

AVIS BUDGET GROUP, INC.

Form 10-Q

November 06, 2018

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

Form 10-Q

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

For the quarterly period ended September 30, 2018

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

For the transition period from _____ to _____

Commission File No. 001-10308

Avis Budget Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

6 Sylvan Way

Parsippany, NJ

(Address of principal executive offices)

06-0918165

(I.R.S. Employer
Identification Number)

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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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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 77,346,138 shares as of October 31, 2018.

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FORWARD-LOOKING STATEMENTS

Certain statements contained in this Quarterly Report on Form 10-Q may be considered “forward-looking statements” as that term is defined in the Private Securities Litigation Reform Act of 1995. The forward-looking statements contained herein are subject to known and unknown risks, uncertainties, assumptions and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by any such forward-looking statements. Forward-looking statements include information concerning our future financial performance, business strategy, projected plans and objectives. These statements may be identified by the fact that they do not relate to historical or current facts and may use words such as “believes,” “expects,” “anticipates,” “will,” “should,” “could,” “may,” “would,” “intends,” “projects,” “estimates,” “plans,” and similar words, expressions or phrases. 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;

• a change in travel demand, including changes or disruptions in airline passenger traffic;

• a change in our fleet costs as a result of a change in the cost of new vehicles, manufacturer recalls, disruption in the supply of new vehicles, and/or a change 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 our agreements 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 change in economic conditions generally, particularly during our peak season or in key market segments;

• our ability to continue to successfully implement our business strategies, achieve and maintain cost savings and adapt our business to changes in mobility;

• our ability to obtain financing for our global operations, including the funding of our vehicle fleet through the issuance of asset-backed securities and use of the global lending markets;

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

• our ability to conform to multiple and conflicting laws or regulations in the countries 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 dependence on the performance and retention of our senior management and key employees;

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

our ability to accurately estimate our future results;

- any major disruptions in our communication networks or information systems;

our exposure to uninsured or unpaid claims in excess of historical levels;

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risks associated with litigation, governmental or regulatory inquiries, or any failure or inability to comply with laws, regulations or contractual obligations or any changes in laws, regulations or contractual obligations, including with respect to personal identifiable information and consumer privacy, labor and employment, and tax;

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

any substantial changes in the cost or 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 outstanding debt obligations and our ability to incur substantially more debt;

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

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

risks related to completed or future acquisitions or investments that we may pursue, including the incurrence of incremental indebtedness to help fund such transactions and our ability to promptly and effectively integrate any acquired businesses or capitalize on joint ventures, partnerships and other investments;

risks related to protecting the integrity of, and preventing unauthorized access to, our information technology systems or those of our third party vendors, and protecting the confidential information of our employees and customers against security breaches, including physical or cyber-security breaches, attacks, or other disruptions; and

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

We operate in a continuously changing business environment and new risk factors emerge from time to time. New risk factors, factors beyond our control, or changes in the impact of identified risk factors may cause actual results to differ materially from those set forth in any forward-looking statements. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results. Moreover, we do not assume responsibility for the accuracy and completeness of those statements. Other factors and assumptions not identified above, including those discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Risk Factors" and other portions of our 2017 Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 22, 2018 (the "2017 Form 10-K"), could cause actual results to differ materially from those projected in any forward-looking statements.

Although we believe that our assumptions are reasonable, any or all of our forward-looking statements may prove to be inaccurate and we can make no guarantees about our future performance. Should unknown risks or uncertainties materialize or underlying assumptions prove inaccurate, actual results could differ materially from past results and/or those anticipated, estimated or projected. 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.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

Avis Budget Group, Inc.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(In millions, except per share data)

(Unaudited)

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	2017	2018	2017	2018
Revenues	\$2,778	\$2,752	\$7,074	\$6,829
Expenses				
Operating	1,294	1,256	3,561	3,413
Vehicle depreciation and lease charges, net	587	616	1,693	1,717
Selling, general and administrative	336	320	953	875
Vehicle interest, net	85	78	237	215
Non-vehicle related depreciation and amortization	62	66	190	194
Interest expense related to corporate debt, net:				
Interest expense	44	45	139	142
Early extinguishment of debt	—	—	5	3
Transaction-related costs, net	11	—	18	8
Restructuring and other related charges	4	7	14	52
Total expenses	2,423	2,388	6,810	6,619
Income before income taxes	355	364	264	210
Provision for income taxes	142	119	112	69
Net income	\$213	\$245	\$152	\$141
Comprehensive income	\$207	\$279	\$104	\$251

Earnings per share

Basic	\$2.71	\$2.96	\$1.90	\$1.68
Diluted	\$2.68	\$2.91	\$1.88	\$1.65

See Notes to Consolidated Condensed Financial Statements (Unaudited).

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Avis Budget Group, Inc.

CONSOLIDATED CONDENSED BALANCE SHEETS

(In millions, except par value)

(Unaudited)

	September 30, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	\$ 605	\$ 611
Receivables, net	918	922
Other current assets	657	533
Total current assets	2,180	2,066
Property and equipment, net	719	704
Deferred income taxes	1,065	931
Goodwill	1,064	1,073
Other intangibles, net	844	850
Other non-current assets	267	196
Total assets exclusive of assets under vehicle programs	6,139	5,820
Assets under vehicle programs:		
Program cash	151	283
Vehicles, net	12,163	10,626
Receivables from vehicle manufacturers and other	772	547
Investment in Avis Budget Rental Car Funding (AESOP) LLC—related party	516	423
	13,602	11,879
Total assets	\$ 19,741	\$ 17,699
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and other current liabilities	\$ 1,885	\$ 1,619
Short-term debt and current portion of long-term debt	23	26
Total current liabilities	1,908	1,645
Long-term debt	3,538	3,573
Other non-current liabilities	767	717
Total liabilities exclusive of liabilities under vehicle programs	6,213	5,935
Liabilities under vehicle programs:		
Debt	3,800	2,741
Debt due to Avis Budget Rental Car Funding (AESOP) LLC—related party	7,122	6,480
Deferred income taxes	1,775	1,594
Other	310	376
	13,007	11,191
Commitments and contingencies (Note 13)		
Stockholders' equity:		
Preferred stock, \$0.01 par value—authorized 10 shares; none issued and outstanding, at each date—		—

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Common stock, \$0.01 par value—authorized 250 shares; issued 137 shares, at each date	1	1
Additional paid-in capital	6,766	6,820
Accumulated deficit	(1,103)	(1,222)
Accumulated other comprehensive income (loss)	(78)	(24)
Treasury stock, at cost—59 and 56 shares, respectively	(5,065)	(5,002)
Total stockholders' equity	521	573
Total liabilities and stockholders' equity	\$ 19,741	\$ 17,699

