

AVIS BUDGET GROUP, INC.  
Form 10-Q  
October 30, 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 September 30, 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 106,244,995 shares as of October 24, 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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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;

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

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

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

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

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

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

We operate in a continuously changing business environment and new risk factors emerge from time to time. New risk factors, factors beyond our control, or changes in the impact of identified risk factors may cause actual results to differ materially from those set forth in any forward-looking statements. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results. Moreover, we do not assume responsibility for the accuracy and completeness of those statements. Other factors and assumptions not identified above, including those discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Risk Factors" and other portions of our 2013 Annual Report on Form 10-K and our Current Report on Form 8-K filed May 12, 2014, 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,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues				
Vehicle rental	\$1,810	\$1,734	\$4,692	\$4,388
Other	732	661	1,906	1,699
Net revenues	2,542	2,395	6,598	6,087
Expenses				
Operating	1,168	1,142	3,273	3,080
Vehicle depreciation and lease charges, net	582	524	1,532	1,387
Selling, general and administrative	298	274	833	771
Vehicle interest, net	77	72	213	195
Non-vehicle related depreciation and amortization	46	39	132	109
Interest expense related to corporate debt, net:				
Interest expense	50	57	161	170
Early extinguishment of debt	—	—	56	131
Transaction-related costs	7	10	23	37
Restructuring expense	8	14	16	39
Impairment	—	33	—	33
Total expenses	2,236	2,165	6,239	5,952
Income before income taxes	306	230	359	135
Provision for income taxes	114	112	137	91
Net income	\$192	\$118	\$222	\$44
Comprehensive income	\$116	\$178	\$154	\$44
Earnings per share				
Basic	\$1.84	\$1.09	\$2.11	\$0.41
Diluted	\$1.74	\$1.02	\$2.00	\$0.39

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)

	September 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	\$713	\$693
Receivables, net	659	619
Deferred income taxes	173	177
Other current assets	590	455
Total current assets	2,135	1,944
Property and equipment, net	623	614
Deferred income taxes	1,042	1,299
Goodwill	683	691
Other intangibles, net	897	923
Other non-current assets	351	361
Total assets exclusive of assets under vehicle programs	5,731	5,832
Assets under vehicle programs:		
Program cash	89	116
Vehicles, net	11,484	9,582
Receivables from vehicle manufacturers and other	630	391
Investment in Avis Budget Rental Car Funding (AESOP) LLC—related party	362	363
	12,565	10,452
Total assets	\$18,296	\$16,284
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable and other current liabilities	\$1,679	\$1,479
Short-term debt and current portion of long-term debt	88	89
Total current liabilities	1,767	1,568
Long-term debt	3,247	3,305
Other non-current liabilities	831	847
Total liabilities exclusive of liabilities under vehicle programs	5,845	5,720
Liabilities under vehicle programs:		
Debt	2,517	1,681
Debt due to Avis Budget Rental Car Funding (AESOP) LLC—related party	6,983	5,656
Deferred income taxes	2,000	2,177
Other	219	279
	11,719	9,793
Commitments and contingencies (Note 11)		
Stockholders' equity:	—	—

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Preferred stock, \$0.01 par value—authorized 10 million shares; none issued and outstanding			
Common stock, \$0.01 par value—authorized 250 million shares; issued 137,093,424 and 137,081,056 shares	1	1	
Additional paid-in capital	7,738	7,893	
Accumulated deficit	(2,138	) (2,360	)
Accumulated other comprehensive income	49	117	
Treasury stock, at cost—33,730,351 and 30,515,721 shares	(4,918	) (4,880	)
Total stockholders' equity	732	771	
Total liabilities and stockholders' equity	\$18,296	\$16,284	

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,	
	2014	2013
Operating activities		
Net income	\$222	\$44
Adjustments to reconcile net income to net cash provided by operating activities:		
Vehicle depreciation	1,417	1,295
Gain on sale of vehicles, net	(12	) (10
Non-vehicle related depreciation and amortization	132	109
Amortization of debt financing fees	31	33
Impairment	—	33
Net change in assets and liabilities, excluding the impact of acquisitions and dispositions:		
Receivables	(102	) (150
Income taxes and deferred income taxes	109	61
Accounts payable and other current liabilities	52	22
Other, net	218	306
Net cash provided by operating activities	2,067	1,743
Investing activities		
Property and equipment additions	(127	) (92
Proceeds received on asset sales	9	13
Net assets acquired (net of cash acquired)	(149	) (531
Other, net	(9	) 37
Net cash used in investing activities exclusive of vehicle programs	(276	) (573
Vehicle programs:		
Decrease (increase) in program cash	23	(173
Investment in vehicles	(9,835	) (8,865
Proceeds received on disposition of vehicles	6,535	6,393
	(3,277	) (2,645
Net cash used in investing activities	(3,553	) (3,218

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Avis Budget Group, Inc.

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Continued)

(In millions)

(Unaudited)

	Nine Months Ended September 30,	
	2014	2013
Financing activities		
Proceeds from long-term borrowings	696	2,725
Payments on long-term borrowings	(751)	(2,344)
Net change in short-term borrowings	(3)	(32)
Purchases of warrants	—	(30)
Proceeds from sale of call options	—	41
Repurchases of common stock	(204)	(21)
Debt financing fees	(12)	(36)
Other, net	(1)	2
Net cash (used in) provided by financing activities exclusive of vehicle programs	(275)	305
Vehicle programs:		
Proceeds from borrowings	11,862	10,266
Payments on borrowings	(10,050)	(9,079)
Debt financing fees	(17)	(26)
	1,795	1,161
Net cash provided by financing activities	1,520	1,466
Effect of changes in exchange rates on cash and cash equivalents	(14)	(8)
Net increase (decrease) in cash and cash equivalents	20	(17)
Cash and cash equivalents, beginning of period	693	606
Cash and cash equivalents, end of period	\$713	\$589

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 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 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 ancillary products and services, and operates the Company’s car sharing business in North America.

• 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, South America, Central America, the Caribbean, Australia and New Zealand, and operates the Company’s car sharing business in certain of these markets.

• Truck Rental—provides truck rentals and ancillary products and 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 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 2013 Annual Report on Form 10-K (the “2013 Form 10-K”) and the Company’s Current Report on Form 8-K filed May 12, 2014, which updated the 2013 Form 10-K for a change to the Company’s reportable segments as well as a revision to the Company’s definition of Adjusted EBITDA.

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.

Currency Transactions. The Company records the gain or loss of foreign-currency transactions on certain intercompany loans and gain or loss on intercompany loan hedges within interest expense related to corporate debt, net. During the three and nine months ended September 30, 2014, the Company recorded losses of \$3 million and \$8 million, respectively, on such items. In the three and nine months ended September 30, 2013, the Company recorded losses of \$1 million and \$8 million, respectively, on such items.



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### Adoption of New Accounting Standards

On January 1, 2014, the Company adopted, as required, Accounting Standards Update (“ASU”) 2013-04, “Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligations Is Fixed at the Reporting Date,” which requires companies to measure these obligations as the sum of the amount the Company agreed to pay plus any additional amount the Company expects to pay on behalf of co-obligors. The adoption of this pronouncement did not have a material impact on the Company’s financial statements.

### Recently Issued Accounting Standards

In April 2014, the Financial Accounting Standards Board (“FASB”) issued ASU 2014-08, “Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity,” which changes the criteria for determining which disposals can be presented as discontinued operations and also modifies related disclosure requirements. ASU 2014-08 becomes effective for the Company on January 1, 2015. The adoption of this accounting pronouncement is not expected to have an impact on the Company’s financial statements.

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers,” which outlines a single model for entities to use in accounting for revenue arising from contracts with customers and supersedes current revenue recognition guidance. ASU 2014-09 becomes effective for the Company on January 1, 2017. The Company is currently evaluating the effect of this accounting pronouncement; however, it is not expected to have a material impact on the financial statements.

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

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

### 2. Restructuring Activities

Subsequent to the acquisition of Avis Europe plc (“Avis Europe”), the Company began a restructuring initiative, identifying synergies across the Company, enhancing organizational efficiencies and consolidating and rationalizing processes. During the nine months ended September 30, 2014, as part of this process, the Company formally communicated the termination of employment to approximately 200 employees and recorded \$16 million of expense in connection with these initiatives. These expenses primarily represent severance, outplacement services and other costs associated with employee terminations. As of September 30, 2014, the Company has terminated approximately 165 of these employees. The Company expects further restructuring expense of approximately \$5 million related to this initiative to be incurred in 2014.

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

	North America	International	Total
Balance as of January 1, 2014	\$1	\$21	\$22
Restructuring expense	3	13	16
Cash payment/utilization	(3	) (21	) (24
Balance as of September 30, 2014	\$1	\$13	\$14

  

	Personnel Related	Facility Related	Total
Balance as of January 1, 2014	\$17	\$5	\$22
Restructuring expense	16	—	16
Cash payment/utilization	(22	) (2	) (24
Balance as of September 30, 2014	\$11	\$3	\$14

## 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		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net income for basic EPS	\$192	\$118	\$222	\$44
Convertible note interest, net of tax	—	1	1	1
Net income for diluted EPS	\$192	\$119	\$223	\$45
Basic weighted average shares outstanding	103.9	108.3	105.2	108.1
Options, warrants and non-vested stock <sup>(a)</sup>	2.0	3.3	2.0	3.3
Convertible debt	4.0	4.6	4.0	5.5
Diluted weighted average shares outstanding	109.9	116.2	111.2	116.9
Earnings per share:				
Basic	\$1.84	\$1.09	\$2.11	\$0.41
Diluted	\$1.74	\$1.02	\$2.00	\$0.39

For the three months ended September 30, 2014, there are no anti-dilutive securities which were excluded from the computation of diluted earnings per share. For the nine months ended September 30, 2014, the number of <sup>(a)</sup> anti-dilutive securities which were excluded from the computation of diluted earnings per share was not significant. For the three and nine months ended September 30, 2013, the number of anti-dilutive securities which were excluded from the computation of diluted earnings per share was not significant.

## 4. Acquisitions

## ACE Rent A Car

In August 2014, the Company completed the acquisition of ACE Rent A Car's vehicle rental operations for approximately \$6 million, net of acquired cash, plus \$14 million for acquired fleet. The fair value of the assets acquired and liabilities assumed has not yet been finalized and is therefore subject to change. In connection with this



acquisition, approximately \$6 million was recorded in goodwill. The goodwill, which was assigned to the Company's North America segment, is not expected to be deductible for tax purposes.

Edmonton

In February 2014, the Company completed the acquisition of its Budget licensee for Edmonton and certain other cities in Alberta for approximately \$33 million, plus \$84 million for acquired fleet. The investment will enable the Company to expand its footprint of Company-operated locations in Canada. The acquired fleet

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was financed under the Company's existing vehicle financing arrangements in Canada. 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 North America segment and most of which is expected to be deductible for tax purposes. The fair value of the assets acquired and liabilities assumed has not yet been finalized and is therefore subject to change. In connection with this acquisition, approximately \$17 million was recorded in identifiable intangible assets (consisting of \$10 million related to customer relationships and \$7 million related to the reacquired license agreements) and \$11 million was recorded in goodwill. The customer relationships will be amortized over a weighted average useful life of approximately 12 years and the license agreements will be amortized over approximately 4 years. In addition, at the time of the acquisition, the Company recorded a \$3 million non-cash charge related to the unfavorable license rights reacquired by the Company.

Portugal

In February 2014, the Company reacquired the right to operate the Budget brand in Portugal for approximately \$15 million. Approximately \$12 million of the total consideration was paid during the nine months ended September 30, 2014 and the majority of the remainder is expected to be paid by the end of 2014. The fair value of the intangible assets acquired has not yet been finalized and is therefore subject to change. In connection with this acquisition, approximately \$2 million was recorded within license agreements and \$13 million was recorded in goodwill. The license agreements will be amortized over 2 years. The goodwill, which was assigned to the Company's International segment, is expected to be deductible for tax purposes.

