

AVIS BUDGET GROUP, INC.  
Form 10-Q  
August 04, 2015  
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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 June 30, 2015

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

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

The number of shares outstanding of the issuer's common stock was 103,465,185 shares as of July 31, 2015.

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FORWARD-LOOKING STATEMENTS

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

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

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

- 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;

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

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

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

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

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

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

- our ability to accurately estimate our future results;

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

our exposure to uninsured claims in excess of historical levels;

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 taxes;

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

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

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

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

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

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

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

We operate in a continuously changing business environment and new risk factors emerge from time to time. New risk factors, factors beyond our control, or changes in the impact of identified risk factors may cause actual results to differ materially from those set forth in any forward-looking statements. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results. Moreover, we do not assume responsibility for the accuracy and completeness of those statements. Other factors and assumptions not identified above, including those discussed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, “Risk Factors” and other portions of our 2014 Annual Report on Form 10-K and our Current Report on Form 8-K filed May 6, 2015, 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. Except to the extent of our obligations under the federal securities laws, we undertake no obligation to release any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events. For any forward-looking statements contained in any document, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

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## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

Avis Budget Group, Inc.

## CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(In millions, except per share data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
Revenues				
Vehicle rental	\$1,533	\$1,553	\$2,852	\$2,882
Other	640	641	1,171	1,174
Net revenues	2,173	2,194	4,023	4,056
Expenses				
Operating	1,092	1,105	2,077	2,105
Vehicle depreciation and lease charges, net	498	517	930	950
Selling, general and administrative	281	287	529	535
Vehicle interest, net	75	72	143	136
Non-vehicle related depreciation and amortization	56	45	105	86
Interest expense related to corporate debt, net:				
Interest expense	45	55	97	111
Early extinguishment of debt	23	56	23	56
Transaction-related costs	18	8	49	16
Restructuring expense	3	1	4	8
Total expenses	2,091	2,146	3,957	4,003
Income before income taxes	82	48	66	53
Provision for (benefit from) income taxes	(61	) 22	(68	) 23
Net income	\$143	\$26	\$134	\$30
Comprehensive income	\$151	\$31	\$48	\$38
Earnings per share				
Basic	\$1.36	\$0.25	\$1.27	\$0.29
Diluted	\$1.34	\$0.24	\$1.25	\$0.28

See Notes to Consolidated Condensed Financial Statements (Unaudited).

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

	June 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 529	\$ 624
Receivables, net	685	599
Deferred income taxes	144	159
Other current assets	763	456
Total current assets	2,121	1,838
Property and equipment, net	637	638
Deferred income taxes	1,261	1,352
Goodwill	971	842
Other intangibles, net	946	886
Other non-current assets	343	355
Total assets exclusive of assets under vehicle programs	6,279	5,911
Assets under vehicle programs:		
Program cash	143	119
Vehicles, net	13,395	10,215
Receivables from vehicle manufacturers and other	220	362
Investment in Avis Budget Rental Car Funding (AESOP) LLC—related party	362	362
	14,120	11,058
Total assets	\$ 20,399	\$ 16,969
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and other current liabilities	\$ 1,697	\$ 1,491
Short-term debt and current portion of long-term debt	32	28
Total current liabilities	1,729	1,519
Long-term debt	3,520	3,392
Other non-current liabilities	723	766
Total liabilities exclusive of liabilities under vehicle programs	5,972	5,677
Liabilities under vehicle programs:		
Debt	2,736	1,776
Debt due to Avis Budget Rental Car Funding (AESOP) LLC—related party	8,350	6,340
Deferred income taxes	2,141	2,267
Other	604	244
	13,831	10,627
Commitments and contingencies (Note 11)		
Stockholders' equity:	—	—

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Preferred stock, \$0.01 par value—authorized 10 million shares; none issued and outstanding			
Common stock, \$0.01 par value—authorized 250 million shares; issued 137,093,424 and 137,093,424 shares	1	1	
Additional paid-in capital	7,033	7,212	
Accumulated deficit	(1,981)	) (2,115	)
Accumulated other comprehensive loss	(108)	) (22	)
Treasury stock, at cost—32,699,990 and 31,386,746 shares	(4,349)	) (4,411	)
Total stockholders' equity	596	665	
Total liabilities and stockholders' equity	\$20,399	\$16,969	

See Notes to Consolidated Condensed Financial Statements (Unaudited).

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Avis Budget Group, Inc.

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Six Months Ended	
	June 30,	
	2015	2014
Operating activities		
Net income	\$134	\$30
Adjustments to reconcile net income to net cash provided by operating activities:		
Vehicle depreciation	913	898
Gain on sale of vehicles, net	(51	) (24
Non-vehicle related depreciation and amortization	105	86
Amortization of debt financing fees	23	20
Net change in assets and liabilities, excluding the impact of acquisitions and dispositions:		
Receivables	(68	) (131
Income taxes and deferred income taxes	(72	) 5
Accounts payable and other current liabilities	(72	) 20
Other, net	115	107
Net cash provided by operating activities	1,027	1,011
Investing activities		
Property and equipment additions	(80	) (80
Proceeds received on asset sales	6	6
Net assets acquired (net of cash acquired)	(222	) (125
Other, net	(1	) (8
Net cash used in investing activities exclusive of vehicle programs	(297	) (207
Vehicle programs:		
Increase in program cash	(30	) (29
Investment in vehicles	(7,939	) (8,214
Proceeds received on disposition of vehicles	4,549	4,382
	(3,420	) (3,861
Net cash used in investing activities	(3,717	) (4,068

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Avis Budget Group, Inc.

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Continued)

(In millions)

(Unaudited)

	Six Months Ended	
	June 30,	
	2015	2014
Financing activities		
Proceeds from long-term borrowings	376	695
Payments on long-term borrowings	(281	) (747
Net change in short-term borrowings	(13	) —
Repurchases of common stock	(114	) (146
Debt financing fees	(7	) (11
Other, net	—	(1
Net cash used in financing activities exclusive of vehicle programs	(39	) (210
Vehicle programs:		
Proceeds from borrowings	9,018	9,536
Payments on borrowings	(6,347	) (6,417
Debt financing fees	(17	) (10
	2,654	3,109
Net cash provided by financing activities	2,615	2,899
Effect of changes in exchange rates on cash and cash equivalents	(20	) 2
Net decrease in cash and cash equivalents	(95	) (156
Cash and cash equivalents, beginning of period	624	693
Cash and cash equivalents, end of period	\$529	\$537

See Notes to Consolidated Condensed Financial Statements (Unaudited).

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Avis Budget Group, Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)

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

1. Basis of Presentation

Avis Budget Group, Inc. provides car and truck rentals, car sharing services and ancillary services to businesses and consumers worldwide. The accompanying unaudited Consolidated Condensed Financial Statements include the accounts and transactions of Avis Budget Group, Inc. and its subsidiaries, 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—provides and licenses the Company’s brands to third parties for vehicle rentals and ancillary products and services in North America, South America, Central America and the Caribbean, and operates the Company’s car sharing business in certain of these markets.

International—provides and licenses the Company’s brands to third parties for vehicle rentals and ancillary products and services in Europe, the Middle East, Africa, Asia, Australia and New Zealand, and operates the Company’s car sharing business in certain of these markets.

