UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE**

SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012

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	**06-0918165**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
6 SYLVAN WAY	
PARSIPPANY, NJ	**07054**
(Address of principal executive offices)	(Zip Code)

973-496-4700

(Registrant s telephone number, including area code)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, Par Value $.01	The NASDAQ Global Select Market

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

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 þ 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 þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

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

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

As of June 30, 2012, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $1,593,413,279 based on the closing price of its common stock on the NASDAQ Global Select Market. All executive officers and directors of the registrant have been deemed, solely for the purpose of the foregoing calculation, to be affiliates of the registrant.

As of January 31, 2013, the number of shares outstanding of the registrant s common stock was 107,267,637.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement to be mailed to stockholders in connection with the Registrant s annual stockholders meeting scheduled to be held on May 22, 2013 (the Annual Proxy Statement) are incorporated by reference into Part III hereof.

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FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report on Form 10-K may be considered forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. The forward-looking statements contained herein are subject to known and unknown risks, uncertainties, assumptions and other factors that may cause our actual results, performance or achievements to be materially different from those expressed or implied by any such forward-looking statements. Forward-looking statements include information concerning our future financial performance, business strategy, projected plans and objectives. These statements may be identified by the fact that they do not relate to historical or current facts and may use words such as believes, expects, anticipates, will, should, could, may, would, intends, projects, 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 our fleet costs as a result of a change in the cost of new vehicles, 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 proposed acquisition of Zipcar, Inc. (Zipcar), including our ability to complete such acquisition, our ability to realize the synergies contemplated by the transaction, and our ability to promptly and efficiently integrate the businesses of Zipcar and 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 the agreements we have 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;
- a change in travel demand, including changes in airline passenger traffic;
- 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 or military conflict 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 currently 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;
- our failure or inability to comply with laws, regulations or contractual obligations or any changes in laws, regulations or contractual obligations, including with respect to personally identifiable information;
- any impact on us from the actions of our licensees, dealers and independent contractors;
- any substantial changes in the cost or supply of fuel, vehicle parts, energy, labor or other resources on which we depend to operate our business;
- risks related to our indebtedness, including our substantial outstanding debt obligations and our ability to incur substantially more debt;
- our ability to meet the financial and other covenants contained in the agreements governing our indebtedness;
- the terms of agreements among us and our former real estate, hospitality and travel distribution businesses following the separation of those businesses from us in 2006, particularly with respect to the allocation of assets and liabilities, including contingent liabilities and guarantees, the ability of each of the separated companies to perform its obligations, including indemnification obligations, under these agreements, and the right of our former real estate business to control the process for resolving disputes related to contingent liabilities and assets;
- risks associated with litigation or governmental or regulatory inquiries or investigations involving our Company;
- risks related to tax obligations and the effect of future changes in accounting standards;
- risks related to our October 2011 acquisition of Avis Europe plc (Avis Europe), including our ability to realize the synergies contemplated by the transaction;
- risks related to completed or future acquisitions or investments that we may pursue, including any incurrence of incremental indebtedness to help fund such transactions and our ability to promptly and effectively integrate any acquired businesses; and
- other business, economic, competitive, governmental, regulatory, political or technological factors affecting our operations, pricing or services.

We operate in a continuously changing business environment and new risk factors emerge from time to time. New risk factors, factors beyond our control, or changes in the impact of identified risk factors may cause actual results to differ materially from those set forth in any forward-looking statements. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results. Moreover, we do not assume responsibility for the accuracy and completeness of those statements. Other factors and assumptions not identified above, including those discussed in Management s Discussion and Analysis of Financial Condition and Results of Operations set forth in Item 7, in Risk Factors set forth in Item 1A and other portions of this Annual Report on Form 10-K may contain forward-looking statements and involve uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. Such statements are based upon assumptions and known risks and uncertainties.

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

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PART I

ITEM 1. BUSINESS

Except as expressly indicated or unless the context otherwise requires, the Company, Avis Budget, we, our or us means Avis Budget Group, Inc. and its subsidiaries, and Avis Budget Car Rental or ABCR means Avis Budget Car Rental, LLC and its subsidiaries, which are the companies that comprise our vehicle rental operations. Avis and Budget refer to our Avis and Budget operations, respectively, and do not include the operations of our licensees, as further discussed below.

OVERVIEW

We operate two of the most recognized brands in the global vehicle rental industry through Avis and Budget. Avis is a leading rental car supplier positioned to serve the premium commercial and leisure segments of the travel industry and Budget is a leading rental car supplier focused primarily on more value-conscious segments of the industry. We are a leading vehicle rental operator in North America, Europe, Australia, New Zealand, and certain other regions we serve. We and our licensees operate the Avis and Budget brands in approximately 175 countries throughout the world. We generally maintain a leading share of airport car rental revenue in North America, Europe, Australia and New Zealand, and we operate one of the leading truck rental businesses in the United States.

Our car rental business enjoys significant benefits from operating two distinct brands that target different industry segments but share the same fleet, maintenance facilities, systems, technology and administrative infrastructure. We believe that Avis and Budget both enjoy complementary demand patterns with mid-week commercial demand balanced by weekend leisure demand. In 2012, we generated total revenues of $7,357 million. The Avis, Budget and Budget Truck brands accounted for approximately 70%, 25% and 5% of our revenue, respectively, in 2012.

On average, our rental fleet totaled more than 496,000 vehicles and we completed more than 29 million vehicle rental transactions worldwide in 2012. In 2012, we derived approximately 71% of our $5.3 billion in total car rental time and mileage revenue from on-airport locations and approximately 29% of our time and mileage revenue from off-airport locations, which we refer to as our local market business. We also license the use of the Avis and Budget trademarks to licensees in areas in which we do not operate directly. Our brands have an extended global reach with more than 10,000 car and truck rental locations throughout the world, including approximately 4,700 car rental locations operated by our licensees. We rent our fleet of approximately 27,000 Budget trucks through a network of approximately 1,700 dealer-operated and 350 Company-operated locations throughout the continental United States.

SEGMENT INFORMATION

We categorize our operations in three reporting segments: North America, consisting of our Avis and Budget car rental operations in the United States and our Avis and Budget vehicle rental operations in Canada; International, consisting of our Avis and Budget vehicle rental operations in Europe, the Middle East, Asia, Africa, South America, Central America, the Caribbean, Australia and New Zealand; and Truck Rental, consisting of our Budget truck rental operations in the United States. In 2012:

- *North America.* Our North America segment generated approximately 86 million rental days and average time and mileage revenue per day of $40.22 with an average rental fleet of approximately 329,000 vehicles;

- *International.* Our International segment generated approximately 36 million rental days and average time and mileage revenue per day of $43.27 with an average rental fleet of approximately 140,000 vehicles; and

Truck Rental. Our Truck Rental segment generated approximately 4 million rental days and average time and mileage revenue per day of $71.64 with an average rental fleet of approximately 27,000 trucks.

In 2012, revenue increased as North American travel demand grew and our results included the results of Avis Europe for a full year compared to only part of the year in 2011. We focused on efforts to integrate our European operations and grow our brands globally. We continue to benefit from our cost-reduction efforts, including our Performance Excellence process improvement initiative, which has helped us generate more than $300 million in annual cost savings and other benefits since the program was launched in 2007. As part of the expansion of the Company s global operations, we have expanded the program into Europe and Asia. We have achieved cost savings in numerous ways, including through:

- implementation of process improvements impacting virtually all areas of our business;
- reductions in operating and selling, general and administrative expenses, including significant reductions in staff, many of which were trimmed from fixed and semi-fixed overhead;
- a review of location, segment and customer profitability to identify and respond appropriately to unprofitable aspects of our businesses;
- targeted price increases and changes to our sales, marketing and affinity programs in order to improve revenue per day and overall profitability;
- reductions in fleet costs and further consolidation of purchasing programs;
- further consolidation of customer-facing and back-office functions and locations across our operations; and
- reduction in costs, primarily general and administrative expenses, as we integrate the operations of Avis Europe.

In 2012, we completed more than 29 million vehicle rental transactions worldwide. We retained approximately 98% of our existing commercial contracts and maintained, expanded or entered into marketing alliances with key marketing partners. In 2012, Avis was named North America s Leading Car Hire and Europe s Leading Business Car Hire by the World Travel Awards, and received other numerous awards. Avis was also again named the leading car rental company in customer loyalty by the Brand Keys Customer Loyalty Engagement Index for the 13th consecutive year.

In 2012, we maintained a diverse car rental fleet, in which no vehicle manufacturer represented more than 21% of our 2012 fleet purchases, and we continued to adjust our fleet levels to be consistent with demand. We continue to utilize sophisticated yield-management technology to optimize our pricing and fleet planning, and we continue to analyze and streamline our operations to gain efficiencies. In addition, our approximately 28,000 employees worldwide continue to provide reliable, high-quality vehicle rental services that foster customer satisfaction and customer loyalty.

MARKET CONDITIONS AND OUTLOOK

For 2013, our objective is to focus on growing our business profitably, strengthening our position as a leading global provider of vehicle rental services, continuing to enhance the quality of vehicle rental services we provide to customers, and maintaining and enhancing efficiencies achieved through process improvement and other actions. We expect to achieve our goals by focusing our efforts on the following core strategic initiatives:

Growing Profitably. We plan to continue and pursue numerous opportunities intended to increase our revenues and make positive contributions to our earnings. For instance, we plan to continue to focus on promoting car class upgrades, adjusting our mix of vehicles to match customer demand, growing our rentals to small-business and international travelers, increasing the number of rentals which are booked through our own websites, increasing the proportion of transactions in which customers prepay us and expanding our ancillary revenues derived from offering additional products and services to on- and off-airport customers. We believe these efforts will each not only generate incremental revenue, but also add to profitability. Opportunities for ancillary revenue growth include adding sales of insurance coverages, loss damage waivers and other ancillary products and services, such as electronic toll collection services, roadside safety protection and portable GPS navigation products, to the rental transactions of an increasing percentage of our renters. We also plan to continue our focus on yield management and pricing optimization and seek to increase the time and mileage rental fees we earn per rental day. We have implemented technology, and will be adding additional systems, that strengthen our yield management and that enable us to tailor our product/price offerings to specific customer segments. We expect to continue to adjust our pricing to bolster profitability and match changes in demand.

Strengthening Our Global Position. While we currently operate, either directly or through licensees, in approximately 175 countries around the world and we significantly expanded our international operations with our October 2011 acquisition of Avis Europe, we plan to further expand our global footprint going forward. In countries where we operate corporate-owned stores, we will identify opportunities to add new rental locations, to grant licenses to independent third parties for regions where we do not currently operate and do not wish to operate directly, to strengthen the presence of the Avis or Budget brand (including by dual-branding locations), as applicable, and to re-acquire previously granted license rights in certain cases. In countries operated by licensees, including our joint ventures in China and India, we will seek to ensure that our licensees are well positioned to realize the growth potential of our brands in those countries and are aggressively growing their presence in those markets, and we expect to consider the re-acquisition of previously granted license rights in certain cases.

Enhancing Customers Rental Experience. We plan to intensify our efforts to build customer loyalty and reduce customer acquisition costs through our *Customer Led, Service Driven* program that is intended to enhance our customers rental experience. Following an extensive review of the ways, places and occasions in which our brands, our systems and our employees interact with customers and potential customers, we have begun to implement actions that we expect will improve the service we provide at these customer touchpoints. For example, in 2012, we launched *Avis Preferred Select & Go* , a vehicle-choice program for customers, revised our rental agreements and receipts to improve transparency, and significantly expanded customer-service-oriented training of our employees, and we achieved significant increases in customer satisfaction. We expect to continue to invest in these efforts in 2013.

