

AVIS BUDGET GROUP, INC.
Form 10-Q
May 02, 2019
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 10-Q

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

For the quarterly period ended March 31, 2019

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

For the transition period from _____ to _____

Commission File No. 001-10308

Avis Budget Group, Inc.
(Exact name of registrant as specified in its charter)
Delaware
(State or other jurisdiction of
incorporation or organization)
6 Sylvan Way
Parsippany, NJ
(Address of principal executive offices)

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

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

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or emerging growth company. See the definitions of “large accelerated filer”, “accelerated filer”, “smaller reporting company”, and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer
Smaller reporting company Emerging growth company

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

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

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, Par Value \$0.01	CAR	The NASDAQ Global Select Market

The number of shares outstanding of the issuer's common stock was 75,912,038 shares as of April 30, 2019.

Table of Contents

Table of Contents

	Page
PART I <u>Financial Information</u>	
Item 1. <u>Financial Statements</u>	
<u>Consolidated Condensed Statements of Comprehensive Income for the Three Months Ended March 31, 2019 and 2018 (Unaudited)</u>	3
<u>Consolidated Condensed Balance Sheets as of March 31, 2019 and December 31, 2018 (Unaudited)</u>	4
<u>Consolidated Condensed Statements of Cash Flows for the Three Months Ended March 31, 2019 and 2018 (Unaudited)</u>	5
<u>Consolidated Condensed Statements of Stockholders' Equity for the Three Months Ended March 31, 2019 and 2018 (Unaudited)</u>	7
<u>Notes to Consolidated Condensed Financial Statements (Unaudited)</u>	8
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	37
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	43
Item 4. <u>Controls and Procedures</u>	44
PART II <u>Other Information</u>	
Item 1. <u>Legal Proceedings</u>	45
Item 1A. <u>Risk Factors</u>	45
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	45
Item 6. <u>Exhibits</u>	45
<u>Signatures</u>	46

Table of Contents

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 mobility industry, including from new companies or technology, 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, manufacturer recalls, disruption in the supply of new vehicles, and/or a change in the price at which we dispose of used vehicles either in the used vehicle market or under repurchase or guaranteed depreciation programs;

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

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

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

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

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;

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

political, economic or commercial instability in the countries in which we operate, and our ability to conform to multiple and conflicting laws or regulations in those countries;

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

our dependence on the performance and retention of our senior management and key employees;

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

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

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

1

Table of Contents

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

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

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

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

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

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

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;

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

our ability to accurately estimate our future results; 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 2018 Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 21, 2019 (the “2018 Form 10-K”), could cause actual results to differ materially from those projected in any forward-looking statements.

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

Table of Contents

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 March 31,	
	2019	2018
Revenues	\$1,920	\$1,968
Expenses		
Operating	1,071	1,092
Vehicle		
depreciation and	485	515
lease charges, net		
Selling, general	284	296
and administrative		
Vehicle interest,	81	72
net		
Non-vehicle		
related		
depreciation and	67	61
amortization		
Interest expense		
related to corporate		
debt, net:		
Interest expense	42	46
Early		
extinguishment of	—	5
debt		
Restructuring and		
other related	21	6
charges		
Transaction-related	5	4
costs, net		
Total expenses	2,056	2,097
Loss before income	(136)	(129)
taxes		
Benefit from	(45)	(42)
income taxes		
Net loss	\$(91)	\$(87)
Comprehensive loss	\$(96)	\$(79)

Loss per share

Basic	\$ (1.20)	\$ (1.08)
Diluted	\$ (1.20)	\$ (1.08)

See Notes to Consolidated Condensed Financial Statements (Unaudited).

3

Table of Contents

Avis Budget Group, Inc.
 CONSOLIDATED CONDENSED BALANCE SHEETS
 (In millions, except par value)
 (Unaudited)

	March 31, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$540	\$615
Receivables, net	915	955
Other current assets	682	604
Total current assets	2,137	2,174
Property and equipment, net	737	736
Operating lease right-of-use assets	2,506	—
Deferred income taxes	1,389	1,301
Goodwill	1,086	1,092
Other intangibles, net	809	825
Other non-current assets	258	242
Total assets exclusive of assets under vehicle programs	8,922	6,370
Assets under vehicle programs:		
Program cash	131	115
Vehicles, net	12,585	11,474
Receivables from vehicle manufacturers and other	627	631
Investment in Avis Budget Rental Car Funding (AESOP) LLC—related party	637	559
	13,980	12,779
Total assets	\$22,902	\$19,149
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and other current liabilities	\$2,235	\$1,693
Short-term debt and current portion of long-term debt	23	23
Total current liabilities	2,258	1,716
Long-term debt	3,501	3,528
Long-term operating lease liabilities	2,046	—
Other non-current liabilities	739	767
Total liabilities exclusive of liabilities under vehicle programs	8,544	6,011
Liabilities under vehicle programs:		
Debt	2,665	2,874
Debt due to Avis Budget Rental Car Funding (AESOP) LLC—related party	8,540	7,358
Deferred income taxes	1,995	1,961
Other	834	531
	14,034	12,724
Commitments and contingencies (Note 12)		

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

Stockholders' equity:

Preferred stock, \$0.01 par value—authorized 10 shares; none issued and outstanding, respectively—		—
Common stock, \$0.01 par value—authorized 250 shares; issued 137 shares, respectively	1	1
Additional paid-in capital	6,737	6,771
Accumulated deficit	(1,178)	(1,091)
Accumulated other comprehensive loss	(137)	(133)
Treasury stock, at cost—61 shares, respectively	(5,099)	(5,134)
Total stockholders' equity	324	414
Total liabilities and stockholders' equity	\$22,902	\$ 19,149

See Notes to Consolidated Condensed Financial Statements (Unaudited).

