

AVIS BUDGET GROUP, INC.
Form 10-Q
November 03, 2016
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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 September 30, 2016

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

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 87,889,621 shares as of October 31, 2016.

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FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

- our ability to accurately estimate our future results;

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

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

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

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

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

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

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

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

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

risks related to protecting the integrity of our information technology systems and the confidential information of our employees and customers against security breaches, including cyber-security breaches; and

other business, economic, competitive, governmental, regulatory, political or technological factors affecting our operations, pricing or services, including uncertainty and instability in Europe related to the potential withdrawal of countries from the European Union.

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 2015 Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2016 (the “2015 Form 10-K”), could cause actual results to differ materially from those projected in any forward-looking statements.

Although we believe that our assumptions are reasonable, any or all of our forward-looking statements may prove to be inaccurate and we can make no guarantees about our future performance. Should unknown risks or uncertainties materialize or underlying assumptions prove inaccurate, actual results could differ materially from past results and/or those anticipated, estimated or projected. 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 September 30, 2016		Nine Months Ended September 30, 2015	
Revenues				
Vehicle rental	\$1,871	\$1,832	\$4,772	\$4,684
Other	785	745	2,008	1,916
Net revenues	2,656	2,577	6,780	6,600
Expenses				
Operating	1,219	1,202	3,381	3,279
Vehicle depreciation and lease charges, net	576	555	1,571	1,485
Selling, general and administrative	315	314	896	843
Vehicle interest, net	77	75	215	218
Non-vehicle related depreciation and amortization	63	56	189	161
Interest expense related to corporate debt, net:				
Interest expense	51	49	157	146
Early extinguishment of debt	—	—	10	23
Restructuring expense	6	6	26	10
Transaction-related costs, net	4	8	13	57
Total expenses	2,311	2,265	6,458	6,222
Income before income taxes	345	312	322	378
Provision for income taxes	136	128	128	60
Net income	\$209	\$184	\$194	\$318

Comprehensive income	\$235	\$150	\$294	\$198
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Earnings per share

Basic	\$2.32	\$1.80	\$2.07	\$3.04
Diluted	\$2.28	\$1.77	\$2.05	\$3.00

See Notes to Consolidated Condensed Financial Statements (Unaudited).

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

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 985	\$ 452
Receivables, net	822	668
Other current assets	635	507
Total current assets	2,442	1,627
Property and equipment, net	671	681
Deferred income taxes	1,443	1,488
Goodwill	1,013	973
Other intangibles, net	885	917
Other non-current assets	224	232
Total assets exclusive of assets under vehicle programs	6,678	5,918
Assets under vehicle programs:		
Program cash	126	258
Vehicles, net	11,724	10,658
Receivables from vehicle manufacturers and other	586	438
Investment in Avis Budget Rental Car Funding (AESOP) LLC—related party	361	362
	12,797	11,716
Total assets	\$ 19,475	\$ 17,634
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and other current liabilities	\$ 1,713	\$ 1,485
Short-term debt and current portion of long-term debt	338	26
Total current liabilities	2,051	1,511
Long-term debt	3,528	3,435
Other non-current liabilities	763	734
Total liabilities exclusive of liabilities under vehicle programs	6,342	5,680
Liabilities under vehicle programs:		
Debt	2,966	2,064
Debt due to Avis Budget Rental Car Funding (AESOP) LLC—related party	7,134	6,796
Deferred income taxes	2,370	2,367
Other	189	288
	12,659	11,515
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, \$0.01 par value—authorized 10 shares; none issued and outstanding	—	—

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Common stock, \$0.01 par value—authorized 250 shares; issued 137 shares, at each date	1	
Additional paid-in capital	6,940	7,010
Accumulated deficit	(1,608)	(1,802)
Accumulated other comprehensive loss	(47)	(147)
Treasury stock, at cost—48 and 39 shares, respectively	(4,812)	(4,623)
Total stockholders' equity	474	439
Total liabilities and stockholders' equity	\$ 19,475	\$ 17,634

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)

	Nine Months Ended September 30, 2016 2015	
Operating activities		
Net income	\$194	\$318
Adjustments to reconcile net income to net cash provided by operating activities:		
Vehicle depreciation	1,453	1,423
Gain on sale of vehicles, net	(15)	(58)
Non-vehicle related depreciation and amortization	189	161
Stock-based compensation	21	22
Amortization of debt financing fees	29	31
Early extinguishment of debt costs	10	23
Net change in assets and liabilities, excluding the impact of acquisitions and dispositions:		
Receivables	(149)	(131)
Income taxes and deferred income taxes	80	43
Accounts payable and other current liabilities	33	(28)
Other, net	256	234
Net cash provided by operating activities	2,101	2,038
Investing activities		
Property and equipment additions	(125)	(126)
Proceeds received on asset sales	10	8
Net assets acquired (net of cash acquired)	(4)	(225)
Other, net	4	3
Net cash used in investing activities exclusive of vehicle programs	(115)	(340)
Vehicle programs:		
Decrease (increase) in program cash	138	(71)
Investment in vehicles	(10,151)	(9,762)
Proceeds received on disposition of vehicles	7,373	6,756
	(2,640)	(3,077)
Net cash used in investing activities	(2,755)	(3,417)

