AVIS BUDGET GROUP, INC.
Form 10-Q
August 08, 2007
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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 June 30, 2007

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	**06-0918165**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification Number)*
6 Sylvan Way	
Parsippany, NJ	**07054**
(Address of principal executive offices)	*(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 ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨	Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of shares outstanding of the issuer s common stock was 103,769,313 shares as of July 31, 2007.

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FORWARD-LOOKING STATEMENTS

The forward-looking statements contained herein are subject to known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements are based on various facts and were derived utilizing numerous important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements. Forward-looking statements include the information concerning our future financial performance, business strategy, projected plans and objectives. Statements preceded by, followed by or that otherwise include the words believes , expects , anticipates , intends , projects , estimates , plans , may increase , 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 the cost of new vehicles;
- a decrease in our ability to acquire or dispose of cars generally through repurchase or guaranteed depreciation programs and/or dispose of vehicles through sales of vehicles in the used car market;
- a decline in the results of operations or financial condition of the manufacturers of our cars;
- a downturn in airline passenger traffic in the United States or in the other international locations in which we operate;
- an occurrence or threat of terrorism, pandemic disease, natural disasters or military conflict in the markets in which we operate;
- 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 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;
- a significant increase in interest rates or in borrowing costs;
- our failure to increase or decrease appropriately the size of our fleet due to the seasonal nature of our business;
- our ability to accurately estimate our future results;

our ability to implement our strategy for growth;

a major disruption in our communication or centralized information networks;

our failure or inability to comply with regulations or any changes in regulations;

our failure or inability to make the changes necessary to operate effectively now that we operate independently from 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;

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

risks inherent in the restructuring of the operations of Budget Truck Rental;

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- risks inherent in the separation and related transactions, including risks related to our April 2006 borrowings, and costs of the separation; and

- the terms of agreements among the separated companies, including the allocations of assets and liabilities, including contingent liabilities and guarantees, commercial arrangements and the performance of each of the separated companies obligations under these agreements.

Other factors and assumptions not identified above, including those described under Risk Factors set forth in Item 1A of our 2006 Annual Report on Form 10-K 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 2006 Annual Report on Form 10-K, 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.

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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 June 30,		Six Months Ended June 30,	
	2007	2006 Restated	2007	2006 Restated
Revenues				
Vehicle rental	$ 1,175	$ 1,150	$ 2,252	$ 2,215
Other	341	304	629	576
Net revenues	1,516	1,454	2,881	2,791
Expenses				
Operating	785	729	1,496	1,425
Vehicle depreciation and lease charges, net	402	364	764	694
Selling, general and administrative	168	240	327	446
Vehicle interest, net	71	75	142	166
Non-vehicle related depreciation and amortization	20	28	43	55
Interest expense related to corporate debt, net	32	97	65	157
Separation costs, net	3	31	(3)	56
Total expenses	1,481	1,564	2,834	2,999
Income (loss) before income taxes	35	(110)	47	(208)
Provision (benefit) from income taxes	12	(46)	12	(78)
Income (loss) from continuing operations	23	(64)	35	(130)
Income from discontinued operations, net of tax		317		532
Gain (loss) on disposal of discontinued operations, net of tax	1	(1,307)	1	(1,322)
Income (loss) before cumulative effect of accounting changes	24	(1,054)	36	(920)
Cumulative effect of accounting changes, net of tax				(64)
Net income (loss)	$ 24	$ (1,054)	$ 36	$ (984)
Earnings per share				
Basic				
Income (loss) from continuing operations	$ 0.22	$ (0.64)	$ 0.34	$ (1.30)
Net income (loss)	0.23	(10.52)	0.35	(9.80)

Diluted				
Income (loss) from continuing operations	$ 0.22	$ (0.64)	$ 0.34	$ (1.30)
Net income (loss)	0.23	(10.52)	0.35	(9.80)

See Notes to Consolidated Condensed Financial Statements.

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Avis Budget Group, Inc.

