

AVIS BUDGET GROUP, INC.  
Form 10-K  
February 23, 2015

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K  
✓ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2014  
OR  
o 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 06-0918165  
(State or other jurisdiction of incorporation or (I.R.S. Employer Identification Number)  
organization)

6 SYLVAN WAY 07054  
PARSIPPANY, NJ  
(Address of principal executive offices) (Zip Code)  
973-496-4700  
(Registrant's telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:  
TITLE OF EACH CLASS NAME OF EACH EXCHANGE  
ON WHICH REGISTERED  
Common Stock, Par Value \$.01 The NASDAQ Global Select Market

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None  
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No   
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No   
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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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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 definition of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

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

As of June 30, 2014, the aggregate market value of the registrant’s common stock held by non-affiliates of the registrant was \$6,132,457,543 based on the closing price of its common stock on the NASDAQ Global Select Market.

All executive officers and directors of the registrant have been deemed, solely for the purpose of the foregoing calculation, to be “affiliates” of the registrant.

As of January 31, 2015, the number of shares outstanding of the registrant’s common stock was 106,354,430.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant’s definitive proxy statement to be mailed to stockholders in connection with the registrant’s annual stockholders’ meeting scheduled to be held on May 19, 2015 (the “Annual Proxy Statement”) are incorporated by reference into Part III hereof.

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FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

- our ability to accurately estimate our future results;

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

our exposure to uninsured claims in excess of historical levels;

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

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

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

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

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

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

risks related to completed or future acquisitions or investments that we may pursue, including any incurrence of incremental indebtedness to help fund such transactions and our ability to promptly and effectively integrate any acquired businesses; 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” set forth in Item 7, in “Risk Factors” set forth in Item 1A and other portions of this Annual Report on Form 10-K may contain forward-looking statements and involve uncertainties that could cause actual results to differ materially from those projected in such statements.

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

ITEM 1. BUSINESS

Except as expressly indicated or unless the context otherwise requires, the “Company,” “Avis Budget,” “we,” “our” or “us” means Avis Budget Group, Inc. and its subsidiaries. “Avis,” “Budget,” “Budget Truck,” “Zipcar,” “Payless” and “Apex” refer to our Avis Rent A Car System, LLC, Budget Rent A Car System, Inc., Budget Truck Rental, LLC, Zipcar, Inc., Payless Car Rental and Apex Car Rentals operations, respectively, and, unless the context otherwise requires, do not include the operations of our licensees, as further discussed below.

OVERVIEW

We are a leading global provider of vehicle rental and car sharing services, operating three of the most recognized brands in the industry through Avis, Budget and Zipcar. We are a leading vehicle rental operator in North America, Europe, Australia, New Zealand and certain other regions we serve. We and our licensees operate the Avis and Budget brands in approximately 175 countries throughout the world. We generally maintain a leading share of airport car rental revenue in North America, Europe, Australia and New Zealand and we operate one of the leading truck rental businesses in the United States.

Our brands are differentiated to help us meet a wide range of customer needs throughout the world. Avis is a leading rental car supplier positioned to serve the premium commercial and leisure segments of the travel industry, and Budget is a leading rental vehicle supplier focused primarily on more value-conscious segments of the industry. On average, our rental fleet totaled more than 545,000 vehicles and we completed more than 35 million vehicle rental transactions worldwide in 2014. We generate approximately 67% of our vehicle rental revenue from on-airport locations and approximately 33% of our revenue from off-airport locations. We also license the use of the Avis and Budget trademarks to licensees in areas in which we do not operate directly. Our brands have an extended global reach with more than 10,000 car and truck rental locations throughout the world, including approximately 4,700 car rental locations operated by our licensees. We believe that Avis and Budget both enjoy complementary demand patterns with mid-week commercial demand balanced by weekend leisure demand.

Our Zipcar brand, which we acquired in 2013, is the world’s leading car sharing company, with more than 915,000 members in the United States, Canada and Europe. We operate Budget Truck, one of the leading truck rental businesses in the United States, with a fleet of approximately 22,000 vehicles that operate through a network of approximately 1,150 dealer-operated and 400 Company-operated locations throughout the continental United States. We also own Payless, a car rental brand that we acquired in 2013 that operates in the deep-value segment of the industry, and Apex, which is a leading deep-value car rental brand in New Zealand and Australia. We also have investments in certain of our Avis and Budget licensees outside of the United States, including licensees in Brazil, India and China.

COMPANY HISTORY

The Company is a Delaware corporation headquartered in Parsippany, New Jersey. We operate three of the most recognized brands in the global vehicle services industry through Avis, Budget and Zipcar, as well as Budget Truck, one of the leading truck rental businesses in the United States, and smaller regional car rental brands. Our predecessor company was formed in 1974, and in 1997 merged with HFS Incorporated, and the combined company was subsequently renamed Cendant Corporation. HFS acquired the Avis brand in 1996, and in 2001 Cendant acquired Avis’ vehicle rental operations in North America, Australia and New Zealand.

Founded in 1946, Avis is believed to be the first company to rent cars from airport locations. Avis expanded its geographic reach throughout the United States through growth in licensed and Company-operated locations in the 1950s and 1960s. In 1963, Avis introduced its award winning “We try harder®” advertising campaign, which is considered to be one of the top ten advertising campaigns of the 20th century by Advertising Age magazine.

In 2002, Cendant acquired the Budget brand and Budget vehicle rental operations in North America, Australia and New Zealand. Budget was founded in 1958 as a car rental company for the value-conscious vehicle rental

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customer and grew its business rapidly during the 1960s, expanding its rental car offerings throughout North America and significantly expanding its Budget truck rental business in the 1990s.

In 2006, Cendant completed the sales and spin-offs of several significant subsidiaries and changed its name to Avis Budget Group, Inc. In 2011, we expanded our international operations with the acquisition of Avis Europe, which was previously an independently-owned licensee operating the Avis and Budget brands in Europe, the Middle East and Africa, and the Avis brand in Asia. Upon the completion of the acquisition of Avis Europe, the Avis and Budget brands were globally re-united under a single company, making Avis Budget Group one of the largest vehicle rental companies in the world.

In 2013, we acquired Zipcar, the world's leading car sharing company, and further increased our growth potential and our ability to better serve a greater variety of our customers' transportation needs. In 2012 and 2013, we also acquired our Apex and Payless brands, which allowed us to expand our presence in the deep-value segment of the car rental industry. In 2014, we also acquired our long-standing Budget licensee for Southern California and Las Vegas, which further expanded our Company-operated locations in the United States.

We have a long history of innovation in the vehicle rental and car sharing business, including the 1973 launch of our proprietary Wizard system, a constantly updated information-technology system that is the backbone of our operations. In 1987, we introduced the Roving Rapid Return, powered by a handheld computer device that allowed customers to bypass the car return counter, and in 1996, we became one of the first car rental companies to accept online reservations. In 2000, we introduced Avis Interactive, the first Internet-based reporting system in the car rental industry. In 2009, we launched what we believe to be the first car rental iPhone application in the United States, and in 2012, we believe that our Avis brand became the first in the industry to offer mobile applications to its customers on all four major mobile platforms — Android, BlackBerry, iPhone and Microsoft Windows. In 2014, we continued to expand our use of new yield management systems, which the Company designed to help optimize its decision-making with respect to pricing and fleet management. Our Zipcar operations have been a constantly innovating pioneer in using advanced vehicle technologies as the first car sharing company in the United States to develop a self-service solution to managing the complex interactions of real-time, location-based activities inherent in a large-scale car sharing operation, including new member application, reservations and keyless vehicle access, fleet management and member management. Zipcar was also the first to allow members to reserve the specific make, model and type of car by phone, Internet or wireless mobile device.

Since becoming an independent vehicle rental services company in 2006, we have focused on strengthening our brands, our operations, our competitiveness and our profitability. In conjunction with these efforts, we have implemented process improvements impacting virtually all areas of the business; realized significant cost savings through the integration of acquired businesses with our pre-existing operations; achieved reductions in operating and selling, general and administrative expenses, including significant reductions in staff; assessed location, segment and customer profitability to address less-profitable aspects of our business; implemented price increases and changes to our sales, marketing and affinity programs to improve profitability; and sought to better optimize our acquisition, deployment and disposition of fleet in order to lower costs and better meet customer demand.

### SEGMENT INFORMATION

We categorize our operations into three reporting 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 primarily 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; and

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

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The following table presents key operating metrics for each of our three reporting segments:

	Total 2014 Rental Days	Average 2014 Time and Mileage ("T&M") Revenue per Day	Average 2014 Rental Fleet Size
North America	95 million	\$41.33	369,000
International	37 million	\$41.34	144,000
Truck Rental	4 million	\$78.15	22,000
	136 million		535,000

Note: Figures exclude Zipcar.

The following graphs present the composition of our rental days and our average rental fleet in 2014, by segment:

Composition of 2014 Rental Days	Composition of 2014 Rental Fleet
------------------------------------	-------------------------------------

Financial data for our segments and geographic areas are reported in Note 19—Segment Information to our Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

#### OUR STRATEGY

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 expect to achieve our goals by focusing our efforts on the following core strategic initiatives:

**Strategically Accelerate Growth.** We have pursued and will continue to pursue numerous opportunities intended to increase our revenues and make disproportionate contributions to our earnings. For instance:

We are focused on promoting car class upgrades, adjusting our mix of vehicles to match customer demand, growing our rentals to small-business and international travelers, increasing the number of rentals that customers book through our own websites, increasing the proportion of transactions in which customers prepay us, and expanding our ancillary revenues derived from offering additional ancillary products and services to the rental transactions of an increasing percentage of our customers. We believe these efforts will each not only generate incremental revenue, but also add to profitability.

We are focused on yield management and pricing optimization in an effort to increase the rental fees we earn per rental day. We have implemented, and plan to continue to implement, new technology systems that strengthen our yield management and enable us to tailor our product and price offerings not only to meet our customers' needs, but also in response to actions taken by our competitors. We expect to continue to adjust our pricing to bolster profitability and match changes in demand.

We see significant growth opportunities related to our Zipcar brand. We expect to increase our

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Zipcar membership base by growing the number of businesses, government agencies and universities that Zipcar serves within its existing markets, as well as expanding the brand into new markets where our existing car rental presence will help enable the introduction of Zipcar's car sharing services. We expect that such growth will include making more Zipcars available at airport locations, offering one-way usage of Zipcars at certain locations, cross-marketing partnerships through our well-established corporate and affinity relationships and expanding our car sharing footprint outside of the United States.

We continue to focus on addressing the need of the deep-value segment of the vehicle rental industry with Payless and Apex and look to increase our profitability in this segment as we grow our revenues.

**Strengthening Our Global Position.** While we currently operate, either directly or through licensees, in approximately 175 countries around the world, we have strengthened and will continue to strengthen and further expand our global footprint through organic growth and potentially through acquisitions, joint ventures, licensing opportunities or other relationships:

In countries where we have Company-operated locations, we will continue to identify opportunities to add new rental locations, to grant licenses to independent third parties for regions where we do not currently operate and/or do not wish to operate directly, to strengthen the presence of the Avis, Budget, Zipcar, Apex and Payless brands (including by multi-branding locations), as applicable, and to re-acquire previously granted license rights in certain cases.

In countries operated by licensees, including our joint ventures in Brazil and China, we will seek to ensure that our licensees are well positioned to realize the growth potential of our brands in those countries and are aggressively growing their presence in those markets, and we expect to consider the re-acquisition of previously granted license rights in certain cases.

Zipcar represents a substantial growth opportunity for us as we believe that there are numerous geographic markets outside the United States, particularly in Europe and the Asia-Pacific region, where Zipcar's proven car sharing model can be utilized to meet substantial, currently unmet transportation needs.

**Enhancing Customers' Rental Experience.** We are committed to serving our customers and enhancing their rental experience, including through our Customer Led, Service Driven™ initiative, which is aimed at improving our customers' rental experience with our brands, our systems and our employees. Following an extensive review of the ways, places and occasions in which our brands, our systems and our employees interact with existing and potential customers, we have implemented actions that we expect will improve the service we provide at these customer "touch points." For example:

We offer Avis Preferred Select & Go™, a vehicle-choice program for customers, and have revised our rental agreements and receipts to improve transparency, introduce mobile applications and significantly expanded customer-service-oriented training of our employees, achieving significant increases in customer satisfaction.

We continue to upgrade our technology, to make the reservation, pick-up and return process more convenient and user-friendly, with a particular emphasis on enabling and simplifying our customers' online interactions with us.

We have significantly expanded our tracking of customer-satisfaction levels so that we now receive location-specific feedback from more than 1 million customers annually, and we have implemented numerous service and process changes in response to this feedback.

We expect to continue to invest in these efforts.



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Controlling Costs and Driving Efficiency throughout the Organization. We have continued our efforts to rigorously control costs. We continue to aggressively reduce expenses throughout our organization, and we have consistently eliminated or reduced significant costs through the integration of acquired businesses. In addition:

We continued to develop and implement our Performance Excellence process improvement initiative to increase efficiencies, reduce operating costs and create sustainable cost savings using LEAN, Six Sigma and other tools. This initiative, which we have expanded to cover our operations in Europe and the Asia-Pacific region, has generated substantial savings since its implementation and is expected to continue to provide incremental benefits.

In 2014, we took actions to further streamline our administrative infrastructure through the launch of a restructuring program that will increase the global standardization and consolidation of non-rental-location functions over time.

We have implemented initiatives to integrate Payless and Zipcar, to realize cost efficiencies from combined maintenance, systems, technology and administrative infrastructure, as well as fleet utilization benefits and savings by combining our car rental and car sharing fleets at times to reduce the number of unutilized Zipcars during the week and to better satisfy Zipcar's unmet weekend demand.

We have also continued to implement technology solutions, including self-service voice reservation technology, mobile communications with customers and fleet optimization technologies to reduce costs, and we will further continue to pursue innovative solutions to support our strategic initiatives.

We believe such steps will continue to aid our financial performance.

In executing our strategy, we plan to continue to position our distinct and well-recognized global brands to focus on different segments of customer demand, complemented by our other brands in their respective regional markets. With Avis as a premium brand preferred more by corporate and upscale leisure travelers, Budget as a mid-tier brand preferred more by value-conscious travelers, Payless and Apex as deep-value brands and Zipcar offering its members an economical alternative to car ownership, we believe we are able to target a broad range of demand, particularly since the brands share the same operational and administrative infrastructure while providing differentiated though consistently high levels of customer service.

We aim to provide products, services and pricing, to use various marketing channels and to maintain marketing affiliations and corporate account contracts that complement each brand's positioning. We plan to continue to invest in our brands through a variety of efforts, including television commercials, print advertisements and on-line and off-line marketing. We see particular growth opportunities for our Budget brand in Europe, as Budget's share of airport car rentals is significantly smaller in Europe than in other parts of the world, and for Zipcar internationally, where the brand's proven car sharing model can be expanded into numerous geographic markets.

We operate in a highly competitive industry and we expect to continue to face challenges, including uncertain economic conditions, particularly outside of the United States. We seek to mitigate our exposure to risks in numerous ways, including delivering upon the core strategic initiatives described above 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.

## OUR BRANDS AND OPERATIONS

### OUR BRANDS

Our Avis, Budget and Zipcar brands are three of the most recognized brands in our industry. We believe that we enjoy significant benefits from operating our Avis and Budget brands to target different rental customers but share the same

maintenance facilities, fleet management systems, technology and administrative infrastructure. In addition, we are able to recognize significant benefits and savings by combining our car rental and car sharing

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maintenance activities and fleets at times to reduce the number of unutilized cars and to meet demand peaks. We believe that Avis, Budget and Zipcar all enjoy complementary demand patterns with mid-week commercial demand balanced by weekend leisure demand. We also operate the Apex and Payless brands, which operate in the deep-value segment of the car rental industry and augment our Avis, Budget and Zipcar brands.

