4</sub> % notes	May 2016	375	375
9 <sup>5</sup> / <sub>8</sub> % notes	March 2018	445	444
8 <sup>1</sup> / <sub>4</sub> % notes	January 2019	602	602
		2,485	2,487
Other		13	15
Total long-term debt		2,498	2,502
Less: Current portion		6	8
<b>Long-term debt</b>		<b>\$ 2,492</b>	<b>\$ 2,494</b>

(a) The floating rate term loan and our revolving credit facility are secured by pledges of all of the capital stock of all of the Company's direct or indirect domestic subsidiaries and up to 66% of the capital stock of each direct foreign subsidiary, subject to certain exceptions, and liens on substantially all of the Company's intellectual property and certain other real and personal property. The floating rate term loan bears interest at the greater of three month LIBOR or 1.50%, plus 425 basis points, for a rate of 5.75% at September 30, 2011.

## Edgar Filing: AVIS BUDGET GROUP, INC. - Form 10-Q

During September 2011, the Company entered into an Incremental Facilities Agreement and an Incremental Tranche B Term Facility Agreement to amend its secured Amended and Restated Credit Agreement dated as of May 3, 2011 (the "Credit Agreement"). Pursuant to these new agreements, the Credit Agreement was amended to make available to the Company a \$20 million tranche A incremental term loan (the "Term Loan A") and a \$420 million tranche B incremental term loan (the "Term Loan B") which mature in May 2016 and September 2018, respectively. The Term Loan A will bear interest at LIBOR plus 3% per annum, and the Term Loan B will bear interest at the Eurocurrency rate, of not less than 1.25% plus a margin of 5.0% per annum. The Company has agreed to pay to the Term Loan B lenders an amount equal to 2.0% each such lender's commitments under the Term Loan B which was structured as an original issue discount. Both the Term Loan A and the Term Loan B were contingent upon the Company's acquisition of Avis Europe, which occurred on October 3, 2011.

During October 2011, the Company issued \$250 million aggregate principal amount of 9<sup>3</sup>/<sub>4</sub>% Senior Notes due 2020. The notes will pay interest semi-annually on March 15 and September 15 of each year, beginning in March 2012. The notes were originally issued as unsecured obligations of the Company's AE Escrow Corporation subsidiary, and were subsequently assumed by Avis Budget Car Rental and guaranteed on a senior basis by the Company and certain of its domestic subsidiaries. These notes were issued at par and the proceeds were used to partially fund the acquisition of Avis.

**Table of Contents**

Europe. The notes rank equally with all existing and future senior unsecured indebtedness and are senior to all existing and future subordinated indebtedness. The Company has the right to redeem these notes in whole or in part at any time at the applicable redemption price plus any accrued and unpaid interest through the redemption date. In connection with the sale of the notes, the Company entered into a Registration Rights Agreement (the "Registration Rights Agreement"), pursuant to which, in November 2011 it launched an offer to exchange the originally issued notes for new notes which have been registered under the Securities Act of 1933, as amended. The terms of the new notes will be substantially identical to those of the originally issued notes except that the transfer restrictions and registration rights provisions relating to the originally issued notes will not apply to the new notes.

**Committed Credit Facilities and Available Funding Arrangements**

At September 30, 2011, the committed credit facilities available to the Company and/or its subsidiaries included:

	<b>Total Capacity</b>	<b>Outstanding Borrowings</b>	<b>Letters of Credit Issued</b>	<b>Available Capacity</b>
Revolving credit facility maturing 2016 <sup>(a) (b)</sup>	\$ 1,200	\$	\$ 784	\$ 416

(a) This revolving credit facility matures in 2016 and bears interest of one month LIBOR plus 325 basis points. The senior credit facility, which encompasses the floating rate term loan, the Term Loan A, the Term Loan B and the revolving credit facility, is secured by pledges of all of the capital stock of all of the Company's direct or indirect domestic subsidiaries and up to 66% of the capital stock of each foreign subsidiary directly owned by the Company's domestic subsidiaries, subject to certain exceptions, and liens on substantially all of the Company's intellectual property and certain other real and personal property.

(b) During September 2011, this revolving credit facility was amended to expand the available capacity to \$1.4 billion, contingent upon the completion of the Company's acquisition of Avis Europe, which occurred on October 3, 2011.