CONSOLIDATED CONDENSED BALANCE SHEETS

(In millions, except share data)

(Unaudited)

	June 30, 2007	December 31, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 227	$ 172
Receivables, net	436	363
Deferred income taxes	6	7
Other current assets	540	1,264
Total current assets	1,209	1,806
Property and equipment, net	497	486
Deferred income taxes	169	226
Goodwill	2,194	2,193
Other intangibles, net	745	739
Other non-current assets	728	121
Total assets exclusive of assets under vehicle programs	5,542	5,571
Assets under vehicle programs:		
Program cash	18	14
Vehicles, net	9,299	7,049
Receivables from vehicle manufacturers and other	142	276
Investment in Avis Budget Rental Car Funding (AESOP), LLC related party	375	361
	9,834	7,700
Total assets	$ 15,376	$ 13,271
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable and other current liabilities	$ 1,110	$ 1,855
Current portion of long-term debt	11	29
Total current liabilities	1,121	1,884
Long-term debt	1,792	1,813
Other non-current liabilities	959	452
Total liabilities exclusive of liabilities under vehicle programs	3,872	4,149
Liabilities under vehicle programs:		
Debt	1,043	759
Debt due to Avis Budget Rental Car Funding (AESOP), LLC related party	6,321	4,511

Deferred income taxes	1,311	1,206
Other	299	203
	8,974	6,679
Commitments and contingencies (Note 12)		
Stockholders equity:		
Preferred stock, $.01 par value authorized 1 million shares; none issued and outstanding		
Common stock, $.01 par value authorized 250 million shares; issued 136,810,549 and 135,498,121 shares	1	1
Additional paid-in capital	9,327	9,664
Retained earnings (accumulated deficit)	(568)	(586)
Accumulated other comprehensive income	117	68
Treasury stock, at cost 32,605,466 and 34,306,694 shares	(6,347)	(6,704)
Total stockholders equity	2,530	2,443
Total liabilities and stockholders equity	$ 15,376	$ 13,271

See Notes to Consolidated Condensed Financial Statements.

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Avis Budget Group, Inc.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006 Restated
Operating Activities		
Net income (loss)	$ 36	$ (984)
Adjustments to arrive at income (loss) from continuing operations	(1)	854
Income (loss) from continuing operations	35	(130)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used in) operating activities exclusive of vehicle programs:		
Non-vehicle related depreciation and amortization	43	55
Net change in assets and liabilities, excluding the impact of acquisitions and dispositions:		
Receivables	(14)	
Income taxes and deferred income taxes	12	(309)
Accounts payable and other current liabilities	(53)	(37)
Other, net	(11)	(92)
Net cash provided by (used in) continuing operating activities exclusive of vehicle programs	12	(513)
Vehicle programs:		
Vehicle depreciation	759	663
	759	663
Net cash provided by continuing operating activities	771	150
Investing Activities		
Property and equipment additions	(51)	(46)
Net assets acquired, net of cash acquired, and acquisition-related payments	(1)	(113)
Proceeds received on asset sales	8	10
Proceeds from sale of investment	106	
Payments made to Realogy and Wyndham, net	(88)	
Proceeds from dispositions of businesses, net of transaction-related payments	(1)	(28)
Other, net	(8)	6
Net cash used in investing activities exclusive of vehicle programs	(35)	(171)
Vehicle programs:		
Increase in program cash	(4)	(49)
Investment in vehicles	(6,480)	(6,936)
Payments received on investment in vehicles	3,752	5,404

Other, net		(6)
	(2,732)	(1,587)
Net cash used in investing activities	(2,767)	(1,758)

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Avis Budget Group, Inc.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Continued)

(In millions)

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006 Restated
Financing Activities		
Proceeds from borrowings		1,875
Principal payments on borrowings	(39)	
Net short-term borrowings		192
Issuances of common stock	39	36
Repurchases of common stock		(243)
Payment of dividends		(113)
Other, net		(25)
Net cash provided by financing activities exclusive of vehicle programs		1,722
Vehicle programs:		
Proceeds from borrowings	6,287	6,441
Principal payments on borrowings	(4,362)	(7,322)
Net change in short-term borrowings	129	104
Other, net	(6)	(22)
	2,048	(799)
Net cash provided by financing activities	2,048	923
Effect of changes in exchange rates on cash and cash equivalents	3	(1)
Cash provided by (used in) discontinued operations		
Operating activities		1,059
Investing activities		(526)
Financing activities		(282)
Effect of exchange rate changes		10
Cash provided by discontinued operations		261
Net increase (decrease) in cash and cash equivalents	55	(425)
Cash and cash equivalents, beginning of period	172	546
Cash and cash equivalents, end of period	$ 227	$ 121

See Notes to Consolidated Condensed Financial Statements.