## Avis

Avis is a leading rental car supplier positioned to serve the premium commercial and leisure segments of the travel industry. The Avis brand provides high-quality car rental services at price points generally above non-branded and value-branded national car rental companies. We operate or license the Avis car rental system (the "Avis System"), one of the largest car rental systems in the world, comprised of approximately 5,450 locations worldwide, including in virtually all of the largest commercial airports and cities in the world.

We operate approximately 2,550 Avis car rental locations worldwide, in both the on-airport and off-airport, or local, rental markets. In 2014, our Avis operations generated total revenue of approximately \$5.3 billion, of which approximately 61% (or \$3.2 billion) was derived from North American operations. In addition, we license the Avis brand to other independent commercial owners in approximately 2,900 locations throughout the world. In 2014, approximately 73% of the Avis System total revenue was generated by our Company-operated locations and the remainder was generated by locations operated by independent licensees, which generally pay royalty fees to us based on a percentage of applicable revenue.

The table below presents the approximate number of locations that comprise the Avis System:

	Avis System Locations		
	North America	International	Total
Company-operated locations	1,400	1,150	2,550
Licensee locations	300	2,600	2,900
Total Avis System Locations	1,700	3,750	5,450

The graphs below present the approximate composition of North America Avis System revenue and Global Avis System revenue in 2014:

Composition of North America Avis System Revenue	Composition of Global Avis System Revenue
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In 2014, Avis derived approximately \$2.0 billion and \$1.8 billion (or 53% and 47%) of its vehicle rental revenue from commercial and leisure customers, respectively, and \$2.6 billion and \$1.2 billion (or 69% and 31%) of its vehicle rental revenue from customers renting at airports and locally, respectively.

We offer Avis customers a variety of premium services, including:

• Avis Preferred, a counter bypass program available at major airport locations;

• Avis Preferred Select & Go, a service that allows customers at certain locations to select an alternate vehicle or upgrade their vehicle choice without visiting the rental counter;



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•Avis Signature Series, a selection of luxury vehicles;

•rental of portable GPS navigation units and in-dash satellite radio service;

•availability of premium, sport and performance vehicles as well as eco-friendly vehicles, including gasoline/electric hybrids;

•roadside assistance;

•emailed receipts;

•a 100% smoke-free car rental fleet in North America;

•electronic toll collection services that let customers pay highway tolls without waiting in toll booth lines;

•amenities such as Avis Access, a full range of special products and services for drivers and passengers with disabilities;

Avis Interactive, a proprietary management tool that allows corporate clients to easily view and analyze their rental activity via the Internet, permitting these clients to better manage their travel budgets and monitor employee compliance with applicable travel policies;

•customer loyalty programs; and

•supporting online interactions with our customers through each of the four major mobile platforms – Android, Apple, BlackBerry and Microsoft Windows – which Avis in 2012 became the first car rental company to offer.

In 2014, Avis was named World’s Leading Car Rental Company by the World Travel Awards, and received numerous other awards. Avis was also again named the leading car rental company in customer loyalty in the Brand Keys Customer Loyalty Engagement Index for the 15th consecutive year.

**Budget**

Budget is a leading rental car supplier focused primarily on more value-conscious segments of the industry. We operate or license the Budget vehicle rental system (the “Budget System”), which is comprised of approximately 3,500 car rental locations and represents one of the largest car rental systems in the world. The Budget System encompasses locations at most of the largest airports and cities in the world.

We operate approximately 1,700 Budget car rental locations worldwide. In 2014, our Budget car rental operations generated total revenue of approximately \$2.3 billion, of which 82% (or \$1.9 billion) was derived from North American operations. We also license the Budget System to independent business owners who operate approximately 1,800 locations worldwide. In 2014, approximately 68% of the Budget System total revenue was generated by our Company-operated locations with the remainder generated by locations operated by independent licensees, which generally pay royalty fees to us based on a percentage of applicable revenue.

The table below presents the approximate number of locations that comprise the Budget System:

Budget System Locations		
North	International	Total

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	America		
Company-operated locations	1,100	600	1,700
Licensee locations	400	1,400	1,800
Total Budget System Locations	1,500	2,000	3,500

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The graphs below present the approximate composition of North America Budget System revenue and Global Budget System revenue in 2014:

Composition of  
North America Budget System Revenue

Composition of  
Global Budget System Revenue

In 2014, Budget derived approximately \$445 million and \$1.2 billion (or 27% and 73%) of its vehicle rental revenue from commercial and leisure customers, respectively, and \$1.2 billion and \$413 million (or 75% and 25%) of its vehicle rental revenue from customers renting at airports and locally, respectively. Budget's European revenues increased \$51 million (or 26%) in 2014.

Budget offers its customers several products and programs similar to Avis, such as portable GPS navigation units, roadside assistance, electronic toll collection, emailed receipts and refueling options, as well as special rental rates for frequent renters and Budget's Fastbreak service, an expedited rental service for frequent travelers.

In 2014, Budget received numerous awards, including an award for its loyalty program, Unlimited Budget®, which was selected by Travel Weekly as a 2014 Gold Magellan Award Winner, for having one of the best loyalty programs in the travel industry.

## Zipcar

Founded in 2000, Zipcar operates the world's leading membership-based car sharing network that provides "wheels when you want them" to over 915,000 members, also known as "Zipsters," in 30 major metropolitan areas and over 400 college campuses in the United States, Canada and Europe. Zipcar provides its members self-service vehicles in reserved parking spaces located in residential neighborhoods, business districts, college campuses, business office complexes and airports.

Our members may reserve vehicles by the hour or by the day at rates that include gasoline, insurance and other costs associated with vehicle ownership, and they can make their reservations through Zipcar's reservation system, which is available by phone, Internet or through the Zipcar application on their smartphone. Our members generally have the flexibility to choose from over 25 makes and models of Zipcar vehicles that they want depending on their specific needs and desires for each trip and the available Zipcars in their neighborhoods. The flexibility and affordability of our service, as well as broader consumer trends toward responsible and sustainable living, provide a significant platform for future growth.

Prior to our acquisition of Zipcar in March 2013, Zipcar designed its operations to be scalable through a distributed self-service fleet of vehicles. We continue to make substantial investment in refining, innovating and improving Zipcar's operations and fleet management systems and integrating certain elements of Zipcar's operations and fleet into our business. We believe that the experience that we have gained and continue to accumulate while scaling and operating our network is a key advantage, informing our decisions regarding our existing operations and services as well as our plans for expansion.

Zipcar offers its members the freedom of on-demand access to a fleet of vehicles at any hour of the day or night, in their neighborhood or in any of our Zipcar cities and locations, without the costs or hassles of vehicle ownership. Benefits to members include:

Cost-effective alternative to car ownership - Members pay for time they reserve the vehicle and have no responsibility for the additional costs and hassles associated with car ownership, including parking, gasoline, taxes, registration, insurance, maintenance and lease payments.



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Convenience and accessible fleet - Zipcars are interspersed throughout local neighborhoods where they are parked in reserved parking spaces and garages within an easy walk of where our members live and work. Members can book a designated vehicle online, by phone or via their mobile device, unlock the selected vehicle using a keyless entry card (called a “Zipcard”), and drive away. Because each Zipcar has a designated parking space, members are spared the often time-consuming undertaking of finding an available parking spot.

Freedom and control - Unlike public transportation, which operates on fixed routes and schedules, we provide our members with much of the freedom associated with car ownership. Like car owners, our members can choose when and where they want to drive. They also have the added benefit of being able to choose, based upon the readily available Zipcars in their neighborhoods, the make, model, and type of vehicle they want to drive based on their specific needs and desires for each trip.

Responsible and sustainable living - We are committed to providing our members with socially responsible, sustainable alternatives that support the global environment, their communities and city livability. Studies show that car sharing reduces the number of miles driven, the number of vehicles on the road and carbon emissions.

Zipcar for Universities - We provide college students, faculty, staff and local residents living in or near rural and urban campuses with access to Zipcars. Zipcars are located on over 400 college and university campuses. Our program for universities helps university administrators maximize the use of limited parking space on campus and reduce campus congestion while providing an important amenity for students, faculty, staff and local residents. In some cases, Zipcar is the only automobile transportation available to students, since many traditional rental car services have higher age restrictions.

Zipcar for Business and Zipcar for Government - We offer special programs to businesses, federal agencies and local governments seeking to save money, meet environmental sustainability goals and reduce parking requirements. We offer reduced membership fees and weekday driving rates to employees of companies, federal agencies and local governments that sponsor the use of Zipcars. We have also partnered with residential property managers and developers who provide their commercial and residential tenants with access to Zipcar memberships and Zipcars.

In 2014, the Zipcar brand continued to be recognized as the leading car sharing services provider in the world and for the quality of the customer experience it offers.

## Budget Truck

Our Budget Truck rental business is one of the largest local and one-way truck rental businesses in the United States. At December 31, 2014, Budget Truck has a fleet of approximately 22,000 vehicles that are rented through a network of approximately 1,150 dealers and 400 Company-operated locations throughout the continental United States. These dealers are independently-owned businesses that generally operate other retail service businesses. In addition to their principal businesses, the dealers rent our light- and medium-duty trucks to consumers and to our commercial accounts and are responsible for collecting payments on our behalf. The dealers receive a commission on all truck and ancillary equipment rentals. The Budget Truck rental business serves both the consumer and light commercial sectors. The consumer sector consists primarily of individuals who rent trucks to move household goods on either a one-way or local basis. The light commercial sector consists of a wide range of businesses that rent light- to medium-duty trucks, which we define as trucks having a gross vehicle weight of less than 26,000 pounds, for a variety of commercial applications. In 2014, Budget Truck’s rental business generated total revenue of approximately \$364 million.

## Other Brands

Our Payless brand, which we acquired in July 2013, is a leading rental car supplier positioned to serve the deep-value segment of the car rental industry. We operate or license the Payless brand, which is comprised of approximately 160 vehicle rental locations worldwide, including approximately 60 Company-operated locations and approximately 100 locations operated by licensees. All Company-operated Payless locations are in the United States at or near major airport locations. Payless' base T&M fees are often lower than those of larger,

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more established brands, but Payless has historically achieved a greater penetration of ancillary products and services with its customers. The Payless business model allows the Company to extend the life cycle of a portion of our fleet, as we “cascade” certain vehicles that exceed certain Avis and Budget age or mileage thresholds to be used by Payless.

Our Apex brand, which we acquired in 2012, operates primarily in the deep-value segment of the car rental industry in New Zealand and Australia, where we have approximately 19 Apex rental locations. Apex operates its own rental fleet, separate from Avis and Budget vehicles and generally older and less expensive than vehicles offered by Avis, Budget and other traditional car rental companies. Apex generates substantially all of its reservations through its proprietary websites and contact centers and typically has a greater than average length of rental. The substantial majority of Apex locations are at or near major airport locations.

## RESERVATIONS, MARKETING AND SALES

### Reservations

Our customers can make Avis, Budget, Budget Truck, Payless and Apex car rental reservations through our brand-specific websites and through our toll-free reservation centers, by calling a specific location directly, through brand-specific mobile applications, through online travel agencies, through travel agents or through selected partners, including many major airlines. Travel agents can access our reservation systems through all major global distribution systems (“GDSs”), which provide information with respect to rental locations, vehicle availability and applicable rate structures.

Our Zipcar members may reserve cars by the hour or by the day through Zipcar’s reservation system, which is accessible by phone, Internet or through the Zipcar application on their smartphone. We also provide two-way SMS texting, enabling us to proactively reach out to members during their reservation via their mobile device to manage their reservation, including instant reservation extension.

In 2014, we generated approximately 30% of our vehicle rental reservations through our brand-specific websites, 12% through our contact centers, 27% through GDSs, 10% through online travel agencies, 10% through direct-connect technologies and 11% through other sources. Virtually all of our Zipcar car sharing reservations were generated online or through our Zipcar mobile applications. We use a voice reservation system that allows customers to conduct certain transactions such as confirmation, cancellation and modification of reservations using self-service interactive voice response technology. In addition to our Zipcar mobile applications, we have also developed Avis and Budget mobile applications for the Android, Apple, BlackBerry and Microsoft Windows, allowing our customers to more easily manage their car rental reservations on their mobile devices.

### Marketing and Sales

We support our Avis, Budget, Budget Truck, Zipcar and other brands through a range of marketing channels and campaigns, including traditional media, such as television, radio and print advertising, as well as Internet and email marketing and wireless mobile device applications. In 2012 and 2013, we developed new global brand propositions and visual identities, including new brand logos for Avis and Budget, to evolve and refine each brand’s differentiated market position. This evolution builds upon our brands’ heritage and service legacy while driving global consistency across our regions. We have also implemented a customer relationship management system that will enable us to deliver more targeted and relevant offers to customers across both online and offline channels and will allow our customers to benefit through better and more relevant marketing, improved service delivery and loyalty programs that reward frequent renters with free rental days and car class upgrades.

We use social media to promote our brands and to provide our customers with the tools to interact with our brands electronically. Avis, Budget, Payless and Zipcar maintain Facebook pages and Twitter accounts, with an increase in total followers of over 40% during 2014. We also use digital marketing activities to drive international reservations.

In addition to our social and digital media efforts, our Zipcar brand also focuses on localized marketing initiatives, which entails low-cost, word-of-mouth marketing of its services and the use of marketing “brand ambassadors” that target potential members at the local level. These efforts highlight simple messages that communicate the



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benefits of “wheels when you want them.” Zipcar members also actively recruit new members as incentivized by Zipcar’s member referral program, which awards driving credit for new member referrals.

In 2014, we retained approximately 97% of our existing commercial contracts in North America and maintained, expanded or entered into marketing alliances with key marketing partners that include brand exposure and cross-marketing opportunities for each of the brands involved. For example, as the “Official Rental Car of the PGA TOUR,” Avis promoted its products and services to millions of golf enthusiasts worldwide through prominent advertising placements in PGA TOUR television broadcasts, scoreboards at tournaments, online media channels and additional official partner channels.

We continue to maintain strong links to the travel industry and we expanded or entered into marketing alliances with numerous marketing partners in 2014:

We maintain marketing partnerships with many major airlines, including Air Canada, Air France, Air New Zealand, American Airlines, British Airways, Frontier Airlines, Iberia, Japan Airlines, JetBlue Airlines, KLM, Lufthansa, Qantas, SAS, Southwest Airlines and Virgin America.

We maintain marketing partnerships with several major hotel companies, including Best Western International, Inc., Hilton Hotels Corporation, Hyatt Corporation, MGM Resorts International, Radisson Hotels and Resorts, Starwood Hotels and Resorts Worldwide, Inc. and Wyndham Worldwide.

We offer customers the ability to earn frequent traveler points with many major U.S. and European airlines’ and hotels’ frequent traveler programs.

In 2014, approximately 64% of vehicle rental transactions from our Company-operated Avis locations were generated by travelers who rented from Avis under contracts between Avis and the travelers’ employers or through membership in an organization with which Avis has a contractual affiliation (such as AARP and Costco Wholesale). In 2013, we entered into an exclusive multi-year agreement with AARP that allows us to promote our Avis, Budget, Budget Truck and Payless brands to AARP’s base of more than 38 million members. In 2013, we also entered into a new multi-year agreement with Costco Travel to provide Costco Wholesale members in the United States with vehicle rentals and ancillary products from Avis and Budget. Avis maintains marketing relationships with other organizations such as American Express, MasterCard International and Sears, through which we are able to provide their customers with incentives to rent from Avis. Avis licensees also generally have the option to participate in these affiliations.

