

AVIS BUDGET GROUP, INC.

Form 10-Q

November 03, 2009

[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, 2009

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)

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

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 101,988,727 shares as of October 31, 2009.

Table of Contents

Table of Contents

| | Page |
|--|-------------|
| PART I <u>Financial Information (Unaudited)</u> | |
| Item 1. <u>Financial Statements</u> | |
| <u>Consolidated Condensed Statements of Operations for the Three and Nine Months Ended September 30, 2009 and 2008 (Unaudited)</u> | 3 |
| <u>Consolidated Condensed Balance Sheets as of September 30, 2009 and December 31, 2008 (Unaudited)</u> | 4 |
| <u>Consolidated Condensed Statements of Cash Flows for the Nine Months Ended September 30, 2009 and 2008 (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> | 33 |
| Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u> | 42 |
| Item 4. <u>Controls and Procedures</u> | 43 |
| PART II <u>Other Information</u> | |
| Item 1. <u>Legal Proceedings</u> | 43 |
| Item 1A. <u>Risk Factors</u> | 43 |
| Item 6. <u>Exhibits</u> | 43 |
| <u>Signatures</u> | 44 |

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 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;

risks associated with the impact of the Chapter 11 bankruptcy filings of General Motors and Chrysler;

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

the decline in general economic conditions and weakness in the housing market, which could lead to a disruption or decline in rental activity, and the impact such a disruption or decline 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 as outstanding indebtedness matures, as a result of the significant disruption in the credit market or other factors, 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 successfully implement our cost-savings and efficiency improvement initiatives and business strategy;

the impact of our derivative instruments, which can be affected by fluctuations in interest rates;

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

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 historic levels;

our failure or inability to comply with regulations or any changes in regulations, 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 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 our senior credit facilities, our outstanding unsecured senior notes and certain asset-backed funding arrangements;

the terms of agreements among us and the 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 (the Separation), 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;

the trading price of our stock, which could limit our access to capital;

risks associated with litigation involving the Company;

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 headings such as Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2008 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 headings such as Risk Factors and Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2008 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 and furnishings with the Securities and Exchange Commission, in connection with any forward-looking statements that may be made by us and our businesses generally. Except for our ongoing obligations to disclose material information under the federal securities laws, we undertake no obligation to release any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events unless required by law. 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 OPERATIONS****(In millions, except per share data)****(Unaudited)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|-------------|--|-------------|
| | 2009 | 2008 | 2009 | 2008 |
| Revenues | | | | |
| Vehicle rental | \$ 1,123 | \$ 1,298 | \$ 3,036 | \$ 3,611 |
| Other | 342 | 403 | 935 | 1,112 |
| Net revenues | 1,465 | 1,701 | 3,971 | 4,723 |
| Expenses | | | | |
| Operating | 731 | 847 | 2,020 | 2,435 |
| Vehicle depreciation and lease charges, net | 357 | 473 | 1,104 | 1,296 |
| Selling, general and administrative | 155 | 171 | 421 | 513 |
| Vehicle interest, net | 75 | 74 | 215 | 234 |
| Non-vehicle related depreciation and amortization | 26 | 23 | 71 | 62 |
| Interest expense related to corporate debt, net | 37 | 31 | 114 | 92 |
| Restructuring charges | 1 | 6 | 14 | 6 |
| Impairment | | 1,262 | 1 | 1,262 |
| Separation costs | | | | 2 |
| Total expenses | 1,382 | 2,887 | 3,960 | 5,902 |
| Income (loss) before income taxes | 83 | (1,186) | 11 | (1,179) |
| Provision for (benefit from) income taxes | 26 | (180) | 9 | (176) |
| Net income (loss) | \$ 57 | \$ (1,006) | \$ 2 | \$ (1,003) |
| Earnings (loss) per share: | | | | |
| Basic | \$ 0.55 | \$ (9.91) | \$ 0.02 | \$ (9.84) |
| Diluted | \$ 0.54 | \$ (9.91) | \$ 0.02 | \$ (9.84) |

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, 2009 | December 31, 2008 |
|--|-------------------------------|------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 470 | \$ 258 |
| Receivables, net | 307 | 360 |
| Deferred income taxes | 89 | 75 |
| Other current assets | 263 | 380 |
| Total current assets | 1,129 | 1,073 |
| Property and equipment, net | 439 | 485 |
| Deferred income taxes | 546 | 503 |
| Goodwill | 76 | 75 |
| Other intangibles, net | 477 | 467 |
| Other non-current assets | 839 | 889 |
| Total assets exclusive of assets under vehicle programs | 3,506 | 3,492 |
| Assets under vehicle programs: | | |
| Program cash | 7 | 12 |
| Vehicles, net | 6,135 | 7,164 |
| Receivables from vehicle manufacturers and other | 163 | 533 |
| Investment in Avis Budget Rental Car Funding (AESOP) LLC related party | 151 | 117 |
| | 6,456 | 7,826 |
| Total assets | \$ 9,962 | \$ 11,318 |
| Liabilities and stockholders equity | | |
| Current liabilities: | | |
| Accounts payable and other current liabilities | \$ 846 | \$ 901 |
| Current portion of long-term debt | 12 | 10 |
| Total current liabilities | 858 | 911 |
| Long-term debt | 1,873 | 1,779 |
| Other non-current liabilities | 1,121 | 1,121 |
| Total liabilities exclusive of liabilities under vehicle programs | 3,852 | 3,811 |
| Liabilities under vehicle programs: | | |
| Debt | 887 | 892 |
| Debt due to Avis Budget Rental Car Funding (AESOP) LLC related party | 3,629 | 5,142 |

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

| | | |
|--|-----------------|------------------|
| Deferred income taxes | 1,266 | 1,188 |
| Other | 99 | 192 |
| | 5,881 | 7,414 |
| Commitments and contingencies (Note 14) | | |
| 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 136,915,861 and 136,812,802 shares | 1 | 1 |
| Additional paid-in capital | 9,092 | 9,197 |
| Accumulated deficit | (2,642) | (2,644) |
| Accumulated other comprehensive income (loss) | (71) | (194) |
| Treasury stock, at cost 34,617,266 and 35,030,086 shares | (6,151) | (6,267) |
| Total stockholders' equity | 229 | 93 |
| Total liabilities and stockholders' equity | \$ 9,962 | \$ 11,318 |

See Notes to Consolidated Condensed Financial Statements (Unaudited).

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

| | Nine Months Ended September 30, | |
|--|--|----------------|
| | 2009 | 2008 |
| Operating Activities | | |
| Net income (loss) | \$ 2 | \$ (1,003) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities exclusive of vehicle programs: | | |
| Non-vehicle related depreciation and amortization | 71 | 62 |
| Goodwill, tradename and investment impairment | 1 | 1,262 |
| Net change in assets and liabilities, excluding the impact of acquisitions and dispositions: | | |
| Receivables | 25 | 24 |
| Income taxes and deferred income taxes | (8) | (193) |
| Accounts payable and other current liabilities | 30 | (13) |
| Other, net | 33 | 12 |
| Net cash provided by operating activities exclusive of vehicle programs | 154 | 151 |
| <i>Vehicle programs:</i> | | |
| Vehicle depreciation | 1,096 | 1,267 |
| | 1,096 | 1,267 |
| Net cash provided by operating activities | 1,250 | 1,418 |
| Investing Activities | | |
| Property and equipment additions | (19) | (65) |
| Proceeds received on asset sales | 10 | 13 |
| Proceeds received from Realogy and Wyndham, net | 2 | 3 |
| Net assets acquired, net of cash acquired, and acquisition-related payments | | (88) |
| Other, net | (2) | (14) |
| Net cash used in investing activities exclusive of vehicle programs | (9) | (151) |
| <i>Vehicle programs:</i> | | |
| Decrease in program cash | 5 | 1 |
| Investment in vehicles | (5,019) | (7,023) |
| Proceeds received on disposition of vehicles | 5,424 | 5,021 |
| Distribution from (investment in) Avis Budget Rental Car Funding (AESOP) LLC related party | 19 | (343) |
| | 429 | (2,344) |
| Net cash provided by (used in) investing activities | 420 | (2,495) |

Table of Contents

Avis Budget Group, Inc.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Continued)

(In millions)

(Unaudited)

| | Nine Months Ended September 30, | |
|--|------------------------------------|---------------|
| | 2009 | 2008 |
| Financing Activities | | |
| Proceeds from borrowings | 100 | |
| Principal payments on borrowings | (8) | (7) |
| Repurchases of common stock | | (33) |
| Other, net | (2) | |
| Net cash provided by (used in) financing activities exclusive of vehicle programs | 90 | (40) |
| <i>Vehicle programs:</i> | | |
| Proceeds from borrowings | 5,728 | 6,836 |
| Principal payments on borrowings | (7,335) | (5,927) |
| Net change in short-term borrowings | 36 | 388 |
| Other, net | (6) | (8) |
| | (1,577) | 1,289 |
| Net cash (used in) provided by financing activities | (1,487) | 1,249 |
| Effect of changes in exchange rates on cash and cash equivalents | 29 | (12) |
| Net increase in cash and cash equivalents | 212 | 160 |
| Cash and cash equivalents, beginning of period | 258 | 214 |
| Cash and cash equivalents, end of period | \$ 470 | \$ 374 |

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 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 light 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 (*U.S. 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 2008 Annual Report on Form 10-K filed on February 26, 2009.

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, asset-backed funding or other similar arrangements which are 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.

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.

Compliance with Debt Covenants, Business Risks and Management's Plans

Compliance with Debt Covenants. Many of the Company's debt instruments, including its senior credit facilities, contain financial and other covenants that impose significant requirements on the Company and limit its ability to engage in certain transactions or activities. The Company's financial covenants require it to maintain minimum trailing twelve month EBITDA (as defined in the Company's senior credit facilities) amounts on a quarterly basis. Commencing with the Company's fiscal quarter ending June 30, 2010, the requirement to maintain a

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

quarterly minimum trailing twelve month EBITDA under the financial covenants of its amended senior credit facilities will be replaced by the maximum leverage ratio that was in place prior to the December 2008 amendment to the senior credit facilities.

The U.S. economy appears to have been in recession throughout 2008 and for at least a portion of 2009. Historically, the Company's results of operations have declined during periods of general economic weakness. The effects of the recession contributed to the significant year-over-year decline in the results of the Company's operations for the nine months ended September 30, 2009 compared to the nine months ended September 30, 2008, excluding the 2008

Table of Contents

impairment charge. If economic conditions in the United States worsen, the Company's results of operations could be materially and adversely impacted.

The Company relies upon financing for its operations, particularly asset-backed financing, through asset-backed securities and the lending market, for its vehicle fleet. In fourth quarter 2008, the Company amended and renewed its two asset-backed domestic rental car conduit facilities and as a result of these amendments and renewals, the Company's borrowing costs and collateral requirements for 2009 have increased compared to 2008. In October 2009, the Company combined these facilities into one facility, renewed such facility for \$1.9 billion and reduced the associated borrowing costs; such facility now matures in October 2010. During July and October 2009, the Company issued a total of \$900 million in asset-backed notes for rental car financing. The existing availability under the asset-backed vehicle financing programs including the asset-backed conduit facility should be sufficient to fund the Company's Domestic Car Rental fleet for 2010. Approximately \$42 million and \$1.1 billion of term asset-backed financings for the Company's car rental operations will mature before the end of 2009 and in 2010, respectively. A default by, or insolvency of, any of the financial-guaranty firms that have insured a portion of the Company's outstanding vehicle-backed debt could affect the timing for repayment of such debt.

Dependence on Vehicle Manufacturers. The Company is dependent on vehicle manufacturers for its fleet purchases and related incentive payments, and a substantial portion of the rental cars that comprise its domestic car fleet (program cars) are subject to manufacturer repurchase or guaranteed depreciation programs. A default on any repurchase or guaranteed depreciation agreement or incentive payment could leave the Company with a substantial unpaid claim against the manufacturer particularly with respect to program cars that were either (i) resold at an amount less than the amount guaranteed under the applicable agreement, and therefore subject to a true-up payment obligation from the manufacturer or (ii) returned to the manufacturer but for which the Company was not paid. In addition, the Company could incur additional expenses if, following a manufacturer default, the prices at which it were able to dispose of program cars were less than the specified prices under the repurchase or guaranteed depreciation program and/or if the prices at which the Company were able to dispose of non-program cars were less than previously assumed.

Cost Reduction Initiatives. In light of the challenging conditions facing its business as well as for competitive reasons, the Company has taken numerous actions to reduce expenses, including implementing a five-point plan designed to reduce costs and improve efficiency. This plan includes (i) significant reductions in operating costs, fleet costs, selling, general and administrative expenses, headcount, discretionary spending and other variable costs, (ii) improving station, channel and customer profitability, (iii) strengthening the Company's pricing strategies and marketing, selling and affinity efforts, (iv) consolidation of both customer facing and non-customer facing activities and locations to reduce costs and provide synergies, and (v) consolidation of purchasing and procurement programs and practices. The Company closed and consolidated certain facilities and terminated employees in fourth quarter 2008 and the nine months ended September 30, 2009 in conjunction with this initiative (see Note 2 Restructuring Charges). The Company has also generated and expects to generate additional cost savings in 2009 through implementation of its Performance Excellence process improvement initiative, which began in late 2007. The Company has also identified a number of additional cost reduction measures that it could implement, if necessary, to offset additional costs.

Notwithstanding the December 2008 amendments to the Company's senior credit facilities and its cost reduction initiatives, due to reduced demand for travel services, disruption in the credit markets, rising borrowing costs, the Company's dependence on vehicle manufacturers, and other factors, there can be no assurance that the Company will be able to generate sufficient earnings to enable it to satisfy the minimum EBITDA requirement or other covenants included in its senior credit facilities, the asset-backed conduit facilities used to finance a portion of its domestic car rental operations or other borrowing agreements. The Company's failure to comply with these covenants, if not waived, would cause a default under the senior credit facilities and could result in principal under the conduit facilities being required to be repaid from a portion of vehicle disposition proceeds and lease payments the Company makes to its vehicle program subsidiaries and adversely affect the Company's liquidity position. If such a failure were to occur, there can be no assurance that the Company would be able to refinance or obtain a replacement for such facilities and in certain circumstances such failure could also give rise to a default under the instruments that govern its other indebtedness. As of September 30, 2009, the Company was in compliance with the financial covenants of its senior credit facilities.

Adoption of New Accounting Standards during 2009

In April 2009, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies (FSP FAS 141(R)-1), as codified in FASB Accounting Standards Codification (ASC) topic 805, *Business Combinations*. The Company adopted FSP FAS 141(R)-1 on January 1, 2009, as required, and it had no impact on its financial statements at the time of adoption.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP FAS 115-2 and FAS 124-2), as codified in FASB ASC topic 320, *Investments Debt*

Table of Contents

and Equity Securities. FSP FAS 115-2 and FAS 124-2 provides additional guidance on how to evaluate whether an impairment of a debt security is other than temporary and for recognition of any such impairment in the financial statements. The Company adopted FSP FAS 115-2 and FAS 124-2 on June 30, 2009, as required, and it had no impact on its financial statements.

In April 2009, FASB issued FSP No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP FAS 157-4), as codified in FASB ASC topic 820, *Fair Value Measurements and Disclosures*. FSP FAS 157-4 provides additional guidance for estimating fair value in accordance with FASB Statement No. 157, *Fair Value Measurements* , when the volume and level of activity for the asset or liability have significantly decreased. FSP FAS 157-4 applies prospectively for interim and annual reporting periods ending after June 15, 2009. The Company adopted FSP FAS 157-4 on June 30, 2009, as required, and it had no impact on its financial statements.

