

AVIS BUDGET GROUP, INC.  
Form 10-Q  
October 30, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2014

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-10308

Avis Budget Group, Inc.  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)

6 Sylvan Way  
Parsippany, NJ  
(Address of principal executive offices)

06-0918165  
(I.R.S. Employer Identification Number)

07054  
(Zip Code)

(973) 496-4700  
(Registrant's telephone number, including area code)

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

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

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

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

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

The number of shares outstanding of the issuer's common stock was 106,244,995 shares as of October 24, 2014.

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FORWARD-LOOKING STATEMENTS

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

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

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

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

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

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

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

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

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

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

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

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

our ability to accurately estimate our future results;

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

our exposure to uninsured claims in excess of historical levels;

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

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

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

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

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

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

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

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

We operate in a continuously changing business environment and new risk factors emerge from time to time. New risk factors, factors beyond our control, or changes in the impact of identified risk factors may cause actual results to differ materially from those set forth in any forward-looking statements. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results. Moreover, we do not assume responsibility for the accuracy and completeness of those statements. Other factors and assumptions not identified above, including those discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations", "Risk Factors" and other portions of our 2013 Annual Report on Form 10-K and our Current Report on Form 8-K filed May 12, 2014, could cause actual results to differ materially from those projected in any forward-looking statements.

Although we believe that our assumptions are reasonable, any or all of our forward-looking statements may prove to be inaccurate and we can make no guarantees about our future performance. Should unknown risks or uncertainties materialize or underlying assumptions prove inaccurate, actual results could differ materially from past results and/or those anticipated, estimated or projected. Except to the extent of our obligations under the federal securities laws, we undertake no obligation to release any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events. For any forward-looking statements contained in any document, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

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## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

Avis Budget Group, Inc.

## CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

(In millions, except per share data)

(Unaudited)

|   | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |         |
|---|-------------------------------------|---------|------------------------------------|---------|
|   | 2014                                | 2013    | 2014                               | 2013    |
| Revenues  |                                     |         |                                    |         |
| Vehicle rental                                    | \$1,810                             | \$1,734 | \$4,692                            | \$4,388 |
| Other   | 732                                 | 661     | 1,906                              | 1,699   |
| Net revenues                                      | 2,542                               | 2,395   | 6,598                              | 6,087   |
| Expenses  |                                     |         |                                    |         |
| Operating   | 1,168                               | 1,142   | 3,273                              | 3,080   |
| Vehicle depreciation and lease charges, net       | 582                                 | 524     | 1,532                              | 1,387   |
| Selling, general and administrative               | 298                                 | 274     | 833                                | 771     |
| Vehicle interest, net                             | 77                                  | 72      | 213                                | 195     |
| Non-vehicle related depreciation and amortization | 46                                  | 39      | 132                                | 109     |
| Interest expense related to corporate debt, net:  |                                     |         |                                    |         |
| Interest expense                                  | 50                                  | 57      | 161                                | 170     |
| Early extinguishment of debt                      | —                                   | —       | 56                                 | 131     |
| Transaction-related costs                         | 7                                   | 10      | 23                                 | 37      |
| Restructuring expense                             | 8                                   | 14      | 16                                 | 39      |
| Impairment  | —                                   | 33      | —                                  | 33      |
| Total expenses                                    | 2,236                               | 2,165   | 6,239                              | 5,952   |
| Income before income taxes                        | 306                                 | 230     | 359                                | 135     |
| Provision for income taxes                        | 114                                 | 112     | 137                                | 91      |
| Net income  | \$192                               | \$118   | \$222                              | \$44    |
| Comprehensive income                              | \$116                               | \$178   | \$154                              | \$44    |
| Earnings per share                                |                                     |         |                                    |         |
| Basic   | \$1.84                              | \$1.09  | \$2.11                             | \$0.41  |
| Diluted   | \$1.74                              | \$1.02  | \$2.00                             | \$0.39  |

See Notes to Consolidated Condensed Financial Statements (Unaudited).

