

AVIS BUDGET GROUP, INC.
Form 10-Q
November 01, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT
OF 1934

For the quarterly period ended September 30, 2013

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

For the transition period from _____ to _____

Commission File No. 001-10308

Avis Budget Group, Inc.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

6 Sylvan Way
Parsippany, NJ
(Address of principal executive
offices)

06-0918165
(I.R.S. Employer
Identification Number)
07054
(Zip Code)

(973) 496-4700
(Registrant's telephone number, including area
code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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 x No o

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 x Accelerated filer ..
Non-accelerated filer o 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 o No x

The number of shares outstanding of the issuer's common stock was 107,211,461 shares as of October 28, 2013.

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FORWARD-LOOKING STATEMENTS

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

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

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

risks relating to our March 2013 acquisition of Zipcar, Inc. (“Zipcar”), including our ability to realize the synergies contemplated by the transaction and our ability to promptly and efficiently integrate the businesses of Zipcar and Avis Budget Group, Inc.;

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

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

any change in economic conditions generally, particularly during our peak season or in key market segments;

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

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

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

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

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

our ability to accurately estimate our future results;

- any major disruptions in our communication networks or information systems;
- our exposure to uninsured claims in excess of historical levels;
- our failure or inability to comply with laws, regulations or contractual obligations or any changes in laws, regulations or contractual obligations, including with respect to personally identifiable information and taxes;
- any impact on us from the actions of our licensees, dealers and independent contractors;

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

risks related to our indebtedness, including our substantial outstanding debt obligations and our ability to incur substantially more debt;

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

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

risks associated with litigation or governmental or regulatory inquiries or investigations involving our Company;

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

risks related to our October 2011 acquisition of Avis Europe plc (“Avis Europe”), including our ability to realize the synergies contemplated by the transaction;

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

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

We operate in a continuously changing business environment and new risk factors emerge from time to time. New risk factors, factors beyond our control, or changes in the impact of identified risk factors may cause actual results to differ materially from those set forth in any forward-looking statements. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results. Moreover, we do not assume responsibility for the accuracy and completeness of those statements. Other factors and assumptions not identified above, including those discussed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, “Risk Factors” and other portions of our 2012 Annual Report on Form 10-K, may contain forward-looking statements and involve uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. Such statements are based upon assumptions and known risks and uncertainties.

Although we believe that our assumptions are reasonable, any or all of our forward-looking statements may prove to be inaccurate and we can make no guarantees about our future performance. Should unknown risks or uncertainties materialize or underlying assumptions prove inaccurate, actual results could differ materially from past results and/or those anticipated, estimated or projected. Except to the extent of our obligations under the federal securities laws, we undertake no obligation to release any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events. For any forward-looking statements contained in any document, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

Avis Budget Group, Inc.

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(In millions, except per share data)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues				
Vehicle rental	\$1,734	\$1,582	\$4,388	\$4,084
Other	661	588	1,699	1,575
Net revenues	2,395	2,170	6,087	5,659
Expenses				
Operating	1,142	1,036	3,080	2,882
Vehicle depreciation and lease charges, net	524	436	1,387	1,088
Selling, general and administrative	274	244	771	696
Vehicle interest, net	72	77	195	231
Non-vehicle related depreciation and amortization	39	30	109	92
Interest expense related to corporate debt, net:				
Interest expense	57	67	170	208
Early extinguishment of debt	—	2	131	52
Transaction-related costs	10	11	37	21
Restructuring expense	14	7	39	26
Impairment	33	—	33	—
Total expenses	2,165	1,910	5,952	5,296
Income before income taxes	230	260	135	363
Provision for (benefit from) income taxes	112	(20	) 91	27
Net income	\$118	\$280	\$44	\$336
Comprehensive income	\$178	\$308	\$44	\$361
Earnings per share				
Basic	\$1.09	\$2.62	\$0.41	\$3.16
Diluted	\$1.02	\$2.38	\$0.39	\$2.77

See Notes to Consolidated Condensed Financial Statements (Unaudited).

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Avis Budget Group, Inc.

CONSOLIDATED CONDENSED BALANCE SHEETS

(In millions, except share data)

(Unaudited)

	September 30, 2013	December 31, 2012
Assets		
Current assets:		
Cash and cash equivalents	\$589	\$606
Receivables, net	681	553
Deferred income taxes	163	146
Other current assets	575	405
Total current assets	2,008	1,710
Property and equipment, net	570	529
Deferred income taxes	1,351	1,454
Goodwill	689	375
Other intangibles, net	928	731
Other non-current assets	375	320
Total assets exclusive of assets under vehicle programs	5,921	5,119
Assets under vehicle programs:		
Program cash	210	24
Vehicles, net	10,805	9,274
Receivables from vehicle manufacturers and other	506	439
Investment in Avis Budget Rental Car Funding (AESOP) LLC—related party	362	362
	11,883	10,099
Total assets	\$17,804	\$15,218
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and other current liabilities	\$1,680	\$1,421
Short-term debt and current portion of long-term debt	181	57
Total current liabilities	1,861	1,478
Long-term debt	3,203	2,848
Other non-current liabilities	878	871
Total liabilities exclusive of liabilities under vehicle programs	5,942	5,197
Liabilities under vehicle programs:		
Debt	2,508	1,603
Debt due to Avis Budget Rental Car Funding (AESOP) LLC—related party	6,128	5,203
Deferred income taxes	2,190	2,163
Other	232	295
	11,058	9,264
Commitments and contingencies (Note 13)		
Stockholders' equity:	—	—

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Preferred stock, \$0.01 par value—authorized 10 million shares; none issued and outstanding			
Common stock, \$0.01 par value—authorized 250 million shares; issued 137,081,056 and 137,081,056 shares	1	1	
Additional paid-in capital	7,909	8,211	
Accumulated deficit	(2,332)	(2,376))
Accumulated other comprehensive income	110	110	
Treasury stock, at cost—29,384,273 and 30,027,146 shares	(4,884)	(5,189))
Total stockholders' equity	804	757	
Total liabilities and stockholders' equity	\$17,804	\$15,218	

See Notes to Consolidated Condensed Financial Statements (Unaudited).

