AVIS BUDGET GROUP, INC.
Form 10-Q
May 09, 2012
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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 March 31, 2012

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)**	**06-0918165** **(I.R.S. Employer** **Identification Number)**
6 Sylvan Way **Parsippany, NJ** **(Address of principal executive offices)**	**07054** **(Zip Code)**

(973) 496-4700

(Registrant s telephone number, including area code)

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

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 106,141,681 shares as of April 30, 2012.

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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, similar words, expressions or phrases. The following important factors and assumptions could affect our future results and could cause actual results to differ materially from those expressed in such forward-looking statements:

- the high level of competition in the vehicle rental industry and the impact such competition may have on pricing and rental volume;
- a change in our fleet costs as a result of a change in the cost of new vehicles, disruption in the supply of new vehicles, and/or a change in the price at which we dispose of used vehicles either in the used vehicle market or under repurchase or guaranteed depreciation programs;
- risks related to our acquisition of Avis Europe plc (Avis Europe), including our ability to realize the synergies contemplated by the transaction and our ability to promptly and effectively integrate the businesses of Avis Europe and Avis Budget Group, Inc.;
- the results of operations or financial condition of the manufacturers of our cars, which could impact their ability to perform their payment obligations under the agreements we have with them, including repurchase and/or guaranteed depreciation arrangements, and/or their willingness or ability to make cars available to us or the rental car industry as a whole on commercially reasonable terms or at all;
- a change in travel demand, including any reduction in airline passenger traffic;
- any change in economic conditions generally, particularly during our peak season or in key market segments;
- our ability to continue to achieve and maintain cost savings and successfully implement our business strategies;
- our ability to obtain financing for our 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;

any failure or inability by us to comply with laws, regulations or contractual obligations or any changes in laws, 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;

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- 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;
- risks related to our ability to meet our funding needs and our indebtedness, including our substantial outstanding debt obligations and our ability to incur substantially more debt;
- our ability to meet the financial and other covenants contained in the agreements governing our indebtedness;
- the terms of agreements among us and our former real estate, hospitality and travel distribution businesses following the separation of those businesses from us in 2006, particularly with respect to the allocation of assets and liabilities, including contingent liabilities and guarantees, the ability of each of the separated companies to perform its obligations, including indemnification obligations, under these agreements, and the former real estate business right to control the process for resolving disputes related to contingent liabilities and assets;
- risks associated with litigation or governmental or regulatory inquiries or investigations involving our Company;
- risks related to tax obligations and the effect of future changes in accounting standards;
- risks related to 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 2011 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.

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 March 31, 2012	Three Months Ended March 31, 2011
Revenues		
Vehicle rental	$ 1,168	$ 918
Other	455	317
Net revenues	1,623	1,235
Expenses		
Operating	893	659
Vehicle depreciation and lease charges, net	318	276
Selling, general and administrative	219	154
Vehicle interest, net	74	63
Non-vehicle related depreciation and amortization	32	23
Interest expense related to corporate debt, net:		
Interest expense	73	47
Early extinguishment of debt	27	
Restructuring charges	7	
Transaction-related costs	6	2
Total expenses	1,649	1,224
Income (loss) before income taxes	(26)	11
Provision for (benefit from) income taxes	(3)	4
Net income (loss)	$ (23)	$ 7
Comprehensive income	$ 21	$ 27
Earnings (loss) per share		
Basic	(0.22)	0.07
Diluted	(0.22)	0.06

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)

	March 31, 2012	December 31, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 606	$ 534
Receivables	555	507
Deferred income taxes	117	120
Other current assets	443	380
Total current assets	1,721	1,541
Property and equipment, net	485	493
Deferred income taxes	510	444
Goodwill	359	353
Other intangibles, net	724	713
Other non-current assets	302	304
Total assets exclusive of assets under vehicle programs	4,101	3,848
Assets under vehicle programs:		
Program cash	50	11
Vehicles, net	9,417	8,356
Receivables from vehicle manufacturers and other	265	380
Investment in Avis Budget Rental Car Funding (AESOP) LLC related party	354	343
	10,086	9,090
Total assets	$ 14,187	$ 12,938
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable and other current liabilities	$ 1,443	$ 1,433
Short-term debt and current portion of long-term debt	227	37
Total current liabilities	1,670	1,470
Long-term debt	3,074	3,168
Other non-current liabilities	960	960
Total liabilities exclusive of liabilities under vehicle programs	5,704	5,598
Liabilities under vehicle programs:		
Debt	1,145	990
Debt due to Avis Budget Rental Car Funding (AESOP) LLC related party	5,306	4,574

Deferred income taxes	1,065	982
Other	532	382
	8,048	6,928
Commitments and contingencies (Note 12)		
Stockholders equity:		
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 137,043,754 and 137,028,464	1	1
Additional paid-in capital	8,321	8,532
Accumulated deficit	(2,689)	(2,666)
Accumulated other comprehensive income	122	78
Treasury stock, at cost 30,776,912 and 31,551,170 shares	(5,320)	(5,533)
Total stockholders equity	435	412
Total liabilities and stockholders equity	$ 14,187	$ 12,938

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)

	Three Months Ended March 31, 2012	2011
Operating Activities		
Net income (loss)	$ (23)	$ 7
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Vehicle depreciation	331	305
Gain on sale of vehicles, net	(39)	(39)
Non-vehicle related depreciation and amortization	32	23
Amortization of financing costs	16	10
Net change in assets and liabilities, excluding the impact of acquisitions and dispositions:		
Receivables	(28)	(1)
Income taxes and deferred income taxes		(25)
Accounts payable and other current liabilities	(65)	(5)
Other, net	29	2
Net cash provided by operating activities	253	277
Investing Activities		
Property and equipment additions	(20)	(8)
Proceeds received on asset sales	3	3
Other, net	(1)	(1)
Net cash used in investing activities exclusive of vehicle programs	(18)	(6)
Vehicle programs:		
Increase in program cash	(39)	(2)
Investment in vehicles	(3,053)	(2,526)
Proceeds received on disposition of vehicles	2,143	1,674
Investment in debt securities of Avis Budget Rental Car Funding (AESOP) LLC related party		(195)
Proceeds from debt securities of Avis Budget Rental Car Funding (AESOP) LLC related party		195
	(949)	(854)
Net cash used in investing activities	(967)	(860)