In 2015 and 2014, the Company completed the business acquisitions discussed in Note 4 to these Consolidated Condensed Financial Statements. The operating results of the acquired businesses are included in the accompanying Consolidated Condensed Financial Statements from the dates of acquisition.

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 2014 Annual Report on Form 10-K (the “2014 Form 10-K”) and the Company’s Current Report on Form 8-K filed May 6, 2015, which updated the 2014 Form 10-K for a change in the Company’s reportable segments.

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

Transaction-related costs. Transaction-related costs 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 charges 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 gain or loss on intercompany loan hedges within interest expense related to corporate debt, net. During the three and six months ended June 30, 2015, the Company recorded losses

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of \$6 million and \$10 million, respectively, on such items. During the three and six months ended June 30, 2014, the Company recorded losses of \$2 million and \$4 million, respectively, on such items.

### Adoption of New Accounting Standards

On January 1, 2015, as a result of the issuance of a new accounting pronouncement, the Company adopted Accounting Standards Update (“ASU”) 2014-08, “Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity,” which changes the criteria for determining which disposals can be presented as discontinued operations and also modifies related disclosure requirements. The adoption of this accounting pronouncement did not have an impact on the Company’s financial statements.

### Recently Issued Accounting Standards

In April 2015, the Financial Accounting Standards Board (“FASB”) issued ASU 2015-05, “Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement,” which provides guidance on determining whether a cloud computing arrangement contains a software license that should be accounted for as internal-use software. If a cloud computing arrangement does not contain a software license, it should be accounted for as a service contract. ASU 2015-05 becomes effective for the Company on January 1, 2016. The Company is currently evaluating the impact of this accounting pronouncement on its consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, “Simplifying the Presentation of Debt Issuance Costs,” which changes the presentation of debt issuance costs in financial statements. ASU 2015-03 becomes effective for the Company on January 1, 2016 and will be applied retrospectively to all periods presented. The adoption of this accounting pronouncement will result in the Company presenting debt issuance costs as a direct deduction from the carrying amount of debt on the Company’s balance sheet, rather than in other non-current assets.

In February 2015, the FASB issued ASU 2015-02, “Amendments to the Consolidation Analysis,” which affects how reporting entities evaluate whether they should consolidate certain legal entities. ASU 2015-02 becomes effective for the Company on January 1, 2016. The adoption of this accounting pronouncement is not expected to have an impact on the Company’s consolidated financial statements.

In January 2015, the FASB issued ASU 2015-01, “Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items,” which eliminates from GAAP the concept of extraordinary items. ASU 2015-01 becomes effective for the Company on January 1, 2016. The adoption of this accounting pronouncement is not expected to have an impact on the Company’s consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, “Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern,” which requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year of the date the financial statements are issued and to provide related footnote disclosures in certain circumstances. ASU 2014-15 becomes effective for the Company on January 1, 2016. The adoption of this accounting pronouncement is not expected to have an impact on the Company’s consolidated financial statements.

In June 2014, the FASB issued ASU 2014-12, “Accounting for Share-Based Payments When the Terms of an Award Allow a Performance Target to Be Achieved After the Requisite Service Period,” which requires that a performance target that could be achieved after the requisite service period be treated as a performance condition that affects the vesting of the award. ASU 2014-12 becomes effective for the Company on January 1, 2016. The adoption of this accounting pronouncement is not expected to have an impact on the Company’s consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers," which outlines a single model for entities to use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance. ASU 2014-09 becomes effective for the Company on

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January 1, 2018. The Company is currently evaluating the impact of this accounting pronouncement on its consolidated financial statements.

## 2. Restructuring Activities

In 2014, the Company committed to various strategic initiatives to identify best practices and drive efficiency throughout its organization, by reducing headcount, improving processes and consolidating functions (the “T15 restructuring”). During the six months ended June 30, 2015, as part of this process, the Company formally communicated the termination of employment to approximately 250 employees. The costs associated with this initiative primarily represent severance, outplacement services and other costs associated with employee terminations, the majority of which have been or are expected to be settled in cash. As of June 30, 2015, the Company has terminated approximately 100 of these employees. The Company expects further restructuring expense of approximately \$5 million related to this initiative to be incurred in 2015, plus approximately \$20 million to be incurred in 2015 in connection with other initiatives.

Subsequent to the acquisition of Avis Europe plc, the Company began a restructuring initiative, identifying synergies across the Company, enhancing organizational efficiencies and consolidating and rationalizing processes (the “Avis Europe restructuring”). During the six months ended June 30, 2015, the Company did not record restructuring expense related to this restructuring initiative.

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

	Americas	International	Total
Balance as of January 1, 2015	\$4	\$13	\$17
T15 restructuring expense	2	2	4
Avis Europe restructuring payment	(1	) (6	) (7
T15 restructuring payment	(3	) (2	) (5
Balance as of June 30, 2015	\$2	\$7	\$9

	Personnel Related	Facility Related	Total
Balance as of January 1, 2015	\$14	\$3	\$17
T15 restructuring expense	4	—	4
Avis Europe restructuring payment	(6	) (1	) (7
T15 restructuring payment	(5	) —	) (5
Balance as of June 30, 2015	\$7	\$2	\$9

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## 3. Earnings Per Share

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Net income for basic EPS	\$143	\$26	\$134	\$30
Convertible note interest, net of tax	—	1	—	1
Net income for diluted EPS	\$143	\$27	\$134	\$31
Basic weighted average shares outstanding	105.5	105.1	105.8	105.8
Options and non-vested stock <sup>(a)</sup>	1.2	1.9	1.3	2.0
Convertible debt	—	4.0	—	4.0
Diluted weighted average shares outstanding	106.7	111.0	107.1	111.8
Earnings per share:				
Basic	\$1.36	\$0.25	\$1.27	\$0.29
Diluted	\$1.34	\$0.24	\$1.25	\$0.28

<sup>(a)</sup> For the three and six months ended June 30, 2015, 0.2 million and 0.1 million non-vested stock awards, respectively, have an anti-dilutive effect and are therefore excluded from the computation of diluted weighted average shares outstanding. For the three and six months ended June 30, 2014, the number of anti-dilutive securities which were excluded from the computation of diluted earnings per share was not significant.

## 4. Acquisitions

## 2015

## Maggiore Group

In April 2015, the Company completed the acquisition of Maggiore Group (“Maggiore”) for approximately \$160 million, net of acquired cash and short-term investments. The investment will enable the Company to expand its footprint with a leading provider of vehicle rental services in Italy. The excess of the purchase price over preliminary fair value of net assets acquired was allocated to goodwill, which was assigned to the Company’s International reportable segment. In connection with this acquisition, approximately \$77 million was recorded in goodwill, \$51 million was recorded in customer relationships, \$34 million related to the trade name was recorded in other intangibles and \$11 million was recorded in license agreements. The customer relationships, trade name and license agreements will be amortized over a weighted average useful life of approximately ten years. The goodwill is not expected to be deductible for tax purposes. The fair value of the assets acquired and liabilities assumed has not yet been finalized and is therefore subject to change.