Controlling Costs and Promoting Efficiencies. We have continued our efforts to rigorously control costs. We have taken aggressive action to reduce expenses throughout the organization, and we eliminated or reduced significant costs through the integration of Avis Europe in 2012. In addition, we continue to develop and implement our Performance Excellence process improvement initiative to increase efficiencies, reduce operating costs and create sustainable cost savings using LEAN, Six Sigma and other tools. This initiative, which we have expanded to cover our operations in Europe and Asia, has generated substantial savings since its implementation and should continue to provide incremental benefits in 2013. We have also implemented technology solutions, including self-service voice reservation technology and fleet optimization technologies, to reduce costs, and we will continue to pursue innovative solutions to support our strategic initiatives. We believe such steps will continue to aid our financial performance.

In executing our strategy, we plan to continue to position our two distinct and well-recognized brands to focus on different segments of customer demand. With Avis as a premium brand preferred more by corporate and upscale leisure travelers, and Budget as a mid-tier brand preferred more by value-conscious travelers, we believe we are able to target a broad range of demand, particularly since the two brands share the same operational and administrative infrastructure while providing differentiated though consistently high levels of customer service. We aim to provide products, service and pricing, to use various marketing channels and to maintain marketing affiliations and corporate account contracts which complement each brand s positioning. In 2013, we plan to continue to invest in our brands through a variety of efforts, including television commercials, print advertisements and on-line and off-line marketing. We see particular growth opportunities in Europe for Budget, as Budget s share of airport car rentals is significantly smaller in Europe than in other parts of the world.

We operate in a highly competitive industry and we expect to continue to face challenges, including weak economic conditions and demand for travel services in Europe. We seek to mitigate our exposure to risks in numerous ways, including delivering upon the core strategic initiatives described above and through continued optimization of fleet levels to match changes in demand for vehicle rentals, maintenance of liquidity to fund our fleet and our operations, and adjustments in the size, nature and terms of our relationships with vehicle manufacturers.

COMPANY HISTORY

The Company is a Delaware corporation headquartered in Parsippany, New Jersey, whose operations consist of two of the most recognized brands in the global vehicle rental industry through Avis Budget Car Rental, the parent of Avis Rent A Car System, LLC, Budget Rent A Car System, Inc. and Budget Truck Rental, LLC. Avis Rent A Car System, LLC and Budget Rent A Car System, Inc. also do business as Avis Car Rental and Budget Car Rental, respectively.

Founded in 1946, Avis is believed to be the first company to rent cars from airport locations. Avis expanded its geographic reach throughout the United States through licensed and corporate-owned growth in the 1950s and 1960s. In 1963, Avis introduced its award winning *We try harder*® advertising campaign, which is considered to be one of the top ten advertising campaigns of the 20th century by Advertising Age magazine. Avis possesses a long history of innovation in its business, including the Wizard system, which is a well established and continually updated information-technology system that is the backbone of our operations. Budget was founded in 1958 as a car rental company for the value-conscious vehicle rental customer and grew its business rapidly during the 1960s, expanding its rental car offerings throughout North America and significantly expanding its Budget truck rental business in the 1990s.

Our predecessor company was formed in 1974, and in 1997 merged with HFS Incorporated, and the combined company was renamed Cendant Corporation (Cendant). HFS Incorporated had acquired the Avis brand in 1996. Cendant acquired Avis capital stock in 2001 and the Budget brand and substantially all of the domestic and certain international assets of Budget s predecessor in 2002. In 2006, Cendant completed a separation into four separate companies (the Separation): Realogy Corporation, Wyndham Worldwide Corporation, Travelport, Inc. and Cendant (now Avis Budget Group, Inc.). In October 2011, we expanded our international operations with the acquisition of Avis Europe, which was previously an independently-owned licensee operating the Avis and Budget brands in Europe, the Middle East and Africa, and the Avis brand in Asia. Upon the completion of the acquisition of Avis Europe, the Avis and Budget brands were globally re-united under a single company, making Avis Budget Group one of the largest vehicle rental companies in the world. Our common stock currently trades on the NASDAQ Global Select Market under the symbol CAR.

CAR RENTAL BUSINESS

Operations Avis

We operate or license the Avis car rental system (the Avis System), which is comprised of approximately 5,750 locations worldwide and represents one of the largest car rental systems in the world. The Avis System encompasses locations at most of the largest airports and cities in the world.

We operate approximately 2,650 Avis car rental locations worldwide, in both the on-airport and local rental markets. In 2012, our Avis operations generated total revenue of approximately $5.2 billion, of which approximately 59% (or $3.0 billion) was derived from North American operations. In addition, we license the Avis brand to other independent business owners in approximately 3,100 locations throughout the world. In

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2012, approximately 67% of the Avis System total revenue was generated by our Company-operated locations and the remainder was generated by locations operated by independent licensees, which generally pay royalty fees to us based on a percentage of applicable revenue.

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

	Avis System Locations		
	North America	International	Total
Company-operated locations	1,350	1,300	2,650
Licensee locations	300	2,800	3,100
Total Avis System Locations	1,650	4,100	5,750

In 2012, Avis derived approximately 57% and 43% of its car rental time and mileage revenue (T&M) from commercial and leisure customers, respectively, and 70% and 30% of its car rental time and mileage revenue from customers renting at airports and locally, respectively. T&M consists of fees charged to our customers specifically for vehicle rentals.

The Avis brand provides high-quality car rental services at price points generally above non-branded and value-branded national car rental companies. We offer Avis customers a variety of premium services, including:

- Avis Preferred, a counter bypass program available at major airport locations;
- Avis Preferred Select & Go, a program added in 2012 at certain U.S. airport locations which allows customers to select an alternate vehicle or upgrade their vehicle choice without visiting the rental counter;
- portable GPS units for rent that feature Bluetooth hands-free calling and MP3 playback capability;
- Avis Specialty Vehicles, a line of luxury and sport vehicles such as the BMW 328i, 528i, 740i and X3, Ford Mustang, Dodge Challenger, Infiniti JX, Lincoln Navigator and the Chevrolet Camaro and Corvette;
- Avis Prestige, a line of luxury performance cars and stylish convertibles offered to our customers in Europe;
- availability of eco-friendly vehicles, including gas/electric hybrid vehicles like the Ford Fusion, Ford C-Max and Toyota Prius;
- Roving Rapid Return, wireless technology that permits customers who are returning vehicles to obtain a printed charge record from service agents at the vehicle as it is being returned and/or to receive a receipt via email;
- a 100% smoke-free car rental fleet in North America;
- Etoll electronic toll collection, which lets customers avoid toll booth lines;

amenities such as Avis Blast, a portable satellite radio product, and Avis Access, a full range of special products and services for drivers and passengers with disabilities;

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

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Avis First, a customer loyalty program that rewards customers with additional benefits for frequent rentals; and

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

Operations Budget

We operate or license the Budget vehicle rental system (the Budget System), which is comprised of approximately 3,150 car rental locations and represents one of the largest car rental systems in the world. The Budget System encompasses locations at most of the largest airports and cities in the world.

We operate approximately 1,550 Budget car rental locations worldwide. In 2012, our Budget car rental operations generated total revenue of approximately $1.8 billion, of which 89% (or $1.6 billion) was derived from North American operations. We also license the Budget System to independent business owners who operate approximately 1,600 locations worldwide. In 2012, approximately 63% of the Budget System total revenue was generated by our Company-operated locations with the remainder generated by locations operated by independent licensees, which generally pay royalty fees to us based on a percentage of applicable revenue.

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

	Budget System Locations		
	North America	**International**	**Total**
Company-operated locations	1,000	550	1,550
Licensee locations	400	1,200	1,600
Total Budget System Locations	1,400	1,750	3,150

In 2012, Budget derived approximately 28% and 72% of its car rental T&M revenue from commercial and leisure customers, respectively, and 75% and 25% of its car rental T&M revenue from customers renting at airports and locally, respectively.

Budget is a leading rental car supplier to the more value-conscious segments of the industry. Budget offers its customers several products and programs similar to Avis, such as portable GPS units, roadside assistance, electronic toll collection and refueling options, as well as the following programs:

Fastbreak service, an expedited rental service for frequent travelers;

RapidRez, which keeps customers preferences on file for all future rentals;

Rent More, Save More, offering special rental rates for frequent renters;

convenient and affordable one-way car rentals; and

Budget e-Receipt paperless receipts delivered via email.

Reservations

Customers can make Avis and Budget car rental reservations through our Avis and Budget websites at avis.com and budget.com, through our reservation centers (also referred to as contact centers) at 1-888-777-AVIS and 1-800-BUDGET7, respectively, through online travel agencies, through travel agents, or through selected partners, including many major airlines. Travel agents can access our reservation systems through all major global distribution systems (GDSs), which provide information with respect to rental locations, vehicle availability and applicable rate structures. In 2012, we generated approximately 29% of our reservations through our Avis and Budget branded websites, 12% through our contact centers, 28% through GDSs, 9% through online travel agencies, 9% through direct-connect technologies and 13% through other sources. We use a voice reservation system which allows customers to conduct certain transactions such as confirmation, cancellation and modification of reservations using self-service interactive voice response technology. We have also developed mobile applications for the Android, Apple, BlackBerry and Windows operating systems, allowing customers to more easily manage their car rental reservations on their smartphones and other mobile devices.

Marketing

Avis and Budget support their premium and value-conscious brand positions through a range of marketing channels and campaigns, including traditional media, such as television, radio and print advertising, as well as Internet and email marketing. In 2012, we developed new global brand propositions and visual identities, including new brand logos for Avis and Budget, to evolve and refine each brand s differentiated market position. This evolution builds upon our brands heritage and service legacy while driving global consistency across our regions. We have also implemented a customer relationship management system that will enable us to deliver more targeted and relevant offers to customers across both online and offline channels and will allow our customers to benefit through better and more relevant marketing, improved service delivery and Avis and Budget loyalty programs that reward frequent renters with free rental days and car class upgrades. We used significant digital marketing activity, including initiatives with companies such as Macy s and Lonely Planet, to drive international reservations.

We continue to maintain strong links to the travel industry. Avis and Budget maintain marketing partnerships with several major airlines, including Air Canada, Air France, American Airlines, British Airways, Frontier Airlines, Iberia, KLM, Lufthansa, SAS, Southwest Airlines, United Airlines and Virgin America. We also offer customers the ability to earn frequent traveler points with most major U.S. and European airlines frequent traveler programs, as well as those of Air Canada, Air New Zealand and Qantas, among others. Avis and Budget are also affiliated with the frequency programs of major hotel companies, including Hilton Hotels Corporation, Hyatt Corporation, Starwood Hotels and Resorts Worldwide, Inc. and Wyndham Worldwide. These arrangements provide incentives to loyalty program participants and provide us with cooperative marketing opportunities, including call transfer programs and online links with various partners websites. In 2012, we signed new agreements with ADAC (Germany s leading automobile club), American Express, Best Western, Intrawest, Priceline and United Airlines.

In 2012, approximately 55% of vehicle rental transactions from our Company-operated Avis locations were generated by travelers who rented from Avis under contracts between Avis and the travelers employers or through membership in an organization with whom Avis has a contractual affiliation (such as AARP and Costco). Avis also has marketing relationships with organizations such as American Express, MasterCard International and Sears, through which we are able to provide customers of these entities with incentives to rent from Avis. Avis licensees also generally have the option to participate in these affiliations.

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

Licensing

We have licensees in more than 150 countries throughout the world. Revenue derived from our vehicle rental licensees in 2012 totaled approximately $136 million. Licensed locations are independently operated by our licensees, and range from large operations at major airport locations and territories encompassing entire countries to relatively small operations in suburban locations. Our licensees maintain separate independently owned and operated fleets. Royalties generated from licensing provide us with a source of high-margin revenue because there are relatively limited additional fixed costs associated with fees paid by licensees to us. Licensed locations represented approximately 53% of our Avis and Budget car rental locations worldwide. Locations operated by Avis and Budget licensees represented approximately 34% of total revenue generated by the Avis and Budget Systems in 2012. We facilitate one-way car rentals between Company-operated and licensed locations, which enables us to offer an integrated network of locations to our customers.