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Avis Budget Group, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(In millions)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Financing Activities		
Proceeds from long-term borrowings	624	
Principal payments on long-term borrowings	(520)	(2)
Net change in short-term borrowings	(12)	
Purchases of warrants	(13)	
Proceeds from sale of call options	19	
Debt financing fees	(8)	(1)
Other, net		1
Net cash provided by (used in) financing activities exclusive of vehicle programs	90	(2)
Vehicle programs:		
Proceeds from borrowings	3,140	2,957
Principal payments on borrowings	(2,440)	(2,366)
Debt financing fees	(7)	(3)
	693	588
Net cash provided by financing activities	783	586
Effect of changes in exchange rates on cash and cash equivalents	3	(1)
Net increase in cash and cash equivalents	72	2
Cash and cash equivalents, beginning of period	534	911
Cash and cash equivalents, end of period	$ 606	$ 913

See Notes to Consolidated Condensed Financial Statements (Unaudited).

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Avis Budget Group, Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)

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

1. Basis of Presentation and Recently Issued Accounting Pronouncements

Basis of Presentation

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

The Company operates the following business segments:

North America provides car rentals in the United States and vehicle rentals in Canada, as well as related products and services.

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

Truck Rental provides truck rentals and 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 (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 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 2011 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 acquisition of such assets and the principal debt repayment or financing of such assets are classified as activities of the Company s vehicle programs. The Company believes it is appropriate to segregate the financial data of its vehicle programs because, ultimately, the source of repayment of such debt is the realization of such assets.

Transaction-related Costs. The Company completed the acquisition of Avis Europe plc (Avis Europe) on October 3, 2011. In the three months ended March 31, 2012, transaction-related costs include expenses related to the integration of Avis Europe s operations with the Company s. In the three months ended March 31, 2011, transaction-related costs include due-diligence and other costs associated with the Company s previous efforts to acquire Dollar Thrifty Automotive Group, Inc. (Dollar Thrifty).

Foreign-currency transactions. The Company records the net gain or loss of foreign-currency transactions on intercompany loans and the unrealized gain or loss on intercompany loan hedges within interest expense related to corporate debt, net. In the three months ended March 31, 2012, the Company recorded a $6 million loss on such items. There were no such items in the three months ended March 31, 2011.

Adoption of New Accounting Standards

On January 1, 2012, the Company adopted accounting pronouncements amending (i) fair value measurement and disclosure requirements for financial assets and liabilities, (ii) the presentation of other comprehensive income and (iii) the rules for testing goodwill for impairment. Other than additional disclosure for the presentation of the Company s other comprehensive income, these pronouncements did not have a significant impact on the Company s financial statements.

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2. Restructuring Charges

During fourth quarter 2011, subsequent to the acquisition of Avis Europe, the Company implemented a restructuring initiative, to identify synergies across the Company, enhance organizational efficiencies and consolidate and rationalize processes and facilities. During the three months ended March 31, 2012, as part of this process, the Company formally communicated the termination of employment to approximately 50 employees and recorded charges of $7 million in connection with these initiatives. These charges primarily represent costs associated with severance, outplacement services and other costs associated with employee terminations. As of March 31, 2012, the Company has terminated substantially all of these employees. The Company expects further restructuring costs related to this process of approximately $40 million to be incurred through 2013.

As of March 31, 2012, the Company had approximately $1 million of liabilities related to pre-2011 restructuring activities.

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

	North America	International	Total
Balance as of January 1, 2012	$ 1	$ 1	$ 2
Restructuring charge		7	7
Cash payment/utilization		(6)	(6)
Balance as of March 31, 2012	$ 1	$ 2	$ 3

	Personnel Related	Facility Related	Total
Balance as of January 1, 2012	$ 1	$ 1	$ 2
Restructuring charge	7		7
Cash payment/utilization	(6)		(6)
Balance as of March 31, 2012	$ 2	$ 1	$ 3

3. Earnings Per Share

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

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net income (loss) for basic EPS	$ (23)	$ 7
Basic weighted average shares outstanding	105.9	104.6
Options, warrants and non-vested stock		2.2
Diluted weighted average shares outstanding [(a) (b)]	105.9	106.8
Earnings per share:		
Basic	$ (0.22)	$ 0.07
Diluted	$ (0.22)	$ 0.06

(a) As the Company incurred a net loss for the three months ended March 31, 2012, all outstanding stock options, restricted 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.

(b) For the three months ended March 31, 2011, the 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.

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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:

	As of March 31, 2012	As of March 31, 2011
Options [(a)]	2.8	1.2
Warrants [(b) (c)]	15.0	21.2
Shares underlying 3 $^1/2$% convertible notes [(c)]	15.0	21.2

(a) For the three months ended March 31, 2012, all outstanding stock options were anti-dilutive, as the Company incurred a net loss, and had a weighted average exercise price of $3.74. The weighted average exercise price for anti-dilutive options for the three months ended March 31, 2011 was $24.23.

(b) Represents all outstanding warrants for the three months ended March 31, 2012 and 2011. The exercise price for the warrants outstanding for the three months ended March 31, 2012 and 2011 was $22.50.

(c) The decrease in the number of warrants and shares underlying the 3 $^1/2$% convertible notes that were anti-dilutive was related to the Company s repurchase of a portion of its 3$^1/2$% convertible notes and warrants see Note 10 Long-term Debt and Borrowing Arrangements and Note 13 Stockholders Equity for more information.

4. Acquisitions

On October 3, 2011, the Company completed the acquisition of the entire issued share capital of Avis Europe for $976 million and subsequently repaid $649 million of Avis Europe s assumed indebtedness. Avis Europe provides vehicle rental and ancillary products and services in Europe, the Middle East, Africa and Asia. The acquisition reunited the global operation of the Avis and Budget brands under one corporate umbrella.

