CAL-MAINE FOODS INC
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September 06, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934
Amendment No. 1
Filed by the Registrant [X]
Filed by a Party other than the Registrant [ ]

Check the appropriate box:

[ ] Preliminary Proxy Statement

[ ] Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

[X] Definitive Proxy Statement

[ ] Definitive Additional Materials

[ ] Soliciting Material Pursuant to §240.14a-12

Cal-Maine Foods, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

[X] No fee required.

[ ] Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

[ ] Fee paid previously with preliminary materials.

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

Notice of
Annual Meeting
and
Proxy Statement

October 6, 2017

TABLE OF CONTENTS

	Page
Notice of Annual Meeting	1
General Matters	2
Voting Shares	3
Ownership of Voting Securities by Certain Beneficial Owners and Management	5
Proposal No. 1: Election of Directors	7
Nominees for Directors	8
Executive Officers of the Company	10
Corporate Governance	10
Meetings and Attendance	10
Board Committees	10
Consideration of Director Nominees; Diversity	11
Stockholder Communications	12
Risk Oversight	12
Stock Ownership Guidelines	12
Board Independence and Impact of “Controlled Company” Status	12
Executive Sessions	13
Code of Ethics	13
Board Leadership Structure	13
Chairman Emeritus	13
Section 16(a) Beneficial Ownership Reporting Compliance	13
Related-Party Transactions	13
Compensation Discussion and Analysis	14
Compensation Philosophy and Process	14
Compensation Practices and Risks	15
Elements of Compensation	15
General Matters Regarding Executive Compensation	17
Compensation Advisors	17
Compensation Committee Report	17
Compensation Committee Interlocks and Insider Participation	18
Compensation Tables	19
Potential Payments Upon Termination or Change in Control	24
Director Compensation	26
Proposal No. 2: Advisory Vote on the Compensation of Our Named Executive Officers	27
Proposal No. 3: Advisory Vote on the Frequency of Future Advisory Votes on the Compensation of Our Named Executive Officers	27
Report of the Audit Committee	29
Fees and Related Disclosures for Accounting Services	29
Proposal No. 4: Ratification of Selection of Independent Registered Public Accounting Firm	30
Stockholder Proposals	30
Other Matters	30
Incorporation by Reference	30

NOTICE OF ANNUAL MEETING
October 6, 2017

TO THE STOCKHOLDERS:
The Annual Meeting of Stockholders of Cal-Maine Foods, Inc. will be held at the corporate offices of Cal-Maine Foods, Inc. at 3320 W. Woodrow Wilson Avenue, Jackson, Mississippi 39209, at 10:00 a.m., Central Time, on Friday, October 6, 2017, for the following purposes:

1. To elect six directors to serve for the ensuing year;
2. To approve, on an advisory basis, the compensation of our named executive officers;
3. To approve, on an advisory basis, the frequency of future advisory votes on the compensation of our named executive officers;
4. To ratify the selection of Frost, PLLC as our independent registered public accounting firm for fiscal year 2018; and
5. To consider and act upon such other matters as may properly come before the Annual Meeting or any adjournments thereof.

August 11, 2017, has been fixed as the record date for determination of stockholders entitled to vote at the Annual Meeting and to receive notice thereof.
The directors sincerely desire your presence at the meeting. However, so that we may be sure your vote will be included, please sign, date and return the enclosed proxy card promptly. A self-addressed, postage-paid return envelope is enclosed for your convenience.
FOR THE BOARD OF DIRECTORS
TIMOTHY A. DAWSON SECRETARY
DATED: September 1, 2017

STOCKHOLDERS ARE URGED TO VOTE BY DATING, SIGNING AND RETURNING THE ENCLOSED PROXY CARD IN THE ENCLOSED ENVELOPE TO WHICH NO POSTAGE NEED BE AFFIXED IF MAILED IN THE UNITED STATES.

CAL-MAINE FOODS, INC.
3320 W. Woodrow Wilson Avenue
Jackson, Mississippi 39209

PROXY STATEMENT FOR ANNUAL MEETING
OF STOCKHOLDERS TO BE HELD OCTOBER 6, 2017

The information set forth in this proxy statement is furnished in connection with the Annual Meeting of Stockholders of Cal Maine Foods, Inc. (the "Company") to be held on October 6, 2017, at 10:00 a.m., central time, at our principal executive offices, 3320 W. Woodrow Wilson Avenue, Jackson, Mississippi 39209. A copy of our Annual Report to Stockholders for the fiscal year ended June 3, 2017, accompanies this proxy statement. Our telephone number is (601) 948-6813. The terms "we," "us" and "our" used in this proxy statement refer to the Company.