During September 2011, the Company entered into a Senior Interim Loan Agreement to replace the Senior Secured Interim Loan Agreement and the Senior Unsecured Interim Loan Agreement entered into in June 2011, in connection with the planned acquisition of Avis Europe. Deferred financing fees related to the replaced loan agreements have been expensed in transaction-related costs. The Senior Interim Loan Agreement provides for a commitment of up to \$580 million and initially bears interest, at the Company's option, at either a Eurocurrency rate, which shall not be less than 1.5%, plus a margin of 7.50% per annum or an alternate base rate, which shall not be less than 2.5%, plus a margin of 6.50% per annum, subject to increase by 0.50% per annum at the end of each consecutive three-month period ending after the date of funding of the interim loans through the one-year anniversary of the interim loan funding date, subject to a cap. Any borrowings under this loan agreement would mature on the seven-year anniversary of the funding date. This loan agreement expired pursuant to its terms in October 2011, and the Company made no borrowings under it.

The agreements governing the Company's indebtedness contain restrictive covenants, including restrictions on dividends paid to the Company by certain of its subsidiaries, the incurrence of additional indebtedness by the Company and certain of its subsidiaries, acquisitions, mergers, liquidations, and sale and leaseback transactions. The Company's senior credit facilities contain maximum leverage and minimum interest coverage ratio requirements. As of September 30, 2011, the Company was in compliance with the financial covenants of its senior credit facilities.

**Table of Contents****10. Debt Under Vehicle Programs and Borrowing Arrangements**

Debt under vehicle programs (including related party debt due to Avis Budget Rental Car Funding (AESOP) LLC) consisted of:

	As of September 30, 2011	As of December 31, 2010
Debt due to Avis Budget Rental Car Funding <sup>(a)</sup>	\$ 5,326	\$ 3,987
Budget Truck Funding program	194	244
Other <sup>(b)</sup>	613	284
	\$ 6,133	\$ 4,515

(a) The increase reflects increased borrowing within Domestic Car Rental operations to fund an increase in the size of the Company's domestic car rental fleet.

(b) The increase principally reflects increased borrowing within International Car Rental operations due to an increase in the size of the Company's international vehicle rental fleet.

In 2010, the Company established a variable funding note program with a maximum capacity of \$400 million of notes to be issued by Avis Budget Rental Car Funding to the Company to finance the purchase of vehicles. These variable funding notes pay interest of 4.5% at September 30, 2011 and mature in March 2012. As of September 30, 2011, there were no outstanding amounts due to the Company from Avis Budget Rental Car Funding under the program. During the three months ended September 30, 2011, no funding under the program occurred; however, for the nine months ended September 30, 2011, the Company earned interest income of \$4 million and incurred equal amounts of interest expense on these notes, which were eliminated in consolidation in the Company's financial statements.

The following table provides the contractual maturities of the Company's debt under vehicle programs (including related party debt due to Avis Budget Rental Car Funding) at September 30, 2011:

	Vehicle-Backed Debt
Within 1 year <sup>(a)</sup>	\$ 2,251
Between 1 and 2 years	815
Between 2 and 3 years	658
Between 3 and 4 years	771
Between 4 and 5 years	741
Thereafter	897
	\$ 6,133

(a) Vehicle-backed debt maturing within one year includes term asset-backed securities maturities of approximately \$1.6 billion and bank and bank-sponsored borrowings of \$607 million.

As of September 30, 2011, available funding under the Company's vehicle programs (including related party debt due to Avis Budget Rental Car Funding) consisted of:

Total Capacity <sup>(a)</sup>	Outstanding Borrowings	Available Capacity
-------------------------------------	---------------------------	-----------------------

Edgar Filing: AVIS BUDGET GROUP, INC. - Form 10-Q

Debt due to Avis Budget Rental Car Funding <sup>(b)</sup>	\$ 7,241	\$ 5,326	\$ 1,915
Budget Truck financing <sup>(c)</sup>	194	194	
Other <sup>(d)</sup>	954	613	341
	\$ 8,389	\$ 6,133	\$ 2,256

- (a) Capacity is subject to maintaining sufficient assets to collateralize debt.
- (b) The outstanding debt is collateralized by approximately \$6.9 billion of underlying vehicles and related assets.
- (c) The outstanding debt is collateralized by \$313 million of underlying vehicles and related assets.
- (d) The outstanding debt is collateralized by approximately \$1.1 billion of underlying vehicles and related assets.

## **Table of Contents**

Debt agreements under the Company's vehicle-backed funding programs contain restrictive covenants, including restrictions on dividends paid to the Company by certain of its subsidiaries and restrictions on indebtedness, mergers, liens, liquidations and sale and leaseback transactions and in some cases also require compliance with certain financial requirements. As of September 30, 2011, the Company is not aware of any instances of non-compliance with any of the financial or restrictive covenants contained in the debt agreements under its vehicle-backed funding programs.

