

AVIS BUDGET GROUP, INC.

Form 10-Q

November 07, 2008

[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, 2008

OR

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File No. 1-10308

Avis Budget Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction

of incorporation or organization)

06-0918165

(I.R.S. Employer

Identification Number)

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6 Sylvan Way

Parsippany, NJ

(Address of principal executive offices)

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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition 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 101,409,998 shares as of October 31, 2008.

Table of Contents

Table of Contents

	Page
PART I	
<u>Financial Information</u>	
Item 1.	
<u>Financial Statements</u>	
<u>Consolidated Condensed Statements of Operations for the Three and Nine Months Ended September 30, 2008 and 2007 (Unaudited)</u>	3
<u>Consolidated Condensed Balance Sheets as of September 30, 2008 and December 31, 2007 (Unaudited)</u>	4
<u>Consolidated Condensed Statements of Cash Flows for the Nine Months Ended September 30, 2008 and 2007 (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>	30
Item 3.	
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	39
Item 4.	
<u>Controls and Procedures</u>	39
PART II	
<u>Other Information</u>	
Item 1.	
<u>Legal Proceedings</u>	40
Item 1A.	
<u>Risk Factors</u>	40
Item 6.	
<u>Exhibits</u>	41
<u>Signatures</u>	42

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;

the downturn in airline passenger traffic in the United States and in the other international locations in which we operate;

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

the decline in general economic conditions and in the housing market;

our dependence on third-party distribution channels;

a disruption or decline in rental activity, particularly during our peak season or in key market segments;

a significant increase in interest rates or in borrowing costs or a fluctuation in interest rates, which can impact the valuation of our derivatives;

our ability to successfully implement our business strategy for growth;

our ability to accurately estimate our future results;

our ability to successfully integrate operations upon the acquisition of other businesses;

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;

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

substantial increases in fuel costs or decreases in fuel supply;

our requirement for substantial capital and a disruption in our ability to obtain financing for our operations, including the funding of our vehicle fleet via the asset-backed securities and lending market;

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

Table of Contents

our ability to meet the financial covenants contained in our senior credit facility 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 continuation of a low trading price of our stock, which could limit our access to capital, be an indicator that our goodwill or other intangible assets are impaired and/or result in a future charge to earnings for an impairment of our goodwill or other intangible assets; and

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

Other factors and assumptions not identified above, including those described under Risk Factors set forth in Item 1A of our 2007 Annual Report on Form 10-K and Part II, Item 1A of this Quarterly Report on Form 10-Q, were also involved in the derivation of these forward-looking statements, and the failure of such other assumptions to be realized, as well as other factors, may also cause actual results to differ materially from those projected. Most of these factors are difficult to predict accurately and are generally beyond our control.

You should consider the areas of risk described above, as well as those described under Risk Factors set forth in Item 1A of our 2007 Annual Report on Form 10-K and Part II, Item 1A of this Quarterly Report on Form 10-Q, 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,	
	2008	2007	2008	2007
Revenues				
Vehicle rental	\$ 1,298	\$ 1,348	\$ 3,611	\$ 3,600
Other	403	371	1,112	1,000
Net revenues	1,701	1,719	4,723	4,600
Expenses				
Operating	847	835	2,435	2,331
Vehicle depreciation and lease charges, net	473	441	1,296	1,205
Selling, general and administrative	171	176	513	504
Vehicle interest, net	74	96	234	237
Non-vehicle related depreciation and amortization	23	21	62	64
Interest expense related to corporate debt, net	31	31	92	97
Separation costs		3	2	
Restructuring charges	6		6	
Impairment	1,262		1,262	
Total expenses	2,887	1,603	5,902	4,438
Income (loss) before income taxes	(1,186)	116	(1,179)	162
Provision (benefit) for income taxes	(180)	53	(176)	64
Income (loss) from continuing operations	(1,006)	63	(1,003)	98
Loss from discontinued operations, net of tax		(3)		(3)
Gain on disposal of discontinued operations, net of tax		43		45
Net income (loss)	\$ (1,006)	\$ 103	\$ (1,003)	\$ 140
Earnings per share				
Basic				
Income (loss) from continuing operations	\$ (9.91)	\$ 0.60	\$ (9.84)	\$ 0.95
Net income (loss)	(9.91)	1.00	(9.84)	1.36
Diluted				
Income (loss) from continuing operations	\$ (9.91)	\$ 0.60	\$ (9.84)	\$ 0.94

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Net income (loss)	(9.91)	0.99	(9.84)	1.34
	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, 2008	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 374	\$ 214
Receivables, net	311	392
Deferred income taxes	49	42
Other current assets	439	570
Total current assets	1,173	1,218
Property and equipment, net	498	500
Deferred income taxes	412	234
Goodwill	76	1,000
Other intangibles, net	479	760
Other non-current assets	844	781
Total assets exclusive of assets under vehicle programs	3,482	4,493
Assets under vehicle programs:		
Program cash		1
Vehicles, net	8,029	7,474
Receivables from vehicle manufacturers and other	331	276
Investment in Avis Budget Rental Car Funding (AESOP) LLC related party	562	230
	8,922	7,981
Total assets	\$ 12,404	\$ 12,474
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable and other current liabilities	\$ 972	\$ 1,094
Current portion of long-term debt	9	10
Total current liabilities	981	1,104
Long-term debt	1,782	1,787
Other non-current liabilities	1,045	998
Total liabilities exclusive of liabilities under vehicle programs	3,808	3,889
Liabilities under vehicle programs:		
Debt	1,262	950
Debt due to Avis Budget Rental Car Funding (AESOP) LLC related party	5,586	4,646
Deferred income taxes	1,220	1,246

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Other	148	278
	8,216	7,120
Commitments and contingencies (Note 16)		
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 136,760,302 and 136,706,236 shares	1	1
Additional paid-in capital	9,217	9,320
Accumulated deficit	(2,523)	(1,520)
Accumulated other comprehensive income (loss)	(21)	32
Treasury stock, at cost 35,151,733 and 32,719,985 shares	(6,294)	(6,368)
Total stockholders' equity	380	1,465
Total liabilities and stockholders' equity	\$ 12,404	\$ 12,474

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,	
	2008	2007
Operating Activities		
Net income (loss)	\$ (1,003)	\$ 140
Adjustments to arrive at income (loss) from continuing operations		(42)
Income (loss) from continuing operations	(1,003)	98
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities exclusive of vehicle programs:		
Non-vehicle related depreciation and amortization	62	64
Goodwill, tradename and equity investment impairment	1,262	