

AVIS BUDGET GROUP, INC.

Form 10-Q

May 08, 2014

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2014

OR

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

For the transition period from _____ to _____

Commission File No. 001-10308

Avis Budget Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

6 Sylvan Way

Parsippany, NJ

(Address of principal executive
offices)

06-0918165

(I.R.S. Employer
Identification Number)

07054

(Zip Code)

(973) 496-4700

(Registrant's telephone number, including area
code)

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

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

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

The number of shares outstanding of the issuer's common stock was 105,396,505 shares as of April 30, 2014.

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FORWARD-LOOKING STATEMENTS

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

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

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

• a change in our fleet costs as a result of a change in the cost of new vehicles, manufacturer recalls, disruption in the supply of new vehicles, and/or a change in the price at which we dispose of used vehicles either in the used vehicle market or under repurchase or guaranteed depreciation programs;

• risks related to our March 2013 acquisition of Zipcar, Inc. (“Zipcar”), including our ability to realize the synergies contemplated by the transaction and our ability to promptly and efficiently integrate the business into Avis Budget Group;

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

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

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

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

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

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

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

• our ability to accurately estimate our future results;

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

our exposure to uninsured claims in excess of historical levels;

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

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

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

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

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

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 right of our former real estate business 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 our October 2011 acquisition of Avis Europe plc (“Avis Europe”), including our ability to realize the synergies contemplated by the transaction;

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

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

We operate in a continuously changing business environment and new risk factors emerge from time to time. New risk factors, factors beyond our control, or changes in the impact of identified risk factors may cause actual results to differ materially from those set forth in any forward-looking statements. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results. Moreover, we do not assume responsibility for the accuracy and completeness of those statements. Other factors and assumptions not identified above, including those discussed in “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, “Risk Factors” and other portions of our 2013 Annual Report on Form 10-K may contain forward-looking statements and involve uncertainties that could cause actual results to differ materially from those projected in such statements. Such statements are based upon assumptions and known risks and uncertainties.

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,		
	2014	2013	
Revenues			
Vehicle rental	\$1,329	\$1,217	
Other	533	474	
Net revenues	1,862	1,691	
Expenses			
Operating	1,000	931	
Vehicle depreciation and lease charges, net	433	386	
Selling, general and administrative	248	224	
Vehicle interest, net	64	57	
Non-vehicle related depreciation and amortization	41	34	
Interest expense related to corporate debt, net:			
Interest expense	56	58	
Early extinguishment of debt	—	40	
Transaction-related costs	8	8	
Restructuring expense	7	10	
Total expenses	1,857	1,748	
Income (loss) before income taxes	5	(57))
Provision for (benefit from) income taxes	1	(11))
Net income (loss)	\$4	\$(46))
Comprehensive income (loss)	\$7	\$(69))
Earnings (loss) per share			
Basic	\$0.03	\$(0.43))
Diluted	\$0.03	\$(0.43))

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, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$841	\$693
Receivables, net	646	619
Deferred income taxes	174	177
Other current assets	501	455
Total current assets	2,162	1,944
Property and equipment, net	613	614
Deferred income taxes	1,264	1,299
Goodwill	713	691
Other intangibles, net	932	923
Other non-current assets	362	361
Total assets exclusive of assets under vehicle programs	6,046	5,832