### **11. Commitments and Contingencies**

#### ***Contingencies***

*Separation.* In connection with the separation of Cendant Corporation (as the Company was formerly known) into four independent companies (the Separation), the Company completed the spin-offs of Realogy Corporation (Realogy) and Wyndham Worldwide Corporation (Wyndham) on July 31, 2006 and completed the sale of Travelport, Inc. (Travelport) on August 23, 2006. In connection with the spin-offs of Realogy and Wyndham, the Company entered into the Separation Agreement, pursuant to which Realogy assumed 62.5% and Wyndham assumed 37.5% of certain contingent and other corporate liabilities of the Company or its subsidiaries, which are not primarily related to any of the respective businesses of Realogy, Wyndham, Travelport and/or the Company's vehicle rental operations, in each case incurred or allegedly incurred on or prior to the separation of Travelport from the Company (Assumed Liabilities). If Realogy or Wyndham were to default on its payment of costs or expenses to the Company related to any Assumed Liabilities, the Company would be responsible for 50% of the defaulting party's obligation.

The Company does not believe that the impact of any contingent liabilities constituting Assumed Liabilities should result in a material liability to the Company in relation to its consolidated financial position or liquidity, as Realogy and Wyndham have agreed to assume responsibility for these liabilities. The Company is also named in various litigation matters that are primarily related to the businesses of its former subsidiaries, including Realogy, Wyndham and Travelport and their current or former subsidiaries. The Company is entitled to indemnification under the Separation Agreement from such entities for any liability resulting from such litigation.

In April 2007, Realogy was acquired by an affiliate of Apollo Management VI, L.P. The acquisition does not affect Realogy's obligation to satisfy 62.5% of the contingent and other corporate liabilities of the Company or its subsidiaries pursuant to the terms of the Separation Agreement. As a result of the acquisition, Realogy has greater debt obligations and its ability to satisfy its portion of the contingent and other corporate liabilities may be adversely impacted. In accordance with the terms of the Separation Agreement, Realogy posted a letter of credit in April 2007 for the benefit of the Company to cover its estimated share of the Assumed Liabilities discussed above, subject to adjustment, although there can be no assurance that such letter of credit will be sufficient or effective to cover Realogy's actual obligations if and when they arise.

*Litigation.* In October 2009, a judgment was entered against the Company in the amount of \$16 million following the completion of a jury trial for damages in the United States District Court for the District of Alaska. The lawsuit, which was filed in 2003, involved breach of contract and other claims by one of the Company's licensees related to the acquisition of the Budget vehicle rental business in 2002. The Company believes the verdict in this case is unsupported by the evidence. In addition to the judgment for damages, in June 2010, the district court also entered an order against the Company in the amount of \$3 million, in favor of the plaintiff's motions for pre-judgment interest and attorneys' fees. The Company has filed an appeal of the judgment and attorneys' fees awarded with the United States Court of Appeals for the Ninth Circuit.

In addition to the matters discussed above, the Company is also involved in claims, legal proceedings and governmental inquiries related to its vehicle rental operations, including with respect to contract disputes, business practices (including wage and hour claims, insurance claims, intellectual property claims, environmental issues and other commercial, employment and tax matters), and breach of contract claims by licensees. The Company believes that it has adequately accrued for such matters as appropriate. However, litigation is inherently unpredictable and, although the Company believes that its accruals are appropriate, unfavorable resolutions could occur, which could materially impact the Company's results of operations or cash flows in a particular reporting period.

#### ***Commitment for the Acquisition of Avis Europe***

On June 14, 2011, the Company and Avis Europe announced that they had reached an agreement on the terms of an acquisition by the Company of all outstanding shares of Avis Europe in exchange for £3.15 in cash per Avis Europe share, which values Avis Europe's ordinary equity at approximately £635 million, or approximately \$1.0 billion. The acquisition by the Company was effected by means of a scheme of arrangement between Avis Europe and its shareholders pursuant to Part 26 of the UK Companies Act 2006. On October 3, 2011, the Company completed the acquisition of Avis Europe. The Company funded the acquisition using a combination of its own cash resources and incremental indebtedness.