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

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

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

See Notes to Consolidated Condensed Financial Statements (Unaudited).

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Avis Budget Group, Inc.

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

|  | Nine Months Ended<br>September 30, |          |
|--|------------------------------------|----------|
|  | 2014                               | 2013     |
| Operating activities   |                                    |          |
| Net income   | \$222                              | \$44     |
| Adjustments to reconcile net income to net cash provided by operating activities:            |                                    |          |
| Vehicle depreciation   | 1,417                              | 1,295    |
| Gain on sale of vehicles, net  | (12                                | ) (10    |
| Non-vehicle related depreciation and amortization  | 132                                | 109      |
| Amortization of debt financing fees  | 31                                 | 33       |
| Impairment   | —                                  | 33       |
| Net change in assets and liabilities, excluding the impact of acquisitions and dispositions: |                                    |          |
| Receivables  | (102                               | ) (150   |
| Income taxes and deferred income taxes   | 109                                | 61       |
| Accounts payable and other current liabilities   | 52                                 | 22       |
| Other, net   | 218                                | 306      |
| Net cash provided by operating activities  | 2,067                              | 1,743    |
| Investing activities   |                                    |          |
| Property and equipment additions   | (127                               | ) (92    |
| Proceeds received on asset sales   | 9                                  | 13       |
| Net assets acquired (net of cash acquired)   | (149                               | ) (531   |
| Other, net   | (9                                 | ) 37     |
| Net cash used in investing activities exclusive of vehicle programs                          | (276                               | ) (573   |
| Vehicle programs:  |                                    |          |
| Decrease (increase) in program cash  | 23                                 | (173     |
| Investment in vehicles   | (9,835                             | ) (8,865 |
| Proceeds received on disposition of vehicles   | 6,535                              | 6,393    |
|  | (3,277                             | ) (2,645 |
| Net cash used in investing activities  | (3,553                             | ) (3,218 |

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Avis Budget Group, Inc.

## CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Continued)

(In millions)

(Unaudited)

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

See Notes to Consolidated Condensed Financial Statements (Unaudited).

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Avis Budget Group, Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)

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

1. Basis of Presentation

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

The Company operates the following business segments:

• North America—provides car rentals in the United States and vehicle rentals in Canada, as well as ancillary products and services, and operates the Company’s car sharing business in North America.

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

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

In presenting the Consolidated Condensed Financial Statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”), management makes estimates and assumptions that affect the amounts reported and related disclosures. Estimates, by their nature, are based on judgment and available information. Accordingly, actual results could differ from those estimates. In management’s opinion, the Consolidated Condensed Financial Statements contain all adjustments necessary for a fair presentation of interim results reported. The results of operations reported for interim periods are not necessarily indicative of the results of operations for the entire year or any subsequent interim period. These financial statements should be read in conjunction with the Company’s 2013 Annual Report on Form 10-K (the “2013 Form 10-K”) and the Company’s Current Report on Form 8-K filed May 12, 2014, which updated the 2013 Form 10-K for a change to the Company’s reportable segments as well as a revision to the Company’s definition of Adjusted EBITDA.

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

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



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### Adoption of New Accounting Standards

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

### Recently Issued Accounting Standards

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

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

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

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

### 2. Restructuring Activities

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

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

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

  

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

## 3. Earnings Per Share

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

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

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

## 4. Acquisitions

## ACE Rent A Car

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



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

Edmonton

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

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

Portugal

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

Brazil

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

Payless Car Rental

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

Zipcar

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

Apex Car Rentals

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

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## 5. Other Current Assets

Other current assets consisted of:

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

## 6. Intangible Assets

Intangible assets consisted of:

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

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

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

## 7. Vehicle Rental Activities

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

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



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

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

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

## 8. Income Taxes

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

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

## 9. Long-term Debt and Borrowing Arrangements

Long-term and other borrowing arrangements consisted of:

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

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

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

<sup>(b)</sup> 2.98% at September 30, 2014; the Company has entered into an interest rate swap to hedge its interest rate exposure related to these notes at an aggregate rate of 3.58%.