## Brazil

In April 2015, the Company acquired the remaining 50% equity interest in its Brazilian Licensee (“Brazil”), which is now a wholly-owned subsidiary, for cash consideration of \$8 million plus \$46 million principally to acquire debt interests and settle certain debt and accrued interest obligations. The acquisition will enable the Company to significantly increase its presence in the Brazilian car rental market. The Company previously accounted for its 50% interest in Brazil as an equity-method investment and accordingly, to recognize Brazil as a wholly-owned subsidiary, remeasured its previously held equity method investment to fair value using the Income approach-discounted cash

flow method (Level 3), resulting in a loss of \$8 million during second quarter 2015 as part of transaction-related costs. The results of the operations of Brazil and the fair value of its assets and liabilities have been included in the Company's Consolidated Condensed Financial Statements from the date of the acquisition. As the fair value of the licensee's liabilities exceeded its assets, \$73 million was allocated to goodwill for the excess of the purchase price over preliminary fair value of net assets acquired, which was assigned to the Company's Americas reportable segment. The goodwill is not expected to be deductible for tax purposes. The fair value of the assets acquired and liabilities assumed has not yet been finalized and is therefore subject to change.

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## Scandinavian Licensee

In January 2015, the Company completed the acquisition of its Avis and Budget licensees in Norway, Sweden and Denmark for approximately \$39 million, net of acquired cash. The investment will enable the Company to expand its footprint of Company-operated locations. The excess of the purchase price over preliminary fair value of net assets acquired was allocated to goodwill, which was assigned to the Company's International reportable segment. In connection with this acquisition, approximately \$31 million was recorded in license agreements and \$21 million was recorded in goodwill. The license agreements will be amortized over a weighted average useful life of approximately eight years. In addition, at the time of acquisition, the Company recorded a \$22 million non-cash charge within transaction-related costs in connection with license rights reacquired by the Company. The goodwill is not expected to be deductible for tax purposes. The fair value of the assets acquired and liabilities assumed has not yet been finalized and is therefore subject to change.

2014

## Budget Licensees

During 2014, the Company completed the acquisition of its Budget licensees for Edmonton, Canada; Southern California and Las Vegas, and reacquired the right to operate the Budget brand in Portugal, for an aggregate of approximately \$263 million, plus \$132 million for acquired fleet. These investments enabled the Company to expand its footprint of Company-operated locations. The acquired fleet was financed under the Company's existing vehicle financing arrangements. The excess of the purchase price over preliminary fair value of net assets acquired was allocated to goodwill, which was assigned to the Company's Americas reportable segment for Edmonton, Southern California and Las Vegas and to the Company's International reportable segment for Portugal. In connection with these acquisitions, approximately \$58 million was recorded in identifiable intangible assets (consisting of \$10 million related to customer relationships and \$48 million related to license agreements) and \$192 million was recorded in goodwill. The customer relationships will be amortized over a weighted average useful life of approximately 12 years and the license agreements will be amortized over a weighted average useful life of approximately three years. During 2014, the Company recorded a non-cash gain of approximately \$20 million within transaction-related costs in connection with license rights reacquired by the Company. Goodwill is deductible for tax purposes. The fair value of the assets acquired and liabilities assumed has not yet been finalized for Southern California and Las Vegas and is therefore subject to change. Differences between the preliminary allocation of purchase price and the final allocation were not material for Edmonton and Portugal.

## 5. Other Current Assets

Other current assets consisted of:

	As of June 30, 2015	As of December 31, 2014
Sales and use taxes	\$389	\$125
Prepaid expenses	219	192
Other	155	139
Other current assets	\$763	\$456

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## 6. Intangible Assets

Intangible assets consisted of:

	As of June 30, 2015			As of December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<b>Amortized Intangible Assets</b>						
License agreements	\$261	\$66	\$195	\$259	\$59	\$200
Customer relationships <sup>(a)</sup>	213	58	155	167	50	117
Other <sup>(a)</sup>	44	6	38	8	3	5
<b>Total</b>	<b>\$518</b>	<b>\$130</b>	<b>\$388</b>	<b>\$434</b>	<b>\$112</b>	<b>\$322</b>
<b>Unamortized Intangible Assets</b>						
Goodwill <sup>(b)</sup>	\$971			\$842		
Trademarks	\$558			\$564		

<sup>(a)</sup> The increases in carrying amounts reflect the acquisition of Maggiore.

<sup>(b)</sup> The change in the carrying amount since December 31, 2014 reflects acquisitions, partially offset by a currency translation reduction of \$43 million.

For the three months ended June 30, 2015 and 2014, amortization expense related to amortizable intangible assets was approximately \$16 million and \$9 million, respectively. For the six months ended June 30, 2015 and 2014, amortization expense related to amortizable intangible assets was approximately \$27 million and \$16 million, respectively. Based on the Company's amortizable intangible assets at June 30, 2015, the Company expects amortization expense of approximately \$30 million for the remainder of 2015, \$57 million for 2016, \$52 million for 2017, \$41 million for 2018, \$40 million for 2019 and \$40 million for 2020.

## 7. Vehicle Rental Activities

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

	As of June 30, 2015	As of December 31, 2014
Rental vehicles	\$14,298	\$11,006
Less: Accumulated depreciation	(1,398)	(1,465)
	12,900	9,541
Vehicles held for sale	495	674
<b>Vehicles, net</b>	<b>\$13,395</b>	<b>\$10,215</b>

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

	Three Months Ended		Six Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
Depreciation expense	\$490	\$491	\$913	\$898
Lease charges	35	39	68	76
Gain on sales of vehicles, net	(27)	(13)	(51)	(24)
<b>Vehicle depreciation and lease charges, net</b>	<b>\$498</b>	<b>\$517</b>	<b>\$930</b>	<b>\$950</b>

At June 30, 2015 and 2014, the Company had payables related to vehicle purchases included in liabilities under vehicle programs - other of \$577 million and \$498 million, respectively, and receivables related to vehicle sales included in assets under vehicle programs - receivables from vehicle manufacturers and other of \$217 million and \$170 million, respectively.

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## 8. Income Taxes

The Company's effective tax rate for the six months ended June 30, 2015 is a benefit of 103.0%. Such rate differed from the Federal statutory rate of 35.0% primarily due to a \$98 million income tax benefit related to resolution of a prior-year tax matter.

The Company's effective tax rate for the six months ended June 30, 2014 is a provision of 43.4%. Such rate differed from the Federal statutory rate of 35.0% primarily due to the non-deductibility of certain transaction-related costs.

## 9. Long-term Debt and Borrowing Arrangements

Long-term and other borrowing arrangements consisted of:

	Maturity Dates	As of June 30, 2015	As of December 31, 2014
4 % Senior Notes	November 2017	\$300	\$300
Floating Rate Senior Notes <sup>(a)</sup>	December 2017	248	248
Floating Rate Term Loan <sup>(b)</sup>	March 2019	975	980
9¾% Senior Notes	March 2020	—	223
6% Euro-denominated Senior Notes <sup>(c)</sup>	March 2021	516	561
5 % Senior Notes	June 2022	400	400
5½% Senior Notes	April 2023	674	674
5¼% Senior Notes	March 2025	375	—
Other		64	34
Total		3,552	3,420
Less: Short-term debt and current portion of long-term debt		32	28
Long-term debt		\$3,520	\$3,392

The interest rate on these notes is equal to three-month LIBOR plus 275 basis points, for an aggregate rate of 3.03% at June 30, 2015; the Company has entered into an interest rate swap to hedge its interest rate exposure related to these notes at an aggregate rate of 3.58%.