Brazil

In August 2013, the Company acquired a 50% non-controlling ownership stake in its Brazilian licensee for \$53 million, of which the remaining consideration of \$6 million was paid during the nine months ended September 30, 2014.

Payless Car Rental

In July 2013, the Company completed the acquisition of Payless Car Rental for \$46 million, net of acquired cash. Differences between the preliminary allocation of the purchase price and the final allocation were not material.

Zipcar

In March 2013, the Company completed the acquisition of the entire issued share capital of Zipcar, the leading car sharing company, for \$473 million, net of acquired cash. Differences between the preliminary allocation of the purchase price and the final allocation were not material.

Apex Car Rentals

During the nine months ended September 30, 2014, the Company recorded approximately \$7 million in transaction-related costs to increase the fair value of contingent consideration associated with the October 2012 acquisition of Apex Car Rentals ("Apex"). The contingent consideration consists of a maximum of \$26 million in payments that are contingent on the future financial performance of Apex. The amount recognized for contingent consideration at September 30, 2014 was \$19 million.

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## 5. Other Current Assets

Other current assets consisted of:

	As of September 30, 2014	As of December 31, 2013
Sales and use taxes	\$261	\$132
Prepaid expenses	205	187
Other	124	136
Other current assets	\$590	\$455

## 6. Intangible Assets

Intangible assets consisted of:

	As of September 30, 2014			As of December 31, 2013		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
<b>Amortized Intangible Assets</b>						
License agreements	\$260	\$59	\$201	\$272	\$52	\$220
Customer relationships	170	47	123	166	35	131
Other	8	2	6	2	1	1
Total	\$438	\$108	\$330	\$440	\$88	\$352
<b>Unamortized Intangible Assets</b>						
Goodwill <sup>(a)</sup>	\$683			\$691		
Trademarks	\$567			\$571		

<sup>(a)</sup> The change in the carrying amount since December 31, 2013 reflects a currency translation loss of \$37 million, partially offset by acquisitions.

For the three months ended September 30, 2014 and 2013, amortization expense was approximately \$9 million and \$7 million, respectively. For the nine months ended September 30, 2014 and 2013, amortization expense was approximately \$25 million and \$20 million, respectively. Based on the Company's amortizable assets at September 30, 2014, the Company expects amortization expense of approximately \$9 million for the remainder of 2014 and approximately \$31 million for each of the five fiscal years thereafter.

## 7. Vehicle Rental Activities

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

	As of September 30, 2014	As of December 31, 2013
Rental vehicles	\$11,924	\$10,234
Less: Accumulated depreciation	(1,434	) (1,411
	10,490	8,823
Vehicles held for sale	994	759
Vehicles, net	\$11,484	\$9,582



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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Depreciation expense	\$519	\$487	\$1,417	\$1,295
Lease charges	51	45	127	102
(Gain) loss on sales of vehicles, net	12	(8	) (12	) (10
Vehicle depreciation and lease charges, net	\$582	\$524	\$1,532	\$1,387

At September 30, 2014 and 2013, the Company had purchases of vehicles included in liabilities under vehicle programs - other of \$192 million and \$221 million, respectively, and sales of vehicles included in assets under vehicle programs - receivables from vehicle manufacturers and other of \$627 million and \$500 million, respectively.

## 8. Income Taxes

The Company's effective tax rate for the nine months ended September 30, 2014 is a provision of 38.2%. Such rate differed from the Federal statutory rate of 35.0% primarily due to state income taxes.

The Company's effective tax rate for the nine months ended September 30, 2013 was a provision of 67.4%. Such rate differed from the Federal statutory rate of 35.0% principally due to the non-deductibility of the impairment charge and a portion of the early extinguishment of corporate debt costs.

## 9. Long-term Debt and Borrowing Arrangements

Long-term and other borrowing arrangements consisted of:

	Maturity Dates	As of September 30, 2014	As of December 31, 2013
3½% Convertible Notes <sup>(a)</sup>	October 2014	\$65	\$66
4 % Senior Notes	November 2017	300	300
Floating Rate Senior Notes <sup>(b)</sup>	December 2017	248	247
8¼% Senior Notes	January 2019	—	691
Floating Rate Term Loan <sup>(c)</sup>	March 2019	982	989
9¾% Senior Notes	March 2020	223	223
6% Euro-denominated Senior Notes	March 2021	586	344
5 % Senior Notes	June 2022	400	—
5½% Senior Notes	April 2023	500	500
		3,304	3,360
Other		31	34
Total		3,335	3,394
Less: Short-term debt and current portion of long-term debt		88	89
Long-term debt		\$3,247	\$3,305

<sup>(a)</sup> As of September 30, 2014, the 3½% convertible notes are convertible by the holders into approximately 4.0 million shares of the Company's common stock.

The interest rate on these notes is equal to three-month LIBOR plus 275 basis points, for an aggregate rate of

<sup>(b)</sup> 2.98% at September 30, 2014; 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%.

<sup>(c)</sup>

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, 2014, the floating term rate loan due 2019 bears interest at the greater of three-month LIBOR or 0.75%, plus 225 basis points, for an aggregate rate of 3.00%. The Company has entered into a swap to hedge \$600 million of its interest rate exposure related to the floating rate term loan at an aggregate rate of 3.96%.

In March 2014, the Company issued €200 million (approximately \$275 million) of additional 6% Euro-denominated Senior Notes due 2021. These additional notes were sold at 106.75% of their face value, for aggregate proceeds of approximately \$295 million, with a yield to maturity of 4.85%. In April 2014, the

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Company used the proceeds to repurchase \$292 million principal amount of its 8¼% Senior Notes for \$316 million plus accrued interest.

In May 2014, the Company issued \$400 million of 5 % Senior Notes due 2022 at par. In June 2014, the Company used the proceeds to repurchase the remaining \$395 million principal amount of its 8¼% Senior Notes for \$421 million plus accrued interest.

**COMMITTED CREDIT FACILITIES AND AVAILABLE FUNDING ARRANGEMENTS**

At September 30, 2014, the committed corporate credit facilities available to the Company and/or its subsidiaries were as follows:

	Total Capacity	Outstanding Borrowings	Letters of Credit Issued	Available Capacity
Senior revolving credit facility maturing 2018 (a)	\$1,650	\$—	\$784	\$866
Other facilities (b)	12	1	—	11

(a) 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 4.50% to 5.77% as of September 30, 2014.

At September 30, 2014, the Company had various uncommitted credit facilities available, under which it had drawn approximately \$2 million, which bear interest at rates between 0.35% and 2.50%.

**DEBT COVENANTS**

The agreements governing the Company's indebtedness contain restrictive covenants, including restrictions on dividends paid to the Company by certain of its subsidiaries, the incurrence of additional indebtedness by the Company and certain of its subsidiaries, acquisitions, mergers, liquidations, and sale and leaseback transactions. The Company's senior credit facility also contains a maximum leverage ratio requirement. As of September 30, 2014, the Company was in compliance with the financial covenants governing its indebtedness.

**10. Debt Under Vehicle Programs and Borrowing Arrangements**

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

	As of September 30, 2014	As of December 31, 2013
North America - Debt due to Avis Budget Rental Car Funding (a)	\$6,983	\$5,656
North America - Canadian borrowings (a)(b)	556	400
International - Debt borrowings (a)	1,231	731
International - Capital leases (a)	427	289
Truck Rental - Debt borrowings (c)	261	226
Other	42	35
Total	\$9,500	\$7,337

- (a) The increase reflects additional borrowings principally to fund a seasonal increase in the Company's car rental fleet.
- (b) The increase includes additional borrowings to fund an increase in the Company's fleet driven by the acquisition of its Budget licensee for Edmonton.
- (c) The increase reflects additional borrowings to acquire rental fleet.



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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, 2014.

	Debt Under Vehicle Programs
Within 1 year <sup>(a)</sup>	\$1,476
Between 1 and 2 years	3,155
Between 2 and 3 years	1,210
Between 3 and 4 years	1,688
Between 4 and 5 years	1,438
Thereafter	533
Total	\$9,500

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

## COMMITTED CREDIT FACILITIES AND AVAILABLE FUNDING ARRANGEMENTS

As of September 30, 2014, available funding under the Company's vehicle programs (including related party debt due to Avis Budget Rental Car Funding) consisted of:

	Total Capacity <sup>(a)</sup>	Outstanding Borrowings	Available Capacity
North America - Debt due to Avis Budget Rental Car Funding <sup>(b)</sup>	\$8,793	\$6,983	\$1,810
North America - Canadian borrowings <sup>(c)</sup>	915	556	359
International - Debt borrowings <sup>(d)</sup>	1,550	1,231	319
International - Capital leases <sup>(e)</sup>	625	427	198
Truck Rental - Debt borrowings <sup>(f)</sup>	280	261	19
Other	42	42	—
Total	\$12,205	\$9,500	\$2,705

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

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

<sup>(c)</sup> The outstanding debt is collateralized by \$810 million of underlying vehicles and related assets.

<sup>(d)</sup> The outstanding debt is collateralized by approximately \$1.7 billion of underlying vehicles and related assets.

<sup>(e)</sup> The outstanding debt is collateralized by \$409 million of underlying vehicles and related assets.

<sup>(f)</sup> The outstanding debt is collateralized by \$359 million 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, 2014, 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.

## 11. Commitments and Contingencies

Contingencies

The Company is involved in claims, legal proceedings and governmental inquiries related, among other things, to its vehicle rental operations, including, among others, contract and licensee disputes, wage-and-hour claims, competition matters, employment matters, insurance claims, intellectual property claims 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

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matters, unfavorable resolutions could occur, which could materially impact the Company's financial position, results of operations or cash flows.

Additionally, in 2006, the Company completed the spin-offs of its Realogy and Wyndham subsidiaries. In connection with the spin-offs, Realogy assumed 62.5% and Wyndham assumed 37.5% of certain contingent and other corporate liabilities of the Company that 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 each subsidiary's disposition ("Assumed Liabilities"). 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. 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. The Company is also named in various litigation that is primarily related to the businesses of its former subsidiaries, including Realogy, Wyndham and their current or former subsidiaries. The Company is entitled to indemnification from such entities for any liability resulting from such litigation.

### 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 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.

### 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 marketing, advertising and capital expenditures. As of September 30, 2014, the Company had approximately \$126 million of purchase obligations, which extend through 2019.

### Concentrations

Concentrations of credit risk at September 30, 2014 include (i) risks related to the Company's repurchase and guaranteed depreciation agreements with domestic and foreign car manufacturers, including General Motors, Ford, Chrysler, Peugeot, Volkswagen, Kia, Fiat, Mercedes, BMW, Volvo and Toyota, 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 \$62 million and \$38 million, respectively, related to certain contingent, income tax and other corporate liabilities assumed by Realogy and Wyndham in connection with their disposition.

### 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 sold or spun-off 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 \$37 million, the majority of which expire by the end of 2015. At September 30, 2014, the liability recorded by the Company in connection with these guarantees was approximately \$1 million. To the extent that the Company would be required to perform under any of these guarantees, the Company is entitled to indemnification by Realogy and Wyndham, as applicable. The Company

monitors the credit ratings and other relevant information for Realogy and Wyndham in order to assess the status of the payment/performance risk of these guarantees.

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## 12. Stockholders' Equity

## Share Repurchases

In August 2013, the Company obtained Board approval to repurchase up to \$200 million of its common stock. In April 2014, the Company's Board authorized a \$235 million increase to the share repurchase program. During the nine months ended September 30, 2014, the Company repurchased approximately 3,961,000 shares of common stock at a cost of approximately \$210 million under the program. During the nine months ended September 30, 2013, the Company repurchased approximately 860,000 shares of common stock at a cost of approximately \$25 million under the program.

## Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income were as follows:

	Currency Translation Adjustments <sup>(a)</sup>	Net Unrealized Gains (Losses) on Cash Flow Hedges <sup>(b)</sup>	Net Unrealized Gains (Losses) on Available-for Sale Securities <sup>(a)</sup>	Minimum Pension Liability Adjustment <sup>(c)</sup>	Accumulated Other Comprehensive Income	
Balance, January 1, 2014	\$ 166	\$ 1	\$ 2	\$(52	) \$ 117	
Other comprehensive income (loss) before reclassifications	(71	) (3	) 1	—	(73	)
Amounts reclassified from accumulated other comprehensive income	—	4	—	1	5	
Net current-period other comprehensive income (loss)	(71	) 1	1	1	(68	)
Balance, September 30, 2014	\$ 95	\$ 2	\$ 3	\$(51	) \$ 49	
Balance, January 1, 2013	\$ 193	\$—	\$ 2	\$(85	) \$ 110	
Other comprehensive income (loss) before reclassifications	(21	) 1	1	13	(6	)
Amounts reclassified from accumulated other comprehensive income	—	—	—	6	6	
Net current-period other comprehensive income (loss)	(21	) 1	1	19	—	
Balance, September 30, 2013	\$ 172	\$ 1	\$ 3	\$(66	) \$ 110	

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 and include a \$20 million gain, net of tax, as of September 30, 2014 related to the Company's hedge of its net investment in Euro-denominated foreign operations (See Note 14 - Financial Instruments).

<sup>(a)</sup> Amounts reclassified from accumulated other comprehensive income were not material for any period presented.

<sup>(b)</sup> For the three and nine months ended September 30, 2014, amounts reclassified from accumulated other comprehensive income into interest expense were \$2 million (\$1 million, net of tax) and \$6 million (\$4

million, net of tax), respectively. For the three and nine months ended September 30, 2013, amounts reclassified from accumulated other comprehensive income were not material.

For the three and nine months ended September 30, 2014 amounts reclassified from accumulated other comprehensive income were not material. For the three and nine months ended September 30, 2013, amounts reclassified from accumulated other comprehensive income into selling, general and administrative expenses were \$10 million (\$6 million, net of tax).

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## 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 September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	\$192	\$118	\$222	\$44
Other comprehensive income (loss):				
Currency translation adjustments (net of tax of \$(18), \$5, \$(20), \$5, respectively)	(79	) 39	(71	) (21
Net unrealized gain (loss) on available-for-sale securities (net of tax of \$0, \$0, \$0, and \$0, respectively)	—	2	1	1
Net unrealized gain (loss) on cash flow hedges (net of tax of \$(2), \$0, \$(1), \$(1), respectively)	3	—	1	1
Minimum pension liability adjustment (net of tax of \$0, \$(12), \$0, and \$(12), respectively)	—	19	1	19
	(76	) 60	(68	) —
Total comprehensive income	\$116	\$178	\$154	\$44

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

## 13. Stock-Based Compensation

The Company recorded stock-based compensation expense of \$7 million and \$5 million (\$4 million and \$3 million, net of tax) during the three months ended September 30, 2014 and 2013, respectively and \$23 million and \$14 million (\$14 million and \$9 million, net of tax) during the nine months ended September 30, 2014 and 2013, respectively. In jurisdictions with net operating loss carryforwards, exercises and/or vestings of stock-based awards have generated \$48 million of total tax deductions at September 30, 2014. Approximately \$19 million of tax benefits will be recorded in additional paid-in capital when these tax deductions are realized in these jurisdictions.

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

	Nine Months Ended September 30,	
	2014	2013
Expected volatility of stock price	40%	43%
Risk-free interest rate	0.83%	0.39%
Expected term of awards	3 years	3 years
Dividend yield	0.0%	0.0%

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

	Time-Based RSUs		Performance-Based and Market-Based RSUs		Cash Unit Awards	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value	Number of Units	Weighted Average Grant Date Fair Value
Outstanding at January 1, 2014 <sup>(a)</sup>	1,308	\$17.92	2,043	\$13.79	267	\$14.90
Granted	381	42.05	326	42.03	—	—
Vested <sup>(b)</sup>	(605 )	16.72	(436 )	10.91	—	—
Forfeited/expired	(73 )	23.92	(42 )	20.25	—	—
Outstanding at September 30, 2014 <sup>(c)</sup>	1,011	\$27.27	1,891	\$19.19	267	\$14.90

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, performance-based and market-based RSUs, and cash units granted during the nine months ended September 30, 2013 was \$21.77, \$20.03 and \$17.14, respectively.

The total grant date fair value of RSUs vested during the nine months ended September 30, 2014 and 2013 was \$15 million and \$14 million, respectively.

The Company's outstanding time-based RSUs, performance-based and market-based RSUs, and cash units had aggregate intrinsic value of \$56 million, \$104 million and \$15 million, respectively. Aggregate unrecognized compensation expense related to time-based RSUs and performance-based and market-based RSUs amounted to \$35 million and will be recognized over a weighted average vesting period of 0.8 years. The Company assumes that substantially all outstanding awards will vest over time.

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

	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value (in millions)	Weighted Average Remaining Contractual Term (years)
Outstanding at January 1, 2014	979	\$2.82	\$37	5.2
Granted	—	—	—	—
Exercised	(121 )	2.28	6	—
Forfeited/expired	—	—	—	—
Outstanding at September 30, 2014 <sup>(a)</sup>	858	2.90	45	4.5
Exercisable at September 30, 2014	826	\$2.56	\$43	4.5

<sup>(a)</sup> The Company assumes that substantially all outstanding stock options will vest over time.

## 14. Financial Instruments

### Derivative Instruments and Hedging Activities

The Company uses currency exchange contracts to manage its exposure to changes in currency exchange rates associated with its non-U.S.-dollar denominated receivables and forecasted royalties, forecasted earnings of non-U.S. subsidiaries and forecasted non-U.S.-dollar denominated acquisitions. The Company primarily hedges a portion of its current-year currency exposure to the Australian, Canadian and New Zealand dollars, the Euro and the British pound sterling. The majority of forward contracts do not qualify for hedge accounting treatment. The fluctuations in the



value of these forward contracts do, however, largely offset the impact of changes in the value of the underlying risk they economically hedge. Forward contracts used to hedge forecasted third-party receipts and disbursements up to 12 months are designated and do qualify as cash flow hedges.

The Company has designated its 6% Euro-denominated notes as a hedge of its net investment in Euro-denominated foreign operations. For the nine months ended September 30, 2014, the Company recorded a \$31 million gain in accumulated other comprehensive income as part of currency translation adjustments. There was no ineffectiveness related to the Company's net investment hedges during the three and nine

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months ended September 30, 2014 and the Company does not expect to reclassify any amounts from accumulated other comprehensive income into 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 and interest rate caps to manage the risk related to its floating rate corporate debt and its floating rate vehicle-backed debt. The Company records the effective portion of changes in the fair value of its cash flow hedges to other comprehensive income, net of tax, and subsequently reclassifies these amounts into earnings in the period during which the hedged transaction is recognized. The Company records the gains or losses related to freestanding derivatives, which are not designated as a hedge for accounting purposes, in its consolidated results of operations. The changes in fair values of hedges that are determined to be ineffective are immediately reclassified from accumulated other comprehensive income into earnings. There was no ineffectiveness related to the Company's cash flow hedges during the three and nine months ended September 30, 2014. The Company estimates that \$6 million of losses currently recorded in accumulated other comprehensive income will be recognized in earnings over the next 12 months.

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 derivatives are recorded within operating expenses.

Certain of the Company's derivative instruments contain collateral support provisions that require the Company to post cash collateral to the extent that such derivatives are in a liability position. The aggregate fair value of such derivatives and the aggregate fair value of assets needed to settle these derivatives was not material as of September 30, 2014.

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

	As of September 30, 2014
Interest rate caps <sup>(a)</sup>	\$ 11,289
Interest rate swaps	1,874
Foreign exchange swaps	525
Foreign exchange forward contracts	104
Commodity contracts (millions of gallons of unleaded gasoline)	5

<sup>(a)</sup> Represents \$9.3 billion of interest rate caps sold, partially offset by approximately \$1.9 billion of interest rate caps purchased. These amounts exclude \$7.4 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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Fair values (Level 2) of derivative instruments were as follows:

	As of September 30, 2014		As of December 31, 2013	
	Fair Value, Asset Derivatives	Fair Value, Liability Derivatives	Fair Value, Asset Derivatives	Fair Value, Liability Derivatives
Derivatives designated as hedging instruments				
Interest rate swaps <sup>(a)</sup>	\$3	\$—	\$2	\$1
Derivatives not designated as hedging instruments				
Interest rate caps <sup>(b)</sup>	—	3	2	13
Interest rate swaps	—	—	—	—
Foreign exchange swaps and forward contracts <sup>(c)</sup>	8	4	3	5
Commodity contracts <sup>(c)</sup>	—	2	—	—
Total	\$11	\$9	\$7	\$19

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.

(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,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Derivatives designated as hedging instruments				
Interest rate swaps <sup>(a)</sup>	\$3	\$—	\$1	\$1
Derivatives not designated as hedging instruments <sup>(b)</sup>				
Interest rate caps <sup>(c)</sup>	—	(2	) —	5
Foreign exchange swaps and forward contracts <sup>(d)</sup>	22	(13	) (7	) 22
Commodity contracts <sup>(e)</sup>	(2	) —	(1	) —
Total	\$23	\$(15	) \$(7	) \$28

(a) Recognized, net of tax, as a component of other comprehensive income 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) Included in interest expense.

For the three months ended September 30, 2014, included a \$19 million gain in interest expense and a \$3 million gain in operating expense and for the nine months ended September 30, 2014, included a \$7 million loss in interest

(d) expense. For the three months ended September 30, 2013 included a \$16 million loss in interest expense and a \$3 million gain in operating expense and for the nine months ended September 30, 2013, included a \$13 million gain in interest expense and a \$9 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, 2014		As of December 31, 2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Corporate debt				
Short-term debt and current portion of long-term debt, excluding convertible debt	\$23	\$23	\$23	\$23
Convertible debt	65	221	66	159
Long-term debt	3,247	3,268	3,305	3,416
Debt under vehicle programs				
Vehicle-backed debt due to Avis Budget Rental Car Funding	\$6,983	\$7,081	\$5,656	\$5,732
Vehicle-backed debt	2,514	2,517	1,668	1,675
Interest rate swaps and interest rate contracts <sup>(a)</sup> 3		3	13	13

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

## 15. Segment Information

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

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,			
	2014	Adjusted EBITDA	2013	Adjusted EBITDA <sup>(b)</sup>
	Revenues		Revenues <sup>(a)</sup>	
North America	\$1,623	\$255	\$1,500	\$226
International	815	160	786	149
Truck Rental	104	18	109	19
Corporate and Other <sup>(c)</sup>	—	(16	) —	(11
Total Company	\$2,542	417	\$2,395	383
Less:				
Non-vehicle related depreciation and amortization		46		39
Interest expense related to corporate debt, net:				
Interest expense		50		57
Early extinguishment of debt		—		—
Transaction-related costs		7		10
Restructuring expense		8		14

Impairment	—	33
Income before income taxes	\$306	\$230

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Previously reported amounts were recast for a change in the Company's reportable segments, decreasing North  
 (a) America revenues and increasing International revenues by \$13 million in the three months ended September 30,  
 2013.

Amounts reflect a revision to the definition of Adjusted EBITDA to exclude restructuring expense, which resulted  
 (b) in an increase in Adjusted EBITDA in North America, International and Truck Rental of \$3 million, \$5 million and  
 \$6

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million, respectively, in the three months ended September 30, 2013. The change in the Company's reportable segments had no effect on Adjusted EBITDA for the three months ended September 30, 2013.

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

	Nine Months Ended September 30,			
	2014	Adjusted	2013	Adjusted
	Revenues	EBITDA	Revenues <sup>(a)</sup>	EBITDA <sup>(b)</sup>
North America	\$4,286	\$526	\$3,877	\$434
International	2,033	234	1,923	224
Truck Rental	279	29	287	31
Corporate and Other <sup>(c)</sup>	—	(42	) —	(35
Total Company	\$6,598	747	\$6,087	654
Less: Non-vehicle related depreciation and amortization		132		109
Interest expense related to corporate debt, net:				
Interest expense		161		170
Early extinguishment of debt		56		131
Transaction-related costs		23		37
Restructuring expense		16		39
Impairment		—		33
Income before income taxes		\$359		\$135

Previously reported amounts were recast for a change in the Company's reportable segments, decreasing North

(a) America revenues and increasing International revenues by \$28 million in the nine months ended September 30, 2013.