<sup>(c)</sup>

The floating rate term loan is part of the Company's senior credit facility, which is secured by pledges of capital stock of certain subsidiaries of the Company, and liens on substantially all of the Company's intellectual property and certain other real and personal property. As of September 30, 2014, the floating term rate loan due 2019 bears interest at the greater of three-month LIBOR or 0.75%, plus 225 basis points, for an aggregate rate of 3.00%. The Company has entered into a swap to hedge \$600 million of its interest rate exposure related to the floating rate term loan at an aggregate rate of 3.96%.

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

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

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

**COMMITTED CREDIT FACILITIES AND AVAILABLE FUNDING ARRANGEMENTS**

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

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

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

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

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

**DEBT COVENANTS**

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

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

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

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

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



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## DEBT MATURITIES

The following table provides the contractual maturities of the Company's debt under vehicle programs, including related party debt due to Avis Budget Rental Car Funding at September 30, 2014.

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

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

## COMMITTED CREDIT FACILITIES AND AVAILABLE FUNDING ARRANGEMENTS

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

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

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

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

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

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

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

<sup>(f)</sup> The outstanding debt is collateralized by \$359 million of underlying vehicles and related assets.

## DEBT COVENANTS

The agreements under the Company's vehicle-backed funding programs contain restrictive covenants, including restrictions on dividends paid to the Company by certain of its subsidiaries and restrictions on indebtedness, mergers, liens, liquidations and sale and leaseback transactions and in some cases also require compliance with certain financial requirements. As of September 30, 2014, the Company is not aware of any instances of non-compliance with any of the financial or restrictive covenants contained in the debt agreements under its vehicle-backed funding programs.

## 11. Commitments and Contingencies

Contingencies

The Company is involved in claims, legal proceedings and governmental inquiries related, among other things, to its vehicle rental operations, including, among others, contract and licensee disputes, wage-and-hour claims, competition matters, employment matters, insurance claims, intellectual property claims and other regulatory, environmental, commercial and tax matters. Litigation is inherently unpredictable and, although the Company believes that its accruals are adequate and/or that it has valid defenses in these

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

Additionally, in 2006, the Company completed the spin-offs of its Realogy and Wyndham subsidiaries. In connection with the spin-offs, Realogy assumed 62.5% and Wyndham assumed 37.5% of certain contingent and other corporate liabilities of the Company that are not primarily related to any of the respective businesses of Realogy, Wyndham, our former Travelport subsidiary and/or the Company's vehicle rental operations, and in each case incurred or allegedly incurred on or prior to each subsidiary's disposition ("Assumed Liabilities"). If Realogy or Wyndham were to default on its payment of costs or expenses to the Company related to any Assumed Liabilities, the Company would be responsible for 50% of the defaulting party's obligation. The Company does not believe that the impact of any resolution of contingent liabilities constituting Assumed Liabilities should result in a material liability to the Company in relation to its consolidated financial position or liquidity, as Realogy and Wyndham each have agreed to assume responsibility for these liabilities. The Company is also named in various litigation that is primarily related to the businesses of its former subsidiaries, including Realogy, Wyndham and their current or former subsidiaries. The Company is entitled to indemnification from such entities for any liability resulting from such litigation.

### Commitments to Purchase Vehicles

The Company maintains agreements with vehicle manufacturers under which the Company has agreed to purchase approximately \$4.6 billion of vehicles from manufacturers over the next 12 months. The majority of these commitments are subject to the vehicle manufacturers' satisfying their obligations under their respective repurchase and guaranteed depreciation agreements. The purchase of such vehicles is financed primarily through the issuance of vehicle-backed debt and cash received upon the disposition of vehicles.

