AVIS BUDGET GROUP, INC.
Form 10-Q
August 08, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2011

OR

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

For the transition period from to

Commission File No. 1-10308

Avis Budget Group, Inc.

(Exact name of registrant as specified in its charter)

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

(973) 496-4700

(Registrant s telephone number, including area code)

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

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

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

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

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

The number of shares outstanding of the issuer s common stock was 105,022,453 shares as of July 29, 2011.

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FORWARD-LOOKING STATEMENTS

The forward-looking statements contained herein are subject to known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements are based on various facts and were derived utilizing numerous important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements. Forward-looking statements include the information concerning our future financial performance, business strategy, projected plans and objectives. Statements preceded by, followed by or that otherwise include the words believes , expects , anticipates , intends , projects , estimates , plans , may increase , may fluctuate and similar expressions or future or conditional verbs such as will , should , would , may are generally forward-looking in nature and not historical facts. You should understand that the following important factors and assumptions could affect our future results and could cause actual results to differ materially from those expressed in such forward-looking statements:

- the high level of competition in the vehicle rental industry and the impact such competition may have on pricing and rental volume;
- an increase in our fleet costs as a result of an increase in the cost of new vehicles, disruption in the supply of new vehicles, and/or a decrease in the price at which we dispose of used vehicles either in the used vehicle market or under repurchase or guaranteed depreciation programs;
- the results of operations or financial condition of the manufacturers of our cars, which could impact their ability to perform their payment obligations under the agreements we have with them, including repurchase and/or guaranteed depreciation arrangements, and/or their willingness or ability to make cars available to us or the rental car industry as a whole on commercially reasonable terms or at all;
- any reduction in travel demand, including any reduction in airline passenger traffic;
- any weakness in economic conditions generally, including in the housing market, 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 operations, including the funding of our vehicle fleet via the asset-backed securities and lending market consistent with current costs, and the financial condition of financial-guaranty firms that have insured a portion of our outstanding vehicle-backed debt;
- an occurrence or threat of terrorism, pandemic disease, natural disasters or military conflict in the locations in which we operate;
- our dependence on third-party distribution channels, third-party suppliers of other services and co-marketing arrangements with third parties;
- our ability to utilize derivative instruments, and the impact of derivative instruments we currently utilize, which can be affected by fluctuations in interest rates, gasoline prices and exchange rates, changes in government regulations and other factors;

our ability to accurately estimate our future results;

a major disruption in our communication networks or information systems;

our exposure to uninsured claims in excess of historical levels;

our failure or inability to comply with regulations or contractual obligations or any changes in regulations or contractual obligations, including with respect to personally identifiable information;

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

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

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

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

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

- risks associated with litigation involving the Company;

- risks related to tax obligations;

- the effect of future changes in accounting standards;

- risks related to our recently announced agreement to acquire Avis Europe plc (Avis Europe), including our ability and the timing to complete such acquisition, the expected incurrence of incremental indebtedness, our ability to complete, and the terms and timing of, any financing, our ability and the timing to obtain required regulatory approvals, and our ability to realize the synergies contemplated by the transaction and to promptly and effectively integrate the businesses of Avis Europe and Avis Budget Group;

- risks related to the potential acquisition of Dollar Thrifty Automotive Group, Inc. (Dollar Thrifty), including the timing to consummate such acquisition, the ability and timing to obtain required regulatory approvals and financing (and any conditions thereto), the expected incurrence of incremental indebtedness to help fund the acquisition, our ability to promptly and effectively integrate the businesses of Dollar Thrifty and Avis Budget Group, and the impact of pending or future litigation relating to any potential acquisition; and

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

Other factors and assumptions not identified above, including those described under Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations in our 2010 Annual Report on Form 10-K were also involved in the derivation of these forward-looking statements, and the failure of such other assumptions to be realized, as well as other factors, may also cause actual results to differ materially from those projected. Most of these factors are difficult to predict accurately and are generally beyond our control.