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Avis Budget Group, Inc.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Nine Months Ended	
	September 30,	
	2013	2012
Operating activities		
Net income	\$44	\$336
Adjustments to reconcile net income to net cash provided by operating activities:		
Vehicle depreciation	1,295	1,100
Gain on sale of vehicles, net	(10)	(107)
Non-vehicle related depreciation and amortization	109	92
Amortization of debt financing fees	33	43
Impairment	33	—
Net change in assets and liabilities, excluding the impact of acquisitions and dispositions:		
Receivables	(150)	(146)
Income taxes and deferred income taxes	61	(12)
Accounts payable and other current liabilities	22	28
Other, net	306	190
Net cash provided by operating activities	1,743	1,524
Investing activities		
Property and equipment additions	(92)	(82)
Proceeds received on asset sales	13	16
Net assets acquired, net of cash acquired	(531)	(5)
Other, net	37	(25)
Net cash used in investing activities exclusive of vehicle programs	(573)	(96)
Vehicle programs:		
Increase in program cash	(173)	(90)
Investment in vehicles	(8,865)	(8,962)
Proceeds received on disposition of vehicles	6,393	6,136
Net cash used in investing activities	(3,218)	(3,012)

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Avis Budget Group, Inc.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Continued)

(In millions)

(Unaudited)

	Nine Months Ended September 30,	
	2013	2012
Financing activities		
Proceeds from long-term borrowings	2,725	654
Payments on long-term borrowings	(2,344	) (907
Net change in short-term borrowings	(32	) 1
Purchases of warrants	(30	) (26
Proceeds from sale of call options	41	38
Repurchases of common stock	(21) —
Debt financing fees	(36	) (11
Other, net	2	1
Net cash provided by (used in) financing activities exclusive of vehicle programs	305	(250
Vehicle programs:		
Proceeds from borrowings	10,266	9,238
Payments on borrowings	(9,079	) (7,467
Debt financing fees	(26	) (18
	1,161	1,753
Net cash provided by financing activities	1,466	1,503
Effect of changes in exchange rates on cash and cash equivalents	(8	) 5
Net (decrease) increase in cash and cash equivalents	(17	) 20
Cash and cash equivalents, beginning of period	606	534
Cash and cash equivalents, end of period	\$589	\$554

See Notes to Consolidated Condensed Financial Statements (Unaudited).

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Avis Budget Group, Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)

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

1. Basis of Presentation and Recently Issued Accounting Pronouncements

Basis of Presentation

Avis Budget Group, Inc. provides car and truck rentals and ancillary services to businesses and consumers worldwide. The accompanying unaudited Consolidated Condensed Financial Statements include the accounts and transactions of Avis Budget Group, Inc. and its subsidiaries (“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 for interim financial reporting.

The Company operates the following business segments:

• **North America**—provides car rentals in the United States and vehicle rentals in Canada, as well as ancillary products and services, and operates the Company’s Zipcar car sharing business.

• **International**—provides, and licenses the Company’s brands to third parties for, vehicle rentals and ancillary products and services primarily in Europe, the Middle East, Asia, Africa, South America, Central America, the Caribbean, Australia and New Zealand.

• **Truck Rental**—provides truck rentals and ancillary products and services to consumers and commercial users in the United States.

In presenting the Consolidated Condensed Financial Statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”), management makes estimates and assumptions that affect the amounts reported and related disclosures. Estimates, by their nature, are based on judgment and available information. Accordingly, actual results could differ from those estimates. In management’s opinion, the Consolidated Condensed Financial Statements contain all adjustments necessary for a fair presentation of interim results reported. The results of operations reported for interim periods are not necessarily indicative of the results of operations for the entire year or any subsequent interim period. These financial statements should be read in conjunction with the Company’s 2012 Annual Report on Form 10-K and Form 10-K/A.

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

Transaction-related Costs. The Company completed the acquisition of Zipcar on March 14, 2013 and the acquisition of Payless Car Rental (“Payless”) on July 15, 2013. During the three and nine months ended September 30, 2013, transaction-related costs primarily include expenses related to the integration of Avis Europe’s operations with those of the Company and costs related to the acquisition and integration of Zipcar and Payless. In the three and nine months

ended September 30, 2012, transaction-related costs primarily included expenses related to the integration of Avis Europe's operations with the Company's.

Currency Transactions. The Company records the gain or loss of foreign-currency transactions on certain intercompany loans and gain or loss on intercompany loan hedges within interest expense related to corporate debt, net. During the three and nine months ended September 30, 2013, the Company recorded losses of \$1 million and \$8 million, respectively, on such items. In the three and nine months ended September 30, 2012, the Company recorded losses of \$3 million and \$12 million, respectively, on such items.

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Adoption of New Accounting Standards

On January 1, 2013, as a result of the issuance of a new accounting pronouncement, the Company adopted, as required, Accounting Standards Update No. 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income," which requires companies to disclose additional information about amounts reclassified out of accumulated other comprehensive income by component. The adoption of this pronouncement resulted in incremental disclosure about activity and amounts reclassified out of accumulated other comprehensive income.

2. Restructuring Activities

During fourth quarter 2012, the Company initiated a strategic restructuring initiative to better position the business of its Truck Rental segment, in which it will close certain rental locations and decrease the size of the rental fleet, which the Company believes will increase fleet utilization and reduce costs. During the nine months ended September 30, 2013, as part of this process, the Company recorded restructuring expense of \$19 million. The Company expects further restructuring expenses of approximately \$3 million to be incurred, through the completion of this initiative, in 2013.

In 2011, the Company implemented a restructuring initiative to identify synergies across the Company, enhance organizational efficiencies and consolidate and rationalize processes and facilities. During the nine months ended September 30, 2013, as part of this process, the Company formally communicated the termination of employment to approximately 370 employees and recorded \$20 million of expense in connection with these initiatives. These expenses primarily represent severance, outplacement services and other costs associated with employee terminations. As of September 30, 2013, the Company has terminated approximately 300 of these employees. The Company expects further restructuring expenses of approximately \$18 million to be incurred in 2013.

The following tables summarize the changes to our restructuring-related liabilities and identify the amounts recorded within the Company's reportable segments, and by category, for restructuring expenses and corresponding payments and utilizations:

	North America	International	Truck Rental	Total
Balance as of January 1, 2013	\$1	\$12	\$—	\$13
Restructuring expense	6	14	19	39
Cash payment/utilization	(4	) (17	) (19	) (40
Balance as of September 30, 2013	\$3	\$9	\$—	\$12
	Personnel Related	Facility Related	Other ^(a)	Total
Balance as of January 1, 2013	\$12	\$1	\$—	\$13
Restructuring expense	18	2	19	39
Cash payment/utilization	(19	) (2	) (19	) (40
Balance as of September 30, 2013	\$11	\$1	\$—	\$12

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

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3. Earnings Per Share

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Net income for basic EPS	\$ 118	\$280	\$44	\$336
Convertible note interest, net of tax	1	1	1	4
Net income for diluted EPS	\$ 119	\$281	\$45	\$340
Basic weighted average shares outstanding	108.3	106.8	108.1	106.5
Options, warrants and non-vested stock ^(a)	3.3	2.3	3.3	2.2
Convertible debt	4.6	8.9	5.5	14.0
Diluted weighted average shares outstanding	116.2	118.0	116.9	122.7
Earnings per share:				
Basic	\$ 1.09	\$2.62	\$0.41	\$3.16
Diluted	\$ 1.02	\$2.38	\$0.39	\$2.77

For the three and nine months ended September 30, 2013, the number of anti-dilutive securities which were excluded from the computation of diluted earnings per share was not significant. For the three and nine months ended September 30, 2012, 0.2 million outstanding options and 8.9 million warrants have an anti-dilutive effect and therefore are excluded from the computation of diluted weighted average shares outstanding.