### Other Purchase Commitments

In the normal course of business, the Company makes various commitments to purchase other goods or services from specific suppliers, including those related to marketing, advertising and capital expenditures. As of September 30, 2014, the Company had approximately \$126 million of purchase obligations, which extend through 2019.

### Concentrations

Concentrations of credit risk at September 30, 2014 include (i) risks related to the Company's repurchase and guaranteed depreciation agreements with domestic and foreign car manufacturers, including General Motors, Ford, Chrysler, Peugeot, Volkswagen, Kia, Fiat, Mercedes, BMW, Volvo and Toyota, and primarily with respect to receivables for program cars that have been disposed but for which the Company has not yet received payment from the manufacturers and (ii) risks related to Realogy and Wyndham, including receivables of \$62 million and \$38 million, respectively, related to certain contingent, income tax and other corporate liabilities assumed by Realogy and Wyndham in connection with their disposition.

### Other Guarantees

The Company has provided certain guarantees to, or for the benefit of, subsidiaries of Realogy, Wyndham and Travelport, which, as previously discussed, were sold or spun-off in 2006. These guarantees relate primarily to various real estate operating leases. The maximum potential amount of future payments that the Company may be required to make under the guarantees relating to these leases is estimated to be approximately \$37 million, the majority of which expire by the end of 2015. At September 30, 2014, the liability recorded by the Company in connection with these guarantees was approximately \$1 million. To the extent that the Company would be required to perform under any of these guarantees, the Company is entitled to indemnification by Realogy and Wyndham, as applicable. The Company

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

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## 12. Stockholders' Equity

## Share Repurchases

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

## Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income were as follows:

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

All components of accumulated other comprehensive income are net of tax, except currency translation adjustments, which exclude income taxes related to indefinite investments in foreign subsidiaries and include a \$20 million gain, net of tax, as of September 30, 2014 related to the Company's hedge of its net investment in Euro-denominated foreign operations (See Note 14 - Financial Instruments).

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

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

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

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

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## Total Comprehensive Income

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

The components of other comprehensive income were as follows:

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

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

## 13. Stock-Based Compensation

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

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

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

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

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

Reflects the maximum number of stock units assuming achievement of all time-, performance- and market-vesting criteria and does not include those for non-employee directors. The weighted-average fair value of time-based RSUs, performance-based and market-based RSUs, and cash units granted during the nine months ended September 30, 2013 was \$21.77, \$20.03 and \$17.14, respectively.

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

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

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

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

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

## 14. Financial Instruments

### Derivative Instruments and Hedging Activities

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



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

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

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months ended September 30, 2014 and the Company does not expect to reclassify any amounts from accumulated other comprehensive income into earnings over the next 12 months.

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

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

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

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

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

<sup>(a)</sup> Represents \$9.3 billion of interest rate caps sold, partially offset by approximately \$1.9 billion of interest rate caps purchased. These amounts exclude \$7.4 billion of interest rate caps purchased by the Company's Avis Budget Rental Car Funding subsidiary as it is not consolidated by the Company.

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

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

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

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

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

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

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

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

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

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

(c) Included in interest expense.

For the three months ended September 30, 2014, included a \$19 million gain in interest expense and a \$3 million gain in operating expense and for the nine months ended September 30, 2014, included a \$7 million loss in interest expense. For the three months ended September 30, 2013 included a \$16 million loss in interest expense and a \$3 million gain in operating expense and for the nine months ended September 30, 2013, included a \$13 million gain in interest expense and a \$9 million gain in operating expense.

(e) Included in operating expense.