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, 2018 2017	
Operating activities		
Net income	\$152	\$141
Adjustments to reconcile net income to net cash provided by operating activities:		
Vehicle depreciation	1,536	1,500
(Gain) loss on sale of vehicles, net	(35)	53
Non-vehicle related depreciation and amortization	190	194
Stock-based compensation	18	8
Amortization of debt financing fees	21	25
Early extinguishment of debt costs	5	3
Net changes in assets and liabilities:		
Receivables	(140)	(112)
Income taxes and deferred income taxes	78	16
Accounts payable and other current liabilities	138	74
Other, net	132	139
Net cash provided by operating activities	2,095	2,041
Investing activities		
Property and equipment additions	(157)	(138)
Proceeds received on asset sales	9	6
Net assets acquired (net of cash acquired)	(64)	(17)
Other, net	(44)	6
Net cash used in investing activities exclusive of vehicle programs	(256)	(143)
Vehicle programs:		
Investment in vehicles	(10,079)	(9,672)
Proceeds received on disposition of vehicles	6,752	6,872
Investment in debt securities of Avis Budget Rental Car Funding (AESOP) LLC—related party	(116)	(33)
Proceeds from debt securities of Avis Budget Rental Car Funding (AESOP) LLC—related party	22	—
	(3,421)	(2,833)
Net cash used in investing activities	(3,677)	(2,976)

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

	Nine Months Ended September 30, 2018 2017	
Financing activities		
Proceeds from long-term borrowings	81	589
Payments on long-term borrowings	(99)	(596)
Net change in short-term borrowings	(4)	(3)
Repurchases of common stock	(143)	(144)
Debt financing fees	(9)	(9)
Other, net	3	—
Net cash used in financing activities exclusive of vehicle programs	(171)	(163)
Vehicle programs:		
Proceeds from borrowings	13,371	14,276
Payments on borrowings	(11,727)	(12,930)
Debt financing fees	(19)	(8)
	1,625	1,338
Net cash provided by financing activities	1,454	1,175
Effect of changes in exchange rates on cash and cash equivalents, program and restricted cash	(5)	41
Net (decrease) increase in cash and cash equivalents, program and restricted cash	(133)	281
Cash and cash equivalents, program and restricted cash, beginning of period	901	720
Cash and cash equivalents, program and restricted cash, end of period	\$768	\$1,001

See Notes to Consolidated Condensed Financial Statements (Unaudited).

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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

Avis Budget Group, Inc. provides vehicle rental and other mobility solutions to businesses and consumers worldwide. The accompanying unaudited Consolidated Condensed Financial Statements include the accounts and transactions of Avis Budget Group, Inc. and its subsidiaries, as well as entities in which Avis Budget Group, Inc. 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 for interim financial reporting.

The Company operates the following reportable business segments:

Americas—consisting primarily of (i) vehicle rental operations in North America, South America, Central America and the Caribbean, (ii) car sharing operations in certain of these markets, and (iii) licensees in the areas in which the Company does not operate directly.

International—consisting primarily of (i) vehicle rental operations in Europe, the Middle East, Africa, Asia and Australasia, (ii) car sharing operations in certain of these markets, and (iii) licensees in the areas in which the Company does not operate directly.

The operating results of acquired businesses are included in the accompanying Consolidated Condensed Financial Statements from the dates of acquisition. The Company has completed the business acquisitions discussed in Note 5 to these Consolidated Condensed Financial Statements. Differences between the preliminary allocation of purchase price and the final allocation for the Company’s fourth quarter 2017 acquisitions of ACL Hire Limited and various licensees in Europe and North America were not material.

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 judgment and available information. Accordingly, actual results could differ from those estimates. In management’s opinion, the Consolidated Condensed Financial Statements contain all 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 2017 Form 10-K.

Summary of Significant Accounting Policies

The Company’s significant accounting policies are fully described in Note 2, “Summary of Significant Accounting Policies,” in the Company’s Annual Report on Form 10-K for fiscal year 2017.

Reclassifications. Certain reclassifications have been made to prior years’ Consolidated Condensed Financial Statements to conform to the current year presentation. These reclassifications have no impact on reported net income (see “Adoption of New Accounting Pronouncements” below).

As of December 31, 2017, the Company elected to adopt the provisions of ASU 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash,” early on a retrospective basis. ASU 2016-18 clarifies guidance on the classification and presentation of restricted cash in the statement of cash flows. The following table provides the impact of adoption on the Company’s Consolidated Condensed Statements of Cash Flows for the nine months ended September 30, 2017.

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	Nine Months Ended September 30, 2017		
	As Previously Reported	Effect Change	As Adjusted
Decrease in program cash	\$53	\$(53)	\$—
Other, net	5	1	6
Net cash used in investing activities	(2,924)	(52)	(2,976)
Effect of changes in exchange rates on cash and cash equivalents, program and restricted cash	32	9	41
Net increase in cash and cash equivalents, program and restricted cash	324	(43)	281
Cash and cash equivalents, program and restricted cash, beginning of period	490	230	720
Cash and cash equivalents, program and restricted cash, end of period	\$814	\$187	\$1,001

Restricted Cash. Program cash primarily represents amounts specifically designated to purchase assets under vehicle programs and/or to repay the related debt, as such the Company considers it a restricted cash equivalent. The following table provides a reconciliation of cash and cash equivalents, program and restricted cash reported within the Consolidated Condensed Balance Sheets to the amounts shown in the Consolidated Condensed Statements of Cash Flows.

	As of September 30,	
	2018	2017
Cash and cash equivalents	\$605	\$814
Program cash	151	180
Restricted cash ^(a)	12	7
Total cash and cash equivalents, program and restricted cash	\$768	\$1,001

^(a) Included within other current assets.

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 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.

Transaction-related costs, net. Transaction-related costs, net are classified separately in the Consolidated Condensed Statements of Comprehensive Income. These costs are comprised of expenses related to acquisition-related activities such as due diligence and other advisory costs, expenses related to the integration of the acquiree's operations with those of the Company, including the implementation of best practices and process improvements, non-cash gains and losses related to re-acquired rights, expenses related to pre-acquisition contingencies and contingent consideration related to acquisitions.

Currency Transactions. The Company records the gain or loss on foreign-currency transactions on certain intercompany loans and the gain or loss on intercompany loan hedges within interest expense related to corporate

debt, net. During the three and nine months ended September 30, 2018 and 2017, the Company recorded an immaterial amount in each period.

Adoption of New Accounting Pronouncements

Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income

On January 1, 2018, as a result of a new accounting pronouncement, the Company early adopted ASU 2018-02, “Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income,” which allows a reclassification from accumulated other comprehensive income to retained earnings for the adjustment of deferred taxes due to the reduction of the corporate income tax rate as a result of U.S. tax reform. Accordingly, the Company has reclassified \$4

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million of net tax benefits from accumulated other comprehensive loss to beginning accumulated deficit related to the following (see Note 14 - Stockholders' Equity). Prior period amounts have not been retrospectively adjusted.