Amounts reflect the revised definition of Adjusted EBITDA to exclude restructuring expense, which resulted in an increase in Adjusted EBITDA in North America, International and Truck Rental of \$6 million, \$14 million and \$19

(b) million, respectively, and a change in the Company's reportable segments, which resulted in an increase in North America Adjusted EBITDA and a decrease in International Adjusted EBITDA by \$1 million in the nine months ended September 30, 2013.

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

Since December 31, 2013, there have been no significant changes in segment assets other than in the Company's North America and International segment assets under vehicle programs. As of September 30, 2014 and December 31, 2013, North America assets under vehicle programs were approximately \$9.6 billion and \$7.9 billion, respectively, and International assets under vehicle programs were approximately \$2.6 billion and \$2.2 billion, respectively.

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16. Guarantor and Non-Guarantor Consolidating Condensed Financial Statements

The following consolidating financial information presents Consolidating Condensed Statements of Comprehensive Income for the three and nine months ended September 30, 2014 and 2013, Consolidating Condensed Balance Sheets as of September 30, 2014 and December 31, 2013, and Consolidating Condensed Statements of Cash Flows for the nine months ended September 30, 2014 and 2013 for: (i) Avis Budget Group, Inc. (the “Parent”); (ii) ABCR and Avis Budget Finance, Inc. (the “Subsidiary Issuers”); (iii) the guarantor subsidiaries; (iv) the non-guarantor subsidiaries; (v) elimination entries necessary to consolidate the Parent with the Subsidiary Issuers, and the guarantor and non-guarantor subsidiaries; and (vi) the Company on a consolidated basis. The Subsidiary Issuers and the guarantor and non-guarantor subsidiaries are 100% owned by the Parent, either directly or indirectly. All guarantees are full and unconditional and joint and several. This financial information is being presented in relation to the Company’s guarantee of the payment of principal, premium (if any) and interest on the senior notes issued by the Subsidiary Issuers. These senior notes consist of Floating rate notes due 2017, 4 % notes due 2017, 8¼% notes due 2019, 9¾% notes due 2020, 5 % notes due June 2022 and 5½% notes due April 2023 (collectively, the “Notes”). See Note 9 - 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. Certain reclassifications have been made to the 2013 consolidating condensed financial statements to report intercompany transactions on a gross basis and to conform to the current-year presentation. The reclassified amounts had no impact on reported net income, stockholders’ equity, or the net change in cash for the periods presented for the Parent, Subsidiary Issuers, guarantor subsidiaries, non-guarantor subsidiaries, eliminations or the Company on a consolidated basis.



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## Consolidating Condensed Statements of Comprehensive Income

Three Months Ended September 30, 2014

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Total
<b>Revenues</b>						
Vehicle rental	\$—	\$—	\$1,161	\$649	\$—	\$1,810
Other	—	—	327	988	(583)	) 732
Net revenues	—	—	1,488	1,637	(583)	) 2,542
<b>Expenses</b>						
Operating	4	1	674	489	—	1,168
Vehicle depreciation and lease charges, net	—	1	528	581	(528)	) 582
Selling, general and administrative	7	4	162	125	—	298
Vehicle interest, net	—	—	54	78	(55)	) 77
Non-vehicle related depreciation and amortization	—	—	27	19	—	46
Interest expense related to corporate debt, net:						
Interest expense	1	36	(1)	) 14	—	50
Intercompany interest expense (income)	(3)	) (4)	) —	7	—	—
Transaction-related costs	—	2	1	4	—	7
Restructuring expense	—	—	1	7	—	8
Total expenses	9	40	1,446	1,324	(583)	) 2,236
Income (loss) before income taxes and equity in earnings of subsidiaries	(9)	) (40)	) 42	313	—	306
Provision for (benefit from) income taxes	(2)	) (21)	) 91	46	—	114
Equity in earnings of subsidiaries	199	218	267	—	(684)	) —
Net income	\$192	\$199	\$218	\$267	\$(684)	) \$192
Comprehensive income	\$116	\$123	\$140	\$189	\$(452)	) \$116

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Nine Months Ended September 30, 2014

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Total
<b>Revenues</b>						
Vehicle rental	\$—	\$—	\$3,126	\$1,566	\$—	\$4,692
Other	—	—	903	2,634	(1,631)	) 1,906
Net revenues	—	—	4,029	4,200	(1,631)	) 6,598
<b>Expenses</b>						
Operating	6	9	1,938	1,320	—	3,273
Vehicle depreciation and lease charges, net	—	1	1,474	1,529	(1,472)	) 1,532
Selling, general and administrative	20	15	459	339	—	833
Vehicle interest, net	—	—	150	222	(159)	) 213
Non-vehicle related depreciation and amortization	—	1	82	49	—	132
Interest expense related to corporate debt, net:						
Interest expense	2	124	1	34	—	161
Intercompany interest expense (income)	(9)	) (9)	) 1	17	—	—
Early extinguishment of debt	—	56	—	—	—	56
Transaction-related costs	—	6	—	17	—	23
Restructuring expense	—	—	3	13	—	16
Total expenses	19	203	4,108	3,540	(1,631)	) 6,239
Income (loss) before income taxes and equity in earnings of subsidiaries	(19)	) (203)	) (79)	) 660	—	359
Provision for (benefit from) income taxes	(5)	) (85)	) 161	66	—	137
Equity in earnings of subsidiaries	236	354	594	—	(1,184)	) —
Net income	\$222	\$236	\$354	\$594	\$(1,184)	) \$222
Comprehensive income	\$154	\$167	\$284	\$524	\$(975)	) \$154

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Three Months Ended September 30, 2013

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Total
<b>Revenues</b>						
Vehicle rental	\$—	\$—	\$1,100	\$634	\$—	\$1,734
Other	—	—	308	740	(387)	) 661
Net revenues	—	—	1,408	1,374	(387)	) 2,395
<b>Expenses</b>						
Operating	2	5	672	463	—	1,142
Vehicle depreciation and lease charges, net	—	—	338	382	(196)	) 524
Selling, general and administrative	9	1	155	109	—	274
Vehicle interest, net	—	—	48	74	(50)	) 72
Non-vehicle related depreciation and amortization	—	—	25	14	—	39
Interest expense related to corporate debt, net:						
Interest expense	1	49	—	7	—	57
Intercompany interest expense (income)	(3)	) (7)	) 1	9	—	—
Transaction-related costs	—	8	—	2	—	10
Restructuring expense	—	—	7	7	—	14
Impairment	—	33	—	—	—	33
Total expenses	9	89	1,246	1,067	(246)	) 2,165
Income (loss) before income taxes and equity in earnings of subsidiaries	(9)	) (89)	) 162	307	(141)	) 230
Provision for (benefit from) income taxes	(2)	) (21)	) 93	42	—	112
Equity in earnings of subsidiaries	125	193	124	—	(442)	) —
Net income	\$118	\$125	\$193	\$265	\$(583)	) \$118
Comprehensive income	\$178	\$183	\$250	\$303	\$(736)	) \$178

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Nine Months Ended September 30, 2013

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Total
<b>Revenues</b>						
Vehicle rental	\$—	\$—	\$2,909	\$1,479	\$—	\$4,388
Other	—	—	842	1,910	(1,053)	) 1,699
Net revenues	—	—	3,751	3,389	(1,053)	) 6,087
<b>Expenses</b>						
Operating	6	8	1,843	1,223	—	3,080
Vehicle depreciation and lease charges, net	—	—	924	949	(486)	) 1,387
Selling, general and administrative	25	4	450	292	—	771
Vehicle interest, net	—	—	136	195	(136)	) 195
Non-vehicle related depreciation and amortization	—	1	71	37	—	109
Interest expense related to corporate debt, net:						
Interest expense	3	147	—	20	—	170
Intercompany interest expense (income)	(9)	) (23)	) 5	27	—	—
Early extinguishment of debt	41	90	—	—	—	131
Transaction-related costs	1	21	1	14	—	37
Restructuring expense	—	—	23	16	—	39
Impairment	—	33	—	—	—	33
Total expenses	67	281	3,453	2,773	(622)	) 5,952
Income (loss) before income taxes and equity in earnings of subsidiaries	(67)	) (281)	) 298	616	(431)	) 135
Provision for (benefit from) income taxes	(9)	) (96)	) 141	55	—	91
Equity in earnings of subsidiaries	102	287	130	—	(519)	) —
Net income	\$44	\$102	\$287	\$561	\$(950)	) \$44
Comprehensive income	\$44	\$101	\$285	\$542	\$(928)	) \$44

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## Consolidating Condensed Balance Sheets

As of September 30, 2014

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non- Guarantor Subsidiaries	Eliminations	Total
<b>Assets</b>						
<b>Current assets:</b>						
Cash and cash equivalents	\$ 1	\$409	\$—	\$ 303	\$—	\$ 713
Receivables, net	—	1	174	484	—	659
Deferred income taxes	1	—	156	20	(4	) 173
Other current assets	4	83	82	421	—	590
Total current assets	6	493	412	1,228	(4	) 2,135
Property and equipment, net	—	104	321	198	—	623
Deferred income taxes	19	896	144	—	(17	) 1,042
Goodwill	—	—	315	368	—	683
Other intangibles, net	—	40	511	346	—	897
Other non-current assets	107	80	22	142	—	351
Intercompany receivables	202	339	891	726	(2,158	) —
Investment in subsidiaries	600	3,161	3,420	—	(7,181	) —
Total assets exclusive of assets under vehicle programs	934	5,113	6,036	3,008	(9,360	) 5,731
<b>Assets under vehicle programs:</b>						
Program cash	—	—	—	89	—	89
Vehicles, net	—	6	92	11,386	—	11,484
Receivables from vehicle manufacturers and other	—	—	2	628	—	630
Investment in Avis Budget Rental Car Funding (AESOP) LLC-related party	—	—	—	362	—	362
	—	6	94	12,465	—	12,565
Total assets	\$934	\$5,119	\$6,130	\$15,473	\$(9,360	) \$18,296
<b>Liabilities and stockholders' equity</b>						
<b>Current liabilities:</b>						
Accounts payable and other current liabilities	\$ 38	\$ 222	\$ 522	\$ 901	\$(4	) \$ 1,679
Short-term debt and current portion of long-term debt	65	14	6	3	—	88
Total current liabilities	103	236	528	904	(4	) 1,767
Long-term debt	—	2,655	7	585	—	3,247
Other non-current liabilities	99	96	230	423	(17	) 831
Intercompany payables	—	1,528	308	322	(2,158	) —
Total liabilities exclusive of liabilities under vehicle programs	202	4,515	1,073	2,234	(2,179	) 5,845

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Liabilities under vehicle programs:

Debt	—	4	86	2,427	—	2,517
Due to Avis Budget Rental Car Funding (AESOP) LLC-related party	—	—	—	6,983	—	6,983
Deferred income taxes	—	—	1,810	190	—	2,000
Other	—	—	—	219	—	219
	—	4	1,896	9,819	—	11,719
Total stockholders' equity	732	600	3,161	3,420	(7,181	) 732
Total liabilities and stockholders' equity	\$934	\$5,119	\$6,130	\$15,473	\$(9,360	) \$18,296