Additionally, we offer “Unlimited Budget,” a loyalty incentive program for travel agents, and the Budget Small Business Program, a program for small businesses that offers discounted rates, central billing options and rental credits to its members. Budget has contractual arrangements with American Express, MasterCard International and other organizations, which offer members incentives to rent from Budget.

In addition to participating in many of the marketing agreements discussed above, Budget Truck maintains certain truck-rental-specific marketing and/or co-location relationships, including those with Simply Self Storage, Sears and Extra Space Storage. We also have an exclusive agreement to advertise Budget Truck rental services in the Mover’s Guide, an official U.S. Postal Service change of address product.

Our Zipcar brand also partners with other active lifestyle brands that appeal to our Zipcar members and organize, sponsor or participate in charitable and community events with organizations important to us and our Zipcar members. Zipcar maintains relationships with universities to market to the “next generation consumer” that, upon graduation, may migrate to the major metropolitan areas that we serve, continue their relationship with us and advocate for broad sponsorship of Zipcar membership at their places of work. Through our Zipcar for Business program, we also offer

reduced membership fees and weekday driving rates to employees of companies, federal agencies and local governments that sponsor the use of Zipcars.

#### LICENSING

We have licensees in approximately 165 countries throughout the world. Revenue derived from our vehicle rental licensees in 2014 totaled \$136 million, with approximately \$115 million in our International segment and \$21 million in our North America segment. Licensed locations are independently operated by our licensees and range

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from large operations at major airport locations and territories encompassing entire countries to relatively small operations in suburban locations. Our licensees generally maintain separate independently owned and operated fleets. Royalties generated from licensing provide us with a source of high-margin revenue because there are relatively limited additional fixed costs associated with fees paid by licensees to us. Locations operated by licensees represented approximately 53% of our Avis and Budget car rental locations worldwide and approximately 29% of total revenue generated by the Avis and Budget Systems in 2014. We facilitate one-way car rentals between Company-operated and licensed locations, which enables us to offer an integrated network of locations to our customers.

We generally enjoy good relationships with our licensees and meet regularly with them at regional, national and international meetings. Our relationships with our licensees are governed by license agreements that grant the licensee the right to operate independently operated Avis, Budget or Payless car and/or truck rental businesses in certain territories. Our license agreements generally provide our licensees with the exclusive right to operate in their assigned territory. These agreements impose obligations on the licensee regarding its operations and most agreements restrict the licensee's ability to transfer its license agreement and capital stock. Licensees are generally required to adhere to our system standards for each brand as updated and supplemented by our policy bulletins, brand manuals and service program.

Our license agreements typically have terms ranging from five to 20 years. The royalty fees payable to us under our license agreements in North America and internationally vary based upon brand and location and generally range between 2% to 8% of the licensee's gross rental revenue. We maintain the right to monitor the operations of licensees and, when applicable, can declare a licensee to be in default under its license agreement. We perform audits as part of our program to assure licensee compliance with brand quality standards and contract provisions. Generally, we can terminate license agreements for certain defaults, including failure to pay royalties and failure to adhere to our operational standards. Upon termination of a license agreement, the licensee is prohibited from using our brand names and related marks in any business. In the United States, these license relationships constitute "franchises" under most federal and state laws regulating the offer and sale of franchises and the relationship of the parties to a franchise agreement.

## OTHER REVENUE

In addition to revenue from our vehicle rentals and licensee royalties, we generate revenue from our customers through the sale and/or rental of optional ancillary products and services. Our employees offer products to customers that will enhance their rental experience, including collision and loss damage waivers, insurance products such as additional/supplemental liability insurance or personal accident/effects insurance, products for driving convenience such as portable GPS navigation units, optional roadside assistance services, fuel service options, electronic toll collection and other ancillary products and services, such as access to satellite radio and child safety seats. We also supplement our daily truck rental revenue by offering customers automobile towing equipment and other moving accessories such as hand trucks, furniture pads and moving supplies.

In 2014, approximately 5% of our revenue was generated by the sale of collision and loss damage waivers, under which we agree to relieve a customer from financial responsibility arising from vehicle damage incurred during the rental period if the customer has not breached the rental agreement. In addition, we receive payment from our customers for certain operating expenses we incur, including gasoline and vehicle licensing fees, as well as airport concession fees, that we pay in exchange for the right to operate at airports and other locations.

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### OUR TECHNOLOGIES

#### Car Rental

We use a broad range of technologies in our car rental operations, substantially all of which are linked to what we call Wizard, our worldwide reservation, rental, data processing and information management system. The Wizard system enables us to process millions of incoming customer inquiries each day, providing our customers with accurate and timely information about our locations, rental rates and vehicle availability, as well as the ability to place or modify reservations. Additionally, the Wizard system is linked to all major travel distribution networks worldwide and provides real-time processing for travel agents, travel industry partners (such as airlines and online travel sites), corporate travel departments and individual consumers through our websites or contact centers. The Wizard system also provides personal profile information to our reservation and rental agents to help us better serve our customers.

We also use data supplied from the Wizard system and airline (or "third-party") reservation systems in certain proprietary information management systems to maintain centralized control of major business processes such as fleet acquisition and logistics, sales to corporate accounts and determination of rental rates. The principal components of the systems we employ include:

**Fleet planning model.** We have a comprehensive decision tool to develop fleet plans and schedules for the acquisition and disposition of our fleet, along with fleet age, mix, mileage and cost reports based upon these plans and schedules. This tool allows management to monitor and change fleet volume and composition on a daily basis and to optimize our fleet plan based on estimated business levels and available repurchase and guaranteed depreciation programs. We also use third-party software to further optimize our fleet acquisition, rotation and disposition activities.

**Yield management.** We have a yield management system which is designed to enhance profits by providing greater control of vehicle availability and rate availability changes at our rental locations. Our system monitors and forecasts supply and demand to support our efforts to optimize volume and rate at each location. Integrated into this yield management system is a fleet distribution module that takes into consideration the costs as well as the potential benefits associated with distributing vehicles to various rental locations within a geographic area to accommodate rental demand at these locations. The fleet distribution module makes specific recommendations for movement of vehicles between locations.

**Pricing decision support systems.** Pricing in the vehicle rental industry is highly competitive and complex. To improve our ability to respond to rental rate changes in the marketplace, we have utilized sophisticated systems to gather and report competitive industry rental rate changes every day. Our systems, using data from third-party reservation systems as its source of information, automatically scan rate movements and report significant changes to our staff of pricing analysts for evaluation. These systems greatly enhance our ability to gather and respond to rate changes in the marketplace. In 2014, we began to implement an integrated pricing and fleet optimization tool that has allowed us to test and implement improved pricing strategies and optimization algorithms, as well as automate the implementation of certain price changes.

**Business mix model.** We have developed a strategic planning model to evaluate discrete components of our business relative to each other. The model considers revenue and costs to determine the potential margin contribution of each discrete segment. The model develops business mix and fleet optimization recommendations by using data from our financial systems, the Wizard system and the fleet and revenue management systems along with management's objectives and targets.

**Enterprise data warehouse.** We have developed a sophisticated and comprehensive electronic data storage and retrieval system which retains information related to various aspects of our business. This data warehouse allows us to

take advantage of comprehensive management reports and provides easy access to data for strategic decision making for our brands.

Sales and marketing systems. We have developed a sophisticated system of online data tracking which enables our sales force to analyze key account information of our corporate customers including historical and current rental activity, revenue and booking sources, top renting locations, rate usage categories and customer satisfaction data. We use this information, which is updated weekly and captured on a country-

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by-country basis, to assess opportunities for revenue growth, profitability and improvement.

• Campaign management. We have deployed tools that enable us to recognize customer segments and value, and to automatically present appropriate offers on our Avis and Budget websites.

Interactive adjustments. We have developed a customer data system that allows us to easily retrieve pertinent customer information and make needed adjustments to completed rental transactions online for superior customer service. This data system links with our other accounting systems to handle any charge card transaction automatically.

• Interactive voice response system. We have developed an automated voice response system that enables the automated processing of customer reservation confirmations, cancellations, identification of rental locations, extension of existing rentals and requests for copies of rental receipts over the phone using speech recognition software.

## Car Sharing

Our Zipcar car sharing technology was specifically designed and built for our car sharing business and has been continually refined and upgraded to optimize the Zipcar experience for our members. Our fully-integrated platform centralizes the management of our Zipcar reservations, member services, fleet operations and financial systems to optimize member experience, minimize costs and leverage efficiencies. Through this platform, we:

- process new member applications;
- manage reservations and keyless vehicle access;
- manage and monitor member interactions;
- manage billing and payment processing across multiple currencies;
- manage our car sharing fleet remotely; and
- monitor and analyze key metrics of each Zipcar such as utilization rate, mileage and maintenance requirements.

Each interaction between members and our Zipcars is captured in our system, across all communication channels, providing us with knowledge we use to improve our members' experiences and better optimize our business processes. We have built and continue to innovate our technology platform in order to support growth and scalability.

Reservation System Software. Our Zipcar reservation system processes membership applications and enables existing members to reserve Zipcars online, over the phone, using mobile applications on the iPhone or Android platforms, or through other web-enabled mobile devices. Through our reservation system, members have around-the-clock access to the complete, real-time inventory of Zipcars and can manage all necessary transactions online. Because all of our reservation and member services data is fed back into our centralized database, we are able to track and analyze aggregated member usage data to better allocate vehicles among locations and improve availability and convenience for our members.

Fleet Administration System Software and Hardware. Managing a widely dispersed fleet of Zipcars requires a comprehensive suite of tools optimized for car sharing. Each Zipcar is equipped with a telematics control unit, including mobile data service, radio frequency identification card readers, wireless antennae, wiring harness, vehicle interface modules and transponders for toll systems. This hardware, together with internally developed embedded firmware and vehicle server software, allows us to authorize secure access to our Zipcars from our data centers and provides us with a comprehensive set of fleet management data that is stored in our centralized database.

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### OUR FLEET

We offer for rental a wide variety of vehicles, including luxury and specialty vehicles. Our fleet consists primarily of vehicles from the current and immediately preceding model year. We maintain a single fleet of vehicles for Avis and Budget in countries where we operate both brands. The substantial majority of Zipcar's fleet is dedicated to use by Zipcar, but we have developed processes to share vehicles between the Avis/Budget fleet and Zipcar's fleet primarily to help meet Zipcar's demand peaks. We maintain a diverse car rental fleet, in which no vehicle manufacturer represented more than 21% of our 2014 fleet purchases, and we regularly adjust our fleet levels to be consistent with demand. We participate in a variety of vehicle purchase programs with major vehicle manufacturers. In 2014, we purchased vehicles from Audi, BMW, Chrysler, Fiat, Ford, General Motors, Honda, Hyundai, Kia, Mazda, Mercedes, Mitsubishi, Nissan, Peugeot, Porsche, Renault, Subaru, Toyota and Volkswagen, among others. During 2014, approximately 21%, 16% and 11% of the cars acquired for our car rental fleet were manufactured by Ford, General Motors and Chrysler, respectively.

Fleet costs represented approximately 25% of our aggregate expenses in 2014. Fleet costs can vary from year to year based on the prices at which we are able to purchase and dispose of rental vehicles.

In 2014, on average, approximately 42% of our rental car fleet was comprised of vehicles subject to agreements requiring automobile manufacturers to repurchase vehicles at a specified price during a specified time period or guarantee our rate of depreciation on the vehicles during a specified period of time, or were vehicles subject to operating leases. We refer to cars subject to these agreements as "program" cars and cars not subject to these agreements as "risk" cars because we retain the risk associated with such cars' residual values at the time of their disposition. Such agreements typically require that we pay more for program cars and maintain them in our fleet for a minimum number of months (typically four to eleven months) and impose certain return conditions, including car condition and mileage requirements. When we return program cars to the manufacturer, we receive the price guaranteed at the time of purchase and are thus protected from fluctuations in the prices of previously-owned vehicles in the wholesale market. In 2014, approximately 60% of the vehicles we disposed of were sold pursuant to repurchase or guaranteed depreciation programs. The future percentages of program and risk cars in our fleet will depend on several factors, including our expectations for future used car prices, our seasonal needs and the availability and attractiveness of manufacturers' repurchase and guaranteed depreciation programs. The Company has agreed to purchase approximately \$6.7 billion of vehicles from manufacturers over the next twelve months.

We dispose of our risk cars largely through automobile auctions, including auctions that enable dealers to purchase vehicles online more quickly than through traditional auctions, as well as through direct-to-dealer sales. In 2014, we also expanded the number of states that can participate in our Ultimate Test Drive retail car sales program, which offers customers the ability to purchase Avis, Budget and Payless rental vehicles through a collaboration with AutoNation, Inc. Alternative disposition channels such as Ultimate Test Drive, online auctions and direct to dealer sales represented approximately 29% of our North America risk vehicle dispositions in 2014, an increase of approximately 53% over 2013, and provide us with per-vehicle cost savings over fees typically paid to auctions.

For 2014, our average monthly car rental fleet size ranged from a low of approximately 433,000 vehicles in January to a high of approximately 616,000 vehicles in July. Our average monthly car rental fleet size typically peaks in the summer months. Average fleet utilization for 2014, which is based on the number of rental days (or portion thereof) that vehicles are rented compared to the total amount of time that vehicles are available for rent, ranged from 68% in May to 76% in August. Our calculation of utilization may not be comparable to other companies' calculation of similarly titled statistics. We have also taken actions to realize fleet utilization benefits and savings by combining a portion of our car rental and car sharing fleets at times to reduce the number of unutilized Zipcars during the week and to better satisfy Zipcar's unmet weekend demand.

We place a strong emphasis on vehicle maintenance for customer safety and customer satisfaction reasons, and because quick and proper repairs are critical to fleet utilization. To accomplish this task we employ a fully-certified National Institute for Automotive Service Excellence technician instructor and have developed a specialized training program for our technicians. Our technician training department prepares its own technical service bulletins that can be retrieved electronically at our repair locations. In addition, the volume of manufacturer recalls increased significantly in 2014, and we have implemented processes to promptly address manufacturer recalls as part of our maintenance and repair efforts.



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### CUSTOMER SERVICE

We believe our commitment to delivering a consistently high level of customer service across all of our brands is a critical element of our success and strategy. Our Customer Led, Service Driven™ program focuses on improving the overall customer experience based on our research of customer service practices, improved customer insights, executing our customer relationship management strategy and delivering customer-centric employee training.

Our associates and managers at our Company-operated locations are trained and empowered to resolve most customer issues at the location level. In addition, we have simplified our rental agreements for both the Avis and Budget brands to make them easier for our customers to read and understand. We also continuously track customer-satisfaction levels by sending location-specific surveys to recent customers and utilize detailed reports and tracking to assess and identify ways that we can improve our customer service delivery and the overall customer experience. In 2014, we received feedback from more than 1 million customers. Our location-specific surveys ask customers to evaluate their overall satisfaction with their rental experience, among other things. Results are analyzed in aggregate and by location to help further enhance our service levels to our customers.

### EMPLOYEES

As of December 31, 2014, we employed approximately 30,000 people worldwide, of whom approximately 7,500 were employed on a part-time basis. Of our approximately 30,000 employees, approximately 21,000 were employed in our North America and Truck Rental segments and 9,000 in our International segment.