Net Unrealized Currency Gains (Losses) Translation on Cash Flow Adjustments Hedges	Net Unrealized Gains (Losses) on Available-for- Sale Securities	Minimum Pension Liability Adjustment	Accumulated Other Comprehensive Income (Loss)
\$7 \$ 1	\$	—\$ (12)	\$ (4)

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost

On January 1, 2018, as a result of a new accounting pronouncement, the Company adopted ASU 2017-07, "Compensation—Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Costs and Net Periodic Postretirement Benefit Cost," which requires an entity to disaggregate the components of net benefit cost recognized in its consolidated statements of operations. The adoption of this accounting pronouncement did not have a material impact on the Company's Consolidated Condensed Financial Statements.

Recognition and Measurement of Financial Assets and Financial Liabilities

On January 1, 2018, as a result of a new accounting pronouncement, the Company adopted ASU 2016-01, "Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities" along with a related clarifying update, which makes limited amendments to the classification and measurement of financial instruments. The amendments supersede the guidance to classify equity securities with readily determinable fair values into different categories (trading or available-for-sale) and require equity securities (including other ownership interests, such as partnerships, unincorporated joint ventures, and limited liability companies) to be measured at fair value with changes in the fair value recognized through net income. Accordingly, the Company has reclassified \$2 million of net unrealized gains associated with available for sale equity securities from accumulated other comprehensive loss to beginning accumulated deficit (see Note 14 - Stockholders' Equity). This ASU has no impact on the Company's accounting for equity method investments.

Intra-Entity Transfers of Assets Other Than Inventory

On January 1, 2018, as a result of a new accounting pronouncement, the Company adopted ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory," which removes the prohibition in Topic 740 against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. The adoption of this accounting pronouncement did not have an impact on the Company's Consolidated Condensed Financial Statements.

Revenue from Contracts with Customers

On January 1, 2018, as a result of a new accounting pronouncement, the Company adopted ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)," which outlines a single model for entities to use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance. The new guidance applies to all contracts with customers except for leases, insurance contracts, financial instruments, certain nonmonetary exchanges and certain guarantees. Also, additional disclosures are required about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. The Company has adopted the requirements of the new standard on a modified

retrospective basis applied to all contracts. Prior periods have not been retrospectively adjusted. As discussed in Leases below, the Company's rental related revenues will be accounted for under Topic 606 until the adoption of ASU 2016-02, "Leases (Topic 842)" on January 1, 2019. Under Topic 606, each transaction that generates customer loyalty points results in the deferral of revenue generally equivalent to the estimated retail value of points expected to be redeemed. The associated revenue will be recognized at the time the customer redeems the loyalty points. Previously, the Company did not defer revenue and recorded an expense associated with the incremental cost of providing the future rental at the time when the loyalty points were earned. In the Company's Consolidated Condensed Balance Sheet at January 1, 2018, customer loyalty program liability increased approximately \$50 million related to the estimated retail value of customer loyalty points earned, with a corresponding increase to

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accumulated deficit (approximately \$40 million, net of tax) due to the cumulative impact of adopting Topic 606. Certain customers may receive cash-based rebates, which are accounted for as variable consideration under Topic 606. The Company estimates these rebates based on the expected amount to be provided to customers and reduces revenue recognized.

The impact of adoption of Topic 606 on the Company's Consolidated Condensed Statement of Comprehensive Income for the three months ended September 30, 2018 was not material. The impact of adoption of Topic 606 on the Company's Consolidated Condensed Statement of Comprehensive Income for the nine months ended September 30, 2018 and Consolidated Condensed September 30, 2018 Balance Sheet was as follows:

	Nine Months Ended September 30, 2018		
	As Reported	Balances without Adoption of Topic 606	Effect of Change
Consolidated Condensed Statement of Comprehensive Income			
Revenues	\$7,074	\$ 7,083	\$ (9)
Expenses			
Operating	3,561	3,564	(3)
Total expenses	6,810	6,813	(3)
Income before income taxes	264	270	(6)
Provision for income taxes	112	114	(2)
Net income	\$152	\$ 156	\$ (4)
Comprehensive income	\$104	\$ 108	\$ (4)
September 30, 2018			
	As Reported	Balances without Adoption of Topic 606	Effect of Change
Consolidated Condensed Balance Sheet			
Deferred income taxes	\$1,065	\$ 1,053	\$ 12
Total assets exclusive of assets under vehicle programs	6,139	6,127	12
Total assets	19,741	19,729	12
Accounts payable and other current liabilities	1,885	1,879	6
Total current liabilities	1,908	1,902	6
Other non-current liabilities	767	717	50
Total liabilities exclusive of liabilities under vehicle programs	6,213	6,163	50
Accumulated deficit	(1,103)	(1,059)	(44)
Total stockholders' equity	\$521	\$ 565	\$ (44)

Recently Issued Accounting Pronouncements

Intangibles—Goodwill and Other—Internal-Use Software

In August 2018, the Financial Accounting Standards Board (“FASB”) issued ASU 2018-15 “Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement That Is a Service Contract”, which provides guidance for determining when the arrangement includes a software license. The amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal use software license). The amendments in this Update also require the entity to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement, to present the expense in the same line in its statement of income as the fees associated with the hosting element (service) of the arrangement and

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classify payments for capitalized implementation costs in its statement of cash flows in the same manner as payments made for fees associated with the hosting element. The entity is also required to present the capitalized implementation costs in its balance sheet in the same line that a prepayment for the fees of the associated hosting arrangement would be presented. ASU 2018-15 becomes effective for the Company on January 1, 2020. Early adoption is permitted. The Company is currently evaluating the impact of adopting this accounting pronouncement on its Consolidated Condensed Financial Statements.

Compensation—Retirement Benefits—Defined Benefit Plans

In August 2018, the FASB issued ASU 2018-14, “Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans,” which adds, removes, and clarifies disclosure requirements related to defined benefit pension and other postretirement plans. These changes are part of the FASB’s disclosure framework project, which the Board launched in 2014 to improve the effectiveness of disclosures in notes to financial statements. ASU 2018-14 becomes effective for the Company on January 1, 2021. Early adoption is permitted. The adoption of this accounting pronouncement is not expected to have a material impact on the Company's Consolidated Condensed Financial Statements.

Fair Value Measurement

In August 2018, the FASB issued ASU 2018-13, “Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement,” which adds, removes, and modifies disclosure requirements related to fair value measurements. ASU 2018-13 becomes effective for the Company on January 1, 2020. Early adoption is permitted. The adoption of this accounting pronouncement is not expected to have a material impact on the Company's Consolidated Condensed Financial Statements.

Nonemployee Share-Based Payment Accounting

In June 2018, the FASB issued ASU 2018-07, “Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting,” which simplifies the accounting for share-based payments granted to nonemployees for goods and services and aligns most of the guidance on such payments to nonemployees with the requirements for share-based payments granted to employees. ASU 2018-07 becomes effective for the Company on January 1, 2019. Early adoption is permitted. The adoption of this accounting pronouncement is not expected to have an impact on the Company's Consolidated Condensed Financial Statements.