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As of December 31, 2013

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
<b>Assets</b>						
<b>Current assets:</b>						
Cash and cash equivalents	\$ 14	\$242	\$ 12	\$425	\$—	\$693
Receivables, net	—	—	150	469	—	619
Deferred income taxes	1	—	156	21	(1	) 177
Other current assets	4	80	82	289	—	455
Total current assets	19	322	400	1,204	(1	) 1,944
Property and equipment, net	—	109	312	193	—	614
Deferred income taxes	20	1,142	141	—	(4	) 1,299
Goodwill	—	—	342	349	—	691
Other intangibles, net	—	41	519	363	—	923
Other non-current assets	104	96	18	143	—	361
Intercompany receivables	145	210	853	331	(1,539	) —
Investment in subsidiaries	671	2,900	3,347	—	(6,918	) —
Total assets exclusive of assets under vehicle programs	959	4,820	5,932	2,583	(8,462	) 5,832
<b>Assets under vehicle programs:</b>						
Program cash	—	—	—	116	—	116
Vehicles, net	—	10	9	9,563	—	9,582
Receivables from vehicle manufacturers and other	—	—	—	391	—	391
Investment in Avis Budget Rental Car Funding (AESOP) LLC-related party	—	—	—	363	—	363
	—	10	9	10,433	—	10,452
Total assets	\$959	\$4,830	\$5,941	\$13,016	\$(8,462	) \$16,284
<b>Liabilities and stockholders' equity</b>						
<b>Current liabilities:</b>						
Accounts payable and other current liabilities	\$25	\$238	\$487	\$730	\$(1	) \$1,479
Short-term debt and current portion of long-term debt	65	14	3	7	—	89
Total current liabilities	90	252	490	737	(1	) 1,568
Long-term debt	—	2,955	6	344	—	3,305
Other non-current liabilities	98	96	221	436	(4	) 847
Intercompany payables	—	844	340	355	(1,539	) —
Total liabilities exclusive of liabilities under vehicle programs	188	4,147	1,057	1,872	(1,544	) 5,720
<b>Liabilities under vehicle programs:</b>						

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Debt	—	11	—	1,670	—	1,681
Due to Avis Budget Rental Car						
Funding (AESOP) LLC-related	—	—	—	5,656	—	5,656
party						
Deferred income taxes	—	—	1,984	193	—	2,177
Other	—	1	—	278	—	279
	—	12	1,984	7,797	—	9,793
Total stockholders' equity	771	671	2,900	3,347	(6,918	) 771
Total liabilities and stockholders' equity	\$959	\$4,830	\$5,941	\$13,016	\$(8,462	) \$16,284



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## Consolidating Condensed Statements of Cash Flows

Nine Months Ended September 30, 2014

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total	
Net cash provided by operating activities	\$ 1	\$ 728	\$ 58	\$ 1,280	\$—	\$ 2,067	
Investing activities							
Property and equipment additions	—	(12	) (60	) (55	) —	(127	)
Proceeds received on asset sales	—	3	—	6	—	9	
Net assets acquired (net of cash acquired)	—	—	—	(149	) —	(149	)
Other, net	191	(8	) (1	) —	(191	) (9	)
Net cash provided by (used in) investing activities exclusive of vehicle programs	191	(17	) (61	) (198	) (191	) (276	)
Vehicle programs:							
Decrease in program cash	—	—	—	23	—	23	
Investment in vehicles	—	(6	) (91	) (9,738	) —	(9,835	)
Proceeds received on disposition of vehicles	—	7	—	6,528	—	6,535	
Net cash provided by (used in) investing activities	191	(16	) (152	) (3,385	) (191	) (3,553	)
Financing activities							
Proceeds from long-term borrowings	—	400	—	296	—	696	
Payments on long-term borrowings	—	(747	) (4	) —	—	(751	)
Net change in short-term borrowings	—	—	—	(3	) —	(3	)
Repurchases of common stock	(204	) —	—	—	—	(204	)
Debt financing fees	—	(7	) —	(5	) —	(12	)
Other, net	(1	) (191	) —	—	191	(1	)
Net cash provided by (used in) financing activities exclusive of vehicle programs	(205	) (545	) (4	) 288	191	(275	)
Vehicle programs:							
Proceeds from borrowings	—	—	88	11,774	—	11,862	
Payments on borrowings	—	—	(1	) (10,049	) —	(10,050	)
Debt financing fees	—	—	(1	) (16	) —	(17	)
Net cash provided by (used in) financing activities	(205	) (545	) 82	1,997	191	1,520	

Effect of changes in exchange rates on cash and cash equivalents	—	—	—	(14	) —	(14	)
Net increase (decrease) in cash and cash equivalents	(13	) 167	(12	) (122	) —	20	
Cash and cash equivalents, beginning of period	14	242	12	425	—	693	
Cash and cash equivalents, end of period	\$ 1	\$ 409	\$ —	\$ 303	\$ —	\$ 713	

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Nine Months Ended September 30, 2013

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net cash provided by (used in) operating activities	\$(5 )	\$455	\$2	\$ 1,294	\$(3 )	\$1,743
<b>Investing activities</b>						
Property and equipment additions	—	(17 )	(43 )	(32 )	—	(92 )
Proceeds received on asset sales	—	4	—	9	—	13
Net assets acquired (net of cash acquired)	—	(563 )	8	24	—	(531 )
Intercompany loan receipts	—	70	—	—	(70 )	—
Other, net	109	(13 )	47	3	(109 )	37
Net cash provided by (used in) investing activities exclusive of vehicle programs	109	(519 )	12	4	(179 )	(573 )
<b>Vehicle programs:</b>						
Increase in program cash	—	—	—	(173 )	—	(173 )
Investment in vehicles	—	(40 )	(2 )	(8,823 )	—	(8,865 )
Proceeds received on disposition of vehicles	—	22	—	6,371	—	6,393
	—	(18 )	(2 )	(2,625 )	—	(2,645 )
Net cash provided by (used in) investing activities	109	(537 )	10	(2,621 )	(179 )	(3,218 )
<b>Financing activities</b>						
Proceeds from long-term borrowings	—	2,400	—	325	—	2,725
Payments on long-term borrowings	(94 )	(2,248 )	(2 )	—	—	(2,344 )
Net change in short-term borrowings	—	—	—	(32 )	—	(32 )
Purchase of warrants	(30 )	—	—	—	—	(30 )
Proceeds from sale of call options	41	—	—	—	—	41
Repurchases of common stock	(21 )	—	—	—	—	(21 )
Intercompany loan payments	—	—	—	(70 )	70	—
Debt financing fees	—	(29 )	—	(7 )	—	(36 )
Other, net	2	(109 )	—	(3 )	112	2
Net cash provided by (used in) financing activities exclusive of vehicle programs	(102 )	14	(2 )	213	182	305
<b>Vehicle programs:</b>						
Proceeds from borrowings	—	—	—	10,266	—	10,266
Payments on borrowings	—	—	—	(9,079 )	—	(9,079 )
Debt financing fees	—	—	—	(26 )	—	(26 )

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	—	—	—	1,161	—	1,161	
Net cash provided by (used in) financing activities	(102	) 14	(2	) 1,374	182	1,466	
Effect of changes in exchange rates on cash and cash equivalents	—	—	—	(8	) —	(8	)
Net increase (decrease) in cash and cash equivalents	2	(68	) 10	39	—	(17	)
Cash and cash equivalents, beginning of period	5	102	—	499	—	606	
Cash and cash equivalents, end of period	\$7	\$34	\$10	\$ 538	\$—	\$589	

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17. Subsequent Events

In October 2014, the Company's 3½% Convertible Senior Notes due 2014 were exchanged for 4,019,009 shares of the Company's common stock at the initial conversion rate of 61.5385 shares of common stock per \$1,000 principal amount, which is equal to a conversion price of approximately \$16.25 per share.

In October 2014, the Company amended and restated its senior revolving credit facility due 2018. Pursuant to this amendment, the amount available under the facility was increased from \$1.65 billion to \$1.8 billion and the maturity was extended.

In October 2014, the Company obtained Board approval to increase the Company's share repurchase program by \$200 million.

In October 2014, the Company announced that it had entered into a definitive agreement to acquire its Budget licensee for Southern California and Las Vegas. The acquisition is scheduled to close in the fourth quarter of 2014, and the purchase price will be approximately \$210 million plus the cost of acquired fleet.

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### Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion should be read in conjunction with our Consolidated Condensed Financial Statements and accompanying Notes thereto included elsewhere herein and with our 2013 Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 20, 2014 (the "2013 Form 10-K") and our Current Report on Form 8-K filed May 12, 2014 to update the 2013 Form 10-K for a change to our reportable segments as well as a revision to our definition of Adjusted EBITDA. Our actual results of operations may differ materially from those discussed in the forward-looking statements as a result of various factors, including but not limited to those included elsewhere in this Quarterly Report on Form 10-Q and those included in the "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Risk Factors" and other portions of our 2013 Form 10-K and our Current Report on Form 8-K filed May 12, 2014. Unless otherwise noted, all dollar amounts in tables are in millions and those relating to our results of operations are presented before taxes.

#### OVERVIEW

##### Our Company

We operate three of the most recognized brands in the global vehicle rental and car sharing industry, Avis, Budget and Zipcar. We are a leading vehicle rental operator in North America, Europe, Australia, New Zealand and certain other regions we serve, with a fleet of approximately 500,000 vehicles. We also license the use of the Avis and Budget trademarks to licensees in the areas in which we do not operate directly. We and our licensees operate the Avis, Budget and/or Zipcar brands in approximately 175 countries throughout the world.

##### Our Segments

We categorize our operations into three reportable business segments: North America, consisting primarily of our Avis and Budget car rental operations in the United States, our Avis and Budget vehicle rental operations in Canada, and our Zipcar car sharing operations in North America; International, consisting primarily of our Avis and Budget vehicle rental operations in Europe, the Middle East, Africa, Asia, South America, Central America, the Caribbean, Australia and New Zealand, and our car sharing operations in certain of these markets; and Truck Rental, consisting of our Budget truck rental operations in the United States. Our segments include the financial results of Zipcar since our acquisition of such business in March 2013. In conjunction with a change in our management structure in first quarter 2014, we re-aligned components of our Zipcar operations among our business segments. Segment financial information presented below has been recast to conform with our current business segment reporting alignment for all periods presented.

##### Business and Trends

Our revenues are derived principally from car and truck rentals in our Company-owned operations and include:

- time and mileage ("T&M") fees charged to our customers for vehicle rentals;
- payments from our customers with respect to certain operating expenses we incur, including gasoline and vehicle licensing fees, as well as concession fees, which we pay in exchange for the right to operate at airports and other locations;
- sales of loss damage waivers and insurance and rentals of navigation units and other items in conjunction with vehicle rentals; and
- royalty revenue from our licensees in conjunction with their vehicle rental transactions.

Our operating results are subject to variability due to seasonality, macroeconomic conditions and other factors. Car rental volumes tend to be associated with the travel industry, particularly airline passenger volumes, or enplanements, which in turn tend to reflect general economic conditions. Our vehicle rental operations are also seasonal, with the

third quarter of the year historically having been our strongest due to the increased level of leisure travel during such quarter. We have a partially variable cost structure and routinely adjust the size, and therefore the cost, of our rental fleet in response to fluctuations in demand.

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We believe that the following factors, among others, may affect and/or impact our financial condition and results of operations:

• general travel demand, including worldwide enplanements;

• fleet, pricing, marketing and strategic decisions made by us and by our competitors;

• changes in fleet costs and in conditions in the used vehicle marketplace, as well as manufacturer recalls;

• changes in borrowing costs and in market willingness to purchase corporate and vehicle-related debt;

• our acquisitions, our integration of acquired operations and our realization of synergies, particularly with respect to Zipcar and Avis Europe;

• demand for car sharing services;

• changes in the price of gasoline;

• changes in currency exchange rates; and

• demand for truck rentals.

Throughout 2014, we have operated in an uncertain and uneven economic environment punctuated by heightened geopolitical risks and an unprecedented level of vehicle manufacturer recalls. Nonetheless, we continue to anticipate that worldwide demand for vehicle rental and car sharing services will show an increase in 2014, most likely against a backdrop of relatively slow global economic growth. Our access to new fleet vehicles has been adequate to meet our needs for both replacement of existing vehicles in the normal course and for growth to meet incremental demand, and we expect that to continue to be the case. We will look to pursue opportunities for further pricing increases in the remaining months of 2014 and in 2015 in order to maintain our returns on invested capital and to enhance our profitability.