4

Table of Contents

Avis Budget Group, Inc.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Three Months Ended March 31, 2019 2018	
Operating activities		
Net loss	\$(91)	\$(87)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Vehicle depreciation	436	460
Amortization of right-of-use assets	215	—
(Gain) loss on sale of vehicles, net	(8)	(1)
Non-vehicle related depreciation and amortization	67	61
Stock-based compensation	5	5
Amortization of debt financing fees	8	8
Early extinguishment of debt costs	—	5
Net change in assets and liabilities:		
Receivables	2	16
Income taxes and deferred income taxes	(51)	(44)
Accounts payable and other current liabilities	97	109
Operating lease liabilities	(216)	—
Other, net	(24)	(29)
Net cash provided by operating activities	440	503
Investing activities		
Property and equipment additions	(57)	(57)
Proceeds received on asset sales	2	4
Net assets acquired (net of cash acquired)	(5)	(10)
Other, net	(3)	(19)
Net cash used in investing activities exclusive of vehicle programs	(63)	(82)
Vehicle programs:		
Investment in vehicles	(4,376)	(4,226)
Proceeds received on disposition of vehicles	3,083	2,572
Investment in debt securities of Avis Budget Rental Car Funding (AESOP) LLC—related party	(78)	—
	(1,371)	(1,654)
Net cash used in investing activities	(1,434)	(1,736)

Table of Contents

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

	Three Months Ended March 31, 2019 2018	
Financing activities		
Proceeds from long-term borrowings	—	81
Payments on long-term borrowings	(5)	(89)
Net change in short-term borrowings	—	(1)
Repurchases of common stock	(4)	(14)
Debt financing fees	—	(8)
Other, net	—	1
Net cash used in financing activities exclusive of vehicle programs	(9)	(30)
Vehicle programs:		
Proceeds from borrowings	5,989	5,100
Payments on borrowings	(5,038)	(4,045)
Debt financing fees	(5)	(1)
	946	1,054
Net cash provided by financing activities	937	1,024
Effect of changes in exchange rates on cash and cash equivalents, program and restricted cash	(2)	9
Net decrease in cash and cash equivalents, program and restricted cash	(59)	(200)
Cash and cash equivalents, program and restricted cash, beginning of period	735	901
Cash and cash equivalents, program and restricted cash, end of period	\$676	\$701

See Notes to Consolidated Condensed Financial Statements (Unaudited).

Table of Contents

Avis Budget Group, Inc.

CONSOLIDATED CONDENSED STATEMENTS OF STOCKHOLDERS' EQUITY

(In millions)

(Unaudited)

	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Shares	Amount	Total Stockholders' Equity
Balance at December 31, 2018	137.1	\$ 1	\$ 6,771	\$ (1,091)	\$ (133)	(61.5)	\$(5,134)	\$ 414
Cumulative effect of accounting change	—	—	—	4	1	—	—	5
Comprehensive loss:								
Net loss	—	—	—	(91)	—	—	—	
Other comprehensive loss	—	—	—	—	(5)	—	—	
Total comprehensive loss								(96)
Net activity related to restricted stock units	—	—	(29)	—	—	0.3	30	1
Exercise of stock options	—	—	(5)	—	—	0.1	5	—
Balance at March 31, 2019	137.1	\$ 1	\$ 6,737	\$ (1,178)	\$ (137)	(61.1)	\$(5,099)	\$ 324
Balance at December 31, 2017	137.1	\$ 1	\$ 6,820	\$ (1,222)	\$ (24)	(56.3)	\$(5,002)	\$ 573
Cumulative effect of accounting change	—	—	—	(35)	(6)	—	—	(41)
Comprehensive loss:								
Net loss	—	—	—	(87)	—	—	—	
Other comprehensive income	—	—	—	—	8	—	—	
Total comprehensive loss								(79)
Net activity related to restricted stock units	—	—	(27)	—	—	0.2	27	—
Exercise of stock options	—	—	(13)	—	—	0.2	15	2
Balance at March 31, 2018	137.1	\$ 1	\$ 6,780	\$ (1,344)	\$ (22)	(55.9)	\$(4,960)	\$ 455

See Notes to Consolidated Condensed Financial Statements (Unaudited).

Table of Contents

Avis Budget Group, Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)

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

1. Basis of Presentation

Avis Budget Group, Inc. provides mobility solutions to businesses and consumers worldwide. The accompanying unaudited Consolidated Condensed Financial Statements include the accounts and transactions of Avis Budget Group, Inc. and its subsidiaries, as well as entities in which Avis Budget Group, Inc. directly or indirectly has a controlling financial interest (collectively, the “Company”), and have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission for interim financial reporting.

The Company operates the following reportable business segments:

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

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

The operating results of acquired businesses are included in the accompanying Consolidated Condensed Financial Statements from the dates of acquisition. The fair value of the assets acquired and liabilities assumed in connection with the Company’s 2018 acquisitions of Turiscar Group, Morini S.p.A and various licensees in Europe and North America have not yet been finalized; however, there have been no significant changes to the preliminary allocation of the purchase price during the three months ended March 31, 2019.

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 2018 Form 10-K.

Summary of Significant Accounting Policies

The Company’s significant accounting policies are fully described in Note 2, “Summary of Significant Accounting Policies,” in the Company’s Annual Report on Form 10-K for fiscal year 2018.

Cash and cash equivalents, Program cash and Restricted cash. The following table provides a detail of cash and cash equivalents, program and restricted cash reported within the Consolidated Condensed Balance Sheets to the amounts shown in the Consolidated Condensed Statements of Cash Flows.

	As of	
	March 31,	
	2019	2018
Cash and cash equivalents	\$ 540	\$ 544
Program cash	131	147

Restricted cash ^(a)	5	10
Total cash and cash equivalents, program and restricted cash	\$676	\$701

^(a) Included within other current assets.

Vehicle Programs. The Company presents separately the financial data of its vehicle programs. These programs are distinct from the Company's other activities since the assets under vehicle programs are

8

Table of Contents

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

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

Currency Transactions. The Company records the gain or loss on foreign-currency transactions on certain intercompany loans and the gain or loss on intercompany loan hedges within interest expense related to corporate debt, net. During the three months ended March 31, 2019 and 2018, the Company recorded a gain of \$5 million and \$1 million, respectively, related to such items.

Divestitures. During 2018, the Company, entered into a definitive stock purchase agreement “Purchase Agreement” to sell the Company’s 50% equity method investment in Anji Car Rental & Leasing Company Limited (“Anji”), located in China, to Shanghai Automotive Industry Sales Company, Ltd., a 50% owner of Anji. Anji’s operations are reported within the Company’s International segment. The sale closed in the second quarter of 2019 upon receiving clearance from applicable regulatory authorities in China (see Note 18 - Subsequent Events). As of March 31, 2019 and December 31, 2018, the carrying value of the Company’s 50% equity method investment in Anji was \$24 million and \$25 million, respectively, and is recorded as assets held for sale, which is included in other non-current assets on the Consolidated Condensed Balance Sheets.