GENERAL MATTERS

Additional copies of the Annual Report to Stockholders, and Notice of Annual Meeting, proxy statement and proxy card for the 2017 Annual Meeting of Stockholders will be furnished without charge to any stockholder upon written request to: Cal-Maine Foods, Inc., ATTN: Timothy A. Dawson, Secretary, Post Office Box 2960, Jackson, Mississippi 39207. Exhibits to the Annual Report on Form 10-K for the fiscal year ended June 3, 2017, may be furnished to stockholders upon the payment of an amount equal to the reasonable expenses incurred by us in furnishing such exhibits. A list of the stockholders of record as of the record date will be available for inspection by stockholders of the Company at the Company's corporate offices for 10 days preceding the date of the Annual Meeting.

The following proxy materials are first being sent to stockholders on or about September 1, 2017 and, while we are not soliciting proxies by internet, are being made available free of charge at our website, www.calmainefoods.com:

- The Notice of Annual Meeting and Proxy Statement for the 2017 Annual Meeting of Stockholders
- The Annual Report to Stockholders
- The form of proxy card being distributed to stockholders in connection with the 2017 Annual Meeting of Stockholders

Certain stockholders sharing an address may have received only one copy of this proxy statement and the Annual Report to Stockholders. The Company will promptly deliver, upon oral or written request, a separate copy of the proxy statement and the Annual Report to Stockholders to a stockholder at a shared address to which only a single copy of such documents were delivered.

If you want to receive separate copies of the Company's Annual Report to Stockholders and proxy statement in the future, or if you are receiving multiple copies and would like to receive only one copy for your household, you can make these requests through the following sources:

Stockholders of record should contact the Company's Corporate Secretary in writing or by telephone at Cal-Maine Foods, Inc., ATTN: Timothy A. Dawson, Secretary, Post Office Box 2960, Jackson, Mississippi 39207, telephone number (601) 948-6813.

Stockholders who are beneficial owners should contact their bank, broker or other nominee record holder.

Our Board of Directors is soliciting the enclosed proxy. The proxy may be revoked by a stockholder at any time before it is voted by filing with our Secretary a written revocation of such proxy or a duly executed proxy bearing a later date. The proxy also may be revoked by a stockholder attending the meeting, withdrawing the proxy, and voting in person.

All expenses incurred in connection with the solicitation of proxies will be paid by us. In addition to the solicitations of proxies by mail, our directors, officers, and regular employees may solicit proxies in person or by telephone. We will, upon request, reimburse banks, brokerage houses and other institutions, and fiduciaries for their expenses in forwarding proxy materials to their principals. No proxies will be solicited via the Internet or website posting.

VOTING SHARES

Stockholders of record at the close of business on August 11, 2017, are eligible to vote at the Annual Meeting in person or by proxy. As of the record date, 43,774,052 shares of our common stock were outstanding, and 4,800,000 shares of our Class A common stock were outstanding.

Each share of common stock is entitled to one vote on each matter to be considered at the Annual Meeting. Each share of Class A common stock is entitled to 10 votes on each such matter. The holders in person or by proxy of shares of our common stock and/or Class A common stock representing a majority of the voting interest of all such shares will constitute a quorum for purposes of the 2017 Annual Meeting of Stockholders. All matters other than the election of directors require the vote of a majority of the voting interest present in person or represented by proxy. The election of directors requires a plurality of the votes cast.

If a quorum is not present in person or by proxy, the holders of shares representing a majority of the voting interest of all such shares present may, without notice other than announcement at the meeting, adjourn the meeting from time to time, until a quorum is present, and at any such adjourned meeting at which a quorum is present, any business may be transacted which might have been transacted at the original meeting.

If you hold your shares in “street name,” you will receive instructions from your brokers or other nominees describing how to vote your shares. If you do not instruct your brokers or nominees how to vote your shares, they may vote your shares as they decide as to each matter for which they have discretionary authority under the rules of the New York Stock Exchange (“NYSE”). Under the rules of the NYSE, the proposal relating to the ratification of the selection of our independent registered public accounting firm is a discretionary proposal.