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 segment. The goodwill is not expected to be deductible for tax purposes. The estimated fair value of the assets acquired and liabilities assumed reflects various preliminary fair value estimates and analyses, including preliminary work performed by third-party valuation specialists, which are subject to change up to one year from the acquisition date as valuations are finalized. The fair values of certain tangible assets and liabilities acquired, identifiable intangible assets, income and non-income based taxes, and residual goodwill are therefore not yet finalized and subject to change. Such adjustments did not have a material impact on the Company s Consolidated Condensed Statements of Comprehensive Income for the three months ended March 31, 2012 or the Consolidated Condensed Balance Sheets as of March 31, 2012 and December 31, 2011.

Other intangibles consisted primarily of $188 million related to license agreements and $67 million related to customer relationships. These license agreements will be amortized over a weighted-average life of approximately 20 years. Customer relationships will be amortized over a weighted-average life of approximately 12 years.

5. Intangible Assets

Intangible assets consisted of:

	As of March 31, 2012			As of December 31, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized Intangible Assets						
License agreements	$ 261	$ 33	$ 228	$ 252	$ 29	$ 223
Customer relationships	86	14	72	80	12	68

Other	2	1	1	2	1	1
	$ 349	$ 48	$ 301	$ 334	$ 42	$ 292
Unamortized Intangible Assets						
Goodwill [(a)]	$ 359			$ 353		
Trademarks [(a)]	$ 423			$ 421		

[(a)] The increases in goodwill and trademarks are primarily due to fluctuations in foreign currency.

Amortization expense relating to all intangible assets was approximately $6 million and $1 million during first quarter 2012 and 2011, respectively. Based on the Company s amortizable assets at March 31, 2012, the Company expects amortization expense of approximately $14 million for the remainder of 2012 and approximately $19 million for each of the five fiscal years thereafter.

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6. 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, accounts receivable, program cash and accounts payable and accrued liabilities approximate fair value due to the short-term maturities of these assets and liabilities.

Debt Instruments

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

	As of March 31, 2012		As of December 31, 2011	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Corporate debt				
Short-term debt and current portion of long-term debt	$ 227	$ 228	$ 37	$ 37
Long-term debt, excluding convertible debt	2,830	2,922	2,823	2,842
Convertible debt	244	288	345	354
Debt under vehicle programs				
Vehicle-backed debt due to Avis Budget Rental Car Funding (AESOP) LLC	$ 5,306	$ 5,430	$ 4,574	$ 4,643
Vehicle-backed debt	1,142	1,156	986	1,001
Interest rate swaps and interest rate contracts [(a)]	3	3	4	4

(a) Derivatives in a liability position.

Derivative Instruments and Hedging Activities

The Company uses foreign exchange 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. The Company primarily hedges its foreign 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 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 months ended March 31, 2012 and 2011 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 12 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, including freestanding derivatives and derivatives designated as cash flow hedges, to manage the risk related to its floating rate corporate debt and its floating rate vehicle-backed 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 Company records the gains or losses related to freestanding derivatives in its consolidated results of operations. The changes in fair values of hedges that were determined to be ineffective are immediately reclassified from accumulated other comprehensive income into earnings.

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

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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 March 31, 2012 was approximately $3 million, for which the Company has posted cash collateral in the normal course of business.

As of March 31, 2012, the Company held derivative instruments with absolute notional values as follows: interest rate caps of approximately $8.0 billion, interest rate swaps of $627 million, foreign exchange forward contracts of approximately $273 million, foreign exchange swaps of $950 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 derivatives instruments are as follows:

	As of March 31, 2012		As of December 31, 2011	
	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)]	$	$ 3	$	$ 3
Derivatives not designated as hedging instruments [(a)]				
Foreign exchange forward contracts [(c)]	12	14	26	1
Interest rate contracts [(d)]	1	2	2	4
Interest rate swaps [(b)]		5		
Commodity contracts [(c)]	5			1
Total	$ 18	$ 24	$ 28	$ 9

(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 13 Stockholders Equity.

(b) Included in other non-current liabilities.

(c) Included in other current assets and other current liabilities.

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

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

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Derivatives designated as hedging instruments		
Interest rate swaps [a]	$ 7	$ 10
Derivatives not designated as hedging instruments		
Foreign exchange contracts [b]	(4)	(1)
Commodity contracts [b]	6	1
Interest rate contracts [C]	(5)	
Total	$ 4	$ 10

(a) Recognized, net of tax, as a component of other comprehensive income within stockholders equity.
(b) Included in operating expenses.
(c) Included in interest expense.

7. Vehicle Rental Activities

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

	As of March 31, 2012	As of December 31, 2011
Rental vehicles	$ 10,305	$ 9,077
Less: Accumulated depreciation	(1,279)	(1,258)
	9,026	7,819
Vehicles held for sale	391	537
Vehicles, net	$ 9,417	$ 8,356

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

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Depreciation expense	$ 331	$ 305
Lease charges	26	10
Gain on sales of vehicles and cost of vehicle disposition	(39)	(39)
Vehicle depreciation and lease charges, net	$ 318	$ 276

For the three months ended March 31, 2012 and 2011, vehicle interest, net excludes $96 million and $51 million, respectively, of interest expense and expense for the early extinguishment of corporate debt 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.

8. Income Taxes

The Company s effective tax rate for the three months ended March 31, 2012 is a benefit of 11.5%. Such rate differs from the Federal statutory rate of 35.0% primarily due to the treatment of a portion of the expenses for the early extinguishment of corporate debt.

The Company s effective tax rate for the three months ended March 31, 2011 is a provision of 36.4%. Such rate differs from the Federal statutory rate of 35.0% primarily due to state taxes.

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9. Accounts Payable and Other Current Liabilities

Accounts payable and other current liabilities consisted of:

	As of March 31, 2012	As of December 31, 2011
Accounts payable	$ 320	$ 312
Accrued sales and use taxes	182	173
Accrued payroll and related	161	200
Public liability and property damage insurance liabilities current	125	128
Income taxes payable current	98	109
Advertising and marketing	74	77
Other	483	434
	$ 1,443	$ 1,433

10. Long-term Debt and Borrowing Arrangements

Long-term and other borrowing arrangements consisted of:

	Maturity Dates	As of March 31, 2012	As of December 31, 2011
Floating rate term loan [(a)]	April 2014	$	$ 267
Floating rate notes [(b)]	May 2014	250	250
7 5/8% notes	May 2014	200	200
3 1/2% convertible notes [(c)]	October 2014	244	345
Floating rate term loan [(a) (d)]	May 2016	20	20
7 3/4% notes	May 2016	375	375
9 5/8% notes	March 2018	445	445
Floating rate term loan [(a) (d)]	September 2018	264	412
8 1/4% notes	January 2019	731	602
Floating rate term loan [(a) (e)]	March 2019	495	
9 3/4% notes	March 2020	250	250
		3,274	3,166
Other		27	39
Total		3,301	3,205
Less: Short-term debt and current portion of long-term debt		227	37
Long-term debt		$ 3,074	$ 3,168

(a) The floating rate term loans are part of the Company s senior credit facility, which include its revolving credit facility maturing 2016, and 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.