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

	Nine Months Ended September 30, 2016 2015	
Financing activities		
Proceeds from long-term borrowings	896	377
Payments on long-term borrowings	(527)	(290)
Net change in short-term borrowings	1	(23)
Repurchases of common stock	(289)	(270)
Debt financing fees	(15)	(7)
Net cash provided by (used in) financing activities exclusive of vehicle programs	66	(213)
Vehicle programs:		
Proceeds from borrowings	11,879	11,532
Payments on borrowings	(10,752)	(9,933)
Debt financing fees	(20)	(17)
	1,107	1,582
Net cash provided by financing activities	1,173	1,369
Effect of changes in exchange rates on cash and cash equivalents	14	(29)
Net increase (decrease) in cash and cash equivalents	533	(39)
Cash and cash equivalents, beginning of period	452	624
Cash and cash equivalents, end of period	\$985	\$585

See Notes to Consolidated Condensed Financial Statements (Unaudited).

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Avis Budget Group, Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)

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

1. Basis of Presentation

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

The Company operates the following reportable business segments:

Americas—provides and licenses the Company’s brands to third parties for vehicle rentals and ancillary products and services in North America, South America, Central America and the Caribbean, and operates the Company’s car sharing business in certain of these markets.

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

The operating results of acquired businesses are included in the accompanying Consolidated Condensed Financial Statements from the dates of acquisition. During the nine months ended September 30, 2016, the Company completed the purchase price allocation for the acquisition of its Avis and Budget licensees in Norway, Sweden and Denmark, its Avis and Budget licensee in Brazil and Maggiore Group. There were no material adjustments to the preliminary allocation. The fair value of the assets acquired and liabilities assumed in connection with the Company’s fourth quarter 2015 acquisition of its Avis licensee in Poland has not yet been finalized; however, there have been no significant changes to the preliminary allocation of the purchase price during the nine months ended September 30, 2016.

In presenting the Consolidated Condensed Financial Statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”), management makes estimates and assumptions that affect the amounts reported and related disclosures. Estimates, by their nature, are based on judgment and available information. Accordingly, actual results could differ from those estimates. In management’s opinion, the Consolidated Condensed Financial Statements contain all adjustments necessary for a fair presentation of interim results reported. The results of operations reported for interim periods are not necessarily indicative of the results of operations for the entire year or any subsequent interim period. These financial statements should be read in conjunction with the Company’s 2015 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, net. Transaction-related costs, net are classified separately in the Consolidated Condensed Statements of Comprehensive Income. These costs are comprised of expenses related to acquisition-related activities such as due-diligence and other advisory costs, expenses related to the integration of the acquiree's operations with those of the Company, including the implementation of best practices and process improvements, non-cash gains and losses related to re-acquired rights, expenses related to pre-acquisition contingencies and contingent consideration related to acquisitions.

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Currency Transactions. The Company records the gain or loss on foreign-currency transactions on certain intercompany loans and the gain or loss on intercompany loan hedges within interest expense related to corporate debt, net. During the three months ended September 30, 2016 and 2015, the Company recorded losses on such items of \$1 million in each period, and during the nine months ended September 30, 2016 and 2015, the Company recorded losses of \$8 million and \$10 million, respectively.

Adoption of New Accounting Standards

On January 1, 2016, as a result of the issuance of a new accounting pronouncement, the Company adopted Accounting Standards Update (“ASU”) 2015-16, “Simplifying the Accounting for Measurement-Period Adjustments,” which eliminates the requirement to retrospectively account for adjustments made to provisional amounts recognized in a business combination at the acquisition date. Instead, the cumulative impact of any adjustment will be recognized in the reporting period in which the adjustment is identified. The adoption of this accounting pronouncement did not have a material impact on the Company’s Consolidated Financial Statements.

On January 1, 2016, as a result of the issuance of a new accounting pronouncement, the Company adopted ASU 2015-05, “Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement,” which provides guidance for determining whether a cloud computing arrangement contains a software license that should be accounted for as internal-use software, rather than as a service contract. The adoption of this accounting pronouncement did not have a material impact on the Company’s Consolidated Financial Statements.

On January 1, 2016, as a result of the issuance of a new accounting pronouncement, the Company adopted ASU 2014-15, “Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern,” which requires management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year of the date the financial statements are issued and to provide related footnote disclosures in certain circumstances. The adoption of this accounting pronouncement did not have an impact on the Company’s Consolidated Financial Statements.

Recently Issued Accounting Standards

In August 2016, the Financial Accounting Standards Board (“FASB”) issued ASU 2016-15, “Classification of Certain Cash Receipts and Cash Payments,” which clarifies guidance on the classification of certain cash receipts and cash payments in the statement of cash flow. ASU 2016-15 becomes effective for the Company on January 1, 2018. The adoption of this accounting pronouncement is not expected to have a material impact on the Company’s Consolidated Financial Statements.

In March 2016, the FASB issued ASU 2016-09, “Improvements to Employee Share-Based Payment Accounting,” which simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, minimum statutory withholding requirements and classification in the statement of cash flow. ASU 2016-09 becomes effective for the Company on January 1, 2017. The Company is currently evaluating the effect of this accounting pronouncement on its Consolidated Financial Statements.