4. Acquisitions

Zipcar

On March 14, 2013, the Company completed the acquisition of the entire issued share capital of Zipcar, the leading car sharing company, for \$473 million, net of acquired cash. The acquisition increased the Company’s growth potential and its ability to better serve a greater variety of customer transportation needs.

The excess of the purchase price over preliminary fair value of net assets acquired was allocated to goodwill, which was assigned to the Company’s North America segment. The goodwill is not expected to be deductible for tax purposes. The fair value of the assets acquired and liabilities assumed has not yet been finalized and is therefore subject to change. In connection with this acquisition, \$188 million was recorded in identifiable intangible assets (consisting of \$112 million related to trademarks and \$76 million related to customer relationships) and \$275 million was recorded in goodwill. The trademark assets are indefinite-lived and the customer relationship intangibles will be amortized over an estimated life of 8 years.

Brazilian licensee

On August 12, 2013, the Company acquired a 50% ownership stake in its Brazilian licensee for \$53 million. Approximately \$11 million of the total consideration was paid in the third quarter of 2013 and the remainder is expected to be paid by the end of first quarter 2014. The Company’s investment significantly increases its presence in the Brazilian car rental market.

The Company's investment in its Brazilian licensee was recorded as an equity investment within Other non-current assets, and the Company's share of the Brazilian licensee's operating results is reported within Operating expenses. In conjunction with the acquisition, the Company agreed to the payment of contingent consideration of up to \$13 million based on the Brazilian licensee's future financial performance. The fair value of the contingent consideration was estimated by utilizing a Monte Carlo simulation technique, based on a range of possible future results, and no value was attributed to the contingent consideration at the acquisition date. At September 30, 2013, the Company's investment totaled approximately \$20 million, which is net of an impairment charge of \$33 million (\$33 million, net of tax). The impairment charge was recorded at the time of the investment based on a combination of observable and unobservable fair value inputs (Level 3), specifically a combination of the Income approach discounted cash flow method and the Market approach-public company market multiple method.

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Payless Car Rental

On July 15, 2013, the Company completed the acquisition of Payless for \$50 million in cash. The acquisition provides the Company with a meaningful position in the deep-value segment of the car rental industry.

The excess of the purchase price over preliminary fair value of net assets acquired was allocated to goodwill, which was assigned to the Company's North America segment. The goodwill is not expected to be deductible for tax purposes. The fair value of the assets acquired and liabilities assumed has not yet been finalized and is therefore subject to change. In connection with this acquisition, \$23 million was recorded in identifiable intangible assets (consisting of \$16 million related to trademarks and \$7 million related to license agreements) and \$27 million was recorded in goodwill. The trademark assets are indefinite-lived and the license agreements will be amortized over an estimated life of 15 years.

Apex Car Rentals

In October 2012, the Company completed the acquisition of the assets of Apex Car Rentals ("Apex"), a leading deep-value car rental company in New Zealand and Australia, operating a fleet of approximately 4,000 rental vehicles. In conjunction with the acquisition, the Company paid \$63 million in cash (including the acquisition of fleet) and agreed to the payment of contingent consideration with an estimated acquisition date fair value of \$9 million. The contingent consideration consists of a maximum of \$26 million in additional payments that are contingent on Apex' future financial performance, and the fair value of the contingent consideration at the acquisition date was estimated by utilizing a Monte Carlo simulation technique, based on a range of possible future results. The allocation of the purchase price of Apex principally includes vehicles of \$33 million, trademarks of \$21 million and goodwill of \$16 million, which were allocated to the Company's International segment. The goodwill is not expected to be deductible for tax purposes.

5. Other Current Assets

Other current assets consisted of:

	As of September 30, 2013	As of December 31, 2012
Sales and use taxes	\$223	\$108
Prepaid expenses	200	174
Other	152	123
Other current assets	\$575	\$405

6. Intangible Assets

Intangible assets consisted of:

	As of September 30, 2013			As of December 31, 2012		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized Intangible Assets						
License agreements ^(a)	\$269	\$49	\$220	\$257	\$39	\$218
Customer relationships ^(b)	165	30	135	86	19	67
Other	2	1	1	2	1	1

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Total	\$436	\$80	\$356	\$345	\$59	\$286
Unamortized Intangible Assets						
Goodwill ^{(a)(b)}	\$689			\$375		
Trademarks ^{(a)(b)}	\$572			\$445		

^(a) The increases in carrying amounts primarily relate to the acquisition of Payless.

^(b) The increases in carrying amounts primarily relate to the acquisition of Zipcar.

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Amortization expense relating to all intangible assets was approximately \$7 million and \$4 million during third quarter 2013 and 2012, respectively. For the nine months ended September 30, 2013 and 2012, amortization expense was approximately \$20 million and \$15 million, respectively. Based on the Company's amortizable assets at September 30, 2013, the Company expects amortization expense of approximately \$7 million for the remainder of 2013 and approximately \$29 million for each of the five fiscal years thereafter.

7. Financial Instruments

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

Debt Instruments

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

	As of September 30, 2013		As of December 31, 2012	
	Carrying Amount	Estimated Fair Value ^(a)	Carrying Amount	Estimated Fair Value ^(a)
Corporate debt				
Short-term debt and current portion of long-term debt	\$181	\$181	\$57	\$58
Long-term debt, excluding convertible debt	3,128	3,192	2,720	2,903
Convertible debt	75	135	128	171
Debt under vehicle programs				
Vehicle-backed debt due to Avis Budget Rental Car Funding (AESOP) LLC	\$6,128	\$6,231	\$5,203	\$5,391
Vehicle-backed debt	2,502	2,510	1,599	1,613
Interest rate swaps and interest rate contracts ^(b)	6	6	4	4

^(a) The fair value measurements are based on significant observable inputs (Level 2).

^(b) Derivatives in a liability position.

Net Investment Hedge

The Company has designated its 6% Euro-denominated notes issued March 2013 as a hedge of its net investment in Euro-denominated foreign operations. The Company records the effective portion of the gain or loss on this net investment hedge, net of taxes, in accumulated other comprehensive income as part of currency translation adjustments. For the three months and nine months ended September 30, 2013, the Company has recorded an \$8 million loss, net of tax, in accumulated other comprehensive income. Any ineffective portion of the net investment hedge is immediately reclassified from accumulated other comprehensive income into earnings. There was no ineffectiveness during the three and nine months ended September 30, 2013 and the Company does not expect to reclassify any amounts from accumulated other comprehensive income into earnings over the next 12 months.