**Table of Contents****Commitments to Purchase Vehicles**

The Company maintains agreements with vehicle manufacturers under which the Company has agreed to purchase approximately \$4.4 billion of vehicles from manufacturers over the next twelve months. The majority of these commitments are subject to the vehicle manufacturers satisfying their obligations under the repurchase and guaranteed depreciation agreements. The purchase of such vehicles is financed primarily through the issuance of vehicle-backed debt in addition to cash received upon the sale of vehicles in the used car market and under repurchase and guaranteed depreciation programs.

**Concentrations**

Concentrations of credit risk at September 30, 2011 include (i) risks related to the Company's repurchase and guaranteed depreciation agreements with domestic and foreign car manufacturers, including General Motors Company, Kia Motors America, Inc., Hyundai Motor America, Chrysler Group LLC, and Ford Motor Company and (ii) risks related to Realogy and Wyndham, including receivables of \$97 million and \$59 million, respectively, related to certain contingent, income tax and other corporate liabilities assumed by Realogy and Wyndham in connection with the Separation.

**Other Guarantees**

The Company has provided certain guarantees to, or for the benefit of, subsidiaries of Realogy, Wyndham and Travelport. These guarantees primarily relate to various real estate operating leases that were entered into prior to the Separation. The maximum potential amount of future payments that the Company may be required to make under the guarantees relating to the various real estate operating leases is estimated to be approximately \$130 million, the majority of which expire by the end of 2014. At September 30, 2011, the liability recorded by the Company in connection with these guarantees was approximately \$3 million. To the extent that the Company would be required to perform under any of these guarantees, the Company is entitled to indemnification by Realogy, Wyndham and Travelport, as applicable. The Company monitors the credit ratings and other relevant information for Realogy, Wyndham and Travelport's parent company in order to assess the status of the payment/performance risk of these guarantees.

**12. Stockholders' Equity****Accumulated Other Comprehensive Income**

The components of accumulated other comprehensive income were as follows:

	Currency Translation Adjustments	Net Unrealized Gains (Losses) on Cash Flow Hedges	Net Unrealized Gains on Available-for- Sale Securities	Minimum Pension Liability Adjustment	Accumulated Other Comprehensive Income
Balance, January 1, 2011	\$ 182	\$ (46)	\$	\$ (44)	\$ 92
Current period change	(37)	24	2		(11)
Balance, September 30, 2011	\$ 145	\$ (22)	\$ 2	\$ (44)	\$ 81

All components of accumulated other comprehensive income are net of tax, except currency translation adjustments, which exclude income taxes related to indefinite investments in foreign subsidiaries.

**Total Comprehensive Income**

Comprehensive income consists of net income and other gains and losses affecting stockholders' equity that, under GAAP, are excluded from net income.





**Table of Contents**

The components of other comprehensive income were as follows:

	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Net income	\$ 82	\$ 90	\$ 141	\$ 78
Other comprehensive income:				
Currency translation adjustment	(75)	62	(37)	35
Reclassification of unrealized losses on cash flow hedges to net income, net of tax				22
Net unrealized gains on available-for-sale securities			2	
Net unrealized gains on cash flow hedges, net of tax	8	8	24	22
	(67)	70	(11)	79
Total comprehensive income	\$ 15	\$ 160	\$ 130	\$ 157

During the nine months ended September 30, 2011 and 2010, the Company's net unrealized losses on cash flow hedges decreased by \$40 million and \$36 million (\$24 million and \$22 million, net of tax), respectively, primarily due to the realization of losses in income. These cash flow hedges were primarily used to manage the interest-rate risk associated with the Company's floating rate vehicle-backed and corporate debt. Such decrease during the nine months ended September 30, 2011 and 2010 included \$39 million and \$42 million (\$24 million and \$26 million, net of tax), respectively, related to the Company's vehicle-backed debt and is offset by a corresponding change in the Company's Investment in Avis Budget Rental Car Funding on the Consolidated Condensed Balance Sheets.

In first quarter 2010, the Company reclassified \$36 million (\$22 million, net of tax) of unrealized losses on certain interest rate swaps to early extinguishment of debt in connection with the repayment of a portion of the Company's floating rate term loan and the settlement of such hedges.

**13. Stock-Based Compensation**

The Company records compensation expense for all outstanding employee stock awards based on the estimated fair value of the award at the grant date, which is recognized over the requisite service period. The Company recorded stock-based compensation expense of \$3 million and \$3 million (\$2 million and \$2 million, net of tax) during third quarter 2011 and 2010, respectively, and \$14 million and \$11 million (\$8 million and \$7 million, net of tax) during the nine months ended September 30, 2011 and 2010, respectively, related to employee stock awards that were granted by the Company.