The floating rate term loan 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. As of June 30, 2015, the floating rate term loan due 2019 bears interest at the greater of three-month LIBOR or 0.75%, plus 225 basis points, for an aggregate rate of 3.00%. The Company has entered into a swap to hedge \$600 million of its interest rate exposure related to the floating rate term loan at an aggregate rate of 3.96%.

<sup>(c)</sup> The reduction in the balance principally reflects currency translation adjustments.

In March 2015, the Company issued \$375 million of 5¼% Senior Notes due 2025 at par. In April 2015, the Company used net proceeds from the offering to redeem the remaining \$223 million principal amount of its 9¾% Senior Notes due 2020 for \$243 million plus accrued interest and to finance a portion of its acquisition of Maggiore.

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## COMMITTED CREDIT FACILITIES AND AVAILABLE FUNDING ARRANGEMENTS

At June 30, 2015, 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 2018 (a)	\$1,800	\$—	\$1,057	\$743
Other facilities (b)	24	13	—	11

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.

(b) These facilities encompass bank overdraft lines of credit, bearing interest of 1.50% to 2.95%.

At June 30, 2015, the Company had various uncommitted credit facilities available, under which it had drawn approximately \$1 million, which bear interest at rates between 1.09% and 2.50%.

## 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 maximum leverage ratio requirement. As of June 30, 2015, the Company is in compliance with the financial covenants governing its indebtedness.

## 10. 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 June 30, 2015	As of December 31, 2014
Americas - Debt due to Avis Budget Rental Car Funding (a)	\$8,350	\$6,340
Americas - Debt borrowings (a) (b)	946	746
International - Debt borrowings (a) (c)	1,476	685
International - Capital leases	304	314
Other	10	31
Total	\$11,086	\$8,116

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

(b) The increase also includes additional borrowings related to the acquisition of Brazil.

(c) The increase also includes additional borrowings related to the acquisition of Maggiore.

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## 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 June 30, 2015.

	Debt Under Vehicle Programs
Within 1 year <sup>(a)</sup>	\$1,348
Between 1 and 2 years	4,340
Between 2 and 3 years	1,344
Between 3 and 4 years	1,842
Between 4 and 5 years	1,363
Thereafter	849
Total	\$11,086

<sup>(a)</sup> Vehicle-backed debt maturing within one year primarily represents term asset-backed securities.

## COMMITTED CREDIT FACILITIES AND AVAILABLE FUNDING ARRANGEMENTS

As of June 30, 2015, available funding under the Company's vehicle programs (including related party debt due to Avis Budget Rental Car Funding) consisted of:

	Total Capacity <sup>(a)</sup>	Outstanding Borrowings	Available Capacity
Americas - Debt due to Avis Budget Rental Car Funding <sup>(b)</sup>	\$9,650	\$8,350	\$1,300
Americas - Debt borrowings <sup>(c)</sup>	1,102	946	156
International - Debt borrowings <sup>(d)</sup>	2,183	1,476	707
International - Capital leases <sup>(e)</sup>	326	304	22
Other	10	10	—
Total	\$13,271	\$11,086	\$2,185

<sup>(a)</sup> Capacity is subject to maintaining sufficient assets to collateralize debt.

<sup>(b)</sup> The outstanding debt is collateralized by approximately \$9.9 billion of underlying vehicles and related assets.

<sup>(c)</sup> The outstanding debt is collateralized by approximately \$1.2 billion of underlying vehicles and related assets.

<sup>(d)</sup> The outstanding debt is collateralized by approximately \$1.8 billion of underlying vehicles and related assets.

<sup>(e)</sup> The outstanding debt is collateralized by approximately \$0.3 billion of underlying vehicles and related assets.

## 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 June 30, 2015, 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.

## 11. Commitments and Contingencies

## Contingencies

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

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In February 2015, the French Competition Authority issued a statement of objections alleging that several car rental companies, including the Company and two of its European subsidiaries, violated competition law by exchanging confidential information with twelve French airports and the car rental companies operating at those airports and by engaging in a concerted practice relating to train station surcharges. The Company believes that it has valid defenses and intends to vigorously defend against the allegations, but it is currently unable to predict the outcome of the proceedings or range of reasonably possible losses, which may be material.

Additionally, in March 2015, the Canadian Competition Bureau filed an application with the Competition Tribunal alleging that the Company and two of its Canadian subsidiaries engaged in deceptive marketing practices with regard to certain charges that consumers are invoiced related to renting a vehicle and associated products in Canada. The application seeks penalties against the Company and its subsidiaries totaling approximately \$25 million as well as reimbursements to current and former customers of amounts collected and retained by the Company related to the alleged deceptive marketing practices. The Company believes that it has valid defenses and intends to vigorously defend against the allegations, but it is currently unable to predict the outcome of the proceedings or range of reasonably possible losses, which may be material.

The Company is involved in claims, legal proceedings and governmental inquiries related, among other things, to its vehicle rental operations, including contract and licensee disputes, competition matters, employment matters, insurance 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. Excluding the French and Canadian competition matters discussed above, 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, range up to approximately \$20 million in excess of amounts accrued as of June 30, 2015; however, 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 \$3.6 billion of vehicles from manufacturers over the next 12 months. The majority of these commitments are subject to the vehicle manufacturers' satisfying their obligations under their respective repurchase and guaranteed depreciation agreements. The purchase of such vehicles is financed primarily through the issuance of vehicle-backed debt and cash received upon the disposition of vehicles.

### Concentrations

Concentrations of credit risk at June 30, 2015 include (i) risks related to the Company's repurchase and guaranteed depreciation agreements with domestic and foreign car manufacturers, including Ford, General Motors, Chrysler, Peugeot, Volkswagen, Kia, Fiat, Toyota, Mercedes, Volvo and BMW, and primarily with respect to receivables for program cars that have been disposed but for which the Company has not yet received payment from the manufacturers and (ii) risks related to Realogy and Wyndham, including receivables of \$54 million and \$33 million, respectively, related to certain contingent, income tax and other corporate liabilities assumed by Realogy and Wyndham in connection with their disposition.

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## 12. Stockholders' Equity

## Share Repurchases

The Company's Board of Directors has authorized the repurchase of up to \$635 million of its common stock under a plan originally approved in August 2013 and subsequently expanded in April and October 2014. During the six months ended June 30, 2015, the Company repurchased approximately 2.2 million shares of common stock at a cost of approximately \$116 million under the program. During the six months ended June 30, 2014, the Company repurchased approximately 3.0 million shares of common stock at a cost of approximately \$150 million under the program. As of June 30, 2015, \$169 million of authorization remains available to repurchase common stock under this plan.