Derivative Instruments and Hedging Activities

The Company uses foreign exchange contracts to manage its exposure to changes in 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, Canadian and New Zealand dollars, the Euro and the British pound sterling. These forward contracts do not qualify for hedge accounting treatment; however, the fluctuations in the value of these forward contracts largely offset the impact of changes in the value of the underlying risk they economically hedge.

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The Company uses various hedging strategies including interest rate swaps and interest rate caps to create an appropriate mix of fixed and floating rate assets and liabilities. The Company uses interest rate swaps to manage the risk related to its floating rate corporate debt and its floating rate vehicle-backed debt. The Company records the effective portion of changes in the fair value of its cash flow hedges to other comprehensive income, net of tax, and subsequently reclassifies these amounts into earnings in the period during which the hedged transaction is recognized. The Company records the gains or losses related to freestanding derivatives, which are not designated as a hedge for accounting purposes, in its consolidated results of operations. The changes in fair values of hedges that are determined to be ineffective are immediately reclassified from accumulated other comprehensive income into earnings. The Company estimates that the amount of gains or losses currently recorded in accumulated other comprehensive income which will be recognized in earnings over the next 12 months is not material.

From time to time, the Company enters into derivative commodity contracts to manage its exposure to changes in the price of unleaded gasoline. Changes in the fair value of these derivatives are recorded within operating expenses.

Certain of the Company's derivative instruments contain collateral support provisions that require the Company to post cash collateral to the extent that such derivatives are in a liability position. The aggregate fair value of such derivatives and the aggregate fair value of assets needed to settle these derivatives as of September 30, 2013 was approximately \$3 million, for which the Company has posted cash collateral in the normal course of business.

As of September 30, 2013, the Company held derivative instruments with absolute notional values as follows:

	As of September 30, 2013
Interest rate caps ^(a)	\$6,959
Interest rate swaps	904
Foreign exchange forward contracts	77
Foreign exchange swaps	704

Represents \$4.7 billion of interest rate caps sold and approximately \$2.2 billion of interest rate caps purchased.

^(a) These amounts exclude \$2.5 billion of interest rate caps purchased by the Company's Avis Budget Rental Car Funding (AESOP) LLC ("Avis Budget Rental Car Funding") subsidiary.

As of September 30, 2013, the Company also had commodity contracts for the purchase of 11 million gallons of unleaded gasoline.

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

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Fair values of derivative instruments were as follows:

	As of September 30, 2013		As of December 31, 2012	
	Fair Value, Asset Derivatives	Fair Value, Liability Derivatives	Fair Value, Asset Derivatives	Fair Value, Liability Derivatives
Derivatives designated as hedging instruments				
Interest rate swaps ^(a)	\$—	\$1	\$—	\$1
Derivatives not designated as hedging instruments				
Currency exchange contracts ^(b)	4	4	3	8
Interest rate contracts ^(c)	3	6	—	4
Interest rate swaps ^(a)	—	—	—	12
Commodity contracts ^(b)	—	2	—	—
Total	\$7	\$13	\$3	\$25

Amounts in this table exclude derivatives issued by Avis Budget Rental Car Funding, as it is not consolidated by the Company; however, certain amounts related to the derivatives held by Avis Budget Rental Car Funding are included within accumulated other comprehensive income, as discussed in Note 14—Stockholders' Equity.

^(a) Included in other non-current liabilities.

^(b) Included in other current assets or other current liabilities.

^(c) Included in assets under vehicle programs and liabilities under vehicle programs.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Derivatives designated as hedging instruments				
Interest rate swaps ^(a)	\$—	\$—	\$1	\$11
Derivatives not designated as hedging instruments ^(b)				
Currency exchange contracts ^(c)	(13	) (2	) 22	—
Commodity contracts ^(d)	—	3	—	4
Interest rate contracts ^(e)	(2	) (5	) 5	(13
Total	\$(15	) \$(4	) \$28	\$2

^(a) Recognized, net of tax, as a component of other comprehensive income within stockholders' equity.

^(b) Gains (losses) related to derivative instruments are expected to be largely offset by (losses) gains on the underlying exposures being hedged.

For the three months ended September 30, 2013, included a \$16 million loss in interest expense and a \$3 million gain in operating expenses. For the nine months ended September 30, 2013, included a \$13 million gain in interest expense and a \$9 million gain in operating expenses. For the three and nine months ended September 30, 2012, amounts were included in operating expenses.

^(d) Included in operating expense.

^(e) Included in interest expense.

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8. Vehicle Rental Activities

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

	As of September 30, 2013	As of December 31, 2012
Rental vehicles	\$11,480	\$10,000
Less: Accumulated depreciation	(1,411)	(1,345)
	10,069	8,655
Vehicles held for sale	736	619
Vehicles, net	\$10,805	\$9,274

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Depreciation expense	\$487	\$406	\$1,295	\$1,100
Lease charges	45	38	102	95
Gain on sales of vehicles, net	(8)	(8)	(10)	(107)
Vehicle depreciation and lease charges, net	\$524	\$436	\$1,387	\$1,088

9. Income Taxes

The Company's effective tax rate for the nine months ended September 30, 2013 is a provision of 67.4%. Such rate differs from the Federal statutory rate of 35.0% primarily due to the treatment of a portion of the expenses for the early extinguishment of corporate debt and impairment costs.

The Company's effective tax rate for the nine months ended September 30, 2012 was a provision of 7.4%. Such rate differed from the Federal statutory rate of 35.0% primarily due to an effective settlement of a \$128 million unrecognized tax benefit for pre-Separation taxes, partially offset by the treatment of a portion of the expenses for the early extinguishment of corporate debt.

10. Accounts Payable and Other Current Liabilities

Accounts payable and other current liabilities consisted of:

	As of September 30, 2013	As of December 31, 2012
Accounts payable	\$365	\$309
Accrued sales and use taxes	244	148
Accrued payroll and related	204	198
Public liability and property damage insurance liabilities – current	133	132
Deferred income - current	95	60
Advertising and marketing	85	82
Income taxes payable – current	85	58
Other	469	434
Accounts payable and other current liabilities	\$1,680	\$1,421

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11. Long-term Debt and Borrowing Arrangements

Long-term and other borrowing arrangements consisted of:

	Maturity Dates	As of September 30, 2013	As of December 31, 2012
Floating rate notes ^(a)	May 2014	\$ 150	\$250
3½% convertible notes ^(c)	October 2014	75	128
Floating rate term loan ^{(b) (d)}	May 2016	46	49
4 % notes	November 2017	300	300
9 % notes	March 2018	—	446
8¼% notes	January 2019	730	730
Floating rate term loan ^{(b) (e)}	March 2019	991	689
9¾% notes	March 2020	224	250
6% Euro-denominated notes	March 2021	338	—
5½% notes	April 2023	500	—
		3,354	2,842
Other		30	63
Total		3,384	2,905
Less: Short-term debt and current portion of long-term debt		181	57
Long-term debt		\$3,203	\$2,848

^(a) As of September 30, 2013, the floating rate notes due 2014 bear interest at three-month LIBOR, plus 250 basis points, for an aggregate rate of 2.76%.