There are also non-discretionary matters for which brokers and other nominees do not have discretionary authority to vote unless they receive timely instructions from you. When a broker or other nominee does not have discretion to vote on a particular matter and you have not given timely instructions to the broker or other nominee on how that broker or nominee should vote your shares, a “broker non-vote” results. Although any broker non-vote would be counted as present at the meeting for purposes of determining a quorum, it would be treated as not entitled to vote with respect to non-discretionary matters.

Abstentions occur when stockholders are present at the Annual Meeting but fail to vote or voluntarily withhold their vote for any of the matters upon which the stockholders are voting. Abstentions are counted for purposes of determining whether a quorum is present and will have the same effect as a vote against proposals other than the election of directors.

Election of Directors. Both the shares of common stock and the shares of Class A common stock have the right of cumulative voting in the election of directors. Cumulative voting means that each stockholder will be entitled to cast as many votes as he or she has the right to cast (before cumulating votes), multiplied by the number of directors to be elected. All such votes may be cast for a single nominee or may be distributed among the nominees to be voted for as the stockholder sees fit. To exercise cumulative voting rights by proxy, a stockholder must clearly designate the number of votes to be cast for any given nominee. Under Delaware law, votes that are withheld from a director’s election will be counted toward a quorum but will not affect the outcome of the vote on the election of a director. Broker non-votes will not be taken into account in determining the outcome of the election. The election of directors requires a plurality of the votes cast, which means that the candidates receiving the highest number of “FOR” votes will be elected.

The following table summarizes the votes required for passage of each proposal and the effect of abstentions and uninstructed shares held by brokers.

3

Proposal	Voting Options	Votes Required To Adopt Proposal	Effect of Abstentions	Effect of Broker Non-Votes
No.1: Election of directors	For or withhold on all nominees, or allocate votes among the nominees	Plurality of votes cast	N/A	No effect
No. 2: Approval, on an advisory basis, of the compensation of our named executive officers (“Say on Pay”)	For, against, or abstain	Majority of votes of shares present	Treated as votes against	No effect
No. 3: Approval, on an advisory basis, of the frequency of future advisory votes on the compensation of our named executive officers	Stockholders may select whether such vote should occur every year, every two years or every three years, or stockholders may abstain from voting	Majority of voting interest present in person or by proxy*	Treated as votes against	No effect
No. 4: Ratification of selection of independent registered public accounting firm	For, against or abstain	Majority of voting interest present in person or by proxy	Treated as votes against	N/A

* Because this advisory vote has three possible substantive voting options (every one year, every two years or every three years), we will consider stockholders to have “approved” the frequency selected by a plurality of the votes cast. The option that receives the most favorable votes by stockholders will be considered the preferred frequency and the recommendation of the stockholders.

Shares represented by a properly executed and returned proxy card will be voted at the Annual Meeting in accordance with the instructions indicated thereon. If no instructions are indicated, the person or persons named on the proxy card will vote:

FOR the election of the six nominees named in this proxy statement to serve as directors of the Company;

FOR the approval, on an advisory basis, of the compensation of our named executive officers;

In favor of holding an advisory vote on the compensation of our named executive officers EVERY THREE YEARS;

FOR the ratification of our selection of Frost, PLLC as independent registered public accounting firm of the Company for fiscal year 2018; and

In their discretion with respect to any unanticipated matters not included in this proxy statement that may properly come before the Annual Meeting or any adjournments thereof.

In accordance with Delaware law, the Company will appoint two inspectors of election. The inspectors will take charge of and will count the votes and ballots cast at the Annual Meeting and will make a written report on their determination.

OWNERSHIP OF VOTING SECURITIES BY CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information as to the beneficial ownership of our common stock and Class A common stock as of July 21, 2017, unless otherwise indicated, by:

- each person known by us to beneficially own more than 5% of either class outstanding, and
- each director of the Company, each nominee to serve as a director, each executive officer named in the Summary Compensation Table (each a "named executive officer") and by all directors and executive officers as a group.