## Total Comprehensive Income

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

The components of other comprehensive income were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	\$ 143	\$ 26	\$ 134	\$ 30
Other comprehensive income (loss):				
Currency translation adjustments (net of tax of \$7,8 \$(2), \$(17) and \$(2), respectively)	8	5	(84	) 8
Net unrealized gain (loss) on available-for-sale securities (net of tax of \$0, \$0, \$0 and \$0, respectively)	(1	) 2	(1	) 1
Net unrealized gain (loss) on cash flow hedges (net of tax of \$0, \$1, \$2 and \$1, respectively)	—	(3	) (3	) (2
Minimum pension liability adjustment (net of tax of \$(1), \$(1), \$(1) and \$(1), respectively)	1	1	2	1
	8	5	(86	) 8
Total comprehensive income	\$ 151	\$ 31	\$ 48	\$ 38

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



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## 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 <sup>(a)</sup>	Net Unrealized Gains (Losses) on Available-for Sale Securities	Minimum Pension Liability Adjustment <sup>(b)</sup>	Accumulated Other Comprehensive Income (Loss)
Balance, January 1, 2015	\$51	\$(1 )	\$2	\$(74 )	\$(22 )
Other comprehensive income (loss) before reclassifications	(84 )	—	(1 )	3	(82 )
Amounts reclassified from accumulated other comprehensive income (loss)	—	(3 )	—	(1 )	(4 )
Net current-period other comprehensive income (loss)	(84 )	(3 )	(1 )	2	(86 )
Balance, June 30, 2015	\$(33 )	\$(4 )	\$1	\$(72 )	\$(108 )
Balance, January 1, 2014	\$166	\$1	\$2	\$(52 )	\$117
Other comprehensive income <sup>8</sup> (loss) before reclassifications	8	—	1	1	10
Amounts reclassified from accumulated other comprehensive income (loss)	—	(2 )	—	—	(2 )
Net current-period other comprehensive income (loss)	8	(2 )	1	1	8
Balance, June 30, 2014	\$174	\$(1 )	\$3	\$(51 )	\$125

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 \$61 million gain, net of tax, as of June 30, 2015 related to the Company's hedge of its net investment in Euro-denominated foreign operations (See Note 14 - Financial Instruments).

For the three and six months ended June 30, 2015, amounts reclassified from accumulated other comprehensive income (loss) into interest expense were \$2 million (\$2 million, net of tax) and \$4 million (\$3 million, net of tax),<sup>(a)</sup> respectively. For the three and six months ended June 30, 2014, amounts reclassified from accumulated other comprehensive income (loss) \$2 million (\$1 million, net of tax) and \$4 million (\$2 million, net of tax), respectively.

For the three and six months ended June 30, 2015, amounts reclassified from accumulated other comprehensive income (loss) into selling, general and administrative expenses were \$1 million (\$0 million, net of tax) and \$2 million (\$1 million, net of tax), respectively.<sup>(b)</sup> For the three and six months ended June 30, 2014, amounts reclassified from accumulated other comprehensive income (loss) were not material.

## 13. Stock-Based Compensation

The Company recorded stock-based compensation expense of \$6 million and \$8 million (\$4 million and \$5 million, net of tax) during the three months ended June 30, 2015 and 2014, respectively, and \$11 million and \$16 million (\$7 million and \$10 million, net of tax) during the six months ended June 30, 2015 and 2014, respectively. In jurisdictions

with net operating loss carryforwards, exercises and/or vestings of stock-based awards have generated \$56 million of total tax deductions at June 30, 2015. Approximately \$22 million of tax benefits will be recorded in additional paid-in capital when these tax deductions are realized in these jurisdictions.

The weighted average assumptions used in the Monte Carlo simulation model to calculate the fair value of the Company's stock unit awards containing a market condition are as follows:

	Six Months Ended	
	June 30,	
	2015	2014
Expected volatility of stock price	37%	40%
Risk-free interest rate	0.74%	0.83%
Expected term of awards	3 years	3 years
Dividend yield	0.0%	0.0%

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The activity related to the Company's restricted stock units ("RSUs") and cash units, consisted of (in thousands of shares):

	Time-Based RSUs		Performance-Based and Market-Based RSUs		Cash Unit Awards	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value	Number of Units	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2015 <sup>(a)</sup>	998	\$27.26	1,884	\$19.17	267	\$14.90
Granted	250	61.17	230	55.51	—	—
Vested <sup>(b)</sup>	(536 )	22.16	(982 )	12.05	(156 )	12.65
Forfeited/expired	(16 )	38.59	(168 )	18.89	—	—
Outstanding at June 30, 2015 <sup>(c)</sup>	696	\$43.09	964	\$35.12	111	\$18.04

Reflects the maximum number of stock units assuming achievement of all time-, performance- and market-vesting criteria and does not include those for non-employee directors. The weighted-average fair value of time-based RSUs and performance-based and market-based RSUs granted during the six months ended June 30, 2014 was \$41.94 and \$41.97, respectively.

The total grant date fair value of RSUs vested during the six months ended June 30, 2015 and 2014 was \$24 million and \$15 million, respectively. The total grant date fair value of cash units vested during the six months ended June 30, 2015 was \$2 million.

The Company's outstanding time-based RSUs, performance-based and market-based RSUs, and cash units had aggregate intrinsic values of \$31 million, \$42 million and \$5 million, respectively. Aggregate unrecognized compensation expense related to time-based RSUs and performance-based and market-based RSUs amounted to \$39 million and will be recognized over a weighted average vesting period of 1.2 years. The Company assumes that substantially all outstanding awards will vest over time.

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

	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value (in millions)	Weighted Average Remaining Contractual Term (years)
Outstanding at January 1, 2015	848	\$2.92	\$54	4.3
Granted	—	—	—	—
Exercised	(20 )	5.40	1	—
Forfeited/expired	(1 )	0.79	—	—
Outstanding and exercisable at June 30, 2015	827	\$2.87	\$34	3.8

## 14. Financial Instruments

### Derivative Instruments and Hedging Activities

The Company uses currency exchange contracts to manage its exposure to changes in currency exchange rates associated with 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 6% Euro-denominated notes as a hedge of its net investment in Euro-denominated foreign operations. For the three and six months ended June 30, 2015, the Company recorded an \$11 million loss and a \$26 million gain, respectively, in accumulated other comprehensive income as part of currency translation adjustments. There was no ineffectiveness related to the Company's net investment hedges during the three and six months ended June 30, 2015 and 2014. The Company does not expect to reclassify any amounts from accumulated other comprehensive income into earnings over the next 12 months.

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The Company uses various hedging strategies including interest rate swaps and interest rate caps to create an appropriate mix of fixed and floating rate assets and liabilities. The Company uses interest rate swaps 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 effective portion of changes in the fair value of its cash flow hedges to other comprehensive income, net of tax, and subsequently reclassifies these amounts into earnings in the period during which the hedged transaction is recognized. The Company records the gains or losses related to freestanding derivatives, which are not designated as a hedge for accounting purposes, in its consolidated results of operations. The changes in fair values of hedges that are determined to be ineffective are immediately reclassified from accumulated other comprehensive income into earnings. There was no ineffectiveness related to the Company's cash flow hedges during the three and six months ended June 30, 2015 and 2014. The Company estimates that \$8 million of losses currently recorded in accumulated other comprehensive income will be recognized in earnings over the next 12 months.

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

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

	As of June 30, 2015
Interest rate caps <sup>(a)</sup>	\$8,642
Interest rate swaps	1,837
Foreign exchange contracts	885
Commodity contracts (millions of gallons of unleaded gasoline)	11

<sup>(a)</sup> Represents \$6.4 billion of interest rate caps sold, partially offset by approximately \$2.2 billion of interest rate caps purchased. These amounts exclude \$4.2 billion of interest rate caps purchased by the Company's Avis Budget Rental Car Funding subsidiary as it is not consolidated by the Company.