The Company applies the direct method and tax law ordering approach to calculate the tax effects of stock-based compensation. In jurisdictions with net operating loss carryforwards, tax deductions for 2011 and 2010 exercises of stock-based awards did not generate a cash benefit. Approximately \$40 million of tax benefits will be recorded in additional paid-in capital when realized in these jurisdictions.

**Restricted Stock and Stock Unit Awards**

During the nine months ended September 30, 2011 and 2010, the Company granted 355,000 and 971,000 market-vesting restricted stock units, respectively, and 648,000 and 989,000 time-based restricted stock units, respectively, under the Company's amended 2007 Equity and Incentive Plan. The number of market-vesting restricted stock units which will ultimately vest is based on the Company's common stock achieving certain price targets for a specified number of trading days. Of the market-vesting restricted stock units granted during the nine months ended September 30, 2011, 262,000 units vest after three years and 93,000 units vest 50% on each of the third and fourth anniversary of the date of grant. Of the time-based restricted stock units granted during the nine months ended September 30, 2011, 617,000 vest ratably on the first three anniversaries of the grant date and 31,000 vest on the first anniversary of the date of the grant. For the market-vesting restricted stock units granted during the nine months ended September 30, 2010, 600,000 units vest ratably over years two through five following the date of grant and 371,000 vest after three years. Of the time-based restricted stock units granted during the nine months ended September 30, 2010, 789,000 vest ratably on the first three anniversaries of the grant date and 200,000 vest on the first anniversary of the date of the grant.

## Edgar Filing: AVIS BUDGET GROUP, INC. - Form 10-Q

The Company determined the fair value of its market-vesting restricted stock units granted in 2011 and 2010 using a Monte Carlo simulation model. The fair value of each of the Company's market-vesting restricted stock units which contain three- and four-year vesting periods, issued in 2011, was estimated to be approximately \$11.39 and \$12.53,

**Table of Contents**

respectively. The fair value of each of the Company's market-vesting restricted stock units which contain three- and five-year vesting periods, issued in 2010, was estimated to be approximately \$8.88 and \$9.57, respectively. The assumptions used to estimate the fair values of the market-vesting restricted stock awards using the Monte Carlo simulation model in 2011 and 2010 were as follows:

	<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
Expected volatility of stock price	48%	54%
Risk-free interest rate	0.62% - 1.21%	1.47% - 1.74%
Valuation period	3-4 years	3-5 years
Dividend yield	0.0%	0.0%

**Stock Options**

During first quarter 2010, the Company granted 160,000 stock options under the Company's amended 2007 Equity and Incentive Plan. The stock options (i) vest ratably over a five-year term, (ii) expire ten years from the date of grant and (iii) have an exercise price that was set at the closing price of the Company's common stock on the date of the grant.

The Company used the Black-Scholes option pricing model to calculate the fair value of the time-vesting stock options granted in first quarter 2010. Based on facts and circumstances at the time of the grant, the Company used the implied volatility of its publicly traded, near-the-money stock options with a remaining maturity of at least one year. The Company considered several factors in estimating the life of the options granted, including the historical option exercise behavior of employees and the option vesting periods. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect at the time of grant and, since the Company did not currently pay or plan to pay a dividend on its common stock, the expected dividend yield was zero. The fair value of the Company's time-vesting stock options issued in first quarter 2010 was estimated to be \$6.16. The assumptions used to estimate the fair value using the Black-Scholes simulation option pricing in first quarter 2010 were as follows:

	<b>Three Months Ended March 31, 2010</b>
Expected volatility of stock price	54%
Risk-free interest rate	2.82%
Expected life of options	6 years
Dividend yield	0.0%

The activity related to the Company's restricted stock units (RSUs) and stock option plans consisted of (in thousands of shares):

	<b>RSUs</b>		<b>Options</b>	
	<b>Number of RSUs</b>	<b>Weighted Average Grant Price</b>	<b>Number of Options</b>	<b>Weighted Average Exercise Price</b>
Balance at January 1, 2011	3,059	\$ 13.64	5,026	\$ 7.22
Granted at fair market value	1,003	14.46		
Vested/exercised <sup>(a)</sup>	(728)	14.40	(1,219)	0.98
Canceled	(307)	23.35	(278)	21.54
Balance at September 30, 2011 <sup>(b)(c)</sup>	3,027	12.74	3,529	8.25

(a) During the nine months ended September 30, 2011, zero performance-based RSUs vested. Stock options exercised during the nine months ended September 30, 2011 had intrinsic value of \$18 million.