The floating rate term loans are part of the Company's senior credit facility, which also includes its revolving credit facility maturing 2018, and are secured by pledges of all of the capital stock of all of the Company's direct or

^(b) indirect domestic subsidiaries and 65% 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.

^(c) As of September 30, 2013, the 3½% convertible notes are convertible by the holders into approximately 5 million shares of the Company's common stock.

^(d) As of September 30, 2013, the floating rate term loan due 2016 bears interest at three-month LIBOR, plus 300 basis points, for an aggregate rate of 3.27%.

As of September 30, 2013, the floating term rate loan due 2019 bears interest at the greater of three-month LIBOR

^(e) or 0.75%, plus 225 basis points, for an aggregate rate of 3.00%. The Company has entered into a swap to hedge \$600 million of its interest rate exposure related to the floating rate term loan at an aggregate rate of 3.96%.

In March 2013, the Company issued €250 million of 6% senior notes due 2021, at face value. The notes pay interest semi-annually on March 1 and September 1 of each year, beginning in September 2013. The notes are unsecured obligations of the Company's Avis Budget Finance plc subsidiary, are guaranteed on a senior basis by the Company and certain of its domestic subsidiaries and rank equally with all of the Company's existing senior unsecured debt. The Company has the right to redeem these notes in whole or in part on or after April 1, 2016 at specified redemption prices, plus any accrued and unpaid interest. The Company used the proceeds from the issuance to partially fund the acquisition of Zipcar.

In April 2013, the Company completed an offering of \$500 million of 5½% senior notes due 2023. The notes were issued at par and pay interest semi-annually on April 1 and October 1 of each year, beginning on October 1, 2013. The notes are unsecured obligations of the Company's Avis Budget Car Rental, LLC ("ABCR") subsidiary are guaranteed on

a senior basis by the Company and certain of its domestic subsidiaries and rank equally with all of the Company's existing senior unsecured debt. The Company has the right to redeem these notes in whole or in part on or after April 1, 2018 at specified redemption prices, plus any accrued and unpaid interest.

In connection with the issuance of the 5½% senior notes due 2023, the Company completed a cash tender offer pursuant to which approximately \$326 million in aggregate principal amount of its 9 % notes due 2018 and approximately \$26 million of the aggregate principal amount of its 9¾% notes due 2020 were purchased by the Company for \$398 million plus accrued interest. In June 2013, the Company redeemed the remaining \$124 million principal amount of the 9 % notes due 2018 for \$139 million plus accrued interest.

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During the nine months ended September 30, 2013, the Company amended and restated its senior credit facility to issue, in aggregate, an additional \$300 million of term loan due 2019 (the “New Term Loan”). A portion of the proceeds were used to partially fund the acquisition of Zipcar. The New Term Loan has a committed aggregate principal amount of \$1.0 billion and bears interest at the greater of three-month LIBOR or 0.75%, plus 225 basis points. The Company also extended the maturity of the revolving credit facility to 2018, expanded its borrowing capacity to \$1.65 billion, and reduced its borrowing spread by 75 basis points.

During the nine months ended September 30, 2013, the Company repurchased approximately \$53 million principal amount of its 3½% convertible notes for approximately \$94 million, plus accrued interest, and repaid \$100 million principal amount of its floating rate notes due 2014 at face value plus accrued interest.

In connection with debt amendments and repayments during the nine months ended September 30, 2013, the Company recorded \$131 million in debt extinguishment costs.

Committed Credit Facilities and Available Funding Arrangements

At September 30, 2013, the committed credit facilities available to the Company and/or its subsidiaries included:

	Total Capacity	Outstanding Borrowings	Letters of Credit Issued	Available Capacity
Revolving credit facility maturing 2018 ^(a)	\$1,650	\$—	\$820	\$830
Other facilities ^(b)	13	2	—	11

This revolving credit facility matures in 2018 and bears interest of one-month LIBOR plus 225 basis points. The Company’s senior credit facility, which encompasses the floating rate term loans due 2016 and 2019 and the ^(a) revolving credit facility, is secured by pledges of all of the capital stock of all of the Company’s domestic subsidiaries and 65% 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.

^(b) These facilities encompass bank overdraft lines of credit, bearing interest of 4.50% to 5.69% as of September 30, 2013.

At September 30, 2013, the Company had various uncommitted credit facilities available, under which it had drawn approximately \$9 million, which bear interest at rates between 0.43% and 9.00%.

The agreements governing the Company’s indebtedness contain restrictive covenants, including restrictions on dividends paid to the Company by certain of its subsidiaries, the incurrence of additional indebtedness by the Company and certain of its subsidiaries, acquisitions, mergers, liquidations, and sale and leaseback transactions. The Company’s senior credit facility contains maximum leverage and minimum interest coverage ratio requirements. As of September 30, 2013, the Company was in compliance with the financial covenants of its senior credit facility.

12. Debt Under Vehicle Programs and Borrowing Arrangements

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

	As of September 30, 2013	As of December 31, 2012
North America - Debt due to Avis Budget Rental Car Funding ^(a)	\$6,128	\$5,203
North America - Canadian borrowings ^(a)	582	353
International - Debt borrowings ^(a)	1,161	679
International - Capital leases ^(a)	437	315
Truck Rental - Debt borrowings	241	253

Other ^(b)	87	3
Total	\$8,636	\$6,806

(a) The increase principally reflects increased borrowing to fund a seasonal increase in the size of the Company's car rental fleet.

(b) The increase is principally related to the vehicle-backed debt of Zipcar and Payless.

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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, 2013:

	Vehicle- Backed Debt
Within 1 year ^(a)	\$1,280
Between 1 and 2 years	2,209
Between 2 and 3 years	1,694
Between 3 and 4 years	1,182
Between 4 and 5 years	1,614
Thereafter	657
Total	\$8,636

^(a) Vehicle-backed debt maturing within one year includes term asset-backed securities of approximately \$610 million and bank and bank-sponsored borrowings of \$670 million.

As of September 30, 2013, 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
North America - Debt due to Avis Budget Rental Car Funding ^(b)	\$7,968	\$6,128	\$1,840
North America - Canadian borrowings ^(c)	742	582	160
International - Debt borrowings ^(d)	1,381	1,161	220
International - Capital leases	466	437	29
Truck Rental - Debt borrowings ^(e)	246	241	5
Other ^(f)	100	87	13
Total	\$10,903	\$8,636	\$2,267

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

^(b) The outstanding debt is collateralized by approximately \$7.8 billion of underlying vehicles and related assets.