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

	As of June 30, 2015		As of December 31, 2014	
	Fair Value, Asset Derivatives	Fair Value, Liability Derivatives	Fair Value, Asset Derivatives	Fair Value, Liability Derivatives
Derivatives designated as hedging instruments				
Interest rate swaps <sup>(a)</sup>	\$—	\$7	\$1	\$3
Derivatives not designated as hedging instruments				
Interest rate caps <sup>(b)</sup>	—	3	—	10
Foreign exchange contracts <sup>(c)</sup>	15	12	5	2
Commodity contracts <sup>(c)</sup>	3	—	—	1
Total	\$18	\$22	\$6	\$16

Amounts in this table exclude derivatives issued by Avis Budget Rental Car Funding; however, certain amounts related to the derivatives held by Avis Budget Rental Car Funding are included within accumulated other comprehensive income.

<sup>(a)</sup> Included in other non-current assets or other non-current liabilities.

<sup>(b)</sup> Included in assets under vehicle programs or liabilities under vehicle programs.

<sup>(c)</sup> Included in other current assets or other current liabilities.



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

	Three Months Ended		Six Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
Derivatives designated as hedging instruments				
Interest rate swaps <sup>(a)</sup>	\$—	\$(3	) \$(3	) \$(2
Derivatives not designated as hedging instruments <sup>(b)</sup>				
Foreign exchange contracts <sup>(c)</sup>	(19	) (11	) 16	(29
Commodity contracts <sup>(d)</sup>	4	1	4	1
Total	\$(15	) \$(13	) \$17	\$(30

<sup>(a)</sup> Recognized, net of tax, as a component of other comprehensive income within stockholders' equity.

<sup>(b)</sup> 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 June 30, 2015, included a \$19 million loss in interest expense and for the six months ended June 30, 2015, included a \$2 million gain in interest expense and a \$14 million gain in operating expense.

<sup>(c)</sup> For the three months ended June 30, 2014, included a \$11 million loss in interest expense, and for the six months ended June 30, 2014, included a \$26 million loss in interest expense and a \$3 million loss in operating expense.

<sup>(d)</sup> Included in operating expense.

## Debt Instruments

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

	As of June 30, 2015		As of December 31, 2014	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Corporate debt				
Short-term debt and current portion of long-term debt	\$32	\$32	\$28	\$28
Long-term debt	3,520	3,491	3,392	3,439
Debt under vehicle programs				
Vehicle-backed debt due to Avis Budget Rental Car Funding	\$8,350	\$8,411	\$6,340	\$6,407
Vehicle-backed debt	2,733	2,748	1,766	1,771
Interest rate swaps and interest rate caps <sup>(a)</sup>	3	3	10	10

<sup>(a)</sup> Derivatives in a liability position.

## 15. Segment Information

The Company's chief operating decision maker assesses performance and allocates resources based upon the separate financial information from the Company's operating segments. In identifying its reportable segments, the Company considered the nature of services provided, the geographical areas in which the segments operated and other relevant factors. The Company has aggregated certain of its operating segments into its reportable segments.



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Management evaluates the operating results of each of its reportable segments based upon revenue and “Adjusted EBITDA,” which the Company defines as income from continuing operations before non-vehicle related depreciation and amortization, any impairment charge, restructuring expense, early extinguishment of debt costs, non-vehicle related interest, transaction-related costs and income taxes. The Company’s presentation of Adjusted EBITDA may not be comparable to similarly-titled measures used by other companies.

	Three Months Ended June 30,			
	2015		2014	
	Revenues	Adjusted EBITDA	Revenues <sup>(a)</sup>	Adjusted EBITDA <sup>(b)</sup>
Americas	\$1,556	\$178	\$1,542	\$172
International	617	61	652	55
Corporate and Other <sup>(c)</sup>	—	(12	) —	(14
Total Company	\$2,173	227	\$2,194	213
Less:				
Non-vehicle related depreciation and amortization		56		45
Interest expense related to corporate debt, net:				
Interest expense		45		55
Early extinguishment of debt		23		56
Transaction-related costs		18		8
Restructuring expense		3		1
Income before income taxes		\$82		\$48

Previously reported amounts were recast for a change in the Company’s reportable segments. The financial results of the Company’s North America, South America, Central America and Caribbean operations are now reported in the Company’s Americas segment.

<sup>(a)</sup> As a result of the change in the Company’s reportable segments, \$15 million of revenues previously reported in International are now reported in the Americas in the three months ended June 30, 2014.

<sup>(b)</sup> As a result of the change in the Company’s reportable segments, \$2 million of Adjusted EBITDA previously reported in International is now reported in the Americas in the three months ended June 30, 2014.

<sup>(c)</sup> Includes unallocated corporate overhead which is not attributable to a particular segment.

	Six Months Ended June 30,			
	2015		2014	
	Revenues	Adjusted EBITDA	Revenues <sup>(a)</sup>	Adjusted EBITDA <sup>(b)</sup>
Americas	\$2,931	\$293	\$2,872	\$287
International	1,092	77	1,184	69
Corporate and Other <sup>(c)</sup>	—	(26	) —	(26
Total Company	\$4,023	344	\$4,056	330
Less:				
Non-vehicle related depreciation and amortization		105		86
Interest expense related to corporate debt, net:				
Interest expense		97		111
Early extinguishment of debt		23		56
Transaction-related costs		49		16
Restructuring expense		4		8
Income before income taxes		\$66		\$53

Previously reported amounts were recast for a change in the Company’s reportable segments. The financial results of the Company’s North America, South America, Central America and Caribbean operations are now reported in the

Company's Americas segment.

- (a) As a result of the change in the Company's reportable segments, \$34 million of revenues previously reported in International are now reported in the Americas in the six months ended June 30, 2014.
- (b) As a result of the change in the Company's reportable segments, \$5 million of Adjusted EBITDA previously reported in International is now reported in the Americas in the six months ended June 30, 2014.
- (c) Includes unallocated corporate overhead which is not attributable to a particular segment.

Since December 31, 2014, there have been no significant changes in segment assets other than in the Company's Americas and International segment assets under vehicle programs. As of June 30, 2015 and

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December 31, 2014, Americas assets under vehicle programs were approximately \$11.3 billion and \$9.2 billion, respectively, and International assets under vehicle programs were approximately \$2.8 billion and \$1.9 billion, respectively.

16. Guarantor and Non-Guarantor Consolidating Condensed Financial Statements

The following consolidating financial information presents Consolidating Condensed Statements of Comprehensive Income for the three and six months ended June 30, 2015 and 2014, Consolidating Condensed Balance Sheets as of June 30, 2015 and December 31, 2014, and Consolidating Condensed Statements of Cash Flows for the six months ended June 30, 2015 and 2014 for: (i) Avis Budget Group, Inc. (the “Parent”); (ii) ABCR and Avis Budget Finance, Inc. (the “Subsidiary Issuers”); (iii) the guarantor subsidiaries; (iv) the non-guarantor subsidiaries; (v) elimination entries necessary to consolidate the Parent with the Subsidiary Issuers, and the guarantor and non-guarantor subsidiaries; and (vi) the Company on a consolidated basis. The Subsidiary Issuers and the guarantor and non-guarantor subsidiaries are 100% owned by the Parent, either directly or indirectly. All guarantees are full and unconditional and joint and several. This financial information is being presented in relation to the Company’s guarantee of the payment of principal, premium (if any) and interest on the notes issued by the Subsidiary Issuers. See Note 9 - Long-term Debt and Borrowing Arrangements for additional description of these guaranteed notes. The Senior Notes have separate investors than the equity investors of the Company and are guaranteed by the Parent and certain subsidiaries.