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

Our license agreements typically have terms ranging from five to 20 years. The car rental royalty fee payable to us under our license agreements is generally 5% to 8% of gross rental revenue, but certain licensees of each brand, both in North America and internationally, have license agreements with different royalty fee structures. We maintain the right to monitor the operations of licensees and, when applicable, can declare a licensee to be in default under its license agreement. We perform targeted audits as part of our program to assure licensee compliance with brand quality standards and contract provisions. We generally can terminate license agreements for certain defaults, including failure to pay royalties and failure to adhere to our operational standards. Upon termination of a license agreement, the licensee is prohibited from using the Avis or Budget name and related marks in any business. In the United States, these license relationships constitute franchises under most federal and state laws regulating the offer and sale of franchises and the relationship of the parties to a franchise agreement.

Other Revenue

In addition to revenue from vehicle rentals and licensee royalties, we generate revenue from Avis and Budget customers through the sale and/or rental of optional ancillary products and services. Our employees offer products to customers that will enhance their rental experience, including collision and loss damage waivers, insurance products such as additional/supplemental liability insurance or personal accident/effects insurance, products for driving convenience such as portable GPS navigation units, optional roadside assistance services, fuel service options, electronic toll collection and other ancillary products and services, such as rentals of satellite radio units and child safety seats. In 2012, approximately 5% of our vehicle rental operations revenue was generated by the sale of collision and loss damage waivers, under which we agree to relieve a customer from financial responsibility arising from vehicle damage incurred during the rental period if the customer has not breached the rental agreement. In addition, we receive reimbursement from our customers for certain operating expenses we incur, including gasoline and vehicle licensing fees, as well as airport concession fees, that we pay in exchange for the right to operate at airports and other locations.

The Wizard System

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

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

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

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

Pricing decision support systems. Pricing in the vehicle rental industry is highly competitive and complex. To improve our ability to respond to rental rate changes in the marketplace, we have developed sophisticated systems to gather and report competitive industry rental rate changes every day. Our systems, using data from third-party reservation systems as its source of information, automatically scan rate movements and report significant changes to our staff of pricing analysts for evaluation. These systems greatly enhance our ability to gather and respond to rate changes in the marketplace. In 2012 and 2013, we are developing an integrated pricing and fleet optimization tool that we expect will allow us to test and implement improved pricing and fleet deployment strategies and optimization algorithms, as well as automate the implementation of certain price changes.

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

Enterprise data warehouse. We have developed a sophisticated and comprehensive electronic data storage and retrieval system which retains information related to various aspects of our business. This data warehouse allows us to take advantage of comprehensive management reports and provides easy access to data for strategic decision making for both brands.

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

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

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

On Location. We have introduced our *On Location*® service to certain of our corporate customers, which enables self-service car rentals at their campus locations. This service consists of a two-way communications device connected to the vehicle s on-board diagnostics system. This device retrieves key vehicle information that integrates with the Wizard system to perform a check-in and check-out of a vehicle in a self-service mode.

Fleet

We offer for rental a wide variety of vehicles, including luxury and specialty vehicles. Our fleet consists primarily of vehicles from the current and immediately preceding model year. We maintain a single fleet of vehicles for Avis and Budget in countries where we operate both brands.

We participate in a variety of vehicle purchase programs with major vehicle manufacturers. In 2012, we purchased vehicles from Audi, BMW, Fiat, Hyundai, Kia, Mazda, Mercedes, Mitsubishi, Nissan, Peugeot, Porsche, Renault, Subaru, Toyota and Volkswagen, among others. During 2012, approximately 21%, 18% and 12% of the cars acquired for our car rental fleet were manufactured by Ford, General Motors and Chrysler, respectively.

In 2012, on average, approximately 46% of our rental car fleet was comprised of vehicles subject to agreements requiring automobile manufacturers to repurchase them or guarantee our rate of depreciation during a specified period of time, or vehicles subject to operating leases. Cars subject to these agreements are sometimes referred to as program cars and cars not subject to these agreements are sometimes referred to as risk cars. Such agreements require that program cars be maintained in our fleet for a minimum number of months (typically four to eleven months) and impose return conditions, including those related to mileage and condition. At the time the car is returned, we receive the price guaranteed at the time of purchase and are thus protected from fluctuations in the prices of previously-owned vehicles in the wholesale market. Of the approximately 511,000 vehicles sold in 2012, approximately 62% were sold pursuant to repurchase or guaranteed depreciation programs. The future percentages of program and risk cars in our fleet will be dependent on the availability and attractiveness of manufacturers repurchase and guaranteed depreciation programs.

We dispose of our risk cars largely through automobile auctions, including auctions that enable dealers to purchase vehicles online more quickly than through traditional auctions, as well as through direct-to-dealer sales. In 2012, we also launched the Ultimate Test Drive retail car sales program, which offers customers in certain states in the United States the ability to purchase Avis and Budget rental vehicles through a collaboration with AutoNation, Inc.

Our car rental business is subject to seasonal variations in customer demand, with the summer vacation period representing the peak season. The seasonal variation in demand, along with more localized changes in demand at each of our locations, causes us to vary our fleet size over the course of the year. For 2012, our average monthly car rental fleet size ranged from a low of approximately 406,000 vehicles in January to a high of approximately 550,000 vehicles in July. Our average monthly car rental fleet size typically peaks in the summer months. Compared to 2011, our average fleet size increased approximately 26% in 2012, primarily due to the inclusion of

Avis Europe s fleet for a full year in 2012 compared to a partial year in 2011. Average fleet utilization for 2012, which is based on the number of rental days (or portion thereof) that vehicles are rented compared to the total amount of time that vehicles are available for rent, ranged from 77% in March to 64% in December. Our calculation of utilization may not be comparable to other companies calculation of similarly titled statistics.

We have focused on and expect to continue to focus on the environmental profile of our car rental fleet, as measured using the United States Environmental Protection Agency (EPA) SmartWay Certification program. Many of the model-year 2012 and 2013 rental cars in our fleet meet the standards for EPA SmartWay Certification. We also offer several different models of gas/electric hybrid cars for rent, as well as flex fuel cars for those seeking to minimize environmental impact through use of E-85 ethanol fuel.

We place a strong emphasis on vehicle maintenance for customer safety and customer satisfaction reasons, and because quick and proper repairs are critical to fleet utilization. To accomplish this task we employ a fully-certified National Institute for Automotive Service Excellence (ASE) technician instructor and have developed a specialized training program for our 373 technicians who operate in approximately 95 maintenance and damage repair centers for both Avis and Budget in the United States. Our technician training department also prepares its own technical service bulletins that can be retrieved electronically at our repair locations. Approximately 68% of our U.S. technicians are ASE-certified.

Customer Service

We believe our commitment to delivering a consistently high level of customer service across all of our brands is a critical element of our success and strategy. Our Customer Led, Service Driven program focuses on improving the overall customer experience based on our research of customer service practices, improved customer insights, executing our customer relationship management strategy and delivering customer-centric employee training. Associates and managers at our Company-operated locations receive customer resolution training and are empowered to resolve most customer issues at the location level. In addition, we have simplified our rental agreements for both the Avis and Budget brands to make them easier for our customers to read and understand. We continuously track customer satisfaction levels by sending location-specific surveys to recent customers and utilize detailed reports and tracking to continually find ways to improve our customer service delivery and the overall customer experience. In 2012, we received over 700,000 responses to our online customer satisfaction surveys. Our surveys ask customers to evaluate their overall satisfaction with their rental experience, among other things. Results are analyzed in aggregate and by location to help further enhance our service levels to our customers.

Airport Concession Agreements

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

Competition

The car rental industry is characterized by intense price and service competition. Competition in our vehicle rental operations is based primarily upon price, customer service quality, including usability of booking systems and ease of rental and return, vehicle availability, reliability and national or international distribution. In addition, competition is influenced strongly by advertising, marketing and brand reputation. We compete primarily with the following car rental companies: Enterprise Rent-A-Car Company, which also operates the National Car Rental and Alamo brands in North America; Europcar, which also operates the National Car Rental and Alamo brands in Europe; Hertz Global Holdings, Inc., which operates the Hertz, Dollar and Thrifty brands; and Sixt AG. We also compete with smaller regional car rental companies.

TRUCK RENTAL BUSINESS

Operations

Budget s truck rental business is one of the largest local and one-way truck rental businesses in the United States. The Budget truck rental business has a combined fleet of approximately 27,000 trucks, which are rented through a network of approximately 1,700 dealers and 350 Company-operated locations throughout the continental United States. A certain number of our dealer locations are operated by our Budget car rental licensees. The Budget truck rental business serves both the consumer and light commercial sectors. The consumer sector consists primarily of individuals who rent trucks to move household goods on either a one-way or local basis. The light commercial sector consists of a wide range of businesses that rent light- to medium-duty trucks, which we define as trucks having a gross vehicle weight of less than 26,000 pounds, for a variety of commercial applications. In 2012, the Budget truck rental business generated total revenue of approximately $374 million.

We advertise in yellow pages telephone directories, purchase online advertisements and keyword referrals, and conduct targeted email marketing campaigns to help promote our truck rental business to new and existing customers. Budget truck rental customers can make reservations, through our Budget truck rental website at budgettruck.com, through the Budget truck rental reservation center at 1-800-GO-BUDGET or by calling a specific location directly.

We have an exclusive agreement to advertise truck rental services in the Mover s Guide, an official U.S. Postal Service change of address product. In addition, we maintain relationships with businesses like Sears and Extra Space Storage to promote Budget s truck rental business, as well as a relationship with AARP offering reduced rates to members.

Ancillary Products and Insurance Coverages

We supplement our daily truck rental revenue by offering customers a range of ancillary products. We rent automobile towing equipment and other moving accessories such as hand trucks, furniture pads and moving supplies, as well as portable GPS navigation units. We also make available to customers a range of optional liability-limiting products and coverages such as physical damage waivers, automobile towing protection, personal accident and cargo insurance and supplemental liability insurance. These ancillary products enhance our appeal to consumers by offering customers one-stop moving services.

Distribution

Budget s truck rental business is offered through a national network, which included approximately 1,700 dealers as of December 31, 2012. These independently-owned dealers generally operate self-storage facilities, rental centers, hardware stores, service stations and other similar retail service businesses. In addition to their principal businesses, the dealers rent our light- and medium-duty trucks to consumers and to our commercial accounts and are responsible for collecting payments on our behalf. The dealers receive a commission on all truck rentals and ancillary equipment rentals. Generally, agreements with dealers may be terminated by either party subject to certain conditions.

Competition

The truck rental industry is characterized by intense price and service competition as well as competition based on location (proximity to customer). We compete with a large number of truck rental companies throughout the country, including U-Haul International, Inc., Penske Truck Leasing Corporation, Ryder System, Inc., Enterprise Rent-A-Car Company and many others.

Seasonality

Our truck rental operations are subject to seasonal demand patterns, with generally higher levels of demand occurring during the late spring and summer months when most self-moves occur, with the third quarter typically being our busiest quarter. Generally, December is also a strong month due to increased retail sales activity and package deliveries.

INSURANCE

We generally assume the risk of liability to third parties arising from vehicle rental services in the United States, Canada, Puerto Rico and the U.S. Virgin Islands, in accordance with the minimum financial responsibility requirements (MFRs) and primacy of coverage laws of the relevant jurisdiction. In certain cases, we assume liability above applicable MFRs, but to no more than $1 million per occurrence, other than in cases involving a negligent act on the part of the Company, for which we purchase insurance coverage for exposures beyond retained amounts from a combination of unaffiliated excess carriers.

We insure the risk of liability to third parties arising from vehicle rental services in Europe in accordance with regulatory requirements, through a combination of unaffiliated carriers and our captive insurance subsidiary, AEGIS Motor Insurance Limited, which provides reinsurance to third-party insurers, subject to certain limits. AEGIS purchases reinsurance to limit its exposure. We insure the risk of liability to third parties in Argentina, Australia and New Zealand through a combination of unaffiliated carriers and one of our affiliates. These carriers provide coverage supplemental to minimum local requirements.