Other Investments. In March 2018, the Company made an initial equity investment of \$20 million in its licensee in Greece (“Greece”), for a 20% ownership stake. In June 2018, the Company purchased an additional 20% ownership stake for \$19 million, including an acceleration premium. The Company’s equity investment is recorded within other non-current assets. The Company’s share of Greece’s results are reported within operating expenses and were not material for the three months ended March 31, 2019 and 2018.

Nonmarketable Equity Securities. As of March 31, 2019 and December 31, 2018, the Company’s carrying amount of nonmarketable equity securities was \$20 million and \$8 million, respectively, and are recorded within other non-current assets. During the three months ended March 31, 2019, the Company recorded a \$12 million favorable adjustment to the carrying amount of nonmarketable equity securities within operating expenses. No adjustments were made to the carrying amount during the three months ended March 31, 2018.

Revenues. From January 1, 2018 through December 31, 2018, the Company’s revenues were recognized in accordance with ASU 2014-09, “Revenue from Contracts with Customers (Topic 606)”. Effective January 1, 2019, revenues are recognized under ASU 2016-02, “Leases (Topic 842)” with the exception of royalty fee revenue derived from the Company’s licensees and revenue related to the Company’s customer loyalty program, which was approximately \$30 million during the three months ended March 31, 2019. The following table presents the Company’s revenues disaggregated by geography.

Three Months
 Ended March
 31,
 2019 2018

Americas	\$1,348
Europe, Middle East and Africa	447
Asia and Australasia	173
Total revenues	\$1,920 \$1,968

Table of Contents

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

Three Months Ended March 31,	
2019	2018
Auto	\$1,145
Budget	642
Other	181
Total revenues	\$1,968

Other includes Zipcar and other operating brands.

Deferred Revenue. The following table presents changes in deferred revenue associated with the Company's customer loyalty program.

	Three Months Ended March 31,	
	2019	2018
Balance, January 1	\$64	\$69
Revenue deferred	5	7
Revenue recognized	(6)	(4)
Balance, March 31	\$63	\$72

At March 31, 2019 and 2018, \$18 million was included in accounts payable and other current liabilities, in each period, and \$45 million and \$54 million, respectively, in other non-current liabilities. Non-current amounts are expected to be recognized as revenue within two to three years.

At January 1, 2018, the Company's prepaid rentals and membership fees related to its car sharing business were \$125 million. During the three months ended March 31, 2018, additional revenues of \$412 million were deferred and revenues of \$359 million were recognized. At March 31, 2018, the ending prepaid rentals and car sharing membership fees were \$178 million, of which \$176 million was included in accounts payable and other current liabilities and \$2 million was included in other non-current liabilities.

Adoption of New Accounting Pronouncements

Nonemployee Share-Based Payment Accounting

On January 1, 2019, as a result of a new accounting pronouncement, the Company adopted Accounting Standards Update ("ASU") 2018-02, "Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting," which simplifies the accounting for share-based payments granted to nonemployees for goods and services and aligns most of the guidance on such payments to nonemployees with the requirements for share-based payments granted to employees. The adoption of this accounting pronouncement did not have an impact on the Company's Consolidated Condensed Financial Statements.

Accounting for Hedging Activities

On January 1, 2019, as the result of a new accounting pronouncement, the Company adopted ASU 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities,” which amends the existing guidance to allow companies to more accurately present the economic results of an entity’s risk management activities in the financial statements. The adoption of this standard did not have a material impact on the Company’s Consolidated Condensed Financial Statements.

Leases

On January 1, 2019, as the result of a new accounting pronouncement, the Company adopted Topic 842 along with related updates, which require a lessee to recognize all long-term leases on its balance sheet as a liability for its lease obligation, measured at the present value of lease payments not yet paid, and a corresponding asset representing its right to use the underlying asset over the lease term and expands disclosure of key information about leasing arrangements. Topic 842 does not significantly change a lessee’s

Table of Contents

recognition, measurement and presentation of expenses and cash flows. Additionally, Topic 842 aligns key aspects of lessor accounting with the revenue recognition guidance in Topic 606.

The Company elected available practical expedients for existing or expired contracts of lessees and lessors wherein the Company is not required to reassess whether such contracts contain leases, the lease classification or the initial direct costs. The Company is not utilizing the practical expedient which allows the use of hindsight by lessees and lessors in determining the lease term and in assessing impairment of its right-of-use (“ROU”) assets. Additionally, the Company elected as accounting policies to not recognize ROU assets or lease liabilities for short-term leases (i.e. those with a term of 12 months or less at lease commencement) and, by class of underlying asset, to combine lease and nonlease components in the contract. The Company utilized the transition method allowing entities to only apply the new lease standard in the year of adoption.

Lessor

The Company has determined that revenues derived by providing vehicle rentals and other related products and mobility services to customers are within the scope of the accounting guidance contained in Topic 842 with the exception of royalty fee revenue derived from the Company’s licensees and revenue related to the Company’s customer loyalty program. The Company’s rental related revenues have been accounted for under the revenue accounting standard Topic 606, until the adoption of Topic 842.

The Company excludes from the measurement of its lease revenues any tax assessed by a governmental authority that is both imposed on and concurrent with a specific revenue-producing transaction and collected from a customer. As a result, lease revenues exclude such taxes collected. Fees collected from customers for which the Company is the primary obligor such as airport concessions and vehicle licensing are recorded within revenues and corresponding remittances of these fees by the Company are recorded within operating expenses.

Lessee

The Company determines if an arrangement is a lease at inception. Operating leases, other than those associated with the Company’s vehicle rental programs, are included in operating lease ROU assets, accounts payable and other current liabilities, and long-term operating lease liabilities in the Company’s Consolidated Condensed Balance Sheets. Finance leases, other than those associated with the Company’s vehicle rental programs, are included in property and equipment, net, short-term debt and current portion of long-term debt, and long-term debt in the Company’s Consolidated Condensed Balance Sheets.

ROU assets represent the Company’s right to use an underlying asset for the lease term and lease liabilities represent the Company’s obligation to make lease payments arising from the lease. ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the expected lease term. As most of the Company’s leases do not provide an implicit rate, the Company uses its incremental borrowing rate based on information available at commencement date in determining the present value of lease payments. The operating lease ROU assets are reduced by any lease incentives. The Company’s lease terms may include options to extend or terminate the lease, which are included in the calculation of ROU assets when it is reasonably certain that the Company will exercise those options. Lease expense for lease payments is usually recognized on a straight-line basis over the lease term.

The Company has lease agreements with lease and non-lease components, which are generally not accounted for separately. Additionally, for certain leases, the Company applies a portfolio approach to account for the operating lease ROU assets and liabilities as the leases are similar in nature and have nearly identical contract provisions.