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## Debt Instruments

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

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

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

## 15. Segment Information

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

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

|   | Three Months Ended September 30, |                 |                         |                                |
|---|----------------------------------|-----------------|-------------------------|--------------------------------|
|   | 2014                             | Adjusted EBITDA | 2013                    | Adjusted EBITDA <sup>(b)</sup> |
|   | Revenues                         | Adjusted EBITDA | Revenues <sup>(a)</sup> | Adjusted EBITDA <sup>(b)</sup> |
| North America                                     | \$1,623                          | \$255           | \$1,500                 | \$226                          |
| International                                     | 815                              | 160             | 786                     | 149                            |
| Truck Rental                                      | 104                              | 18              | 109                     | 19                             |
| Corporate and Other <sup>(c)</sup>                | —                                | (16             | ) —                     | (11                            |
| Total Company                                     | \$2,542                          | 417             | \$2,395                 | 383                            |
| Less:   |                                  |                 |                         |                                |
| Non-vehicle related depreciation and amortization |                                  | 46              |                         | 39                             |
| Interest expense related to corporate debt, net:  |                                  |                 |                         |                                |
| Interest expense                                  |                                  | 50              |                         | 57                             |
| Early extinguishment of debt                      |                                  | —               |                         | —                              |
| Transaction-related costs                         |                                  | 7               |                         | 10                             |
| Restructuring expense                             |                                  | 8               |                         | 14                             |

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

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

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

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

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

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

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

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

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

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

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

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

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16. Guarantor and Non-Guarantor Consolidating Condensed Financial Statements

The following consolidating financial information presents Consolidating Condensed Statements of Comprehensive Income for the three and nine months ended September 30, 2014 and 2013, Consolidating Condensed Balance Sheets as of September 30, 2014 and December 31, 2013, and Consolidating Condensed Statements of Cash Flows for the nine months ended September 30, 2014 and 2013 for: (i) Avis Budget Group, Inc. (the “Parent”); (ii) ABCR and Avis Budget Finance, Inc. (the “Subsidiary Issuers”); (iii) the guarantor subsidiaries; (iv) the non-guarantor subsidiaries; (v) elimination entries necessary to consolidate the Parent with the Subsidiary Issuers, and the guarantor and non-guarantor subsidiaries; and (vi) the Company on a consolidated basis. The Subsidiary Issuers and the guarantor and non-guarantor subsidiaries are 100% owned by the Parent, either directly or indirectly. All guarantees are full and unconditional and joint and several. This financial information is being presented in relation to the Company’s guarantee of the payment of principal, premium (if any) and interest on the senior notes issued by the Subsidiary Issuers. These senior notes consist of Floating rate notes due 2017, 4 % notes due 2017, 8¼% notes due 2019, 9¾% notes due 2020, 5 % notes due June 2022 and 5½% notes due April 2023 (collectively, the “Notes”). See Note 9 - Long-term Debt and Borrowing Arrangements for additional information regarding these Notes. The Notes are guaranteed by the Parent and certain subsidiaries.

Investments in subsidiaries are accounted for using the equity method of accounting for purposes of the consolidating presentation. The principal elimination entries relate to investments in subsidiaries and intercompany balances and transactions. For purposes of the accompanying Consolidating Condensed Statements of Comprehensive Income, certain expenses incurred by the Subsidiary Issuers are allocated to the guarantor and non-guarantor subsidiaries. Certain reclassifications have been made to the 2013 consolidating condensed financial statements to report intercompany transactions on a gross basis and to conform to the current-year presentation. The reclassified amounts had no impact on reported net income, stockholders’ equity, or the net change in cash for the periods presented for the Parent, Subsidiary Issuers, guarantor subsidiaries, non-guarantor subsidiaries, eliminations or the Company on a consolidated basis.



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## Consolidating Condensed Statements of Comprehensive Income

Three Months Ended September 30, 2014

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

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Nine Months Ended September 30, 2014

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

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Three Months Ended September 30, 2013

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

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Nine Months Ended September 30, 2013

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

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## Consolidating Condensed Balance Sheets

As of September 30, 2014

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

Liabilities under vehicle programs:

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

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As of December 31, 2013

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

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



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## Consolidating Condensed Statements of Cash Flows

Nine Months Ended September 30, 2014

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

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

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Nine Months Ended September 30, 2013