Our objective is to focus on strategically accelerating our growth, strengthening our global position as a leading provider of vehicle rental services, continuing to enhance our customers' rental experience, and controlling costs and driving efficiency throughout the organization. We operate in a highly competitive industry and we expect to continue to face challenges and risks. We seek to mitigate our exposure to risks in numerous ways, including delivering upon our core strategic initiatives and through continued optimization of fleet levels to match changes in demand for vehicle rentals, maintenance of liquidity to fund our fleet and our operations, and adjustments in the size, nature and terms of our relationships with vehicle manufacturers.

## Year-to-Date Highlights

In the nine months ended September 30, 2014:

• Our net revenues increased 8% year-over-year to \$6.6 billion in 2014.

• Pricing (our average T&M revenue per rental day) increased 2% in North America, driven by increases in both commercial and leisure pricing.

• Adjusted EBITDA increased 14% to \$747 million in 2014, primarily as a result of higher rental volumes and increased year-over-year pricing in North America.



We redeemed all \$687 million of our outstanding 8<sup>1</sup>/<sub>4</sub>% Senior Notes due January 2019 using the proceeds from our issuance of \$400 million of 5 % Senior Notes due 2022 and €200 million of additional euro-denominated 6% Senior Notes due 2021.

We repurchased \$210 million of our common stock, reducing our shares outstanding by approximately 4.0 million shares.

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We acquired our Budget licensee in Edmonton, Alberta, Canada, and also re-acquired the right to operate the Budget brand in Portugal.

## RESULTS OF OPERATIONS

We measure performance using the following key operating statistics: (i) rental days, which represents the total number of days (or portion thereof) a vehicle was rented, and (ii) T&M revenue per rental day, which represents the average daily revenue we earned from rental and mileage fees charged to our customers, both of which exclude our Zipcar car sharing operations. We also measure our ancillary revenues (rental-transaction revenue other than T&M revenue), such as from the sale of collision and loss damage waivers, insurance products, fuel service options and portable GPS navigation unit rentals. Our vehicle rental operating statistics (rental days and T&M revenue per rental day) are all calculated based on the actual rental of the vehicle during a 24-hour period. We believe that this methodology provides our management with the most relevant statistics in order to manage the business. Our calculation may not be comparable to other companies' calculation of similarly-titled statistics.

We assess performance and allocate resources based upon the separate financial information of our operating segments. In identifying our reportable segments, we also consider the nature of services provided by our operating segments, the geographical areas in which our segments operate and other relevant factors. Management evaluates the operating results of each of our reportable segments based upon revenue and "Adjusted EBITDA," which we define as income from continuing operations before non-vehicle related depreciation and amortization, any impairment charges, restructuring expense, early extinguishment of debt costs, non-vehicle related interest, transaction-related costs and income taxes. Our presentation of Adjusted EBITDA may not be comparable to similarly-titled measures used by other companies. In first quarter 2014, we revised our definition of Adjusted EBITDA to exclude restructuring expense and have recast our 2013 Adjusted EBITDA amounts to conform with the revised definition. For additional information regarding the impact of the change in our definition of Adjusted EBITDA, refer to Note 15 - Segment Information.

Three Months Ended September 30, 2014 vs. Three Months Ended September 30, 2013

Our consolidated results of operations comprised the following:

	Three Months Ended				
	September 30,				
	2014	2013	Change	% Change	
Revenues					
Vehicle rental	\$1,810	\$1,734	\$76	4	%
Other	732	661	71	11	%
Net revenues	2,542	2,395	147	6	%
Expenses					
Operating	1,168	1,142	26	2	%
Vehicle depreciation and lease charges, net	582	524	58	11	%
Selling, general and administrative	298	274	24	9	%
Vehicle interest, net	77	72	5	7	%
Non-vehicle related depreciation and amortization	46	39	7	18	%
Interest expense related to corporate debt, net	50	57	(7)	(12)	%
Transaction-related costs	7	10	(3)	(30)	%
Restructuring expense	8	14	(6)	(43)	%
Impairment	—	33	(33)	*	
Total expenses	2,236	2,165	71	3	%

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Income before income taxes	306	230	76	33	%
Provision for income taxes	114	112	2	2	%
Net income	\$192	\$118	\$74	63	%

\*Not meaningful.

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During third quarter 2014, our net revenues increased principally as a result of a 3% increase in total rental days, a 2% increase in pricing and a 10% increase in ancillary revenues. Movements in currency exchange rates did not have a significant impact on revenues during third quarter 2014 compared to 2013.

Total expenses increased as a result of higher vehicle depreciation and lease charges resulting from a 5% increase in our car rental fleet and a 5% increase in our per-unit fleet costs. Total expenses also increased as a result of higher operating expenses due to increased volumes and higher selling, general and administrative costs driven by increased marketing expenses. These increases were partially offset by a one-time impairment charge recorded in the prior year. Our expenses were not materially impacted by currency exchange movements. As a result of these items, our net income increased by \$74 million. Our effective tax rates were a provision of 37% and 49% for the three months ended September 30, 2014 and 2013, respectively, which reflected the non-deductibility of the impairment charge in 2013.

For the three months ended September 30, 2014, the Company reported earnings of \$1.74 per diluted share, which includes after-tax restructuring expense of (\$0.05) per share and after-tax transaction costs of (\$0.06) per share. For the three months ended September 30, 2013, the Company reported earnings of \$1.02 per diluted share, which includes an after-tax impairment charge of (\$0.28) per share, after-tax restructuring expense of (\$0.08) per share and after-tax transaction costs of (\$0.06) per share.

In the three months ended September 30, 2014:

• Operating expenses decreased to 46.0% from 47.7% of revenue, driven by increased rental volumes and higher pricing.

• Vehicle depreciation and lease charges increased to 22.9% of revenue from 21.9% compared to third quarter 2013, primarily due to increased per-unit fleet costs.

• Selling, general and administrative costs increased to 11.7% of revenue from 11.4% in third quarter 2013, primarily due to increased marketing expenses.

• Vehicle interest costs, at 3.0% of revenue, remained level compared to the prior-year period.

Following is a more detailed discussion of the results of each of our reportable segments:

	Revenues			Adjusted EBITDA		
	2014	2013	% Change	2014	2013	% Change
North America	\$1,623	\$1,500	8 %	\$255	\$226	13 %
International	815	786	4 %	160	149	7 %
Truck Rental	104	109	(5 %)	18	19	(5 %)
Corporate and Other <sup>(a)</sup>	—	—	*	(16)	(11)	*
Total Company	\$2,542	\$2,395	6 %	417	383	9 %
Less: Non-vehicle related depreciation and amortization				46	39	
Interest expense related to corporate debt, net:						
Interest expense				50	57	
Transaction-related costs <sup>(b)</sup>				7	10	
Restructuring expense				8	14	
Impairment				—	33	
Income before income taxes				\$306	\$230	

\* Not meaningful.

- (a) Includes unallocated corporate overhead which is not attributable to a particular segment.
- (b) Primarily comprised of acquisition- and integration-related expenses.

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## North America

	2014	2013	% Change	
Revenue	\$1,623	\$1,500	8	%
Adjusted EBITDA	255	226	13	%

Revenues increased 8% in third quarter 2014 compared with third quarter 2013, primarily due to 6% growth in rental volumes and a 2% increase in pricing (3% in constant currency).

Adjusted EBITDA increased 13% in third quarter 2014 compared with third quarter 2013, primarily due to increased pricing and rental volumes, partially offset by higher per-unit fleet costs.

In the three months ended September 30, 2014:

Operating expenses were 45.0% of revenue, compared to 47.0% in the prior-year period, driven by increased rental volumes and higher pricing.

Vehicle depreciation and lease charges increased to 25.4% of revenue from 23.9% in third quarter 2013, due to 6% higher per-unit fleet costs and lower utilization, as a result of manufacturer recalls, partially offset by increased pricing.

Selling, general and administrative costs decreased to 10.3% of revenue from 10.5% of revenue in the prior-year period.

Vehicle interest costs increased to 3.7% of revenue compared to 3.6% in third quarter 2013.

## International

	2014	2013	% Change	
Revenue	\$815	\$786	4	%
Adjusted EBITDA	160	149	7	%

Revenues increased 4% during third quarter 2014 compared to third quarter 2013, primarily due to an 11% increase in ancillary revenues and an \$11 million positive impact on revenues from currency exchange rate changes.

Adjusted EBITDA increased 7% in third quarter 2014 compared to third quarter 2013, primarily due to an increase in ancillary revenues, as well as a \$5 million positive impact from currency exchange rate changes.

In the three months ended September 30, 2014:

Operating expenses were 46.1% of revenue, a decrease from 46.9% in the prior-year period, primarily due to increased ancillary revenues.

Vehicle depreciation and lease charges decreased to 18.7% of revenue from 19.7% compared to third quarter 2013, driven by increased ancillary revenues.

Selling, general and administrative costs increased to 13.7% of revenue from 12.5% in the prior-year period, primarily due to our planned increase in spending for advertising and brand investment.

Vehicle interest costs decreased to 1.8% of revenue compared to 2.0% in third quarter 2013.



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## Truck Rental

	2014	2013	% Change	
Revenue	\$104	\$109	(5	%)
Adjusted EBITDA	18	19	(5	%)

Revenues declined \$5 million due to a 5% decrease in total rental days, as our rental fleet was 8% smaller in 2014, partially offset by a 2% increase in pricing.

Adjusted EBITDA decreased \$1 million in third quarter 2014 compared with third quarter 2013, principally due to higher per-unit fleet costs associated with newly acquired rental fleet, partially offset by lower maintenance costs.

## Nine Months Ended September 30, 2014 vs. Nine Months Ended September 30, 2013

Our consolidated results of operations comprised the following:

	Nine Months Ended September 30,		Change	% Change	
	2014	2013			
Revenues					
Vehicle rental	\$4,692	\$4,388	\$304	7	%
Other	1,906	1,699	207	12	%
Net revenues	6,598	6,087	511	8	%
Expenses					
Operating	3,273	3,080	193	6	%
Vehicle depreciation and lease charges, net	1,532	1,387	145	10	%
Selling, general and administrative	833	771	62	8	%
Vehicle interest, net	213	195	18	9	%
Non-vehicle related depreciation and amortization	132	109	23	21	%
Interest expense related to corporate debt, net:					
Interest expense	161	170	(9	) (5	%)
Early extinguishment of debt	56	131	(75	) (57	%)
Transaction-related costs	23	37	(14	) (38	%)
Restructuring expense	16	39	(23	) (59	%)
Impairment	—	33	(33	) *	
Total expenses	6,239	5,952	287	5	%
Income before income taxes	359	135	224	*	
Provision for income taxes	137	91	46	51	%
Net income	\$222	\$44	\$178	*	

\*Not meaningful.

During the nine months ended September 30, 2014, our net revenues increased principally as a result of a 5% increase in total rental days and a 1% increase in pricing, \$65 million of incremental revenue from Zipcar (acquired in March 2013) and an 11% increase in ancillary revenues. Movements in currency exchange rates did not have a significant impact on revenues during the nine months ended September 30, 2014 compared to 2013.



Total expenses increased as a result of higher vehicle depreciation and lease charges resulting from a 5% increase in our car rental fleet and a 4% increase in our per-unit fleet costs. Total expenses also increased as a result of higher operating expenses due to increased volumes and higher selling, general and administrative costs driven by increased marketing expenses. These increases were partially offset by decreases in debt extinguishment costs, transaction-related costs and restructuring expense and a one-time impairment charge in 2013. As a result, despite a \$13 million negative pretax impact from currency exchange rate movements, our net income increased by \$178 million. Our effective tax rates were a provision of 38% and 67% for the nine months ended September 30, 2014 and 2013, respectively, principally due to the non-deductibility of the impairment charge and a portion of the early extinguishment of corporate debt costs in 2013.

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For the nine months ended September 30, 2014, the Company reported earnings of \$2.00 per diluted share, which includes after-tax debt extinguishment costs of (\$0.30) per share, after-tax transaction costs of (\$0.18) per share and after-tax restructuring expense of (\$0.10) per share. For the nine months ended September 30, 2013, the Company reported earnings of \$0.39 per diluted share, which includes after-tax debt extinguishment costs of (\$0.82) per share, an after-tax impairment charge of (\$0.28) per share, after-tax transaction costs of (\$0.25) per share and after-tax restructuring expense of (\$0.21) per share.