When a customer elects to purchase supplemental liability insurance or other optional insurance products, we largely retain economic exposure to loss, since the insurance is provided by an unaffiliated carrier that is reinsured through our captive insurance subsidiary, Constellation Reinsurance Co., Ltd. Additional personal accident insurance offered to our customers in Europe is underwritten by a third-party insurer, and reinsured by our Avis Europe International Reinsurance Limited subsidiary.

TRADEMARKS AND INTELLECTUAL PROPERTY

The service marks Avis and Budget, related marks incorporating the words Avis or Budget, and related logos and marks such as We try harde are material to our vehicle rental business. Our subsidiaries and licensees actively use these marks. In 2012, we also acquired trademarks and logos related to the Apex Car Rental brand in Australia and New Zealand. All of the material marks used by the Avis System and the Budget System are registered (or have applications pending for registration) with the United States Patent and Trademark Office as well as in over 100 countries. Our subsidiaries own the marks and other intellectual property, including the Wizard system, used in our business.

FINANCIAL DATA OF SEGMENTS AND GEOGRAPHIC AREAS

Financial data for our segments and geographic areas are reported in Note 21 Segment Information to our Consolidated Financial Statements included in Item 8 of this Annual Report.

REGULATION

We are subject to wide variety of laws and regulations in the United States and internationally including those relating to, among others, insurance products and rates, customer privacy and data security, competition, environmental matters, taxes, automobile-related liability, corruption, employment matters, cost and fee recovery, the protection of our trademarks and other intellectual property, and local ownership or investment requirements. Additional information on this topic is contained in Item 1A Risk Factors in this Annual Report.

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EMPLOYEES

As of December 31, 2012, we employed approximately 28,000 persons, of whom approximately 7,500 were employed on a part-time basis. Of our approximately 28,000 employees, approximately 10,000 were employed outside of the United States. In the United States, the majority of our employees are at-will employees and, therefore, not subject to any type of employment contract or agreement. Certain of our executive officers are employed under employment contracts that specify a term of employment and specify pay and other benefits.

As of December 31, 2012, approximately 35% of our employees in the United States were covered by collective bargaining agreements with various labor unions. We believe our employee relations are satisfactory. We have never experienced a large-scale work stoppage.

Outside the United States, we enter into employment contracts and agreements in those countries in which such relationships are mandatory or customary. The provisions of these agreements correspond in each case with the required or customary terms in the subject jurisdiction.

COMPANY INFORMATION

Our principal executive office is located at 6 Sylvan Way, Parsippany, New Jersey 07054 (telephone number: 973-496-4700). The Company files electronically with the Securities and Exchange Commission (the SEC) required reports on Form 8-K, Form 10-Q, Form 10-K and Form 11-K; proxy materials; ownership reports for insiders as required by Section 16 of the Securities Exchange Act of 1934; registration statements and other forms or reports as required. Certain of the Company s officers and directors also file statements of changes in beneficial ownership on Form 4 with the SEC. The public may read and copy any materials that the Company has filed with the SEC at the SEC s Public Reference Room located at 100 F Street, NE, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 800-SEC-0330. Such materials may also be accessed electronically on the SEC s Internet site (sec.gov). The Company maintains a website (avisbudgetgroup.com) and copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Section 16 reports and any amendments to these reports filed or furnished with the SEC are available free of charge in the Investor Relations section of our website, as soon as reasonably practicable after filing with the SEC. Copies of our Codes of Conduct and Ethics, as defined under Item 406 of Regulation S-K, including any amendments thereto or waivers thereof, Corporate Governance Guidelines, Director Independence Criteria and Board Committee Charters are also available on our website. The information contained on the Company s website is not included in, or incorporated by reference into, this Annual Report on Form 10-K.

ITEM 1A. RISK FACTORS

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

Risks Related to Our Business

The high level of competition in the vehicle rental industry may lead to reduced rental volumes and increased pricing pressure, which could adversely impact our results of operations.

The vehicle rental industry in which we operate is highly competitive. We believe that price is one of the primary competitive factors in the vehicle rental industry. Our competitors may seek to compete aggressively on the basis of pricing. We risk losing rental volume to the extent that our competitors reduce their pricing and we do not match or remain within a reasonably competitive margin of our competitors pricing, or if price increases we seek to implement make us less competitive. We could be further impacted if we are unable to adjust the size of our rental fleet in response to fluctuations in demand.

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

The Internet has increased pricing transparency among vehicle rental companies by enabling cost-conscious customers to more easily obtain and compare the rates available from various vehicle rental companies for any given rental. This transparency may increase the prevalence and intensity of price competition in the future.

We face risks of increased fleet costs, both generally and due to the possibility that manufacturers could change or cease their repurchase or guaranteed depreciation programs.

Fleet costs, which represent our single largest expense, represented approximately 22% of our aggregate operating expenses for 2012 and can vary from year to year based on the prices at which we are able to purchase and dispose of rental vehicles. In 2012, on average approximately 46% of our rental car fleet was comprised of vehicles subject to agreements requiring automobile manufacturers to repurchase them or guarantee the depreciation rate for a specified period of time, or vehicles subject to operating leases. We refer to such agreements as programs and to cars subject to such agreements as program cars. Under these programs, automobile manufacturers agree to repurchase cars at a specified price during a specified time period or guarantee the rate of depreciation for a specified period of time, typically subject to certain car condition and mileage requirements. These programs therefore enable us to determine, in advance, our depreciation expense, which is a significant component of our fleet costs. These programs also limit the risk to us that the market value of a car, at the time of its disposition, will be less than its estimated residual (or depreciated) value; however, as discussed below, such programs result in additional exposure to the manufacturers with whom we have such agreements.

Automobile manufacturers may not continue to sell program cars to us at all or on terms consistent with past practice. The overall cost of program cars could also increase if the manufacturers were to make changes to such programs, particularly if such changes were to result in an adverse impact in the repurchase price or guaranteed depreciation without a corresponding decrease to the original purchase price. Programs also generally provide us with flexibility to reduce the size of our fleet rapidly in response to seasonal demand fluctuations, an economic slowdown or other changes in demand by disposing of cars sooner than originally expected. This flexibility may be reduced in the future to the extent that we reduce the percentage of program cars in our car rental fleet or features of the programs are altered.

We receive payments from manufacturers, known as incentive payments, once certain contractual conditions are met, such as reaching certain purchase volumes. Our per-unit fleet costs could increase if we should decide to purchase fewer vehicles than previously agreed, or if we do not meet volume requirements or if incentive payments are reduced or eliminated by manufacturers. Any increase in our per-unit fleet costs could adversely impact our financial condition and results of operations.

We face risks related to the financial condition of automobile manufacturers and the used vehicle marketplace.

Approximately 21%, 18% and 12% of the cars we acquired for our fleet in 2012 were manufactured by Ford, General Motors and Chrysler, respectively. A majority of these cars and a portion of cars purchased from other manufacturers for our fleet are program cars. If a manufacturer were to default under its agreements with us as a result of bankruptcy proceedings or otherwise, we could incur material expenses if the prices at which we were able to dispose of program cars were less than the specified prices under the applicable program. This effect could be magnified because we typically pay manufacturers more for a program car than we would pay for the same car as a non-program vehicle, which we refer to as a risk vehicle, and because we depreciate a program car to the repurchase price or the guaranteed depreciation agreed to by the manufacturer. This agreed price does not vary with conditions in the marketplace and is usually higher than the price that would be available in the used car marketplace. We also receive incentive payments from manufacturers following the purchase of some of our vehicles once certain conditions are met, such as reaching certain purchase volumes. Failure by a manufacturer to fulfill its obligations under any program agreement or incentive payment obligation could leave us with a substantial unpaid claim against the manufacturer, particularly with respect to program cars that were either (i) resold for an amount less than the amount guaranteed under the applicable program and therefore subject to a true-up payment obligation from the manufacturer or (ii) returned to the manufacturer but for which we were not yet paid, and therefore we could incur a substantial loss as a result of such failure to perform.

We currently sell non-program vehicles through auctions, third-party resellers and other channels in the used vehicle marketplace. Such channels may not produce stable used vehicle prices. A reduction in residual values for non-program cars and trucks in our vehicle rental fleet could cause us to sustain a substantial loss on the ultimate sale of such vehicles or require us to depreciate those vehicles at a more accelerated rate while we own them.

Any reduction in the market value of the vehicles in our fleet could effectively increase our fleet costs, adversely impact our profitability and potentially lead to decreased capacity in our asset-backed car rental funding facilities due to the collateral requirements for such facilities which effectively increase as market values for vehicles decrease. In addition, if our ability to sell vehicles in the used vehicle marketplace were to become severely limited at a time when required collateral levels were rising, principal under our asset-backed financing facilities may be required to be repaid sooner than anticipated with vehicle disposition proceeds and lease payments we make to our vehicle program subsidiaries. If that were to occur, the holders of our asset-backed debt may have the ability to exercise their right to instruct the trustee to direct the return of program vehicles and/or the sale of non-program vehicles to generate proceeds sufficient to repay such debt.

We face risks associated with sourcing vehicles for our fleet and potential safety recalls affecting vehicles in our fleet.

We currently source our fleet from a wide range of auto manufacturers, including General Motors, Ford, Chrysler, Audi, BMW, Fiat, Hyundai, Kia, Nissan, Peugeot, Renault, Toyota and Volkswagen. To the extent these or other auto manufacturers significantly curtail production, or decide to curtail sales to us or the vehicle rental industry as a whole, we may not be able to obtain a sufficient number of vehicles to operate our business without significantly increasing our fleet costs. In addition, our vehicles may be subject to safety recalls by their manufacturers that could have a similar negative impact on our business when we remove such recalled vehicles from our rentable fleet. If a large number of cars were to be the subject of simultaneous recalls, or if needed replacement parts were not in adequate supply, we may not be able to re-rent recalled cars for a significant period of time. We could also face liability claims related to vehicles subject to a safety recall. Depending on the nature and severity of the recall, it could adversely affect our revenues, create customer service problems, reduce the residual value of the cars involved, harm our general reputation and/or have an adverse effect on our financial condition and results of operations.

We may engage in acquisitions, including the acquisition of existing Avis or Budget licensees, or investments in other related businesses and we may not be able to effectively integrate or realize anticipated benefits of these transactions or the anticipated benefits could take longer to realize than expected, which could negatively impact our results of operations.

From time to time we engage in strategic transactions, including the acquisition of or investment in existing licensees and/or other related businesses. The risks involved in engaging in these strategic transactions include the possible failure to successfully integrate the operations of acquired businesses, or to realize the expected benefits of

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such transactions such as earnings and cash flows, cost savings, synergies or sales or growth opportunities that we anticipate from the transaction. These benefits may not be achieved within the anticipated time frame, or at all. In addition, the integration may result in material unanticipated problems, expenses, liabilities or competitive responses. Potential challenges associated with integrating acquired business operations include:

- inconsistencies between our standards, procedures and policies and those of the acquired business;
- the increased scope and complexity of our operations could require significant attention from management and could impose constraints on our operations or other projects;
- unforeseen expenses, delays or conditions may be imposed upon the acquired company, including due to required regulatory or other third-party approvals or consents;
- the costs of compliance with U.S. and international laws and regulations, including the possible acquisition or assumption of unexpected liabilities, litigation, penalties or other enforcement actions;
- provisions in our and the acquired business s contracts with third parties that could limit our flexibility to take certain actions or our ability to retain customers;
- higher than expected costs may arise due to unforeseen changes in tax, trade, environmental, labor, safety, payroll or pension policies in any jurisdiction in which the acquired business conducts its operations;
- higher than expected investments may be required to implement necessary compliance processes and related systems, including accounting systems and internal controls over financial reporting;
- limitations on, or costs associated with, workforce reductions;
- the Company may fail to implement its strategy for a particular acquisition, including successfully integrating the acquired business, which could have an adverse effect on our business, financial condition and results of operations;
- the Company may fail to retain, motivate and integrate key management and other employees of the acquired business; and
- the possibility of other costs or inefficiencies associated with the integration and consolidation of operational and administrative systems, processes and infrastructures of the combined company.