^(c) The outstanding debt is collateralized by \$889 million of underlying vehicles and related assets.

^(d) The outstanding debt is collateralized by approximately \$1.6 billion of underlying vehicles and related assets.

^(e) The outstanding debt is collateralized by \$440 million of underlying vehicles and related assets.

^(f) The outstanding debt is collateralized by \$165 million of underlying vehicles and related assets.

In March 2013, the Company entered into a three-year, €500 million (approximately \$675 million) European rental fleet securitization program, which matures in 2016 and will be used to finance fleet purchases for certain of the Company's European operations.

Debt agreements under the Company's vehicle-backed funding programs contain restrictive covenants, including restrictions on dividends paid to the Company by certain of its subsidiaries and restrictions on indebtedness, mergers, liens, liquidations and sale and leaseback transactions and in some cases also require compliance with certain financial requirements. As of September 30, 2013, the Company is not aware of any instances of non-compliance with any of the financial or restrictive covenants contained in the debt agreements under its vehicle-backed funding programs.

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13. Commitments and Contingencies

Contingencies

In connection with the Company's 2006 separation into four independent companies (the "Separation"), the Company completed the spin-offs of Realogy Corporation ("Realogy") and Wyndham Worldwide Corporation ("Wyndham") on July 31, 2006 and completed the sale of Travelport, Inc. ("Travelport") on August 23, 2006. In connection with the spin-offs of Realogy and Wyndham, the Company entered into a 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, and in each case incurred or allegedly incurred on or prior to the Separation ("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 ("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 resolution of contingent liabilities constituting Assumed Liabilities should result in a material liability to the Company in relation to its consolidated financial position or liquidity, as Realogy and Wyndham each have agreed to assume responsibility for these liabilities.

The Company is also named in various litigation that is primarily related to the businesses of its former subsidiaries, including Realogy, Wyndham and Travelport and their current or former subsidiaries. The Company is entitled to indemnification from such entities under the Separation Agreement for any liability resulting from such litigation. 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 judgment was entered against the Company for damages related to breach of contract in Alaska Rent A Car, Inc. v. Cendant Corp., et al., in the United States District Court for the District of Alaska, which court subsequently amended the judgment to add amounts for pre-judgment interest and attorneys' fees. This proceeding, which began in 2003, concluded in September 2013, commensurate with the Company's payment of the full amount of the judgment. While the Company is continuing to pursue its appeal, it does not consider such appeal to be material to the Company's financial condition.

Additionally, the Company is also involved in claims, legal proceedings and governmental inquiries related to its vehicle rental operations, including, among others, contract and licensee disputes, wage-and-hour claims, competition matters, insurance claims, intellectual property claims and other regulatory, environmental, commercial and tax matters. Litigation is inherently unpredictable and, although the Company believes that its accruals are adequate and/or that it has valid defenses in these matters, unfavorable resolutions could occur, which could materially impact the Company's financial position, results of operations or cash flows.

Commitments to Purchase Vehicles

The Company maintains agreements with vehicle manufacturers under which the Company has agreed to purchase approximately \$4.4 billion of vehicles from manufacturers over the next 12 months. The majority of these

commitments are subject to the vehicle manufacturers' satisfying their obligations under their respective repurchase and guaranteed depreciation agreements. The purchase of such vehicles is financed primarily through the issuance of vehicle-backed debt and cash received upon the disposition of vehicles.

Other Purchase Commitments

In the normal course of business, the Company makes various commitments to purchase other goods or services from specific suppliers, including those related to capital expenditures. The purchase commitments made by the Company as of September 30, 2013 aggregate approximately \$168 million. These purchase obligations extend through 2018.

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Concentrations

Concentrations of credit risk at September 30, 2013 include (i) risks related to the Company's repurchase and guaranteed depreciation agreements with car manufacturers, including Ford Motor Company, General Motors Company, Chrysler Group LLC, PSA Peugeot Citroën, Volkswagen Group, Fiat Group Automobiles S.p.A., BMW Group, Kia Motors America, Toyota Motor Corporation, Subaru of America, Inc., and Daimler AG, and primarily with respect to receivables for program cars that have been disposed but for which the Company has not yet received payment from the manufacturers and (ii) risks related to Realogy and Wyndham, including receivables of \$61 million and \$38 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 in 2006. These guarantees relate primarily 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 these leases is estimated to be approximately \$59 million, the majority of which expire by the end of 2015. At September 30, 2013, the liability recorded by the Company in connection with these guarantees was approximately \$2 million. To the extent that the Company would be required to perform under any of these guarantees, the Company is entitled to indemnification by Realogy, Wyndham and Travelport, as applicable. The Company monitors the credit ratings and other relevant information for Realogy, Wyndham and Travelport's parent company in order to assess the status of the payment/performance risk of these guarantees.

14. Stockholders' Equity

During the nine months ended September 30, 2013, concurrently with the Company's repurchase of \$53 million principal amount of its 3½% convertible notes, the Company repurchased warrants for the purchase of the Company's common stock for \$30 million and sold an equal portion of its convertible note hedge for \$41 million, reducing the number of shares related to each of the hedge and warrant by approximately 3 million.

Share Repurchases

In August 2013, the Company obtained Board approval to repurchase up to \$200 million of its common stock. During the nine months ended September 30, 2013, the Company repurchased approximately 860,000 shares of common stock at a cost of approximately \$25 million under the repurchase program. The Company did not repurchase any of its common stock during the nine months ended September 30, 2012.

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Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income were as follows:

	Currency Translation Adjustments	Net Unrealized Gains on Cash Flow Hedges	Net Unrealized Gains on Available-for- Sale Securities	Minimum Pension Liability Adjustment	Accumulated Other Comprehensive Income	
Balance, January 1, 2013	\$193	\$—	\$2	\$(85	) \$110	
Other comprehensive income (loss) before reclassifications	(21	) 1	1	13	(6)
Amounts reclassified from accumulated other comprehensive income ^(a)	—	—	—	6	6	
Net current-period other comprehensive income (loss)	(21	) 1	1	19	—	
Balance, September 30, 2013	\$172	\$1	\$3	\$(66	) \$110	

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

^(a) For the three and nine months ended September 30, 2013, \$10 million (\$6 million, net of tax) was reclassified from accumulated other comprehensive income into selling, general and administrative expenses.

Total Comprehensive Income

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

The components of other comprehensive income were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	\$118	\$280	\$44	\$336
Other comprehensive income:				
Currency translation adjustments	39	26	(21	) 14
Net unrealized gains on available-for-sale securities	2	2	1	—
Net unrealized gains on cash flow hedges ^(a)	—	—	1	11
Minimum pension liability adjustment ^(b)	19	—	19	—
	60	28	—	25
Total comprehensive income	\$178	\$308	\$44	\$361

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

^(a) During the nine months ended September 30, 2013 and 2012, the Company's net unrealized gains on cash flow hedges were \$1 million and \$20 million (\$1 million and \$11 million, net of tax), respectively.