Name of Beneficial Owner (1)	Common Stock and Class A Common Stock				Percentage of Total Voting Power (3)
	Number of Shares Beneficially Owned (2)		Percentage of Class Outstanding		
	Common	Class A	Common	Class A	
Fred R. Adams, Jr. (through Adolphus B. Baker and Jean Morris Adams, as his Co-Conservators) (4)	12,168,601	3,584,822	27.8%	74.7%	52.3%
Jean Morris Adams (5)	12,168,601	3,584,822	27.8%	74.7%	52.3%
Adolphus B. Baker (6)	11,279,056	4,703,520	25.8%	98.0%	63.5%
Timothy A. Dawson (7)	23,148	-0-	*	-0-	*
Charles J. Hardin (8)	26,230	-0-	*	-0-	*
Robert L. Holladay, Jr. (9)	12,357	-0-	*	-0-	*
Letitia C. Hughes (10)	29,865	-0-	*	-0-	*
Sherman L. Miller (11)	15,413	-0-	*	-0-	*
James E. Poole (12)	6,265	-0-	*	-0-	*
Steve W. Sanders (13)	10,265	-0-	*	-0-	*
BlackRock, Inc. (14)	3,754,068	-0-	8.6%	-0-	4.1%
The Vanguard Group, Inc. (15)	2,555,009	-0-	5.8%	-0-	2.8%
Cal-Maine Foods, Inc. KSOP (16)	2,280,818	-0-	5.2%	-0-	2.5%
All directors and executive officers as a group (10 persons) (17)(18)	11,433,344	4,703,520	26.1%	98.0%	63.7%

* Less than 1%

(1) The mailing address of the Cal-Maine Foods, Inc. KSOP ("KSOP"), Mr. and Mrs. Adams and Mr. Baker is Cal-Maine Foods, Inc., Post Office Box 2960, Jackson, MS 39207.

(2) The information as to beneficial ownership is based on information known to us or statements furnished to us by the beneficial owners. As used in this table, "beneficial ownership" has the meaning given in Rule 13d-3 under the Securities Exchange Act of 1934 (the "Exchange Act"), i.e. the sole or shared power to vote or to direct the voting of a security, or the sole or shared investment power with respect to a security (the power to dispose of or to direct the

disposition of a security). For purposes of this table, a person is deemed as of any date to have "beneficial ownership" of any security that such person has the right to acquire within 60 days of such date.

(3) Percentage of total voting power represents voting power with respect to all shares of our common stock and Class A common stock, voting together as a single class. Each share of common stock is entitled to one vote and each share of

Class A common stock is entitled to ten votes. Shares of Class A common stock are automatically converted into common stock on a share per share basis in the event the beneficial or record ownership of any such share of Class A common stock is transferred to any person or entity other than Mr. Adams or members of his immediate family. Each share of Class A common stock is convertible, at the option of its holder, into one share of common stock at any time.

(4) Mr. Adams is our Chairman Emeritus. Includes 618,308 shares of common stock accumulated under the KSOP. Also includes 1,518,986 shares of common stock and 96,480 shares of Class A common stock owned by Mr. Adams' spouse separately and as to which Mr. Adams disclaims beneficial ownership. A conservatorship was established on November 7, 2011, to manage Mr. Adams' affairs, with Mrs. Adams and Mr. Baker as co-conservators, as a result of the impairment of Mr. Adams' health related to his previously disclosed stroke. Mr. Adams continues to consult regularly with the Company, and it is expected that he will continue to do so for as long as he is able. Pursuant to the conservatorship, Mr. Baker and Mrs. Adams have the exclusive power to vote or direct the voting of Mr. Adams' shares. While they also have dispositive power over such shares, disposition of such shares may require court approval in accordance with Mississippi conservatorship laws.

(5) Mrs. Adams is the spouse of Mr. Adams, our Chairman Emeritus. She and Mr. Baker serve as co-conservators of the above referenced conservatorship established for Mr. Adams. Includes 10,031,307 shares of common stock and 3,488,342 shares of Class A common stock owned by Mr. Adams separately, and 618,308 shares of common stock accumulated under Mr. Adams' KSOP account. Mrs. Adams and Mr. Baker share voting power over Mr. Adams' shares. While they also share dispositive power over such shares, disposition of such shares may require court approval in accordance with Mississippi conservatorship laws.