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

In addition, we may undertake acquisitions financed in part through public offerings or private placements of debt or equity securities, or other arrangements. Such acquisition financing would increase our indebtedness. If we issue equity securities or equity-linked securities, the issued securities would have a dilutive effect on the interests of the holders of our common shares.

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

Historically, our results of operations have declined during periods of general economic weakness, as experienced in 2008 and 2009 when our results were adversely impacted by the global economic recession. If economic conditions in the United States, Europe and/or worldwide were to weaken, our financial condition and results of operations could be adversely impacted in 2013 and beyond.

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In 2012, we generated approximately 71% of our car rental T&M revenue from our on-airport locations; therefore, a decline in airline travel will typically have a direct adverse impact on our results of operations. Significant airline capacity reductions, airfare or related fee increases, any events that disrupt or reduce business or leisure air travel such as work stoppages, military conflicts, terrorist incidents, natural disasters, epidemic diseases, or the response of governments to any of these events, could result in reduced air travel and have an adverse effect on our results of operations. Significant increases in fuel prices, a severe protracted disruption in fuel supplies or rationing of fuel could discourage customers from renting cars or reduce or disrupt air travel.

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

We may not be successful in implementing our business strategies.

For 2013, our objective is to focus on growing our business profitably, strengthening our position as a leading provider of vehicle rental services, continuing to enhance the quality of vehicle rental services we provide to customers, and maintaining and enhancing efficiencies achieved through process improvement and other actions, including certain core strategic initiatives, such as optimizing our two-brand strategy, expanding our revenue sources, capturing incremental profit opportunities and controlling costs and promoting efficiencies. If we are unsuccessful in implementing these initiatives, our financial condition, results of operations and cash flows could be adversely affected.

We rely on third-party distribution channels, and the success of our business may be affected by these relationships.

In 2012, we generated approximately 45% of our car rental reservations through third-party distribution channels, which include:

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

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

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

Our business is seasonal, and a disruption in rental activity during our peak season could adversely affect our results of operations.

Seasonal changes in our revenues do not typically alter certain of our expenses that are fixed in the short run, such as rent and insurance, and typically result in higher profitability in periods when our revenues are higher and lower profitability in periods when our revenues are lower. In our business, the third quarter of the year has historically been our strongest quarter due to the increased level of leisure travel and household moving activity. In 2012, the third quarter accounted for 29% of our total revenue for the year and was our most profitable quarter as measured by Adjusted EBITDA. Any circumstance or occurrence that disrupts rental activity during the third quarter could have a disproportionately adverse impact on our financial condition and our results of operations.

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Our derivative instruments may impact our results of operations.

We typically utilize derivative instruments to manage a portion of our risk related to fluctuations in interest rates, gas prices and foreign exchange rates. The derivative instruments we use to manage our risk are usually in the form of interest rate and commodity swaps and foreign exchange forward and swap agreements. Periodically, we are required to determine the change in fair value, called the mark to market, of some of these derivative instruments, which can result in a non-cash loss or gain being recognized in our financial results. Significant changes or shifts in interest rates, gas prices or foreign exchange rates will impact the valuation of our derivatives and therefore could expose us to substantial mark-to-market losses or gains if such rates or prices fluctuate materially from the time the derivatives were entered into. Accordingly, a fluctuation in such rates or prices may impact our financial position, results of operations and current or future cash flows. In addition, volatility in rates and prices can also impact the cost and effectiveness of our derivative instruments in managing our risks. To the extent any of our derivatives were to result in a gain upon settlement, we would be exposed to credit risk of the counterparties to such derivatives, which are typically large financial institutions.

We are exposed to fluctuations in currency exchange rates that may adversely impact our results of operations.

Our international operations generate revenue and incur operating costs in a variety of currencies other than the U.S. dollar. In addition, the financial position and results of operations of many of our foreign subsidiaries are reported in the relevant local currency and then translated to U.S. dollars at the applicable currency exchange rate for inclusion in our consolidated financial statements. Changes in exchange rates among these currencies and the U.S. dollar will affect the recorded levels of our assets and liabilities, to the extent such figures reflect the inclusion of foreign assets and liabilities that are translated into U.S. dollars for presentation in our financial statements, as well as our results of operations. While we take steps to manage our currency exposure, we cannot accurately predict the nature or extent of future exchange rate variability, which could adversely impact our results of operations and financial position, and we may not be able to effectively limit our exposure to intermediate-and long-term movements in currency exchange rates. We customarily enter into financial transactions such as currency hedging instruments to address these risks, but there can be no assurance that currency exchange rate fluctuations will not adversely affect our results of operations, financial condition and cash flows. In addition, while the use of currency hedging instruments may provide us with protection from adverse fluctuations in currency exchange rates, by utilizing these instruments we potentially forego the benefits that might result from favorable fluctuations in currency exchange rates. We also face risks arising from the imposition of exchange controls and currency devaluations. Exchange controls may limit our ability to convert foreign currencies into U.S. dollars or to remit dividends and other payments by our foreign subsidiaries or businesses located in or conducted within a country imposing controls. Currency devaluations result in a diminished value of funds denominated in the currency of the country instituting the devaluation.

We face risks related to liability and insurance.

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

We face risks related to our locations.

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

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

We face an inherent business risk of exposure to various types of legal claims and lawsuits. We are involved in various contractual, licensee, wage and hour, competition, employee classification, environmental and intellectual property claims and lawsuits and other legal proceedings that arise in and outside of the ordinary course of our business. From time to time, the industry in which we operate is also reviewed or investigated by regulators, which could lead to tax assessments, enforcement actions, fines and penalties or the assertion of private litigation claims. It is not possible to predict with certainty the outcome of claims, investigations and lawsuits, and we could in the future incur judgments, taxes, fines or penalties or enter into settlements of lawsuits and claims that could have an adverse effect on our business, results of operations, cash flows and financial condition. In addition, while we maintain insurance coverage with respect to certain claims, we may not be able to obtain such insurance on acceptable terms in the future, if at all, and any such insurance may not provide adequate coverage against any such claims.

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

Our global operations are subject to numerous U.S. and international laws and regulations.

Due to the international scope of our operations, we are subject to laws and regulations including consumer protection, competition, data privacy and security, fraud, customs requirements, currency-exchange regulations, anti-bribery, health and safety, insurance and claims management and other trade-related laws and regulations in numerous jurisdictions. Recent years have seen a substantial increase in the global enforcement of certain of these laws, such as the U.S. Foreign Corrupt Practices Act, the UK Bribery Act and similar foreign laws and regulations. Our continued operation and expansion outside of the United States, including in developing countries, could increase the risk of governmental investigations and violations of such laws. We also participate in relationships with third parties whose actions could potentially subject us to liability under such laws. We cannot predict the nature, scope or effect of future regulatory requirements to which our international operations might be subject or the manner in which existing laws might be administered or interpreted. Any alleged or actual violations of any law or regulation may subject us to government scrutiny, investigation and civil and criminal penalties, may limit our ability to provide services in any of the countries in which we operate and result in an adverse effect on our reputation, business, results of operations or financial condition.

We are subject to environmental regulations that could render us liable for fines or damages.

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

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

Changes in the laws and regulations in the jurisdictions in which we operate, including, among others, laws and regulations relating to the insurance products that we sell, consumer privacy and data protection, franchising and licensing laws, automobile-related liability, health care reform and environmental matters could affect our operations, disrupt our business, increase our expenses or otherwise have an adverse impact on our results of operations.

We are subject to a wide variety of laws and regulations in the United States and internationally and changes in the level of government regulation of our business have the potential to materially alter our business practices, financial position and results of operations. Depending on the jurisdiction, those changes may come about through the issuance of new laws and regulations or changes in the interpretation of existing laws and regulations by a court, regulatory body or governmental official. Our global operations may expose us to varying risks, which include multiple, and sometimes conflicting, foreign regulatory requirements and laws that are subject to change and are often much different than the laws in the United States, including laws relating to taxes, automobile-related liability, insurance rates and products, consumer privacy and data security, employment matters, environmental matters, cost and fee recovery, the protection of our trademarks and other intellectual property matters and local ownership or investment requirements.

We reinsure certain insurance exposures as well as the optional insurance coverages that we offer through unaffiliated third-party insurance companies, which subjects us to regulation under various insurance statutes, including insurance holding company statutes, of the jurisdictions in which our insurance company subsidiaries are domiciled. These regulations vary from jurisdiction to jurisdiction, but generally require insurance holding companies and insurers that are subsidiaries of insurance holding companies to register and file certain reports, including information concerning their capital structure, ownership, financial condition and general business operations with the regulatory authority of the applicable jurisdiction, and require prior regulatory agency approval of changes in control of an insurer and intra-corporate transfers of assets within the holding company structure. Any changes in regulations under which our insurance company subsidiaries are bound that alter or impede our reinsurance obligations or subsidiary operations in all or certain particular jurisdictions could adversely impact the economic benefits that we rely upon to support our reinsurance efforts and our decision to reinsure the optional insurance coverages that we offer our customers, which in turn would adversely impact our results of operations.

Optional insurance products that we offer to renters in the United States, including, but not limited to, supplemental liability insurance, personal accident insurance and personal effects protection, are regulated under state laws governing such products. Our car rental operations in Europe must comply with certain European

Union regulations regarding the sale of personal accident insurance by intermediaries. In our other international car rental operations, our offering of optional insurance coverages has not historically been regulated. Any changes in U.S. or international laws that change our operating requirements with respect to optional insurance products could increase our costs of compliance or make it uneconomical to offer such products, which would lead to a reduction in revenue and profitability. If customers decline to purchase supplemental liability insurance products from us as a result of any changes in these laws or otherwise, our results of operations, cash flows or financial condition could be adversely affected.

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

In almost every state in the United States and certain other international locations where we operate, we recover from consumers various costs associated with the title and registration of our vehicles. In addition, where permitted, we also recover from consumers certain costs, including concession costs imposed by an airport authority or the owner and/or operator of the premises from which our vehicle is rented. In the United States, our long-standing business practice has been to separately state the existence of these additional costs in our rental agreements and invoices and to disclose to consumers what the additional surcharges used to recover such costs are, together with an estimated total price, inclusive of these surcharges, in all distribution channels. We believe that this standard practice comports with the Federal Trade Commission Act and has been upheld by several courts. We may in the future be subject to potential legislative changes or administrative actions in the United States and internationally, which could limit, restrict or prohibit our ability to separately state, charge and recover such costs, which could result in an adverse cost reallocation. If any such changes were to be enacted, there may be an adverse impact or limitation on our ability to recover all of the surcharges we currently charge, which could adversely impact our profitability, results of operations, cash flows or financial condition.

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

The aspect of our business that involves licensing third parties to operate locations under the Avis or Budget brands, in exchange for the payment of a royalty, is regulated by various state franchising laws, as well as by the U.S. Federal Trade Commission (the FTC). The FTC requires that we make extensive disclosure to prospective licensees but does not require registration. A number of states require registration and/or disclosure in connection with licensing offers and sales. In addition, several states have franchise relationship laws that could limit our ability to, among other things, terminate license agreements or withhold consent to the renewal or transfer of these agreements. We are also subject to certain regulations affecting our license arrangements in Europe and other international locations. Although our licensing operations have not been materially adversely affected by such existing regulations, we cannot predict the effect of any future U.S. or international legislation or regulations. Should our operations become subject to new laws or regulations that negatively impact our ability to engage in franchising or licensing activities in current or new jurisdictions in which we operate, our results of operations, profitability and financial condition could be adversely impacted.

In 2005, federal legislation was enacted that pre-empted state laws which imputed tort liability solely based on ownership of a vehicle involved in an accident. If the current law were to change, our insurance liability exposure could materially increase.