^(b) During the three and nine months ended September 30, 2013, the Company's minimum pension liability adjustment was \$31 million (\$19 million, net of tax).

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15. Stock-Based Compensation

The Company records compensation expense for all stock-based awards based on the estimated fair value of the award at the grant date, which is recognized over the vesting period. The Company recorded stock-based compensation expense of \$5 million and \$4 million (\$3 million and \$2 million, net of tax) during the three months ended September 30, 2013 and 2012, respectively, and \$14 million and \$12 million (\$9 million and \$7 million, net of tax), during the nine months ended September 30, 2013 and 2012, respectively, related to stock-based 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 exercises of stock options and vesting of restricted stock units in 2013 and 2012 did not generate a cash benefit. Approximately \$13 million of incremental tax benefits will be recorded in additional paid-in capital when realized in these jurisdictions.

During the nine months ended September 30, 2013, the Company granted the following stock-based awards under the Amended and Restated 2007 Equity and Incentive Plan:

- 25,000 time-based restricted cash units (“RCUs”) and 87,000 market-vesting restricted cash units (“MCUs”); and

637,000 time-based restricted stock units (“RSUs”), 396,000 performance-based restricted stock units (“PSUs”), and 87,000 market-vesting restricted stock units (“MSUs”).

Restricted Cash Unit Awards

The terms of the RCUs generally provide for vesting on the second anniversary of the grant date, subject to continued employment, and for settlement on the third anniversary of the grant date. The fair value of the RCUs was based on the Company’s stock price of \$21.20 on the grant date.

The terms of the MCUs generally provide for vesting of all or a portion of such units on the third anniversary of the grant date, subject to the attainment of performance goals based on total shareholder return over the vesting period in comparison to a specified market index (“TSR”). On the grant date, these units had a fair market value of \$17.14, which was calculated using a Monte Carlo simulation model, based on the expected cash payout.

The amount payable in respect of the RCUs and MCUs will be based on the Company’s average closing stock price over a specified number of trading days at the time of settlement. At September 30, 2013, the Company had 268,000 time-based and market-vesting restricted cash units outstanding with a weighted average contractual life of 1.6 years.

Restricted Stock Unit Awards

The terms of substantially all of the RSUs provide for vesting ratably on the first three anniversaries of the grant date, subject to continued employment. The weighted-average fair value of the RSUs of \$21.77 was based on the Company’s closing stock price on the date of grant.

The terms of the PSUs generally provide for vesting of a substantial majority of such units (or a portion thereof) on the third anniversary of the grant date, subject to attainment of certain performance goals based on Adjusted EBITDA, subject to certain further adjustments, with full vesting permitted on such anniversary if goals based on TSR are also achieved.

The terms of the MSUs generally provide for vesting of all or a portion of such units on the third anniversary of the grant date, subject to the attainment of performance goals based on TSR.

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The Company determined the weighted-average fair value of performance-based and market-vesting restricted stock units granted in the nine months ended September 30, 2013 and 2012 using a Monte Carlo simulation model. The weighted-average fair value of the PSUs and MSUs granted in the nine months ended September 30, 2013, was estimated to be \$20.67 and \$17.14, respectively. The weighted-average fair value of the Company's market-vesting restricted stock units issued in the nine months ended September 30, 2012 was estimated to be \$10.92. The assumptions used to estimate the weighted-average fair value of the performance-based and market-vesting awards issued during the nine months ended September 30, 2013 and the market-vesting awards issued in the nine months ended September 30, 2012 were as follows:

	Nine Months Ended	
	September 30,	
	2013	2012
Expected volatility of stock price	43%	50%
Risk-free interest rate	0.39%	0.30% - 0.42%
Expected term of awards	3 years	2 1/2 - 3 years
Dividend yield	0.0%	0.0%

The activity related to the Company's time-based, performance-based and market-vesting restricted stock units (collectively, solely for purposes of the table below, "RSUs"), and stock options consisted of:

	RSUs		Options	
	Number of RSUs (in 000s)	Weighted Average Fair Value	Number of Options (in 000s)	Weighted Average Exercise Price
Balance at January 1, 2013	3,497	\$13.64	1,901	\$2.89
Granted at fair market value	1,120	21.02	—	—
Vested/exercised ^(a)	(1,114	) 12.72	(754	) 3.32
Canceled	(67	) 14.20	(3	) 27.40
Balance at September 30, 2013 ^{(b) (c)}	3,436	\$16.34	1,144	\$2.55

During the nine months ended September 30, 2013, 438,000 market-vesting restricted stock units and 676,000 ^(a) time-based restricted stock units vested. Stock options exercised during the nine months ended September 30, 2013 had an intrinsic value of \$18 million.

As of September 30, 2013, the Company's outstanding RSUs had an aggregate intrinsic value of \$99 million; aggregate unrecognized compensation expense related to RSUs amounted to \$32 million; and the balance of RSUs ^(b) at September 30, 2013, consists of 1,358,000 related to time-based awards and 2,078,000 related to market-vesting and performance-based awards. Approximately 1,000 time-based restricted stock units are eligible to vest in 2013, if applicable service criteria are satisfied. No market-vesting restricted stock units are eligible to vest in 2013.

As of September 30, 2013, the Company's outstanding stock options had aggregate intrinsic value of \$30 million; ^(c) there were 1,135,000 "in-the-money" stock options; and aggregate unrecognized compensation expense related to unvested stock options was immaterial. 1,080,000 stock options are exercisable as of September 30, 2013.

The table below summarizes information regarding the Company's outstanding stock options as of September 30, 2013:

Range of Exercise Prices	Weighted Average Contractual Life (years)	Number of Options (in 000s)
Less than \$5.00	5.3	975
\$5.01 to \$10.00	0	—

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\$10.01 to \$15.00	6.3	160
\$15.01 to \$20.00	0	—
\$20.01 and above	1.0	9
Total	5.4	1,144

As of September 30, 2013, all of the stock appreciation rights outstanding at December 31, 2012 had been exercised.

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16. Segment Information

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

	Three Months Ended September 30,			
	2013	Adjusted	2012	Adjusted
	Revenues	EBITDA	Revenues	EBITDA
North America	\$1,513	\$223	\$1,358	\$232
International	773	144	703	129
Truck Rental	109	13	109	14
Corporate and Other ^(a)	—	(11	) —	(5
Total Company ^(b)	\$2,395	369	\$2,170	370
Less: Non-vehicle related depreciation and amortization		39		30
Interest expense related to corporate debt, net:				
Interest expense		57		67
Early extinguishment of debt		—		2
Transaction-related costs ^(c)		10		11
Impairment ^(d)		33		—
Income before income taxes		\$230		\$260

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

^(b) Adjusted EBITDA for the three months ended September 30, 2013 and 2012, includes \$14 million and \$7 million, respectively, of restructuring expense.