You should consider the areas of risk described above, as well as those described under Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations in our 2010 Annual Report on Form 10-K and those that may be disclosed from time to time in filings with the Securities and Exchange Commission, in connection with any forward-looking statements that may be made by us and our businesses generally. 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 OPERATIONS

(In millions, except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Revenues				
Vehicle rental	$ 1,034	$ 961	$ 1,952	$ 1,827
Other	378	333	694	619
Net revenues	1,412	1,294	2,646	2,446
Expenses				
Operating	725	639	1,383	1,251
Vehicle depreciation and lease charges, net	259	339	535	636
Selling, general and administrative	169	143	322	274
Vehicle interest, net	68	76	132	150
Non-vehicle related depreciation and amortization	21	23	44	46
Interest expense related to corporate debt, net				
Interest expense	47	41	94	81
Early extinguishment of debt				40
Transaction-related costs	34	2	36	2
Restructuring charges		2		3
Total expenses	1,323	1,265	2,546	2,483
Income (loss) before income taxes	89	29	100	(37)
Provision for (benefit from) income taxes	37	3	41	(25)
Net income (loss)	$ 52	$ 26	$ 59	$ (12)
Earnings (loss) per share				
Basic	$ 0.49	$ 0.25	$ 0.56	$ (0.12)
Diluted	$ 0.42	$ 0.22	$ 0.49	$ (0.12)

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, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 645	$ 911
Restricted cash	406	10
Receivables	417	315
Deferred income taxes	132	130
Other current assets	306	272
Total current assets	1,906	1,638
Property and equipment, net	405	425
Deferred income taxes	639	587
Goodwill	76	76
Other intangibles, net	484	481
Other non-current assets	275	255
Total assets exclusive of assets under vehicle programs	3,785	3,462
Assets under vehicle programs:		
Program cash	76	4
Vehicles, net	8,185	6,422
Receivables from vehicle manufacturers and other	79	149
Investment in Avis Budget Rental Car Funding (AESOP) LLC related party	316	290
	8,656	6,865
Total assets	$ 12,441	$ 10,327
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable and other current liabilities	$ 1,006	$ 925
Current portion of long-term debt	6	8
Total current liabilities	1,012	933
Long-term debt	2,492	2,494
Other non-current liabilities	530	535
Total liabilities exclusive of liabilities under vehicle programs	4,034	3,962
Liabilities under vehicle programs:		
Debt	831	528

Debt due to Avis Budget Rental Car Funding (AESOP) LLC related party	5,456	3,987
Deferred income taxes	1,430	1,333
Other	158	107
	7,875	5,955
Commitments and contingencies (Note 11)		
Stockholders equity:		
Preferred stock, $.01 par value authorized 10 million shares; none issued and outstanding		
Common stock, $.01 par value authorized 250 million shares; issued 137,003,237 and 136,982,068 shares	1	1
Additional paid-in capital	8,500	8,828
Accumulated deficit	(2,578)	(2,637)
Accumulated other comprehensive income	148	92
Treasury stock, at cost 31,581,615 and 33,247,139 shares	(5,539)	(5,874)
Total stockholders equity	532	410
Total liabilities and stockholders equity	$ 12,441	$ 10,327

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, 2011	Six Months Ended June 30, 2010
Operating Activities		
Net income (loss)	$ 59	$ (12)
Adjustments to reconcile net income (loss) to net cash provided by operating activities exclusive of vehicle programs:		
Non-vehicle related depreciation and amortization	44	46
Net change in assets and liabilities, excluding the impact of acquisitions and dispositions:		
Receivables	(24)	(26)
Income taxes and deferred income taxes	6	(41)
Accounts payable and other current liabilities	78	109
Other, net	(124)	(42)
Net cash provided by operating activities exclusive of vehicle programs	39	34
Vehicle programs:		
Vehicle depreciation	663	626
	663	626
Net cash provided by operating activities	702	660
Investing Activities		
Property and equipment additions	(17)	(23)
Proceeds received on asset sales	6	8
Acquisition-related restricted cash	(401)	
Other, net	(3)	(4)
Net cash used in investing activities exclusive of vehicle programs	(415)	(19)
Vehicle programs:		
(Increase) Decrease in program cash	(71)	113
Investment in vehicles	(5,242)	(5,448)
Proceeds received on disposition of vehicles	3,039	3,127
Investment in debt securities of Avis Budget Rental Car Funding (AESOP) LLC related party	(400)	(280)
Proceeds from debt securities of Avis Budget Rental Car Funding (AESOP) LLC related party	400	280
	(2,274)	(2,208)
Net cash used in investing activities	(2,689)	(2,227)