(b) As of September 30, 2011, the Company's outstanding RSUs had aggregate intrinsic value of \$29 million; aggregate unrecognized compensation expense related to RSUs amounted to \$21 million; and the balance of RSUs at September 30, 2011 consists of 1,284,000 related to time-based awards

## Edgar Filing: AVIS BUDGET GROUP, INC. - Form 10-Q

and 1,743,000 related to market-vesting and performance-based awards. Approximately 2,000 time-based and 2,000 performance-based RSUs are eligible to vest in 2011, if applicable service and performance criteria are satisfied.

- (c) As of September 30, 2011, the Company's outstanding stock options had aggregate intrinsic value of \$21 million; there were 2.4 million in-the-money stock options; and aggregate unrecognized compensation expense related to unvested stock options amounted to \$1 million. Approximately 3.4 million stock options are exercisable as of September 30, 2011.

**Table of Contents**

The table below summarizes information regarding the Company's outstanding stock options as of September 30, 2011 (in thousands of shares):

**Range of**

<b>Exercise Prices</b>	<b>Weighted Average Contractual Life (years)</b>	<b>Number of Options</b>
Less than \$10.00	7.3	2,388
\$10.01 to \$15.00	8.3	160
\$15.01 to \$20.00	1.2	155
\$20.01 to \$25.00		
\$25.01 to \$30.00	0.4	816
\$30.01 and above	3.0	10
	5.5	3,529

As of September 30, 2011, the Company also had approximately 0.5 million outstanding stock appreciation rights with a weighted average exercise price of \$24.40, and a weighted average remaining contractual life of 1.8 years.

**14. Segment Information**

The reportable segments presented below represent the Company's operating segments for which separate financial information is available and is utilized on a regular basis by its chief operating decision maker, the Company's chief executive officer, to assess performance and to allocate resources. In identifying its reportable segments, the Company also considers the nature of services provided by its operating segments. Management evaluates the operating results of each of its reportable segments based upon revenue and Adjusted EBITDA, which is defined as income from continuing operations before non-vehicle related depreciation and amortization, any impairment charge, transaction-related costs, non-vehicle related interest and income taxes. As of June 30, 2011 management revised the manner in which it evaluates the operating results by excluding transaction-related costs from Adjusted EBITDA for all periods presented. The Company's presentation of Adjusted EBITDA may not be comparable to similarly-titled measures used by other companies.

	<b>Three Months Ended September 30,</b>			
	<b>2011</b>		<b>2010</b>	
	<b>Revenues</b>	<b>Adjusted EBITDA</b>	<b>Revenues</b>	<b>Adjusted EBITDA</b>
Domestic Car Rental	\$ 1,193	\$ 179	\$ 1,127	\$ 137
International Car Rental	318	74	274	62
Truck Rental	112	22	111	19
Corporate and Other <sup>(a)</sup>		(3)		(5)
<b>Total Company</b>	<b>\$ 1,623</b>	<b>272</b>	<b>\$ 1,512</b>	<b>213</b>
Less: Non-vehicle related depreciation and amortization		22		24
Interest expense related to corporate debt, net		48		40
Transaction-related costs <sup>(b)</sup>		66		5
<b>Income before income taxes</b>		<b>\$ 136</b>		<b>\$ 144</b>

**Table of Contents**

	Nine Months Ended September 30,			
	2011		2010	
	Revenues	Adjusted EBITDA	Revenues	Adjusted EBITDA
Domestic Car Rental	\$ 3,177	\$ 380	\$ 2,989	\$ 205
International Car Rental	802	136	687	124
Truck Rental	290	40	282	30
Corporate and Other <sup>(a)</sup>		(10)	1	(13)
<b>Total Company</b>	<b>\$ 4,269</b>	<b>546</b>	<b>\$ 3,959</b>	<b>346</b>
Less: Non-vehicle related depreciation and amortization		65		70
Interest expense related to corporate debt, net:				
Interest expense		143		122
Early extinguishment of debt				40
Transaction-related costs <sup>(b)</sup>		102		8
<b>Income before income taxes</b>		<b>\$ 236</b>		<b>\$ 106</b>

(a) Includes unallocated corporate overhead and the elimination of transactions between segments.

(b) During the three and nine months ended September 30, 2011, the Company incurred \$66 million and \$102 million, respectively, in transaction-related costs related to due diligence, financing and other expenses associated with its announced agreement to acquire Avis Europe, including \$26 million and \$49 million, respectively, of losses on foreign-currency transactions related to the purchase price, and our previous efforts to acquire Dollar Thrifty. During the three and nine months ended September 30, 2010, the Company incurred \$5 million and \$8 million, respectively of expenses related to our previous efforts to acquire Dollar Thrifty.