In our North America and Truck Rental segments, the majority of our employees are at-will employees and, therefore, not subject to any type of employment contract or agreement. Certain of our executive officers may be employed under employment contracts that specify a term of employment and specify pay and other benefits. In our International segment, we enter into employment contracts and agreements in those countries in which such relationships are mandatory or customary. The provisions of these agreements correspond in each case with the required or customary terms in the subject jurisdiction. Many of our employees are covered by a wide variety of union contracts and governmental regulations affecting, among other things, compensation, job retention rights and pensions.

As of December 31, 2014, approximately 30% of our employees in each of our North America, International and Truck Rental segments were covered by collective bargaining agreements with various labor unions. We believe our employee relations are satisfactory. We have never experienced a large-scale work stoppage.

### AIRPORT CONCESSION AGREEMENTS

We generally operate our vehicle rental and car sharing services at airports under concession agreements with airport authorities, pursuant to which we typically make airport concession payments and/or lease payments. In general, concession fees for on-airport locations are based on a percentage of total commissionable revenue (as defined by each airport authority), subject to minimum annual guaranteed amounts. Concessions are typically awarded by airport authorities every three to five years based upon competitive bids. Our concession agreements with the various airport authorities generally impose certain minimum operating requirements, provide for relocation in the event of future construction and provide for abatement of the minimum annual guarantee in the event of extended low passenger volume.

### OTHER BUSINESS CONSIDERATIONS

### SEASONALITY

Our car rental business is subject to seasonal variations in customer demand patterns, with the spring and summer vacation periods representing our peak seasons. Our truck rental operations also experience higher levels of demand during the late spring and summer months when most self-moves occur, with the third quarter typically being our busiest quarter. Generally, however, December is also a strong month for our truck rental operations due to increased retail sales activity and package deliveries. Our Zipcar operations are also subject to

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seasonality due to increased usage during the summer months and holidays. We vary our fleet size over the course of the year to help manage any seasonal variations in demand, as well as localized changes in demand.

## COMPETITION

The competitive environment for the vehicle rental industry is generally characterized by intense price and service competition among global, local and regional competitors. Competition in our vehicle rental operations is based primarily upon price, customer service quality, including usability of booking systems and ease of rental and return, vehicle availability, reliability, rental locations, product innovation and national or international distribution. In addition, competition is also influenced strongly by advertising, marketing and brand reputation.

The use of technology has increased pricing transparency among vehicle rental companies by enabling cost-conscious customers to more easily compare on the Internet and their mobile devices the rental rates available from various vehicle rental companies for any given rental. This transparency has further increased the prevalence and intensity of price competition in the industry.

Our car rental and car sharing operations compete primarily with Enterprise Holdings, Inc., which operates the Enterprise, National and Alamo car rental brands; Europcar Group; Hertz Global Holdings, Inc., which operates the Hertz, Dollar and Thrifty brands; and Sixt AG. We also compete with smaller regional car rental and car sharing companies. Our truck rental operations compete primarily with U-Haul International, Inc., Penske Truck Leasing Corporation, Ryder Systems, Inc., and Enterprise as well as other smaller regional companies.

## INSURANCE AND RISK MANAGEMENT

Our vehicle rental operations and corporate operations expose us to various types of claims for bodily injury, death and property damage related to the use of our vehicles and/or properties, as well as general employment-related matters stemming from our operations. We generally assume the risk of liability to third parties arising from vehicle rental and car sharing services in the United States, Canada, Puerto Rico and the U.S. Virgin Islands, in accordance with the minimum financial responsibility requirements (“MFRs”) and primacy of coverage laws of the relevant jurisdiction. In certain cases, we assume liability above applicable MFRs, but to no more than \$1 million per occurrence, other than in cases involving a negligent act on the part of the Company, for which we purchase insurance coverage for exposures beyond retained amounts from a combination of unaffiliated excess insurers.

In Europe, we insure the risk of liability to third parties arising from vehicle rental and car sharing services in accordance with local regulatory requirements through a combination of insurance policies provided by unaffiliated insurers and through reinsurance. We may retain a portion of the insured risk of liability, including reinsuring certain risks through our captive insurance subsidiary AEGIS Motor Insurance Limited. We limit our retained risk of liability through the unaffiliated insurers. We insure the risk of liability to third parties in Argentina, Australia and New Zealand through a combination of unaffiliated insurers and one of our affiliates. These insurers provide insurance coverage supplemental to minimum local requirements.

We offer our U.S. customers a range of optional insurance products and coverages such as supplemental liability insurance, personal accident insurance, personal effects protection, automobile towing protection and cargo insurance, which create additional risk exposure for us. When a customer elects to purchase supplemental liability insurance or other optional insurance related products, we typically retain economic exposure to loss, since the insurance is provided by an unaffiliated insurer that is reinsuring its exposure through our captive insurance subsidiary, Constellation Reinsurance Co., Ltd. Additional personal accident insurance offered to our customers in Europe is underwritten by a third-party insurer, and reinsured by our Avis Budget Europe International Reinsurance Limited subsidiary. We also maintain excess insurance coverage through unaffiliated carriers to help mitigate our potential

exposure to large liability losses. We otherwise bear these and other risks, except to the extent that the risks are transferred through insurance or contractual arrangements.

#### OUR INTELLECTUAL PROPERTY

We rely primarily on a combination of trademark, trade secret and copyright laws, as well as contractual provisions with employees and third parties, to establish and protect our intellectual property rights. The service marks “Avis,” “Budget,” and “Zipcar” and related marks or designs incorporating such terms and related logos and marks such as “We try harder,” and “wheels when you want them” are material to our vehicle rental and car

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sharing businesses. Our subsidiaries and licensees actively use these marks. All of the material marks used by Avis, Budget and Zipcar are registered (or have applications pending for registration) with the United States Patent and Trademark Office as well as in foreign jurisdictions. Our subsidiaries own the marks and other intellectual property, including the Wizard system, used in our business. We also own trademarks and logos related to the “Apex Car Rentals” brand in Australia and New Zealand and related to the “Payless Car Rental” brand in the United States and several other countries.

## CORPORATE SOCIAL RESPONSIBILITY

The Company strives to maintain best practices in corporate social responsibility, which includes an emphasis on the several key initiatives, including a global ethics program for all employees worldwide; data protection guidelines aimed at protecting Company and customer data; a competitive employee benefits program; commitments to equal employment opportunities and diversity; offering fuel-efficient rental vehicles; and a commitment to corporate philanthropy through which we give back to the communities in which we operate.

**Ethical Standards.** We seek to hold our employees to high ethical standards. We place great emphasis on professional conduct, safety and security, information protection and integrity. Our employees are required to follow our Code of Conduct and Business Principles. Our Code of Conduct represents the core of our business philosophy and values and covers numerous areas, including standards of work-related behavior; security of information, systems and other assets; conflicts of interest; securities laws; and community service. We provide employees with training to help understand both our Code of Conduct and how to interpret it in various situations. Failure to comply with our Code of Conduct is grounds for disciplinary action, up to and including termination of employment.

**Data Protection.** We are committed to taking appropriate measures to properly secure information, records, systems and property. Employees are trained to take particular precautions to protect the Company, our employees, vendors and customers, and, in many cases, themselves, from the unlawful or inappropriate use or disclosure of that information.

**Employee Benefits Programs.** Our employees are critical to our success. To ensure their well-being and professional growth we generally offer a competitive salary plus incentive compensation potential and comprehensive benefits. In addition, we offer health and welfare benefits that may include a range of training, employee assistance and personal development programs to help employees and their families prosper. Our employee benefits programs are all offered and administered in compliance with applicable local law.

**Equal Opportunity Employment.** We are committed to providing equal employment opportunity to all applicants and employees without regard to race, color, religion, sex, sexual orientation, age, marital status, national origin, citizenship, physical or mental disability, military veteran status, or any other protected classification under any applicable law. In addition, the Company will reasonably accommodate known disabilities and religious beliefs of employees and qualified applicants.

**Diversity.** As a growing global organization, the Company is proud of the diversity of its workforce. We strive to attract and retain talented and diverse people throughout our organization. We engage in several initiatives to support diversity throughout our Company, including programs specifically designed to develop female leaders in our organization and our commitment to assisting current and former military personnel. The Company also maintains an industry-leading supplier diversity program to promote the growth and development of suppliers who are disadvantaged, minority-owned or women-owned business enterprises.

**Environment.** The Company has taken numerous steps to minimize its environmental impact; including contracting with licensed vendors to recycle used motor oil, oil filters, parts and brake cleaner fluids. Car washes installed at our

facilities typically recycle and reuse at least 80 percent of their wastewater. Many of our model-year 2013, 2014 and 2015 vehicles are SmartWay Certified by the United States Environmental Protection Agency as “green” vehicles. Our rental fleet also includes gasoline/electric hybrid vehicles which offer outstanding fuel efficiency and reduced emissions.

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Philanthropy. The Company is committed to supporting the communities in which it operates by working with nonprofit organizations focused on assisting those in need. Through relationships with widely-recognized charitable groups and outreach through the Avis Budget Group Charitable Foundation and employee volunteer teams, the Company and its employees contribute to many worthwhile organizations and deserving causes that help improve our communities.

## REGULATION

We are subject to a wide variety of laws and regulations in the United States and internationally, including those relating to, among others, consumer protection, insurance products and rates, franchising law, customer privacy and data protection, competition, environmental matters, taxes, automobile-related liability, corruption, labor and employment matters, cost and fee recovery, the protection of our trademarks and other intellectual property, and local ownership or investment requirements. Additional information about the regulations that we are subject to can be found in Item 1A - Risk Factors in this Annual Report.

## COMPANY INFORMATION

Our principal executive office is located at 6 Sylvan Way, Parsippany, New Jersey 07054 (our telephone number is 973-496-4700). The Company files electronically with the Securities and Exchange Commission (the "SEC") required reports on Form 8-K, Form 10-Q, Form 10-K and Form 11-K; proxy materials; ownership reports for insiders as required by Section 16 of the Securities Exchange Act of 1934; registration statements and other forms or reports as required. Certain of the Company's officers and directors also file statements of changes in beneficial ownership on Form 4 with the SEC. The public may read and copy any materials that the Company has filed with the SEC at the SEC's Public Reference Room located at 100 F Street, NE, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 800-SEC-0330. Such materials may also be accessed electronically on the SEC's Internet site (sec.gov). The Company maintains a website (avisbudgetgroup.com) and copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Section 16 reports, proxy materials and any amendments to these reports filed or furnished with the SEC are available free of charge in the Investor Relations section of our website, as soon as reasonably practicable after filing with the SEC. Copies of our board committee charters, Codes of Conduct and Ethics, Corporate Governance Guidelines and other corporate governance information are also available on our website. If the Company should decide to amend any of its board committee charters, Codes of Conduct and Ethics or other corporate governance documents, copies of such amendments will be made available to the public through the Company's website. The information contained on the Company's website is not included in, or incorporated by reference into, this Annual Report on Form 10-K.

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ITEM 1A. RISK FACTORS

The following is a cautionary discussion of the most significant risks, uncertainties and assumptions that we believe are significant to our business and should be considered carefully in conjunction with all of the other information set forth in this Annual Report on Form 10-K. In addition to the factors discussed elsewhere in this report, the factors described in this item could, individually or in the aggregate, cause our actual results to differ materially from those described in any forward-looking statements. Should unknown risks or uncertainties materialize or underlying assumptions prove inaccurate, actual results could materially differ from past results and/or those anticipated, estimated or projected. Achievement of future results is subject to risks, uncertainties and potentially inaccurate assumptions. Past financial performance may not be a reliable indicator of future performance and historical trends should not be used to anticipate results or trends in future periods.

RISKS RELATED TO OUR BUSINESS

We face risks related to the high level of competition in the vehicle rental industry.

The vehicle rental industry is highly competitive, with price being one of the primary competitive factors. We risk losing rental volume to the extent that our competitors reduce their pricing and we do not match or provide competitive pricing or if price increases we seek to implement make us less competitive. If competitive pressures lead us to lose rental volume or match any downward pricing and we are unable to reduce our operating costs, then our financial condition or results of operations could be materially adversely impacted.

Additionally, pricing in the industry is impacted by the size of rental fleets and the supply of vehicles available for rent. Any significant fluctuations in the supply of rental vehicles available in the market due to an unexpected decrease in demand, or actions taken by our competitors to increase market share by acquiring more fleet could negatively affect our pricing, operating plans or results of operations if we are unable to adjust the size of our rental fleet in response to fluctuations in demand.

The risk of competition on the basis of pricing in the truck rental industry can be even more intense than in the car rental industry because it can be more difficult to reduce the size of our truck rental fleet in response to reduced demand.

We face risks related to fleet costs.

Fleet costs typically represent our single largest expense and can vary from year to year based on the prices that we are able to purchase and dispose of our rental vehicles. In 2014, on average approximately 42% of our 2014 rental car fleet was comprised of program cars or vehicles subject to operating leases. Such program cars enable us to determine our depreciation expense in advance of purchase, which is a significant component of our fleet costs. However, as discussed below, such program cars result in additional exposure to the manufacturers with whom we have such agreements.

We source our fleet needs from a wide range of auto manufacturers. To the extent that any of these auto manufacturers significantly curtail production or increase the cost of purchasing program cars, we may be unable to obtain a sufficient number of vehicles to operate our business without significantly increasing our fleet costs or reducing our volumes.

Automobile manufacturers may not continue to sell program cars to us on terms or at prices consistent with past agreements. Our program car purchases also generally provide us with flexibility to reduce the size of our fleet rapidly in response to seasonal demand fluctuations, economic constraints or other changes in demand. This flexibility may be



reduced in the future to the extent that we reduce the percentage of program cars in our car rental fleet or features of the programs are altered.

Failure by a manufacturer to fulfill its obligations under any program agreement or incentive payment obligation could leave us with a material expense if we are unable to dispose of program cars at prices estimated at the time of purchase or with a substantial unpaid claim against the manufacturer, particularly with respect to program cars that were either (i) resold for an amount less than the amount guaranteed under the applicable program and therefore subject to a “true-up” payment obligation from the manufacturer; or (ii) returned to the manufacturer but for which we were not yet paid, and therefore we could incur a substantial loss as a result of such failure to

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perform. Any reduction in the market value of the vehicles in our fleet could effectively increase our fleet costs, adversely impact our profitability and potentially lead to decreased capacity in our asset-backed car rental funding facilities due to the collateral requirements for such facilities that effectively increase as market values for vehicles decrease.

The costs of our non-program vehicles may also be adversely impacted by the relative strength of the used car market, particularly the market for one- to two-year old used vehicles. We currently sell non-program vehicles through auctions, third-party resellers and other channels in the used vehicle marketplace. Such channels may not produce stable used vehicle prices. A reduction in residual values for non-program vehicles in our rental fleet could cause us to sustain a substantial loss on the ultimate sale of such vehicles or require us to depreciate those vehicles at a more accelerated rate while we own them.

If our ability to sell vehicles in the used vehicle marketplace were to become severely limited at a time when required collateral levels were rising, the outstanding principal amount due under our asset-backed financing facilities may be required to be repaid sooner than anticipated with vehicle disposition proceeds and lease payments we make to our vehicle program subsidiaries. If that were to occur, the holders of our asset-backed debt may have the ability to exercise their right to instruct the trustee to direct the return of program cars and/or the sale of risk cars to generate proceeds sufficient to repay such debt.