Accounting for Hedging Activities

In August 2017, the FASB issued ASU 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities,” which amends the existing guidance to allow companies to more accurately present the economic results of an entity’s risk management activities in the financial statements. ASU 2017-12 becomes effective for the Company on January 1, 2019. Early adoption is permitted. The Company is currently evaluating the effect of this accounting pronouncement on its Consolidated Condensed Financial Statements.

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,” which sets forth a current expected credit loss impairment model for financial assets that replaces the current incurred loss model. This model requires a financial asset (or group of financial assets), including trade receivables, measured at amortized cost to be presented at the net amount expected to be collected with an allowance for credit losses deducted from the amortized cost basis. The allowance for credit losses should

reflect management's current estimate of credit losses that are expected to occur over the remaining life of a financial asset. ASU 2016-13 becomes effective for the Company on January 1, 2020. Early adoption is permitted as of January 1, 2019. The adoption of this accounting pronouncement is not expected to have a material impact on the Company's Consolidated Condensed Financial Statements.

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Leases

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842),” which requires a lessee to recognize all long-term leases on its balance sheet as a liability for its lease obligation, measured at the present value of lease payments not yet paid, and a corresponding asset representing its right to use the underlying asset over the lease term and expands disclosure of key information about leasing arrangements. The ASU does not significantly change a lessee’s recognition, measurement and presentation of expenses and cash flows. Additionally, ASU 2016-02 aligns key aspects of lessor accounting with the new revenue recognition guidance in Topic 606 (see Revenue from Contracts with Customers above). In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach which includes a number of optional practical expedients that entities may elect to apply. In July 2018, the FASB issued ASU 2018-11, “Leases (Topic 842): Targeted Improvements,” which provides an additional transition method allowing entities to only apply the new lease standard in the year of adoption. Additionally, ASU 2018-11 provides a practical expedient for lessors to combine nonlease components with related lease components if certain conditions are met. These ASUs become effective for the Company on January 1, 2019. Early adoption is permitted.

The Company is in the process of implementing these ASUs and expects most of its operating lease commitments will be subject to the new standard and recognized as operating lease liabilities and right-of-use assets upon adoption, which will materially increase total assets and total liabilities relative to such amounts prior to adoption. The Company has determined portions of its vehicle rental contracts that convey the right to control the use of identified assets are within the scope of the accounting guidance contained in these ASUs. As discussed in Revenue from Contracts with Customers above, the Company’s rental related revenues are accounted for under the revenue accounting standard Topic 606, until the adoption of this lease accounting standard Topic 842 on January 1, 2019.

Income Taxes

In January 2018, the FASB issued FASB Staff Question and Answer Topic 740, No. 5: Accounting for Global Intangible Low-Taxed Income (“GILTI”), which provides guidance on accounting for the GILTI provisions of the U.S. enacted tax reform legislation (“the Tax Act”). The GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. The guidance allows accounting for tax on GILTI to be treated as a deferred tax item or as a component of current period income tax expense in the year incurred, subject to an accounting policy election. The Company will complete its analysis during the fourth quarter of 2018 and will elect an accounting policy at such time.

2. Revenues

The following table presents the Company’s revenues disaggregated by geography.

Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
\$ 844	\$ 4,782
Europe, Middle East and Africa	1,830

Asia	
and	462
Australasia	
Total	
revenues	\$ 7,074
	\$ 2,778

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The following table presents the Company's revenues disaggregated by brand.

Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Avis \$1,599	\$ 4,095
Budget 2,372	
Other 607	
Total revenues \$ 2,778	\$ 7,074

Other includes Zipcar, Payless, Apex, Maggiore and FranceCars.

The Company derives revenues primarily by providing vehicle rentals and other related products and mobility services to commercial and leisure customers, as well as through licensing of its rental systems. Other related products and mobility services include sales of collision and loss damage waivers under which a customer is relieved from financial responsibility arising from vehicle damage incurred during the rental; products and services for driving convenience such as fuel service options, chauffeur drive services, roadside safety net, electronic toll collection, tablet rentals, access to satellite radio, portable navigation units and child safety seat rentals; and rentals of other supplemental items including automobile towing equipment and other moving accessories and supplies. The Company also receives payment from customers for certain operating expenses that it incurs, including airport concession fees that are paid by the Company in exchange for the right to operate at airports and other locations, as well as vehicle licensing fees. In addition, the Company collects membership fees in connection with its car sharing business.

Revenue is recognized when obligations under the terms of a contract with the customer are satisfied; generally this occurs evenly over the contract (over time); when control of the promised products or services is transferred to the customer. Revenue is measured as the amount of consideration the Company expects to be entitled to receive in exchange for transferring products or services. Certain customers may receive cash-based rebates, which are accounted for as variable consideration. The Company estimates these rebates based on the expected amount to be provided to customers and reduces revenue recognized. Vehicle rental and rental-related revenues are recognized evenly over the period of rental. Licensing revenues principally consist of royalties paid by the Company's licensees and are recorded as the licensees' revenues are earned (over the rental period). The Company renews license agreements in the normal course of business and occasionally terminates, purchases or sells license agreements. In connection with ongoing fees that the Company receives from its licensees pursuant to license agreements, the Company is required to provide certain services, such as training, marketing and the operation of reservation systems. Revenues and expenses associated with gasoline, airport concessions and vehicle licensing are recorded on a gross basis within revenues and operating expenses. Membership fees related to the Company's car sharing business are generally nonrefundable, are deferred and recognized ratably over the period of membership.

Contract Liabilities

The Company records deferred revenues when cash payments are received in advance of satisfying its performance obligations, including amounts that are refundable. In addition, certain customers earn loyalty points on rentals, for which the Company defers a portion of its rental revenues generally equivalent to the estimated retail value of points expected to be redeemed. The Company estimates points that will never be redeemed based upon actual redemption and expiration patterns. Currently loyalty points expire at the earlier of 12 months of member inactivity or five years from when they were earned. Future changes to expiration assumptions or expiration policy, or to program rules, may result in changes to deferred revenue as well as recognized revenues from the program.

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The following table presents changes in the Company's contract liabilities during the nine months ended September 30, 2018.

	Balance at January 1, 2018	Revenue deferred	Revenue recognized	Balance at September 30, 2018
Prepaid rentals ^(a)	\$ 101	\$ 1,406	\$ 1,384	\$ 123
Other deferred revenue ^(b)	93	167	167	93
Total deferred revenue	\$ 194	\$ 1,573	\$ 1,551	\$ 216

^(a) At September 30, 2018, included in accounts payable and other current liabilities.

At September 30, 2018, \$38 million included in accounts payable and other current liabilities and \$55 million in

^(b) other non-current liabilities. Non-current amounts are expected to be recognized as revenue within two to three years.