In April 2009, FASB issued FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments* (FSP FAS 107-1 and APB 28-1), as codified in FASB ASC topic 825, *Financial Instruments*. FSP FAS 107-1 and APB 28-1 amends FASB Statement No. 107, *Disclosures about Fair Values of Financial Instruments* , as codified in ASC topic 825, and requires a publicly traded entity to include disclosures about the fair value of its financial instruments for its interim reporting periods as well as its annual financial statements. FSP FAS 107-1 and APB 28-1 is effective for interim periods ending after June 15, 2009. The Company adopted FSP FAS 107-1 and APB 28-1 on June 30, 2009, as required, and it did not have a significant impact on its financial statements; however, it did result in enhanced disclosure about the fair value of financial instruments in the Company s interim financial statements.

In May 2009, the FASB issued Statement of Financial Accounting Standard (SFAS) No. 165, *Subsequent Events* (SFAS No. 165), as codified in FASB ASC topic 855, *Subsequent Events*. SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company adopted SFAS No. 165 on June 30, 2009, as required, and it did not have a significant impact on its financial statements.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* a replacement of FASB Statement No. 162 (SFAS No. 168), as codified in FASB ASC topic 105, *Generally Accepted Accounting Principles*. SFAS No. 168 replaces FASB Statement No. 162 to allow the FASB Accounting Standards Codification to become the single source of authoritative U.S. accounting and reporting standards, other than guidance issued by the SEC. The Company adopted SFAS No. 168 on July 1, 2009, as required, and it did not have a significant impact on its financial statements.

In August 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-05, *Measuring Liabilities at Fair Value* (ASU No. 2009-05). ASU No. 2009-5 clarifies, among other things, that when a quoted price in an active market for the identical liability is not available, an entity must measure fair value using one or more specified techniques. The Company adopted ASU No. 2009-05 on July 1, 2009, as required, and it had no impact on its financial statements.

Recently Issued Accounting Pronouncements

In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets* an amendment of FASB Statement No. 140 (SFAS No. 166), as codified in FASB ASC topic 860, *Transfers and Servicing*. SFAS No. 166 (i) removes the concept of a Qualifying Special Purpose Entity (QSPE) from FASB No. 140, as codified in FASB ASC topic 860, *Transfers and Servicing*, and eliminates the exception from applying FIN 46(R), as codified in FASB ASC topic 810, *Consolidation*, to variable interest entities that are QSPEs, (ii) amends the accounting for transfers of financial assets and (iii) increases the related disclosures about transfers of financial assets. SFAS No. 166 applies to fiscal years beginning on or after November 15, 2009 and transfers that occurred both before and after its effective date. The Company will adopt SFAS No. 166 on January 1, 2010, as required, and does not believe it will have a significant impact on its financial statements.

In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (SFAS No. 167), as codified in FASB ASC topic 810, *Consolidation*. SFAS No. 167 changes the method for determining the primary beneficiary of a variable interest entity (VIE) from a quantitative-based risks and rewards calculation to a qualitative approach to identify which entity has the power to direct the activities of a VIE that most significantly impact the entity s economic performance, subject to certain exceptions. SFAS No. 167 applies prospectively for fiscal years beginning on or after November 15, 2009. The Company will adopt SFAS No. 167 on January 1, 2010, as required, and does not believe it will have a significant impact on its financial statements.

Table of Contents**2. Restructuring Charges**

During 2008 and 2009, the Company implemented various strategic initiatives within the Company's Domestic Car Rental, International Car Rental and Truck Rental segments as part of its five-point plan announced in November 2008. These initiatives are targeted principally at reducing costs, enhancing organizational efficiency and consolidating and rationalizing existing processes and facilities. During the nine months ended September 30, 2009, as part of the five-point plan, the Company eliminated approximately 1,700 positions, resulting in the termination of approximately 1,200 employees within its Domestic Car Rental, International Car Rental and Truck Rental segments and the closure and consolidation of certain facilities, including data center, back-office administrative locations and local market vehicle rental locations. As a result of these actions, the Company incurred \$1 million and \$14 million in restructuring-related charges for the three and nine months ended September 30, 2009, respectively.

At September 30, 2009, the remaining liability relating to restructuring actions amounted to \$5 million, primarily for lease obligation costs. As part of the five-point plan, the Company continues to implement steps to reduce costs and consolidate certain customer facing and non-customer facing activities and locations. The Company expects further restructuring costs of approximately \$3 million to be incurred through December 31, 2009 and is continuing to look at other initiatives expected to reduce costs and may incur further restructuring costs.

The restructuring charges and corresponding utilization are recorded within the Company's segments as follows:

| | Domestic Car Rental | International Car Rental | Truck Rental | Total |
|--|--------------------------------|---|-------------------------|--------------|
| Balance as of January 1, 2009 ^(a) | \$ 12 | \$ 2 | \$ 2 | \$ 16 |
| Incremental charges ^(b) | 12 | 1 | 1 | 14 |
| Cash payment/utilization | (20) | (3) | (2) | (25) |
| Balance at September 30, 2009 | \$ 4 | \$ | \$ 1 | \$ 5 |

The initial recognition of the restructuring charges and the corresponding utilization from inception are summarized by category as follows:

| | Personnel Related | Facility Related^(c) | Asset Impairments^(d) | Total |
|--|------------------------------|---|--|--------------|
| Balance as of January 1, 2009 ^(a) | \$ 10 | \$ 5 | \$ 1 | \$ 16 |
| Incremental charges ^(b) | 10 | 3 | 1 | 14 |
| Cash payment/utilization | (19) | (5) | (1) | (25) |
| Balance September 30, 2009 | \$ 1 | \$ 3 | \$ 1 | \$ 5 |

(a) The January 1, 2009 balance includes the 2008 initial charge that primarily represented severance benefits resulting from the reductions in staff. As of September 30, 2009, the Company had terminated all of these employees.

(b) During the nine months ended September 30, 2009, the Company incurred additional restructuring charges primarily for severance benefits resulting from the reductions in staff and the closure of certain facilities. The Company formally communicated the termination of employment to approximately 1,200 employees, representing a wide range of employee groups. As of September 30, 2009, the Company had terminated substantially all of these employees.

(c) At September 30, 2009, the remaining liability relates primarily to required minimum lease payments.

(d) At September 30, 2009, the remaining asset impairment liability relates primarily to shuttle buses held for sale.

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 | | Nine Months Ended | |
|---|--------------------|------------|-------------------|------------|
| | September 30, | | September 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| Net income (loss) | \$ 57 | \$ (1,006) | \$ 2 | \$ (1,003) |
| Basic weighted average shares outstanding | 102.3 | 101.6 | 102.1 | 101.9 |
| Stock options and restricted stock units ^(a) | 2.2 | | 1.3 | |
| Diluted weighted average shares outstanding | 104.5 | 101.6 | 103.4 | 101.9 |
| <i>Earnings per share:</i> | | | | |
| Basic | \$ 0.55 | \$ (9.91) | \$ 0.02 | \$ (9.84) |
| Diluted | \$ 0.54 | \$ (9.91) | \$ 0.02 | \$ (9.84) |

^(a) As the Company incurred a net loss for the three and nine months ended September 30, 2008, all outstanding stock options and restricted stock units have an anti-dilutive effect and therefore are excluded from the computation of diluted weighted average shares outstanding. Accordingly, basic and diluted weighted average shares outstanding are equal for such periods.

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 | | Nine Months Ended | |
|------------------------|--------------------|------|-------------------|------|
| | September 30, | | September 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| Options ^(a) | 3.4 | 5.3 | 3.4 | 5.3 |

^(a) For the three and nine months ended September 30, 2008, all outstanding stock options were anti-dilutive, as the Company incurred a loss from continuing operations.

4. Acquisitions

Assets acquired and liabilities assumed in business combinations were recorded on the Company's Consolidated Condensed Balance Sheets as of the respective acquisition dates based upon their estimated fair values at such dates. The results of operations of businesses acquired by the Company have been included in the Company's Consolidated Condensed Statements of Operations since their respective dates of acquisition. The excess of the purchase price over the estimated fair values of the underlying assets acquired, including trademark assets related to franchisees, and liabilities assumed is allocated to goodwill. In certain circumstances, the allocations of the excess purchase price are based upon preliminary estimates and assumptions. Accordingly, the allocations may be subject to revision when the Company receives final information, including appraisals and other analyses. Any revisions to the fair values, within the allocation period, will be recorded by the Company as further adjustments to the purchase price allocations.

During the nine months ended September 30, 2009, the Company acquired the exclusive rights to certain Domestic Car Rental franchise territories, primarily due to a legal settlement, resulting in trademark intangible assets of \$1 million. These acquisitions were not significant individually or in the aggregate to the Company's results of operations, financial position or cash flows.

During the nine months ended September 30, 2008, the Company acquired the exclusive rights to certain vehicle rental franchise territories and related assets, which included \$36 million of associated vehicles, for \$87 million in cash, resulting in trademark intangible assets of \$50 million. These acquisitions for 2008 relate primarily to the Company's Domestic Car Rental segment and were not significant individually or in the

aggregate to the Company's results of operations, financial position or cash flows.

Table of Contents**5. Intangible Assets**

Intangible assets consisted of:

| | As of September 30, 2009 | | | As of December 31, 2008 | | |
|--------------------------------------|--------------------------|--------------------------|---------------------|-------------------------|--------------------------|---------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| <i>Amortized Intangible Assets</i> | | | | | | |
| Franchise agreements | \$ 73 | \$ 21 | \$ 52 | \$ 73 | \$ 20 | \$ 53 |
| Customer lists | 19 | 9 | 10 | 19 | 8 | 11 |
| Other | 2 | 1 | 1 | 2 | 1 | 1 |
| | \$ 94 | \$ 31 | \$ 63 | \$ 94 | \$ 29 | \$ 65 |
| <i>Unamortized Intangible Assets</i> | | | | | | |
| Goodwill ^(a) | \$ 76 | | | \$ 75 | | |
| Trademarks ^(b) | \$ 414 | | | \$ 402 | | |

-

(a) The increase in goodwill is due to fluctuations in foreign currency.

(b) The increase in trademarks is primarily due to fluctuations in foreign currency.

Amortization expense relating to all intangible assets was approximately \$1 million during the third quarter of 2009 and 2008. For the nine months ended September 30, 2009 and 2008, amortization expense was approximately \$2 million.

Based on the Company's amortizable intangible assets at September 30, 2009, the Company expects amortization expense of approximately \$1 million for the remainder of 2009 and approximately \$3 million for each of the five fiscal years thereafter.

6. Financial Instruments**Debt Instruments**

The fair value of the Company's debt 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 estimated credit spread that market participants would demand for the instruments as of the measurement date. In situations where long-term borrowings are part of a conduit facility backed by short-term floating rate debt, the Company has determined that its carrying value approximates the fair value of this debt. The carrying amounts of cash and cash equivalents, accounts receivable, program cash and accounts payable and accrued liabilities approximate fair value due to the short-term maturities of these assets and liabilities.

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

| | September 30, 2009 | |
|-----------------------------------|--------------------|----------------------|
| | Carrying Amount | Estimated Fair Value |
| Corporate debt | | |
| Current portion of long-term debt | \$ 12 | \$ 12 |

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

| | | |
|---|-------|-------|
| Long-term debt | 1,873 | 1,684 |
| Debt under vehicle programs | | |
| Vehicle-backed debt due to Avis Budget Rental Car Funding | 3,629 | 3,536 |
| Vehicle-backed debt | 884 | 885 |

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. The Company primarily hedges its foreign currency exposure to the Australian dollar, British pound, Canadian dollar and the New Zealand dollar. The majority of forward contracts do not qualify for hedge accounting treatment. The fluctuations in the fair value of these forward contracts do, however, largely offset the impact of changes in the value of the underlying risk they economically

Table of Contents

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 other comprehensive income to earnings resulting from ineffectiveness during the three and nine months ended September 30, 2009 and 2008 was not material.

The Company uses various hedging strategies including interest rate swaps and interest rate caps to manage its exposure to changes in interest rates. 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 net unrealized losses to other comprehensive income. To manage the risk associated with its floating rate vehicle-backed debt, the Company uses both interest rate swaps and caps. These derivatives include derivatives not designated as a hedge for accounting purposes 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 change in fair value gains or losses related to derivatives not designated as a hedge 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. These instruments are not designated as hedges for accounting purposes and the changes in fair value 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 all derivative instruments with credit-risk-related contingent features that are in a liability position and the aggregate fair value of assets needed to settle these derivatives on September 30, 2009 was approximately \$6 million, for which the Company has posted cash collateral of \$7 million in the normal course of business.

As of September 30, 2009, the Company held derivative instruments with absolute notional values as follows: interest rate caps of \$5.5 billion, interest rate swaps of \$1.6 billion, foreign exchange forward contracts of \$29 million and commodity contracts for the purchase of 3 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 internal 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, credit curves of the Company and counterparties, counterparty creditworthiness and forward and spot currency exchange rates. These factors are applied on a consistent basis and are based upon observable inputs where available.

Fair values of derivative instruments as of September 30, 2009 were as follows:

| | Derivative Assets | | Derivative Liabilities | |
|---|-------------------------------|------------|------------------------------------|------------|
| | Balance Sheet Category | Fair Value | Balance Sheet Category | Fair Value |
| Derivatives designated as hedging instruments ^(a) | | | | |
| Interest rate swaps | | | Other non-current liabilities | \$ 44 |
| Total | | \$ | | \$ 44 |
| Derivatives not designated as hedging instruments ^(a) | | | | |
| Foreign exchange forward contracts | Other current assets | \$ 1 | Other current liabilities | \$ 3 |
| Interest rate contracts | Assets under vehicle programs | 1 | Liabilities under vehicle programs | 3 |
| Total | | \$ 2 | | \$ 6 |

-
(a)

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

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 other comprehensive income, as discussed in Note 15 Stockholders Equity.

The effect of derivative instruments on the Consolidated Condensed Statement of Operations for the three months ended September 30, 2009 was (i) a loss of \$1 million recognized as a component of operating expenses related to foreign

Table of Contents

exchange forward contracts, (ii) an insignificant loss recognized as a component of operating expenses related to our commodity contracts and (iii) a \$2 million loss recognized as a component of interest expense related to interest rate swaps not designated as hedging instruments. The loss on the interest rate swaps had no impact on net interest expense as it was offset by reduced interest expense on the underlying floating rate debt which it hedges.

The effect of derivative instruments on the Consolidated Condensed Statement of Operations for the nine months ended September 30, 2009, was (i) a loss of \$5 million recognized as a component of operating expenses related to foreign exchange forward contracts, (ii) a gain of \$3 million recognized as a component of operating expenses related to our commodity contracts and (iii) a loss of \$4 million recognized as a component of interest expense related to interest rate swaps not designated as hedging instruments. The loss on the interest rate swaps had no impact on net interest expense as it was offset by reduced interest expense on the underlying floating rate debt which it hedges.

The Company also recognized a gain of \$2 million and \$26 million, as a component of other comprehensive income, net of tax, for the three and nine months ended September 30, 2009, respectively, which relates to interest rate swaps designated as cash flow hedges.

7. Vehicle Rental Activities

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

| | As of September 30, 2009 | As of December 31, 2008 |
|--------------------------------|---|--|
| Rental vehicles | \$ 7,005 | \$ 7,502 |
| Less: Accumulated depreciation | (1,081) | (1,219) |
| | 5,924 | 6,283 |
| Vehicles held for sale | 211 | 881 |
| Vehicles, net | \$ 6,135 | \$ 7,164 |

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|-------------|--|-------------|
| | 2009 | 2008 | 2009 | 2008 |
| Depreciation expense | \$ 363 | \$ 448 | \$ 1,096 | \$ 1,267 |
| Lease charges | 23 | 18 | 37 | 34 |
| (Gain) loss on sales of vehicles, net and cost of vehicle disposition | (29) | 7 | (29) | (5) |
| Vehicle depreciation and lease charges, net | \$ 357 | \$ 473 | \$ 1,104 | \$ 1,296 |

For the three months ended September 30, 2009 and 2008, vehicle interest, net on the accompanying Consolidated Condensed Statements of Operations excludes \$38 million and \$33 million, respectively, and for the nine months ended September 30, 2009 and 2008, excludes \$116 million and \$99 million, respectively, of interest expense related to the fixed and floating rate borrowings of the Company's Avis Budget Car Rental, LLC (Avis Budget Car Rental) subsidiary. Such interest is recorded within interest expense related to corporate debt, net on the accompanying Consolidated Condensed Statements of Operations.