In the nine months ended September 30, 2014:

• Operating expenses decreased to 49.6% of revenue from 50.6% in the first nine months of 2013, driven by increased rental volumes and higher pricing.

• Vehicle depreciation and lease charges increased to 23.2% of revenue from 22.8% in the first nine months of 2013, principally due to higher per-unit fleet costs.

• Selling, general and administrative costs decreased to 12.6% of revenue from 12.7% in the first nine months of 2013.

• Vehicle interest costs, at 3.2% of revenue, remained level compared to the prior-year period.

Following is a more detailed discussion of the results of each of our reportable segments:

	Revenues			Adjusted EBITDA		
	2014	2013	% Change	2014	2013	% Change
North America	\$4,286	\$3,877	11	\$526	\$434	21
International	2,033	1,923	6	234	224	4
Truck Rental	279	287	(3	29	31	(6
Corporate and Other <sup>(a)</sup>	—	—	*	(42	(35	*)
Total Company	\$6,598	\$6,087	8	747	654	14
Less: Non-vehicle related depreciation and amortization				132	109	
Interest expense related to corporate debt, net:						
Interest expense				161	170	
Early extinguishment of debt				56	131	
Transaction-related costs <sup>(b)</sup>				23	37	
Restructuring expense				16	39	
Impairment				—	33	
Income before income taxes				\$359	\$135	

\* Not meaningful.

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

<sup>(b)</sup> Primarily comprised of acquisition- and integration-related expenses.

#### North America

	2014	2013	% Change
Revenue	\$4,286	\$3,877	11
Adjusted EBITDA	526	434	21

Revenues increased 11% in the nine months ended September 30, 2014 compared with the same period in 2013, primarily due to 7% growth in rental volumes and a 2% increase in pricing (3% in constant currency), and \$51 million

of incremental revenue from Zipcar.

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Adjusted EBITDA increased 21% in the nine months ended September 30, 2014 compared with the same period in 2013, primarily due to increased pricing and rental volumes as well as the acquisition of Zipcar, partially offset by 5% higher per-unit fleet costs.

In the nine months ended September 30, 2014:

• Operating expenses were 47.9% of revenue, a decrease from 48.8% in the prior-year period, driven by increased rental volumes and higher pricing.

• Vehicle depreciation and lease charges increased to 25.1% of revenue from 24.7% in first nine months of 2014 compared to 2013, due to higher per-unit fleet costs.

• Selling, general and administrative costs decreased to 10.8% of revenue from 11.5% in the prior-year period, principally due to lower marketing expenses.

• Vehicle interest costs, at 3.9% of revenue, remained level compared to the prior-year period.

## International

	2014	2013	% Change	
Revenue	\$2,033	\$1,923	6	%
Adjusted EBITDA	234	224	4	%

Revenues increased 6% during the nine months ended September 30, 2014 compared with the same period in 2013, primarily due to an 11% increase in ancillary revenues and a \$26 million positive impact on revenues from currency exchange rate changes.

Adjusted EBITDA increased 4% in the nine months ended September 30, 2014 compared to the same period in 2013, driven by increased revenue, partially offset by a \$9 million negative impact from currency exchange rate changes.

In the nine months ended September 30, 2014:

• Operating expenses were 51.4% of revenue, a decrease from 51.9% in the prior-year period, primarily due to increased ancillary revenues.

• Vehicle depreciation and lease charges decreased to 19.9% of revenue from 20.6% compared to the prior year period, driven by increased ancillary revenues.

• Selling, general and administrative costs increased to 15.2% of revenue from 14.0% in the prior-year period, primarily due to our planned increase in spending for advertising and brand investment.

• Vehicle interest costs, at 1.9% of revenue, remained level compared to the prior-year period.

## Truck Rental

	2014	2013	% Change	
Revenue	\$279	\$287	(3)	(%)
Adjusted EBITDA	29	31	(6)	(%)

Revenues declined \$8 million due to a 5% decrease in total rental days, as our rental fleet was 11% smaller in 2014, partially offset by a 3% increase in pricing.

Adjusted EBITDA decreased \$2 million in the nine months ended September 30, 2014 compared with the same period in 2013, principally due to increased per-unit fleet costs associated with newly acquired rental fleet, partially offset by lower maintenance costs.

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

**FINANCIAL CONDITION**

	September 30, 2014	December 31, 2013	Change
Total assets exclusive of assets under vehicle programs	\$5,731	\$5,832	\$(101 )
Total liabilities exclusive of liabilities under vehicle programs	5,845	5,720	125
Assets under vehicle programs	12,565	10,452	2,113
Liabilities under vehicle programs	11,719	9,793	1,926
Stockholders' equity	732	771	(39 )

Total assets exclusive of assets under vehicle programs decreased primarily due to a \$257 million decrease in deferred income taxes primarily related to the utilization of net operating losses, partially offset by a \$135 million increase in other current assets, largely related to a seasonal increase in value-added tax receivables, which are recoverable from government agencies.

Total liabilities exclusive of liabilities under vehicle programs increased primarily due to a seasonal increase in accounts payable as well as value-added tax payables.

The increase in assets under vehicle programs and liabilities under vehicle programs are principally related to the seasonal increase in the size of our vehicle rental fleet and associated funding.

The decrease in stockholders' equity is primarily due to repurchases of our common stock and currency translation adjustments, offset by \$222 million of net income for the nine months ended September 30, 2014.

**LIQUIDITY AND CAPITAL RESOURCES**

Our principal sources of liquidity are cash on hand and our ability to generate cash through operations and financing activities, as well as available funding arrangements and committed credit facilities, each of which is discussed below.

During the nine months ended September 30, 2014, we issued €200 million (approximately \$275 million) of additional 6% Euro-denominated Senior Notes due 2021 at 106.75% of their face value, for aggregate proceeds of approximately \$295 million. In May 2014, we issued \$400 million of 5 % Senior Notes due 2022 at par. The proceeds from these borrowings were used to repurchase the entire \$687 million principal amount of our 8¼% Senior Notes due 2019 for \$737 million plus accrued interest. In addition, we repurchased approximately 4.0 million shares of our outstanding common stock during the nine months ended September 30, 2014, and increased our borrowings under vehicle programs to fund the seasonal increase in our rental fleet.

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## CASH FLOWS

The following table summarizes our cash flows:

	Nine Months Ended September 30,		
	2014	2013	Change
Cash provided by (used in):			
Operating activities	\$2,067	\$1,743	\$324
Investing activities	(3,553)	(3,218)	(335)
Financing activities	1,520	1,466	54
Effect of exchange rate changes	(14)	(8)	(6)
Net increase (decrease) in cash and cash equivalents	20	(17)	37
Cash and cash equivalents, beginning of period	693	606	87
Cash and cash equivalents, end of period	\$713	\$589	\$124

During the nine months ended September 30, 2014, we generated \$324 million more cash from operating activities compared with the same period in 2013 principally reflecting the increase in our net earnings.

The increase in cash used in investing activities during the nine months ended September 30, 2014 compared with the same period in 2013 is primarily due to an increase in vehicle purchases and the acquisition of our Budget licensee in Edmonton during 2014, partially offset by the acquisition of Zipcar in 2013.

The increase in cash provided by financing activities during the nine months ended September 30, 2014 compared with the same period in 2013 is primarily due to increased borrowings under vehicle programs to fund vehicle purchases in 2014, partially offset by increased corporate borrowings to fund the purchase of Zipcar in 2013 and the repurchase of common stock in 2014 with cash provided by operations.

## DEBT AND FINANCING ARRANGEMENTS

At September 30, 2014, we had approximately \$12.8 billion of indebtedness, including corporate indebtedness of approximately \$3.3 billion and debt under vehicle programs of approximately \$9.5 billion.

Corporate indebtedness consisted of:

	Maturity Dates	As of September 30, 2014	As of December 31, 2013
3½% Convertible Notes <sup>(a)</sup>	October 2014	\$65	\$66
4 % Senior Notes	November 2017	300	300
Floating Rate Senior Notes <sup>(b)</sup>	December 2017	248	247
8¼% Senior Notes	January 2019	—	691
Floating Rate Term Loan <sup>(c)</sup>	March 2019	982	989
9¾% Senior Notes	March 2020	223	223
6% Euro-denominated Senior Notes	March 2021	586	344
5 % Senior Notes	June 2022	400	—
5½% Senior Notes	April 2023	500	500
		3,304	3,360
Other		31	34
Total		\$3,335	\$3,394

(a)

As of September 30, 2014, the 3½% convertible notes are convertible by the holders into approximately 4.0 million shares of the Company's common stock.

(b) The interest rate on these notes is equal to three-month LIBOR plus 275 basis points, for an aggregate rate of 2.98% at September 30, 2014; 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%.

(c) 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, 2014, the floating term rate loan due 2019 bears interest at the greater of three-month LIBOR or 0.75%, plus 225 basis points, for an aggregate rate of 3.00%. The Company has entered into a swap to hedge \$600 million of its interest rate exposure related to the floating rate term loan at an aggregate rate of 3.96%.



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The following table summarizes the components of our debt under vehicle programs, including related party debt due to Avis Budget Rental Car Funding (AESOP) LLC (“Avis Budget Rental Car Funding”):

	As of September 30, 2014	As of December 31, 2013
North America - Debt due to Avis Budget Rental Car Funding <sup>(a)</sup>	\$6,983	\$5,656
North America - Canadian borrowings <sup>(a)(b)</sup>	556	400
International - Debt borrowings <sup>(a)</sup>	1,231	731
International - Capital leases <sup>(a)</sup>	427	289
Truck Rental - Debt borrowings <sup>(c)</sup>	261	226
Other	42	35
Total	\$9,500	\$7,337

<sup>(a)</sup> The increase reflects additional borrowings principally to fund a seasonal increase in the Company’s car rental fleet.

<sup>(b)</sup> The increase includes additional borrowings to fund an increase in the Company’s fleet driven by the acquisition of its Budget licensee for Edmonton.

<sup>(c)</sup> The increase reflects additional borrowings to acquire rental fleet.

As of September 30, 2014, the committed corporate credit facilities available to us and/or our subsidiaries included:

	Total Capacity	Outstanding Borrowings	Letters of Credit Issued	Available Capacity
Senior revolving credit facility maturing 2018 <sup>(a)</sup>	\$1,650	\$—	\$784	\$866
Other facilities <sup>(b)</sup>	12	1	—	11

<sup>(a)</sup> 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.

<sup>(b)</sup> These facilities encompass bank overdraft lines of credit, bearing interest of 4.50% to 5.77% as of September 30, 2014.

At September 30, 2014, the Company had various uncommitted credit facilities available, under which it had drawn approximately \$2 million, which bear interest at rates between 0.35% and 2.50%.

The following table presents available funding under our debt arrangements related to our vehicle programs at September 30, 2014:

	Total Capacity <sup>(a)</sup>	Outstanding Borrowings	Available Capacity
North America - Debt due to Avis Budget Rental Car Funding <sup>(b)</sup>	\$8,793	\$6,983	\$1,810
North America - Canadian borrowings <sup>(c)</sup>	915	556	359
International - Debt borrowings <sup>(d)</sup>	1,550	1,231	319
International - Capital leases <sup>(e)</sup>	625	427	198
Truck Rental - Debt borrowings <sup>(f)</sup>	280	261	19
Other	42	42	—
Total	\$12,205	\$9,500	\$2,705

<sup>(a)</sup> 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 \$810 million of underlying vehicles and related assets.
- (d) The outstanding debt is collateralized by approximately \$1.7 billion of underlying vehicles and related assets.
- (e) The outstanding debt is collateralized by \$409 million of underlying vehicles and related assets.
- (f) The outstanding debt is collateralized by \$359 million of underlying vehicles and related assets.