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

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

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17. Subsequent Events

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

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

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

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

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

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

#### OVERVIEW

##### Our Company

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

##### Our Segments

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

##### Business and Trends

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

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

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

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

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

- general travel demand, including worldwide enplanements;
- fleet, pricing, marketing and strategic decisions made by us and by our competitors;
- changes in fleet costs and in conditions in the used vehicle marketplace, as well as manufacturer recalls;
- changes in borrowing costs and in market willingness to purchase corporate and vehicle-related debt;
- our acquisitions, our integration of acquired operations and our realization of synergies, particularly with respect to Zipcar and Avis Europe;
- demand for car sharing services;
- changes in the price of gasoline;
- changes in currency exchange rates; and
- demand for truck rentals.

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

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

## Year-to-Date Highlights

In the nine months ended September 30, 2014:

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

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

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



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

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

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

## RESULTS OF OPERATIONS

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

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

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

Our consolidated results of operations comprised the following:

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

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

\*Not meaningful.

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

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

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

In the three months ended September 30, 2014:

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

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

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

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

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

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

\* Not meaningful.

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

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## North America

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

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

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

In the three months ended September 30, 2014:

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

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

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

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

## International

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

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

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

In the three months ended September 30, 2014:

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

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

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

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



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## Truck Rental

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

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

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

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

Our consolidated results of operations comprised the following:

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

\*Not meaningful.

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



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

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

In the nine months ended September 30, 2014:

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

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

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

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

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

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

\* Not meaningful.

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

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

#### North America

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

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

of incremental revenue from Zipcar.

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

In the nine months ended September 30, 2014:

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

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

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

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

## International

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

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

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

In the nine months ended September 30, 2014:

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

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

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

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

## Truck Rental

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

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

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

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## 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

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

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

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

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

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

## LIQUIDITY AND CAPITAL RESOURCES

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

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

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## CASH FLOWS

The following table summarizes our cash flows:

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

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

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

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

## DEBT AND FINANCING ARRANGEMENTS

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

Corporate indebtedness consisted of:

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

(a)

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

(b) The interest rate on these notes is equal to three-month LIBOR plus 275 basis points, for an aggregate rate of 2.98% at September 30, 2014; the Company has entered into an interest rate swap to hedge its interest rate exposure related to these notes at an aggregate rate of 3.58%.

(c) The floating rate term loan is part of the Company's senior credit facility, which is secured by pledges of capital stock of certain subsidiaries of the Company, and liens on substantially all of the Company's intellectual property and certain other real and personal property. As of September 30, 2014, the floating term rate loan due 2019 bears interest at the greater of three-month LIBOR or 0.75%, plus 225 basis points, for an aggregate rate of 3.00%. The Company has entered into a swap to hedge \$600 million of its interest rate exposure related to the floating rate term loan at an aggregate rate of 3.96%.



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

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

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

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

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

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

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

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

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

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

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

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

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

- (b) The outstanding debt is collateralized by approximately \$8.7 billion of underlying vehicles and related assets.
- (c) The outstanding debt is collateralized by \$810 million of underlying vehicles and related assets.
- (d) The outstanding debt is collateralized by approximately \$1.7 billion of underlying vehicles and related assets.
- (e) The outstanding debt is collateralized by \$409 million of underlying vehicles and related assets.
- (f) The outstanding debt is collateralized by \$359 million of underlying vehicles and related assets.

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### LIQUIDITY RISK

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

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

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

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

### CONTRACTUAL OBLIGATIONS

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

### ACCOUNTING POLICIES

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

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

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

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

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

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

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

#### Currency Risk Management

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

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

#### Interest Rate Risk Management

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

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

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Commodity Risk Management

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

Item 4. Controls and Procedures

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

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

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## PART II – OTHER INFORMATION

## Item 1. Legal Proceedings

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

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

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

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

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

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

## Item 6. Exhibits

See Exhibit Index.



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SIGNATURES

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

AVIS BUDGET GROUP, INC.

Date: October 30, 2014

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

Date: October 30, 2014

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

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Exhibit Index

Exhibit No. Description

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

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

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