Adoption of this standard resulted in most of the Company’s operating lease commitments being recognized as operating lease liabilities and right-of-use assets, which increased total assets and total liabilities by approximately

\$2,811 million related to property operating leases and \$183 million related to vehicle operating leases. The Company recorded a beginning accumulated deficit adjustment of \$5 million, net of tax, related to the adoption of this standard.

Table of Contents

Recently Issued Accounting Pronouncements

Intangibles—Goodwill and Other—Internal—Use Software

In August 2018, the Financial Accounting Standards Board (“FASB”) issued ASU 2018-15 “Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement That Is a Service Contract”, which provides guidance for determining when the arrangement includes a software license. The amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal use software (and hosting arrangements that include an internal use software license). The amendments in this update also require the entity to expense the capitalized implementation costs of a hosting arrangement that is a service contract over the term of the hosting arrangement, to present the expense in the same line in its statement of income as the fees associated with the hosting element (service) of the arrangement and classify payments for capitalized implementation costs in its statement of cash flows in the same manner as payments made for fees associated with the hosting element. The entity is also required to present the capitalized implementation costs in its balance sheet in the same line that a prepayment for the fees of the associated hosting arrangement would be presented. ASU 2018-15 becomes effective for the Company on January 1, 2020. Early adoption is permitted. The Company is currently evaluating the impact of adopting this accounting pronouncement on its Consolidated Condensed Financial Statements.

Compensation—Retirement Benefits—Defined Benefit Plans

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

Fair Value Measurement

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

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,” which sets forth a current expected credit loss impairment model for financial assets that replaces the current incurred loss model. This model requires a financial asset (or group of financial assets), including trade receivables, measured at amortized cost to be presented at the net amount expected to be collected with an allowance for credit losses deducted from the amortized cost basis. The allowance for credit losses should reflect management’s current estimate of credit losses that are expected to occur over the remaining life of a financial asset. ASU 2016-13 becomes effective for the Company on January 1, 2020. Early adoption is permitted as of January 1, 2019. The adoption of this accounting pronouncement is not expected to have a material impact on the Company's Consolidated Condensed Financial Statements.

2. Leases

Lessor

For periods after January 1, 2019, the Company combines all lease and nonlease components of its vehicle rental contracts for which the timing and pattern of transfer are the same and the lease component meets the classification of an operating lease, and accounts for them in accordance with Topic 842. The Company derives revenues primarily by providing vehicle rentals and other related products and mobility services to

12

Table of Contents

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

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

Three	
Months	
Ended	
March	
31, 2019	
Americas	\$1,319
Europe,	
Middle	
East	\$114
and	
Africa	
Asia	
and	\$57
Australasia	
Total	\$1,490
lease	
revenues	

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

Three	
Months	
Ended	
March	
31,	
2019	
Avis	\$1,083
Budget	\$640
Other	\$167
Total	\$1,890
lease	
revenues	

Other includes Zipcar and other operating brands.

Lessee

The Company has operating and finance leases for rental locations, corporate offices, vehicle rental fleet and equipment. Many of the Company's operating leases for rental locations contain concession agreements with various airport authorities that allow the Company to conduct its vehicle rental operations on site. In general, concession fees for airport locations are based on a percentage of total commissionable revenue (as defined by each airport authority), some of which are subject to minimum annual guaranteed amounts. Concession fees other than minimum annual guaranteed amounts are not included in the measurement of operating lease ROU assets and operating lease liabilities, and are recorded as variable lease expense as incurred. The Company's operating leases for rental locations often also require the Company to pay or reimburse operating expenses.

The Company leases a portion of its vehicles under operating leases, some of which extend through 2025. As of March 31, 2019, the Company has guaranteed up to \$292 million of residual values for these vehicles at the end of their respective lease terms. The Company believes that, based on current market conditions, the net proceeds from the sale of these vehicles at the end of their lease terms will equal or exceed their net book values and therefore has not recorded a liability related to guaranteed residual values.

Table of Contents

The components of lease expense are as follows:

	Three Months Ended March 31, 2019
Property leases ^(a)	
Operating lease expense	\$ 177
Variable lease expense	51
Total property lease expense	\$ 228

Vehicle leases

Finance lease expense:

Amortization of ROU assets ^(b)	\$ 11
Interest on lease liabilities ^(c)	1
Operating lease expense ^(b)	57
Total vehicle lease expense	\$ 69

^(a) Primarily included in operating expense.

^(b) Included in vehicle depreciation and lease charges, net.

^(c) Included in vehicle interest, net.

Table of Contents

Supplemental balance sheet information related to leases is as follows:

	As of March 31, 2019
Property leases	
Operating lease ROU assets	\$2,506
Short-term operating lease liabilities ^(a)	\$474
Long-term operating lease liabilities	2,046
Operating lease liabilities	\$2,520
Weighted average remaining lease term	9.5 years
Weighted average discount rate	4.58 %
Vehicle leases	
Finance	
Finance lease ROU assets, gross	\$282
Accumulated amortization	(50)
Finance lease ROU assets, net ^(b)	\$232
Short-term vehicle finance lease liabilities	\$82
Long-term vehicle finance lease liabilities	117
Vehicle finance lease liabilities ^(c)	\$199
Weighted average remaining lease term	1.8 years
Weighted average discount rate	1.40 %
Operating	
Vehicle operating lease ROU assets ^(d)	\$147
Short-term vehicle operating lease liabilities	\$82
Long-term vehicle operating lease liabilities	65
Vehicle operating lease liabilities ^(e)	\$147
Weighted average remaining lease term	2.8 years
Weighted average discount rate	3.09 %
Other leases	
Finance property and equipment lease ROU assets, gross	\$25
Accumulated amortization	(2)
Finance property and equipment lease ROU assets, net ^(f)	\$23
Short-term finance lease liabilities ^(g)	\$8
Long-term finance lease liabilities ^(h)	15
Finance lease liabilities	\$23

Weighted average remaining lease term	4.0	
	years	
Weighted average discount rate	5.86	%

-
- (a) Included in Accounts payable and other current liabilities.
 - (b) Included in Vehicles, net within Assets under vehicle programs.
 - (c) Included in Debt within Liabilities under vehicle programs.
 - (d) Included in Receivables from vehicle manufacturers and other within Assets under vehicle programs.
 - (e) Included in Other within Liabilities under vehicle programs.
 - (f) Included in Property and equipment, net.
 - (g) Included in Short-term debt and current portion of long-term debt.
 - (h) Included in Long-term debt.