In February 2016, the FASB issued ASU 2016-02, “Leases,” which requires a lessee to recognize all long-term leases on its balance sheet as a liability for its lease obligation, measured at the present value of lease payments not yet paid, and a corresponding asset representing its right to use the underlying asset over the lease term. ASU 2016-02 becomes effective for the Company on January 1, 2019. Early adoption is permitted. The Company is currently evaluating the effect of this accounting pronouncement on its Consolidated Financial Statements.

In January 2016, the FASB issued ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities," which makes limited amendments to the classification and measurement of financial instruments. The new standard amends certain disclosure requirements associated with the fair value of financial instruments. ASU 2016-01 becomes effective for the Company on January 1, 2018. The adoption of this accounting pronouncement is not expected to have a material impact on the Company's Consolidated Financial Statements.

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In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers,” which outlines a single model for entities to use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance. ASU 2014-09 becomes effective for the Company on January 1, 2018. The Company is currently evaluating the effect of this accounting pronouncement on its Consolidated Financial Statements.

2. Restructuring

In 2014, the Company committed to various strategic initiatives to identify best practices and drive efficiency throughout its organization, by reducing headcount, improving processes and consolidating functions (the “T15 restructuring”). In first quarter 2016, the Company expanded the T15 restructuring to take advantage of additional efficiency opportunities. The expanded T15 restructuring fits within the initiative’s focus areas to identify best practices and drive efficiency throughout the organization, including the consolidation of rental locations. During the nine months ended September 30, 2016, as part of this process, the Company formally communicated the termination of employment to approximately 565 employees, and as of September 30, 2016, the Company had terminated approximately 425 of these employees. The costs associated with this initiative primarily represent severance, outplacement services and other costs associated with employee terminations, the majority of which have been or are expected to be settled in cash. The Company expects further restructuring expense of approximately \$2 million related to this initiative to be incurred in 2016.

In conjunction with previous acquisitions, the Company identified opportunities to integrate and streamline its operations, primarily in Europe (the “Acquisition integration”). During the nine months ended September 30, 2016, as part of this process, the Company formally communicated the termination of employment to approximately 125 employees, and as of September 30, 2016, the Company had terminated approximately 110 of these employees. The Company expects further restructuring expense of approximately \$2 million related to this initiative to be incurred in 2016.

The following tables summarize the activity related to our restructuring liabilities:

	Americas	International	Total
Balance as of January 1, 2016	\$ 1	\$ 10	\$11
T15 restructuring expense	10	8	18
Acquisition integration expense	—	9	9
Avis Europe restructuring expense	—	(1)	(1)
T15 restructuring payment/utilization	(9)	(4)	(13)
Acquisition integration payment	(1)	(13)	(14)
Avis Europe restructuring payment	—	(1)	(1)
Balance as of September 30, 2016	\$ 1	\$ 8	\$9

	Personnel Related	Facility Related	Other ^(a)	Total
Balance as of January 1, 2016	\$ 10	\$ 1	\$ —	\$11
T15 restructuring expense	13	1	4	18
Acquisition integration expense	9	—	—	9
Avis Europe restructuring expense	—	(1)	—	(1)
T15 restructuring payment/utilization	(9)	—	(4)	(13)
Acquisition integration payment	(14)	—	—	(14)
Avis Europe restructuring payment	(1)	—	—	(1)
Balance as of September 30, 2016	\$ 8	\$ 1	\$ —	\$9

^(a) Includes expense related primarily to the write-down of certain vehicle assets.

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3. Earnings Per Share

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

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
Net income for basic and diluted EPS	\$209	\$184	\$194	\$318
Basic weighted average shares outstanding	90.4	102.7	93.5	104.7
Options and non-vested stock ^(a)	1.4	1.3	1.3	1.4
Diluted weighted average shares outstanding	91.8	104.0	94.8	106.1
Earnings per share:				
Basic	\$2.32	\$1.80	\$2.07	\$3.04
Diluted	\$2.28	\$1.77	\$2.05	\$3.00

For the three months ended September 30, 2016 and 2015, 0.2 million and 0.3 million non-vested stock awards, respectively, have an anti-dilutive effect and therefore are excluded from the computation of diluted weighted average shares outstanding. For the nine months ended September 30, 2016 and 2015, 0.2 million and 0.1 million, respectively, non-vested stock awards have an anti-dilutive effect and therefore are excluded from the computation of diluted weighted average shares outstanding.

4. Other Current Assets

Other current assets consisted of:

	As of	As of
	September	December

	30, 2016	31, 2015
Sales and use taxes	\$ 280	\$ 159
Prepaid expenses	216	192
Other	139	156
Other current assets	\$ 635	\$ 507

5. Intangible Assets

Intangible assets consisted of:

	As of September 30, 2016			As of December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortized Intangible Assets						
License agreements	\$269	\$ 104	\$ 165	\$263	\$ 81	\$ 182
Customer relationships	226	86	140	222	68	154
Other	39	11	28	41	8	33
Total	\$534	\$ 201	\$ 333	\$526	\$ 157	\$ 369
Unamortized Intangible Assets						
Goodwill ^(a)	\$1,013			\$973		
Trademarks ^(a)	\$552			\$548		

^(a) The increase in the carrying amount since December 31, 2015 primarily reflects currency translation.