3. Restructuring and Other Related Charges

Restructuring

During first quarter 2018, the Company initiated a strategic restructuring plan to improve processes and reduce headcount in response to its new workforce planning technology that allows more effective management of staff levels ("Workforce planning"). During the nine months ended September 30, 2018, as part of this process, the Company formally communicated the termination of employment to 119 employees, and as of September 30, 2018, the Company had terminated the employment of 115 of these employees. The costs associated with this initiative primarily represent severance, outplacement services and other costs associated with employee terminations, the majority of which have been or are expected to be settled in cash. The Company expects further restructuring expense of approximately \$5 million related to this initiative to be incurred in 2018.

During fourth quarter 2017, the Company initiated a strategic restructuring initiative to better position its truck rental operations in the U.S., in which it closed certain rental locations and reduced the size of the older rental fleet, with the intent to increase fleet utilization and reduce vehicle and overhead costs ("Truck initiative"). The Company expects no further restructuring expense related to this initiative.

During first quarter 2017, the Company initiated a strategic restructuring initiative to drive operational efficiency throughout the organization by reducing headcount, improving processes and consolidating functions, closing certain rental locations and decreasing the size of its fleet ("T17"). As of September 30, 2018, the Company had terminated the employment of 673 employees related to this initiative. The costs associated with this initiative primarily represent severance, outplacement services and other costs associated with employee terminations, the majority of which have been or are expected to be settled in cash. This initiative is substantially complete.

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The following tables summarize the changes to our restructuring-related liabilities and identify the amounts recorded within the Company's reporting segments for restructuring charges and corresponding payments and utilizations:

	Americas	International	Total
Balance as of January 1, 2018	\$ 1	\$ 3	\$ 4
Restructuring charge:			
Workforce planning	2	7	9
Truck initiative	2	—	2
T17	2	—	2
Restructuring payment/utilization:			
Workforce planning	(2)	(6)	(8)
Truck initiative	(2)	—	(2)
T17	(2)	(2)	(4)
Balance as of September 30, 2018	\$ 1	\$ 2	\$ 3

	Personnel Related	Other ^(a)	Total
Balance as of January 1, 2018	\$ 4	\$ —	\$ 4
Restructuring charge:			
Workforce planning	8	1	9
Truck initiative	—	2	2
T17	—	2	2
Restructuring payment/utilization:			
Workforce planning	(8)	—	(8)
Truck initiative	—	(2)	(2)
T17	(2)	(2)	(4)
Balance as of September 30, 2018	\$ 2	\$ 1	\$ 3

^(a) Includes expenses primarily related to the disposition of vehicles.

Other Related Charges

Officer Separation Costs

On May 12, 2017, the Company announced the resignation of David B. Wyshner as the Company's President and Chief Financial Officer. In connection with Mr. Wyshner's departure, the Company recorded other related charges of \$7 million during the nine months ended September 30, 2017, inclusive of accelerated stock-based compensation expense of \$2 million.

Limited Voluntary Opportunity Plans ("LVOP")

During 2017, the Company offered voluntary termination programs to certain employees in the Americas' field operations, shared services, and general and administrative functions for a limited time. These employees, if qualified, elected resignation from employment in return for enhanced severance benefits to be settled in cash. During the nine months ended September 30, 2017, the Company recorded other related charges of \$14 million. As of September 30, 2018, 358 qualified employees elected to participate in the plan and the employment of all participants had been terminated.

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4. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (“EPS”) (shares in millions):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Net income for basic and diluted EPS	\$213	\$245	\$152	\$141
Basic weighted average shares outstanding	78.8	82.6	80.1	84.1
Options and non-vested stock ^(a)	0.7	1.4	0.9	1.4
Diluted weighted average shares outstanding	79.5	84.0	81.0	85.5
Earnings per share:				
Basic	\$2.71	\$2.96	\$1.90	\$1.68
Diluted	\$2.68	\$2.91	\$1.88	\$1.65

For the three months ended September 30, 2018 and 2017, 0.5 million and 0.7 million non-vested stock awards, respectively, have an anti-dilutive effect and therefore are excluded from the computation of diluted weighted average shares outstanding. For the nine months ended September 30, 2018 and 2017, 0.2 million and 0.8 million non-vested stock awards, respectively, have an anti-dilutive effect and therefore are excluded from the computation of diluted weighted average shares outstanding.

5. Acquisitions and Other Investments

Acquisitions

2018

Avis and Budget Licensees

In 2018, the Company completed the acquisitions of various licensees in Europe and North America, for approximately \$31 million, net of cash. These investments were in line with the Company's strategy to re-acquire licensees when advantageous to expand its footprint of Company-operated locations. The acquired fleet was financed under the Company's existing financing arrangements. In connection with these acquisitions, approximately \$36 million was recorded in license agreements. The license agreements are being amortized over a weighted average useful life of approximately two years. The fair value of the assets acquired and liabilities assumed has not yet been finalized and is therefore subject to change.

Morini S.p.A.

In July 2018, the Company completed the acquisition of Morini S.p.A. ("Morini") for €35 million (approximately \$40 million), net of acquired cash, plus potential earn-out payments of €5 million (approximately \$6 million) based on Morini's performance over the next two years. During the three months ended September 30, 2018, the Company paid €28 million (approximately \$32 million). The remainder of the purchase price will be paid during the three months ended March 31, 2020. The investment enabled the Company to expand its footprint of vehicle rental services in Northern Italy. The excess of the purchase price over preliminary fair value of net assets acquired was allocated to goodwill, which was assigned to the Company's International reportable segment. In connection with this acquisition, approximately \$21 million was recorded in goodwill, \$19 million was recorded in license agreements, \$3 million was recorded in customer relationships and \$3 million related to trademarks was recorded in other intangibles. The license agreements, customer relationships and trademarks are being amortized over a weighted average useful life of approximately 14 years. The goodwill is not deductible for tax purposes. The fair value of assets acquired and liabilities assumed has not been finalized and is therefore subject to change.

Other Investments

In March 2018, the Company made an initial equity investment of €15 million (\$19 million) in its licensee in Greece ("Greece"), for a 20% ownership stake. In connection with this investment, the Company entered into an agreement to purchase an additional 20% equity interest, 10% in March 2019 and 10% in March 2020, for

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€15 million. In June 2018, the Company completed its purchase of the additional 20% equity investment for €16 million (\$18 million), including an acceleration premium, and as of June 30, 2018, had a 40% ownership stake in Greece. The Company's equity investment is recorded within other non-current assets. The Company's share of Greece's results are reported within operating expenses and are \$7 million for both the three and nine months ended September 30, 2018.