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Avis Budget Group, Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unless otherwise noted, all amounts 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 car rentals and ancillary products and services primarily in Canada, Argentina, Australia, 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 principals generally accepted in the United States (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 2006 Annual Report on Form 10-K filed on March 1, 2007.

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.

Discontinued Operations. In connection with the separation of Cendant into four independent companies, 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. Pursuant to Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS No. 144), the account balances and activities of Realogy, Wyndham and Travelport have been segregated and reported as discontinued operations for the three and six months ended June 30, 2006. Summarized financial data for the aforementioned businesses are provided in Note 2 Discontinued Operations.

Separation. During the three and six months ended June 30, 2007, the Company incurred costs (credits) of $3 million and $(3) million, respectively, in connection with the separation of Cendant into four independent companies. Such costs consisted primarily of professional and consulting fees and the six months ended June 30, 2007 amount includes a $14 million credit for tax-related receivables from Realogy and Wyndham recognized in connection with the adoption of the Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), discussed below. For the three and six months ended June 30, 2006, the Company incurred costs of $31 million and $56 million, respectively, in connection with the separation. Such costs were primarily related to the accelerated vesting of stock-based compensation awards, severance and retention and professional and consulting fees.

Restatement. In 2006, the Company restated second quarter 2006 income (loss) from disposal of discontinued operations for an error in the determination of the impairment charge related to the sale of Travelport. The effect of this correction was to recognize an additional loss of $300 million on the sale of Travelport in the second quarter 2006. This restatement was disclosed in the Company s September 30, 2006 Quarterly Report on Form 10-Q, filed on November 21, 2006.

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The following table presents certain of the Company s previously reported income statement and cash flow data and revisions to such data resulting from the restatement and corresponding amounts currently reported.

	As Previously Reported as Cendant	Effect of Discontinued Operations	Effect of Restatement	As Restated
For the three months ended June 30, 2006:				
Consolidated condensed statement of operations				
Gain (loss) on disposal of discontinued operations, net of tax	$ (981)	(26)	(300)	$ (1,307)
Net income (loss)	(754)		(300)	(1,054)
Per share information (*)				
Basic:				
Gain (loss) on disposal of discontinued operations	(9.79)	(0.26)	(3.00)	(13.05)
Net income (loss)	(7.52)		(3.00)	(10.52)
For the six months ended June 30, 2006:				
Consolidated condensed statement of operations				
Gain (loss) on disposal of discontinued operations, net of tax	$ (981)	(41)	(300)	$ (1,322)
Income (loss) before cumulative effect of accounting changes	(620)		(300)	(920)
Net income (loss)	(684)		(300)	(984)
Per share information (*)				
Basic:				
Gain (loss) on disposal of discontinued operations	(9.78)	(0.40)	(2.99)	(13.17)
Net income (loss)	(6.81)		(2.99)	(9.80)
Consolidated condensed statement of cash flow				
Adjustments to arrive at income (loss) from continuing operations	939	(385)	300	854

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(*) Adjusted for the 1-for-10 reverse stock split which became effective September 5, 2006.

This restatement did not affect the Company s income from continuing operations. There was a corresponding decrease of $300 million to the assets of discontinued operations on the Company s balance sheet at June 30, 2006.

Changes in Accounting Policies during 2007

Accounting for Uncertainty in Income Taxes. In June 2006, the FASB issued FIN 48, which is an interpretation of SFAS No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. The Company adopted the provisions of FIN 48 effective January 1, 2007, as required, and recorded an after tax charge to stockholders equity of $18 million, which represents the recognition of $10 million of accrued interest and an increase of $8 million in the liability for unrecognized tax benefits. The Company has been indemnified by Realogy and Wyndham for additional tax related liabilities of $14 million recognized as a result of the adoption of FIN 48. Accordingly, the Company recorded a $14 million credit, within the separation costs, net line item on the accompanying Consolidated Condensed Statement of Operations for first quarter 2007, reflecting the recognition of receivables from Wyndham and Realogy for such tax related matters. At June 30, 2007, certain income tax payable balances have been classified as long term liabilities and certain receivables from Realogy and Wyndham have been classified as non-current assets (see Note 8 Other Current Assets and Note 9 Accounts Payable and Other Current Liabilities).

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Including the impact of the adoption of FIN 48 discussed above, the Company s unrecognized tax benefits totaled $559 million and were reclassified to long-term income taxes payable as of January 1, 2007. If recognized, substantially all would affect the annual effective income tax rate. In connection with the Company s adoption of FIN 48, the Company reduced alternative minimum tax credit and net operating loss carryforwards in the amount of $94 million and $60 million, respectively.