For the three months ended September 30, 2016 and 2015, amortization expense related to amortizable intangible assets was approximately \$15 million and \$16 million, respectively. For the nine months ended September 30, 2016 and 2015, amortization expense related to amortizable intangible assets was approximately \$48 million and \$43 million, respectively. Based on the Company's amortizable intangible assets at September 30, 2016, the Company expects amortization expense of approximately \$16 million for

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the remainder of 2016, \$56 million for 2017, \$42 million for 2018, \$39 million for 2019, \$39 million for 2020 and \$24 million for 2021, excluding effects of currency exchange rates.

6. Vehicle Rental Activities

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

	As of September 30, 2016	As of December 31, 2015
Rental vehicles	\$ 12,403	\$ 11,195
Less: Accumulated depreciation	(1,521)	(1,500)
	10,882	9,695
Vehicles held for sale	842	963
Vehicles, net	\$ 11,724	\$ 10,658

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Depreciation expense	\$523	\$510	\$1,453	\$1,423
Lease charges	57	52	133	120
Gain on sale of vehicles, net	(4)	(7)	(15)	(58)
Vehicle depreciation and lease charges, net	\$576	\$555	\$1,571	\$1,485

At September 30, 2016 and 2015, the Company had payables related to vehicle purchases included in liabilities under vehicle programs - other of \$164 million and \$183 million, respectively, and receivables related to vehicle sales included in assets under vehicle programs - receivables from vehicle manufacturers and other of \$586 million and \$635 million, respectively.

7. Income Taxes

The Company's effective tax rate for the nine months ended September 30, 2016 is a provision of 39.8%. Such rate differed from the Federal statutory rate of 35.0% primarily due to state and foreign income taxes.

The Company's effective tax rate for the nine months ended September 30, 2015 was a provision of 15.9%. Such rate differed from the Federal statutory rate of 35.0% primarily due to a \$98 million income tax benefit related to resolution of a prior-year tax matter.

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8. Long-term Debt and Borrowing Arrangements

Long-term and other borrowing arrangements consisted of:

	Maturity Dates	As of September 30, 2016	As of December 31, 2015
4 % Senior Notes	November 2017	\$ —	\$ 300
Floating Rate Senior Notes ^(a)	December 2017	249	249
Floating Rate Term Loan ^(b)	March 2019	144	970
6% Euro-denominated Senior Notes ^(c)	March 2021	517	502
Floating Rate Term Loan ^(d)	March 2022	818	—
5 % Senior Notes	June 2022	400	400
5½% Senior Notes	April 2023	674	674
6 % Senior Notes	April 2024	350	—
4 % Euro-denominated Senior Notes	November 2024	337	—
5¼% Senior Notes	March 2025	375	375
Other ^(e)		58	46
Deferred financing fees		(56)	(55)
Total		3,866	3,461
Less: Short-term debt and current portion of long-term debt		338	26
Long-term debt		\$ 3,528	\$ 3,435

The interest rate on these notes is equal to three-month LIBOR plus 275 basis points, for an aggregate rate of 3.39% at September 30, 2016; the Company has entered into an interest rate swap to hedge its interest rate exposure related to these notes at an aggregate rate of 3.58%.

The floating rate term loan is part of the Company's senior credit facility, which is secured by pledges of capital stock of certain subsidiaries of the Company, and liens on substantially all of the Company's intellectual property and certain other real and personal property. As of September 30, 2016, the floating rate term loan due 2019 bears interest at the greater of three-month LIBOR or 0.75%, plus 225 basis points, for an aggregate rate of 3.09%.

A portion of these notes have been called for redemption.

The floating rate term loan is part of the Company's senior credit facility, which is secured by pledges of capital stock of certain subsidiaries of the Company, and liens on substantially all of the Company's intellectual property and certain other real and personal property. As of September 30, 2016, the floating rate term loan due 2022 bears interest at the greater of three-month LIBOR or 0.75%, plus 250 basis points, for an aggregate rate of 3.34%. The Company has entered into a swap to hedge \$600 million of its interest rate exposure related to the floating rate term loan at an aggregate rate of 4.21%.

Primarily includes capital leases which are secured by liens on the related assets.

In March 2016, the Company issued \$350 million of 6 % Senior Notes due 2024 at par. In May 2016, the Company used the net proceeds from the offering to redeem \$300 million principal amount of its 4 % Senior Notes due 2017 for \$304 million plus accrued interest and for general corporate purposes.

In May 2016, the Company extended the maturity date for \$825 million of its \$970 million existing corporate floating rate term loan borrowings by three years to March 2022. The extended portion now bears interest at LIBOR plus 2.50%, subject to a LIBOR floor of 0.75%.

In September 2016, the Company issued €300 million of 4 % Euro-denominated Senior Notes due 2024 at par. In October 2016, the Company used the net proceeds from the offering primarily to redeem €275 million of its

outstanding 6% Euro-denominated Senior Notes due 2021 (see Note 16 - Subsequent Events).

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Committed Credit Facilities and Available Funding Arrangements

At September 30, 2016, the committed corporate credit facilities available to the Company and/or its subsidiaries were as follows:

	Total Capacity	Outstanding Borrowings	Letters of Credit Issued	Available Capacity
Senior revolving credit facility maturing 2019 ^(a)	\$ 1,800	\$ —	\$ 907	\$ 893
Other facilities ^(b)	5	5	—	—

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

^(b) These facilities encompass bank overdraft lines of credit, bearing interest of 1.50% to 3.00%.