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### LIQUIDITY RISK

Our primary liquidity needs include the payment of operating expenses, servicing of corporate and vehicle related debt and procurement of rental vehicles to be used in our operations. The present intention of management is to reinvest the undistributed earnings of our foreign subsidiaries indefinitely into our foreign operations. We do not anticipate the need to repatriate foreign earnings to the United States to service corporate debt or for other U.S. needs. Our primary sources of funding are operating revenue, cash received upon the sale of vehicles, borrowings under our vehicle-backed borrowing arrangements and our senior revolving credit facility, and other financing activities.

As discussed above, as of September 30, 2014, we have cash and cash equivalents of \$713 million, available borrowing capacity under our committed credit facilities of \$866 million and available capacity under our vehicle programs of approximately \$2.7 billion. During the nine months ended September 30, 2014, we repurchased the entire \$687 million principal amount of our 8¼% Senior Notes for \$737 million plus accrued interest and obtained Board approval to expand our original \$200 million share repurchase authorization by \$235 million. In October 2014, the Board authorized an additional increase to our share repurchase program of \$200 million. We intend to fund share repurchases under the program with our cash flow from operations.

Our liquidity position could be negatively affected by financial market disruptions or a downturn in the U.S. and worldwide economies, which may result in unfavorable conditions in the vehicle rental industry, in the asset-backed financing market, and in the credit markets generally. We believe these factors have in the past affected and could in the future affect the debt ratings assigned to us by credit rating agencies and the cost of our borrowings. Additionally, a downturn in the worldwide economy or a disruption in the credit markets could impact our liquidity due to (i) decreased demand and pricing for vehicles in the used-vehicle market, (ii) increased costs associated with, and/or reduced capacity or increased collateral needs under, our financings, (iii) the adverse impact of vehicle manufacturers, including General Motors, Ford, Chrysler, Peugeot, Volkswagen, Kia, Fiat, Mercedes, BMW, Volvo and Toyota being unable or unwilling to honor their obligations to repurchase or guarantee the depreciation on the related program vehicles and (iv) disruption in our ability to obtain financing due to negative credit events specific to us or affecting the overall debt market.

Our liquidity position could also be negatively impacted if we are unable to remain in compliance with the financial and other covenants associated with our senior credit facility and other borrowings including a maximum leverage ratio. As of September 30, 2014, we were in compliance with the financial covenants governing our indebtedness. For additional information regarding our liquidity risks, see Part I, Item 1A, “Risk Factors” of our 2013 Form 10-K.

### CONTRACTUAL OBLIGATIONS

Our future contractual obligations have not changed significantly from the amounts reported within our 2013 Form 10-K and our Current Report on Form 8-K filed May 12, 2014 with the exception of our commitment to purchase vehicles, which decreased by approximately \$1.8 billion from December 31, 2013, to approximately \$4.6 billion at September 30, 2014. Changes to our obligations related to corporate indebtedness and debt under vehicle programs are presented above within the section titled “Liquidity and Capital Resources—Debt and Financing Arrangements” and also within Notes 9 and 10 to our Consolidated Condensed Financial Statements.

### ACCOUNTING POLICIES

The results of the majority of our recurring operations are recorded in our financial statements using accounting policies that are not particularly subjective, nor complex. However, in presenting our financial statements in conformity with generally accepted accounting principles, we are required to make estimates and assumptions that affect the amounts reported therein. Several of the estimates and assumptions that we are required to make pertain to

matters that are inherently uncertain as they relate to future events. Presented within the section titled “Critical Accounting Policies” of our 2013 Form 10-K and our Current Report on Form 8-K filed May 12, 2014 are the accounting policies (related to goodwill and other indefinite-lived intangible assets, business combinations, vehicles, income taxes and public liability, property damage and other insurance liabilities) that we believe require subjective and/or complex judgments that could potentially affect 2014 reported results. There have been no significant changes to those accounting policies or our assessment of which accounting policies we would consider to be critical accounting policies.

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### Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to a variety of market risks, including changes in currency exchange rates, interest rates and gasoline prices.

We manage our exposure to market risks through our regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments, particularly swap contracts, futures and options contracts, to manage and reduce the interest rate risk related to our debt; foreign currency forward contracts to manage and reduce currency exchange-rate risk; and derivative commodity instruments to manage and reduce the risk of changing unleaded gasoline prices.

We are exclusively an end user of these instruments. We do not engage in trading, market-making or other speculative activities in the derivatives markets. We manage our exposure to counterparty credit risk related to our use of derivatives through specific minimum credit standards, diversification of counterparties, and procedures to monitor concentrations of credit risk. Our counterparties are substantial investment and commercial banks with significant experience providing such derivative instruments.

Our total market risk is influenced by a wide variety of factors including the volatility present within the markets and the liquidity of the markets. There are certain limitations inherent in the sensitivity analyses presented below. These “shock tests” are constrained by several factors, including the necessity to conduct the analysis based on a single point in time and the inability to include the complex market reactions that normally would arise from the market shifts modeled. For additional information regarding our long-term borrowings and financial instruments, see Notes 9, 10 and 14 to our Consolidated Condensed Financial Statements.

#### Currency Risk Management

We have currency exchange rate exposure to exchange rate fluctuations worldwide and particularly with respect to the Australian, Canadian and New Zealand dollars, the Euro and the British pound sterling. We use currency forward contracts and currency swaps to manage exchange rate risk that arises from certain intercompany transactions, and from non-functional currency denominated assets and liabilities and earnings denominated in non-U.S. dollar currencies. Our foreign currency forward contracts are often not designated as hedges and therefore changes in the fair value of these derivatives are recognized in earnings as they occur. We anticipate that such currency exchange rate risk will remain a market risk exposure for the foreseeable future.

We assess our market risk based on changes in currency exchange rates utilizing a sensitivity analysis. Based on our currency forward contracts as of September 30, 2014, we estimate that a 10% change in currency exchange rates would not have a material impact on our earnings. Because gains or losses related to currency forward contracts are expected to be offset by corresponding gains or losses on the underlying exposures being hedged, when combined, these currency forward contracts and the underlying exposures do not create a material impact to our results of operations, balance sheet or liquidity.

#### Interest Rate Risk Management

Our primary interest rate exposure at September 30, 2014, is interest rate fluctuations in the United States, specifically LIBOR and commercial paper interest rates due to their impact on variable rate borrowings and other interest rate sensitive liabilities. We use interest rate swaps and caps to manage our exposure to interest rate movements. We anticipate that LIBOR and commercial paper rates will remain a primary market risk exposure for the foreseeable future.

We assess our market risk based on changes in interest rates utilizing a sensitivity analysis. Based on our interest rate derivatives as of September 30, 2014, we estimate that a 10% change in interest rates would not have a material impact on our earnings. Because gains or losses related to interest rate derivatives are expected to be offset by corresponding gains or losses on the underlying exposures being hedged, when combined, these interest rate contracts and the offsetting underlying commitments do not create a material impact to our results of operations, balance sheet or liquidity.

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Commodity Risk Management

We have commodity price exposure related to fluctuations in the price of unleaded gasoline. We anticipate that such commodity risk will remain a market risk exposure for the foreseeable future. We determined that a 10% change in the price of unleaded gasoline would not have a material impact on our earnings for the period ended September 30, 2014.

Item 4. Controls and Procedures

(a) Disclosure Controls and Procedures. Under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, our management conducted an evaluation of the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")). Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of the period ended September 30, 2014.

(b) Changes in Internal Control Over Financial Reporting. During the fiscal quarter to which this report relates, there has been no change in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

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## PART II – OTHER INFORMATION

## Item 1. Legal Proceedings

During the quarter ended September 30, 2014, the Company had no material developments to report with respect to its legal proceedings. For additional information regarding the Company's legal proceedings, please refer to the Company's 2013 Annual Report on Form 10-K.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following is a summary of Avis Budget Group's common stock repurchases by month for the quarter ended September 30, 2014:

	Total Number of Shares Purchased <sup>(a)</sup>	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
July 1-31, 2014	368,781	\$59.65	368,781	\$212,556,700
August 1-31, 2014	92,031	64.11	92,031	206,656,940
September 1-30, 2014	522,697	62.36	522,697	174,061,554
Total	983,509	\$61.51	983,509	\$174,061,554

<sup>(a)</sup> Excludes, for the three months ended September 30, 2014, 2,850 shares which were withheld by the Company to satisfy employees' income tax liabilities attributable to the vesting of restricted stock unit awards.

In August 2013, the Company obtained Board approval to repurchase up to \$200 million of its common stock. In April 2014 and October 2014, the Company obtained Board approval to increase the share repurchase program by \$235 million and \$200 million, respectively. The Company's stock repurchases may occur through open market purchases or trading plans pursuant to Rule 10b5-1 of the Securities Exchange Act of 1934. The amount and timing of specific repurchases are subject to market conditions, applicable legal requirements and other factors. The repurchase program may be suspended, modified or discontinued at any time without prior notice. The repurchase program has no set expiration or termination date.

## Item 6. Exhibits

See Exhibit Index.



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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AVIS BUDGET GROUP, INC.

Date: October 30, 2014

/s/ David B. Wyshner  
David B. Wyshner  
Senior Executive Vice President and  
Chief Financial Officer

Date: October 30, 2014

/s/ David T. Calabria  
David T. Calabria  
Vice President and  
Chief Accounting Officer

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Exhibit Index

Exhibit No. Description

4.1	Indenture dated as of May 16, 2014 among Avis Budget Car Rental, LLC and Avis Budget Finance, Inc., as Issuers, the Guarantors from time to time parties thereto and Deutsche Bank Trust Company Americas as Trustee (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K dated May 19, 2014).
4.2	Form of 5.125% Senior Notes Due 2022 (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K dated May 19, 2014).
10.1	Purchase Agreement, dated as of May 13, 2014, by and among Avis Budget Car Rental, LLC and Avis Budget Finance, Inc. as issuers, Avis Budget Group, Inc. and certain of its subsidiaries as guarantors, Morgan Stanley & Co. LLC for itself and on behalf of the several initial purchasers (incorporated by reference to Exhibit 10.1 the Company's Current Report on Form 8-K dated May 19, 2014).
10.2	Series 2014-2 Supplement, dated as of July 24, 2014, between Avis Budget Rental Car Funding (AESOP) LLC and The Bank of New York Mellon Trust Company, N.A., as trustee and as Series 2014-2 Agent (incorporated by reference to Exhibit 10.1 the Company's Current Report on Form 8-K dated July 24, 2014).
10.3	Third Amended and Restated Credit Agreement, dated as of October 3, 2014, among Avis Budget Holdings, LLC, Avis Budget Car Rental, LLC, Avis Budget Group, Inc., the Subsidiary Borrowers from time to time parties there, the several banks and other financial institutions or entities from time to time parties thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, Deutsche Bank Securities Inc., as Syndication Agent, Citicorp USA, Inc., Bank of America, N.A., Barclays Bank plc, Credit Agricole Corporate and Investment Bank, and The Royal Bank of Scotland plc, as Co-Documentation Agents (incorporated by reference to Exhibit 10.1 the Company's Current Report on Form 8-K dated October 6, 2014).
10.4	Second Amendment to the Guarantee and Collateral Agreement, dated as of October 3, 2014, among Avis Budget Holdings, LLC, Avis Budget Car Rental, LLC, certain Subsidiaries of the Borrower from time to time parties there, in favor of JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.2 the Company's Current Report on Form 8-K dated October 6, 2014).
10.5	Avis Budget Car Rental 2015 Model Year Program Letter dated September 30, 2014 between Avis Budget Car Rental, LLC and Ford Motor Company (incorporated by reference to Exhibit 10.3 the Company's Current Report on Form 8-K dated October 6, 2014).*
12	Statement re: Computation of Ratio of Earnings to Fixed Charges.
31.1	Certification of Chief Executive Officer pursuant to Rules 13(a)-14(a) and 15(d)-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer pursuant to Rules 13(a)-14(a) and 15(d)-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.

101.DEF XBRL Taxonomy Extension Definition Linkbase.  
101.LAB XBRL Taxonomy Extension Label Linkbase.  
101.PRE XBRL Taxonomy Extension Presentation Linkbase.

\*Confidential treatment has been requested for certain portions of this Exhibit pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, which portions have been omitted and filed separately with the Securities and Exchange Commission.