6. Other Current Assets

Other current assets consisted of:

	As of September 30, 2018	As of December 31, 2017
Sales and use taxes	\$ 257	\$ 174
Prepaid expenses	230	196
Other	170	163
Other current assets	\$ 657	\$ 533

7. Intangible Assets

Intangible assets consisted of:

	As of September 30, 2018			As of December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized Intangible Assets						
License agreements ^(a)	\$319	\$ 160	\$ 159	\$281	\$ 140	\$ 141
Customer relationships	240	136	104	242	119	123
Other	51	20	31	51	18	33
Total	\$610	\$ 316	\$ 294	\$574	\$ 277	\$ 297
Unamortized Intangible Assets						
Goodwill ^(b)	\$1,064			\$1,073		
Trademarks	\$550			\$553		

^(a) The change in the carrying amount since December 31, 2017, primarily reflects the acquisitions of Avis and Budget Licensees and Morini (see Note 5 - Acquisitions and Other Investments).

^(b) The change in the carrying amount since December 31, 2017, primarily reflects currency translation, partially offset by acquisitions (see Note 5 - Acquisitions and Other Investments).

For the three months ended September 30, 2018 and 2017, amortization expense related to amortizable intangible assets was approximately \$15 million and \$17 million, respectively. For the nine months ended September 30, 2018 and 2017, amortization expense related to amortizable intangible assets was approximately \$48 million, in each period. Based on the Company's amortizable intangible assets at September 30, 2018, the Company expects amortization expense of approximately \$17 million for the remainder of 2018, \$52 million for 2019, \$45 million for 2020, \$32 million for 2021, \$26 million for 2022 and \$23 million for 2023, excluding effects of currency exchange rates.

8. Vehicle Rental Activities

The components of vehicles, net within assets under vehicle programs were as follows:

	As of September 30, 2018	As of December 31, 2017
Rental vehicles	\$ 13,418	\$ 11,652
Less: Accumulated depreciation	(1,701)	(1,652)
	11,717	10,000
Vehicles held for sale	446	626
Vehicles, net	\$ 12,163	\$ 10,626

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Depreciation expense	\$540	\$547	\$1,536	\$1,500
Lease charges	72	67	192	164
(Gain) loss on sale of vehicles, net	(25)	2	(35)	53
Vehicle depreciation and lease charges, net	\$587	\$616	\$1,693	\$1,717

At September 30, 2018 and 2017, the Company had payables related to vehicle purchases included in liabilities under vehicle programs - other of \$269 million and \$231 million, respectively, and receivables related to vehicle sales included in assets under vehicle programs - receivables from vehicle manufacturers and other of \$757 million and \$707 million, respectively.

9. Income Taxes

The Company's effective tax rate for the nine months ended September 30, 2018 is a provision of 42.4%. Such rate differed from the Federal statutory rate of 21.0% primarily due to an adjustment of the one-time transition tax on the deemed repatriation of cumulative foreign subsidiary earnings initially recorded during the three months ended December 31, 2017 and taxes on the Company's international operations.

The Company's effective tax rate for the nine months ended September 30, 2017 was a provision of 32.9%. Such rate differed from the Federal statutory rate of 35.0% primarily due to foreign taxes as a result of the mix of the Company's earnings between the U.S. and foreign jurisdictions.

In December 2017, the Tax Act made substantial changes to corporate income tax laws. The Company is recognizing the effects of the Tax Act in accordance with Staff Accounting Bulletin No. 118, which provides SEC staff guidance for the application of FASB Accounting Standards Codification Topic 740, Income Taxes, in the reporting period that the Tax Act was signed into law.

During the three months ended December 31, 2017 the Company had recorded a provisional income tax benefit of \$317 million related to the remeasurement of its net deferred income tax liabilities as a result of the reduced corporate tax rate and a provisional tax expense of \$104 million for the one-time transition tax on the deemed repatriation of cumulative foreign subsidiary earnings. During the three months ended September 30, 2018, the Company revised the provisional expense of \$104 million and recorded an additional tax expense of \$30 million resulting from revised estimated calculations of historical earnings of foreign subsidiaries.

During the fourth quarter of 2018, the Company will finalize the accounting for the effects of the Tax Act. Additional information needed to finalize the provisional tax benefit on the remeasurement of net deferred income tax liabilities include calculations and analysis of the repeal of the like-kind exchange provisions and calculations of effective corporate state income tax rates based on the filing of the Company's 2017 U.S. corporate income tax returns during the fourth quarter of 2018. The provisional tax expense for the one-time transition tax on cumulative foreign earnings will be finalized based on the analysis of state tax laws and guidance on the transition tax.

In addition, the Company continues to evaluate whether or not to continue to assert indefinite reinvestment on a part or all of its undistributed foreign earnings. This requires the Company to analyze its global working capital and cash requirements in light of the Tax Act and the potential tax liabilities attributable to a repatriation to the U.S., such as foreign withholding taxes and U.S. tax on currency transaction gains or losses. The Company did not record any deferred taxes attributable to its investments in its foreign subsidiaries. The Company will record the tax effects of any change in its assertion during the fourth quarter of 2018.

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10. Accounts Payable and Other Current Liabilities

Accounts payable and other current liabilities consisted of:

	As of September 30, 2018	As of December 31, 2017
Accounts payable	\$ 396	\$ 359
Accrued sales and use taxes	307	218
Accrued advertising and marketing	223	190
Accrued payroll and related	188	176
Deferred revenue – current	161	135
Public liability and property damage insurance liabilities – current	144	145
Accrued insurance	117	103
Other	349	293
Accounts payable and other current liabilities	\$ 1,885	\$ 1,619

11. Long-term Corporate Debt and Borrowing Arrangements

Long-term corporate debt and borrowing arrangements consisted of:

	Maturity Dates	As of September 30, 2018	As of December 31, 2017
Floating Rate Term Loan	March 2022	\$ —	\$ 1,136
5 % Senior Notes	June 2022	400	400
5½% Senior Notes	April 2023	675	675
6 % Senior Notes	April 2024	350	350
4 % euro-denominated Senior Notes	November 2024	348	360
Floating Rate Term Loan ^(a)	February 2025	1,126	—
5¼% Senior Notes	March 2025	375	375
4½% euro-denominated Senior Notes	May 2025	290	300
Other ^(b)		40	49
Deferred financing fees		(43)	(46)
Total		3,561	3,599
Less: Short-term debt and current portion of long-term debt		23	26
Long-term debt		\$ 3,538	\$ 3,573

The floating rate term loan is part of the Company's senior credit facility, which is secured by pledges of capital stock of certain subsidiaries of the Company, and liens on substantially all of the Company's intellectual property and certain other real and personal property. As of September 30, 2018, the floating rate term loan due 2025 bears interest at one-month LIBOR plus 200 basis points, for an aggregate rate of 4.25%. The Company has entered into a swap to hedge \$700 million of its interest rate exposure related to the floating rate term loan at an aggregate rate of 3.67%.

^(b) Primarily includes capital leases which are secured by liens on the related assets.

In February 2018, the Company amended the terms of its Floating Rate Term Loan due 2022 and extended its maturity term to 2025.