At September 30, 2016, the Company had various uncommitted credit facilities available, under which it had drawn approximately \$4 million, which bear interest at rates between 0.85% and 4.00%.

Debt Covenants

The agreements governing the Company's indebtedness contain restrictive covenants, including restrictions on dividends paid to the Company by certain of its subsidiaries, the incurrence of additional indebtedness by the Company and certain of its subsidiaries, acquisitions, mergers, liquidations, and sale and leaseback transactions. The Company's senior credit facility also contains a maximum leverage ratio requirement. As of September 30, 2016, the Company is in compliance with the financial covenants governing its indebtedness.

9. Debt Under Vehicle Programs and Borrowing Arrangements

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

	As of September 30, 2016	As of December 31, 2015
Americas - Debt due to Avis Budget Rental Car Funding ^(a)	\$ 7,171	\$ 6,837
Americas - Debt borrowings ^(a)	747	643
International - Debt borrowings ^(a)	2,065	1,187
International - Capital leases	168	238
Other	1	8
Deferred financing fees ^(b)	(52)	(53)
Total	\$ 10,100	\$ 8,860

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

^(b) Deferred financing fees related to Debt due to Avis Budget Rental Car Funding as of September 30, 2016 and December 31, 2015 were \$37 million and \$41 million, respectively.

During March 2016 and June 2016, the Company's Avis Budget Rental Car Funding subsidiary issued approximately \$450 million in asset-backed notes with an expected final payment date of June 2021 and approximately \$500 million in asset-backed notes with an expected final payment date of November 2021, respectively. The weighted average interest rate for these borrowings was 3%.

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Debt Maturities

The following table provides the contractual maturities of the Company's debt under vehicle programs, including related party debt due to Avis Budget Rental Car Funding, at September 30, 2016.

	Debt under Vehicle Programs
Within 1 year ^(a)	\$ 1,365
Between 1 and 2 years	2,526
Between 2 and 3 years	3,166
Between 3 and 4 years	1,666
Between 4 and 5 years	1,058
Thereafter	371
Total	\$ 10,152

^(a) Vehicle backed debt maturing within one year primarily represents term asset-backed securities.

Committed Credit Facilities and Available Funding Arrangements

As of September 30, 2016, 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
Americas - Debt due to Avis Budget Rental Car Funding ^(b)	\$ 9,556	\$ 7,171	\$ 2,385
Americas - Debt borrowings ^(c)	962	747	215
International - Debt borrowings ^(d)	2,671	2,065	606
International - Capital leases ^(e)	208	168	40
Other	1	1	—
Total	\$ 13,398	\$ 10,152	\$ 3,246

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

^(b) The outstanding debt is collateralized by approximately \$8.7 billion of underlying vehicles and related assets.

^(c) The outstanding debt is collateralized by approximately \$1.1 billion of underlying vehicles and related assets.

^(d) The outstanding debt is collateralized by approximately \$2.4 billion of underlying vehicles and related assets.

^(e) The outstanding debt is collateralized by approximately \$0.2 billion of underlying vehicles and related assets.

Debt Covenants

The agreements under the Company's vehicle-backed funding programs contain restrictive covenants, including restrictions on dividends paid to the Company by certain of its subsidiaries and restrictions on indebtedness, mergers, liens, liquidations and sale and leaseback transactions and in some cases also require compliance with certain financial requirements. As of September 30, 2016, the Company is not aware of any instances of non-compliance with any of the financial covenants contained in the debt agreements under its vehicle-backed funding programs.

10. Commitments and Contingencies

Contingencies

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

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In February 2015, the French Competition Authority issued a statement of objections alleging that several car rental companies, including the Company and two of its European subsidiaries, engaged with (i) twelve French airports, the majority of which are controlled by public administrative bodies or the French state, and violated competition law through the distribution by airports of company-specific statistics to car rental companies operating at those airports and (ii) two other international car rental companies in a concerted practice relating to train station surcharges. In May 2016, the French Competition authority issued a second statement of objections reiterating the allegations that it raised in its first statement of objections. The Company believes that it has valid defenses and intends to vigorously defend against the allegations, but it is currently unable to predict the outcome of the proceedings or range of reasonably possible losses, which may be material.

In March 2015, the Canadian Competition Bureau filed an application with the Competition Tribunal alleging that the Company and two of its Canadian subsidiaries engaged in deceptive marketing practices with regard to certain charges that consumers are invoiced related to renting a vehicle and associated products in Canada. The application sought penalties against the Company and its subsidiaries totaling approximately \$25 million as well as reimbursements to current and former customers of amounts collected and retained by the Company related to the alleged deceptive marketing practices. In June 2016, the Company and its subsidiaries reached an agreement to settle this application for an immaterial amount and to adopt a competition law compliance program.