(b) As of March 31, 2012, the floating rate notes due 2014 bear interest at three-month LIBOR plus 250 basis points, for an aggregate rate of 3.00%.
(c) As of March 31, 2012, the 3 1/2% convertible notes are convertible by the holders into approximately 15 million shares of our common stock.
(d) As of March 31, 2012, the floating rate term loan due 2016 bears interest at three-month LIBOR plus 300 basis points, for an aggregate rate of 3.56% and the floating rate term loan due 2018 bears interest at the greater of three-month LIBOR or 1.25%, plus 500 basis points, for an aggregate rate of 6.25%.
(e) As of March 31, 2012, the floating term rate loan due 2019 bears interest at the greater of three-month LIBOR or 1.0%, plus 325 basis points, for an aggregate rate of 4.25%.

During March 2012, the Company amended its Amended and Restated Credit Agreement, dated as of May 3, 2011 (the Credit Agreement) to issue a $500 million term loan, at 99.0% of par, that will mature on March 2019. The term loan due 2019 will bear interest at the greater of three-month LIBOR or 1.0%, plus 325 basis points.

During March 2012, the Company issued $125 million aggregate principal amount of 8 1/4% Senior Notes due 2019. The notes constitute a further issuance of the $600 million aggregate principal amount issued in fourth quarter 2010. The notes pay interest semi-annually on January 15 and July 15 of each year, beginning July 2012. The notes are unsecured obligations of Avis Budget Car Rental and are guaranteed on a senior basis by the Company and certain of its domestic

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subsidiaries. These notes were issued at 103.5% of par and the proceeds are intended to be used primarily to repay a portion of the Company s 7 5/8% Senior Notes due 2014 which, as of March 31, 2012, have been classified as current portion of long-term debt. The notes rank equally with all of the Company s existing and future senior unsecured indebtedness and are senior to all of the Company s existing and future subordinated indebtedness. The Company has the right to redeem these notes in whole or in part at any time after October 15, 2014 at the applicable redemption price, plus any accrued and unpaid interest through the redemption date.

During the three months ended March 31, 2012, the Company (i) repurchased approximately $101 million of its 3 1/2% convertible notes for approximately $117 million, plus accrued interest, (ii) repaid the $267 million outstanding principal balance of its floating rate term loan due 2014 and (iii) repaid $150 million in principal of its floating rate term loan due 2018. The Company incurred $27 million in expenses related to the early extinguishment of this debt.

Committed Credit Facilities and Available Funding Arrangements

At March 31, 2012, 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]	$ 1,435	$	$ 586	$ 849
Other facilities [b]	14	5		9

(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 loans due 2016, 2018 and 2019 and the revolving credit facility, is secured by pledges of all of the capital stock of all of the Company s 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.

(b) These facilities encompass bank overdraft lines of credit, bearing interest of 5.12% to 6.75% as of March 31, 2012.

At March 31, 2012 the Company had various uncommitted credit facilities available, under which it had drawn approximately $10 million, which bear interest at rates between 0.6% and 7.68%.

The agreements governing the Company s indebtedness contain restrictive covenants, including restrictions on dividends paid to the Company by certain of its subsidiaries, the incurrence of additional indebtedness by the Company and certain of its subsidiaries, acquisitions, mergers, liquidations, and sale and leaseback transactions. The Company s senior credit facility contains maximum leverage and minimum interest coverage ratio requirements. As of March 31, 2012, the Company was in compliance with the financial covenants of its senior credit facility.

11. Debt Under Vehicle Programs and Borrowing Arrangements

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

	As of March 31, 2012	As of December 31, 2011
Debt due to Avis Budget Rental Car Funding [a]	$ 5,306	$ 4,574
Budget Truck financing	216	188
Capital leases [b]	427	348
Other [b]	502	454
	$ 6,451	$ 5,564

(a) The increase reflects increased borrowing to fund an increase in the size of the Company s U.S. car rental fleet.

(b) The increase principally reflects increased borrowing to fund an increase in the size of the Company s international vehicle rental fleet.

In 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 March 31, 2012 and mature in March 2013. During the three months ended March 31, 2012, no funding occurred under the program.

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The following table provides the contractual maturities of the Company s debt under vehicle programs (including related party debt due to Avis Budget Rental Car Funding) at March 31, 2012:

	Vehicle-Backed Debt
Within 1 year [(a)]	$ 2,287
Between 1 and 2 years	600
Between 2 and 3 years	1,250
Between 3 and 4 years	933
Between 4 and 5 years	1,133
Thereafter	248
	$ 6,451

(a) Vehicle-backed debt maturing within one year includes term asset-backed securities maturities of approximately $1.8 billion and bank and bank-sponsored borrowings of $526 million.

As of March 31, 2012, 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)]	$ 7,901	$ 5,306	$ 2,595
Budget Truck financing [(c)]	327	216	111
Capital leases	510	427	83
Other [(d)]	1,511	502	1,009
	$ 10,249	$ 6,451	$ 3,798

(a) Capacity is subject to maintaining sufficient assets to collateralize debt.
(b) The outstanding debt is collateralized by approximately $6.9 billion of underlying vehicles and related assets.
(c) The outstanding debt is collateralized by $335 million of underlying vehicles and related assets.
(d) The outstanding debt is collateralized by approximately $1.1 billion of underlying vehicles and related assets.

Debt agreements under the Company s vehicle-backed funding programs contain restrictive covenants, including restrictions on dividends paid to the Company by certain of its subsidiaries and restrictions on indebtedness, mergers, liens, liquidations and sale and leaseback transactions and in some cases also require compliance with certain financial requirements. As of March 31, 2012, the Company is not aware of any instances of non-compliance with any of the financial or restrictive covenants contained in the debt agreements under its vehicle-backed funding programs.