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

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## Consolidating Condensed Statements of Comprehensive Income

Three Months Ended June 30, 2015

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Total	
<b>Revenues</b>							
Vehicle rental	\$—	\$—	\$1,055	\$478	\$—	\$1,533	
Other	—	—	307	866	(533)	) 640	
Net revenues	—	—	1,362	1,344	(533)	) 2,173	
<b>Expenses</b>							
Operating	1	5	654	432	—	1,092	
Vehicle depreciation and lease charges, net	—	—	476	500	(478)	) 498	
Selling, general and administrative	9	3	162	107	—	281	
Vehicle interest, net	—	—	52	78	(55)	) 75	
Non-vehicle related depreciation and amortization	—	1	33	22	—	56	
Interest expense related to corporate debt, net:							
Interest expense (income)	—	42	(8)	) 11	—	45	
Intercompany interest expense (income)	(3)	) (3)	) 6	—	—	—	
Early extinguishment of debt	—	23	—	—	—	23	
Transaction-related costs	—	12	—	6	—	18	
Restructuring expense	—	—	—	3	—	3	
Total expenses	7	83	1,375	1,159	(533)	) 2,091	
Income (loss) before income taxes and equity in earnings of subsidiaries	(7)	) (83)	) (13)	) 185	—	82	
Provision for (benefit from) income taxes	(3)	) (127)	) 53	16	—	(61)	)
Equity in earnings of subsidiaries	147	103	169	—	(419)	) —	
Net income	\$143	\$147	\$103	\$169	\$(419)	) \$143	
Comprehensive income	\$151	\$155	\$111	\$177	\$(443)	) \$151	

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Six Months Ended June 30, 2015

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total	
<b>Revenues</b>							
Vehicle rental	\$—	\$—	\$1,997	\$855	\$—	\$2,852	
Other	—	—	574	1,619	(1,022)	) 1,171	
Net revenues	—	—	2,571	2,474	(1,022)	) 4,023	
<b>Expenses</b>							
Operating	1	9	1,262	805	—	2,077	
Vehicle depreciation and lease charges, net	—	—	912	931	(913)	) 930	
Selling, general and administrative	17	6	302	204	—	529	
Vehicle interest, net	—	—	101	151	(109)	) 143	
Non-vehicle related depreciation and amortization	—	1	66	38	—	105	
Interest expense related to corporate debt, net:							
Interest expense (income)	—	82	(7)	) 22	—	97	
Intercompany interest expense (income)	(6)	) (5)	) 6	5	—	—	
Early extinguishment of debt	—	23	—	—	—	23	
Transaction-related costs	—	18	1	30	—	49	
Restructuring expenses	—	—	1	3	—	4	
Total expenses	12	134	2,644	2,189	(1,022)	) 3,957	
Income (loss) before income taxes and equity in earnings of subsidiaries	(12)	) (134)	) (73)	) 285	—	66	
Provision for (benefit from) income taxes	(5)	) (147)	) 61	23	—	(68)	)
Equity in earnings of subsidiaries	141	128	262	—	(531)	) —	
Net income	\$134	\$141	\$128	\$262	\$(531)	) \$134	
Comprehensive income	\$48	\$55	\$44	\$178	\$(277)	) \$48	

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Three Months Ended June 30, 2014

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
<b>Revenues</b>						
Vehicle rental	\$—	\$—	\$1,049	\$504	\$—	\$1,553
Other	—	—	309	891	(559)	) 641
Net revenues	—	—	1,358	1,395	(559)	) 2,194
<b>Expenses</b>						
Operating	2	4	660	439	—	1,105
Vehicle depreciation and lease charges, net	—	—	505	516	(504)	) 517
Selling, general and administrative	6	7	157	117	—	287
Vehicle interest, net	—	—	51	76	(55)	) 72
Non-vehicle related depreciation and amortization	—	1	28	16	—	45
Interest expense related to corporate debt, net:						
Interest expense	—	41	2	12	—	55
Intercompany interest expense (income)	(3	) (2	) —	5	—	—
Early extinguishment of debt	—	56	—	—	—	56
Transaction-related costs	—	2	(4	) 10	—	8
Restructuring expense	—	—	—	1	—	1
Total expenses	5	109	1,399	1,192	(559)	) 2,146
Income (loss) before income taxes and equity in earnings of subsidiaries	(5	) (109	) (41	) 203	—	48
Provision for (benefit from) income taxes	(1	) (43	) 52	14	—	22
Equity in earnings of subsidiaries	30	96	189	—	(315)	) —
Net income	\$26	\$30	\$96	\$189	\$(315)	) \$26
Comprehensive income	\$31	\$33	\$101	\$194	\$(328)	) \$31

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Six Months Ended June 30, 2014

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
<b>Revenues</b>						
Vehicle rental	\$—	\$—	\$1,965	\$917	\$—	\$2,882
Other	—	—	576	1,646	(1,048)	) 1,174
Net revenues	—	—	2,541	2,563	(1,048)	) 4,056
<b>Expenses</b>						
Operating	2	8	1,264	831	—	2,105
Vehicle depreciation and lease charges, net	—	—	946	948	(944)	) 950
Selling, general and administrative	13	11	297	214	—	535
Vehicle interest, net	—	—	96	144	(104)	) 136
Non-vehicle related depreciation and amortization	—	1	55	30	—	86
Interest expense related to corporate debt, net:						
Interest expense	1	88	2	20	—	111
Intercompany interest expense (income)	(6	) (5	) 1	10	—	—
Early extinguishment of debt	—	56	—	—	—	56
Transaction-related costs	—	4	(1	) 13	—	16
Restructuring expense	—	—	2	6	—	8
Total expenses	10	163	2,662	2,216	(1,048)	) 4,003
Income (loss) before income taxes and equity in earnings of subsidiaries	(10	) (163	) (121	) 347	—	53
Provision for (benefit from) income taxes	(3	) (64	) 70	20	—	23
Equity in earnings of subsidiaries	37	136	327	—	(500)	) —
Net income	\$30	\$37	\$136	\$327	\$(500)	) \$30
Comprehensive income	\$38	\$44	\$144	\$335	\$(523)	) \$38

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## Consolidating Condensed Balance Sheets