The Company is involved in claims, legal proceedings and governmental inquiries related, among other things, to its vehicle rental operations, including contract and licensee disputes, competition matters, employment matters, insurance claims, intellectual property claims, business practice disputes and other regulatory, environmental, commercial and tax matters. Litigation is inherently unpredictable and, although the Company believes that its accruals are adequate and/or that it has valid defenses in these matters, unfavorable resolutions could occur. Excluding the French competition matter discussed above, the Company estimates that the potential exposure resulting from adverse outcomes of legal proceedings in which it is reasonably possible that a loss may be incurred could, in the aggregate, be up to approximately \$30 million in excess of amounts accrued as of September 30, 2016; however, the Company does not believe that the impact should result in a material liability to the Company in relation to its consolidated financial condition or results of operations.

Commitments to Purchase Vehicles

The Company maintains agreements with vehicle manufacturers under which the Company has agreed to purchase approximately \$7.3 billion of vehicles from manufacturers over the next 12 months. The majority of these commitments are subject to the vehicle manufacturers' satisfying their obligations under their respective repurchase and guaranteed depreciation agreements. The purchase of such vehicles is financed primarily through the issuance of vehicle-backed debt and cash received upon the disposition of vehicles.

Concentrations

Concentrations of credit risk at September 30, 2016 include (i) risks related to the Company's repurchase and guaranteed depreciation agreements with domestic and foreign car manufacturers, including Ford, General Motors, Chrysler, Peugeot, Volkswagen, Fiat, Kia, Toyota, Mercedes, Renault, Hyundai and BMW, and primarily with respect to receivables for program cars that have been disposed but for which the Company has not yet received payment from the manufacturers and (ii) risks related to Realogy and Wyndham, including receivables of \$40 million and \$25 million, respectively, related to certain contingent, income tax and other corporate liabilities assumed by Realogy and Wyndham in connection with their disposition.

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11. Stockholders' Equity

Share Repurchases

The Company's Board of Directors has authorized the repurchase of up to approximately \$1.2 billion of its common stock under a plan originally approved in 2013 and subsequently expanded, most recently in 2016. During the nine months ended September 30, 2016, the Company repurchased approximately 9.5 million shares of common stock at a cost of approximately \$290 million under the program. During the nine months ended September 30, 2015, the Company repurchased approximately 5.9 million shares of common stock at a cost of approximately \$277 million under the program. As of September 30, 2016, approximately \$150 million of authorization remains available to repurchase common stock under this plan.

Total Comprehensive Income

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$209	\$184	\$194	\$318
Other comprehensive income (loss):				
Currency translation adjustments (net of tax of \$3, \$1, \$7 and \$(16), respectively)	20	(34)	100	(118)
Net unrealized gain (loss) on available-for-sale securities (net of tax of \$0, \$1, \$0 and \$1, respectively)	1	(1)	1	(2)
Net unrealized gain (loss) on cash flow hedges (net of tax of \$(3), \$1, \$2 and \$3, respectively)	4	(1)	(4)	(4)
Minimum pension liability adjustment (net of tax of \$0, \$0, \$(1) and \$(1), respectively)	1	2	3	4
	26	(34)	100	(120)
Comprehensive income	\$235	\$150	\$294	\$198

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

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Accumulated Other Comprehensive Income (Loss)

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

	Currency Translation Adjustments	Net Unrealized Gains (Losses) on Cash Flow Hedges ^(a)	Net Unrealized Gains (Losses) on Available-for- Sale Securities ^(b)	Minimum Pension Liability Adjustment ^(c)	Accumulated Other Comprehensive Income (Loss)
Balance, January 1, 2016	\$ (80)	\$ (2)	\$ —	\$ (65)	\$ (147)
Other comprehensive income (loss) before reclassifications	100	(7)	—	—	93
Amounts reclassified from accumulated other comprehensive income (loss)	—	3	1	3	7
Net current-period other comprehensive income (loss)	100	(4)	1	3	100
Balance, September 30, 2016	\$ 20	\$ (6)	\$ 1	\$ (62)	\$ (47)
Balance, January 1, 2015	\$ 51	\$ (1)	\$ 2	\$ (74)	\$ (22)
Other comprehensive income (loss) before reclassifications	(118)	(8)	(2)	1	(127)
Amounts reclassified from accumulated other comprehensive income (loss)	—	4	—	3	7
Net current-period other comprehensive income (loss)	(118)	(4)	(2)	4	(120)
Balance, September 30, 2015	\$ (67)	\$ (5)	\$ —	\$ (70)	\$ (142)

All components of accumulated other comprehensive income (loss) are net of tax, except currency translation adjustments, which exclude income taxes related to indefinite investments in foreign subsidiaries and include a \$58 million gain, net of tax, as of September 30, 2016 related to the Company's hedge of its net investment in Euro-denominated foreign operations (see Note 13 - Financial Instruments).

For the three and nine months ended September 30, 2016, amounts reclassified from accumulated other comprehensive income (loss) into corporate interest expense were \$2 million (\$1 million, net of tax) and \$6 million (\$3 million, net of tax), respectively. During the three and nine months ended September 30, 2016, amounts reclassified from accumulated other comprehensive income (loss) into vehicle interest expense were \$1 million (\$0 million, net of tax) in each period. For the three and nine months ended September 30, 2015, amounts reclassified from accumulated other comprehensive income (loss) into corporate interest expense were \$2 million (\$1 million, net of tax) and \$5 million (\$3 million, net of tax), respectively. During the three months ended September 30, 2015, amounts reclassified from accumulated other comprehensive income (loss) into vehicle interest expense were immaterial and during the nine months ended September 30, 2015, amounts reclassified from accumulated other comprehensive income (loss) into vehicle interest expense were \$1 million (\$1 million, net of tax).