12. Commitments and Contingencies

Contingencies

In connection with the separation of Cendant Corporation (as the Company was formerly known) into four independent companies (the Separation), the Company completed the spin-offs of Realogy Corporation (Realogy) and Wyndham Worldwide Corporation (Wyndham) on July 31, 2006 and completed the sale of Travelport, Inc. (Travelport) on August 23, 2006. In connection with the spin-offs of Realogy and

Wyndham, the Company entered into a Separation Agreement, pursuant to which Realogy assumed 62.5% and Wyndham assumed 37.5% of certain contingent and other corporate liabilities of the Company or its subsidiaries, which are not primarily related to any of the respective businesses of Realogy, Wyndham, our former Travelport subsidiary and/or the Company s vehicle rental operations, and in each case incurred or allegedly incurred on or prior to the Separation (Assumed Liabilities). Realogy is entitled to receive 62.5% and Wyndham is entitled to receive 37.5% of the proceeds from certain contingent corporate assets of the Company, which are not primarily related to any of the respective businesses of Realogy, Wyndham, Travelport and/or the Company s vehicle rental operations, arising or accrued on or prior to the Separation (Assumed Assets). Additionally, if Realogy or Wyndham were to default on its payment of costs or expenses to the Company related to any Assumed Liabilities, the Company would be responsible for 50% of the defaulting party s obligation. In such event, the Company would be allowed to use the defaulting party s share of the proceeds of any Assumed Assets as a right of offset.

The Company does not believe that the impact of any resolution of contingent liabilities constituting Assumed Liabilities should result in a material liability to the Company in relation to its consolidated financial position or liquidity, as Realogy and Wyndham each have agreed to assume responsibility for these liabilities.

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The Company is also named in various litigation that is primarily related to the businesses of its former subsidiaries, including Realogy, Wyndham and Travelport and their current or former subsidiaries. The Company is entitled to indemnification under the Separation Agreement from such entities for any liability resulting from such litigation.

In accordance with the terms of the Separation Agreement, Realogy posted a letter of credit in April 2007 for the benefit of the Company to cover its estimated share of the Assumed Liabilities discussed above, subject to adjustment, although there can be no assurance that such letter of credit will be sufficient or effective to cover Realogy s actual obligations if and when they arise.

In October 2009, a judgment was entered against the Company in the amount of $16 million following the completion of a jury trial for damages related to breach of contract in the United States District Court for the District of Alaska. The lawsuit, which was filed in 2003, involved breach of contract and other claims by one of the Company s licensees related to the acquisition of its Budget vehicle rental business in 2002. The Company believes the verdict in this case is unsupported by the evidence. In addition to the judgment for damages, in June 2010, the district court also entered an order against the Company in the amount of $3 million, in favor of the plaintiff s motions for pre-judgment interest and attorneys fees. The Company has filed an appeal of the judgment and attorneys fees awarded with the United States Court of Appeals for the Ninth Circuit.

In addition to the matters discussed above, the Company is also involved in claims, legal proceedings and governmental inquiries related, among other things, to its vehicle rental operations, including with respect to contract disputes, business practices including wage and hour claims and anti-trust claims, insurance claims, intellectual property claims, environmental issues and other commercial, employment and tax matters, and breach of contract claims by licensees. The Company believes that it has adequately accrued for such matters as appropriate, or, for matters not requiring accrual, believes that such matters will not have a material impact on its results of operations, financial position or cash flows based on information currently available. However, litigation is inherently unpredictable and, although the Company believes that its accruals are adequate and/or that it has valid defenses in these matters, unfavorable resolutions could occur, which could materially impact the Company s results of operations or cash flows in a particular reporting period.

Commitments to Purchase Vehicles

The Company maintains agreements with vehicle manufacturers under which the Company has agreed to purchase approximately $4.6 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 the repurchase and guaranteed depreciation agreements. The purchase of such vehicles is financed primarily through the issuance of vehicle-backed debt in addition to cash received upon the sale of vehicles in the used car market and under repurchase and guaranteed depreciation programs.

Other Purchase Commitments

In the normal course of business, the Company makes various commitments to purchase other goods or services from specific suppliers, including those related to capital expenditures. None of the purchase commitments made by the Company as of March 31, 2012 (aggregating approximately $138 million) was individually significant. These purchase obligations extend through 2015.

Concentrations

Concentrations of credit risk at March 31, 2012 include (i) risks related to the Company s repurchase and guaranteed depreciation agreements with domestic and foreign car manufacturers, including Volkswagen Group, Hyundai Motor America, General Motors Company, PSA Peugeot Citroën, Ford Motor Company, Renault S.A., Fiat Automobiles and Chrysler Group LLC primarily with respect to receivables for program cars that have been returned to car manufacturers and (ii) risks related to Realogy and Wyndham, including receivables of $67 million and $42 million, respectively, related to certain contingent, income tax and other corporate liabilities assumed by Realogy and Wyndham in connection with the Separation.

Other Guarantees

The Company has provided certain guarantees to, or for the benefit of, subsidiaries of Realogy, Wyndham and Travelport, which, as previously discussed, were disposed in 2006. These guarantees relate primarily to various real estate operating leases. The maximum potential amount of future payments that the Company may be required to make under the guarantees relating to these leases is estimated to be approximately $102 million, the majority of which expire by the end of 2014. At March 31, 2012, the liability recorded by the Company in connection with these guarantees was approximately $3 million. To the extent that the Company would be required to perform under any of these guarantees, the Company is entitled to

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indemnification by Realogy, Wyndham and Travelport, as applicable. The Company monitors the credit ratings and other relevant information for Realogy, Wyndham and Travelport s parent company in order to assess the status of the payment/performance risk of these guarantees.

13. Stockholders Equity

During the three months ended March 31, 2012, concurrently with the Company s repurchase of a portion of its 3½% convertible notes, the Company repurchased warrants for the purchase of the Company s common stock for $13 million and sold an equal portion of its convertible note hedge for $19 million, reducing the net purchase and issuance of shares related to the hedge and warrant by approximately 6 million shares.

Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income were as follows:

	Currency Translation Adjustments	Net Unrealized Gains (Losses) on Cash Flow Hedges	Net Unrealized Gains on Available-for Sale Securities	Minimum Pension Liability Adjustment	Accumulated Other Comprehensive Income
Balance, January 1, 2012	$ 159	$ (13)	$ 2	$ (70)	$ 78
Current period change	37	7			44
Balance, March 31, 2012	$ 196	$ (6)	$ 2	$ (70)	$ 122

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

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 March 31, 2012	2011
Net income (loss)	$ (23)	$ 7
Other comprehensive income:		
Currency translation adjustment	37	9
Net unrealized gains on available-for-sale securities, net of tax		1
Net unrealized gains on cash flow hedges, net of tax	7	10
	44	20
Total comprehensive income	$ 21	$ 27

During the three months ended March 31, 2012 and 2011, the Company s net unrealized losses on cash flow hedges decreased by $12 million and $16 million ($7 million and $10 million, net of tax), respectively, in 2012 primarily due to the realization of losses in income, and in 2011 primarily due to unrealized gains on derivatives used to manage the interest-rate risk associated with the Company s vehicle-backed debt and floating rate debt. Such decreases during the three months ended March 31, 2012 and 2011 included $11 million and $15 million ($7 million and $9 million, net of tax), respectively, related to the Company s vehicle-backed debt and are offset by a corresponding change in the Company s Investment in Avis Budget Rental Car Funding on the Consolidated Condensed Balance Sheets.

14. Stock-Based Compensation

The Company records compensation expense for all outstanding employee stock awards based on the estimated fair value of the award at the grant date, which is recognized over the requisite service period. The Company recorded stock-based compensation expense of $4 million and $4 million ($2 million and $3 million, net of tax) during first quarter 2012 and 2011, respectively, related to employee stock awards that were granted by the Company.

The Company applies the direct method and tax law ordering approach to calculate the tax effects of stock-based compensation. In jurisdictions with net operating loss carryforwards, tax deductions for 2012 and 2011 exercises of stock-based awards did not generate a cash benefit. Approximately $10 million of incremental tax benefits will be recorded in additional paid-in capital when realized in these jurisdictions.

Restricted Stock and Stock Unit Awards

During first quarter 2012, the Company granted 356,000 market-vesting restricted stock units, 775,000 time-based restricted stock units and 486,000 performance-based restricted stock units under the Company s 2007 Equity and Incentive Plan. Vesting of all or a portion of the of market-vesting and performance-based restricted stock units will occur on the third anniversary of the grant date, subject to continued employment through such anniversary, and (i) in the case of the market-based restricted stock units, attainment of certain Company stock price targets for a specified number of trading days and (ii) in the case of the performance-based restricted stock units, attainment of certain Adjusted EBITDA targets. All of the time-based restricted stock units granted in first quarter 2012 vest ratably on the first three anniversaries of the grant date, subject to continued employment.

During first quarter 2011, the Company granted 347,000 market-vesting restricted stock units and 629,000 time-based restricted stock units, under the Company s 2007 Equity and Incentive Plan. Of the market-vesting restricted stock units granted in first quarter 2011, all or a portion of 254,000 units vest on the third anniversary of the grant date and all or a portion of 93,000 units vest 50% on each of the third and fourth anniversary of the grant date, in each case subject to continued employment through such applicable anniversary and attainment of certain Company stock price targets for a specified number of trading days. Of the time-based restricted stock units granted in first quarter 2011, 598,000 units vest ratably on the first three anniversaries of the grant date and 31,000 units vest on the first anniversary of the grant date, subject in each case to continued employment.

The Company determined the fair value of its market-vesting restricted stock units granted in 2012 and 2011 using a Monte Carlo simulation model. The fair value of each of the Company s market-vesting restricted stock units which contain a three-year vesting period, issued in 2012, was estimated to be approximately $10.61. The fair value of each of the Company s market-vesting restricted stock units which contain three- and four-year vesting periods, issued in 2011, was estimated to be approximately $11.35 and $12.53, respectively. The assumptions used to estimate the fair values of the market-vesting restricted stock awards in first quarter 2012 and 2011 were as follows:

	Three Months Ended March 31,	
	2012	**2011**
Expected volatility of stock price	49%	48%
Risk-free interest rate	0.39%	0.97% - 1.21%
Valuation period	3 years	3 - 4 years
Dividend yield	0.0%	0.0%

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The activity related to the Company s restricted stock units (RSUs) and stock option plans consisted of (in thousands of shares):

	RSUs		Options	
	Number of RSUs	Weighted Average Grant Price	Number of Options	Weighted Average Exercise Price
Balance at January 1, 2012	2,998	$ 12.74	3,432	$ 7.90
Granted at fair market value	1,617	14.40		
Vested/exercised [(a)]	(1,217)	12.58	(37)	0.79
Canceled	(19)	13.06	(610)	27.29
Balance at March 31, 2012 [(b) (c)]	3,379	13.59	2,785	3.74

(a) During the three months ended March 31, 2012, 604,000 performance-based and market-vesting RSUs vested. Stock options exercised during the three months ended March 31, 2012 had an immaterial intrinsic value.

(b) As of March 31, 2012, the Company s outstanding RSUs had an aggregate intrinsic value of $48 million; aggregate unrecognized compensation expense related to RSUs amounted to $35 million; and the balance of RSUs at March 31, 2012 consists of 1,433,000 related to time-based awards and 1,946,000 related to market-vesting and performance-based awards. Approximately 24,000 time-based and 11,000 performance-based RSUs are eligible to vest in 2012, if applicable service and performance criteria are satisfied.

(c) As of March 31, 2012, the Company s outstanding stock options had aggregate intrinsic value of $32 million; there were 2.5 million in-the-money stock options; and aggregate unrecognized compensation expense related to unvested stock options amounted to $1 million. Approximately 2.7 million stock options are exercisable as of March 31, 2012.