8. Income Taxes

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

The Company's effective tax rate from continuing operations for the nine months ended September 30, 2009 is a provision of 81.8%. Such rate differs from the Federal statutory rate of 35.0% primarily due to foreign withholding taxes and the differences in the amount of stock-based compensation recorded for book and tax purposes.

The Company's effective tax rate from continuing operations for the nine months ended September 30, 2008 is a benefit of 14.9%. Such rate differs from the Federal statutory rate of 35.0% primarily due to the impact of the non-deductible portion of the impairment charges, state taxes and differences in the amount of stock-based compensation recorded for book and tax purposes.

Table of Contents**9. Equity Investment**

At September 30, 2009, the Company's equity-method investee and approximate ownership interest, based on outstanding shares, are as follows:

| Company | Percentage Ownership |
|----------------------|---------------------------------|
| Carey Holdings, Inc. | 47.9% |

The Company's investment in Carey Holdings, Inc. (Carey) is recorded within other non-current assets on the Consolidated Condensed Balance Sheets and the Company's share of Carey's operating results is reported within operating expenses on the Consolidated Condensed Statements of Operations. At September 30, 2009, the Company's investment totaled \$34 million, including a net loss of \$9 million, representing the Company's share of Carey's operating results for the nine months ended September 30, 2009. As of September 30, 2009, Carey has not met the financial covenants in certain of its debt agreements and is currently in discussions with its lenders. At December 31, 2008, the Company's investment totaled \$43 million.

10. Other Current Assets

Other current assets consisted of:

| | As of September 30, 2009 | As of December 31, 2008 |
|---|---|--|
| Prepaid expenses | \$ 130 | \$ 127 |
| Receivables from Realogy ^(a) | 52 | 112 |
| Receivables from Wyndham ^(a) | 34 | 70 |
| Other | 47 | 71 |
| | \$ 263 | \$ 380 |

(a) Represents amounts due for certain contingent and other corporate liabilities assumed by Realogy and Wyndham in connection with the Separation and services performed under the Transition Services Agreement entered into in connection with the Separation. These amounts are due from Realogy and Wyndham on demand upon the Company's settlement of the related liability. At September 30, 2009 and December 31, 2008, there are corresponding liabilities recorded within accounts payable and other current liabilities.

11. Other Non-Current Liabilities

Other non-current liabilities consisted of:

| | As of September 30, 2009 | As of December 31, 2008 |
|--|---|--|
| Long-term income taxes payable | \$ 476 | \$ 480 |
| Public liability and property damage insurance liability | 217 | 219 |
| Accrued interest tax contingencies | 126 | 111 |
| Pension liability | 75 | 69 |
| Other | 227 | 242 |
| | \$ 1,121 | \$ 1,121 |

Table of Contents**12. Long-term Debt and Borrowing Arrangements**

Long-term debt consisted of:

| | Maturity Date | As of September 30, 2009 | As of December 31, 2008 |
|--|----------------------|---------------------------------|--------------------------------|
| Floating rate term loan ^(a) | April 2012 | \$ 780 | \$ 787 |
| Floating rate notes | May 2014 | 250 | 250 |
| 7 ⁵ / ₈ % notes | May 2014 | 375 | 375 |
| 7 ³ / ₄ % notes | May 2016 | 375 | 375 |
| Other ^(a) | | 105 | 2 |
| Total long-term debt | | 1,885 | 1,789 |
| Less: Current portion | | 12 | 10 |
| Long-term debt | | \$ 1,873 | \$ 1,779 |

^(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.

In February 2007, the Company agreed to guarantee (the "Guarantee") the payment of principal, premium, if any, and interest on the \$1.0 billion aggregate principal amount of senior notes issued by Avis Budget Car Rental in April 2006 (the "Notes"). The Notes consist of Avis Budget Car Rental's 7⁵/₈% Senior Notes due 2014, 7³/₄% Senior Notes due 2016 and Floating Rate Senior Notes due 2014. In consideration for providing the Guarantee, the Company received \$14 million, before fees and expenses, from certain institutional investors. The \$14 million consideration is being treated as deferred income and being amortized over the life of the debt. As of September 30, 2009, the deferred consideration remaining to be amortized amounted to \$9 million.

Committed Credit Facilities and Available Funding Arrangements

At September 30, 2009, the committed credit facilities available to the Company and/or its subsidiaries at the corporate or Avis Budget Car Rental level were as follows:

| | Total Capacity | Outstanding Borrowings | Letters of Credit Issued | Available Capacity |
|--|-----------------------|-------------------------------|---------------------------------|---------------------------|
| Revolving credit facility ^(a) | \$ 1,150 | \$ 100 | \$ 730 | \$ 320 |
| Letter of credit facility ^(b) | 100 | | 100 | |

^(a) This secured revolving credit facility was entered into by Avis Budget Car Rental in April 2006 and amended in December 2008, has a five year term and as of September 30, 2009 bears interest at one month LIBOR plus 400 basis points. The senior credit facilities, which encompass the floating rate term loan and the 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. There is \$320 million available capacity for the issuance of letters of credit, while the remaining borrowing capacity is \$175 million, as total outstanding borrowings are limited to \$275 million under this secured revolving credit facility.

^(b) Final maturity date is March 2010.

The Company's debt agreements contain restrictive covenants, including restrictions on dividends paid to the Company by certain of its subsidiaries, the incurrence of indebtedness by the Company and certain of its subsidiaries, acquisitions, mergers, liquidations, and sale and leaseback transactions. The senior credit facilities also contain a minimum EBITDA requirement (as defined in the senior credit facilities). As of September 30, 2009, the Company was in compliance with the financial covenants in its senior credit facilities.

Table of Contents**13. 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, 2009 | As of December 31, 2008 |
|---|---|--|
| Debt due to Avis Budget Rental Car Funding ^(a) | \$ 3,629 | \$ 5,142 |
| Budget Truck financing: | | |
| Budget Truck Funding program | 249 | 316 |
| Capital leases | 76 | 126 |
| Other | 562 | 450 |
| | \$ 4,516 | \$ 6,034 |

(a) The decrease reflects reduced borrowings within Domestic Car Rental operations principally due to a decrease in the size of the Company's car rental fleet.

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, 2009:

| | Vehicle-Backed Debt | Capital Leases | Total |
|-----------------------|--------------------------------|-----------------------|-----------------|
| Within 1 year | \$ 1,600 | \$ 66 | \$ 1,666 |
| Between 1 and 2 years | 1,036 | 10 | 1,046 |
| Between 2 and 3 years | 1,525 | | 1,525 |
| Between 3 and 4 years | 75 | | 75 |
| Between 4 and 5 years | | | |
| Thereafter | 204 | | 204 |
| | \$ 4,440 | \$ 76 | \$ 4,516 |

As of September 30, 2009, 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 | Available Capacity |
|---|--|-----------------------------------|-------------------------------|
| Debt due to Avis Budget Rental Car Funding ^(b) | \$ 5,059 | \$ 3,629 | \$ 1,430 |
| Budget Truck financing: | | | |
| Budget Truck Funding program ^(c) | 249 | 249 | |
| Capital leases ^(d) | 76 | 76 | |
| Other ^(e) | 810 | 562 | 248 |
| | \$ 6,194 | \$ 4,516 | \$ 1,678 |

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

- (b) The outstanding debt is collateralized by approximately \$5.1 billion of underlying vehicles and related assets.
- (c) The outstanding debt is collateralized by approximately \$302 million of underlying vehicles and related assets.
- (d) These capital leases are collateralized by approximately \$91 million of underlying vehicles.
- (e) The outstanding debt is collateralized by approximately \$964 million of underlying vehicles and related assets.

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. As of September 30, 2009, the Company was not aware of any instances of non-compliance with such covenants.

14. Commitments and Contingencies

Contingencies

The Internal Revenue Service (IRS) has commenced an audit of the Company's taxable years 2003 through 2006, the year of the Separation. The Company has recorded a \$476 million liability in respect of such taxable years, reflecting the Company's current best estimates of the probable outcome with respect to certain tax positions. The Company believes that its accruals for tax liabilities, including the liabilities for which it is entitled to indemnification from Realogy and

Table of Contents

Wyndham, are adequate for all remaining open years based on its assessment of many factors, including past experience and interpretations of tax law applied to the facts of each matter.

The rules governing taxation are complex and subject to varying interpretations. Therefore, the Company's tax accruals reflect a series of complex judgments about future events and rely heavily on estimates and assumptions. Although the Company believes the estimates and assumptions supporting its tax accruals are reasonable, the potential result of an audit or litigation related to tax could include a range of outcomes, and could result in tax liabilities for the Company that are materially different from those reflected in the Consolidated Condensed Financial Statements. Notwithstanding this, as discussed above, the Company is entitled to indemnification by Realogy and Wyndham for substantially all of its recorded liabilities for open tax matters and therefore does not expect such resolution to have a material impact on its earnings, financial position or cash flows. As further discussed below, Realogy posted a letter of credit in April 2007 for the benefit of the Company related to its indemnification obligations to the Company.

As a result of payments made by Realogy and Wyndham in July 2009, the judgment in respect of the litigation alleging breach of contract and fraud arising out of the acquisition of a business in 1998 which occurred just prior to Cendant's announcement of the discovery of accounting irregularities at its former CUC business units was satisfied. Plaintiffs have petitioned the court for attorneys' fees in the amount of \$33 million and the Company has accrued liabilities of approximately \$12 million in respect of this petition based on its assessment of amounts that plaintiffs are likely to recover. Regardless of the ultimate outcome of the petition for attorney's fees, pursuant to the Separation Agreement (described below), Realogy and Wyndham have assumed all liabilities related to this litigation, as discussed below, and therefore a corresponding receivable has been established for such amount. Additionally, a letter of credit, as discussed below, has been posted by Realogy to cover its share of the estimated liabilities it has assumed related to this litigation. Changes in liabilities related to such legal matters for which the Company is entitled to indemnification, and corresponding changes in the Company's indemnification assets, are shown net on the Consolidated Condensed Statements of Operations. There was no net impact to the Company's financial statements or cash balances as a result of the satisfaction of this judgment or the petition for attorneys' fees.

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). Realogy is entitled to receive 62.5% and Wyndham is entitled to receive 37.5% of the proceeds from certain contingent corporate assets of the Company, which are not primarily related to any of the respective businesses of Realogy, Wyndham, Travelport and/or the Company's vehicle rental operations, arising or accrued on or prior to the separation of Travelport from the Company (Assumed Assets). Additionally, 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. In such event, the Company would be allowed to use the defaulting party's share of the proceeds of any Assumed Assets as a right of offset.

The Company does not believe that the impact of any unresolved proceedings constituting Assumed Liabilities related to the litigation described above or other pre-Separation activities 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, which include liabilities associated with litigation which was retained by the Company in connection with the sale of its former Marketing Services division.

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.

In October 2009, a jury rendered a verdict against the Company regarding an action filed in 2003 by one of the Company's licensees for breach of contract and other claims related to the Company's acquisition of its Budget vehicle rental business in 2002. The Company plans to file a motion to set aside the jury's decision or grant a new trial. The Company has accrued liabilities of \$18 million related to this litigation.

Table of Contents

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 contract disputes, business practices issues, insurance claims, intellectual property claims, environmental issues and other commercial, tax and employment matters, including wage and hour claims. The Company believes that it has adequately accrued for such matters as appropriate or, for matters not requiring accrual, believes that they will not have a material adverse impact on its results of operations, financial position or cash flows based on information currently available. However, 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, which could adversely impact the Company's results of operations or cash flows in a particular reporting period.

Commitments to Purchase Vehicles

The Company maintains agreements with vehicle manufacturers which require the Company 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 Company's featured suppliers for the Avis and Budget brands are General Motors Company and Ford Motor Company, respectively, although the Company purchases vehicles produced by numerous other manufacturers. 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 or guaranteed depreciation programs.

Concentrations

Concentrations of credit risk at September 30, 2009 include (i) risks related to the Company's repurchase or guaranteed depreciation agreements with domestic and foreign car manufacturers, including Chrysler Group LLC, General Motors Company, Hyundai Motor America, Kia Motors America and Ford Motor Company primarily with respect to receivables for program cars that have been returned to the car manufacturers and (ii) risks related to receivables from Realogy and Wyndham of \$506 million and \$310 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 which, as previously discussed, were disposed of during third quarter 2006. These guarantees relate to various real estate operating leases. 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 \$253 million. At September 30, 2009, the liability recorded by the Company in connection with these guarantees was approximately \$5 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. 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.

15. Stockholders' Equity

Dividends

For the nine months ended September 30, 2009 and 2008, the Company did not pay cash dividends.

Share Repurchases

During the nine months ended September 30, 2009, the Company did not repurchase any of its common stock. The Company used approximately \$33 million of available cash to repurchase approximately 2.9 million shares of Avis Budget Group, Inc. common stock under its common stock repurchase program during the nine months ended September 30, 2008.

Table of Contents**Accumulated Other Comprehensive Income (Loss)**

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

| | Currency Translation Adjustments | Unrealized Gains (Losses) on Cash Flow Hedges | Minimum Pension Liability Adjustment | Accumulated Other Comprehensive Income (Loss) |
|-----------------------------|---|--|---|--|
| Balance, January 1, 2009 | \$ 7 | \$ (149) | \$ (52) | \$ (194) |
| Current period change | 97 | 26 | | 123 |
| Balance, September 30, 2009 | \$ 104 | \$ (123) | \$ (52) | \$ (71) |

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.

Total Comprehensive Income

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|---|-------------|--|-------------|
| | 2009 | 2008 | 2009 | 2008 |
| Net income (loss) | \$ 57 | \$ (1,006) | \$ 2 | \$ (1,003) |
| Other comprehensive income (loss): | | | | |
| Currency translation adjustments | 44 | (74) | 97 | (49) |
| Gains (losses) on cash flow hedges, net of tax | 2 | (3) | 26 | (4) |
| | 46 | (77) | 123 | (53) |
| Total comprehensive income (loss) | \$ 103 | \$ (1,083) | \$ 125 | \$ (1,056) |

During the nine months ended September 30, 2009 and 2008, the Company recorded unrealized gains on cash flow hedges of \$42 million (\$26 million, net of tax) and unrealized losses on cash flow hedges of \$4 million, net of tax, respectively, in accumulated other comprehensive income (loss), which primarily related to the derivatives used to manage the interest-rate risk associated with the Company's vehicle-backed debt and the Company's floating rate debt. Such amount in the nine months ended September 30, 2009 and 2008, included \$54 million of unrealized gains and \$11 million of unrealized losses, excluding tax, respectively, on cash flow hedges 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.

16. 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 and is recognized as an expense in the Consolidated Condensed Statement of Operations over the requisite service period. The Company recorded stock-based compensation expense of \$4 million and \$4 million (\$2 million and \$2 million, after tax) during third quarter

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

2009 and 2008, respectively, and \$10 million and \$11 million (\$6 million and \$6 million, after tax) during the nine months ended September 30, 2009 and 2008, 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 2009 and 2008 exercises of stock-based awards did not generate a cash benefit. Approximately \$30 million of tax benefits will be recorded in additional paid-in capital when realized in these jurisdictions.