For the three and nine months ended September 30, 2016, amounts reclassified from accumulated other comprehensive income (loss) into operating expenses were \$1 million (\$1 million, net of tax) in each period. For the three and nine months ended September 30, 2015, amounts reclassified from accumulated other comprehensive income (loss) into operating expenses were immaterial.

For the three and nine months ended September 30, 2016, amounts reclassified from accumulated other comprehensive income (loss) into selling, general and administrative expenses were \$1 million (\$1 million), net of tax) and \$4 million (\$3 million), net of tax), respectively. For the three and nine months ended September 30, 2015, amounts reclassified from accumulated other comprehensive income (loss) into selling, general and administrative expenses were \$3 million (\$2 million, net of tax) and \$5 million (\$3 million, net of tax), respectively.

12. Stock-Based Compensation

The Company recorded stock-based compensation expense of \$7 million and \$8 million (\$5 million and \$5 million, net of tax) during the three months ended September 30, 2016 and 2015, respectively, and \$21 million and \$19 million (\$14 million and \$12 million, net of tax) during the nine months ended September 30, 2016 and 2015, respectively. In jurisdictions with net operating loss carryforwards, exercises and/or vestings of stock-based awards have generated \$96 million of total tax deductions at September 30, 2016. Approximately \$38 million of tax benefits will be recorded in additional paid-in capital when these tax deductions are realized in these jurisdictions.

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

	Nine Months Ended September 30,	
	2016	2015
Expected volatility of stock price	46%	37%
Risk-free interest rate	0.98%	0.74%
Valuation period	3 years	3 years
Dividend yield	0.0%	0.0%

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

	Time-Based RSUs		Performance-Based and Market-Based RSUs		Cash Unit Awards	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value	Number of Units	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2016 (a)	819	\$ 43.34	941	\$ 35.18	111	\$ 18.04
Granted	587	25.92	528	23.33	—	—
Vested (b)	(422)	36.06	(488)	25.13	(111)	18.04
Forfeited/expired (25)	(25)	38.34	(51)	27.16	—	—
Outstanding at September 30, 2016 (c)	959	\$ 36.01	930	\$ 34.14	—	\$ —

(a) Reflects the maximum number of stock units assuming achievement of all time-, performance- and market-vesting criteria and does not include those for non-employee directors. The weighted-average fair value of time-based RSUs and performance-based and market-based RSUs granted during the nine months ended September 30, 2015 was \$54.72 and \$55.51, respectively.

(b) The total grant date fair value of RSUs vested during the nine months ended September 30, 2016 and 2015 was \$27 million and \$24 million, respectively. The total grant date fair value of cash units vested during the nine months ended September 30, 2016 and 2015 was \$2 million, in each period.

The Company's outstanding time-based RSUs and performance-based and market-based RSUs had aggregate intrinsic values of \$33 million and \$32 million, respectively. Aggregate unrecognized compensation expense (c) related to time-based RSUs and performance-based and market-based RSUs amounted to \$34 million and will be recognized over a weighted average vesting period of 1.3 years. The Company assumes that substantially all outstanding awards will vest over time.

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

Number of Options	Weighted Average Exercise	Aggregate Intrinsic Value (in	Weighted Average Remaining	Contractual Term (years)
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		Price	millions)	
Outstanding at January 1, 2016	827	\$ 2.87	\$ 28	3.3
Granted	—	—		
Exercised	(13)	0.79	—	
Forfeited/expired	—	—		
Outstanding and exercisable at September 30, 2016	814	\$ 2.90	\$ 25	2.5

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13. Financial Instruments

Derivative Instruments and Hedging Activities

Currency Risk. The Company uses currency exchange contracts to manage its exposure to changes in currency exchange rates associated with its non-U.S.-dollar denominated receivables and forecasted royalties, forecasted earnings of non-U.S. subsidiaries and forecasted non-U.S.-dollar denominated acquisitions. The Company primarily hedges a portion of its current-year currency exposure to the Australian, Canadian and New Zealand dollars, the Euro and the British pound sterling. The majority of forward contracts do not qualify for hedge accounting treatment. The fluctuations in the value of these forward contracts do, however, largely offset the impact of changes in the value of the underlying risk they economically hedge. Forward contracts used to hedge forecasted third-party receipts and disbursements up to 12 months are designated and do qualify as cash flow hedges. The Company has designated its Euro-denominated notes as a hedge of its investment in Euro-denominated foreign operations.

The amount of gains or losses reclassified from other comprehensive income (loss) to earnings resulting from ineffectiveness or from excluding a component of the hedges' gain or loss from the effectiveness calculation for cash flow and net investment hedges during the three and nine months ended September 30, 2016 and 2015, was not material, nor is the amount of gains or losses the Company expects to reclassify from accumulated other comprehensive income (loss) to earnings over the next 12 months.