We face risks related to safety recalls.

Our vehicles may be subject to safety recalls by their manufacturers that could have an adverse impact on our business when we remove such recalled vehicles from our rentable fleet. The number of vehicles subject to manufacturer recalls increased significantly in 2014 and may continue to be at elevated levels for the foreseeable future. Recalls often cause us to retrieve vehicles from customers and/or not to re-rent vehicles until we can arrange for the repairs described in the recalls to be completed. As such, recalls can result in incremental costs, negatively impact our revenues and/or reduce our fleet utilization. If a large number of vehicles were to be the subject of simultaneous recalls, or if needed replacement parts were not in adequate supply, we may be unable to re-rent recalled vehicles for a significant period of time. We could also face liability claims related to vehicles subject to a safety recall. Depending on the nature and severity of the recall, it could create customer service problems, reduce the residual value of the vehicles involved, harm our general reputation and/or have an adverse impact on our financial condition or results of operations.

Weakness in general economic conditions in the United States, Europe and other areas in which we operate, weakness in travel demand and the housing market, and/or a significant increase in fuel costs can adversely impact our business.

If economic conditions in the United States, Europe and/or worldwide were to weaken, our financial condition or results of operations could be adversely impacted.

Any significant airline capacity reductions, airfare or related fee increases, reduced flight schedules, or any events that disrupt or reduce business or leisure air travel such as work stoppages, military conflicts, terrorist incidents, natural disasters, disease epidemics, or the response of governments to any such events, could have an adverse impact on our results of operations. Likewise, any significant increases in fuel prices, a severe protracted disruption in fuel supplies or rationing of fuel could discourage our customers from renting vehicles or reduce or disrupt air travel, which could also adversely impact our results of operations.

Our truck rental business can be impacted by the housing market. If conditions in the housing market were to weaken, we may see a decline in truck rental transactions, which could have an adverse impact on our business.

We face risks related to our ability to successfully implement our business strategies and preserve the value of our brands.

Our objective is to focus on strategically accelerating 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. If we are unsuccessful in implementing our strategic initiatives, our financial condition or results of operations could be adversely impacted.

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Failure to provide a high-quality reservation and rental experience for our customers and members for any reason could substantially harm our reputation and adversely impact our financial condition or results of operations.

We face risks related to our Zipcar operations.

We expect that the competitive environment for our car sharing services will become more intense as additional companies enter our existing markets or try to expand their operations. Competitors could introduce new solutions with competitive price and convenience characteristics or undertake more aggressive marketing campaigns than we provide. Such developments could adversely impact our business and result of operations should we be unable to compete with such efforts.

Because Zipcar members are located primarily in cities, we compete for limited parking locations that are convenient to our members or are available on terms that are commercially reasonable to our business. If we are unable to obtain and maintain a sufficient number of parking locations that are convenient to our members, our ability to attract and retain members would suffer.

We expect to achieve significant benefits from integrating certain Zipcar operations, such as vehicle maintenance and fleet procurement and disposition, with our existing infrastructure and by sharing fleet between Zipcar and our other brands. To realize such benefits, we must successfully combine and integrate portions of our car rental and car sharing operations in an efficient and effective manner. If we are unable to achieve these objectives within the anticipated time frame, or at all, the anticipated benefits and cost savings of the acquisition may not be realized fully, or at all, or may take longer to realize than expected.

We face risks related to political, economic and commercial instability in the countries in which we operate.

Our global operations are dependent upon products manufactured, purchased and sold in the United States and internationally, including in countries with political and economic instability. Operating and seeking to expand business in a number of different regions and countries exposes us to a number of risks, including:

- multiple and potentially conflicting laws, regulations and policies that are subject to change;
- the imposition of currency restrictions, restrictions on repatriation of earnings or other restraints;
- local ownership or investment requirements, as well as difficulties in obtaining financing in foreign countries for local operations;
- varying tax regimes, including consequences from changes in applicable tax laws;
- national and international conflict, including terrorist acts; and
- political and economic instability or civil unrest that may severely disrupt economic activity in affected countries.

The occurrence of one or more of these events may adversely impact our financial condition or results of operations. Our licensees' vehicle rental operations may also be impacted by political, economic and commercial instability, which in turn could impact the amount of royalty payments they make to us.

We face risks related to third-party distribution channels that we rely upon.

In 2014, we generated approximately 47% of our car rental reservations through third-party distribution channels, which include:

• traditional and online travel agencies, airlines and hotel companies, marketing partners such as credit card companies and membership organizations and other entities that help us attract customers; and

• global distribution systems, such as Amadeus, Galileo/Apollo, Sabre and Worldspan that connect travel agents, travel service providers and corporations to our reservations systems.

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Changes in our pricing agreements, commission schedules or arrangements with third-party distribution channels, the termination of any of our relationships or a reduction in the transaction volume of such channels, or a GDS's inability to process and communicate reservations to us could have an adverse impact on our financial condition or results of operations, particularly if our customers are unable to access our reservation systems through alternate channels.

We face risks related to our leases and vehicle rental concessions.

We lease or have vehicle rental concessions at locations throughout the world, including at airports both in the United States and internationally and train stations throughout Europe where vehicle rental companies are frequently required to bid periodically for the available locations. If we were to lose any lease or vehicle rental concession, particularly at an airport or a train station in a major metropolitan area, there can be no assurance that we would be able to find a suitable replacement on reasonable terms and our business could be adversely impacted.

We face risks related to the seasonality of our business.

In our business, the third quarter of the year has historically been our strongest quarter due to the increased level of summer leisure travel and household moving activity. We vary our fleet size over the course of the year to help manage seasonal variations in demand, as well as localized changes in demand that we may encounter in the various regions in which we operate. In 2014, the third quarter accounted for 30% of our total revenue for the year and was our most profitable quarter as measured by Adjusted EBITDA. Any circumstance or occurrence that disrupts rental activity during the third quarter could have a disproportionately adverse impact on our financial condition or results of operations.

We face risks related to acquisitions, including the acquisition of existing licensees or investments in other related businesses.

We may engage in strategic transactions, including the acquisition of or investment in existing licensees and/or other related businesses. The risks involved in engaging in these strategic transactions include the possible failure to successfully integrate the operations of acquired businesses, or to realize the expected benefits of such transactions within the anticipated time frame, or at all, such as cost savings, synergies or sales or growth opportunities. In addition, the integration may result in material unanticipated challenges, expenses, liabilities or competitive responses, including:

- inconsistencies between our standards, procedures and policies and those of the acquired business;
- the increased scope and complexity of our operations could require significant attention from management and could impose constraints on our operations or other projects;
- unforeseen expenses, delays or conditions, including required regulatory or other third-party approvals or consents;
- the costs of compliance with U.S. and international laws and regulations, including the acquisition or assumption of unexpected liabilities, litigation, penalties or other enforcement actions;
- provisions in our and the acquired business's contracts with third parties that could limit our flexibility to take certain actions or our ability to retain customers;
- higher than expected costs may arise due to unforeseen changes in tax, trade, environmental, labor, safety, payroll or pension policies;

higher than expected investments may be required to implement necessary compliance processes and related systems, including accounting systems and internal controls over financial reporting;

limitations on, or costs associated with, workforce reductions;

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the Company may fail to implement its strategy for a particular acquisition, including successfully integrating the acquired business;

the Company may fail to retain, motivate and integrate key management and other employees of the acquired business; and

the possibility of other costs or inefficiencies associated with the integration and consolidation of operational and administrative systems, processes and infrastructures of the combined company.

Any one of these factors could result in delays, increased costs or decreases in the amount of expected revenues related to combining the companies and could adversely impact our financial condition or results of operations.

We face risks related to our derivative instruments.

We typically utilize derivative instruments to manage fluctuations in interest rates, foreign exchange rates and gasoline prices. The derivative instruments we use to manage our risk are usually in the form of interest rate swaps and caps and foreign exchange and commodity contracts. Periodically, we are required to determine the change in fair value, called the “mark to market,” of some of these derivative instruments, which could expose us to substantial mark-to-market losses or gains if such rates or prices fluctuate materially from the time the derivatives were entered into. Accordingly, volatility in rates or prices may adversely impact our financial position or results of operations and could impact the cost and effectiveness of our derivative instruments in managing our risks.

We face risks related to fluctuations in currency exchange rates.

Our international operations generate revenue and incur operating costs in a variety of currencies. The financial position and results of operations of many of our foreign subsidiaries are reported in the relevant local currency and then translated to U.S. dollars at the applicable currency exchange rate for inclusion in our consolidated financial statements. Changes in exchange rates among these currencies and the U.S. dollar will affect the recorded levels of our assets and liabilities in our financial statements. While we take steps to manage our currency exposure, such as currency hedging, we may not be able to effectively limit our exposure to intermediate- or long-term movements in currency exchange rates, which could adversely impact our financial condition or results of operations.

We face risks related to liability and insurance.

Our businesses expose us to claims for bodily injury, death and property damage related to the use of our vehicles, having our customers on our premises and for workers’ compensation claims and other employment-related claims by our employees. We may become exposed to uninsured liability at levels in excess of our historical levels resulting from unusually high losses or otherwise. In addition, liabilities in respect of existing or future claims may exceed the level of our reserves and/or our insurance, which could adversely impact our financial condition and results of operations. Furthermore, insurance with unaffiliated insurers may not continue to be available to us on economically reasonable terms or at all. Should we experience significant liability for which we did not plan, our results of operations or financial position could be negatively impacted.

We reinsure certain insurance exposures as well as offer optional insurance coverages through unaffiliated third-party insurers, which then reinsure all or a portion of their risks through our insurance company subsidiaries that in turn subjects us to regulation under various insurance laws and statutes, in the jurisdictions in which our insurance company subsidiaries are domiciled. Any changes in regulations that alter or impede our reinsurance obligations or subsidiary operations in all or certain jurisdictions could adversely impact the economic benefits that we rely upon to support our reinsurance efforts, which in turn would adversely impact our financial condition or results of operations.



Optional insurance products that we offer to renters in the United States, including, but not limited to, supplemental liability insurance, personal accident insurance and personal effects protection, are regulated under state laws governing such products. Our car rental operations outside the United States must comply with certain local laws and regulations regarding the sale of personal accident and effects insurance by intermediaries. In our other international car rental operations, our offering of optional insurance coverages has not historically been

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regulated. Any changes in U.S. or international laws that change our operating requirements with respect to optional insurance products could increase our costs of compliance or make it uneconomical to offer such products, which would lead to a reduction in revenue and profitability. Should more of our customers decline purchasing optional liability insurance products as a result of any changes in these laws or otherwise, our financial condition or results of operations could be adversely impacted.

We offer loss damage waivers to our customers as an option for them to reduce their financial liability that may be incurred as a result of loss or damage to the rental vehicle. Certain states in the United States have enacted legislation that mandates disclosure to each customer at the time of rental that damage to the rented vehicle may be covered to some extent by the customer's personal automobile insurance and that loss damage waivers may not be necessary. In addition, some states have statutes that establish or cap the daily rate that can be charged for loss damage waivers. Should new state or federal laws or regulations arise that place new limits on our ability to offer loss damage waivers to our customers, our financial condition or results of operations could be adversely impacted.

If the current federal law that pre-empted state laws that imputed tort liability solely based on ownership of a vehicle involved in an accident were to change, our insurance liability exposure could materially increase.

Costs associated with lawsuits or investigations or increases in the legal reserves that we establish based on our assessment of contingent liabilities may have an adverse effect on our results of operations.

We are involved in various claims and lawsuits and other legal proceedings that arise in and outside of the ordinary course of our business. From time to time, the vehicle rental industry may be reviewed or investigated by regulators, which could lead to tax assessments, enforcement actions, fines and penalties or the assertion of private litigation claims. It is not possible to predict with certainty the outcome of claims, investigations and lawsuits, and we could in the future incur judgments, taxes, fines or penalties or enter into settlements of lawsuits and claims that could have an adverse impact on our financial condition or results of operations. In addition, while we maintain insurance coverage with respect to certain claims, we may not be able to obtain such insurance on acceptable terms in the future, if at all, and any such insurance may not provide adequate coverage against any such claims.

As required by U.S. generally accepted accounting principles ("GAAP"), we establish reserves based on our assessment of contingencies, including contingencies related to legal claims asserted against us. Subsequent developments may affect our assessment and estimates of the loss contingency recorded as a reserve and require us to make payments in excess of our reserves, which could have an adverse effect on our financial condition or results of operations.

We face risks related to U.S. and international laws and regulations that could impact our global operations.

We are subject to multiple, and sometimes conflicting, U.S. and international laws and regulations related to, among others, consumer protection, competition, customer privacy and data protection, franchising, fraud and anti-bribery, environmental matters, taxes, automobile-related liability, labor and employment matters, currency-exchange and other various banking and financial industry matters, health and safety, insurance rates and products, claims management, protection of our trademarks and other intellectual property and other trade-related laws and regulations in numerous jurisdictions. Recent years have seen a substantial increase in the global enforcement of certain of these laws such as the U.S. Foreign Corrupt Practices Act, the UK Bribery Act and similar foreign laws and regulations. Our continued operation and expansion outside of the United States, including in developing countries, could increase the risk of governmental investigations and violations of such laws. We cannot predict the nature, scope or effect of future regulatory requirements to which our global operations may be subject or the manner in which existing or future laws may be administered or interpreted. Any alleged or actual violations of any law or regulation, change in law or regulation or in the interpretation of existing laws or regulations may subject us to government scrutiny, investigation and civil and criminal penalties, may limit our ability to provide services in any of the countries in which

we operate and could result in a material adverse impact on our reputation, business, financial position or results of operations.

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In the United States and certain other international locations where we have Company-operated locations, we may recover from consumers various costs associated with the title and registration of our vehicles and certain costs, including concession costs imposed by an airport authority or the owner and/or operator of the premises from which our vehicles are rented. We may in the future be subject to potential U.S. or international laws or regulations that could negatively impact our ability to separately state, charge and recover such costs, which could adversely impact our financial condition or results of operations.

With respect to U.S. and international consumer privacy and data protection laws and regulations in the jurisdictions in which we operate, we may be limited in the types of information that we may collect about individuals with whom we deal or propose to deal, as well as how we collect, process and retain the information that we are permitted to collect, some of which may be non-public personally identifiable information. The centralized nature of our information systems requires the routine flow of information about customers and potential customers across national borders, particularly in the United States and Europe. If this flow of information were to become illegal, or subject to onerous restrictions, our ability to serve our customers could be negatively impaired for an extended period of time. In addition, our failure to maintain the security of the data we hold, whether as a result of our own error or the actions of others, could harm our reputation or give rise to legal liabilities that adversely impact our financial condition or results of operations. Privacy and data protection regulations impact the ways that we process our transaction information and increase our compliance costs. In addition, the Payment Card Industry imposes strict customer credit card data security standards to ensure that our customers' credit card information is protected. Failure to meet these data security standards could result in substantial increased fees to credit card companies, other liabilities and/or loss of the right to collect credit card payments, which could adversely impact our financial condition or results of operations.

We face risks related to environmental laws and regulations.

We are subject to a wide variety of environmental laws and regulations in the United States and internationally in connection with our operations, including, among other things, with respect to the ownership or use of tanks for the storage of petroleum products, such as gasoline, diesel fuel and motor and waste oils; the treatment or discharge of waste waters; and the generation, storage, transportation and off-site treatment or disposal of solid or liquid wastes. We maintain liability insurance covering our storage tanks. In the United States, we have instituted an environmental compliance program designed to ensure that these tanks are properly registered in the jurisdiction in which they are located and are in compliance with applicable technical and operational requirements. We are also subject to various environmental regulatory requirements in other countries in which we operate. The tank systems located at each of our locations may not at all times remain free from undetected leaks, and the use of these tanks may result in significant spills, which may require remediation and expose us to material liabilities.