Committed Credit Facilities and Available Funding Arrangements

At September 30, 2018, the committed corporate credit facilities available to the Company and/or its subsidiaries were as follows:

	Total Capacity	Outstanding Borrowings	Letters of Credit Issued	Available Capacity
Senior revolving credit facility maturing 2023 ^(a)	\$ 1,800	\$ —	\$ 1,084	\$ 716
Other facilities ^(b)	1	1	—	—

^(a) The senior revolving credit facility bears interest at one-month LIBOR plus 200 basis points and is part of the Company's senior credit facility, which is secured by pledges of capital stock of certain subsidiaries of the Company, and liens on substantially all of the Company's intellectual property and certain other real and personal property.

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(b) These facilities encompass bank overdraft lines of credit, bearing interest of 3.25% as of September 30, 2018.

In February 2018, the Company amended the terms of its Senior revolving credit facility maturing 2021 and extended its maturity to 2023.

At September 30, 2018, the Company had various uncommitted credit facilities available, under which it had drawn approximately \$1 million, which bear interest at rates between 0.74% and 6.60%.

Debt Covenants

The agreements governing the Company's corporate 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. As of September 30, 2018, the Company was in compliance with the financial covenants governing its indebtedness.

12. Debt Under Vehicle Programs and Borrowing Arrangements

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

	As of September 30, 2018	As of December 31, 2017
Americas - Debt due to Avis Budget Rental Car Funding ^(a)	\$ 7,154	\$ 6,516
Americas - Debt borrowings ^(a)	855	660
International - Debt borrowings ^(a)	2,753	1,942
International - Capital leases	201	146
Other	7	1
Deferred financing fees ^(b)	(48)	(44)
Total	\$ 10,922	\$ 9,221

^(a) The increase reflects additional borrowings principally to fund increases in the Company's car rental fleet.

^(b) Deferred financing fees related to Debt due to Avis Budget Rental Car Funding as of September 30, 2018 and December 31, 2017 were \$33 million and \$36 million, respectively.

In April 2018, the Company's Avis Budget Rental Car Funding subsidiary issued approximately \$400 million in asset-backed notes with an expected final payment date of September 2023. The weighted average interest rate was approximately 4%. The Company used the proceeds from these borrowings to fund the repayment of maturing vehicle-backed debt and the acquisition of rental cars in the United States.

In June 2018, the Company increased its capacity under the European rental fleet securitization program by €150 million (approximately \$175 million) to €1.8 billion (approximately \$2.1 billion) and extended its maturity to 2021. The Company used the proceeds to finance fleet purchases for certain of the Company's European operations.

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Debt Maturities

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, 2018.

	Debt under Vehicle Programs
Within 1 year	\$ 1,590
Between 1 and 2 years	2,759
Between 2 and 3 years	4,487
Between 3 and 4 years	823
Between 4 and 5 years	1,067
Thereafter	244
Total	\$ 10,970

Committed Credit Facilities and Available Funding Arrangements

As of September 30, 2018, available funding under the Company's vehicle programs, including related party debt due to Avis Budget Rental Car Funding, consisted of:

	Total Capacity (a)	Outstanding Borrowings (b)	Available Capacity
Americas - Debt due to Avis Budget Rental Car Funding	\$ 8,629	\$ 7,154	\$ 1,475
Americas - Debt borrowings	978	855	123
International - Debt borrowings	3,072	2,753	319
International - Capital leases	223	201	22
Other	7	7	—
Total	\$ 12,909	\$ 10,970	\$ 1,939

(a) Capacity is subject to maintaining sufficient assets to collateralize debt.

The outstanding debt is collateralized by vehicles and related assets of \$8.7 billion for Americas - Debt due to Avis

(b) Budget Rental Car Funding; \$1.2 billion for Americas - Debt borrowings; \$3.0 billion for International - Debt borrowings; and \$0.2 billion for International - Capital leases.

Debt Covenants

The 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, 2018, the Company is not aware of any instances of non-compliance with any of the financial covenants contained in the debt agreements under its vehicle-backed funding programs.

13. Commitments and Contingencies

Contingencies

In 2006, the Company completed the spin-offs of its Realogy and Wyndham subsidiaries. The Company does not believe that the impact of any resolution of pre-existing contingent liabilities in connection with the spin-offs should

result in a material liability to the Company in relation to its consolidated financial position or liquidity, as Realogy and Wyndham each have agreed to assume responsibility for these liabilities. The Company is also named in litigation that is primarily related to the businesses of its former subsidiaries, including Realogy and Wyndham. The Company is entitled to indemnification from such entities for any liability resulting from such litigation.

In February 2017, following a state court trial in Georgia, a jury found the Company liable for damages in a case brought by a plaintiff who was injured in a vehicle accident allegedly caused by an employee of an independent contractor of the Company who was acting outside of the scope of employment. In March

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2017, the Company was also found liable for damages in a companion case arising from the same incident. The Company considers the attribution of liability to the Company, and the amount of damages awarded, to be unsupported by the facts of these cases and intends to appeal the verdicts. The Company has recognized a liability for the expected loss related to these cases, net of recoverable insurance proceeds, of approximately \$12 million.

The Company is involved in claims, legal proceedings and governmental inquiries that are incidental to its vehicle rental and car sharing operations, including, among others, contract and licensee disputes, competition matters, employment and wage-and-hour claims, insurance and liability claims, intellectual property claims, business practice disputes and other regulatory, environmental, commercial and tax matters. Litigation is inherently unpredictable and, although the Company believes that its accruals are adequate and/or that it has valid defenses in these matters, unfavorable resolutions could occur. The Company estimates that the potential exposure resulting from adverse outcomes of legal proceedings in which it is reasonably possible that a loss may be incurred could, in the aggregate, be up to approximately \$50 million in excess of amounts accrued as of September 30, 2018. The Company does not believe that the impact should result in a material liability to the Company in relation to its consolidated financial condition or results of operations.

Commitments to Purchase Vehicles

The Company maintains agreements with vehicle manufacturers under which the Company has agreed to purchase approximately \$5.0 billion of vehicles from manufacturers over the next 12 months financed primarily through the issuance of vehicle-backed debt and cash received upon the disposition of vehicles. Certain of these commitments are subject to the vehicle manufacturers' satisfying their obligations under their respective repurchase and guaranteed depreciation agreements.

Concentrations

Concentrations of credit risk at September 30, 2018 include (i) risks related to the Company's repurchase and guaranteed depreciation agreements with domestic and foreign car manufacturers, primarily with respect to receivables for program cars that have been disposed but for which the Company has not yet received payment from the manufacturers and (ii) risks related to Realogy and Wyndham, including receivables of \$23 million and \$14 million, respectively, related to certain contingent, income tax and other corporate liabilities assumed by Realogy and Wyndham in connection with their disposition.