Interest Rate Risk. The Company uses various hedging strategies including interest rate swaps and interest rate caps to create an appropriate mix of fixed and floating rate assets and liabilities. The Company uses interest rate swaps and interest rate caps to manage the risk related to its floating rate corporate debt and its floating rate vehicle-backed debt. The Company records the effective portion of changes in the fair value of its cash flow hedges to other comprehensive income (loss), net of tax, and subsequently reclassifies these amounts into earnings in the period during which the hedged transaction is recognized. The Company records the gains or losses related to freestanding derivatives, which are not designated as a hedge for accounting purposes, in its consolidated results of operations. The changes in fair values of hedges that are determined to be ineffective are immediately reclassified from accumulated other comprehensive income (loss) into earnings. The amount of gains or losses reclassified from other comprehensive income (loss) to earnings resulting from ineffectiveness related to the Company's cash flow hedges was not material during the three and nine months ended September 30, 2016 and 2015. The Company estimates that \$6 million of losses currently recorded in accumulated other comprehensive income (loss) will be recognized in earnings over the next 12 months.

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

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

	As of
	September
	30, 2016
Interest rate caps ^(a)	\$ 10,152
Interest rate swaps	2,000
Foreign exchange contracts	885

Commodity contracts (millions of gallons of unleaded gasoline) 6

^(a) Represents \$7.6 billion of interest rate caps sold, partially offset by approximately \$2.6 billion of interest rate caps purchased. These amounts exclude \$5.0 billion of interest rate caps purchased by the Company's Avis Budget Rental Car Funding subsidiary as it is not consolidated by the Company.

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

	As of September 30, 2016		As of December 31, 2015	
	Fair Value, Asset	Fair Value, Liability	Fair Value, Asset	Fair Value, Liability
Derivatives designated as hedging instruments				
Interest rate swaps ^(a)	\$ —	\$ 9	\$ 1	\$ 5
Derivatives not designated as hedging instruments				
Interest rate caps ^(b)	1	1	1	5
Foreign exchange contracts ^(c)	5	15	16	2
Commodity contracts ^(c)	—	—	—	1
Total	\$ 6	\$ 25	\$ 18	\$ 13

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

^(a) Included in other non-current assets or other non-current liabilities.

^(b) Included in assets under vehicle programs or liabilities under vehicle programs.

^(c) Included in other current assets or other current liabilities.

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

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
	2016	2015	2016	2015
Derivatives designated as hedging instruments ^(a)				
Interest rate swaps	\$ 4	\$ (1)	\$ (4)	\$ (4)
Euro-denominated notes	(3)	(1)	(11)	25
Derivatives not designated as hedging instruments ^(b)				
Interest rate caps ^(c)	—	(1)	(1)	(1)
Foreign exchange contracts ^(d)	5	21	17	37
Commodity contracts ^(e)	—	(4)	—	—
Total	\$ 6	\$ 14	\$ 1	\$ 57

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

^(b) Gains (losses) related to derivative instruments are expected to be largely offset by (losses) gains on the underlying exposures being hedged.

^(c) For the three and nine months ended September 30, 2016, included in operating expense.

^(d) For the three months ended September 30, 2016, included a \$8 million gain in interest expense and a \$3 million loss in operating expense and for the nine months ended September 30, 2016, included a \$43 million gain in interest expense and a \$26 million loss in operating expense. For the three months ended September 30, 2015,

included a \$19 million gain in interest expense and a \$2 million gain in operating expense and for the nine months ended September 30, 2015, included a \$21 million gain in interest expense and a \$16 million gain in operating expense.

(e) Included in operating expense.

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Debt Instruments

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

	As of September 30, 2016		As of December 31, 2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Corporate debt				
Short-term debt and current portion of long-term debt	\$338	\$ 338	\$26	\$ 26
Long-term debt	3,528	3,593	3,435	3,478
Debt under vehicle programs				
Vehicle-backed debt due to Avis Budget Rental Car Funding	\$7,134	\$ 7,218	\$6,796	\$ 6,836
Vehicle-backed debt	2,965	2,979	2,060	2,071
Interest rate swaps and interest rate caps ^(a)	1	1	4	4

^(a) Derivatives in a liability position.

14. Segment Information

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

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

	Three Months Ended September 30, 2016		2015	
	Revenues	Adjusted EBITDA	Revenues	Adjusted EBITDA
Americas	\$ 1,821	\$ 306	\$1,776	\$ 279
International	835	179	801	168
Corporate and Other ^(a)	—	(16)	—	(16)
Total Company	\$ 2,656	469	\$2,577	431
Less:				
Non-vehicle related depreciation and amortization		63		56
Interest expense related to corporate debt, net				49

Restructuring expense	6	6
Transaction-related costs, net	4	8
Income before income taxes	\$ 345	\$ 312

^(a) Includes unallocated corporate overhead which is not attributable to a particular segment.

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	Nine Months Ended September 30,		2015	
	2016	Adjusted EBITDA	Revenues	Adjusted EBITDA
Americas	\$ 4,778	\$ 532	\$4,707	\$ 572
International	2,002	237	1,893	245
Corporate and Other ^(a)	—	(52)	—	(42)
Total Company	\$ 6,780	717	\$6,600	775

Less:	Non-vehicle related depreciation and amortization	189	161
	Interest expense related to corporate debt, net:		
	Interest expense	157	146
	Early extinguishment of debt	10	23
	Restructuring expense	26	10
	Transaction-related costs, net		