We may also be subject to requirements related to the remediation of substances that have been released into the environment at properties owned or operated by us or at properties to which we send substances for treatment or disposal. Such remediation requirements may be imposed without regard to fault and liability for environmental remediation can be substantial. These remediation requirements and other environmental regulations differ depending on the country where the property is located. We have made, and will continue to make, expenditures to comply with environmental laws and regulations, including, among others, expenditures for the remediation of contamination at our owned and leased properties, as well as contamination at other locations at which our wastes have reportedly been identified. Our compliance with existing or future environmental laws and regulations may, however, require material expenditures by us or otherwise have an adverse impact on our financial condition or results of operations.

The U.S. Congress and other legislative and regulatory authorities in the United States and internationally have considered, and will likely continue to consider, numerous measures related to climate change and greenhouse gas emissions. Should rules establishing limitations on greenhouse gas emissions or rules imposing fees on entities deemed to be responsible for greenhouse gas emission become effective, demand for our services could be affected,

our fleet and/or other costs could increase, and our business could be adversely impacted.

We face risks related to franchising or licensing laws and regulations.

We sometimes sell licenses to third parties to operate locations under our brands in exchange for the payment of a royalty by the third-party licensee. Our licensing activities and sales are subject to various state and federal laws

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and regulations. In particular, the U.S. Federal Trade Commission requires that we make extensive disclosure to prospective licensees but does not require registration. A number of states require registration and/or disclosure in connection with licensing offers and sales, as well as franchise relationship laws that could limit our ability to, among other things, terminate license agreements or withhold consent to the renewal or transfer of these agreements. We are also subject to certain regulations affecting our license arrangements in Europe and other international locations. Although our licensing operations have not been materially adversely affected by such existing regulations, such regulations could have a greater impact on us if we were to become more active in granting or selling new licenses to third parties. Should our operations become subject to new laws or regulations that negatively impact our ability to engage in licensing activities, our financial condition or results of operations could be adversely impacted.

We face risks related to the actions of, or failures to act by, our licensees, dealers or independent operators.

Our vehicle rental licensee and dealer locations are independently owned and operated. We also operate many of our Company-owned locations through agreements with “agency operators,” which are third-party independent contractors who receive commissions to operate such locations. Our agreements with our licensees, dealers and agency operators (“third-party operators”) generally require that they comply with all laws and regulations applicable to their businesses, including our internal policies and standards. Under these agreements, third-party operators retain control over the employment and management of all personnel at their locations. Regulators, courts or others may seek to hold us responsible for the actions of, or failures to act by third-party operators. Although we actively monitor the operations of these third-party operators, and under certain circumstances have the ability to terminate their agreements for failure to adhere to contracted operational standards, we are unlikely to detect all problems. Moreover, there are occasions when the actions of third-party operators may not be clearly distinguishable from our own. It is our policy to vigorously seek to be dismissed from any such claims involving third-party operators and to pursue indemnity for any adverse outcomes that affect our Company. Failure of third-party operators to comply with laws and regulations may expose us to liability, damages and negative publicity that may adversely impact our financial condition or results of operations.

We face risks related to our reliance on communications networks and centralized information systems.

We rely heavily on the satisfactory performance and availability of our information systems, including our reservation systems, websites and network infrastructure to attract and retain customers, accept reservations, process rental and sales transactions, manage our fleet of vehicles, account for our activities and otherwise conduct our business. We have centralized our information systems, and we rely on communications service providers to link our systems with the business locations these systems were designed to serve. A failure or interruption that results in the unavailability of any of our information systems, or a major disruption of communications between a system and the locations it serves, could cause a loss of reservations, interfere with our fleet management, slow rental and sales processes, create negative publicity that damages our reputation or otherwise adversely impacts our ability to manage our business effectively. We may experience temporary system interruptions for a variety of reasons, including network failures, power outages, cyber-attacks, software errors or an overwhelming number of visitors trying to access our systems during periods of strong demand. Because we are dependent in part on independent third parties for the implementation and maintenance of certain aspects of our systems and because some of the causes of system interruptions may be outside of our control, we may not be able to remedy such interruptions in a timely manner, or at all. Our systems’ business continuity plans and insurance programs seek to mitigate such risks but they cannot fully eliminate the risks as a disruption could be experienced in any of our information systems.

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We face risks related to protecting the confidential information of our customers against security breaches, including cyber-security breaches.

Third parties may have the technology or expertise to breach the security of our customer transaction data and our security measures may not prevent physical security or cyber-security breaches, which could result in substantial harm to our business, our reputation or our results of operations. We rely on encryption and/or authentication technology licensed and, at times, administered by independent third parties to secure transmission of confidential information, including credit card numbers. Our outsourcing agreements with these third-party service providers generally require that they have adequate security systems in place to protect our customer transaction data. However, advances in computer capabilities, new discoveries in the field of cryptography or other cyber-security developments could render our security systems and technology or those employed by our third-party service providers vulnerable to a breach. In addition, anyone who is able to circumvent our security measures could misappropriate proprietary information or cause interruptions in our operations. Cyber-security risks such as malicious software and attempts to gain unauthorized access to data are rapidly evolving and could lead to disruptions in our reservation system or other data systems, unauthorized release of confidential or otherwise protected information or corruption of data. Any successful efforts by individuals to infiltrate, break into, disrupt, damage or otherwise steal from the Company's, its licensees' or its third-party service providers' security or information systems could damage our reputation and expose us to a risk of loss or litigation and possible liability that could adversely impact our financial condition or results of operations.

We face risks associated with our like-kind exchange program.

We utilize a like-kind exchange program whereby we replace vehicles in a manner that allows tax gains on vehicles sold in the United States to be deferred. The program has resulted in a material deferral of federal and state income taxes beginning in 2004. The benefit of deferral is dependent on reinvestment of vehicle disposition proceeds in replacement vehicles within a prescribed period of time (usually six months). An extended downsizing of our fleet could result in reduced deferrals, utilization of tax attributes and increased payment of federal and state income taxes that could require us to make material cash payments. Such a downsizing or reduction in purchases would likely occur if, and to the extent, we are unable to obtain financing when our asset-backed rental car financings mature or in connection with a significant decrease in demand for vehicle rentals. Therefore, we cannot offer assurance that the expected tax deferral will continue or that the relevant law concerning like-kind exchange programs will remain intact in its current form.

U.S. federal and state income tax laws, legislation or regulations governing like-kind exchange and accelerated depreciation deductions and the administrative interpretations of those laws, legislation or regulations are subject to amendment at any time. We cannot predict when or if any new federal or state income tax laws, legislation, regulations or administrative interpretations will be adopted and in what manner. Any such change could eliminate certain tax deferrals that are currently available with respect to like-kind exchange or accelerated depreciation deductions, which would adversely impact our financial condition or results of operations by reducing or eliminating deferral of federal or state income taxes allowed for our U.S. vehicle rental fleet.

We face risks related to our protection of our intellectual property.

We have registered "Avis," "Budget," "Zipcar" and "Payless" and various related marks or designs, such as "We try harder," a "wheels when you want them," as trademarks in the United States and in certain other countries. At times, competitors may adopt service names similar to ours, thereby impeding our ability to build brand identity and possibly leading to market confusion. In addition, there could be potential trade name or trademark infringement claims brought by owners of other registered trademarks or trademarks that incorporate variations of our registered trademarks. From time to time, we have acquired or attempted to acquire Internet domain names held by others when such names have caused consumer confusion or had the potential to cause consumer confusion.

Our efforts to enforce or protect our proprietary rights related to trademarks, trade secrets, domain names, copyrights or other intellectual property may be ineffective and could result in substantial costs and diversion of resources and could adversely impact our financial condition or results of operations.



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RISKS RELATED TO OUR INDEBTEDNESS

We face risks related to our current and future debt obligations.

Our ability to satisfy and manage our debt obligations depends on our ability to generate cash flow and on overall financial market conditions. To some extent, this is subject to prevailing economic and competitive conditions and to certain financial, business and other factors, many of which are beyond our control. Our total debt as of December 31, 2014, was \$11.5 billion, requiring us to dedicate a significant portion of our cash flows to pay interest and principal on our debt, which reduces the funds available to us for other purposes. Our business may not generate sufficient cash flow from operations to permit us to service our debt obligations and meet our other cash needs, which may force us to reduce or delay capital expenditures, sell or curtail assets or operations, seek additional capital or seek to restructure or refinance our indebtedness. If we must sell or curtail our assets or operations, it may negatively affect our ability to generate revenue. Certain of our indebtedness contain restrictive covenants and provisions applicable to us and our subsidiaries that limit our ability to, among other things:

- incur additional debt to fund working capital, capital expenditures, debt service requirements, execution of our business strategy or acquisitions and other purposes;

- provide guarantees in respect of obligations of other persons;

- pay dividends or distributions, redeem or repurchase capital stock;

- prepay, redeem or repurchase debt;

- create or incur liens;

- make distributions from our subsidiaries;

- sell assets and capital stock of our subsidiaries;

- consolidate or merge with or into, or sell substantially all of our assets to, another person; and

- respond to adverse changes in general economic, industry and competitive conditions, as well as changes in government regulation and changes to our business.

Our failure to comply with the restrictive covenants contained in the agreements or instruments that govern our debt obligations, if not waived, would cause a default under the senior credit facility and could result in a cross-default under several of our other debt agreements including our U.S. and European asset-backed debt facilities. If such a failure were to occur, certain provisions in our various debt agreements could require that we repay or accelerate debt payments to the lenders or holders of our debt and there can be no assurance that we would be able to refinance or obtain a replacement for such financing programs.

We face risks related to movements or disruptions in the credit and asset-backed securities markets.

We finance our operations through the use of asset-backed securities and other debt financing structures available through the credit market. Our total asset-backed debt as of December 31, 2014, was approximately \$8.1 billion, with remaining available capacity of approximately \$4.4 billion. We maintain asset-backed facilities in the United States, Canada, Australia and Europe. If the asset-backed financing market were to be disrupted for any reason, we may be unable to obtain refinancing for our operations at current levels, or at all, when our asset-backed financings mature.

Likewise, any disruption of the asset-backed financing market could also increase our borrowing costs, as we seek to engage in new financings or refinance our existing asset-backed financings. In addition, we could be subject to increased collateral requirements to the extent that we request any amendment or renewal of any of our existing asset-backed financings.

We face risks related to potential increases in interest rates.

A portion of our borrowings, primarily our vehicle-backed borrowings, bears interest at variable rates that expose us to interest rate risk. If interest rates were to increase, whether due to an increase in market interest rates or an

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increase in our own cost of borrowing, our debt service obligations for our variable rate indebtedness would increase even though the amount of borrowings remained the same, and our results of operations could be adversely affected. As of December 31, 2014, our total outstanding debt of approximately \$11.5 billion included unhedged interest rate sensitive debt of approximately \$1.9 billion. During our seasonal borrowing peak in 2014, outstanding unhedged interest rate sensitive debt totaled approximately \$4.0 billion.

Approximately \$1.6 billion of our corporate indebtedness as of December 31, 2014, and virtually all of our \$8.1 billion of debt under vehicle programs, matures within the next five years. If we are unable to refinance maturing indebtedness at interest rates that are equivalent to or lower than the interest rates on our maturing debt, our results of operations or our financial condition may be adversely affected.

## RISKS RELATED TO OUR COMMON STOCK

We face risks related to the market price of our common stock.

We cannot predict the prices at which our common stock will trade. The market price of our common stock experienced substantial volatility in the past and may fluctuate widely in the future, depending upon many factors, some of which may be beyond our control, including:

- our quarterly or annual earnings, or those of other companies in our industry, including our key suppliers;
- financial estimates that we provide to the public, any changes in such estimates, or our failure to meet such estimates;
- actual or anticipated fluctuations in our operating results;
- changes in accounting standards, policies, guidance, interpretations or principles;
- announcements by us or our competitors of acquisitions, dispositions, strategies, management or shareholder changes, marketing affiliations, projections, fleet costs, pricing actions or other competitive actions;
- changes in earnings estimates by securities analysts or our ability to meet those estimates;
- changes in investors' and analysts' perceptions of our industry, business or related industries;
- the operating and stock price performance of other comparable companies;
- overall market fluctuations;
- success or failure of competitive service offerings or technologies;
- tax or regulatory developments in the United States or foreign countries;
- litigation involving us;
- the timing and amount of share repurchases by us; and
- general economic conditions and conditions in the credit markets.

If any of the foregoing occurs, it could cause our stock price to fall and may expose us to litigation, including class action lawsuits that, even if unsuccessful, could be costly to defend and a distraction to management.

Our shareholders' percentage of ownership may be diluted in the future.

Our shareholders' percentage of ownership may be diluted in the future due to equity issuances or equity awards that we granted or will grant to our directors, officers and employees. In addition, we may undertake acquisitions financed in part through public or private offerings of securities, or other arrangements. If we issue equity

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securities or equity-linked securities, the issued securities would have a dilutive effect on the interests of the holders of our common shares. In 2014, we granted approximately 726,000 restricted stock units and in January 2015, we granted approximately 480,000 restricted stock units. We also expect to grant restricted stock units, stock options and/or other types of equity awards in the future.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal executive offices are located at 6 Sylvan Way, Parsippany, New Jersey 07054 pursuant to a lease agreement that expires in 2023. We own a facility in Virginia Beach, Virginia, which serves as a satellite administrative facility for our car and truck rental operations. We also lease office space in Tulsa, Oklahoma, and Boston, Massachusetts, pursuant to leases expiring in 2022 and 2023, respectively. These locations primarily provide operational and administrative services or contact center operations. We also lease office space in Bracknell, England, Budapest, Hungary and Barcelona, Spain, pursuant to leases expiring in 2022, 2018 and 2019, respectively, for corporate offices, contact center activities and other administrative functions, respectively, in Europe. There are approximately 20 other leased office locations throughout the world used for administrative, regional sales and operations activities.

We lease or have vehicle rental concessions for our brands at locations throughout the world. Avis operates approximately 1,400 locations in North America and approximately 1,150 international locations. Of those locations, approximately 280 in North America and approximately 200 outside of North America are at airports. Budget operates at approximately 1,100 locations in North America, of which approximately 230 are at airports. Budget also operates at approximately 600 international locations, of which approximately 160 are at airports. Payless also operates at approximately 60 locations in North America, the majority of which are at or near airports. We believe that our properties are sufficient to meet our present needs and we do not anticipate any difficulty in securing additional space, as needed, on acceptable terms.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in various legal proceedings related to wage and hour and employee classification claims that involve allegations that we violated the Fair Labor Standards Act and various other state labor laws by misclassifying certain management employees as exempt from receiving overtime compensation. The relief sought in these cases varies but most cases typically seek to recover payment for alleged unpaid overtime compensation and attorneys' fees and costs. These matters are at various stages in the litigation process and we intend to vigorously defend against these suits.