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Avis Budget Group, Inc.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Continued)

(In millions)

(Unaudited)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Financing Activities		
Proceeds from borrowings		444
Principal payments on borrowings	(5)	(457)
Debt financing fees	(30)	(30)
Other, net	1	4
Net cash used in financing activities exclusive of vehicle programs	(34)	(39)
Vehicle programs:		
Proceeds from borrowings	5,974	5,626
Principal payments on borrowings	(4,213)	(4,229)
Net change in short-term borrowings		202
Debt financing fees	(11)	(12)
	1,750	1,587
Net cash provided by financing activities	1,716	1,548
Effect of changes in exchange rates on cash and cash equivalents	5	(5)
Net decrease in cash and cash equivalents	(266)	(24)
Cash and cash equivalents, beginning of period	911	482
Cash and cash equivalents, end of period	$ 645	$ 458

See Notes to Consolidated Condensed Financial Statements (Unaudited).

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Avis Budget Group, Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)

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

1. Basis of Presentation and Recently Issued Accounting Pronouncements

Basis of Presentation

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

The Company operates in the following business segments:

Domestic Car Rental provides car rentals and ancillary products and services in the United States.

International Car Rental provides vehicle rentals and ancillary products and services primarily in Argentina, Australia, Canada, New Zealand, Puerto Rico and the U.S. Virgin Islands.

Truck Rental provides truck rentals and related services to consumers and commercial users in the United States.

In presenting the Consolidated Condensed Financial Statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), management makes estimates and assumptions that affect the amounts reported and related disclosures. Estimates, by their nature, are based on judgments and available information. Accordingly, actual results could differ from those estimates. In management s opinion, the Consolidated Condensed Financial Statements contain all normal recurring adjustments necessary for a fair presentation of interim results reported. The results of operations reported for interim periods are not necessarily indicative of the results of operations for the entire year or any subsequent interim period. These financial statements should be read in conjunction with the Company s 2010 Annual Report on Form 10-K.

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 generation or acquisition of such assets and the principal debt repayment or financing of such assets are classified as activities of the Company s vehicle programs. The Company believes it is appropriate to segregate the financial data of its vehicle programs because, ultimately, the source of repayment of such debt is the realization of such assets.

Pending Acquisition

In June 2011, the Company reached an agreement with Avis Europe plc (Avis Europe) to acquire all outstanding shares of Avis Europe for £635 million (approximately $1 billion). In August 2011, the shareholders of Avis Europe voted to approve the acquisition and the Company expects the acquisition to be completed in October 2011, subject to court approvals and regulatory clearances. As part of the agreement to acquire Avis Europe, the Company established an escrow account and purchased £246 million to be used in the funding of the acquisition. As a result, this cash has been classified as restricted cash on the Company s Consolidated Condensed Balance Sheets as of June 30, 2011.

Transaction-related Costs

In conjunction with the Company s announced agreement to acquire Avis Europe and potential acquisition of Dollar Thrifty Automotive Group (Dollar Thrifty), transaction-related costs including due-diligence, financing and other costs are now being classified separately in the Consolidated Condensed Statement of Operations for the three and six months ended June 30, 2011 and 2010. Certain related costs from the three and six months ended June 30, 2010 have been reclassified from selling, general and administrative expenses to transaction-related costs to conform to the current presentation. This reclassification had no impact on total expenses, income (loss) before income taxes, net income (loss) or earnings per share. Transaction-related costs in the future are also expected to include costs for the integration of the acquired business.

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Adoption of New Accounting Standards

In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and International Financial Reporting Standards (IFRS) , to improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRS. The Company will adopt this guidance on January 1, 2012, as required, and it is not expected to have a significant impact on its financial statements.

In June 2011, the FASB issued ASU No. 2011-05, Presentation of Comprehensive Income , which requires companies to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. The Company plans to adopt this guidance on January 1, 2012, as required, and is assessing the manner in which it will present the required information.