Table of Contents

Supplemental cash flow information related to leases is as follows:

	Three Months Ended March 31, 2019
Cash payments for lease liabilities within operating activities:	
Property operating leases	\$ 189
Vehicle operating leases	27
Vehicle finance leases	1
Cash payments for lease liabilities within financing activities:	
Vehicle finance leases	38
Non-cash activities - increase (decrease) in ROU assets in exchange for lease liabilities:	
Property operating leases ^(a)	(113)
Vehicle operating leases ^(a)	(8)
Vehicle finance leases	35

^(a) ROU assets obtained in exchange for lease liabilities from initial recognition.

Maturities of lease liabilities as of March 31, 2019 are as follows:

	Property Operating leases	Vehicle Finance leases	Vehicle Operating leases	Other Finance leases
Within 1 year	\$ 615	\$ 82	\$ 87	\$ 9
Between 1 and 2 years	404	12	43	6
Between 2 and 3 years	359	100	16	3
Between 3 and 4 years	304	5	6	3
Between 4 and 5 years	252	—	—	2
Thereafter	1,220	—	—	3
Total lease payments	3,154	199	152	26
Less: imputed interest	(634)	—	(5)	(3)
Total	\$ 2,520	\$ 199	\$ 147	\$ 23

Future minimum lease payments required under noncancelable operating leases, including minimum concession fees charged by airport authorities, which in many locations are recoverable from vehicle rental customers, as of December 31, 2018, were as follows:

	Amount
2019	\$ 835
2020	476
2021	345
2022	253
2023	162
Thereafter	590
	\$ 2,661

3. Restructuring and Other Related Charges

Restructuring

During first quarter 2019, the Company initiated a restructuring plan to drive global efficiency by improving processes and consolidating functions, and to create new objectives and strategies for its U.S. truck rental operations by reducing headcount, large vehicles and rental locations (“T19”). During the three months

16

Table of Contents

ended March 31, 2019, as part of this process, the Company formally communicated the termination of employment to approximately 160 employees, and as of March 31, 2019, the Company had terminated approximately 130 of these employees. The Company expects further restructuring expense of approximately \$40 million related to this initiative to be incurred in 2019.

During first quarter 2018, the Company initiated a strategic restructuring plan to improve processes and reduce headcount in response to its new workforce planning technology that allows more effective management of staff levels (“Workforce planning”). The costs associated with this initiative primarily represent severance, outplacement services and other costs associated with employee terminations, the majority of which have been settled in cash. This initiative is complete.

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

	Americas	International	Total
Balance as of January 1, 2019	\$ —	\$ 2	\$ 2
Restructuring expense:			
T19	14	4	18
Restructuring payment/utilization:			
T19	(14)	(2)	(16)
Workforce planning	—	(1)	(1)
Balance as of March 31, 2019	\$ —	\$ 3	\$ 3

	Personnel Related	Other ^(a)	Total
Balance as of January 1, 2019	\$ 1	\$ 1	\$ 2
Restructuring expense:			
T19	8	10	18
Restructuring payment/utilization:			
T19	(7)	(9)	(16)
Workforce planning	(1)	—	(1)
Balance as of March 31, 2019	\$ 1	\$ 2	\$ 3

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

Other Related Charges

Officer Separation Costs

On March 18, 2019, the Company announced the resignation of Mark J. Servodidio as the Company’s President, International effective June 14, 2019. In connection with Mr. Servodidio’s departure, the Company recorded other related charges of approximately \$3 million, inclusive of accelerated stock-based compensation expense.

Table of Contents

4. Earnings Per Share

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

	Three Months Ended March 31,	
	2019	2018
Net loss for basic and diluted EPS	\$(91)	\$(87)

Basic and diluted weighted average shares outstanding	75.8	81.0
---	------	------

(a)

Loss per share:

Basic and diluted \$(1.20) \$(1.08)

For the three months ended March 31, 2019 and 2018, 1.3 million and 1.5 million non-vested stock awards, respectively, have an anti-dilutive effect and therefore are excluded from the computation of diluted weighted average shares outstanding. For the three months ended March 31, 2018, 0.1 million outstanding options have an anti-dilutive effect and therefore are excluded from the computation of diluted weighted average shares outstanding.

5. Other Current Assets

Other current assets consisted of:

	As of March 31, 2019	As of December 31, 2018
Prepaid expenses	\$ 257	\$ 241
Sales and use taxes	228	180
Other	197	183
Other current assets	\$ 682	\$ 604

6. Intangible Assets

Intangible assets consisted of:

	As of March 31, 2019			As of December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized Intangible Assets						
License agreements	\$306	\$ 177	\$ 129	\$305	\$ 168	\$ 137
Customer relationships	248	145	103	251	141	110
Other	51	22	29	52	21	31
Total	\$605	\$ 344	\$ 261	\$608	\$ 330	\$ 278

Unamortized Intangible Assets

Goodwill ^(a)	\$ 1,086	\$ 1,092
Trademarks	\$ 548	\$ 547

^(a) The change in the carrying amount since December 31, 2018, primarily reflects currency translation.

For the three months ended March 31, 2019 and 2018, amortization expense related to amortizable intangible assets was approximately \$17 million and \$14 million, respectively. Based on the Company's amortizable intangible assets at March 31, 2019, the Company expects amortization expense of approximately \$41 million for the remainder of 2019, \$48 million for 2020, \$34 million for 2021, \$25 million for 2022, \$22 million for 2023 and \$20 million for 2024, excluding effects of currency exchange rates.

Table of Contents

7. Vehicle Rental Activities

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

	As of March 31, 2019	As of December 31, 2018
Rental vehicles	\$ 13,601	\$ 12,548
Less: Accumulated depreciation	(1,480)	(1,670)
	12,121	10,878
Vehicles held for sale	464	596
Vehicles, net	\$ 12,585	\$ 11,474

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

	Three Months Ended March 31,	
	2019	2018
Depreciation expense	\$436	\$460
Lease charges	57	56
(Gain) loss on sale of vehicles, net	(8)	(1)
Vehicle depreciation and lease charges, net	\$485	\$515

At March 31, 2019 and 2018, the Company had payables related to vehicle purchases included in liabilities under vehicle programs - other of \$632 million and \$641 million, respectively, and receivables related to vehicle sales included in assets under vehicle programs - receivables from vehicle manufacturers and other of \$474 million and \$329 million, respectively.