We are involved in other claims, legal proceedings and governmental inquiries related, among other things, to our vehicle rental and car sharing operations, including, among others, business practice disputes, contract and licensee disputes, employment and wage-and-hour claims, competition matters, insurance claims, intellectual property claims and other regulatory, environmental, commercial and tax matters. The Company believes that it has adequately accrued for such matters as appropriate. However, litigation is inherently unpredictable and, although the Company believes that its accruals are adequate and/or that it has valid defenses in these matters, unfavorable resolutions could occur, which could adversely impact the Company's financial position, results of operations or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

## MARKET PRICE OF COMMON STOCK

Our common stock is currently traded on the NASDAQ Global Select Market ("NASDAQ") under the symbol "CAR." The following table sets forth the quarterly high and low sales prices per share of our common stock as reported by NASDAQ for 2014 and 2013. At January 31, 2015, the number of stockholders of record was approximately 3,976.

	High	Low
2014		
First Quarter	\$50.48	\$35.56
Second Quarter	60.43	46.53
Third Quarter	69.76	54.12
Fourth Quarter	68.66	45.94
	High	Low
2013		
First Quarter	\$28.47	\$20.32
Second Quarter	34.21	25.74
Third Quarter	33.30	26.57
Fourth Quarter	40.72	27.77

## DIVIDEND POLICY

We neither declared nor paid any cash dividend on our common stock in 2014 and 2013, and we do not currently anticipate paying dividends on our common stock. Our ability to pay dividends to holders of our common stock is limited by the Company's senior credit facility, the indentures governing our senior notes and our vehicle financing programs, insofar as we may seek to pay dividends out of funds made available to the Company by its subsidiaries that are governed by such senior credit facility. The declaration and payment of future dividends to holders of our common stock will be at the discretion of our Board of Directors and will depend upon many factors, including our financial condition, earnings, capital requirements of our businesses, covenants associated with certain debt obligations, legal requirements, regulatory constraints, industry practice and other factors that the Board of Directors deems relevant.

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## SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table provides information about shares of our common stock that may be issued upon the exercise of options and restricted stock units under all of our existing equity compensation plans as of December 31, 2014.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, Rights and Restricted Stock Units <sup>(a)</sup>	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (Excludes Restricted Stock Units) (\$)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in First Column) <sup>(b)</sup>
Equity compensation plans approved by security holders	4,121,711	\$2.92	7,822,631
Equity compensation plans not approved by security holders	—	—	—
Total	4,121,711		7,822,631

<sup>(a)</sup> Includes options and other awards granted under the following plans approved by stockholders: the Amended and Restated Equity and Incentive Plan, the 1997 Stock Incentive Plan, the 1997 Stock Option Plan and the Directors Deferred Compensation Plan. The 1997 Stock Incentive Plan, the 1997 Stock Option Plan and the Directors Deferred Compensation Plan were each approved with respect to an initial allocation of shares.

<sup>(b)</sup> Represents 5,353,664 shares available for issuance under the Amended and Restated Equity and Incentive Plan and 2,468,967 shares available for issuance pursuant to the 2009 Employee Stock Purchase Plan.

## ISSUER PURCHASES OF EQUITY SECURITIES

The following is a summary of the Company's common stock repurchases by month for the quarter ended December 31, 2014:

Period	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
October 1-31, 2014	1,370,490	\$51.08	1,370,490	\$304,052,473
November 1-30, 2014	—	—	—	304,052,473
December 1-31, 2014	320,680	61.12	320,680	284,452,984
Total	1,691,170	\$52.99	1,691,170	\$284,452,984

<sup>(a)</sup> Excludes, for the three months ended December 31, 2014, 936 shares which were withheld by the Company to satisfy employees' income tax liabilities attributable to the vesting of restricted stock unit awards.

The Company has obtained Board approval to repurchase up to \$635 million of its common stock under a plan originally approved in August 2013 and subsequently expanded in April and October 2014. 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 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.





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## PERFORMANCE GRAPH

Set forth below is a line graph and table comparing the cumulative total stockholder return of our common stock against the cumulative total returns of peer group indices, the S&P MidCap 400 Index, S&P 500 Index and the Dow Jones US Transportation Average Index for the period of five fiscal years commencing December 31, 2009 and ending December 31, 2014. The broad equity market indices used by the Company are the S&P 500 Index, which measures the performance of large-sized companies, and the Dow Jones US Transportation Average Index, which measures the performance of transportation companies. The Company has elected to begin using the S&P 500 Index in place of the S&P MidCap 400 Index for future period comparisons because the S&P 500 Index is a more appropriate benchmark in light of the Company's equity market capitalization. The graph and table depict the result of an investment on December 31, 2009 of \$100 in the Company's common stock, the S&P MidCap 400 Index, the S&P 500 Index and the Dow Jones US Transportation Average Index, including investment of dividends.

	As of December 31,					
	2009	2010	2011	2012	2013	2014
Avis Budget Group	\$ 100.00	\$ 118.60	\$ 81.71	\$ 151.07	\$ 308.08	\$ 505.56
S&P MidCap 400 Index	\$ 100.00	\$ 126.64	\$ 124.45	\$ 146.69	\$ 195.84	\$ 214.97
S&P 500 Index	\$ 100.00	\$ 115.06	\$ 117.49	\$ 136.30	\$ 180.44	\$ 205.14
Dow Jones U.S. Transportation Average Index	\$ 100.00	\$ 126.74	\$ 126.75	\$ 136.31	\$ 192.72	\$ 241.04

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## ITEM 6. SELECTED FINANCIAL DATA

	As of or For the Year Ended December 31,				
	2014	2013	2012	2011	2010
	(In millions, except per share data)				
<b>Results of Operations</b>					
Net revenues	\$8,485	\$7,937	\$7,357	\$5,900	\$5,185
Net income (loss)	\$245	\$16	\$290	\$(29)	\$54
Adjusted EBITDA <sup>(a)</sup>	\$876	\$769	\$840	\$610	\$409
<b>Earnings (loss) per share</b>					
Basic	\$2.32	\$0.15	\$2.72	\$(0.28)	\$0.53
Diluted	2.22	0.15	2.42	(0.28)	0.49
<b>Financial Position</b>					
Total assets	\$16,969	\$16,284	\$15,218	\$12,938	\$10,327
Assets under vehicle programs	11,058	10,452	10,099	9,090	6,865
Corporate debt	3,420	3,394	2,905	3,205	2,502
Debt under vehicle programs <sup>(b)</sup>	8,116	7,337	6,806	5,564	4,515
Stockholders' equity	665	771	757	412	410
Ratio of debt under vehicle programs to assets under vehicle programs	73	% 70	% 67	% 61	% 66

The following table reconciles Adjusted EBITDA to Net income (loss) within our Selected Financial Data, which we define as income from continuing operations before non-vehicle related depreciation and amortization, any

<sup>(a)</sup> impairment charge, restructuring expense, early extinguishment of debt costs, non-vehicle related interest, transaction-related costs, net and income taxes. Our presentation of Adjusted EBITDA may not be comparable to similarly-titled measures used by other companies.

	For the Year Ended December 31,				
	2014	2013	2012	2011	2010
Adjusted EBITDA	\$876	\$769	\$840	\$610	\$409
Less: Non-vehicle related depreciation and amortization	180	152	125	95	90
Interest expense related to corporate debt, net	209	228	268	219	170
Early extinguishment of corporate debt	56	147	75	—	52
Restructuring expense	26	61	38	5	11
Transaction-related costs, net	13	51	34	255	14
Impairment	—	33	—	—	—
Income before income taxes	392	97	300	36	72
Provision for income taxes	147	81	10	65	18
Net income (loss)	\$245	\$16	\$290	\$(29)	\$54

<sup>(b)</sup> Includes related-party debt due to Avis Budget Rental Car Funding (AESOP) LLC (“Avis Budget Rental Car Funding”). See Note 13 to our Consolidated Financial Statements.

In presenting the financial data above in conformity with GAAP, we are required to make estimates and assumptions that affect the amounts reported. See “Critical Accounting Policies” under Item 7 of this Annual Report for a detailed discussion of the accounting policies that we believe require subjective and complex judgments that could potentially affect reported results.

TRANSACTION-RELATED COSTS, RESTRUCTURING AND OTHER ITEMS

During 2014, 2013, 2012, 2011 and 2010, we recorded \$13 million, \$51 million, \$34 million, \$255 million and \$14 million, respectively, of transaction-related costs, primarily related to the acquisition and integration of acquired businesses with our operations. In 2014, these costs were primarily related to acquisition- and integration-related costs of acquired businesses, including a non-cash gain recognized in connection with the acquisition of our Budget license rights, and contingent consideration related to our Apex Car Rentals acquisition. In 2013, these costs were primarily related to the acquisition of Zipcar and the integration of acquired businesses. During 2012,

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these costs were primarily related to the integration of Avis Europe's operations with the Company's. In 2011, these costs included (i) a \$117 million non-cash charge related to the unfavorable license rights reacquired by the Company through the acquisition of Avis Europe, which provided Avis Europe with royalty-free license rights within certain territories, (ii) \$89 million of expenses related to due-diligence, advisory and other costs, and (iii) \$49 million for losses on foreign-currency transactions related to the Avis Europe purchase price. In 2010, these costs related to due-diligence and other cost for our previous efforts to acquire Dollar Thrifty. See Notes 2 and 5 to our Consolidated Financial Statements.

In 2014, we committed to various strategic initiatives to identify best practices and drive efficiency throughout our organization, by reducing headcount, improving processes and consolidating functions. In 2012, we implemented a restructuring initiative related to our Truck Rental segment, and in 2011, we implemented a restructuring initiative subsequent to the acquisition of Avis Europe. In 2010, we implemented cost-reduction and efficiency improvement plans to reduce costs, enhance organizational efficiency and consolidate and rationalize existing processes and facilities. We recorded expenses related to these and other restructuring initiatives of \$26 million in 2014, \$61 million in 2013, \$38 million in 2012, \$5 million in 2011, and \$11 million in 2010. See Note 4 to our Consolidated Financial Statements.

In 2014, 2013, 2012 and 2010, we recorded \$56 million, \$147 million, \$75 million and \$52 million, respectively, of expense related to the early extinguishment of corporate debt.

In 2013, we recorded a charge of \$33 million for the impairment of our equity-method investment in our Brazilian licensee.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our Consolidated Financial Statements and accompanying Notes thereto included elsewhere herein. 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 rental fleet of more than 545,000 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, International and Truck Rental, as discussed in Part I of this Form 10-K.

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.

We believe that the following factors, among others, may affect 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;
- demand for car sharing services;
- changes in the price of gasoline;



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• changes in currency exchange rates; and

• demand for truck rentals.

Throughout 2014, we operated in an uncertain and uneven economic environment marked by heightened geopolitical risks and an unprecedented level of vehicle manufacturer recalls. We expect such economic conditions to continue in 2015. Nonetheless, we continue to anticipate that worldwide demand for vehicle rental and car sharing services will increase in 2015, most likely against a backdrop of modest and uneven 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 2015 to enhance our returns on invested capital and profitability.

Our objective continues to be 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, appropriate investments in technology and adjustments in the size, nature and terms of our relationships with vehicle manufacturers.

2014 HIGHLIGHTS

In 2014, we achieved record transaction volumes and revenues and had the highest Adjusted EBITDA in our history:

• Our net revenues increased 7% year-over-year to \$8.5 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 \$876 million in 2014, primarily as a result of higher rental volumes and increased year-over-year pricing in North America, partially offset by higher fleet costs.

We redeemed all \$687 million of our outstanding 8¼% Senior Notes due 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 \$300 million of our common stock, reducing our shares outstanding by approximately 5.7 million shares.

• We acquired our Budget licensees in Southern California and Las Vegas as well as Edmonton, Alberta, Canada, and also re-acquired the right to operate the Budget brand in Portugal.

• Our share price increased 64% to \$66.33.

RESULTS OF OPERATIONS

We measure performance principally 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.





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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.

Year Ended December 31, 2014 vs. Year Ended December 31, 2013

Our consolidated results of operations comprised the following:

	Year Ended December 31,				
	2014	2013	Change	% Change	
<b>Revenues</b>					
Vehicle rental	\$6,026	\$5,707	\$319	6	%
Other	2,459	2,230	229	10	%
Net revenues	8,485	7,937	548	7	%
<b>Expenses</b>					
Operating	4,251	4,074	177	4	%
Vehicle depreciation and lease charges, net	1,996	1,811	185	10	%
Selling, general and administrative	1,080	1,019	61	6	%
Vehicle interest, net	282	264	18	7	%
Non-vehicle related depreciation and amortization	180	152	28	18	%
Interest expense related to corporate debt, net:					
Interest expense	209	228	(19)	(8)	%
Early extinguishment of debt	56	147	(91)	(62)	%
Restructuring expense	26	61	(35)	(57)	%
Transaction-related costs, net	13	51	(38)	(75)	%
Impairment	—	33	(33)	(100)	%
Total expenses	8,093	7,840	253	3	%
Income before income taxes	392	97	295	*	
Provision for income taxes	147	81	66	81	%
Net income	\$245	\$16	\$229	*	

\*Not meaningful.

During 2014, our net revenues increased principally as a result of a 5% increase in total rental days and a 1% increase in pricing, a 9% increase in ancillary revenues and \$67 million of incremental revenue from Zipcar (acquired in March 2013), partially offset by a \$43 million negative impact from currency exchange rate movements.

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, restructuring expense and impairment costs. As a result, despite a \$16 million negative pretax impact from currency exchange rate movements, our net income increased by \$229 million. Our effective tax rates were a provision of 38% and 84% in 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.

For 2014, the Company reported earnings of \$2.22 per diluted share, which includes after-tax debt extinguishment costs of (\$0.31) per share, after-tax restructuring expense of (\$0.16) per share and after-tax transaction costs of (\$0.08) per share. For 2013, the Company reported earnings of \$0.15 per diluted share, which includes after-tax debt extinguishment costs of (\$0.94) per share, after-tax restructuring expense of (\$0.35) per share, after-tax transaction costs of (\$0.35) per share and an after-tax impairment charge of (\$0.28) per share.

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In the year ended December 31, 2014:

Operating expenses decreased to 50.1% of revenue from 51.3% in 2013, driven by increased rental volumes and higher pricing.

Vehicle depreciation and lease charges increased to 23.5% of revenue from 22.8% in 2013, principally due to higher per-unit fleet costs.

Selling, general and administrative costs decreased to 12.7% of revenue from 12.8% in 2013.

Vehicle interest costs, at 3.3% of revenue, remained level compared to the prior year.

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	\$5,533	\$5,042	10	% \$607	\$508	19	%
International	2,588	2,522	3	% 290	272	7	%
Truck Rental	364	373	(2	%) 39	36	8	%
Corporate and Other <sup>(a)</sup>	—	—	*	(60	) (47	) *	
Total Company	\$8,485	\$7,937	7	% 876	769	14	%
Less: Non-vehicle related depreciation and amortization				180	152		
Interest expense related to corporate debt, net:							
Interest expense				209	228		
Early extinguishment of debt				56	147		
Restructuring expense				26	61		
Transaction-related costs, net <sup>(b)</sup>				13	51		
Impairment				—	33		
Income before income taxes				\$392	\$97		

\*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	\$5,533	\$5,042	10
Adjusted EBITDA	607	508	19

Revenues increased 10% in 2014 compared with 2013, primarily due to 7% growth in rental volumes and a 2% increase in pricing, and \$54 million of incremental revenue from Zipcar.

Adjusted EBITDA increased 19% in 2014 compared with 2013, primarily due to increased rental volumes and pricing as well as the acquisition of Zipcar, partially offset by 5% higher per-unit fleet costs.

In the year ended December 31, 2014:

Operating expenses were 48.5% of revenue, a decrease from 49.4% in the prior year, driven by increased rental volumes and higher pricing.