2. Restructuring Charges

Beginning in late 2008, the Company implemented initiatives within the Company s Domestic Car Rental, International Car Rental and Truck Rental segments to reduce costs, enhance organizational efficiency and consolidate and rationalize existing processes and facilities.

As of June 30, 2011, the remaining liability relating to restructuring actions amounted to $1 million, for Domestic Car Rental facility-related lease obligation costs for vacated locations which are expected to be paid through 2015. The Company has substantially completed its activities under this plan.

The utilization of the restructuring liability is recorded within the Company s segments as follows:

	Domestic Car Rental	Total
Balance as of January 1, 2011	$ 6	$ 6
Cash payment/utilization	(5)	(5)
Balance as of June 30, 2011	$ 1	$ 1

3. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (EPS):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net income (loss) for basic EPS	$ 52	$ 26	$ 59	$ (12)
Convertible debt interest, net of tax	2	2	3	
Net income (loss) for diluted EPS	$ 54	$ 28	$ 62	$ (12)
Basic weighted average shares outstanding [(a)]	105.4	103.1	105.0	102.8
Options, warrants and non-vested stock	2.4	2.3	2.5	
Convertible debt	21.2	21.2	21.2	

Diluted weighted average shares outstanding	129.0	126.6	128.7	102.8
Earnings per share:				
Basic	$ 0.49	$ 0.25	$ 0.56	$ (0.12)
Diluted	$ 0.42	$ 0.22	$ 0.49	$ (0.12)

(a) As the Company incurred a net loss for the six months ended June 30, 2010, all outstanding stock options, stock units, warrants and issuable shares underlying the 3 1/2% convertible notes have an anti-dilutive effect and therefore are excluded from the computation of diluted weighted average shares outstanding for the period. Accordingly, basic and diluted weighted average shares outstanding are equal for the period.

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The following table summarizes the Company s outstanding common stock equivalents that were anti-dilutive and therefore excluded from the computation of diluted EPS:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Options [a]	1.0	2.1	1.1	5.7
Warrants [b]	21.2	21.2	21.2	21.2
Shares underlying 3 1/2% Convertible Senior Notes [c]				21.2

(a) The weighted average exercise price for anti-dilutive options for the three and six months ended June 30, 2011 was $25.56 and $24.80, respectively. For the three months ended June 30, 2010, the weighted average exercise price for anti dilutive options was $20.97. For the six months ended June 30, 2010, all outstanding stock options were anti-dilutive, as the Company incurred a net loss.

(b) Represents all outstanding warrants for the three and six months ended June 30, 2011 and 2010. The exercise price for the warrants outstanding for the three and six months ended June 30, 2011 and 2010 was $22.50.

(c) Represents the number of shares issuable pursuant to the 3 1/2% convertible senior notes.

4. Intangible Assets

Intangible assets consisted of:

	As of June 30, 2011			As of December 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable Intangible Assets						
Franchise agreements	$ 73	$ 25	$ 48	$ 73	$ 24	$ 49
Customer lists	19	10	9	19	10	9
Other	2	1	1	2	1	1
	$ 94	$ 36	$ 58	$ 94	$ 35	$ 59
Unamortizable Intangible Assets						
Goodwill	$ 76			$ 76		
Trademarks [a]	$ 426			$ 422		

(a) The increase in trademarks is primarily due to fluctuations in foreign currency.

Amortization expense relating to all intangible assets was approximately $1 million during second quarter 2011 and 2010. For the six months ended June 30, 2011 and 2010, amortization expense was approximately $1 million and $2 million, respectively.

Based on the Company s amortizable intangible assets at June 30, 2011, the Company expects amortization expense of approximately $2 million for the remainder of 2011 and approximately $3 million for each of the five fiscal years thereafter.