In first quarter 2009, the Company granted approximately 4 million stock options to its employees under the Company's 2007 Equity and Incentive Plan. The grant consisted of approximately 2.7 million time-vesting stock options, approximately 0.9 million performance-vesting stock options and approximately 0.4 million market-vesting stock options. The performance-vesting and market-vesting stock options also contain a time-vesting component.

Table of Contents

The time-based awards cliff vest on the two-year anniversary of the date of grant while the performance-based awards vest on the one-year anniversary of the date of grant provided certain minimum EBITDA levels are attained. The market-based awards were granted to the Company's CEO and President and vest on the two-year anniversary of the date of grant. The vesting of the market-based awards is conditional on the average closing stock price of the Company's common stock equaling or exceeding \$5 for a 20 consecutive trading day period. This criterion has been met. The option exercise price was set at the closing price of the Company's common stock on the date of the grant and the options expire 10 years from the date of the grant. The performance-vesting stock options expire immediately if vesting criteria are not met by the deadline of such criteria.

The Company used the Black-Scholes option pricing model to calculate the fair value of the time-vesting and performance-vesting stock option awards granted in first quarter 2009. The Company determined the fair value of its market-vesting awards using a Monte Carlo simulation model with assumptions including, but not limited to, the options' expected life and the price volatility of the underlying stock. Based on facts and circumstances at the time of the grant, the Company used a blended volatility rate that combines market-based measures of implied volatility with historical volatility as the most appropriate indicator of the Company's expected volatility. 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 does not currently pay or plan to pay a dividend on its common stock, the expected dividend yield was zero. Based on these assumptions, the fair value of each of the Company's time-vesting, performance-vesting and market-vesting stock options issued in first quarter 2009 was estimated to be approximately \$0.64, \$0.59 and \$0.45, respectively.

The following table presents the assumptions used to estimate the fair value of stock options at the time of the grant using the Black-Scholes and Monte Carlo simulation option pricing models:

| | Three Months Ended March 31, 2009 |
|------------------------------------|--|
| Expected volatility of stock price | 130% |
| Risk-free interest rate | 1.22% - 1.46% |
| Expected life of options | 3-4 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):

| | Nine Months Ended September 30, 2009 | | | |
|--|---|---|------------------------------|--|
| | RSUs | | Options | |
| | Number of RSUs | Weighted Average Grant Price | Number of Options | Weighted Average Exercise Price |
| Balance at January 1, 2009 | 2,673 | \$ 20.18 | 5,003 | \$ 24.90 |
| Granted at fair market value | | | 4,012 | 0.79 |
| Vested/exercised | (612) | 21.96 | | |
| Cancelled | (192) | 22.90 | (1,639) | 25.68 |
| Balance at September 30, 2009 ^(a) | 1,869 | 19.32 | 7,376 | 11.61 |

^(a) As of September 30, 2009, the Company's outstanding RSUs and stock options had an aggregate intrinsic value of \$25 million and \$50 million, respectively. Aggregate unrecognized compensation expense related to RSUs and unvested stock options amounted to \$28 million and \$2 million, respectively, as of September 30, 2009. The balance of RSUs at September 30, 2009 consisted of 1,029,000 units related to time-based awards and 840,000 units related to performance-based awards.

Table of Contents

The table below summarizes information regarding the Company's outstanding stock options as of September 30, 2009 (in thousands of shares):

| Range of Exercise Prices | Weighted Average Contractual Life (years) | Number of Options |
|---------------------------------|--|--------------------------|
| Less than \$5.00 | 9.3 | 4,007 |
| \$5.01 to \$10.00 | | |
| \$10.01 to \$15.00 | 1.2 | 738 |
| \$15.01 to \$20.00 | 2.0 | 314 |
| \$20.01 to \$25.00 | 0.8 | 178 |
| \$25.01 to \$30.00 | 1.9 | 1,167 |
| \$30.01 and above | 0.3 | 972 |
| | 5.6 | 7,376 |

As of September 30, 2009, the Company also had approximately 0.5 million outstanding stock appreciation rights with a weighted average exercise price of \$24.40, a weighted average remaining contractual life of 3.8 years and unrecognized compensation expense of \$1 million.

17. 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 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 EBITDA, which is defined as income from continuing operations before non-vehicle related depreciation and amortization, any impairment of goodwill, other intangible asset or equity investment, non-vehicle related interest and income taxes. The Company's presentation of EBITDA may not be comparable to similarly-titled measures used by other companies.

| | Three Months Ended September 30, | | | |
|---|---|---------------|-----------------|-------------------|
| | 2009 | | 2008 | |
| | Revenues | EBITDA | Revenues | EBITDA |
| Domestic Car Rental | \$ 1,109 | \$ 102 | \$ 1,319 | \$ 67 |
| International Car Rental | 250 | 56 | 265 | 60 |
| Truck Rental | 106 | 13 | 116 | 6 |
| Corporate and Other ^(a) | | (25) | 1 | (3) |
| Total Company | \$ 1,465 | 146 | \$ 1,701 | 130 |
| Less: Non-vehicle related depreciation and amortization | | 26 | | 23 |
| Interest expense related to corporate debt, net | | 37 | | 31 |
| Impairment | | | | 1,262 |
| Income (loss) before income taxes | | \$ 83 | | \$ (1,186) |

| | Nine Months Ended September 30, | | | |
|--------------------------|--|---------------|-----------------|---------------|
| | 2009 | | 2008 | |
| | Revenues | EBITDA | Revenues | EBITDA |
| Domestic Car Rental | \$ 3,100 | \$ 128 | \$ 3,695 | \$ 128 |
| International Car Rental | 597 | 93 | 725 | 116 |

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

| | | | | |
|---|----------|-------|----------|------------|
| Truck Rental | 273 | 12 | 300 | 4 |
| Corporate and Other ^(a) | 1 | (36) | 3 | (11) |
| Total Company | \$ 3,971 | 197 | \$ 4,723 | 237 |
| Less: Non-vehicle related depreciation and amortization | | 71 | | 62 |
| Interest expense related to corporate debt, net | | 114 | | 92 |
| Impairment | | 1 | | 1,262 |
| Income (loss) before income taxes | | \$ 11 | | \$ (1,179) |

-

^(a) Includes unallocated corporate overhead, the elimination of transactions between segments and an \$18 million charge recorded in third quarter 2009 for an adverse litigation judgment against the Company for a breach-of-contract claim filed in 2003. Since December 31, 2008, there have been no significant changes in segment assets with the exception of the Company's Domestic Car Rental and International Car Rental segments' assets under vehicle programs. At September 30, 2009,

Table of Contents

segment assets under vehicle programs amounted to approximately \$5.0 billion and \$956 million for Domestic Car Rental and International Car Rental, respectively, and at December 31, 2008, \$6.5 billion and \$780 million, for Domestic Car Rental and International Car Rental, respectively.

18. Guarantor and Non-Guarantor Consolidating Condensed Financial Statements

The following consolidating financial information presents Consolidating Condensed Statements of Operations for the three months and nine months ended September 30, 2009 and 2008, Consolidating Condensed Balance Sheets as of September 30, 2009 and December 31, 2008, and Consolidating Condensed Statements of Cash Flows for the nine months ended September 30, 2009 and 2008 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, 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 Notes issued by Avis Budget Car Rental. See Note 12 Long-term Debt and Borrowing Arrangements for additional description of these Notes. The Notes have separate investors than the equity investors of the Company and the Notes are guaranteed by 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 Operations, certain expenses incurred by the Subsidiary Issuers are allocated to the guarantor and non-guarantor subsidiaries.

In September 2007, Avis Budget Car Rental transferred certain assets and liabilities to Wizard Services, Inc. (Wizard Services), a newly created subsidiary. Wizard Services executed a Supplemental Indenture in January 2009 to become a subsidiary guarantor under the Indenture governing the Notes. Accordingly, financial information for Wizard Services for the three and nine months ended September 30, 2009 and as of September 30, 2009, is presented in the Guarantor Subsidiaries column. Previously, such information was included in the Subsidiary Issuers column. Financial information for the three and nine months ended September 30, 2008 and as of December 31, 2008 for Wizard Services has been recast to reflect Wizard Services as a Guarantor for comparability purposes.

Table of Contents**Consolidating Condensed Statements of Operations**

Three Months Ended September 30, 2009

| | Parent | Subsidiary Issuers | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|---------------|---------------------------|-------------------------------|-----------------------------------|---------------------|--------------|
| Revenues | | | | | | |
| Vehicle rental | \$ | \$ | \$ 948 | \$ 175 | \$ | \$ 1,123 |
| Other | | | 246 | 494 | (398) | 342 |
| Net revenues | | | 1,194 | 669 | (398) | 1,465 |
| Expenses | | | | | | |
| Operating | 5 | 21 | 567 | 138 | | 731 |
| Vehicle depreciation and lease charges, net | | | 306 | 349 | (298) | 357 |
| Selling, general and administrative | 3 | | 131 | 21 | | 155 |
| Vehicle interest, net | | | 69 | 24 | (18) | 75 |
| Non-vehicle related depreciation and amortization | | | 24 | 2 | | 26 |
| Interest expense related to corporate debt, net: | | | | | | |
| Interest expense | | 38 | | (1) | | 37 |
| Intercompany interest expense (income) | | (38) | 38 | | | |
| Restructuring charges | | | 1 | | | 1 |
| Total expenses | 8 | 21 | 1,136 | 533 | (316) | 1,382 |
| Income (loss) before income taxes and equity in earnings of subsidiaries | | | | | | |
| | (8) | (21) | 58 | 136 | (82) | 83 |
| Provision (benefit) for income taxes | 1 | (7) | 17 | 15 | | 26 |
| Equity in earnings (loss) of subsidiaries | 66 | 80 | 39 | | (185) | |
| Net income (loss) | \$ 57 | \$ 66 | \$ 80 | \$ 121 | \$ (267) | \$ 57 |

24

Table of Contents

Nine Months Ended September 30, 2009

| | Parent | Subsidiary Issuers | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|--------|-----------------------|---------------------------|-------------------------------|--------------|----------|
| Revenues | | | | | | |
| Vehicle rental | \$ | \$ | \$ 2,625 | \$ 411 | \$ | \$ 3,036 |
| Other | 1 | | 685 | 1,407 | (1,158) | 935 |
| Net revenues | 1 | | 3,310 | 1,818 | (1,158) | 3,971 |
| Expenses | | | | | | |
| Operating | 12 | 25 | 1,644 | 339 | | 2,020 |
| Vehicle depreciation and lease charges, net | | | 964 | 957 | (817) | 1,104 |
| Selling, general and administrative | 8 | | 359 | 54 | | 421 |
| Vehicle interest, net | | | 199 | 58 | (42) | 215 |
| Non-vehicle related depreciation and amortization | | | 66 | 5 | | 71 |
| Interest expense related to corporate debt, net: | | | | | | |
| Interest expense | | 116 | | (2) | | 114 |
| Intercompany interest expense (income) | | (116) | 116 | | | |
| Restructuring charges | | | 13 | 1 | | 14 |
| Impairment | | 1 | | | | 1 |
| Total expenses | 20 | 26 | 3,361 | 1,412 | (859) | 3,960 |
| Income (loss) before income taxes and equity in earnings of subsidiaries | | | | | | |
| | (19) | (26) | (51) | 406 | (299) | 11 |
| Provision (benefit) for income taxes | (5) | (5) | (15) | 34 | | 9 |
| Equity in earnings (loss) of subsidiaries | 16 | 37 | 73 | | (126) | |
| Net income (loss) | \$ 2 | \$ 16 | \$ 37 | \$ 372 | \$ (425) | \$ 2 |

Table of Contents

Three Months Ended September 30, 2008

| | Parent | Subsidiary Issuers | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|-------------------|-------------------------------|-----------------------------------|---------------------------------------|---------------------|-------------------|
| Revenues | | | | | | |
| Vehicle rental | \$ | \$ | \$ 1,113 | \$ 185 | \$ | \$ 1,298 |
| Other | | | 294 | 552 | (443) | 403 |
| Net revenues | | | 1,407 | 737 | (443) | 1,701 |
| Expenses | | | | | | |
| Operating | 1 | 3 | 702 | 141 | | 847 |
| Vehicle depreciation and lease charges, net | | | 415 | 359 | (301) | 473 |
| Selling, general and administrative | 3 | | 146 | 22 | | 171 |
| Vehicle interest, net | | | 66 | 51 | (43) | 74 |
| Non-vehicle related depreciation and amortization | | | 21 | 2 | | 23 |
| Interest expense related to corporate debt, net: | | | | | | |
| Interest expense | | 32 | | (1) | | 31 |
| Intercompany interest expense (income) | | (32) | 32 | | | |
| Restructuring charges | | | 5 | 1 | | 6 |
| Impairment | 18 | 13 | 1,213 | 18 | | 1,262 |
| Total expenses | 22 | 16 | 2,600 | 593 | (344) | 2,887 |
| Income (loss) before income taxes and equity in earnings of subsidiaries | | | | | | |
| | (22) | (16) | (1,193) | 144 | (99) | (1,186) |
| Provision (benefit) for income taxes | (12) | (4) | (183) | 19 | | (180) |
| Equity in earnings (loss) of subsidiaries | (996) | (984) | 26 | | 1,954 | |
| Net income (loss) | \$ (1,006) | \$ (996) | \$ (984) | \$ 125 | \$ 1,855 | \$ (1,006) |

Table of Contents

Nine Months Ended September 30, 2008

| | Parent | Subsidiary Issuers | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
|---|-------------------|-------------------------------|-----------------------------------|---------------------------------------|---------------------|-------------------|
| Revenues | | | | | | |
| Vehicle rental | \$ | \$ | \$ 3,106 | \$ 505 | \$ | \$ 3,611 |
| Other | 1 | | 813 | 1,584 | (1,286) | 1,112 |
| Net revenues | 1 | | 3,919 | 2,089 | (1,286) | 4,723 |
| Expenses | | | | | | |
| Operating | 3 | 10 | 2,021 | 401 | | 2,435 |
| Vehicle depreciation and lease charges, net | | | 1,128 | 983 | (815) | 1,296 |
| Selling, general and administrative | 8 | | 441 | 64 | | 513 |
| Vehicle interest, net | | | 214 | 161 | (141) | 234 |
| Non-vehicle related depreciation and amortization | | | 56 | 6 | | 62 |
| Interest expense related to corporate debt, net: | | | | | | |
| Interest expense | (1) | 96 | | (3) | | 92 |
| Intercompany interest expense (income) | | (96) | 96 | | | |
| Restructuring charges | | | 5 | 1 | | 6 |
| Impairment | 18 | 13 | 1,213 | 18 | | 1,262 |
| Separation cost | | 2 | | | | 2 |
| Total expenses | 28 | 25 | 5,174 | 1,631 | (956) | 5,902 |
| Income (loss) before income taxes and equity in earnings of subsidiaries | | | | | | |
| | (27) | (25) | (1,255) | 458 | (330) | (1,179) |
| Provision (benefit) for income taxes | (14) | (1) | (209) | 48 | | (176) |
| Equity in earnings (loss) of subsidiaries | (990) | (966) | 80 | | 1,876 | |
| Net income (loss) | \$ (1,003) | \$ (990) | \$ (966) | \$ 410 | \$ 1,546 | \$ (1,003) |