In 2010, the United States enacted significant health care reform laws, the constitutionality of which was affirmed by the U.S. Supreme Court in 2012. Due to the breadth and complexity of the legislation, the current lack of implementing regulations and interpretive guidance, the phased-in nature of the implementation, uncertainty regarding the effect of these laws on health care costs generally, and uncertainty regarding how large employers will respond to the new laws and regulations, it is difficult to predict the overall impact of these laws on our business over the coming years. Possible adverse effects of these laws include increased costs, exposure to expanded liability, changes in our ability to attract or retain employees, and requirements for us to revise the ways in which we conduct business.

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

We may be held responsible by regulators, courts or others for the actions of, or failures to act by, our licensees, dealers or independent operators, which exposes us to possible fines, other liabilities and negative publicity.

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

Our global operations may be exposed to political and economic risks, commercial instability and events beyond our control in the countries in which we operate.

Our global operations are dependent upon products manufactured, purchased and sold in the U.S. and internationally, including in countries with political and economic instability. In some cases, these countries have greater political and economic volatility and greater vulnerability to infrastructure and labor disruptions than in our other markets. Operating and seeking to expand business in a number of different regions and countries exposes us to a number of risks, including:

- multiple and potentially conflicting laws, regulations and policies that are subject to change;
- the imposition of currency restrictions, restrictions on repatriation of earnings or other restraints;
- national and international conflict, including terrorist acts; and
- political and economic instability or civil unrest that may severely disrupt economic activity in affected countries.

The occurrence of one or more of these events may negatively impact our business, results of operations, cash flows or financial condition.

We face risks arising from our heavy reliance on communications networks and centralized information systems.

We rely heavily on information systems, including our reservation system, to accept reservations, process rental and sales transactions, manage our fleet of vehicles, account for our activities and otherwise conduct our business. We have centralized our information systems, and we rely on communications service providers to link our systems with the business locations these systems were designed to serve. A failure of a major system, or a major disruption of communications between the system and the locations it serves, could cause a loss of reservations, interfere with our ability to manage our fleet, slow rental and sales processes and otherwise adversely affect our ability to manage our business effectively. Our systems business continuity plans and insurance programs seek to mitigate such risks but they cannot fully eliminate the risk that a disruption could be experienced in any of our information systems.

Any failure by us to protect confidential information of our customers against security breaches, including cyber-security breaches, could damage our reputation and substantially harm our business and results of operations.

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

In addition, the industry that regulates the usage of credit and debit cards (the Payment Card Industry, or the PCI) imposes strict customer credit card data security standards to ensure that our customers credit card information is protected. Failure to meet the PCI data security standards could result in substantial increased fees to credit card companies, other liabilities and/or loss of the right to collect credit card payments, which could adversely impact our operations. Failure to protect customer credit card and other information can also result in governmental investigations or material civil or criminal liability.

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

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

Unexpected events, including natural disasters, may increase our cost of doing business or disrupt our operations.

The occurrence of one or more unexpected events, including fires, tornadoes, tsunamis, hurricanes, earthquakes, floods and other forms of severe weather, general labor strikes and political disruptions in the United States or in other countries in which we operate or in which our auto manufacturers are located, could adversely affect our operations and financial performance. Natural disasters, pandemic illness, power outages, gasoline shortages or other unexpected events could result in physical damage to and complete or partial closure of one or more of our Company-operated and/or licensed locations, temporary or long-term disruption in the supply of fleet vehicles from the U.S. and international auto manufacturers and disruption in the transport of our fleet vehicles to Company-operated and/or licensed locations. Existing insurance arrangements may not provide protection for all of the costs that may arise from such events.

Risks Related to Our Indebtedness

We have a substantial amount of debt, which could impair our financial condition and adversely affect our ability to react to future changes in our business.

As of December 31, 2012, our total debt was approximately $9.7 billion and we had $869 million of available letter of credit and borrowing capacity under our senior credit facility. Our indebtedness could have important consequences, including:

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

- requiring us to dedicate a substantial portion of our cash flow from operations to pay principal and interest on our debt, which would reduce the funds available to us for other purposes; and

- making us more vulnerable to adverse changes in general economic, industry and competitive conditions, as well as changes in government regulation and changes to our business.

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Our ability to satisfy and manage our debt obligations depends on our ability to generate cash flow and on overall financial market conditions. To some extent, this is subject to prevailing economic and competitive conditions and to certain financial, business and other factors, many of which are beyond our control. Our business may not generate sufficient cash flow from operations to permit us to pay principal, premium, if any, or interest on our debt obligations. If we are unable to generate sufficient cash flow from operations to service our debt obligations and meet our other cash needs, we may be forced to reduce or delay capital expenditures, sell or curtail assets or operations, seek additional capital or seek to restructure or refinance our indebtedness. If we must sell or curtail our assets or operations, it may negatively affect our ability to generate revenue.

Despite our current indebtedness levels, we may still be able to incur substantially more debt. This could further exacerbate the risks associated with our substantial outstanding indebtedness.

The agreement governing our credit facilities and the indentures governing our senior unsecured notes limit, but do not prohibit, us from incurring additional indebtedness in the future. As of December 31, 2012, our revolving credit facility provided us with aggregate capacity of up to $1.5 billion, $869 million of which remains available for borrowings. All of those borrowings would be secured and the lenders under our senior credit facility would have a prior claim to the assets that secure such indebtedness. If new debt is added to our current debt levels, the risks described above could intensify.

We may be unable to remain in compliance with the financial or other covenants contained in our debt instruments, including our senior credit facility.

Many of our debt instruments, including our senior credit facility, contain financial and other covenants that impose significant requirements on us and limit our ability to engage in certain transactions or activities. There can be no assurance that we will be able to generate sufficient earnings to enable us to satisfy the financial covenants included in our debt instruments. Our failure to comply with these covenants, if not waived, would cause a default under the senior credit facility and could result in a cross-default and a required repayment of principal under our U.S. asset-backed conduit facilities from a portion of our vehicle disposition proceeds or lease payments that we make to our vehicle program subsidiaries and other asset-backed facilities. If such a failure were to occur, there can be no assurance that we would be able to refinance or obtain a replacement for such facilities and in certain circumstances such failure could also give rise to a default under the instruments that govern our other indebtedness.

We can be adversely impacted by disruptions in the credit and asset-backed securities markets, which could lead to increases in interest rates and could disrupt our ability to obtain financing for our operations.

We rely upon financing for our operations, particularly asset-backed financing, through asset-backed securities and the credit market. Our total asset-backed debt as of December 31, 2012 was approximately $6.8 billion, with remaining available capacity of approximately $2.5 billion. Our $2.25 billion asset-backed U.S. rental car conduit facility is a two-year facility which matures in October 2014. We also maintain asset-backed facilities in Canada and Australia, and a vehicle-backed credit facility in Europe. If the asset-backed financing market is disrupted for any reason, we may be unable to obtain refinancing for our operations at current levels, or at all, when our asset-backed rental car financings mature, and any new financing or refinancing of our existing financing could increase our borrowing costs, including due to an increase in required collateral levels. In addition, we could be subject to increased collateral requirements to the extent we request any amendment or renewal of any of our existing financing.

An increase in interest rates would increase the cost of servicing our debt obligations and could reduce our future profitability.

A portion of our borrowings, primarily our vehicle-backed borrowings, bears interest at variable rates that expose us to interest rate risk. If interest rates were to increase, whether due to an increase in market interest rates or an increase in our own cost of borrowing, our debt service obligations for our variable rate indebtedness would

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increase even though the amount of borrowings remained the same, and our results of operations could be adversely affected. As of December 31, 2012, our total outstanding debt of approximately $9.7 billion included unhedged interest rate sensitive debt of approximately $2.2 billion. During our seasonal borrowing peak in 2012, outstanding unhedged interest rate sensitive debt totaled approximately $3.3 billion.

Restrictive covenants in agreements and instruments governing our debt obligations could adversely affect our ability to operate our business.

The terms of certain of our indebtedness, including the indentures governing our senior unsecured notes and the agreement governing our senior credit facility contain, and our future debt instruments may contain, various restrictive covenants and provisions applicable to us and our subsidiaries that limit our ability to, among other things:

- incur additional debt;
- provide guarantees in respect of obligations of other persons;
- issue redeemable stock and preferred stock;
- pay dividends or distributions or redeem or repurchase capital stock;
- prepay, redeem or repurchase debt;
- make loans, investments and capital expenditures;
- enter into transactions with affiliates;
- create or incur liens;
- make distributions from our subsidiaries;
- sell assets and capital stock of our subsidiaries;
- engage in acquisitions; and
- consolidate or merge with or into, or sell substantially all of our assets to, another person.

Risks Related to the Separation

We are relying on our former subsidiaries to fulfill their obligations under the certain agreements related to the Separation.

We continue to manage the administration of certain legacy items which remain following the completion of the Separation. In connection with the Separation, we entered into certain agreements, including a Separation and Distribution Agreement (the Separation Agreement) with Realogy Corporation (Realogy), Wyndham Worldwide Corporation (Wyndham Worldwide) and Travelport, Inc. (Travelport) governing our relationships following the Separation. Pursuant to the Separation Agreement and related agreements (including a tax sharing agreement, the Tax Sharing Agreement), Realogy and Wyndham Worldwide are responsible for 62.5% and 37.5%, respectively, of certain contingent and other of our corporate liabilities including those relating to unresolved tax and legal matters as well as 100% of certain liabilities that relate to their respective businesses (the Assumed Obligations), specifically (i) all taxes imposed on us and certain of our subsidiaries and (ii) certain of our contingent and other corporate liabilities and/or those of our subsidiaries to the extent incurred prior to August 23, 2006. If either Realogy or Wyndham Worldwide were to default in its payment, when due, of any such Assumed Obligations, each non-defaulting party, including us, would be required to pay an equal portion of the defaulted amounts, and any such default may adversely impact our results of operations, financial condition or cash flows.

Realogy was acquired by an affiliate of Apollo Management VI, L.P. following the Separation. In accordance with the terms of the Separation Agreement, Realogy posted a letter of credit for the benefit of the Company in an amount designed to cover its estimated share of the Assumed Obligations. As of December 31, 2012, we had recorded receivables from Realogy of approximately $64 million. There can be no assurance that such letter of credit will be sufficient or effective to cover Realogy s actual obligations if and when they arise. In addition, the Separation Agreement effectively provides Realogy with the right to control the process for resolving disputes related to many of the Assumed Obligations.

Realogy, Wyndham Worldwide and/or Travelport (the separated companies) are required to indemnify us in respect of certain liabilities that related to their respective businesses, including certain effective guarantees that result from either us or one of our subsidiaries remaining a named lessee on real estate leases pertaining to properties occupied by the separated companies as well as certain litigation that pertains to the businesses of such companies in which we are also named. Any failure by the separated companies to pay any of their assumed liabilities when due or to indemnify us when required may adversely impact our results of operations, financial condition or cash flows.

Risks Related to Our Common Stock

The market price of our shares may fluctuate widely.

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

- our quarterly or annual earnings, or those of other companies in our industry, including our key suppliers;
- actual or anticipated fluctuations in our operating results;
- changes in accounting standards, policies, guidance, interpretations or principles;
- announcements by us or our competitors of acquisitions, dispositions, strategies, marketing affiliations, projections, fleet costs, pricing actions or other competitive actions;
- changes in earnings estimates by securities analysts or our ability to meet those estimates;
- changes in investors and analysts perceptions of our industry, business or related industries;
- the operating and stock price performance of other comparable companies;
- overall market fluctuations; and
- general economic conditions and conditions in the credit markets.

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

Our shareholders percentage of ownership may be diluted in the future due to equity issuances, conversion of our convertible senior notes due 2014, the exercise of warrants that we issued in 2009 or equity awards that we granted or will grant to our directors, officers and employees. Holders of our convertible senior notes may convert their notes into up to approximately 8 million shares of our common stock. In 2012, we granted approximately 1.9 million restricted stock units and in January 2013, we granted approximately 1.0 million restricted stock units. We also expect to grant restricted stock units, stock options and/or other types of equity awards in the future.

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Provisions in our certificate of incorporation and corporate by-laws, as well as requirements under Delaware law, could prevent or delay a potential acquisition of our Company, which could decrease the trading price of our common stock.