5. Financial Instruments

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

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Debt Instruments

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

	As of June 30, 2011		As of December 31, 2010	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Corporate debt				
Current portion of long-term debt	$ 6	$ 6	$ 8	$ 8
Long-term debt, excluding convertible debt	2,147	2,194	2,149	2,211
Convertible debt	345	440	345	407
Debt under vehicle programs				
Vehicle-backed debt due to Avis Budget Rental Car Funding (AESOP) LLC	$ 5,456	$ 5,564	$ 3,987	$ 4,045
Vehicle-backed debt	828	840	521	526

Derivative Instruments and Hedging Activities

The Company uses foreign exchange forward contracts to manage its exposure to changes in foreign currency exchange rates associated with its foreign currency denominated receivables and forecasted royalties, forecasted earnings of foreign subsidiaries and forecasted foreign currency denominated acquisitions, including the announced agreement to acquire Avis Europe. The Company primarily hedges its foreign currency exposure to the Canadian, Australian and New Zealand dollars and the British pound sterling. The majority of forward contracts do not qualify for hedge accounting treatment. With the exception of forecasted foreign currency denominated acquisitions, fluctuations in the value of these forward contracts 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 twelve months are designated and do qualify as cash flow hedges. The amount of gains or losses reclassified from accumulated other comprehensive income to earnings resulting from ineffectiveness or from excluding a component of the forward contracts gain or loss from the effectiveness calculation for cash flow hedges during the three and six months ended June 30, 2011 and 2010 was not material, nor is the amount of gains or losses the Company expects to reclassify from accumulated other comprehensive income to earnings over the next twelve months.

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, designated as cash flow hedges, to manage the risk related to its floating rate corporate debt. In connection with such cash flow hedges, the Company records the effective portion of changes in the fair value of these 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 changes in fair values of hedges that were determined to be ineffective are immediately reclassified from accumulated other comprehensive income into earnings. During the six months ended June 30, 2010, the Company reclassified $36 million from accumulated other comprehensive income to earnings in connection with the early termination of certain interest rate swaps related to the repayment of a portion of the Company s floating rate term loan. The Company estimates that approximately $50 million of losses deferred in accumulated other comprehensive income will be recognized over the next twelve months, which is expected to be offset in earnings by the impact of the underlying hedged items.

To manage the risk associated with its floating rate vehicle-backed debt, the Company uses derivatives. These derivatives include freestanding derivatives and derivatives designated as cash flow hedges. In connection with such cash flow hedges, the Company records the effective portion of the change in fair value in other comprehensive income, net of tax. The Company records the gains or losses related to freestanding derivatives in its consolidated results of operations.

The Company periodically enters into derivative commodity contracts to manage its exposure to changes in the price of unleaded gasoline. Changes in the fair value of these freestanding derivatives are recorded in the Company s consolidated results of operations.

Certain of the Company s derivative instruments contain collateral support provisions that require the Company to post cash collateral to the extent that these derivatives are in a liability position. The aggregate fair value of such derivatives that are in a liability position and the aggregate fair value of assets needed to settle these derivatives as of June 30, 2011 was approximately $10 million, for which the Company has posted cash collateral in the same amount in the normal course of business.

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As of June 30, 2011, the Company held derivative instruments with notional values as follows: interest rate caps of approximately $4.9 billion, interest rate swaps of $135 million, foreign exchange forward contracts of $715 million, foreign exchange swaps of $213 million and commodity contracts for the purchase of 12 million gallons of unleaded gasoline.

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

Fair values of derivative instruments are as follows:

	As of June 30, 2011		As of December 31, 2010	
	Fair Value, Asset Derivatives	Fair Value, Liability Derivatives	Fair Value, Asset Derivatives	Fair Value, Liability Derivatives
Derivatives designated as hedging instruments [a]				
Interest rate swaps [b]	$	$ 4	$	$ 4
Derivatives not designated as hedging instruments [a]				
Foreign exchange forward contracts [c]		22		3
Foreign exchange swaps [e]	1			
Interest rate swaps [b]				1
Interest rate contracts [d]	1	3	1	7
Commodity contracts [e]	1			
Total	$ 3	$ 29	$ 1	$ 15

(a) Amounts in this table exclude derivatives issued by Avis Budget Rental Car Funding (AESOP) LLC (Avis Budget Rental Car Funding), as it is not consolidated by the Company; however, certain amounts related to the derivatives held by Avis Budget Rental Car Funding are included within accumulated other comprehensive income, as discussed in Note 12 Stockholders Equity.

(b) Included in other non-current liabilities.

(c) Included in other current liabilities.