8. Income Taxes

The Company's effective tax rate for the three months ended March 31, 2019 was a benefit of 33.1%. Such rate differed from the Federal statutory rate of 21.0% primarily due to foreign taxes on our international operations and state taxes.

The Company's effective tax rate for the three months ended March 31, 2018 was a benefit of 32.6%. Such rate differed from the Federal statutory rate of 21.0% primarily due to U.S. and foreign taxes on our international operations and state taxes. Tax benefits associated with stock-based compensation increased the benefit for income taxes recorded in the period.

9. Accounts Payable and Other Current Liabilities

Accounts payable and other current liabilities consisted of:

	As of March 31, 2019	As of December 31, 2018
Short-term operating lease liabilities	\$474	\$ —
Accounts payable	415	371

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

Accrued sales and use taxes	234	208
Accrued advertising and marketing	194	192
Deferred lease revenues – current	176	140
Public liability and property damage insurance liabilities – current	149	149
Accrued payroll and related	148	200
Other	445	433
Accounts payable and other current liabilities	\$2,235	\$ 1,693

Table of Contents

10. Long-term Corporate Debt and Borrowing Arrangements

Long-term corporate debt and borrowing arrangements consisted of:

	Maturity Dates	As of March 31, 2019	As of December 31, 2018
5½% Senior Notes	April 2023	\$675	\$ 675
6 % Senior Notes	April 2024	350	350
4 % euro-denominated Senior Notes	November 2024	337	344
Floating Rate Term Loan ^(a)	February 2025	1,120	1,123
5¼% Senior Notes	March 2025	375	375
4½% euro-denominated Senior Notes	May 2025	280	287
4¾% euro-denominated Senior Notes	January 2026	393	401
Other ^(b)		36	41
Deferred financing fees		(42)	(45)
Total		3,524	3,551
Less: Short-term debt and current portion of long-term debt		23	23
Long-term debt		\$3,501	\$ 3,528

The floating rate term loan is part of the Company's senior revolving credit facility, which is secured by pledges of capital stock of certain subsidiaries of the Company, and liens on substantially all of the Company's intellectual property and certain other real and personal property. As of March 31, 2019, the floating rate term loan due 2025 bears interest at one-month LIBOR plus 200 basis points, for an aggregate rate of 4.50%. The Company has entered into a swap to hedge \$700 million of its interest rate exposure related to the floating rate term loan at an aggregate rate of 3.67%.

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

Committed Credit Facilities and Available Funding Arrangements

At March 31, 2019, the committed corporate credit facilities available to the Company and/or its subsidiaries were as follows:

	Total Capacity	Outstanding Borrowings	Letters of Credit Issued	Available Capacity
Senior revolving credit facility maturing 2023 ^(a)	\$ 1,800	\$ —	\$ 1,163	\$ 637

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

At March 31, 2019, the Company had various uncommitted credit facilities available, under which it had drawn approximately \$1 million, which bear interest at rates between 0.73% and 1.53%.

Debt Covenants

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 also contains a consolidated first lien leverage ratio requirement. As of March 31, 2019, the Company was in compliance with the financial covenants governing its indebtedness.

Table of Contents

11. Debt Under Vehicle Programs and Borrowing Arrangements

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

	As of March 31, 2019	As of December 31, 2018
Americas - Debt due to Avis Budget Rental Car Funding ^(a)	\$8,576	\$7,393
Americas - Debt borrowings	655	635
International - Debt borrowings	1,835	2,060
International - Finance leases	186	191
Other	1	2
Deferred financing fees ^(b)	(48)	(49)
Total	\$11,205	\$10,232

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

^(b) Deferred financing fees related to Debt due to Avis Budget Rental Car Funding as of March 31, 2019 and December 31, 2018 was \$36 million and \$35 million, respectively.

In February 2019, the Company’s Avis Budget Rental Car Funding subsidiary issued approximately \$600 million in asset-backed notes with an expected final payment date of March 2022 incurring interest at a weighted average rate of 3.56%.

Debt Maturities

The following table provides the contractual maturities of the Company’s debt under vehicle programs, including related party debt due to Avis Budget Rental Car Funding, at March 31, 2019.

	Debt under Vehicle Programs (a)
Within 1 year	\$ 1,559
Between 1 and 2 years ^(b)	4,430
Between 2 and 3 years ^(c)	2,693
Between 3 and 4 years	1,264
Between 4 and 5 years	1,078
Thereafter	229
Total	\$ 11,253

^(a) Vehicle-backed debt primarily represents asset-backed securities.

^(b) Includes \$3.0 billion of bank and bank-sponsored facilities.

^(c) Includes \$1.3 billion of bank and bank-sponsored facilities.

Committed Credit Facilities and Available Funding Arrangements

As of March 31, 2019, available funding under the Company’s vehicle programs, including related party debt due to Avis Budget Rental Car Funding, consisted of:

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

	Total Capacity (a)	Outstanding Borrowings (b)	Available Capacity
Americas - Debt due to Avis Budget Rental Car Funding	\$9,236	\$ 8,576	\$ 660
Americas - Debt borrowings	926	655	271
International - Debt borrowings	2,985	1,835	1,150
International - Finance leases	207	186	21
Other	1	1	—
Total	\$13,355	\$ 11,253	\$ 2,102

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

(b) The outstanding debt is collateralized by vehicles and related assets of \$9.9 billion for Americas - Debt due to Avis Budget Rental

Table of Contents

Car Funding; \$0.7 billion for Americas - Debt borrowings; \$2.0 billion for International - Debt borrowings; and \$0.2 billion for International - Finance leases.

Debt Covenants

The agreements under the Company's vehicle-backed funding programs contain restrictive covenants, including restrictions on dividends paid to the Company by certain of its subsidiaries and restrictions on indebtedness, mergers, liens, liquidations, and sale and leaseback transactions and in some cases also require compliance with certain financial requirements. As of March 31, 2019, the Company is not aware of any instances of non-compliance with any of the financial covenants contained in the debt agreements under its vehicle-backed funding programs.

12. Commitments and Contingencies

Contingencies

In 2006, the Company completed the spin-offs of its Realogy and Wyndham subsidiaries. The Company does not believe that the impact of any resolution of pre-existing contingent liabilities in connection with the spin-offs should result in a material liability to the Company in relation to its consolidated financial position or liquidity, as Realogy and Wyndham each have agreed to assume responsibility for these liabilities. The Company is also named in litigation that is primarily related to the businesses of its former subsidiaries, including Realogy and Wyndham. The Company is entitled to indemnification from such entities for any liability resulting from such litigation.