Table of Contents**Consolidating Condensed Balance Sheets**

As of September 30, 2009

| | Parent | Subsidiary Issuers | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
|--|---------------|--------------------|------------------------|----------------------------|-------------------|-----------------|
| Assets | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | \$ 7 | \$ 268 | \$ 6 | \$ 189 | \$ | \$ 470 |
| Receivables, net | | 64 | 155 | 88 | | 307 |
| Deferred income taxes | 1 | | 106 | 4 | (22) | 89 |
| Other current assets | 87 | 65 | 69 | 72 | (30) | 263 |
| Total current assets | 95 | 397 | 336 | 353 | (52) | 1,129 |
| Property and equipment, net | | 54 | 344 | 41 | | 439 |
| Deferred income taxes | 12 | 242 | 275 | 17 | | 546 |
| Goodwill | | | 74 | 2 | | 76 |
| Other intangibles, net | | 7 | 386 | 84 | | 477 |
| Other non-current assets | 765 | 60 | 12 | 54 | (52) | 839 |
| Intercompany receivables (payables) | (29) | 615 | (849) | 263 | | |
| Investment in subsidiaries | 124 | 922 | 2,132 | | (3,178) | |
| Total assets exclusive of assets under vehicle programs | 967 | 2,297 | 2,710 | 814 | (3,282) | 3,506 |
| Assets under vehicle programs: | | | | | | |
| Program cash | | | | 7 | | 7 |
| Vehicles, net | | 14 | 149 | 5,972 | | 6,135 |
| Receivables from vehicle manufacturers and other | | | 1 | 162 | | 163 |
| Investment in Avis Budget Rental Car Funding (AESOP) LLC-related party | | | | 151 | | 151 |
| | | 14 | 150 | 6,292 | | 6,456 |
| Total assets | \$ 967 | \$ 2,311 | \$ 2,860 | \$ 7,106 | \$ (3,282) | \$ 9,962 |
| Liabilities and stockholders equity | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable and other current liabilities | \$ 100 | \$ 200 | \$ 485 | \$ 111 | \$ (50) | \$ 846 |
| Current portion of long-term debt | | 10 | 2 | | | 12 |
| Total current liabilities | 100 | 210 | 487 | 111 | (50) | 858 |
| Long-term debt | | 1,872 | 1 | | | 1,873 |
| Other non-current liabilities | 638 | 119 | 289 | 124 | (49) | 1,121 |
| Total liabilities exclusive of liabilities under vehicle programs | 738 | 2,201 | 777 | 235 | (99) | 3,852 |
| Liabilities under vehicle programs: | | | | | | |
| Debt | | 6 | 76 | 805 | | 887 |

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

| | | | | | | |
|---|---------------|-----------------|-----------------|-----------------|-------------------|-----------------|
| Due to Avis Budget Rental Car Funding (AESOP) | | | | | | |
| LLC-related party | | | | 3,629 | | 3,629 |
| Deferred income taxes | | 1,085 | | 181 | | 1,266 |
| Other | | | | 99 | | 99 |
| | | 6 | 1,161 | 4,714 | | 5,881 |
| Total stockholders' equity | 229 | 104 | 922 | 2,157 | (3,183) | 229 |
| Total liabilities and stockholders' equity | \$ 967 | \$ 2,311 | \$ 2,860 | \$ 7,106 | \$ (3,282) | \$ 9,962 |

Table of Contents

As of December 31, 2008

| | Parent | Subsidiary Issuers | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
|--|---------------|--------------------|------------------------|----------------------------|-------------------|------------------|
| Assets | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | \$ 11 | \$ 51 | \$ 15 | \$ 181 | \$ | \$ 258 |
| Receivables, net | | 108 | 179 | 73 | | 360 |
| Deferred income taxes | 1 | | 95 | 3 | (24) | 75 |
| Other current assets | 189 | 66 | 88 | 41 | (4) | 380 |
| Total current assets | 201 | 225 | 377 | 298 | (28) | 1,073 |
| Property and equipment, net | | 60 | 385 | 40 | | 485 |
| Deferred income taxes | 12 | 217 | 255 | 19 | | 503 |
| Goodwill | | | 74 | 1 | | 75 |
| Other intangibles, net | | 7 | 387 | 73 | | 467 |
| Other non-current assets | 765 | 99 | 21 | 4 | | 889 |
| Intercompany receivables (payables) | (29) | 794 | (1,075) | 310 | | |
| Investment in subsidiaries | (19) | 752 | 1,961 | | (2,694) | |
| Total assets exclusive of assets under vehicle programs | 930 | 2,154 | 2,385 | 745 | (2,722) | 3,492 |
| Assets under vehicle programs: | | | | | | |
| Program cash | | | | 12 | | 12 |
| Vehicles, net | | | 174 | 6,990 | | 7,164 |
| Receivables from vehicle manufacturers and other | | | | 533 | | 533 |
| Investment in Avis Budget Rental Car Funding (AESOP) LLC-related party | | | | 117 | | 117 |
| | | | 174 | 7,652 | | 7,826 |
| Total assets | \$ 930 | \$ 2,154 | \$ 2,559 | \$ 8,397 | \$ (2,722) | \$ 11,318 |
| Liabilities and stockholders equity | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable and other current liabilities | \$ 205 | \$ 234 | \$ 410 | \$ 80 | \$ (28) | \$ 901 |
| Current portion of long-term debt | | 10 | | | | 10 |
| Total current liabilities | 205 | 244 | 410 | 80 | (28) | 911 |
| Long-term debt | | 1,779 | | | | 1,779 |
| Other non-current liabilities | 632 | 125 | 251 | 113 | | 1,121 |
| Total liabilities exclusive of liabilities under vehicle programs | 837 | 2,148 | 661 | 193 | (28) | 3,811 |
| Liabilities under vehicle programs: | | | | | | |
| Debt | | 50 | 126 | 716 | | 892 |
| Due to Avis Budget Rental Car Funding (AESOP) LLC-related party | | | | 5,142 | | 5,142 |

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

| | | | | | | |
|---|---------------|-----------------|-----------------|-----------------|-------------------|------------------|
| Deferred income taxes | | | 1,020 | 168 | | 1,188 |
| Other | | | | 192 | | 192 |
| | | 50 | 1,146 | 6,218 | | 7,414 |
| Total stockholders' equity | 93 | (44) | 752 | 1,986 | (2,694) | 93 |
| Total liabilities and stockholders' equity | \$ 930 | \$ 2,154 | \$ 2,559 | \$ 8,397 | \$ (2,722) | \$ 11,318 |

Table of Contents**Consolidating Condensed Statements of Cash Flows**

Nine Months Ended September 30, 2009

| | Parent | Subsidiary Issuers | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
|--|---------------|---------------------------|-------------------------------|-----------------------------------|---------------------|----------------|
| Net cash provided by (used in) operating activities | \$ (4) | \$ 105 | \$ (40) | \$ 1,073 | \$ 116 | \$ 1,250 |
| Investing activities | | | | | | |
| Property and equipment additions | | (9) | (9) | (1) | | (19) |
| Proceeds received on asset sales | | 9 | | 1 | | 10 |
| Proceeds received from Realogy and Wyndham, net | 2 | | | | | 2 |
| Other, net | | (2) | | | | (2) |
| Net cash provided by (used in) investing activities exclusive of vehicle programs | 2 | (2) | (9) | | | (9) |
| <i>Vehicle programs:</i> | | | | | | |
| Decrease in program cash | | | | 5 | | 5 |
| Investment in vehicles | | (28) | | (4,991) | | (5,019) |
| Proceeds received on disposition of vehicles | | 63 | 6 | 5,355 | | 5,424 |
| Distribution from Avis Budget Rental Car Funding (AESOP) LLC-related party | | | | 19 | | 19 |
| | | 35 | 6 | 388 | | 429 |
| Net cash provided by (used in) investing activities | 2 | 33 | (3) | 388 | | 420 |
| Financing activities | | | | | | |
| Proceeds from borrowings | | 100 | | | | 100 |
| Principal payments on borrowings | | (7) | (1) | | | (8) |
| Net intercompany transactions | | 34 | 85 | (3) | (116) | (2) |
| Other, net | (2) | | | | | (2) |
| Net cash provided by (used in) financing activities exclusive of vehicle programs | (2) | 127 | 84 | (3) | (116) | 90 |
| <i>Vehicle programs:</i> | | | | | | |
| Proceeds from borrowings | | | | 5,728 | | 5,728 |
| Principal payments on borrowings | | (42) | (50) | (7,243) | | (7,335) |
| Net change in short-term borrowing | | | | 36 | | 36 |
| Other, net | | (6) | | | | (6) |
| | | (48) | (50) | (1,479) | | (1,577) |
| Net cash provided by (used in) financing activities | (2) | 79 | 34 | (1,482) | (116) | (1,487) |
| Effect of changes in exchange rates on cash and cash equivalents | | | | 29 | | 29 |

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

| | | | | | |
|--|------|--------|------|--------|--------|
| Net increase (decrease) in cash and cash equivalents | (4) | 217 | (9) | 8 | 212 |
| Cash and cash equivalents, beginning of period | 11 | 51 | 15 | 181 | 258 |
| Cash and cash equivalents, end of period | \$ 7 | \$ 268 | \$ 6 | \$ 189 | \$ 470 |

30

Table of Contents

Nine Months Ended September 30, 2008

| | Parent | Subsidiary Issuers | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total |
|--|---------------|---------------------------|-------------------------------|-----------------------------------|---------------------|----------------|
| Net cash provided by (used in) operating activities | \$ (10) | \$ 119 | \$ 134 | \$ 1,505 | \$ (330) | \$ 1,418 |
| Investing activities | | | | | | |
| Property and equipment additions | | (14) | (43) | (8) | | (65) |
| Net assets acquired, net of cash acquired, and acquisition-related payments | | | (72) | (16) | | (88) |
| Proceeds received on asset sales | | 8 | 3 | 2 | | 13 |
| Payments received from Realogy and Wyndham, net | 3 | | | | | 3 |
| Other, net | (1) | (3) | (9) | (1) | | (14) |
| Net cash provided by (used in) investing activities exclusive of vehicle programs | 2 | (9) | (121) | (23) | | (151) |
| <i>Vehicle programs:</i> | | | | | | |
| Decrease in program cash | | | | 1 | | 1 |
| Investment in vehicles | | (98) | (9) | (6,916) | | (7,023) |
| Proceeds received on disposition of vehicles | | 104 | 2 | 4,915 | | 5,021 |
| Investment in Avis Budget Rental Car Funding (AESOP) LLC | | | | (343) | | (343) |
| | | 6 | (7) | (2,343) | | (2,344) |
| Net cash provided by (used in) investing activities | 2 | (3) | (128) | (2,366) | | (2,495) |
| Financing activities | | | | | | |
| Principal payments on borrowings | (1) | (6) | | | | (7) |
| Repurchases of common stock | (33) | | | | | (33) |
| Net intercompany transactions | 16 | (21) | 36 | (361) | 330 | |
| Net cash provided by (used in) financing activities exclusive of vehicle programs | (18) | (27) | 36 | (361) | 330 | (40) |
| <i>Vehicle programs:</i> | | | | | | |
| Proceeds from borrowings | | 30 | | 6,806 | | 6,836 |
| Principal payments on borrowings | | (24) | (40) | (5,863) | | (5,927) |
| Net change in short-term borrowings | | | | 388 | | 388 |
| Other, net | | (6) | (2) | | | (8) |
| | | | (42) | 1,331 | | 1,289 |
| Net cash provided by (used in) financing activities | (18) | (27) | (6) | 970 | 330 | 1,249 |
| Effect of changes in exchange rates on cash and cash equivalents | | | | (12) | | (12) |

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

| | | | | | | |
|--|-------|--------|-------|--------|----|--------|
| Net increase (decrease) in cash and cash equivalents | (26) | 89 | | 97 | | 160 |
| Cash and cash equivalents, beginning of period | 37 | 99 | 12 | 66 | | 214 |
| Cash and cash equivalents, end of period | \$ 11 | \$ 188 | \$ 12 | \$ 163 | \$ | \$ 374 |

Table of Contents

19. Subsequent Events

The Company evaluated events through November 3, 2009 for consideration as a subsequent event to be included in its September 30, 2009 Condensed Consolidated Financial Statements issued November 3, 2009. Other than the item discussed in Note 14 Commitments and Contingencies, the following represent the Company's subsequent events.

On October 1, 2009, the Company's Avis Budget Rental Car Funding (AESOP) LLC subsidiary issued \$450 million in asset-backed notes to provide funds for repayment of maturing vehicle-backed debt and the acquisition of rental cars in the United States. The expected final payment date for these notes is in February 2013.

On October 13, 2009, the Company completed an offering of \$345 million of its 3.50% Senior Convertible Notes due 2014. The initial conversion rate for the notes is 61.5385 shares of common stock per \$1,000 principal amount of the notes, which is equal to an initial conversion price of approximately \$16.25 per share. The notes mature October 1, 2014. The Company simultaneously entered into a warrant transaction and purchased a convertible note hedge, which effectively increased the conversion premium of the notes, from the Company's perspective, to \$22.50 per share.

On October 29, 2009, the Company's Avis Budget Rental Car Funding (AESOP) LLC subsidiary completed the annual renewal of its asset-backed conduit financing, which provides a portion of the financing for the Company's car rental fleet in the United States. This financing was previously comprised of two facilities, with an aggregate maximum available amount of \$1.35 billion and \$1.1 billion, respectively. At the Company's request, the two facilities were combined into one facility, with a maximum available amount of \$1.95 billion and an expiration date of October 28, 2010. In connection with such renewal, the Company reduced its borrowing costs associated with this asset-backed conduit financing.

* * * *

Table of Contents

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our Consolidated Condensed Financial Statements and accompanying Notes thereto included elsewhere herein and with our 2008 Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 26, 2009 (the "2008 Form 10-K"). Unless otherwise noted, all dollar amounts in tables are in millions and those relating to our results of operations are presented before taxes.

We operate two of the most recognized brands in the global vehicle rental industry through Avis Rent A Car System, LLC and Budget Rent A Car System, Inc. We provide car and truck rentals and ancillary services to businesses and consumers in the United States and internationally.

We operate 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 light commercial users in the United States.

Our revenues are derived principally from car and truck rentals in our Company-owned operations and include (i) time and mileage (T&M) fees charged to our customers for vehicle rentals, (ii) reimbursement from our customers for certain operating expenses we incur, including gasoline and vehicle licensing fees, as well as airport concession fees, which we pay in exchange for the right to operate at airports and other locations, and (iii) sales of loss damage waivers and insurance and rentals of navigation units and other items in conjunction with vehicle rentals. We also earn royalty revenue from our franchisees in conjunction with their vehicle rental transactions.

Car rental volumes are closely associated with the travel industry, particularly airline passenger volumes, or enplanements. Because we operate primarily in the United States and generate a significant portion of our revenue from our on-airport operations, we expect that our ability to generate revenue growth will be somewhat dependent on increases in domestic enplanements. We have also experienced significant per-unit fleet cost increases over the last four years, which have negatively impacted our margins. Accordingly, our ability to achieve profit margins consistent with prior periods remains dependent on our ability to successfully manage our costs and to implement changes in our pricing programs. Our vehicle rental operations are seasonal. Historically, the third quarter of the year has been our strongest quarter due to the increased level of leisure travel and household moving activity. Any occurrence that disrupts rental activity during the third quarter could have a disproportionate adverse effect on our results of operations. We have a partially variable cost structure and routinely adjust the size and, therefore, the cost of our rental fleet in response to fluctuations in demand. However, certain expenses, such as rent, are fixed and cannot be reduced in response to seasonal fluctuations in our operations.

We believe that the following factors, among others, may affect and/or have impacted our financial condition and results of operations:

Domestic enplanements, which have declined so far in 2009 compared to 2008;

Rising per-unit car fleet costs and changes in conditions in the used vehicle marketplace;

Changes in the financial condition of vehicle manufacturers;

Difficulty in achieving sustained pricing increases;

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

Our expansion in off-airport or local vehicle rentals, including insurance replacement rentals;

Increases in borrowing costs, and decreases in market appetite for, corporate and vehicle-related debt;

Changes in foreign exchange rates; and

Demand for truck rentals, which have been impacted by the decline in economic activity.