(d) Included in assets under vehicle programs and liabilities under vehicle programs.

(e) Included in other current assets.

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The effect of derivatives recognized in the Company s Consolidated Condensed Financial Statements are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Derivatives designated as hedging instruments				
Interest rate swaps [(a)]	$ 6	$ 8	$ 16	$ 14
Derivatives not designated as hedging instruments				
Foreign exchange forward contracts [(b)]	$ (19)	$ 2	$ (21)	$ 1
Foreign exchange swaps [(c)]	3	(2)	4	(2)
Interest rate contracts [(d)]				1
Commodity contracts [(c)]		(2)	1	

(a) Amounts are recognized as a component of other comprehensive income within stockholders equity, net of tax.

(b) For the three months ended June 30, 2011, includes a $17 million loss in transaction-related costs and a $2 million loss in operating expenses. For the six months ended June 30, 2011, includes a $17 million loss in transaction-related costs and $4 million loss in operating expenses. For the three and six months ended June 30, 2010, the amounts are included in operating expenses.

(c) Included in operating expenses.

(d) Included in interest expense.

6. Vehicle Rental Activities

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

	As of June 30, 2011	As of December 31, 2010
Rental vehicles	$ 9,144	$ 7,007
Less: Accumulated depreciation	(1,239)	(1,135)
	7,905	5,872
Vehicles held for sale	280	550
Vehicles, net	$ 8,185	$ 6,422

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Depreciation expense	$ 358	$ 336	$ 663	$ 626
Lease charges	10	4	20	19
Gain on sales of vehicles, net and vehicle disposition costs	(109)	(1)	(148)	(9)
Vehicle depreciation and lease charges, net	$ 259	$ 339	$ 535	$ 636

For the three months ended June 30, 2011 and 2010, vehicle interest, net, on the accompanying Consolidated Condensed Statements of Operations excludes $50 million and $43 million, respectively, and for the six months ended June 30, 2011 and 2010, vehicle interest, net excludes $101 million and $84 million, respectively, of interest expense related to the Company s convertible senior notes and the fixed and floating rate borrowings of the Company s Avis Budget Car Rental, LLC (Avis Budget Car Rental) subsidiary.

7. Income Taxes

The Company s effective tax rate for the six months ended June 30, 2011 is a provision of 41.0%. Such rate differs from the Federal statutory rate of 35.0% primarily due to state taxes and the non-deductibility of certain transaction-related costs.

The Company s effective tax rate for the six months ended June 30, 2010 is a benefit of 67.6%. Such rate differs from the Federal statutory rate of 35.0% primarily due to an $11 million benefit relating to additional tax depreciation within the Company s operations in Australia.

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8. Accounts Payable and Other Current Liabilities

Accounts payable and other current liabilities consisted of:

		As of June 30, 2011		As of December 31, 2010
Accounts payable	$	237	$	209
Accrued payroll and related		149		155
Public liability and property damage insurance liabilities current		94		93
Advertising and marketing		60		53
Other		466		415
	$	1,006	$	925

9. Long-term Debt and Borrowing Arrangements

Long-term debt consisted of:

	Maturity Dates		As of June 30, 2011		As of December 31, 2010
Floating rate term loan [(a)]	April 2014	$	269	$	271
Floating rate notes	May 2014		250		250
7 5/8% notes	May 2014		200		200
3 1/2% convertible notes	October 2014		345		345
7 3/4% notes	May 2016		375		375
9 5/8% notes	March 2018		445		444
8 1/4% notes	January 2019		602		602
			2,486		2,487
Other			12		15
Total long-term debt			2,498		2,502
Less: Current portion			6		8
Long-term debt		$	2,492	$	2,494

(a) The floating rate term loan and the revolving credit facility are secured by pledges of all of the capital stock of all of the Company s direct or indirect domestic subsidiaries and up to 66% of the capital stock of each direct foreign subsidiary, subject to certain exceptions, and liens on substantially all of the Company s intellectual property and certain other real and personal property. The floating rate term loan bears interest at the greater of three month LIBOR or 1.50%, plus 425 basis points, for a rate of 5.75% at June 30, 2011.