The table below summarizes information regarding the Company s outstanding stock options as of March 31, 2012 (in thousands of shares):

Range of Exercise Prices	Weighted Average Contractual Life (years)	Number of Options
Less than $5.00	6.2	2,339
$5.01 to $10.00		
$10.01 to $15.00	7.8	160
$15.01 to $20.00	0.9	122
$20.01 to $25.00		
$25.01 to $30.00	0.1	154
$30.01 and above	2.5	10
	5.7	2,785

As of March 31, 2012, the Company also had approximately 0.5 million outstanding stock appreciation rights with a weighted average exercise price of $24.40, and a weighted average remaining contractual life of 1.3 years.

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15. Segment Information

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

	Three Months Ended March 31, 2012		2011	
	Revenues	**Adjusted EBITDA**	**Revenues**	**Adjusted EBITDA**
North America	$ 1,038	$ 93	$ 998	$ 54
International	510	22	162	33
Truck Rental	75	1	75	
Corporate and Other [(a)]		(4)		(4)
Total Company	$ 1,623	112	$ 1,235	83
Less: Non-vehicle related depreciation and amortization		32		23
Interest expense related to corporate debt, net:				
Interest expense		73		47
Early extinguishment of debt		27		
Transaction-related costs [(b)]		6		2
Income before income taxes		$ (26)		$ 11

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

(b) During the three months ended March 31, 2012, the Company incurred $6 million in transaction-related costs related to the integration of the operations of Avis Europe. During the three months ended March 31, 2011, the Company incurred $2 million of costs related to the Company s previous efforts to acquire Dollar Thrifty.

Since December 31, 2011, there have been no significant changes in segment assets with the exception of the Company s North America segment assets under vehicle programs. As of March 31, 2012 and December 31, 2011, North America segment assets under vehicle programs were approximately $7.4 billion and $6.7 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 months ended March 31, 2012 and 2011, Consolidating Condensed Balance Sheets as of March 31, 2012 and December 31, 2011, and Consolidating Condensed Statements of Cash Flows for the three months ended March 31, 2012 and 2011 for: (i) Avis Budget Group, Inc. (the Parent); (ii) Avis Budget Car Rental and Avis Budget Finance, Inc. (the Subsidiary Issuers); (iii) the guarantor subsidiaries; (iv) the non-guarantor subsidiaries; (v) elimination entries necessary to consolidate the Parent with the Subsidiary Issuers, and the guarantor and non-guarantor subsidiaries; and (vi) the Company on a consolidated basis. The Subsidiary Issuers and the guarantor and non-guarantor subsidiaries are 100% owned by the Parent, either directly or indirectly. All guarantees are full and unconditional and joint and several. This financial information is being presented in relation to the Company s guarantee of the payment of principal, premium (if any) and interest on the senior notes issued by Avis Budget Car Rental. These senior notes consist of Avis Budget Car Rental s 7 5/8% Notes due 2014, 7 3/4% Notes due 2016, Floating Rate Notes due 2014, 9 5/8% Notes due 2018, 8 1/4% Notes due 2019 and 9 3/4% Notes due 2020 (collectively, the Notes). See Note 10 Long-term Debt and Borrowing Arrangements for additional information regarding these Notes. The Notes are guaranteed by the Parent and certain subsidiaries.

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

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Consolidating Condensed Statements of Comprehensive Income

Three Months Ended March 31, 2012

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Revenues						
Vehicle rental	$	$	$ 786	$ 382	$	$ 1,168
Other			235	474	(254)	455
Net revenues			1,021	856	(254)	1,623
Expenses						
Operating	(1)	6	537	351		893
Vehicle depreciation and lease charges, net			197	212	(91)	318
Selling, general and administrative	5		137	77		219
Vehicle interest, net			61	75	(62)	74
Non-vehicle related depreciation and amortization			19	13		32
Interest expense related to corporate debt, net:						
Interest expense	3	64		6		73
Intercompany interest expense (income)	(7)	(81)	74	14		
Early extinguishment of debt	18	9				27
Transaction-related costs	3			3		6
Restructuring charges				7		7
Total expenses	21	(2)	1,025	758	(153)	1,649
Income (loss) before income taxes and equity in earnings of subsidiaries	(21)	2	(4)	98	(101)	(26)
Provision for (benefit from) income taxes	(1)	3	(2)	(3)		(3)
Equity in earnings (loss) of subsidiaries	(3)	(2)			5	
Net income (loss)	$ (23)	$ (3)	$ (2)	$ 101	$ (96)	$ (23)
Comprehensive income	$ 21	$ 41	$ 42	$ 146	$ (229)	$ 21

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Three Months Ended March 31, 2011

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Revenues						
Vehicle rental	$	$	$ 760	$ 158	$	$ 918
Other	1		221	409	(314)	317
Net revenues	1		981	567	(314)	1,235
Expenses						
Operating		2	518	139		659
Vehicle depreciation and lease charges, net			227	253	(204)	276
Selling, general and administrative	3		128	23		154
Vehicle interest, net			55	44	(36)	63
Non-vehicle related depreciation and amortization			21	2		23
Interest expense related to corporate debt, net:						
Interest expense (income)	2	46		(1)		47
Intercompany interest expense (income)	(4)	(46)	50			
Transaction-related costs	2					2
Restructuring charges						
Total expenses	3	2	999	460	(240)	1,224
Income (loss) before income taxes and equity in earnings of subsidiaries	(2)	(2)	(18)	107	(74)	11
Provision for (benefit from) income taxes	(1)	(1)	(4)	10		4
Equity in earnings (loss) of subsidiaries	8	9	23		(40)	
Net income (loss)	$ 7	$ 8	$ 9	$ 97	$ (114)	$ 7
Comprehensive income	$ 27	$ 27	$ 27	$ 117	$ (171)	$ 27

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Consolidating Condensed Balance Sheets