^(c) During the three months ended September 30, 2013, the Company incurred \$10 million in transaction-related costs related to the integration of the operations of Avis Europe and the acquisition of Payless. During the three months ended September 30, 2012, the Company incurred \$11 million in transaction-related costs related to the integration of the operations of Avis Europe.

^(d) During the three months ended September 30, 2013, the Company recorded a charge of \$33 million for the impairment of the Company's equity-method investment in its Brazilian licensee.

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	Nine Months Ended September 30,			
	2013	Adjusted	2012	Adjusted
	Revenues	EBITDA	Revenues	EBITDA
North America	\$3,905	\$427	\$3,580	\$509
International	1,895	211	1,791	210
Truck Rental	287	12	287	32
Corporate and Other ^(a)	—	(35	) 1	(15
Total Company ^(b)	\$6,087	615	\$5,659	736
Less: Non-vehicle related depreciation and amortization		109		92
Interest expense related to corporate debt, net:				
Interest expense		170		208
Early extinguishment of debt		131		52
Transaction-related costs ^(c)		37		21
Impairment ^(d)		33		—
Income before income taxes		\$135		\$363

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

^(b) Adjusted EBITDA for the nine months ended September 30, 2013 and 2012, includes \$39 million and \$26 million, respectively, of restructuring expense.

^(c) During the nine months ended September 30, 2013, the Company incurred \$37 million in transaction-related costs related to the integration of the operations of Avis Europe and costs related to the acquisition and integration of Zipcar and Payless. During the nine months ended September 30, 2012, the Company incurred \$21 million in transaction-related costs related to the integration of the operations of Avis Europe.

^(d) During the nine months ended September 30, 2013, the Company recorded a charge of \$33 million for the impairment of the Company's equity-method investment in its Brazilian licensee.

Since December 31, 2012, there have been no significant changes in segment assets other than in the Company's North America segment. As of September 30, 2013 and December 31, 2012, North America segment assets under vehicle programs were approximately \$8.7 billion and \$7.4 billion, respectively, and assets exclusive of assets under vehicle programs were approximately \$3.7 billion and \$3.1 billion, respectively.

17. Guarantor and Non-Guarantor Consolidating Condensed Financial Statements

The following consolidating financial information presents Consolidating Condensed Statements of Comprehensive Income for the three and nine months ended September 30, 2013 and 2012, Consolidating Condensed Balance Sheets as of September 30, 2013 and December 31, 2012, and Consolidating Condensed Statements of Cash Flows for the nine months ended September 30, 2013 and 2012 for: (i) Avis Budget Group, Inc. (the "Parent"); (ii) ABCR and Avis Budget Finance, Inc. (the "Subsidiary Issuers"); (iii) the guarantor subsidiaries; (iv) the non-guarantor subsidiaries; (v) elimination entries necessary to consolidate the Parent with the Subsidiary Issuers, and the guarantor and non-guarantor subsidiaries; and (vi) the Company on a consolidated basis. The Subsidiary Issuers and the guarantor and non-guarantor subsidiaries are 100% owned by the Parent, either directly or indirectly. All guarantees are full and unconditional and joint and several. This financial information is being presented in relation to the Company's guarantee of the payment of principal, premium (if any) and interest on the senior notes issued by the Subsidiary Issuers. These senior notes consist of Floating rate notes due 2014, 4 % notes due 2017, 8¼% notes due 2019, 9¾% notes due 2020 and 5½% notes due April 2023 (collectively, the "Notes"). See Note 11—Long-term Debt and Borrowing Arrangements for additional information regarding these Notes. The Notes are guaranteed by the Parent and certain subsidiaries.

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

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Consolidating Condensed Statements of Comprehensive Income

Three Months Ended September 30, 2013

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Total
Revenues						
Vehicle rental	\$—	\$—	\$1,100	\$634	\$—	\$1,734
Other	—	—	308	740	(387)	) 661
Net revenues	—	—	1,408	1,374	(387)	) 2,395
Expenses						
Operating	2	5	672	463	—	1,142
Vehicle depreciation and lease charges, net	—	—	338	382	(196)	) 524
Selling, general and administrative	9	1	155	109	—	274
Vehicle interest, net	—	—	48	74	(50)	) 72
Non-vehicle related depreciation and amortization	—	—	25	14	—	39
Interest expense related to corporate debt, net:						
Interest expense	1	49	—	7	—	57
Intercompany interest expense (income)	(3)	) (7)	) 1	9	—	—
Transaction-related costs	—	8	—	2	—	10
Restructuring expense	—	—	7	7	—	14
Impairment	—	33	—	—	—	33
Total expenses	9	89	1,246	1,067	(246)	) 2,165
Income (loss) before income taxes and equity in earnings of subsidiaries	(9)	) (89)	) 162	307	(141)	) 230
Provision for (benefit from) income taxes	(2)	) (21)	) 93	42	—	112
Equity in earnings of subsidiaries	125	193	124	—	(442)) —
Net income	\$118	\$125	\$193	\$265	\$(583)) \$118
Comprehensive income	\$178	\$183	\$250	\$303	\$(736)) \$178

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Nine Months Ended September 30, 2013

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Total
Revenues						
Vehicle rental	\$—	\$—	\$2,909	\$1,479	\$—	\$4,388
Other	—	—	842	1,910	(1,053)	) 1,699
Net revenues	—	—	3,751	3,389	(1,053)	) 6,087
Expenses						
Operating	6	8	1,843	1,223	—	3,080
Vehicle depreciation and lease charges, net	—	—	924	949	(486)	) 1,387
Selling, general and administrative	25	4	450	292	—	771
Vehicle interest, net	—	—	136	195	(136)	) 195
Non-vehicle related depreciation and amortization	—	1	71	37	—	109
Interest expense related to corporate debt, net:						
Interest expense	3	147	—	20	—	170
Intercompany interest expense (income)	(9	) (23	) 5	27	—	—
Early extinguishment of debt	41	90	—	—	—	131
Transaction-related costs	1	21	1	14	—	37
Restructuring expense	—	—	23	16	—	39
Impairment	—	33	—	—	—	33
Total expenses	67	281	3,453	2,773	(622)	) 5,952
Income (loss) before income taxes and equity in earnings of subsidiaries	(67	) (281	) 298	616	(431)	) 135
Provision for (benefit from) income taxes	(9	) (96	) 141	55	—	91
Equity in earnings of subsidiaries	102	287	130	—	(519)) —
Net income	\$44	\$102	\$287	\$561	\$(950)	) \$44
Comprehensive income	\$44	\$101	\$			