In February 2017, following a state court trial in Georgia, a jury found the Company liable for damages in a case brought by a plaintiff who was injured in a vehicle accident allegedly caused by an employee of an independent contractor of the Company who was acting outside of the scope of employment. In March 2017, the Company was also found liable for damages in a companion case arising from the same incident. The Company is appealing both verdicts and considers the attribution of liability to the Company, and the amount of damages awarded, to be unsupported by the facts of these cases. The Company has recognized a liability for the expected loss related to these cases, net of recoverable insurance proceeds, of approximately \$12 million.

The Company is involved in claims, legal proceedings and governmental inquiries that are incidental to its vehicle rental and car sharing operations, including, among others, contract and licensee disputes, competition matters, employment and wage-and-hour claims, insurance and liability claims, intellectual property claims, business practice disputes and other regulatory, environmental, commercial and tax matters. Litigation is inherently unpredictable and, although the Company believes that its accruals are adequate and/or that it has valid defenses in these matters, unfavorable resolutions could occur. The Company estimates that the potential exposure resulting from adverse outcomes of legal proceedings in which it is reasonably possible that a loss may be incurred could, in the aggregate, be up to approximately \$45 million in excess of amounts accrued as of March 31, 2019. The Company does not believe that the impact should result in a material liability to the Company in relation to its consolidated financial condition or results of operations.

Commitments to Purchase Vehicles

The Company maintains agreements with vehicle manufacturers under which the Company has agreed to purchase approximately \$6.0 billion of vehicles from manufacturers over the next 12 months financed primarily through the issuance of vehicle-backed debt and cash received upon the disposition of vehicles. Certain of these commitments are subject to the vehicle manufacturers satisfying their obligations under their respective repurchase and guaranteed depreciation agreements.

Concentrations

Concentrations of credit risk at March 31, 2019 include (i) risks related to the Company's repurchase and guaranteed depreciation agreements with domestic and foreign car manufacturers, primarily with respect to receivables for program cars that have been disposed but for which the Company has not yet received payment from the manufacturers and (ii) risks related to Realogy and Wyndham, including receivables of

22

Table of Contents

\$29 million and \$18 million, respectively, related to certain contingent, income tax and other corporate liabilities assumed by Realogy and Wyndham in connection with their disposition.

13. Stockholders' Equity

Share Repurchases

The Company's Board of Directors has authorized the repurchase of up to \$1.7 billion of its common stock under a plan originally approved in 2013 and subsequently expanded, most recently in August 2018. During the three months ended March 31, 2019 and 2018, the Company did not repurchase any shares of common stock under the program. As of March 31, 2019, approximately \$150 million of authorization remains available to repurchase common stock under this plan.

Total Comprehensive Income (Loss)

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

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

	Three Months Ended March 31,	
	2019	2018
Net loss	\$ (91)	\$ (87)
Other comprehensive income (loss):		
Currency translation adjustments (net of tax of \$(6) and \$5, respectively)	1	1
Net unrealized gain (loss) on cash flow hedges (net of tax of \$3 and \$(2), respectively)	(8)	6
Minimum pension liability adjustment (net of tax of \$0 and \$(1), respectively)	2	1
	(5)	8
Comprehensive loss	\$ (96)	\$ (79)

Currency translation adjustments exclude income taxes related to indefinite investments in foreign subsidiaries.

Table of Contents

Accumulated Other Comprehensive Income (Loss)

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

	Currency Translation Adjustments	Net Unrealized Gains (Losses) on Cash Flow Hedges ^(a)	Net Unrealized Gains (Losses) on Available-for- Sale Securities	Minimum Pension Liability Adjustment ^(b)	Accumulated Other Comprehensive Income (Loss)
Balance, December 31, 2018	\$ (3)	\$ 2	\$ —	\$ (132)	\$ (133)
Cumulative effect of accounting change ^(c)	—	1	—	—	1
Balance, January 1, 2019	\$ (3)	\$ 3	\$ —	\$ (132)	\$ (132)
Other comprehensive income (loss) before reclassifications	1	(7)	—	1	(5)
Amounts reclassified from accumulated other comprehensive income (loss)	—	(1)	—	1	—
Net current-period other comprehensive income (loss)	1	(8)	—	2	(5)
Balance, March 31, 2019	\$ (2)	\$ (5)	\$ —	\$ (130)	\$ (137)
Balance, December 31, 2017	\$ 71	\$ 5	\$ 2	\$ (102)	\$ (24)
Cumulative effect of accounting change	7	1	(2)	(12)	(6)
Balance, January 1, 2018	\$ 78	\$ 6	\$ —	\$ (114)	\$ (30)
Other comprehensive income (loss) before reclassifications	1	6	—	—	7
Amounts reclassified from accumulated other comprehensive income (loss)	—	—	—	1	1
Net current-period other comprehensive income (loss)	1	6	—	1	8
Balance, March 31, 2018	\$ 79	\$ 12	\$ —	\$ (113)	\$ (22)

All components of accumulated other comprehensive income (loss) are net of tax, except currency translation adjustments, which exclude income taxes related to indefinite investments in foreign subsidiaries and include a \$80 million gain, net of tax, as of March 31, 2019 related to the Company's hedge of its net investment in euro-denominated foreign operations (see Note 15-Financial Instruments).

^(a) For the three months ended March 31, 2019, the amount reclassified from accumulated other comprehensive income (loss) into corporate interest expense was \$2 million (\$1 million, net of tax).

For the three months ended March 31, 2019 and 2018, amounts reclassified from accumulated other comprehensive income (loss) into selling, general and administrative expenses were \$2 million (\$1 million, net of tax) and \$2 million (\$1 million, net of tax), respectively.

^(c) See Note 1-Basis of Presentation for the impact of adoption of ASU 2017-12.

14. Stock-Based Compensation

The Company recorded stock-based compensation expense of \$5 million (\$4 million, net of tax) during the three months ended March 31, 2019 and 2018.