As of March 31, 2012

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Assets						
Current assets:						
Cash and cash equivalents	$ 5	$ 245	$ 2	$ 354	$	$ 606
Receivables, net			154	401		555
Deferred income taxes	8		129	3	(23)	117
Other current assets	7	80	85	271		443
Total current assets	20	325	370	1,029	(23)	1,721
Property and equipment, net		73	283	129		485
Deferred income taxes	33	247	228	2		510
Goodwill			74	285		359
Other intangibles, net		44	342	338		724
Other non-current assets	114	93	5	90		302
Intercompany receivables (payables)	253	956	(615)	(594)		
Investment in subsidiaries	388	1,834	3,263		(5,485)	
Total assets exclusive of assets under vehicle programs	808	3,572	3,950	1,279	(5,508)	4,101
Assets under vehicle programs:						
Program cash				50		50
Vehicles, net		4	5	9,408		9,417
Receivables from vehicle manufacturers and other				265		265
Investment in Avis Budget Rental Car Funding (AESOP) LLC-related party				354		354
		4	5	10,077		10,086
Total Assets	$ 808	$ 3,576	$ 3,955	$ 11,356	$ (5,508)	$ 14,187
Liabilities and stockholders equity						
Current liabilities:						
Accounts payable and other current liabilities	$ 23	$ (61)	$ 926	$ 578	$ (23)	$ 1,443
Short-term debt and current portion of long-term debt		211	2	14		227
Total current liabilities	23	150	928	592	(23)	1,670
Long-term debt	244	2,821	8	1		3,074
Other non-current liabilities	106	215	264	375		960
Total liabilities exclusive of liabilities under vehicle programs	373	3,186	1,200	968	(23)	5,704
Liabilities under vehicle programs:						
Debt		1		1,144		1,145

Due to Avis Budget Rental Car Funding (AESOP) LLC-related party				5,306		5,306
Deferred income taxes			921	144		1,065
Other		1		531		532
		2	921	7,125		8,048
Total stockholders equity	435	388	1,834	3,263	(5,485)	435
Total liabilities and stockholders equity	$ 808	$ 3,576	$ 3,955	$ 11,356	$ (5,508)	$ 14,187

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As of December 31, 2011

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Assets						
Current assets:						
Cash and cash equivalents	$ 2	$ 234	$ 1	$ 297	$	$ 534
Receivables, net		61	140	306		507
Deferred income taxes	8		129	3	(20)	120
Other current assets	7	63	76	251	(17)	380
Total current assets	17	358	346	857	(37)	1,541
Property and equipment, net		70	295	128		493
Deferred income taxes	36	177	229	2		444
Goodwill			74	279		353
Other intangibles, net		44	342	327		713
Other non-current assets	124	92	5	83		304
Intercompany receivables (payables)	348	1,158	(1,071)	(435)		
Investment in subsidiaries	376	1,769	3,192		(5,337)	
Total assets exclusive of assets under vehicle programs	901	3,668	3,412	1,241	(5,374)	3,848
Assets under vehicle programs:						
Program cash				11		11
Vehicles, net		6	4	8,346		8,356
Receivables from vehicle manufacturers and other				380		380
Investment in Avis Budget Rental Car Funding (AESOP) LLC-related party				343		343
		6	4	9,080		9,090
Total Assets	$ 901	$ 3,674	$ 3,416	$ 10,321	$ (5,374)	$ 12,938
Liabilities and stockholders equity						
Current liabilities:						
Accounts payable and other current liabilities	$ 32	$ 284	$ 531	$ 620	$ (34)	$ 1,433
Short-term debt and current portion of long-term debt		8	2	27		37
Total current liabilities	32	292	533	647	(34)	1,470
Long-term debt	345	2,814	9			3,168
Other non-current liabilities	112	211	262	375		960
Total liabilities exclusive of liabilities under vehicle programs	489	3,317	804	1,022	(34)	5,598
Liabilities under vehicle programs:						
Debt		3		987		990
Due to Avis Budget Rental Car Funding (AESOP) LLC-related party				4,574		4,574

Deferred income taxes			843	139		982
Other				382		382
		3	843	6,082		6,928
Total stockholders equity	412	354	1,769	3,217	(5,340)	412
Total liabilities and stockholders equity	$ 901	$ 3,674	$ 3,416	$ 10,321	$ (5,374)	$ 12,938

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Consolidating Condensed Statements of Cash Flows

Three Months Ended March 31, 2012

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net cash provided by (used in) operating activities	$ (6)	$ (86)	$ 8	$ 334	$ 3	$ 253
Investing activities						
Property and equipment additions		(5)	(7)	(8)		(20)
Proceeds received on asset sales		2		1		3
Other, net	4	(1)		(4)		(1)
Net cash provided by (used in) investing activities exclusive of vehicle programs	4	(4)	(7)	(11)		(18)
Vehicle programs:						
Decrease (increase) in program cash				(39)		(39)
Investment in vehicles		(1)		(3,052)		(3,053)
Proceeds received on disposition of vehicles		4		2,139		2,143
		3		(952)		(949)
Net cash provided by (used in) investing activities	4	(1)	(7)	(963)		(967)
Financing activities						
Proceeds from long-term borrowings		624				624
Principal payments on long-term borrowings	(101)	(419)	(1)	1		(520)
Net change in short-term borrowings				(12)		(12)
Purchase of warrants	(13)					(13)
Proceeds from sale of call option	19					19
Net intercompany transactions	100	(99)	1	1	(3)	
Debt financing fees		(8)				(8)
Net cash provided by (used in) financing activities exclusive of vehicle programs	5	98		(10)	(3)	90
Vehicle programs:						
Proceeds from borrowings				3,140		3,140
Principal payments on borrowings				(2,440)		(2,440)
Debt financing fees				(7)		(7)
				693		693
Net cash provided by (used in) financing activities	5	98		683	(3)	783
Effect of changes in exchange rates on cash and cash equivalents				3		3
Net increase (decrease) in cash and cash equivalents	3	11	1	57		72
Cash and cash equivalents, beginning of period	2	234	1	297		534

Cash and cash equivalents, end of period	$	5	$	245	$	2	$	354	$		$	606

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Three Months Ended March 31, 2011

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net cash provided by (used in) operating activities	$ 13	$ (27)	$ (43)	$ 299	$ 35	$ 277
Investing activities						
Property and equipment additions		(3)	(4)	(1)		(8)
Proceeds received on asset sales		3				3
Other, net		(1)	1	(1)		(1)
Net cash provided by (used in) investing activities exclusive of vehicle programs		(1)	(3)	(2)		(6)
Vehicle programs:						
Decrease (increase) in program cash				(2)		(2)
Investment in vehicles		(3)		(2,523)		(2,526)
Proceeds received on disposition of vehicles		8	4	1,662		1,674
Investment in AESOP debt securities related party	(195)					