(6) Mr. Baker is Chairman of the Board, a director and a director nominee, and is our President and Chief Executive Officer. Includes 233,320 shares of common stock and 2,988 shares of Class A common stock owned by Mr. Baker's spouse separately as to which Mr. Baker disclaims beneficial ownership, 4,813 shares of common stock accumulated under his spouse's KSOP account as to which Mr. Baker disclaims beneficial ownership, 145,979 shares of common stock accumulated under Mr. Baker's KSOP account, and 20,000 shares of unvested restricted common stock. Mr. Baker and Mrs. Adams serve as co-conservators of the above referenced conservatorship established for Mr. Adams. As a result, the totals include 10,031,307 shares of common stock 3,488,342 shares of Class A common stock owned by Mr. Adams separately, and 618,308 shares of common stock accumulated under Mr. Adams' KSOP account. Mr. Baker and Mrs. Adams share voting power over Mr. Adams' shares. While they also share joint dispositive power over such shares, disposition of such shares may require court approval in accordance with Mississippi conservatorship laws.

(7) Mr. Dawson is a director and a director nominee, and is our Vice President – Chief Financial Officer, Treasurer, and Secretary. Includes 5,847 shares of common stock accumulated under the KSOP and 6,665 shares of unvested restricted common stock.

(8) Mr. Hardin is our Vice President – Sales. Includes 20,749 shares of common stock accumulated under the KSOP and 4,000 shares of unvested restricted common stock.

(9) Mr. Holladay is our Vice President – General Counsel. Includes 3,364 shares of common stock accumulated under the KSOP and 6,665 shares of unvested restricted common stock.

(10) Ms. Hughes is a director and a director nominee. Includes 4,865 shares of unvested restricted common stock.

(11) Mr. Miller is a director and a director nominee, and is our Vice President – Chief Operating Officer. Includes 1,149 shares of common stock accumulated under his spouse's KSOP account as to which Mr. Miller disclaims beneficial ownership, 2,973 shares of common stock accumulated under Mr. Miller's KSOP account, and 6,665 shares of unvested restricted common stock.

(12) Mr. Poole is a director and a director nominee. Includes 1,200 shares of common stock owned through Mr. Poole's individual retirement account and 4,865 shares of unvested restricted common stock.

(13) Mr. Sanders is a director and a director nominee. Includes 4,865 shares of unvested restricted common stock.

(14) This information is based solely on a Schedule 13G/A filed with the Securities and Exchange Commission (the "SEC") on or about January 23, 2017, by BlackRock, Inc. ("BlackRock"). The Schedule 13G/A reports that BlackRock has sole voting power over 3,607,115 of such shares and sole dispositive power over 3,754,068 of such shares. BlackRock's address is 55 East 52nd Street, New York, NY 10055.

(15)

This information is based solely on a Schedule 13G/A filed with the SEC on or about February 10, 2017, by The Vanguard Group, Inc. ("Vanguard"). The Schedule 13G/A reports that Vanguard has sole voting power over 55,492 of

6

such shares, shared voting power over 3,389 of such shares, sole dispositive power over 2,497,639 of such shares, and shared dispositive power over 57,370 of such shares. Vanguard's address is 100 Vanguard Blvd., Malvern, PA 19355.

(16) As of June 30, 2017.

(17) Includes 809,310 shares of common stock accumulated under the KSOP.

(18) Includes shares of common stock as to which Messrs. Baker and Miller disclaim any beneficial ownership. See Notes (6) and (11) above.

The shares of common stock accumulated in the KSOP, as indicated in Notes (4), (5), (6), (7), (8), (9) and (11) above, also are included in the 2,280,818 shares shown in the table as owned by the KSOP.

PROPOSAL NO. 1: ELECTION OF DIRECTORS

Our bylaws provide that the number of directors shall be fixed by resolution of the Board of Directors and that the number may not be less than three nor more than 12. The Board of Directors has fixed the number of directors at six as of the date of the annual meeting. Unless otherwise specified, proxies will be voted FOR the election of the six nominees named below to serve until the next annual meeting of stockholders and until their successors are elected and qualified. If, at the time of the meeting, any of the nominees named below is unable to serve or for good cause will not serve, the proxies will be voted for the election of such other person or persons as the Board of Directors may designate in their discretion, unless otherwise directed.

The Board of Directors has designated Adolphus B. Baker, Timothy A. Dawson, Letitia C. Hughes, Sherman L. Miller, James E. Poole and Steve W. Sanders as nominees for election as directors of the Company at the 2017 Annual Meeting of Stockholders (each a "Nominee"). Each Nominee is currently a director of the Company and has consented to being named as a nominee in this proxy statement and to serve as a director if elected. If elected, each Nominee will serve until the expiration of his/her term at the next annual meeting of stockholders and until his/her successor is elected and qualified or until his/her earlier death, resignation or removal from office.