During the six months ended June 30, 2007, the Company s unrecognized tax benefits did not significantly change. As of June 30, 2007, the unrecognized tax benefits in the long-term income taxes payable were $404 million. The Company does not anticipate that total unrecognized tax benefits will significantly change due to the settlement of audits or the expiration of statute of limitations within twelve months.

Including the impact of the adoption of FIN 48 discussed above, the Company s accrual for the payment of potential interest associated with uncertain tax positions was $26 million as of January 1, 2007. During the six months ended June 30, 2007, the Company recorded additional liabilities of $12 million for the payment of interest, which had minimal impact on the Company s results of operations as the Company is substantially indemnified for such liabilities and recognized corresponding receivables from Realogy and Wyndham. The Company recognizes potential interest related to unrecognized tax benefits within interest expense related to corporate debt, net on the accompanying Consolidated Condensed Statements of Operations. Penalties incurred during the six months ended June 30, 2007, were not significant and recognized as a component of income taxes.

Recently Issued Accounting Pronouncements

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115, (SFAS No. 159). SFAS No. 159 permits a company to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and financial liabilities on a contract-by-contract basis, with changes in fair value recognized in earnings. The Company will adopt SFAS No. 159 on January 1, 2008, as required, and is currently evaluating the impact of such adoption on its financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS No. 157) which defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company will adopt SFAS No. 157 on January 1, 2008, as required, and is currently evaluating the impact of such adoption on its financial statements.

2. Discontinued Operations

The $1 million gain on disposal of discontinued operations, net of tax in the three and six months ended June 30, 2007 represents reserve adjustments related to the disposition of certain discontinued operations.

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Summarized statement of operations data for discontinued operations for the three and six months ended June 30, 2006 is as follows:

Three Months Ended June 30, 2006

	Wright Express[(a)]	Marketing Services Division[(b)]	Realogy[(c)]	Wyndham[(c)]
Net revenues	$	$	$ 1,904	$ 899
Income before income taxes	$	$	$ 277	$ 127
Provision for income taxes			108	44
Income from discontinued operations, net of tax	$	$	$ 169	$ 83
Gain (loss) on disposal of discontinued operations	$ 9	$ (8)	$ (9)	$ (8)
Provision (benefit) from income taxes	3	(2)	(2)	(2)
Gain (loss) on disposal of discontinued operations, net of tax	$ 6	$ (6)	$ (7)	$ (6)

	Travelport[(d)]	Total
Net revenues	$ 687	$ 3,490
Income before income taxes	$ 80	$ 484
Provision for income taxes	15	167
Income from discontinued operations, net of tax	$ 65	$ 317
Gain (loss) on disposal of discontinued operations	$ (1,321)	$ (1,337)
Provision (benefit) from income taxes	(27)	(30)
Gain (loss) on disposal of discontinued operations, net of tax	$ (1,294)	$ (1,307)

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(a) Represents payments received from Wright Express in connection with a tax receivable agreement pursuant to which Wright Express is obligated to make payments to the Company over a 15 year term. Pursuant to the Separation Agreement, the Company began to distribute all such payments received from Wright Express to Realogy and Wyndham following the separation.

(b) Represents payments in connection with a guarantee obligation made to the Company s former Marketing Services division.

(c) Loss on disposal of discontinued operations represents costs incurred by Realogy and Wyndham in connection with their separation from Cendant, which was completed on July 31, 2006.

(d) Loss on disposal of discontinued operations includes a $1.3 billion impairment charge reflecting the difference between Travelport s carrying value and its estimated fair value.

Six Months Ended June 30, 2006

	Wright Express[(a)]	Marketing Services Division[(b)]	Realogy[(c)]	Wyndham[(c)]
Net revenues	$	$	$ 3,329	$ 1,714

Income before income taxes	$		$		$	368	$	288
Provision for income taxes						140		106
Income from discontinued operations, net of tax	$		$		$	228	$	182
Gain (loss) on disposal of discontinued operations	$	9	$	(10)	$	(14)	$	(15)
Provision (benefit) from income taxes		3		(4)		(2)		(3)
Gain (loss) on disposal of discontinued operations, net of tax	$	6	$	(6)	$	(12)	$	(12)

	Travelport[d]		Total	
Net revenues	$	1,327	$	6,370
Income before income taxes	$	136	$	792&nbs