Vehicle depreciation and lease charges increased to 25.5% of revenue from 24.9% in 2013, due to higher per-unit fleet costs and a decrease in fleet utilization as a result of increased manufacturer recalls.

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Selling, general and administrative costs decreased to 11.0% of revenue from 11.6% in the prior year, principally due to increased revenues.

Vehicle interest costs, at 4.0% of revenue, remained level compared to the prior year.

## International

	2014	2013	% Change	
Revenue	\$2,588	\$2,522	3	%
Adjusted EBITDA	290	272	7	%

Revenues increased 3% during 2014 compared with 2013, primarily due to an 8% increase in ancillary revenues.

Adjusted EBITDA increased 7% in 2014 compared with 2013, driven by increased revenue, partially offset by a \$13 million negative impact from currency exchange rate changes.

In the year ended December 31, 2014:

Operating expenses were 51.9% of revenue, a decrease from 52.9% in the prior year, primarily due to increased revenues.

Vehicle depreciation and lease charges decreased to 20.0% of revenue from 20.2% compared to the prior year.

Selling, general and administrative costs increased to 15.0% of revenue from 14.2% in the prior year, primarily due to our planned increase in advertising and brand investment.

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

## Truck Rental

	2014	2013	% Change	
Revenue	\$364	\$373	(2	%)
Adjusted EBITDA	39	36	8	%

Revenues declined \$9 million due to a 3% decrease in total rental days, as our rental fleet was 11% smaller in 2014, partially offset by a 2% increase in pricing.

Adjusted EBITDA increased \$3 million in 2014 compared with 2013, principally due to lower maintenance costs, partially offset by increased per-unit fleet costs associated with newly acquired rental fleet.

## Corporate and Other

	2014	2013	% Change	
Revenue	\$—	\$—	*	
Adjusted EBITDA	(60	) (47	)	*

\*Not meaningful

Adjusted EBITDA decreased \$13 million in 2014 compared with 2013, primarily due to greater selling, general and administrative expenses which are not attributable to a particular segment.

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Year Ended December 31, 2013 vs. Year Ended December 31, 2012

Our consolidated results of operations comprised the following:

	Year Ended December 31,			% Change	
	2013	2012	Change		
Revenues					
Vehicle rental	\$5,707	\$5,297	\$410	8	%
Other	2,230	2,060	170	8	%
Net revenues	7,937	7,357	580	8	%
Expenses					
Operating	4,074	3,824	250	7	%
Vehicle depreciation and lease charges, net	1,811	1,471	340	23	%
Selling, general and administrative	1,019	925	94	10	%
Vehicle interest, net	264	297	(33)	(11)	%
Non-vehicle related depreciation and amortization	152	125	27	22	%
Interest expense related to corporate debt, net:					
Interest expense	228	268	(40)	(15)	%
Early extinguishment of debt	147	75	72	96	%
Restructuring expense	61	38	23	61	%
Transaction-related costs, net	51	34	17	50	%
Impairment	33	—	33	*	
Total expenses	7,840	7,057	783	11	%
Income before income taxes	97	300	(203)	(68)	%
Provision for income taxes	81	10	71	*	
Net income	\$16	\$290	\$(274)	(94)	%

\*Not meaningful.

During 2013, our net revenues increased principally as a result of a 3% increase in total rental days (excluding acquisitions), \$246 million of revenue from Zipcar and \$44 million of revenue from Payless (acquired in July 2013). Movements in currency exchange rates had virtually no effect on revenues in 2013 compared to 2012.

Total expenses increased as a result of higher vehicle depreciation and lease charges resulting from a 2% increase in our car rental fleet and a 17% increase in our per-unit fleet costs (excluding acquisitions); an increase in operating expenses as a result of the acquisition of Zipcar, increased volumes and inflationary pressures on costs; an increase in selling, general and administrative costs, driven by the acquisition of Zipcar and increased marketing commissions; and an increase in debt extinguishment costs in connection with the retirement of a portion of our outstanding corporate debt. Our expenses were not materially impacted by currency exchange rates. As a result of these items, and a \$71 million increase in our provision for income taxes, our net income decreased \$274 million. Our effective tax rates were a provision of 84% and 3% in 2013 and 2012, respectively, principally due to the non-deductibility of a portion of our debt extinguishment costs and the treatment of impairment costs in 2013 and the effective settlement of a \$128 million unrecognized tax benefit in 2012.

In the year ended December 31, 2013:

Operating expenses decreased to 51.3% of revenue from 52.0% in the prior year, driven by cost-reduction efforts.

Vehicle depreciation and lease charges increased to 22.8% of revenue from 20.0% in 2012, principally due to higher per-unit fleet costs amid an anticipated normalization of used-car residual values.

Selling, general and administrative costs increased to 12.8% of revenue from 12.6% in 2012.

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Vehicle interest costs declined to 3.3% of revenue compared to 4.0% in the prior year, principally due to lower borrowing rates.

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

	Revenues			Adjusted EBITDA			
	2013	2012	% Change	2013	2012	% Change	
North America	\$5,042	\$4,640	9	% \$508	\$557	(9	%)
International	2,522	2,342	8	% 272	270	1	%
Truck Rental	373	374	0	% 36	34	6	%
Corporate and Other <sup>(a)</sup>	—	1	*	(47	) (21	) *	
Total Company	\$7,937	\$7,357	8	% 769	840	(8	%)
Less: Non-vehicle related depreciation and amortization				152	125		
Interest expense related to corporate debt, net:							
Interest expense				228	268		
Early extinguishment of debt				147	75		
Restructuring expense				61	38		
Transaction-related costs, net <sup>(b)</sup>				51	34		
Impairment <sup>(c)</sup>				33	—		
Income before income taxes				\$97	\$300		

\*Not meaningful

<sup>(a)</sup> Includes unallocated corporate overhead and the elimination of transactions between reportable segments.

<sup>(b)</sup> For 2013, primarily represents costs related to the integration of acquired businesses and our acquisition of Zipcar and, for 2012, primarily represents costs related to the integration of the operations of Avis Europe.

<sup>(c)</sup> We recorded a charge of \$33 million for the impairment of our equity-method investment in our Brazilian licensee. North America

	2013	2012	% Change
Revenue	\$5,042	\$4,640	9
Adjusted EBITDA	508	557	(9

Revenues increased 9% in 2013 compared with 2012, primarily due to the acquisitions of Zipcar and Payless and 3% growth in rental volumes and a 1% increase in pricing (excluding acquisitions).

Adjusted EBITDA decreased 9% in 2013 compared with 2012 due to higher fleet costs, partially offset by lower vehicle interest expense, as our borrowing rates declined year-over-year.

Zipcar and Payless contributed \$205 million and \$44 million to revenues and \$26 million and an insignificant amount to Adjusted EBITDA, respectively, in 2013.

In the year ended December 31, 2013:

Operating expenses were 49.4% of revenue, a decrease from 50.4% in the prior year, primarily due to higher pricing and our continued cost-reduction efforts.

Vehicle depreciation and lease charges increased to 24.9% of revenue from 20.3% in 2012, due to 25% higher per-unit fleet costs, excluding acquisitions.

Selling, general and administrative costs decreased to 11.6% of revenue from 12.0% in the prior year.



Vehicle interest costs declined to 4.0% of revenue compared to 5.3% in the prior year, principally due to lower borrowing rates.

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## International

	2013	2012	% Change	
Revenue	\$2,522	\$2,342	8	%
Adjusted EBITDA	272	270	1	%

Revenues increased 8% during 2013 compared with 2012, primarily due to a 4% increase in rental days and a 10% increase in ancillary revenues (excluding acquisitions), the March 2013 acquisition of Zipcar, October 2012 acquisition of Apex Car Rentals (“Apex”), and a \$14 million increase related to currency exchange rates, partially offset by a 2% decrease in pricing (excluding acquisitions).

Adjusted EBITDA increased 1% in 2013 compared with 2012. Apex contributed \$42 million to revenue and \$9 million to Adjusted EBITDA in 2013, compared to \$8 million of revenue and \$2 million of Adjusted EBITDA in fourth quarter 2012. Zipcar contributed \$41 million to revenue and an insignificant amount to Adjusted EBITDA in 2013.

In the year ended December 31, 2013:

• Operating expenses, at 52.9% of revenue, remained level compared to the prior year.

• Vehicle depreciation and lease costs decreased to 20.2% of revenue from 20.6% in the prior year, principally due to an increase in fleet utilization.

• Selling, general and administrative costs increased to 14.2% of revenue from 13.3% in the prior-year, primarily due to increased marketing commissions and the acquisition of Zipcar.

• Vehicle interest costs increased to 1.9% of revenue compared to 1.6% in the prior year, due to lower cash balances in 2013.

## Truck Rental

	2013	2012	% Change	
Revenue	\$373	\$374	0	%
Adjusted EBITDA	36	34	6	%

Revenues decreased \$1 million as the effects on volume of having an 8% smaller fleet were largely offset by a 7% increase in pricing.

Adjusted EBITDA increased \$2 million in 2013 compared with 2012.

## Corporate and Other

	2013	2012	% Change	
Revenue	\$—	\$1	*	
Adjusted EBITDA	(47	) (21	)	*

\*Not meaningful

Revenue and Adjusted EBITDA decreased \$1 million and \$26 million, respectively, in 2013 compared with 2012. Adjusted EBITDA decreased in 2013 primarily due to greater selling, general and administrative expenses which are not attributable to a particular segment.

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## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

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

	As of December 31,		
	2014	2013	Change
Total assets exclusive of assets under vehicle programs	\$5,911	\$5,832	\$79
Total liabilities exclusive of liabilities under vehicle programs	5,677	5,720	(43 )
Assets under vehicle programs	11,058	10,452	606
Liabilities under vehicle programs	10,627	9,793	834
Stockholders' equity	665	771	(106 )

Total assets exclusive of assets under vehicle programs increased primarily due to the acquisitions of our Budget licensees for Edmonton, Southern California and Las Vegas ("Budget Licensee Acquisitions"), partially offset by a decrease in cash and cash equivalents. (see Note 5 to our Consolidated Financial Statements and "Liquidity and Capital Resources—Cash Flows").

Total liabilities exclusive of liabilities under vehicle programs changed by less than 1% (see Note 5 to our Consolidated Financial Statements and "Liquidity and Capital Resources—Debt and Financing Arrangements").

Assets under vehicle programs increased primarily due to an increase in the size of our vehicle rental fleet to accommodate increased rental demand, inflationary increases in the average book value of our rental cars and our Budget Licensee Acquisitions.

Liabilities under vehicle programs increased principally as a result of additional borrowings to support the increase in our vehicle rental fleet and our Budget Licensee Acquisitions. See "Liquidity and Capital Resources—Debt and Financing Arrangements" for a detailed account of the change in our debt related to vehicle programs.

The decrease in stockholders' equity is primarily due to repurchases of our common stock and currency translation adjustments, partially offset by our net income and the conversion of our convertible notes in 2014.

## LIQUIDITY AND CAPITAL RESOURCES

## Overview

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 2014, we completed several corporate financing transactions, primarily to repay existing debt. In particular, we:

- issued \$400 million of 5 % Senior Notes due 2022;

• issued an additional €200 million (approximately \$275 million, at issuance) of 6% Euro-denominated Senior Notes due 2021;

• issued an additional \$175 million of 5½% Senior Notes due 2023;

• amended our senior revolving credit facility to expand its borrowing capacity to \$1.8 billion;



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and used proceeds from these borrowings, as well as cash generated from our operations, to:

• retire the entire \$687 million principal amount outstanding of our 8¼% Senior Notes due 2019;

• fund our Budget Licensee Acquisitions; and

• repurchase approximately 5.7 million shares of our outstanding common stock.

During 2014, we also increased our borrowings under vehicle programs by \$779 million to fund an increase in our assets under vehicle programs.

#### Cash Flows

Year Ended December 31, 2014 vs. Year Ended December 31, 2013

The following table summarizes our cash flows:

	Year Ended December 31,		
	2014	2013	Change
Cash provided by (used in):			
Operating activities	\$2,579	\$2,253	\$326
Investing activities	(2,807)	(2,234)	(573)
Financing activities	182	76	106
Effects of exchange rate changes	(23)	(8)	(15)
Net change in cash and cash equivalents	(69)	87	(156)
Cash and cash equivalents, beginning of period	693	606	87
Cash and cash equivalents, end of period	\$624	\$693	\$(69)

The increase in cash provided by operating activities during 2014 compared with 2013 is principally due to an increase in revenues and our continued cost reduction efforts.

The increase in cash used in investing activities during 2014 compared with 2013 is primarily due to an increase in vehicle purchases and our Budget Licensee Acquisitions during 2014, partially offset by the acquisition of Zipcar in 2013.

The increase in cash provided by financing activities in 2014 compared with 2013 is primarily due to an increase in borrowings under vehicle programs to fund an increase in vehicle assets in 2014, partially offset by increased corporate borrowings to fund the purchase of Zipcar in 2013 and an increase in common stock repurchases in 2014. We anticipate that our non-vehicle property and equipment additions will be approximately \$200 million in 2015 and plan to refinance our remaining \$223 million of 9¾% Senior Notes due 2020, which become callable in September. As of December 31, 2014, we had approximately \$284 million of authorized share repurchase capacity, and we currently anticipate that we will utilize most or all of such capacity to repurchase common stock in 2015.

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Year Ended December 31, 2013 vs. Year Ended December 31, 2012

The following table summarizes our cash flows:

	Year Ended December 31,		
	2013	2012	Change
Cash provided by (used in):			
Operating activities	\$2,253	\$1,889	\$364
Investing activities	(2,234	) (2,073	) (161
Financing activities	76	250	(174
Effects of exchange rate changes	(8	) 6	(14
Net change in cash and cash equivalents	87	72	15
Cash and cash equivalents, beginning of period	606	534	72
Cash and cash equivalents, end of period	\$693	\$606	\$87

The increase in cash provided by operating activities during 2013 compared to 2012 is principally due to increased revenues and our continued cost reduction efforts.

The increase in cash used in investing activities during 2013 compared with 2012 is primarily due to the acquisitions of Zipcar and Payless, partially offset by an increase in proceeds from the sale of vehicles and a decrease in our investment in vehicles.

The decrease in cash provided by financing activities in 2013 compared with 2012, primarily reflects an increase in net payments on vehicle borrowings in 2013, partially offset by an increase in net proceeds from corporate borrowings to fund the acquisition of Zipcar.

**Debt and Financing Arrangements**

At December 31, 2014, we had approximately \$11.5 billion of indebtedness (including corporate indebtedness of approximately \$3.4 billion and debt under vehicle programs of approximately \$8.1 billion). We use various hedging strategies, including derivative instruments, to manage a portion of the risks associated with our floating rate debt.

Corporate indebtedness consisted of:

		As of December 31,		
	Maturity Date	2014	2013	Change
3½% Convertible Notes <sup>(a)</sup>	October 2014	\$—	\$66	\$(66
4 % Senior Notes	November 2017	300	300	—
Floating Rate Senior Notes <sup>(b)</sup>	December 2017	248	247	1
8¼% Senior Notes	January 2019	—	691	(691
Floating Rate Term Loan <sup>(c)</sup>	March 2019	980	989	(9
9¾% Senior Notes	March 2020	223	223	—
6% Euro-denominated Senior Notes <sup>(d)</sup>	March 2021	561	344	217
5 % Senior Notes	June 2022	400	—	400
5½% Senior Notes	April 2023	674	500	174
		3,386	3,360	26
Other		34	34	—
Total		\$3,420	\$	