As of June 30, 2015

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Total
<b>Assets</b>						
<b>Current assets:</b>						
Cash and cash equivalents	\$5	\$239	\$—	\$285	\$—	\$529
Receivables, net	—	—	180	505	—	685
Deferred income taxes	—	9	103	32	—	144
Other current assets	3	100	91	569	—	763
Total current assets	8	348	374	1,391	—	2,121
Property and equipment, net	—	118	324	195	—	637
Deferred income taxes	20	1,150	140	—	(49)	) 1,261
Goodwill	—	—	487	484	—	971
Other intangibles, net	—	32	532	382	—	946
Other non-current assets	95	65	22	161	—	343
Intercompany receivables	210	356	676	774	(2,016)	) —
Investment in subsidiaries	376	3,186	3,677	—	(7,239)	) —
Total assets exclusive of assets under vehicle programs	709	5,255	6,232	3,387	(9,304)	) 6,279
<b>Assets under vehicle programs:</b>						
Program cash	—	—	—	143	—	143
Vehicles, net	—	16	83	13,296	—	13,395
Receivables from vehicle manufacturers and other	—	1	1	218	—	220
Investment in Avis Budget Rental Car Funding (AESOP) LLC-related party	—	—	—	362	—	362
	—	17	84	14,019	—	14,120
Total assets	\$709	\$5,272	\$6,316	\$17,406	\$(9,304)	) \$20,399
<b>Liabilities and stockholders' equity</b>						
<b>Current liabilities:</b>						
Accounts payable and other current liabilities	\$24	\$185	\$523	\$965	\$—	\$1,697
Short-term debt and current portion of long-term debt	—	12	5	15	—	32
Total current liabilities	24	197	528	980	—	1,729
Long-term debt	—	2,977	3	540	—	3,520
Other non-current liabilities	89	86	225	372	(49)	) 723
Intercompany payables	—	1,634	325	57	(2,016)	) —
Total liabilities exclusive of liabilities under vehicle programs	113	4,894	1,081	1,949	(2,065)	) 5,972

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Liabilities under vehicle programs:

Debt	—	2	80	2,654	—	2,736
Due to Avis Budget Rental Car Funding (AESOP) LLC-related party	—	—	—	8,350	—	8,350
Deferred income taxes	—	—	1,968	173	—	2,141
Other	—	—	1	603	—	604
	—	2	2,049	11,780	—	13,831
Total stockholders' equity	596	376	3,186	3,677	(7,239	) 596
Total liabilities and stockholders' equity	\$709	\$5,272	\$6,316	\$17,406	\$(9,304	) \$20,399

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As of December 31, 2014

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Total
Assets						
Current assets:						
Cash and cash equivalents	\$2	\$210	\$—	\$412	\$—	\$624
Receivables, net	—	—	177	422	—	599
Deferred income taxes	—	23	102	34	—	159
Other current assets	3	86	78	289	—	456
Total current assets	5	319	357	1,157	—	1,838
Property and equipment, net	—	112	325	201	—	638
Deferred income taxes	19	1,199	138	—	(4	) 1,352
Goodwill	—	—	487	355	—	842
Other intangibles, net	—	38	545	303	—	886
Other non-current assets	104	81	22	148	—	355
Intercompany receivables	205	344	978	672	(2,199	) —
Investment in subsidiaries	468	3,072	3,316	—	(6,856	) —
Total assets exclusive of assets under vehicle programs	801	5,165	6,168	2,836	(9,059	) 5,911
Assets under vehicle programs:						
Program cash	—	—	—	119	—	119
Vehicles, net	—	7	87	10,121	—	10,215
Receivables from vehicle manufacturers and other	—	1	—	361	—	362
Investment in Avis Budget Rental Car Funding (AESOP) LLC-related party	—	—	—	362	—	362
	—	8	87	10,963	—	11,058
Total assets	\$801	\$5,173	\$6,255	\$13,799	\$(9,059	) \$16,969
Liabilities and stockholders' equity						
Current liabilities:						
Accounts payable and other current liabilities	\$39	\$200	\$462	\$790	\$—	\$1,491
Short-term debt and current portion of long-term debt	—	13	4	11	—	28
Total current liabilities	39	213	466	801	—	1,519
Long-term debt	—	2,825	6	561	—	3,392
Other non-current liabilities	97	100	232	341	(4	) 766
Intercompany payables	—	1,558	313	328	(2,199	) —
Total liabilities exclusive of liabilities under vehicle programs	136	4,696	1,017	2,031	(2,203	) 5,677
Liabilities under vehicle programs:						

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Debt	—	9	84	1,683	—	1,776
Due to Avis Budget Rental Car Funding (AESOP) LLC-related party	—	—	—	6,340	—	6,340
Deferred income taxes	—	—	2,082	185	—	2,267
Other	—	—	—	244	—	244
	—	9	2,166	8,452	—	10,627
Total stockholders' equity	665	468	3,072	3,316	(6,856	) 665
Total liabilities and stockholders' equity	\$801	\$5,173	\$6,255	\$13,799	\$(9,059	) \$16,969

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## Consolidating Condensed Statements of Cash Flows

Six Months Ended June 30, 2015

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total	
Net cash provided by operating activities	\$3	\$158	\$69	\$ 797	\$—	\$1,027	
<b>Investing activities</b>							
Property and equipment additions	—	(11	) (38	) (31	) —	(80	)
Proceeds received on asset sales	—	3	—	3	—	6	
Net assets acquired (net of cash acquired)	—	(8	) —	(214	) —	(222	)
Intercompany loan advances	—	(30	) (94	) —	124	—	
Other, net	114	(95	) 1	—	(21	) (1	)
Net cash provided by (used in) investing activities exclusive of vehicle programs	114	(141	) (131	) (242	) 103	(297	)
<b>Vehicle programs:</b>							
Increase in program cash	—	—	—	(30	) —	(30	)
Investment in vehicles	—	(1	) (2	) (7,936	) —	(7,939	)
Proceeds received on disposition of vehicles	—	9	—	4,540	—	4,549	
	—	8	(2	) (3,426	) —	(3,420	)
Net cash provided by (used in) investing activities	114	(133	) (133	) (3,668	) 103	(3,717	)
<b>Financing activities</b>							
Proceeds from long-term borrowings	—	375	—	1	—	376	
Payments on long-term borrowings	—	(250	) (2	) (29	) —	(281	)
Net change in short-term borrowings	—	—	—	(13	) —	(13	)
Intercompany loan borrowings	—	—	—	124	(124	) —	
Repurchases of common stock	(114	) —	—	—	—	(114	)
Debt financing fees	—	(7	) —	—	—	(7	)
Other, net	—	(114	) 70	23	21	—	
Net cash provided by (used in) financing activities exclusive of vehicle programs	(114	) 4	68	106	(103	) (39	)
<b>Vehicle programs:</b>							
Proceeds from borrowings	—	—	—	9,018	—	9,018	
Payments on borrowings	—	—	(4	) (6,343	) —	(6,347	)
Debt financing fees	—	—	—	(17	) —	(17	)
	—	—	(4	) 2,658	—	2,654	

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Net cash provided by (used in) financing activities	(114	) 4	64	2,764	(103	) 2,615	
Effect of changes in exchange rates on cash and cash equivalents	—	—	—	(20	) —	(20	)
Net increase (decrease) in cash and cash equivalents	3	29	—	(127	) —	(95	)
Cash and cash equivalents, beginning of period	2	210	—	412	—	624	
Cash and cash equivalents, end of period	\$5	\$239	\$—	\$ 285	\$—	\$529	

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Six Months Ended June 30, 2014

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total	
Net cash provided by operating activities	\$2	\$502	\$45	\$ 462	\$—	\$1,011	
Investing activities							
Property and equipment additions	—	(7	) (39	) (34	) —	(80	)
Proceeds received on asset sales	—	2	—	4	—	6	
Net assets acquired (net of cash acquired)							