Our amended and restated certificate of incorporation, amended and restated by-laws and laws in the State of Delaware contain provisions that are intended to deter coercive takeover practices and inadequate takeover bids by making such practices or bids unacceptably expensive to the prospective acquirer and to encourage prospective acquirers to negotiate with our Board of Directors rather than to attempt a hostile takeover. These provisions include, among others:

- elimination of the right of our stockholders to act by written consent;
- rules regarding how stockholders may present proposals or nominate directors for election at stockholder meetings;
- the right of our Board of Directors to issue preferred stock without stockholder approval; and
- limitations on the right of stockholders to remove directors.

Delaware law also imposes some restrictions on mergers and other business combinations between us and any holder of 15% or more of our outstanding common stock.

We believe these provisions protect our stockholders from coercive or otherwise unfair takeover tactics by requiring potential acquirors to negotiate with our Board of Directors and by providing our Board with more time to assess any acquisition proposal. These provisions are not intended to make our Company immune from takeovers. However, these provisions apply even if the offer may be considered beneficial by some stockholders and could delay or prevent an acquisition that our Board of Directors determines is not in the best interests of our Company and our stockholders.

Conversion of our convertible senior notes due 2014 and the note hedge and warrant transactions entered into in connection with the issuance of the notes may have an adverse impact on the price of our common stock.

Any of the following transactions and activities could adversely affect the value of our common stock in connection with our issuance of 3.5% convertible senior notes due 2014 and the note hedge and warrant transactions entered into in connection with such outstanding notes:

- the conversion of some or all of our convertible senior notes, any sales by noteholders in the public market of our common stock issued upon such conversion and any selling of our common stock (including short selling) due to the existence of the notes;
- the exercise of some or all of the warrants, any sales by warrantholders in the public market of our common stock issued upon such exercise of the warrants and any selling of our common stock (including short selling) due to the existence of the warrants; and
- the entry into, or the modification or the unwinding of, various derivative transactions with respect to our common stock by the counterparties in connection with their obligations under the note hedge and warrant transactions.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

Our principal executive offices are located at 6 Sylvan Way, Parsippany, New Jersey 07054 pursuant to a lease agreement that expires in 2023. We also own a facility in Virginia Beach, Virginia, which serves as a satellite administrative facility for our car and truck rental operations, and administrative offices in Madrid, Spain and Lisbon, Portugal. We also lease office space in Greenwood Village, Colorado, and Tulsa, Oklahoma, pursuant to leases expiring in 2015 and 2022, respectively. These locations primarily provide operational services for both brands, including contact center operations. We also lease office space in Bracknell, England, Budapest, Hungary and Barcelona, Spain pursuant to leases expiring in 2022, 2018 and 2014, respectively, for corporate offices, contact center activities and other administrative functions, respectively, in Europe. There are approximately 25 other leased office locations throughout the world used for administrative activities, regional sales and operations activities.

We lease or have vehicle rental concessions for both the Avis and Budget brands at locations throughout the world. Avis operates approximately 1,350 locations in North America and approximately 1,300 locations outside North America. Of those locations, approximately 275 in North America and approximately 200 outside North America are at airports. Budget operates at approximately 1,000 locations in North America, of which approximately 250 are at airports. Budget also operates at approximately 550 locations outside North America, of which approximately 150 are at airports. We believe that our properties are sufficient to meet our present needs and we do not anticipate any difficulty in securing additional space, as needed, on acceptable terms.

ITEM 3. LEGAL PROCEEDINGS

On November 14, 2007, two California residents filed a putative class action lawsuit, captioned *Michael Shames et al. v. The Hertz Corp. et al.*, No. 07 CV 2174H (S.D. Cal.), against the Company, six other rental car companies, the California Travel and Tourism Commission (the CTTC) and the CTTC s Executive Director, alleging that the defendants violated federal antitrust law and California s Unfair Competition Law and False Advertising Law by allegedly agreeing to pass on airport concession fees and a state tourism commission assessment to passenger car renters in California. Through mediation of this matter, the Company reached a settlement agreement with the plaintiffs in May 2012. The settlement was subsequently reviewed and approved by the district court on November 5, 2012. Certain members of the class have filed notices of intent to appeal the settlement agreement. The Company plans to respond to these appeals in accordance with the briefing schedule established by the court.

In October 2009, a judgment was entered against us for damages related to breach of contract in the amount of $16 million in *Alaska Rent A Car, Inc. v. Cendant Corp., et al.,* in the United States District Court for the District of Alaska. The lawsuit, which was filed in 2003 by our licensee, Alaska Rent-A-Car, involved breach of contract and other claims related to the acquisition of our Budget vehicle rental business in 2002. In addition to the judgment for damages, in June 2010 the district court also entered an order against the Company in the amount of $3 million, in favor of the plaintiff s motions for pre-judgment interest and attorneys fees. We are awaiting a ruling from the United States Court of Appeals for the Ninth Circuit on our appeal of the judgment and the award of attorneys fees.

The Company is involved in various legal proceedings related to wage and hour and employee classification claims. In one such case, in May 2008, a civil collective action complaint captioned *Matt Ravenell v. Avis Budget Group, Inc., Avis Budget Car Rental, LLC and Avis Rent A Car System, LLC,* No. 08 CV 02113 (E.D.N.Y.), was filed against us alleging that the Company violated the Fair Labor Standards Act and the State of New York s labor laws by misclassifying shift managers as employees exempt from overtime. The plaintiffs, former Avis shift managers, seek to recover, on behalf of themselves and all other individuals who are similarly situated, alleged unpaid overtime compensation, as well as attorneys fees and costs. In addition, two of the named plaintiffs assert individual claims of retaliation against the Company. Conditional class certification with respect to Plaintiff s Fair Labor Standards Act claims was granted to plaintiffs in July 2010. The parties have begun discovery and the court has extended the discovery deadline until February 2013. In another case, a civil collective action complaint, similar to the *Ravenell* matter, was filed against the Company in the U.S. District Court for the Middle District of Florida in September 2010, alleging misclassification of shift managers as exempt from overtime in violation of the Fair Labor Standards Act, for which conditional class certification was granted in 2011. Discovery is currently underway in this matter. A putative class action is pending against us in California alleging violations of state law regarding meal breaks taken by our employees. A second similar suit pending against us in California is no longer being pursued as a class action. We intend to continue to vigorously defend against these suits.

In January 2013, six putative class actions were filed in the Delaware Chancery Court and two putative class actions were filed in Massachusetts state court arising out of the proposed acquisition of Zipcar by the Company. The complaints all generally allege that Zipcar s board of directors breached its fiduciary duties of care and loyalty by failing to take steps to maximize the value of Zipcar for its public shareholders and the complaints further allege that the Company aided and abetted the breaches of fiduciary duties by Zipcar s board of directors. The complaints seek injunctive relief or rescission of the transaction (in the event the proposed transaction has already been consummated) and other compensatory damages, as well as costs and disbursements, including reasonable attorneys and experts fees. The Delaware cases have been consolidated into a single case, and plaintiffs in the Massachusetts cases have agreed to seek any pre-closing relief in the Delaware Chancery Court. No discovery has yet taken place with respect to this litigation.

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

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

Market Price of Common Stock

Our common stock is currently traded on the NASDAQ Global Select Market (NASDAQ) under the symbol CAR. The following table sets forth the quarterly high and low sales prices per share of our common stock as reported by NASDAQ for 2012 and 2011. At January 31, 2013, the number of stockholders of record was approximately 4,340.

2012	**High**	**Low**
First Quarter	$ 15.52	$ 10.59
Second Quarter	16.97	11.93
Third Quarter	17.90	12.85
Fourth Quarter	20.49	15.32
2011		
First Quarter	18.26	13.69
Second Quarter	19.20	15.70
Third Quarter	17.73	9.67
Fourth Quarter	14.62	8.89

Dividend Policy

We neither declared nor paid any cash dividend on our common stock in 2012 and 2011, and we do not anticipate paying dividends on our common stock for the foreseeable future. Our ability to pay dividends to holders of our common stock is limited by the Company s senior credit facility, the indentures governing our senior notes and our vehicle financing programs, insofar as we may seek to pay dividends out of funds made available to Avis Budget by Avis Budget Car Rental and/or its subsidiaries. The declaration and payment of future dividends to holders of our common stock will be at the discretion of our Board of Directors and will depend upon many factors, including our financial condition, earnings, capital requirements of our businesses, covenants associated with certain debt obligations, legal requirements, regulatory constraints, industry practice and other factors that the Board of Directors deems relevant.

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Securities Authorized for Issuance under Equity Compensation Plans

The following table provides information about shares of our common stock that may be issued upon the exercise of options, stock settled stock appreciation rights and restricted stock units under all of our existing equity compensation plans as of December 31, 2012. The table excludes 2.5 million shares of our common stock available for issuance pursuant to the 2009 Employee Stock Purchase Plan, approved by stockholders.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, Rights and Restricted Stock Units [c]	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (Excludes Restricted Stock Units) ($) [c]	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in First Column)
Equity compensation plans approved by Company stockholders [a]	6,323,036	$7.34	4,733,018
Equity compensation plans not approved by Company stockholders [b][d]	4,115	$27.63	0
Total	6,327,151	$7.37	4,733,018

(a) The number of securities to be issued includes options and other awards granted under the following plans approved by stockholders: the Amended and Restated 2007 Equity and Incentive Plan, the 1997 Stock Incentive Plan, the 1997 Stock Option Plan and the Directors Deferred Compensation Plan. The 1997 Stock Incentive Plan, the 1997 Stock Option Plan and the Directors Deferred Compensation Plan were each approved with respect to an initial allocation of shares. The number of securities remaining available for future issuance under equity compensation plans represents solely shares available for issuance under the Amended and Restated 2007 Equity and Incentive Plan.

(b) Includes options and other awards granted under the 1999 Broad-Based Employee Stock Option Plan and stand-alone option grants to former officers. The material terms of the 1999 Broad-Based Employee Stock Option Plan are set forth under footnote (d) below. Notwithstanding the terms of this plan to the contrary, no option granted under this plan provides for a term in excess of 10 years or an exercise price below fair market value as of the date of grant (other than options assumed or replaced in connection with acquisitions). All options granted under this plan have been approved by the Board of Directors or the Compensation Committee of the Board of Directors.

(c) Reflects an equitable adjustment of stock options and restricted stock units in connection with the spin-off of PHH Corporation to our stockholders during 2005 and the distributions of Realogy and Wyndham Worldwide in 2006. Also reflects the one-for-ten reverse stock split completed in September 2006.

(d) The following are the material terms of plans not submitted for stockholder approval: *1999 Broad-Based Employee Stock Option Plan*. Awards under this plan are generally comprised of stock options and other awards valued by reference to Common Stock to employees who are not executive officers. Shares issued pursuant to the exercise of options granted under this plan may be authorized and unissued shares or treasury shares. In the event of any change in corporate capitalization, reorganization or similar event, shares subject to outstanding awards and the exercise price of outstanding options may be adjusted or substituted for, as the Compensation Committee or the Board of Directors may determine. Each option granted under this plan will become immediately exercisable upon a change-of-control transaction (as defined in the plan). Unless otherwise determined by the Compensation Committee, following termination of employment, options granted under this plan generally will remain exercisable, to the extent exercisable at the time of termination, for one year (two years, in the case of retirement, death or disability).

Issuer Purchases of Equity Securities

None.