14. Stockholders' Equity

Stockholder Rights Plan

In January 2018, the Company's Board of Directors authorized the adoption of a short-term stockholder rights plan. Effective April 16, 2018 the Company terminated the rights plan. Pursuant to the rights plan, the Company declared a dividend of one preferred share purchase right for each outstanding share of common stock, payable to holders of record as of the close of business on January 26, 2018. Each right, which was exercisable only in the event any person or group were to acquire beneficial ownership of 15% or more of the Company's outstanding common stock (with certain limited exceptions), would have entitled any holder other than the person or group whose ownership position had exceeded the ownership limit to purchase common stock having a value equal to twice the \$100 exercise price of the right, or, at the election of the Board of Directors, to exchange each right for one share of common stock (subject to adjustment). On April 16, 2018, the Company also entered into a new cooperation agreement with SRS Investment Management LLC and certain of its affiliates.

Share Repurchases

The Company's Board of Directors has authorized the repurchase of up to \$1.7 billion of its common stock under a plan originally approved in 2013 and subsequently expanded, most recently in August 2018. During the nine months ended September 30, 2018, the Company repurchased approximately 3.5 million shares of common stock at a cost of approximately \$129 million under the program. During the nine months ended September 30, 2017, the Company repurchased approximately 4.2 million shares of common stock at a cost

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of approximately \$127 million under the program. As of September 30, 2018, approximately \$222 million of authorization remains available to repurchase common stock under this plan.

Total Comprehensive Income (Loss)

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

The components of other comprehensive income (loss) were as follows:

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Net income	\$213	\$245	\$152	\$141
Other comprehensive income (loss):				
Currency translation adjustments (net of tax of \$(1), \$9, \$(6) and \$29, respectively)	(8)	32	(61)	105
Net unrealized gain (loss) on available-for-sale securities (net of tax of \$0, \$(1), \$0, \$(1), respectively)	—	—	—	1
Net unrealized gain (loss) on cash flow hedges (net of tax of \$0, \$(1), \$(3) and \$0, respectively)	—	1	8	—
Minimum pension liability adjustment (net of tax of \$0, \$(1), \$(1) and \$(2), respectively)	2	1	5	4
	(6)	34	(48)	110
Comprehensive income	\$207	\$279	\$104	\$251

Currency translation adjustments exclude income taxes related to indefinite investments in foreign subsidiaries (See Note 9 - Income Taxes).

Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss) were as follows:

	Currency Translation Adjustments	Net Unrealized Gains (Losses) on Cash Flow Hedges ^(a)	Net Unrealized Gains (Losses) on Available-for- Sale Securities	Minimum Pension Liability Adjustment ^(b)	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2017	\$ 71	\$ 5	\$ 2	\$ (102)	\$ (24)
Cumulative effect of accounting change ^(c)	7	1	(2)	(12)	(6)
Balance, January 1, 2018	\$ 78	\$ 6	\$ —	\$ (114)	\$ (30)
Other comprehensive income (loss) before reclassifications	(61)	9	—	1	(51)
Amounts reclassified from accumulated other comprehensive income (loss)	—	(1)	—	4	3
Net current-period other comprehensive income (loss)	(61)	8	—	5	(48)
Balance, September 30, 2018	\$ 17	\$ 14	\$ —	\$ (109)	\$ (78)

Balance, January 1, 2017	\$ (39)	\$ 2	\$ 1	\$ (118)	\$ (154)
Other comprehensive income (loss) before reclassifications	105	(2)	1	—	104
Amounts reclassified from accumulated other comprehensive income (loss)	—	2	—	4	6
Net current-period other comprehensive income (loss)	105	—	1	4	110
Balance, September 30, 2017	\$ 66	\$ 2	\$ 2	\$ (114)	\$ (44)

All components of accumulated other comprehensive income (loss) are net of tax, except currency translation adjustments, which exclude income taxes related to indefinite investments in foreign subsidiaries and include a \$56 million gain, net of tax, as of

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September 30, 2018 related to the Company's hedge of its net investment in euro-denominated foreign operations (see Note 16 - Financial Instruments).

For the three and nine months ended September 30, 2018, the amounts reclassified from accumulated other comprehensive income (loss) into corporate interest expense were \$2 million (\$1 million, net of tax), in each (a) period. For the three and nine months ended September 30, 2017, the amounts reclassified from accumulated other comprehensive income (loss) into corporate interest expense were \$1 million (\$1 million, net of tax) and \$3 million (\$2 million, net of tax), respectively.

(b) For the three and nine months ended September 30, 2018, amounts reclassified from accumulated other comprehensive income (loss) into selling, general and administrative expenses were \$2 million (\$2 million, net of tax) and \$6 million (\$4 million, net of tax), respectively. For the three and nine months ended September 30, 2017, amounts reclassified from accumulated other comprehensive income (loss) into selling, general and administrative expenses were \$2 million (\$1 million, net of tax) and \$6 million (\$4 million, net of tax), respectively.

(c) See Note 1 - Basis of Presentation for the impact of adoption of ASU 2016-01 and ASU 2018-02.

15. Stock-Based Compensation

The Company recorded stock-based compensation expense of \$7 million and \$1 million (\$5 million and \$1 million, net of tax) during the three months ended September 30, 2018 and 2017, respectively, and \$18 million and \$6 million (\$14 million and \$4 million, net of tax) during the nine months ended September 30, 2018 and 2017, respectively.

The activity related to restricted stock units ("RSUs") consisted of (in thousands of shares):

	Number of Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in millions)
Time-based RSUs				
Outstanding at January 1, 2018	1,160	\$ 34.54		
Granted (a)	321	48.41		
Vested (b)	(559)	36.01		
Forfeited	(75)	35.97		
Outstanding and expected to vest at September 30, 2018 (c)	847	\$ 38.70	1.0	\$ 27
Performance-based and market-based RSUs				
Outstanding at January 1, 2018	994	\$ 33.06		

Granted ^(a)	353		48.52	
Vested	—		—	
Forfeited	(176)		50.06	
Outstanding at September 30, 2018	1,171	\$ 35.17	1.3	\$ 38
Outstanding and expected to vest at September 30, 2018 ^(c)	267	\$ 44.25	2.1	\$ 9

- Reflects the maximum number of stock units assuming achievement of all performance-, market- and time-vesting criteria and does not include those for non-employee directors. The weighted-average fair value of time-based RSUs and performance-based RSUs granted during the nine months ended September 30, 2017 was \$35.32 and \$35.21, respectively.
- (b) The total fair value of RSUs vested during September 30, 2018 and 2017 was \$20 million and \$23 million, respectively.
- (c) Aggregate unrecognized compensation expense related to time-based RSUs and performance-based RSUs amounted to \$35 million and will be recognized over a weighted average vesting period of 1.3 years.

The stock option activity consisted of (in thousands of shares):

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in millions)
Outstanding at January 1, 2018	273	\$ 7.08	1.7	\$ 10
Granted	—	—		—
Exercised	(194)	9.64		8
Forfeited/expired	—	—		—
Outstanding and exercisable at September 30, 2018	79	\$ 0.79		