Many of these factors have caused our results for the nine months ended September 30, 2009 to be significantly lower than for the nine months ended September 30, 2008, excluding the 2008 impairment charge. Due to reduced demand for travel

Table of Contents

services, rising borrowing costs and other factors, there can be no assurance that we will be able to satisfy the minimum EBITDA requirement and other covenants contained in our senior credit facilities and our asset-backed car rental conduit facilities. Failure to comply with such covenants could significantly impact our liquidity if we were unable to obtain an amendment or waiver or were unable to refinance or obtain a replacement for such facilities. The financial covenants to our senior credit facilities were amended in December 2008 and commencing with our fiscal quarter ending June 30, 2010, the requirement to maintain a quarterly minimum trailing twelve month EBITDA (as defined in our senior credit facilities) under these financial covenants will cease and be replaced by the maximum leverage ratio that was in place prior to the December 2008 amendments. There can also be no assurance that past results will be indicative of results we will achieve in 2009 or future periods. We have also been impacted by, and may be further impacted by, the recent financial market disruptions as we rely heavily on financing for our operations, particularly asset-backed financing. See Risk Factors set forth in Item 1A of our 2008 Form 10-K.

RESULTS OF OPERATIONS

Discussed below are our consolidated results of operations and the results of operations for each of our reportable segments.

We measure performance using the following key operating statistics: (i) rental days, which represents the total number of days (or portion thereof) a vehicle was rented, and (ii) T&M revenue per rental day, which represents the average daily revenue we earned from rental and mileage fees charged to our customers. Our car rental operating statistics (rental days and T&M revenue per rental day) are all calculated based on the actual rental of the vehicle during a 24-hour period. We believe that this methodology, while conservative, provides our management with the most relevant statistics in order to manage the business. Our calculation may not be comparable to other companies' calculation of similarly-titled statistics.

The reportable segments presented below represent our operating segments for which separate financial information is available and is utilized on a regular basis by our chief operating decision maker to assess performance and to allocate resources. In identifying our reportable segments, we also consider the nature of services provided by our operating segments. Management evaluates the operating results of each of our reportable segments based upon revenue and EBITDA, which we define as income from continuing operations before non-vehicle related depreciation and amortization, any impairment of goodwill, other intangible asset or equity investment, non-vehicle related interest and income taxes. Our presentation of EBITDA may not be comparable to similarly-titled measures used by other companies.

THREE MONTHS ENDED SEPTEMBER 30, 2009 VS. THREE MONTHS ENDED SEPTEMBER 30, 2008

Our consolidated results of operations comprised the following:

| | Three Months Ended September 30, | | |
|---|---|-------------|---------------|
| | 2009 | 2008 | Change |
| Net revenues | \$ 1,465 | \$ 1,701 | \$ (236) |
| Total expenses | 1,382 | 2,887 | (1,505) |
| Income (loss) before income taxes | 83 | (1,186) | 1,269 |
| Provision for (benefit from) income taxes | 26 | (180) | 206 |
| Net income (loss) | \$ 57 | \$ (1,006) | \$ 1,063 |

During third quarter 2009, our net revenues decreased \$236 million (14%) principally due to (i) a 14% decrease in T&M revenue in our car rental operations resulting primarily from a 21% decrease in car rental days, partially offset by a 9% increase in T&M revenue per day, (ii) a 15% decrease in total ancillary revenues, also resulting from decreased car rental days, and (iii) a 10% decrease in truck rental T&M revenue. In addition, the revenue decrease includes a negative impact of \$14 million related to the effect of foreign currency exchange rate fluctuations on the translation of our international operations' results into U.S. dollars.

Total expenses decreased \$1,505 million (52%) principally due to (i) the absence of a \$1,262 million charge recorded during third quarter 2008 for the impairment of goodwill, our tradename asset and our investment in Carey Holdings, Inc. (Carey), (ii) a \$134 million (16%) decrease in direct operating expenses largely resulting from the decrease in car rental days and reduced staffing levels, (iii) a \$116 million (25%) decrease in vehicle depreciation, vehicle interest and lease charges resulting primarily from a 21% decline in our average car rental fleet and a 4% decline in per-unit fleet costs in light of increased residual values on vehicles sold in the used-vehicle market, and (iv) a \$16 million (9%) decrease in selling, general and administrative expenses mainly related to reduced marketing and commission expenditures. The decrease in total expenses

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

includes a positive impact from foreign currency exchange rates of \$4 million, including our foreign exchange earnings hedges, and also reflects numerous actions taken in late 2008 and during the nine months ended September 30, 2009 to reduce non-volume-related expenses. These year-over-year expense decreases were partially offset by (i) an \$18 million charge recorded in third quarter 2009 related to an adverse judgment against us in a breach-of-contract claim filed by a licensee in 2003 and (ii) a \$6 million increase in interest expense on corporate debt related to the December 2008

Table of Contents

amendments to our senior credit facilities.

As a result of these items, partially offset by a \$206 million increase in our provision for income taxes, our net income increased \$1,063 million.

Our effective tax rate for continuing operations was a provision of 31.3% for third quarter 2009 compared to a benefit of 15.2% for third quarter 2008. The unusually low tax rate for third quarter 2008 resulted primarily from the non-deductible portion of the impairment charge.

Following is a discussion of the results of each of our reportable segments during the three months ended September 30:

| | Revenues | | | EBITDA | | |
|---|----------|----------|-------------|--------|------------|-------------|
| | 2009 | 2008 | % Change | 2009 | 2008 | % Change |
| Domestic Car Rental | \$ 1,109 | \$ 1,319 | (16%) | \$ 102 | \$ 67 | 52% |
| International Car Rental | 250 | 265 | (6) | 56 | 60 | (7) |
| Truck Rental | 106 | 116 | (9) | 13 | 6 | 117 |
| Corporate and Other ^(a) | | 1 | * | (25) | (3) | * |
| Total Company | \$ 1,465 | \$ 1,701 | | 146 | 130 | |
| Less: Non-vehicle related depreciation and amortization | | | | 26 | 23 | |
| Interest expense related to corporate debt, net | | | | 37 | 31 | |
| Impairment ^(b) | | | | | 1,262 | |
| Income (loss) before income taxes | | | | \$ 83 | \$ (1,186) | |

(*) Not meaningful.

(a) Includes unallocated corporate overhead, the elimination of transactions between segments and an \$18 million charge recorded in third quarter 2009 for an adverse litigation judgment against us for a breach-of-contract claim filed in 2003.

(b) In third quarter 2008, we recorded a charge of \$1,262 million for the impairment of goodwill, our tradename asset and our investment in Carey.

Domestic Car Rental

Revenues decreased \$210 million (16%) while EBITDA increased \$35 million (52%) in third quarter 2009 compared with 2008. The decrease in revenues was primarily due to lower demand for car rental services, partially offset by improved pricing for car rentals. The EBITDA increase was primarily due to decreased operating expenses and lower fleet costs.

The revenue decrease of \$210 million was comprised of a \$156 million (15%) decrease in T&M revenue and a \$54 million (18%) decrease in ancillary revenues. The decrease in T&M revenue was principally the result of a 23% decrease in rental days, partially offset by a 9% year-over-year increase in T&M revenue per day. The \$54 million decrease in ancillary revenues was also primarily due to the decline in rental days and reflected (i) a \$25 million decrease in gasoline sales, which was more than offset in EBITDA by \$42 million of decreased gasoline expense, (ii) a \$17 million decrease in GPS rentals, counter sales of insurance and other items (although revenues per transaction increased year-over-year), and (iii) a \$12 million decrease in airport concession and vehicle licensing revenues, \$7 million of which was offset in EBITDA by lower airport concession and vehicle licensing fees remitted to airport and other regulatory authorities.

We continued to achieve significant cost savings during the third quarter as a result of our cost savings initiatives. EBITDA reflected a \$93 million (14%) decrease in operating expenses, including (i) a \$63 million decrease in expenses associated with car rental volume and fleet size, primarily related to agency operator commissions, shuttling expenses, credit card fees and other items, (ii) an \$18 million decrease in employee costs, rents and other expenses related primarily to reduced domestic staffing levels and the closure of unprofitable locations, and (iii) a \$13 million decrease in selling, general and administration expenses related to decreases in marketing and commission expenditures, most of which are volume-related, and other items due primarily to management's actions to reduce expenditures. EBITDA also reflected \$103 million (26%) of decreased fleet depreciation and lease charges resulting from the 23% decrease in the average size of our domestic rental fleet and a 5% decline

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

in per-unit fleet costs in light of increased residual values on vehicles sold in the used-vehicle market. The decreases in expenses were slightly offset by a \$5 million increase in vehicle interest expense.

International Car Rental

Revenues and EBITDA decreased \$15 million (6%) and \$4 million (7%), respectively, in third quarter 2009 compared with third quarter 2008, primarily due to the impact of foreign currency exchange rate movements and lower demand for car rental services.

Table of Contents

The revenue decrease of \$15 million was comprised of a \$10 million (5%) decrease in car rental T&M revenue and a \$5 million (6%) decrease in ancillary revenues. Virtually all of the decline in revenue was due to foreign currency exchange rates, impacting T&M revenue by \$10 million and ancillary revenues by \$4 million, and was partially offset in EBITDA by the opposite impact on expenses of \$4 million, including our foreign exchange earnings hedges. The decrease in T&M revenue was also driven by a 9% decrease in rental days and was partially offset by a 4% increase in T&M revenue per day (9% increase excluding foreign-exchange effects). The \$5 million decrease in ancillary revenues was due to the decline in rental days and reflected (i) a \$3 million decrease in counter sales of insurance, GPS rentals and other items (although revenues per transaction increased year-over-year) and (ii) a \$2 million decrease in gasoline sales, which was offset in EBITDA by \$4 million in lower gasoline costs.

EBITDA reflected a \$5 million (5%) decrease in operating expenses which related primarily to a decrease in agency operator commissions, credit card fees, maintenance and damage, vehicle licensing and other costs amid lower rental volumes, offset by (i) a \$2 million increase in insurance costs and (ii) a \$2 million increase in facility and management fees, and other expenses. EBITDA also benefited from \$7 million (12%) of decreased fleet depreciation and lease charges, primarily reflecting a 12% decrease in the average size of our international rental fleet.

Truck Rental

Revenues decreased \$10 million (9%) while EBITDA increased \$7 million (117%) in third quarter 2009 compared with third quarter 2008.

The revenue decrease was primarily due to a decline of \$9 million (10%) in T&M revenue, which reflected a 9% year-over-year decrease in rental days while T&M revenue per day remain virtually unchanged year-over-year. EBITDA benefited from (i) a decline of \$8 million (26%) in fleet depreciation, interest and lease charges reflecting lower per-unit fleet costs and a decrease in the average size of our truck rental fleet and (ii) a decrease of \$7 million (10%) in direct operating costs primarily due to decreased employee costs and decreased operating commissions related to lower transaction volumes.

NINE MONTHS ENDED SEPTEMBER 30, 2009 VS. NINE MONTHS ENDED SEPTEMBER 30, 2008

Our consolidated results of operations comprised the following:

| | Nine Months Ended September 30, | | |
|---|--|-------------|---------------|
| | 2009 | 2008 | Change |
| Net revenues | \$ 3,971 | \$ 4,723 | \$ (752) |
| Total expenses | 3,960 | 5,902 | (1,942) |
| Income (loss) before income taxes | 11 | (1,179) | 1,190 |
| Provision for (benefit from) for income taxes | 9 | (176) | 185 |
| Net income (loss) | \$ 2 | \$ (1,003) | \$ 1,005 |

During the nine months ended September 30, 2009, our net revenues decreased \$752 million (16%) principally due to (i) a 16% decrease in T&M revenue in our car rental operations resulting primarily from a 20% decrease in domestic and international car rental days, partially offset by a 4% increase in T&M revenue per day, (ii) a 16% decrease in ancillary revenues, also resulting from decreased car rental days, and (iii) a 9% decrease in truck rental T&M revenue. In addition, the total revenue decrease includes a negative impact of \$98 million related to the effect of foreign currency exchange rate fluctuations on the translation of our international operations results into U.S. dollars.

Total expenses decreased \$1,942 million (33%) principally due to (i) the absence of a \$1,262 million charge recorded during third quarter 2008 for the impairment of goodwill, our tradename asset and our investment in Carey, (ii) a \$433 million (18%) decrease in direct operating expenses largely resulting from the 20% decrease in car rental days, reduced staffing levels and other cost-saving actions, (iii) \$192 million (15%) lower vehicle depreciation and lease charges resulting from a 19% decline in our average car rental fleet, partially offset by a 5% increase in per-unit fleet costs, (iv) a \$92 million (18%) decrease in selling, general and administrative expenses mainly related to reduced marketing and commission expenditures, and (v) \$19 million (8%) lower vehicle interest expense resulting from the reduction in our average car rental fleet. The decrease in total expenses includes a positive impact from foreign currency exchange rates of \$77 million, including our foreign exchange earnings hedges, and also reflects numerous actions taken in late 2008 and the nine months ended September 30, 2009 to reduce non-volume-related expenses. These year-over-year expense decreases were partially offset by (i) a \$22 million increase in interest expense on corporate debt related to the December 2008 amendments to our senior credit facilities, (ii) an \$18 million charge recorded in third quarter 2009

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

related to an adverse judgment against us in a breach-of-contract claim filed by a licensee in 2003, (iii) a \$9 million increase in non-vehicle related depreciation and amortization expense and (iv) an \$8 million increase in restructuring costs, primarily for severance costs tied to headcount reductions. As a result of these items, offset by a \$185 million increase in our provision for income taxes, net income increased \$1,005 million for the nine months ended September 30, 2009.

Table of Contents

Our effective tax rate was a provision of 81.8% for the nine months ended September 30, 2009, which was primarily due to foreign withholding taxes and the differences in the amount of stock-based compensation recorded for book and tax purposes, and a benefit of 14.9% for the nine months ended September 30, 2008, which resulted from the non-deductible portion of the impairment charge we incurred.

Following is a discussion of the results of each of our reportable segments during the nine months ended September 30:

| | Revenues | | | EBITDA | | |
|---|-----------------|-----------------|-------------|--------------|-------------------|-------------|
| | 2009 | 2008 | % Change | 2009 | 2008 | % Change |
| Domestic Car Rental | \$ 3,100 | \$ 3,695 | (16%) | \$ 128 | \$ 128 | 0% |
| International Car Rental | 597 | 725 | (18) | 93 | 116 | (20) |
| Truck Rental | 273 | 300 | (9) | 12 | 4 | 200 |
| Corporate and Other ^(a) | 1 | 3 | * | (36) | (11) | * |
| Total Company | \$ 3,971 | \$ 4,723 | | 197 | 237 | |
| Less: Non-vehicle related depreciation and amortization | | | | 71 | 62 | |
| Interest expense related to corporate debt, net | | | | 114 | 92 | |
| Impairment ^(b) | | | | 1 | 1,262 | |
| Income (loss) before income taxes | | | | \$ 11 | \$ (1,179) | |

(*) Not meaningful.

(a) Includes unallocated corporate overhead, the elimination of transactions between segments and an \$18 million charge recorded in third quarter 2009 related to an adverse litigation judgment against us for a breach-of-contract claim filed in 2003.

(b) In first quarter 2009, we recorded an approximately \$1 million charge for the impairment of an investment. In third quarter 2008, we recorded a charge of \$1,262 million for the impairment of goodwill, our tradename asset and our investment in Carey.

Domestic Car Rental

Revenues decreased \$595 million (16%) while EBITDA remained unchanged in the nine months ended September 30, 2009 compared with the same period in 2008, primarily due to decreased demand for car rental services offset by reduced costs.