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Performance Graph

The following graph assumes $100 invested in Avis Budget Group, Inc. common stock on December 31, 2007, and compares (A) the yearly change in our cumulative total stockholder return with (B) the Standard & Poor s MidCap 400 Index and the Dow Jones U.S. Transportation Average Index.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN

Among Avis Budget Group, Inc., the S&P Midcap 400 Index,

and the Dow Jones US Transportation Average Index

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ITEM 6. SELECTED FINANCIAL DATA

	As Of or For the Year Ended December 31,				
	2012	2011	2010	2009	2008
	(In millions, except per share data)				
Results of Operations					
Net revenues	$ 7,357	$ 5,900	$ 5,185	$ 5,131	$ 5,984
Net income (loss)	$ 290	$ (29)	$ 54	$ (47)	$ (1,124)
Per Share Data					
Net income (loss):					
Basic	$ 2.72	$ (0.28)	$ 0.53	$ (0.46)	$ (11.04)
Diluted	2.42	(0.28)	0.49	(0.46)	(11.04)
Financial Position					
Total assets	$ 15,218	$ 12,938	$ 10,327	$ 10,093	$ 11,318
Assets under vehicle programs	10,099	9,090	6,865	6,522	7,826
Corporate debt	2,905	3,205	2,502	2,131	1,789
Debt under vehicle programs [(a)]	6,806	5,564	4,515	4,374	6,034
Stockholders equity	757	412	410	222	93

[(a)] Includes related-party debt due to Avis Budget Rental Car Funding (AESOP) LLC. See Note 15 to our Consolidated Financial Statements.

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

Transaction-related Costs, Restructuring and Other Items

During 2012, 2011 and 2010, we recorded $34 million, $255 million and $14 million, respectively, of transaction-related costs, primarily related to our acquisition of Avis Europe plc (Avis Europe), the integration of the acquired businesses with our operations and expenses related to our previous efforts to acquire Dollar Thrifty Automotive Group, Inc. (Dollar Thrifty). During 2012, these costs were primarily related to the integration of Avis Europe s operations with the Company s. In 2011, these costs included (i) a $117 million non-cash charge related to the unfavorable license rights reacquired by the Company through the acquisition of Avis Europe, which provided Avis Europe with royalty-free license rights within certain territories, (ii) $89 million of expenses related to due-diligence, advisory and other costs, and (iii) $49 million for losses on foreign-currency transactions related to the Avis Europe purchase price. In 2010, these costs related to due-diligence and other cost for our previous efforts to acquire Dollar Thrifty. See Notes 2 and 6 to our Consolidated Financial Statements.

In 2012, we implemented a restructuring initiative related to our Truck Rental segment, and in 2011, we implemented a restructuring initiative subsequent to the acquisition of Avis Europe. We recorded expenses related to these and other restructuring initiatives of $38 million in 2012, $5 million in 2011, $11 million in 2010, $20 million in 2009, and $28 million in 2008. See Note 4 to our Consolidated Financial Statements.

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

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In 2009, we recorded a $33 million ($20 million, net of tax) non-cash charge for the impairment of investments, to reflect the other-than-temporary decline of the investments fair value below their carrying value. In 2008, we recorded an approximately $1.3 billion ($1.1 billion, net of tax) non-cash charge to reflect the impairment of goodwill, tradename assets and an investment. These charges reflected the decline in their fair value below their carrying value, primarily as a result of reduced market valuations in 2008 and 2009 for vehicle services and other companies, as well as reduced profit forecasts due to soft economic conditions and increased financing costs.

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

The following discussion should be read in conjunction with our Consolidated Financial Statements and accompanying Notes thereto included elsewhere herein. Unless otherwise noted, all dollar amounts in tables are in millions and those relating to our results of operations are presented before taxes.

OVERVIEW

Our Company

We operate two of the most recognized brands in the global vehicle rental industry, Avis and Budget. 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 and Budget brands in approximately 175 countries throughout the world.

Our Segments

We categorize our operations into three reportable business segments: *North America*, consisting of our Avis and Budget car rental operations in the United States and our Avis and Budget vehicle rental operations in Canada; *International*, consisting of our Avis and Budget vehicle operations in Europe, the Middle East, Asia, Africa, South America, Central America, the Caribbean, Australia and New Zealand; and *Truck Rental*, consisting of our Budget truck rental operations in the United States. Our International segment includes the operational and financial results of Avis Europe plc (Avis Europe) and Apex Car Rentals (Apex) since our acquisitions of such businesses in October 2011 and October 2012, respectively.

Business and Trends

Our revenues are derived principally from car and truck rentals in our Company-owned operations and include (i) time and mileage (T&M) fees charged to our customers for vehicle rentals, (ii) reimbursement from our customers for certain operating expenses we incur, including gasoline and vehicle licensing fees, as well as airport concession fees, which we pay in exchange for the right to operate at airports and other locations, (iii) sales of loss damage waivers and insurance and rentals of navigation units and other items in conjunction with vehicle rentals and (iv) 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:

- worldwide enplanements;
- fleet, pricing, marketing and strategic decisions made by us and by our competitors;
- changes in per-unit car fleet costs and in conditions in the used vehicle marketplace;
- changes in borrowing costs and in market willingness to purchase corporate and vehicle-related debt;
- our acquisitions and our integration of their operations and realization of synergies, particularly the integration of Avis Europe;
- changes in the price of unleaded gasoline;
- changes in currency exchange rates; and
- demand for truck rentals.

In 2012, we faced an uneven macroeconomic environment. Our rental volumes in North America increased amid a modest economic recovery, while rental demand in Europe was constrained by an economic recession and socio-political issues there. As discussed further below, vehicle depreciation costs in 2011 and 2012 declined significantly compared to 2010 amid a particularly strong used car market in the United States in 2011 and the first half of 2012.

In total, we achieved significant growth, record revenues and record earnings in 2012:

- Net revenues were $7.4 billion, compared with $5.9 billion in 2011, representing a 25% increase.
- Net income was $290 million in 2012, compared with a net loss of $29 million in 2011.
- Adjusted EBITDA totaled $802 million, compared with $605 million in 2011, representing a 33% increase.
- Diluted earnings per share were $2.42, compared with a loss per share of $0.28 in 2011.
- We decreased our outstanding corporate debt by $300 million.
- Our share price increased 85%, to $19.82.

As part of our strategic initiatives and restructuring activities, we are driving process improvements to reduce costs, enhance service to our customers and improve our operations. We have also elected to incur certain restructuring and other expenses as we work to integrate the operations of Avis Europe and to gain operational efficiencies.

Outlook

We continue to operate in an uncertain economic environment, which impacted our business in 2012 and will continue to do so in 2013. The worldwide economy, and Europe in particular, continues to struggle with modest, if any, economic growth. We expect that weak economic conditions and historically high unemployment rates in Europe could impact rental demand, fleet costs and capital markets there. We continue to believe that our Budget brand is poised to strengthen its market position in this environment and to experience significant growth from eventual economic improvement in Europe. We believe economic and political issues in the United States, particularly regarding government spending and deficits, may create volatility in 2013 in the equity and debt markets in which our securities trade. In North America, we expect used-car residual values to remain strong, on average, relative to longer-term historical norms, but that our fleet costs will increase compared to the levels we experienced in 2010 and 2011. We also expect moderate economic growth in North America, most likely leading to growth in our rental volumes there. We have experienced declines in realized pricing over the last several years as fleet costs have decreased, and we will look to pursue opportunities for pricing increases in 2013 in order to maintain our returns on invested capital and to enhance our profitability.

In January 2013, we announced that we have agreed to acquire Zipcar, Inc. (Zipcar), the world s leading car sharing network, for approximately $500 million. The transaction is subject to approval by Zipcar shareholders and other customary closing conditions. We expect that this acquisition, if completed, will position the Company to better serve a greater variety of consumer and commercial transportation needs, and will produce significant operating synergies between the two companies operations.

RESULTS OF OPERATIONS

Discussed below are our consolidated results of operations and the results of operations for each of our reportable segments.

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. Our car 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, while conservative, 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.

Our chief operating decision maker assesses performance and allocates resources based upon the separate financial information from the Company s operating segments (see Note 21 to our Consolidated Financial Statements for further information). In identifying our reportable segments, we also consider the nature of services provided by our operating segments. 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 charge, transaction-related costs, non-vehicle related interest and income taxes. Our presentation of Adjusted EBITDA may not be comparable to similarly-titled measures used by other companies.

Year Ended December 31, 2012 vs. Year Ended December 31, 2011

	Year Ended December 31,		
	2012	**2011**	**Change**
Net revenues	$ 7,357	$ 5,900	$ 1,457
Total expenses	7,057	5,864	1,193
Income before income taxes	300	36	264
Provision for income taxes	10	65	(55)
Net income (loss)	$ 290	$ (29)	$ 319

During 2012, our net revenues increased approximately $1.5 billion (25%), with approximately 90% of our revenue growth due to the acquisition of Avis Europe in fourth quarter 2011 and the inclusion of its operations in our results. T&M revenue increased by 22% driven by 28% growth in total rental days, which reflected 5%

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growth in North America rental days and 161% growth in International rental days. The growth in revenues also includes a 32% increase in our ancillary revenues, such as sales of loss damage waivers and insurance products, GPS navigation unit rentals, gasoline sales and fees charged to customers. Changes in currency exchange rates negatively impacted revenue growth by $13 million. Excluding the acquisition of Avis Europe, revenues increased 3% during 2012, primarily due to a 6% increase in rental days.

Total expenses increased approximately $1.2 billion (20%), with approximately 90% of the increase due to including the results of Avis Europe for the full year. The total expense increase was attributable to (i) a $799 million (26%) increase in our direct operating expenses largely resulting from the 28% increase in total rental days; (ii) a $248 million (20%) increase in vehicle depreciation and lease charges resulting from a 26% increase in our total rental fleet, partially offset by a 5% decline in our per-unit fleet costs; (iii) a $169 million (22%) increase in selling, general and administrative expenses primarily because of the acquisition of Avis Europe, as well as increased agency operator commissions and other costs related to higher rental volumes; (iv) $75 million of expense for the early extinguishment of a portion of our corporate debt; (v) a $49 million increase in interest expense on corporate debt due to increased indebtedness during the year, primarily related to the acquisition of Avis Europe; (vi) a $33 million increase in restructuring expenses; (vii) a $30 million increase in non-vehicle related depreciation and amortization, primarily due to the acquisition of Avis Europe; and (viii) an $11 million (4%) increase in vehicle interest expense related to increased fleet levels but lower interest rates. These expense increases were partially offset by a $221 million (87%) decrease in transaction-related costs, which for 2012 related primarily to the integration of the operations of Avis Europe and which for 2011 related to costs associated with the acquisition of Avis Europe and our previous efforts to acquire Dollar Thrifty. Changes in currency exchange rates had no material impact on our expenses. As a result of these items, and a $55 million decrease in our provision for income taxes, due primarily to the settlement of a $128 million unrecognized tax benefit in 2012, our net income increased $319 million. We had an income tax provision of $10 million in 2012 and our income tax provision in 2011 was $65 million due to the non-deductibility of many of the transaction-related costs related to the acquisition of Avis Europe.

In 2012, operating expenses were 52.0% of revenue, versus 51.3% in the prior year. Operating expenses decreased slightly as a percentage of revenue in North America, but increased as a percentage of revenue in our International segment due to the inclusion, for a full year in 2012, of the results of Avis Europe, which had a higher level of operating expenses as a percentage of revenue. Our efforts to reduce costs contributed to lower operating costs as a percentage of revenue in North America in an environment where our T&M revenue per rental day declined 2%.

Vehicle depreciation and lease costs declined to 20.0% of revenue in 2012, from 20.7% in 2011, primarily due to lower per-unit fleet costs in North America amid robust used-car residual values in the first half of the year. Selling, general and administrative costs decreased to 12.6% of revenue, versus 12.8% in 2011, as a result of our cost-reduction initiatives. Vehicle interest costs declined to 4.0% of revenue, compared to 4.8% in the prior-year period, principally due to lower borrowing rates.

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

	Revenues			Adjusted EBITDA		
	2012	2011	% Change	2012	2011	% Change
North America	$ 4,640	$ 4,495	3%	$ 556	$ 442	26%
International	2,342	1,028	128%	234	127	84%
Truck Rental	374	376	(1%)	33	49	(33%)
Corporate and Other [(a)]	1	1	*	(21)	(13)	*
Total Company	$ 7,357	$ 5,900	25%	802	605	33%