Committed Credit Facilities and Available Funding Arrangements

At June 30, 2011, the committed credit facilities available to the Company and/or its subsidiaries included:

	Total Capacity	Outstanding Borrowings	Letters of Credit Issued	Available Capacity
Revolving credit facility maturing 2016 [a]	$ 1,200	$	$ 651	$ 549

(a) This revolving credit facility matures in 2016 and bears interest of one month LIBOR plus 300 basis points. The senior credit facility, which encompasses the floating rate term loan and the revolving credit facility, is secured by pledges of all of the capital stock of all of the Company s direct or indirect domestic subsidiaries and up to 66% of the capital stock of each foreign subsidiary directly owned by the Company s domestic subsidiaries, subject to certain exceptions, and liens on substantially all of the Company s intellectual property and certain other real and personal property.

In June 2011, the Company entered into a Senior Secured Interim Loan Agreement and a Senior Unsecured Interim Loan Agreement in connection with the planned acquisition of Avis Europe. The Senior Secured Interim Loan Agreement provides for a commitment of up to 694 million. It initially bears interest at the greater of EURIBOR or 1.50% plus 700 basis points, for a rate of 8.50% at June 30, 2011. Any borrowings under this loan agreement would mature on the seven-year anniversary of the funding date. The Senior Unsecured Interim Loan Agreement provides for a commitment of up to $400 million. It initially bears interest at an interest rate of, at the Company s election, either the greater of Eurodollar rate or 1.50% plus a margin of 900 basis points, or the alternate base rate plus a margin of 800 basis points. Any borrowings under this loan agreement would mature on the five-year anniversary of the funding date. The availability of these funding arrangements is subject to, and contingent upon, the completion of the acquisition of Avis Europe and may be used to fund the acquisition of Avis Europe, refinance existing indebtedness of Avis Europe or to pay related

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acquisition costs. The Company intends to seek to replace the Senior Secured Interim Loan Agreement and the Senior Unsecured Interim Loan Agreement with lower-cost financing and, subject to obtaining such replacement financing, does not expect to borrow under the existing agreements.

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 facilities contain maximum leverage and minimum interest coverage ratio requirements. As of June 30, 2011, the Company was in compliance with the financial covenants of its senior credit facilities.

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) consisted of:

	As of June 30, 2011	As of December 31, 2010
Debt due to Avis Budget Rental Car Funding [a]	$ 5,456	$ 3,987
Budget Truck Funding program	208	244
Other [b]	623	284
	$ 6,287	$ 4,515

(a) The increase reflects increased borrowing within Domestic Car Rental operations to fund an increase in the size of the Company s domestic car rental fleet.

(b) The increase principally reflects increased borrowing within International Car Rental operations due to an increase in the size of the Company s international vehicle rental fleet.

During 2010, the Company established a variable funding note program with a maximum capacity of $400 million of notes to be issued by Avis Budget Rental Car Funding to the Company to finance the purchase of vehicles. These variable funding notes pay interest of 4.5% at June 30, 2011 and mature in March 2012. As of June 30, 2011, there were no outstanding amounts due to the Company from Avis Budget Rental Car Funding under the program; however, for the three and six months ended June 30, 2011, the Company earned interest income of $2 million and $4 million, respectively, and incurred equal amounts of interest expense on these notes, which was eliminated in consolidation in the Company s financial statements. As of June 30, 2011, the Company s related interest receivable from Avis Budget Rental Car Funding was insignificant.

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, 2011:

	Vehicle-Backed Debt
Within 1 year [a]	$ 2,518
Between 1 and 2 years	1,192
Between 2 and 3 years	649
Between 3 and 4 years	936
Between 4 and 5 years	538
Thereafter	454

	$ 6,287

[a] Vehicle-backed debt maturing within one year includes term asset-backed securities maturities of approximately $1.1 billion and bank and bank-sponsored borrowings of $1.4 billion.

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As of June 30, 2011, available funding under the Company s vehicle programs (including related party debt due to Avis Budget Rental Car Funding) consisted of:

	Total Capacity [a]	Outstanding Borrowings	Available Capacity
Debt due to Avis Budget Rental Car Funding [b]	$ 6,591	$ 5,456	$ 1,135