Since December 31, 2010, there have been no significant changes in segment assets with the exception of the Company's Domestic Car Rental segment assets under vehicle programs and International Car Rental segment assets under vehicle programs. As of September 30, 2011 and December 31, 2010, Domestic Car Rental segment assets under vehicle programs were approximately \$6.9 billion and approximately \$5.5 billion, respectively. International Car Rental segment assets under vehicle programs were approximately \$1.1 billion as of September 30, 2011 and \$966 million as of December 31, 2010.

**15. Guarantor and Non-Guarantor Consolidating Condensed Financial Statements**

The following consolidating financial information presents Consolidating Condensed Statements of Income for the three and nine months ended September 30, 2011 and 2010, Consolidating Condensed Balance Sheets as of September 30, 2011 and December 31, 2010, and Consolidating Condensed Statements of Cash Flows for the nine months ended September 30, 2011 and 2010 for: (i) Avis Budget Group, Inc. (the "Parent"); (ii) Avis Budget Car Rental and Avis Budget Finance, Inc. (the "Subsidiary Issuers"); (iii) the guarantor subsidiaries; (iv) the non-guarantor subsidiaries; (v) elimination entries necessary to consolidate the Parent with the Subsidiary Issuers, and the guarantor and non-guarantor subsidiaries; and (vi) the Company on a consolidated basis. The Subsidiary Issuers and the guarantor and non-guarantor subsidiaries are 100% owned by the Parent, either directly or indirectly. All guarantees are full and unconditional and joint and several. This financial information is being presented in relation to the Company's guarantee of the payment of principal, premium (if any) and interest on the senior notes issued by Avis Budget Car Rental. These senior notes consist of Avis Budget Car Rental's 7/8% Notes due 2014, 7<sup>3</sup>/<sub>4</sub>% Notes due 2016, Floating Rate Notes due 2014, 9<sup>5</sup>/<sub>8</sub>% Notes due 2018 and 8<sup>1</sup>/<sub>4</sub>% Notes due 2019 (collectively, the "Notes"). See Note 9 Long-term Debt and Borrowing Arrangements for additional information regarding these Notes. The Notes are guaranteed by the Parent and certain subsidiaries.

Investments in subsidiaries are accounted for using the equity method of accounting for purposes of the consolidating presentation. The principal elimination entries relate to investments in subsidiaries and intercompany balances and transactions. For purposes of the accompanying Consolidating Condensed Statements of Income, certain expenses incurred by the Subsidiary Issuers are allocated to the guarantor and non-guarantor subsidiaries.

**Table of Contents****Consolidating Condensed Statements of Income**

Three Months Ended September 30, 2011

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
<b>Revenues</b>						
Vehicle rental	\$	\$	\$ 995	\$ 216	\$	\$ 1,211
Other			282	512	(382)	412
Net revenues			1,277	728	(382)	1,623
<b>Expenses</b>						
Operating		1	615	167		783
Vehicle depreciation and lease charges, net			246	318	(260)	304
Selling, general and administrative	3		159	28		190
Vehicle interest, net			59	53	(38)	74
Non-vehicle related depreciation and amortization			20	2		22
Interest expense related to corporate debt, net:						
Interest expense (income)	3	46		(1)		48
Intercompany interest expense (income)		(46)	46			
Transaction-related costs	66					66
Total expenses	72	1	1,145	567	(298)	1,487
<b>Income (loss) before income taxes and equity in earnings of subsidiaries</b>						
	(72)	(1)	132	161	(84)	136
Provision for (benefit from) income taxes	(27)		58	23		54
Equity in earnings (loss) of subsidiaries	127	128	54		(309)	
<b>Net income (loss)</b>	\$ 82	\$ 127	\$ 128	\$ 138	\$ (393)	\$ 82