Table of Contents

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

	Number of Shares	Weighted Average Grant Date Fair Value	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in millions)
Time-based RSUs				
Outstanding at January 1, 2019	838	\$ 38.67		
Granted ^(a)	422	34.82		
Vested ^(b)	(336)	35.56		
Forfeited	(27)	39.40		
Outstanding and expected to vest at March 31, 2019 ^(c)	897	\$ 38.01	1.4	\$ 31
Performance-based and market-based RSUs				
Outstanding at January 1, 2019	1,169	\$ 35.14		
Granted ^(a)	480	34.82		
Vested	—	—		
Forfeited	(413)	24.23		
Outstanding at March 31, 2019	1,236	\$ 38.66	2.0	\$ 43
Outstanding and expected to vest at March 31, 2019 ^(c)	487	\$ 39.81	2.3	\$ 17

Reflects the maximum number of stock units assuming achievement of all performance-, market- and time-vesting criteria and does not include those for non-employee directors. The weighted-average fair value of time-based RSUs and performance-based RSUs granted during the three months ended March 31, 2018 was \$48.66 and \$48.72 respectively.

^(b) The total fair value of RSUs vested during March 31, 2019 and 2018 was \$12 million and \$13 million, respectively.

^(c) Aggregate unrecognized compensation expense related to time-based RSUs and performance-based RSUs amounted to \$45 million and will be recognized over a weighted average vesting period of 1.7 years.

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

		Weighted	Weighted	Aggregate
	Number of	Average	Average	Intrinsic
	Options	Exercise	Remaining	Value (in
		Price	Contractual	Value (in
			Term	millions)
			(years)	
Outstanding at				
January 1, 2019	57	\$ 0.79	0.1	\$ 1
Granted	—	—		—
Exercised ^(a)	(57)	0.79		1
Forfeited/expired	—	—		—
Outstanding and				
exercisable at	—	\$ —	—	\$ —
March 31, 2019				

^(a) Stock options exercised during the three months ended March 31, 2018 had an intrinsic value of \$6 million and the cash received was \$2 million.

15. Financial Instruments

Derivative Instruments and Hedging Activities

Currency Risk. The Company uses currency exchange contracts to manage its exposure to changes in currency exchange rates associated with certain of its non-U.S.-dollar denominated receivables and forecasted royalties, forecasted earnings of non-U.S. subsidiaries and forecasted non-U.S.-dollar denominated acquisitions. The Company primarily hedges a portion of its current-year currency exposure to the Australian, Canadian and New Zealand dollars, the euro and the British pound sterling. The majority of forward contracts do not qualify for hedge accounting treatment. The fluctuations in the value of these forward contracts do, however, largely offset the impact of changes in the value of the underlying risk they economically hedge. Forward contracts used to hedge forecasted third-party receipts and disbursements up to 12 months are designated and do qualify as cash flow hedges. The Company has designated its euro-denominated notes as a hedge of its investment in euro-denominated foreign operations. The estimated net amount of existing gains or losses the Company expects to reclassify from accumulated other comprehensive income (loss) to earnings for cash flow and net investment hedges over the next 12

Table of Contents

months is not material.

Interest Rate Risk. The Company uses various hedging strategies including interest rate swaps and interest rate caps to create what it deems an appropriate mix of fixed and floating rate assets and liabilities. The Company uses interest rate swaps and interest rate caps to manage the risk related to its floating rate corporate debt and its floating rate vehicle-backed debt. The Company records the changes in the fair value of its cash flow hedges to other comprehensive income (loss), net of tax, and subsequently reclassifies these amounts into earnings in the period during which the hedged transaction affects earnings and is presented in the same income statement line item as the earnings effect of the hedged item. The Company records the gains or losses related to freestanding derivatives, which are not designated as a hedge for accounting purposes, currently in earnings and are presented in the same line of the income statement expected for the hedged item. The Company estimates that \$5 million of gains currently recorded in accumulated other comprehensive income (loss) will be recognized in earnings over the next 12 months.

Commodity Risk. The Company periodically enters into derivative commodity contracts to manage its exposure to changes in the price of gasoline. These instruments were designated as freestanding derivatives and the changes in fair value are recorded in earnings and are presented in the same line of the income statement expected for the hedged item.

The Company held derivative instruments with absolute notional values as follows:

	As of March 31, 2019
Foreign exchange contracts	\$ 1,839
Interest rate caps ^(a)	8,335
Interest rate swaps	1,500

Commodity contracts (millions of gallons of unleaded gasoline) 14

^(a) Represents \$5.7 billion of interest rate caps sold, partially offset by approximately \$2.7 billion of interest rate caps purchased. These amounts exclude \$3.0 billion of interest rate caps purchased by the Company's Avis Budget Rental Car Funding subsidiary as it is not consolidated by the Company.

Estimated fair values (Level 2) of derivative instruments were as follows:

	As of March 31, 2019		As of December 31, 2018	
	Fair Value, Derivative Assets	Fair Value, Derivative Liabilities	Fair Value, Derivative Assets	Fair Value, Derivative Liabilities
Derivatives designated as hedging instruments				
Interest rate swaps ^(a)	\$ 7	\$ 15	\$ 12	\$ 8
Derivatives not designated as hedging instruments				
Foreign exchange contracts ^(b)	16	4	5	11
Interest rate caps ^(c)	—	—	—	2
Commodity contracts ^(b)	3	—	—	1
Total	\$ 26	\$ 19	\$ 17	\$ 22

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 (loss), as discussed in Note 13-Stockholders' Equity.

- (a) Included in other non-current assets or other non-current liabilities.
- (b) Included in other current assets or other current liabilities.
- (c) Included in assets under vehicle programs or liabilities under vehicle programs.

Table of Contents

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

	Three Months Ended March 31, 2019 2018	
Derivatives designated as hedging instruments ^(a)		
Interest rate swaps ^(b)	\$(8)	\$6
Euro-denominated notes ^(c)	16	(13)
Derivatives not designated as hedging instruments ^(d)		
Foreign exchange contracts ^(e)	1	(9)
Commodity contracts ^(f)	3	—
Total	\$12	\$(16)

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

Classified as a net unrealized gain (loss) on cash flow hedges in accumulated other comprehensive income (loss).

^(b) Refer to Note 13-Stockholders' Equity for amounts reclassified from accumulated other comprehensive income into earnings.

^(c) Classified as a net investment hedge within currency translation adjustment in accumulated other comprehensive income (loss).

^(d) 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 March 31, 2019, included a \$4 million loss in interest expense and a \$5 million gain in

^(e) operating expense. For the three months ended March 31, 2018, included a \$13 million loss in interest expense and a \$4 million gain in operating expense.

^(f) Included in operating expense.

Debt Instruments

The carrying amounts and estimated fair values (Level 2) of debt instruments were as follows:

	As of March 31, 2019	As of December 31, 2018
	Carrying Amount	Estimated Fair Value
Corporate debt		
Short-term debt and current portion of long-term debt	\$23 \$ 23	\$