The revenue decrease of \$595 million was comprised of a \$458 million (16%) decrease in T&M revenue and a \$137 million (17%) decrease in ancillary revenues. The decrease in T&M revenue was principally the result of a 21% decrease in rental days, partially offset by a 7% year-over-year increase in T&M revenue per day. The \$137 million decrease in ancillary revenues was also primarily due to the decline in rental days and reflected (i) a \$72 million decrease in gasoline sales, which was more than offset in EBITDA by \$105 million of decreased gasoline expense, (ii) a \$37 million decrease in airport concession and vehicle licensing revenues, which was offset by \$30 million lower airport concession and vehicle licensing fees remitted to airport and other regulatory authorities, and (iii) a \$28 million decrease in counter sales of insurance, GPS rentals and other items (although revenues per transaction increased year-over-year).

We have aggressively reduced costs during the nine months ended September 30, 2009 in response to the sharp decline in demand. EBITDA reflected a \$310 million (16%) decrease in operating expenses including (i) a \$161 million decrease in maintenance and damage, agency operator commissions, shuttling, credit card fees, and other costs amid lower rental volumes, (ii) a \$75 million decrease in selling, general and administrative expenses related to decreases in marketing and commission expenditures, most of which are volume-related, and other items due primarily to management's actions to reduce expenditures and (iii) a \$66 million decrease in employee costs, rents and other expenses related primarily to reduced staffing levels and the closure of unprofitable locations. EBITDA also benefited from \$150 million (14%) of decreased fleet depreciation and lease charges reflecting a 20% decrease in the average size of our domestic rental fleet and an 8% increase in per-unit fleet costs. The decreases in expenses were partially offset by \$5 million of increased restructuring costs recorded in the nine months ended September 30, 2009 related to the Company's previously announced cost reduction initiatives.

International Car Rental

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

Revenues and EBITDA decreased \$128 million (18%) and \$23 million (20%), respectively, in the nine months ended September 30, 2009 compared with nine months ended September 30, 2008, primarily due to the impact of foreign currency exchange rate movements and lower demand for car rentals.

The revenue decrease of \$128 million was comprised of a \$94 million (19%) decrease in car rental T&M revenue and a \$34 million (15%) decrease in ancillary revenues. The total decline in revenue includes a \$98 million decrease related to foreign currency exchange rates, impacting T&M revenue by \$68 million and ancillary revenues by \$30 million, and was largely offset in EBITDA by the opposite impact on expenses of \$77 million, including our foreign exchange earnings hedges. The decrease in T&M revenue was principally driven by an 11% decrease in T&M revenue per day, all of which is due to

Table of Contents

movements in foreign currency exchange rates, and a 9% decrease in rental days. The \$34 million decrease in ancillary revenues was due to the decline in rental days and reflected (i) a \$20 million decrease in counter sales of insurance, GPS rentals and other items, (ii) an \$8 million decrease in gasoline sales, which was completely offset in EBITDA by lower gasoline costs, and (iii) a \$6 million decrease in airport concession and vehicle licensing revenues, which was more than offset by \$16 million lower airport concession and vehicle licensing fees remitted to airport and other regulatory authorities.

EBITDA reflects a \$58 million (17%) decrease in operating expenses including (i) a \$31 million decrease in agency operator commissions, maintenance and damage, vehicle licensing, credit card fees and other costs amid lower rental volumes, (ii) a \$11 million decrease in selling, general and administrative expenses related primarily to decreased marketing and commission expenditures, (iii) a \$10 million decrease in employee costs and other expenses related primarily to reduced staffing levels and (iv) a \$7 million decrease in vehicle interest expense related to lower fleet levels. EBITDA also benefited from \$28 million (17%) of decreased fleet depreciation and lease charges, reflecting a 9% decrease in the average size of our international rental fleet and a 9% decrease in per-unit fleet costs.

Truck Rental

Revenues decreased \$27 million (9%) while EBITDA increased \$8 million in the nine months ended September 30, 2009 compared with the same period in 2008.

The revenue decrease was primarily due to a decline of \$22 million (9%) in T&M revenue and a \$5 million (8%) decrease in ancillary revenues. The decrease in T&M revenue was principally driven by a 9% decrease in rental days and a 1% decrease in T&M revenue per day. EBITDA benefited from (i) a decrease of \$23 million (11%) in operating expenses primarily due to reduced employee costs related to lower staffing levels and (ii) \$18 million (21%) less fleet depreciation, interest and lease charges reflecting lower per-unit fleet costs. The increase in EBITDA was partially offset by (i) a \$5 million increase in insurance-related expenses and (ii) a \$1 million increase in restructuring charges related to the Company's cost reduction initiatives.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

We present separately the financial data of our vehicle programs. These programs are distinct from our other activities as 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 our vehicle programs. We believe it is appropriate to segregate the financial data of our vehicle programs because, ultimately, the source of repayment of such debt is the realization of such assets.

FINANCIAL CONDITION

| | September 30, 2009 | December 31, 2008 | Change |
|---|-------------------------------|------------------------------|---------------|
| Total assets exclusive of assets under vehicle programs | \$ 3,506 | \$ 3,492 | \$ 14 |
| Total liabilities exclusive of liabilities under vehicle programs | 3,852 | 3,811 | 41 |
| Assets under vehicle programs | 6,456 | 7,826 | (1,370) |
| Liabilities under vehicle programs | 5,881 | 7,414 | (1,533) |
| Stockholders' equity | 229 | 93 | 136 |

Total assets exclusive of assets under vehicle programs increased \$14 million due to (i) a \$212 million increase in cash and cash equivalents (see Liquidity and Capital Resources - Cash Flows for a detailed discussion) and (ii) a \$57 million increase in deferred income taxes, offset by (i) a \$117 million decrease in other current assets primarily due to a decrease in receivables due from Realogy and Wyndham related to the satisfaction of a litigation judgment, for which we were entitled to indemnification by Realogy and Wyndham, (ii) a \$53 million decrease in accounts receivable, primarily due to the collection of incentives from manufacturers, (iii) a \$50 million decrease in other non-current assets, mainly related to deferred compensation and deferred financing costs and (iv) a \$46 million decrease in property and equipment.

Total liabilities exclusive of liabilities under vehicle programs increased \$41 million primarily due to a \$96 million increase in corporate debt offset by a \$55 million decrease in accounts payable and other current liabilities primarily due to the satisfaction of a litigation judgment, for which we were entitled to indemnification by Realogy and Wyndham.

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

Assets under vehicle programs decreased approximately \$1.4 billion primarily due to (i) an approximate \$1 billion decrease in our net vehicles and (ii) a \$370 million decrease in receivables from vehicle manufacturers.

Table of Contents

Liabilities under vehicle programs decreased approximately \$1.5 billion reflecting a decrease in our borrowings due to reductions in the size of our car rental fleet to match reduced car rental demand. See **Liquidity and Capital Resources Debt and Financing Arrangements** for a detailed account of the change in our debt related to vehicle programs.

Stockholders' equity increased \$136 million, primarily due to a \$123 million increase in accumulated other comprehensive income resulting from currency translation and net unrealized gains in our cash flow hedges.

LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of liquidity are cash on hand and our ability to generate cash through operations and financing activities, as well as available funding arrangements and committed credit facilities, each of which is discussed below.

CASH FLOWS

At September 30, 2009, we had \$470 million of cash on hand, an increase of \$212 million from \$258 million at December 31, 2008. The following table summarizes such increase:

| | Nine Months Ended September 30, | | |
|---|--|-------------|---------------|
| | 2009 | 2008 | Change |
| Cash provided by (used in): | | | |
| Operating activities | \$ 1,250 | \$ 1,418 | \$ (168) |
| Investing activities | 420 | (2,495) | 2,915 |
| Financing activities | (1,487) | 1,249 | (2,736) |
| Effect of exchange rate changes | 29 | (12) | 41 |
| Net change in cash and cash equivalents | \$ 212 | \$ 160 | \$ 52 |

During the nine months ended September 30, 2009, we generated \$168 million less cash from operating activities in comparison to the same period in 2008. This change principally resulted from revenue and volume declines in the nine months ended September 30, 2009, partially offset by lower expenses driven by our cost savings initiatives.

We used approximately \$2.9 billion less cash in investing activities during the nine months ended September 30, 2009 compared with the same period in 2008. This change primarily reflects the activities of our vehicle programs, which (i) used approximately \$2 billion less cash due to our purchase of substantially fewer vehicles than in the prior-year period, (ii) received \$403 million of incremental payments on disposition of vehicles and (iii) benefited from the absence of the \$343 million capital contribution to Avis Budget Rental Car Funding (AESOP) LLC in the prior year, as well as the use of \$88 million less cash for acquisitions and \$46 million less cash for capital expenditures. We anticipate aggregate capital expenditures will approximate \$40-45 million in 2009.

We generated approximately \$2.7 billion less cash from financing activities during the nine months ended September 30, 2009 compared with the same period in 2008. This change primarily reflects reduced borrowings and increased principal repayments of debt under our vehicle programs, slightly offset by (i) \$100 million in borrowings under our corporate credit facilities and (ii) \$33 million used for the repurchase of common stock in the prior year.

Table of Contents**DEBT AND FINANCING ARRANGEMENTS**

At September 30, 2009, we had approximately \$6.4 billion of indebtedness (including corporate indebtedness of approximately \$1.9 billion and debt under vehicle programs of approximately \$4.5 billion).

Corporate indebtedness consisted of:

| | Maturity Date | As of September 30, 2009 | As of December 31, 2008 | Change |
|--|----------------------|---------------------------------|--------------------------------|---------------|
| Floating rate term loan ^{(a) (b)} | April 2012 | \$ 780 | \$ 787 | \$ (7) |
| Floating rate notes ^(a) | May 2014 | 250 | 250 | |
| 7 ⁵ / ₈ % notes | May 2014 | 375 | 375 | |
| 7 ³ / ₄ % notes | May 2016 | 375 | 375 | |
| Other | | 105 | 2 | 103 |
| | | \$ 1,885 | \$ 1,789 | \$ 96 |

^(a) As of September 30, 2009 the floating rate term loan and floating rate notes bear interest at three month LIBOR plus 375 basis points and three month LIBOR plus 250 basis points, respectively. We use various hedging strategies, including derivative instruments, to manage a portion of the risks associated with our floating rate debt.

^(b) 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 following table summarizes the components of our debt under vehicle programs (including related party debt due to Avis Budget Rental Car Funding (AESOP) LLC (Avis Budget Rental Car Funding)):

| | As of September 30, 2009 | As of December 31, 2008 | Change |
|---|---------------------------------|--------------------------------|---------------|
| Debt due to Avis Budget Rental Car Funding ^(a) | \$ 3,629 | \$ 5,142 | \$ (1,513) |
| Budget Truck financing: | | | |
| Budget Truck Funding program | 249 | 316 | (67) |
| Capital leases | 76 | 126 | (50) |
| Other | 562 | 450 | 112 |
| | \$ 4,516 | \$ 6,034 | \$ (1,518) |

^(a) The decrease reflects reduced borrowings within Domestic Car Rental operations principally due to a decrease in the size of our car rental fleet.

As of September 30, 2009, the committed credit facilities available to us and/or our subsidiaries at the corporate or Avis Budget Car Rental, LLC level were as follows:

| Total Capacity | Outstanding Borrowings | Letters of Credit Issued | Available Capacity |
|-----------------------|-------------------------------|---------------------------------|---------------------------|
|-----------------------|-------------------------------|---------------------------------|---------------------------|

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

| | | | | |
|--|----------|--------|--------|--------|
| Revolving credit facility ^(a) | \$ 1,150 | \$ 100 | \$ 730 | \$ 320 |
| Letter of credit facility ^(b) | 100 | | 100 | |

^(a) This secured revolving credit facility was entered into by Avis Budget Car Rental in April 2006 and amended in December 2008, has a five year term and as of September 30, 2009 bears interest at one-month LIBOR plus 400 basis points. The senior credit facilities, which encompass the floating rate term loan and our revolving credit facility are secured by pledges of all of the capital stock of substantially all of our 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 our intellectual property and certain other real and personal property. There is \$320 million available capacity for the issuance of letters of credit, while the remaining borrowing capacity is \$175 million, as total outstanding borrowings are limited to \$275 million under this credit facility.

^(b) Final maturity date is March 2010.

Table of Contents

The following table presents available funding under our debt arrangements related to our vehicle programs at September 30, 2009:

| | Total Capacity ^(a) | Outstanding Borrowings | Available Capacity |
|---|--|-----------------------------------|-------------------------------|
| Debt due to Avis Budget Rental Car Funding ^(b) | \$ 5,059 | \$ 3,629 | \$ 1,430 |
| Budget Truck financing | | | |
| Budget Truck Funding program ^(c) | 249 | 249 | |
| Capital leases ^(d) | 76 | 76 | |
| Other ^(e) | 810 | 562 | 248 |
| | \$ 6,194 | \$ 4,516 | \$ 1,678 |

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

(b) The outstanding debt is collateralized by approximately \$5.1 billion of underlying vehicles and related assets.

(c) The outstanding debt is collateralized by approximately \$302 million of underlying vehicles and related assets.

(d) These capital leases are collateralized by approximately \$91 million of underlying vehicles.

(e) The outstanding debt is collateralized by approximately \$964 million of underlying vehicles and related assets.

LIQUIDITY RISK

Our primary liquidity needs include the payment of operating expenses, servicing of corporate and vehicle related debt and procurement of rental vehicles to be used in our operations. Our primary sources of funding are operating revenue, cash received upon sale of vehicles, and borrowings under our vehicle-backed borrowing arrangements and our revolving credit facility.

As discussed above, as of September 30, 2009, we have cash and cash equivalents of \$470 million, available letter of credit capacity under our revolving credit facility of \$320 million, and available capacity under our vehicle programs of approximately \$1.7 billion.

Our liquidity position has been and may be negatively affected by the recent financial market disruptions and the current downturn in the U.S. and worldwide economies, which have resulted in and may result in further unfavorable conditions in the vehicle rental industry, in the asset-backed financing market, and in the credit markets generally. These factors have contributed to and could further contribute to changes in the debt ratings assigned to us by credit rating agencies and the cost of our borrowings. Additionally, a downturn in the U.S. economy or a disruption in the credit markets could impact our liquidity due to (i) decreased demand and pricing for vehicles in the used vehicle market, (ii) increased costs associated with, and/or reduced capacity or increased collateral needs under, our financings, such as the increased costs, including additional collateral requirements, incurred in connection with the 2008 amendments to our asset-backed conduit facilities and increased costs and decreased capacity that resulted from the 2008 amendments to our senior credit facilities, (iii) the adverse impact of vehicle manufacturers, including Chrysler Group LLC, General Motors Company, Hyundai Motor America, Kia Motors America or Ford Motor Company, being unable or unwilling to honor its obligations to repurchase or guarantee the depreciation on the related program vehicles, (iv) any potential disruption to our ability to obtain financing due to negative credit events specific to us or affecting the overall debt market, (v) the impact of an insolvency event or actual or potential default by any of the financial guaranty firms that have insured a portion of our outstanding vehicle-backed debt and (vi) the effect of any of Realogy, Wyndham or Travelport being unable or unwilling to honor its obligations under the Separation Agreement. Financial guaranty firms Ambac Assurance Corporation, MBIA Insurance Corporation, Assured Guaranty Corp. and Syncora Guarantee Inc. (formerly XL Capital Assurance Inc.) currently provide financial guaranties for approximately \$1.45 billion, \$725 million, \$250 million and \$125 million, respectively, of our domestic term asset-backed car rental financing.

Our liquidity position also may be negatively affected if we are unable to remain in compliance with the financial and other covenants associated with our senior credit facilities and other borrowings. As of September 30, 2009, we were in compliance with the financial covenants in our senior credit facilities. Commencing with our fiscal quarter ending June 30, 2010, the requirement to maintain a quarterly minimum trailing twelve month EBITDA under the financial covenants of our amended senior credit facilities will be replaced by the maximum leverage ratio that was in place prior to the December 2008 amendment. For additional information regarding our liquidity risks, please see Part I, Item 1A, Risk Factors of our 2008 Form 10-K and this Quarterly Report on Form 10-Q.