**Table of Contents**

Nine Months Ended September 30, 2011

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
<b>Revenues</b>						
Vehicle rental	\$	\$	\$ 2,623	\$ 540	\$	\$ 3,163
Other			772	1,399	(1,065)	1,106
Net revenues			3,395	1,939	(1,065)	4,269
<b>Expenses</b>						
Operating	2	5	1,709	450		2,166
Vehicle depreciation and lease charges, net			686	865	(711)	840
Selling, general and administrative	8		427	76		511
Vehicle interest, net		(1)	166	148	(108)	205
Non-vehicle related depreciation and amortization			59	6		65
Interest expense related to corporate debt, net:						
Interest expense (income)	7	138		(2)		143
Intercompany interest expense (income)	(8)	(138)	146			
Transaction-related costs	102					102
Restructuring charges			1			1
Total expenses	111	4	3,194	1,543	(819)	4,033
<b>Income (loss) before income taxes and equity in earnings of subsidiaries</b>						
	(111)	(4)	201	396	(246)	236
Provision for (benefit from) income taxes	(39)	(1)	90	45		95
Equity in earnings (loss) of subsidiaries	213	216	105		(534)	
<b>Net income (loss)</b>	\$ 141	\$ 213	\$ 216	\$ 351	\$ (780)	\$ 141

**Table of Contents**

Three Months Ended September 30, 2010

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
<b>Revenues</b>						
Vehicle rental	\$	\$	\$ 958	\$ 187	\$	\$ 1,145
Other			257	465	(355)	367
Net revenues			1,215	652	(355)	1,512
<b>Expenses</b>						
Operating	1	2	560	142		705
Vehicle depreciation and lease charges, net			293	313	(254)	352
Selling, general and administrative	3		131	22		156
Vehicle interest, net			73	40	(33)	80
Non-vehicle related depreciation and amortization			22	2		24
Interest expense related to corporate debt, net:						
Interest expense (income)	2	39		(1)		40
Intercompany interest expense (income)	(4)	(39)	43			
Transaction-related costs	5					5
Restructuring charges			6			6
Total expenses	7	2	1,128	518	(287)	1,368
<b>Income (loss) before income taxes and equity in earnings of subsidiaries</b>						
	(7)	(2)	87	134	(68)	144
Provision for (benefit from) income taxes	(3)		37	20		54
Equity in earnings (loss) of subsidiaries	94	96	46		(236)	
<b>Net income (loss)</b>	\$ 90	\$ 94	\$ 96	\$ 114	\$ (304)	\$ 90

**Table of Contents**

Nine Months Ended September 30, 2010

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
<b>Revenues</b>						
Vehicle rental	\$	\$	\$ 2,508	\$ 464	\$	\$ 2,972
Other	1		702	1,272	(988)	987
Net revenues	1		3,210	1,736	(988)	3,959
<b>Expenses</b>						
Operating	5	6	1,563	382		1,956
Vehicle depreciation and lease charges, net			837	813	(662)	988
Selling, general and administrative	9		359	62		430
Vehicle interest, net			214	106	(90)	230
Non-vehicle related depreciation and amortization			65	5		70
Interest expense related to corporate debt, net:						
Interest expense (income)	7	116		(1)		122
Intercompany interest expense (income)	(10)	(116)	126			
Early extinguishment of debt		40				40
Transaction-related costs	8					8
Restructuring charges			9			9
Total expenses	19	46	3,173	1,367	(752)	3,853
<b>Income (loss) before income taxes and equity in earnings of subsidiaries</b>						
	(18)	(46)	37	369	(236)	106
Provision for (benefit from) income taxes	(7)	1	5	29		28
Equity in earnings (loss) of subsidiaries	89	136	104		(329)	
<b>Net income (loss)</b>	\$ 78	\$ 89	\$ 136	\$ 340	\$ (565)	\$ 78

**Table of Contents****Consolidating Condensed Balance Sheets**

As of September 30, 2011

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
<b>Assets</b>						
Current assets:						
Cash and cash equivalents	\$ 2	\$ 688	\$ 2	\$ 310	\$	\$ 1,002
Restricted cash	384		1	10		395
Receivables, net		94	168	108		370
Deferred income taxes	8		122	5	(2)	133
Other current assets	32	87	67	94	(24)	256
Total current assets	426	869	360	527	(26)	2,156
Property and equipment, net		66	288	40		394
Deferred income taxes	38	363	220	13		634
Goodwill			74	2		76
Other intangibles, net		7	381	87		475
Other non-current assets	141	108	6	12		267
Intercompany receivables (payables)	(38)	296	(486)	228		
Investment in subsidiaries	577	1,308	2,504		(4,389)	
Total assets exclusive of assets under vehicle programs	1,144	3,017	3,347	909	(4,415)	4,002
Assets under vehicle programs:						
Program cash				21		21
Vehicles, net		9	4	7,779		7,792
Receivables from vehicle manufacturers and other				167		167
Investment in Avis Budget Rental Car Funding (AESOP) LLC-related party				329		