

AVIS BUDGET GROUP, INC.

Form 10-Q

November 05, 2010

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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, 2010

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)

Delaware

(State or other jurisdiction

of incorporation or organization)

06-0918165

(I.R.S. Employer

Identification Number)

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6 Sylvan Way

Parsippany, NJ

(Address of principal executive offices)

(973) 496-4700

07054

(Zip Code)

(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 102,860,655 shares as of October 29, 2010.

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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 and similar expressions or future or conditional verbs such as will , should , would , may and could are 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 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 repurchase and/or guaranteed depreciation arrangements they have with us, 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;

travel demand, including airline passenger traffic in the United States and in the other international locations in which we operate;

the effects of economic conditions, including in the housing market, and the impact such conditions may have on us, particularly during our peak season or in key market segments;

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;

our ability to control costs through our cost-savings and efficiency improvement initiatives or otherwise and successfully implement our business strategy;

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

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our ability to accurately estimate our future results;

a major disruption in our communication or centralized information networks;

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;

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

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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, when we were known as Cendant Corporation, particularly with respect to the allocation of assets and liabilities, including contingent liabilities and guarantees, commercial arrangements, 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 potential changes in accounting standards;

risks related to the proposed acquisition of Dollar Thrifty Automotive Group, Inc. (Dollar Thrifty), including the timing to consummate such acquisition, the ability and timing to obtain required regulatory approvals and financing (and any conditions thereto), and our ability to promptly and effectively integrate the businesses of Dollar Thrifty and Avis Budget Group;

our exposure to fluctuations in foreign exchange rates; 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 2009 Annual Report on Form 10-K and this Quarterly Report on Form 10-Q 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 2009 Annual Report on Form 10-K and this Quarterly Report on Form 10-Q 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,	
	2010	2009	2010	2009
Revenues				
Vehicle rental	\$ 1,145	\$ 1,123	\$ 2,972	\$ 3,036
Other	367	342	987	935
Net revenues	1,512	1,465	3,959	3,971
Expenses				
Operating	705	731	1,956	2,020
Vehicle depreciation and lease charges, net	352	357	988	1,104
Selling, general and administrative	161	155	438	421
Vehicle interest, net	80	75	230	215
Non-vehicle related depreciation and amortization	24	26	70	71
Interest expense related to corporate debt, net				
Interest expense	40	37	122	114
Early extinguishment of debt			40	
Restructuring charges	6	1	9	14
Impairment				1
Total expenses	1,368	1,382	3,853	3,960
Income before income taxes	144	83	106	11
Provision for income taxes	54	26	28	9
Net income	\$ 90	\$ 57	\$ 78	\$ 2
Earnings per share				
Basic	\$ 0.88	\$ 0.55	\$ 0.76	\$ 0.02
Diluted	\$ 0.73	\$ 0.54	\$ 0.66	\$ 0.02

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, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 623	\$ 482
Receivables, net	317	290
Deferred income taxes	107	107
Other current assets	300	851
Total current assets	1,347	1,730
Property and equipment, net	418	442
Deferred income taxes	544	597
Goodwill	76	76
Other intangibles, net	479	478
Other non-current assets	244	248
Total assets exclusive of assets under vehicle programs	3,108	3,571
Assets under vehicle programs:		
Program cash	43	157
Vehicles, net	7,069	5,967
Receivables from vehicle manufacturers and other	211	170
Investment in Avis Budget Rental Car Funding (AESOP) LLC related party	270	228
	7,593	6,522
Total assets	\$ 10,701	\$ 10,093
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and other current liabilities	\$ 928	\$ 1,272
Current portion of long-term debt	9	12
Total current liabilities	937	1,284
Long-term debt	2,119	2,119
Other non-current liabilities	548	630
Total liabilities exclusive of liabilities under vehicle programs	3,604	4,033
Liabilities under vehicle programs:		

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Debt	706	714
Debt due to Avis Budget Rental Car Funding (AESOP) LLC related party	4,571	3,660
Deferred income taxes	1,287	1,267
Other	160	197
	6,724	5,838
Commitments and contingencies (Note 13)		
Stockholders' equity		
Preferred stock, \$.01 par value authorized 10 million shares; none issued and outstanding		
Common stock, \$.01 par value authorized 250 million shares; issued 136,970,259 and 136,931,540 shares	1	1
Additional paid-in capital	8,906	9,098
Accumulated deficit	(2,613)	(2,691)
Accumulated other comprehensive income (loss)	42	(37)
Treasury stock, at cost 33,744,683 and 34,612,016 shares	(5,963)	(6,149)
Total stockholders' equity	373	222
Total liabilities and stockholders' equity	\$ 10,701	\$ 10,093

See Notes to Consolidated Condensed Financial Statements (Unaudited).

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Avis Budget Group, Inc.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

**Nine Months
Ended
September 30,
2010 2009**

Operating Activities