CONTRACTUAL OBLIGATIONS

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

Our future contractual obligations have not changed significantly from the amounts reported within our 2008 Form 10-K with the exception of our commitment to purchase vehicles, which decreased by approximately \$200 million from December 31, 2008 to approximately \$4.4 billion at September 30, 2009. Changes to our obligations related to corporate indebtedness and

Table of Contents

debt under vehicle programs are presented above within the section titled "Liquidity and Capital Resources - Debt and Financing Arrangements" and also within Notes 12 and 13 to our Consolidated Condensed Financial Statements.

As of September 30, 2009, our liability recorded for tax obligations was \$476 million. The Internal Revenue Service has commenced an audit of our taxable years 2003 through 2006, the year of the Separation. We are entitled to indemnification by Realogy and Wyndham for substantially all of our recorded liabilities for open tax matters and therefore do not expect such resolution to have a significant impact on our earnings, financial position or cash flows. Realogy posted a letter of credit in April 2007 for the benefit of the Company related to its indemnification obligations to the Company. For additional information regarding our contractual obligations, including information regarding the letter of credit referred to above, see Note 14 to our Consolidated Condensed Financial Statements.

ACCOUNTING POLICIES

The results of the majority of our recurring operations are recorded in our financial statements using accounting policies that are not particularly subjective, nor complex. However, in presenting our financial statements in conformity with generally accepted accounting principles, we are required to make estimates and assumptions that affect the amounts reported therein. Several of the estimates and assumptions that we are required to make pertain to matters that are inherently uncertain as they relate to future events. Presented within the section titled "Critical Accounting Policies" of our 2008 Form 10-K are the accounting policies (related to goodwill and other indefinite-lived intangible assets, vehicles, income taxes, financial instruments and public liability, property damage and other insurance liabilities) that we believe require subjective and/or complex judgments that could potentially affect 2009 reported results. There have been no significant changes to those accounting policies or our assessment of which accounting policies we would consider to be critical accounting policies.

During 2009, we adopted the following standards as a result of the issuance of new accounting pronouncements:

FASB Staff Position FAS 141(R)-1, "Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies", as codified in FASB ASC topic 805, *Business Combinations*

FASB Staff Position FAS 115-2 and FAS 124-2, "Recognition and Presentation of Other-Than-Temporary Impairments", as codified in FASB ASC topic 320, *Investments - Debt and Equity Securities*

FASB Staff Position FAS 157-4, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly", as codified in FASB ASC topic 820, *Fair Value Measurements and Disclosures*

FASB Staff Position FAS 107-1 and APB 28-1, "Interim Disclosures about Fair Value of Financial Instruments", as codified in FASB ASC topic 825, *Financial Instruments*

SFAS No. 165, "Subsequent Events", as codified in FASB ASC topic 855, *Subsequent Events*

SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162", as codified in FASB ASC topic 105, *Generally Accepted Accounting Principles*

ASU No. 2009-05, "Measuring Liabilities at Fair Value"

We will adopt the following recently issued accounting pronouncements as required:

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

SFAS No. 166, *Accounting for Transfers of Financial Assets-an amendment to FASB statement No. 140* , as codified in ASC topic 860, *Transfers and Servicing*

SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* , as codified in ASC topic 810, *Consolidations*
For detailed information regarding these pronouncements and the impact thereof on our business, see Note 1 to our Consolidated Condensed Financial Statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We assess our market risk based on changes in interest rates and foreign currency exchange rates utilizing a sensitivity analysis that measures the potential impact in earnings, fair values and cash flows based on a hypothetical 10% change (increase and decrease) in interest rates and foreign currency exchange rates. We used September 30, 2009 market rates to perform a sensitivity analysis separately for each of our market risk exposures. The estimates assume instantaneous, parallel shifts in interest rate yield curves and exchange rates. We have determined, through such analyses, that the impact of a 10% change in interest rates and foreign currency exchange rates on our earnings, fair values and cash flows would not be material.

Table of Contents

Item 4. Controls and Procedures

- (a) *Disclosure Controls and Procedures.* Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this quarterly report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective.
- (b) *Internal Controls Over Financial Reporting.* There have been no changes in our internal control over financial reporting (as such term is defined in rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

In October 2009, a judgment was entered against us in the amount of \$16 million following the completion of a jury trial for damages related to breach of contract 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 our licensees related to the acquisition of our Budget vehicle rental business in 2002. We believe the verdict in this case is unsupported by the evidence. Accordingly, we plan to file a motion to set aside the jury's decision or grant a new trial, and if necessary, appeal this judgment.

With respect to *CSI Investments et al. v. Cendant et al.* (S.D.N.Y) (the Credentials Litigation), an action for breach of contract and fraud arising out of Cendant's acquisition of the Credentials business in 1998, the plaintiffs petitioned the court for attorneys' fees in the amount of \$33 million in September 2009. Pursuant to the Separation Agreement, Realogy and Wyndham are responsible for 62.5% and 37.5%, respectively, of the liability related to the Credentials Litigation. There was no net impact to our financial statements or cash balances as a result of the petition for attorneys' fees.

Item 1A. Risk Factors

The Company has had no material changes in its risk factors from those previously reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 other than the following:

Conversion of our convertible senior notes due 2014, and the note hedge and warrant transactions entered into in connection with the issuance of the notes, may have an adverse impact on the price of our common stock.

Any of the following transactions and activities could adversely affect the value of our common stock in connection with our recent issuance of \$345 million of 3.5% convertible senior notes due 2014 and the note hedge and warrant transactions entered into in connection with such issuance:

the conversion of some or all of our convertible senior notes, any sales by noteholders in the public market of our common stock issued upon such conversion and any selling of our common stock (including short selling) due to the existence of the notes;

the exercise of some or all of the warrants, any sales by warrantholders in the public market of our common stock issued upon such exercise of the warrants and any selling of our common stock (including short selling) due to the existence of the warrants; and

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

the entry into, or the modification or the unwinding of, various derivative transactions with respect to our common stock by the counterparties in connection with their obligations under the note hedge and warrant transactions.

Item 6. Exhibits

See Exhibit Index.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AVIS BUDGET GROUP, INC.

Date: November 3, 2009

/s/ David B. Wyshner
David B. Wyshner
Executive Vice President and

Chief Financial Officer

Date: November 3, 2009

/s/ Brett D. Weinblatt
Brett D. Weinblatt
Senior Vice President and

Chief Accounting Officer

Table of Contents

Exhibit Index

| Exhibit No. | Description |
|--------------------|--|
| 2.1 | Separation and Distribution Agreement by and among Cendant Corporation*, Realogy Corporation, Wyndham Worldwide Corporation and Travelport, Inc., dated as of July 27, 2006 (Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K dated August 1, 2006). |
| 2.2 | Letter Agreement dated August 23, 2006 relating to the Separation and Distribution Agreement by and among Realogy Corporation, Cendant Corporation*, Wyndham Worldwide Corporation and Travelport Inc. dated as of July 27, 2006 (Incorporated by reference to Exhibit 2.2 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2007). |
| 3.1 | Amended and Restated Certificate of Incorporation of the Company (Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated September 5, 2006). |
| 3.2 | Amended and Restated By-Laws of the Company (Incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K dated March 27, 2009). |
| 4.1 | Indenture dated as of October 13, 2009, by and between Avis Budget Group, Inc. and The Bank of Nova Scotia Trust Company of New York, as Trustee (Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated October 13, 2009). |
| 10.1 | Second Amendment, dated as of August 27, 2009, to the Series 2006-1 Supplement dated as of January 19, 2006, between Avis Budget Rental Car Funding (AESOP) LLC and The Bank of New York Mellon Trust Company, N.A. (as successor in interest to The Bank of New York Trust Company, N.A.), as trustee and Series 2006-1 Agent. |
| 10.2 | Third Amendment, dated as of August 27, 2009, to the Series 2005-1 Supplement dated as of February 25, 2005, between Avis Budget Rental Car Funding (AESOP) LLC, and The Bank of New York Mellon Trust Company, N.A. (as successor in interest to The Bank of New York), as trustee and Series 2005-1 Agent. |
| 10.3 | Amendment No. 5 to the Series 2006-1 Supplement, dated as of August 21, 2009, between Centre Point Funding, LLC, as Issuer, Budget Truck Rental, LLC, as Administrator, Deutsche Bank Securities, Inc., Riverside Funding LLC, Deutsche Bank AG, New York Branch, Sheffield Receivables Corporation, Barclays Bank PLC and The Bank of New York Mellon Trust Company, N.A. (f/k/a The Bank of New York Trust Company, N.A.), in its capacity as Trustee. |
| 10.4 | Supply and Feature Agreement dated October 30, 2007, by and among Ford Motor Company, Avis Budget Car Rental, LLC and AESOP Leasing L.P.** |
| 10.5 | Avis Budget Car Rental 2010 Model Year Program Letter dated August 28, 2009 between Avis Budget Car Rental, LLC and Ford Motor Company** (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated September 2, 2009). |
| 10.6 | Series 2009-2 Supplement, dated as of October 1, 2009, among Avis Budget Rental Car Funding (AESOP) LLC and The Bank of New York Mellon Trust Company, N.A., as trustee and as Series 2009-2 Agent (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated October 1, 2009). |
| 10.7 | Purchase Agreement dated as of October 7, 2009, by and among Avis Budget Group, Inc. and J.P. Morgan Securities Inc., Citigroup Global Markets Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Barclays Capital Inc. and Deutsche Bank Securities Inc. (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated October 13, 2009). |
| 10.8(a) | Convertible Bond Hedging Transaction Confirmation dated October 7, 2009, by and between Avis Budget Group, Inc. and JPMorgan Chase Bank, National Association (Incorporated by reference to Exhibit 10.2(a) to the Company's Current Report on Form 8-K dated October 13, 2009). |
| 10.8(b) | Convertible Bond Hedging Transaction Confirmation dated October 7, 2009, by and between Avis Budget Group, Inc. and Barclays Capital Inc. (Incorporated by reference to Exhibit 10.2(b) to the Company's Current Report on Form 8-K dated October 13, 2009). |

Table of Contents

- 10.8(c) Convertible Bond Hedging Transaction Confirmation dated October 7, 2009, by and between Avis Budget Group, Inc. and Deutsche Bank AG, London Branch (Incorporated by reference to Exhibit 10.2(c) to the Company's Current Report on Form 8-K dated October 13, 2009).
- 10.8(d) Convertible Bond Hedging Transaction Confirmation dated October 7, 2009, by and between Avis Budget Group, Inc. and Wachovia Bank, National Association (Incorporated by reference to Exhibit 10.2(d) to the Company's Current Report on Form 8-K dated October 13, 2009).
- 10.8(e) Convertible Bond Hedging Transaction Confirmation dated October 7, 2009, by and between Avis Budget Group, Inc. and Bank of America, N.A. (Incorporated by reference to Exhibit 10.2(e) to the Company's Current Report on Form 8-K dated October 13, 2009).
- 10.9(a) Confirmation of Additional Warrants dated October 7, 2009, by and between Avis Budget Group, Inc. and JPMorgan Chase Bank, National Association (Incorporated by reference to Exhibit 10.3(a) to the Company's Current Report on Form 8-K dated October 13, 2009).
- 10.9(b) Confirmation of Additional Warrants dated October 7, 2009, by and between Avis Budget Group, Inc. and Barclays Capital Inc. (Incorporated by reference to Exhibit 10.3(b) to the Company's Current Report on Form 8-K dated October 13, 2009).
- 10.9(c) Confirmation of Additional Warrants dated October 7, 2009, by and between Avis Budget Group, Inc. and Deutsche Bank AG, London Branch (Incorporated by reference to Exhibit 10.3(c) to the Company's Current Report on Form 8-K dated October 13, 2009).
- 10.9(d) Confirmation of Additional Warrants dated October 7, 2009, by and between Avis Budget Group, Inc. and Wachovia Bank, National Association (Incorporated by reference to Exhibit 10.3(d) to the Company's Current Report on Form 8-K dated October 13, 2009).
- 10.9(e) Confirmation of Additional Warrants dated October 7, 2009, by and between Avis Budget Group, Inc. and Bank of America, N.A. (Incorporated by reference to Exhibit 10.3(e) to the Company's Current Report on Form 8-K dated October 13, 2009).
- 10.10(a) Convertible Bond Hedging Transaction Confirmation dated October 9, 2009, by and between Avis Budget Group, Inc. and JPMorgan Chase Bank, National Association (Incorporated by reference to Exhibit 10.4(a) to the Company's Current Report on Form 8-K dated October 13, 2009).
- 10.10(b) Convertible Bond Hedging Transaction Confirmation dated October 9, 2009, by and between Avis Budget Group, Inc. and Barclays Capital Inc. (Incorporated by reference to Exhibit 10.4(b) to the Company's Current Report on Form 8-K dated October 13, 2009).
- 10.10(c) Convertible Bond Hedging Transaction Confirmation dated October 9, 2009, by and between Avis Budget Group, Inc. and Deutsche Bank AG, London Branch (Incorporated by reference to Exhibit 10.4(c) to the Company's Current Report on Form 8-K dated October 13, 2009).
- 10.10(d) Convertible Bond Hedging Transaction Confirmation dated October 9, 2009, by and between Avis Budget Group, Inc. and Wachovia Bank, National Association (Incorporated by reference to Exhibit 10.4(d) to the Company's Current Report on Form 8-K dated October 13, 2009).
- 10.10(e) Convertible Bond Hedging Transaction Confirmation dated October 9, 2009, by and between Avis Budget Group, Inc. and Bank of America, N.A. (Incorporated by reference to Exhibit 10.4(e) to the Company's Current Report on Form 8-K dated October 13, 2009).
- 10.11(a) Confirmation of Additional Warrants dated October 9, 2009, by and between Avis Budget Group, Inc. and JPMorgan Chase Bank, National Association (Incorporated by reference to Exhibit 10.5(a) to the Company's Current Report on Form 8-K dated October 13, 2009).
- 10.11(b) Confirmation of Additional Warrants dated October 9, 2009, by and between Avis Budget Group, Inc. and Barclays Capital Inc. (Incorporated by reference to Exhibit 10.5(b) to the Company's Current Report on Form 8-K dated October 13, 2009).

Table of Contents

| | |
|----------|--|
| 10.11(c) | Confirmation of Additional Warrants dated October 9, 2009, by and between Avis Budget Group, Inc. and Deutsche Bank AG, London Branch (Incorporated by reference to Exhibit 10.5(c) to the Company's Current Report on Form 8-K dated October 13, 2009). |
| 10.11(d) | Confirmation of Additional Warrants dated October 9, 2009, by and between Avis Budget Group, Inc. and Wachovia Bank, National Association (Incorporated by reference to Exhibit 10.5(d) to the Company's Current Report on Form 8-K dated October 13, 2009). |
| 10.11(e) | Confirmation of Additional Warrants dated October 9, 2009, by and between Avis Budget Group, Inc. and Bank of America, N.A. (Incorporated by reference to Exhibit 10.5(e) to the Company's Current Report on Form 8-K dated October 13, 2009). |
| 10.12 | Amended and Restated Series 2008-1 Supplement, dated as of October 29, 2009 (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on the Form 8-K dated October 30, 2009). |
| 12 | Statement re: Computation of Ratio of Earnings to Fixed Charges. |
| 31.1 | Certification of Chief Executive Officer pursuant to Rules 13(a)-14(a) and 15(d)-14(a) promulgated under the Securities Exchange Act of 1934, as amended. |
| 31.2 | Certification of Chief Financial Officer pursuant to Rules 13(a)-14(a) and 15(d)-14(a) promulgated under the Securities Exchange Act of 1934, as amended. |
| 32 | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

* Cendant Corporation is now known as Avis Budget Group, Inc.

** The Company has applied for confidential treatment of portions of this Exhibit. Accordingly, portions thereof have been omitted and filed separately.