Under our bylaws, our directors are elected by a plurality of votes cast. For more information on the voting requirements, see "Voting Shares—Election of Directors" above.

The Board unanimously recommends a vote "FOR" the six Nominees.

NOMINEES FOR DIRECTORS

The table below sets forth certain information regarding the business experience and qualifications, attributes and skills of the Nominees for election to the Board of Directors:

Name and Tenure	Age	Business Experience, Qualifications, Attributes and Skills
Adolphus B. Baker Director since 1991	60	Mr. Baker serves as Chairman of the Board, President and Chief Executive Officer of the Company. He was elected Chairman of the Board in 2012 and President and Chief Operating Officer in 1997. Mr. Baker served as Chief Operating Officer until he was elected Chief Executive Officer in 2010. He was serving as Vice President and Director of Marketing of the Company when elected President. Previously, Mr. Baker had served as Assistant to the President since 1987 and has been employed by the Company since 1986. He is past chairman of the American Egg Board, United Egg Producers, Egg Clearinghouse, Inc. and Mississippi Poultry Association. He is a director of United Egg Producers, Eggland's Best, Inc., Trustmark Corporation and Trustmark National Bank. He is also a member of the board of managers of Eggland's Best, LLC. Mr. Baker is the son-in-law of Fred R. Adams, Jr., our Chairman Emeritus. Mr. Baker brings a highly informed view of Company operations to the Board's activities. He is active in the industry and has the depth of knowledge and experience necessary to guide the Company through a continuously changing spectrum of challenges and opportunities in the egg industry.
Timothy A. Dawson Director since 2005	63	Mr. Dawson joined the Company in 2005 as Vice President and Chief Financial Officer. He is also Secretary and Treasurer of the Company. Mr. Dawson served as Senior Vice President and Chief Financial Officer of Mississippi Chemical Corporation from 1999 until its sale in 2004. Mr. Dawson has extensive industrial accounting experience, having previously served as the Chief Financial Officer of Mississippi Chemical Corporation, a publicly-traded company in the fertilizer industry. His background involves extensive contact with members of the agricultural community as well as experience in addressing the financial management of a large agricultural enterprise.
Letitia C. Hughes Director since 2001	65	Ms. Hughes was associated with Trustmark National Bank, Jackson, Mississippi, in managerial positions from 1974 until her retirement in 2014. At her retirement she served as Senior Vice-President, Manager, Private Banking. She is an independent director. Ms. Hughes' experience in leadership positions at Trustmark National Bank, a large regional bank operating in the southeastern portion of the United States, gives her broad knowledge of the general business climate and has given the Board invaluable insights into the Company's relationships with its banks and lenders.
Sherman L. Miller Director since 2012	42	Mr. Miller serves as Vice President—Chief Operating Officer of the Company. He joined the Company in 1996 and has served in various positions in operations. Mr. Miller was elected Vice President of Operations in 2007 and Chief Operating Officer in 2011. He is a director of the U.S. Poultry and Egg Association. Mr. Miller's more than 19 years of experience with the Company provides him with a deep knowledge and experience base regarding the Company's operations, customers and industry.

Name and Tenure	Age	Business Experience, Qualifications, Attributes and Skills
James E. Poole Director since 2004	68	Mr. Poole is a Certified Public Accountant and was a principal with the accounting firm of Grantham, Poole, Randall, Reitano, Arrington & Cunningham, PLLC of Ridgeland, Mississippi for more than five years until his retirement in 2013. Mr. Poole is an independent director. Until his retirement in 2013, Mr. Poole served a broad scope of clients as a principal in one of the larger public accounting firms in the State of Mississippi. He brings not only accounting expertise to the Board but also a broad knowledge of the general business climate within which the Company operates.
Steve W. Sanders Director since 2009	71	Mr. Sanders is a Certified Public Accountant. He retired in 2002 as the managing partner of the Jackson, Mississippi office of Ernst & Young LLP, certified public accountants, after over 30 years with that firm. He served as a director of Valley Services, Inc., a privately-held food services company from 2003 until its sale in 2012. He also served as a Lecturer at the Adkerson School of Accountancy, Mississippi State University, where he has taught accounting and auditing courses from 2003 until his retirement on June 30, 2017. Mr. Sanders is an independent director. Mr. Sanders headed the Jackson, Mississippi office of Ernst & Young, where he was presented with a multitude of accounting issues raised by a client base consisting of a wide array of businesses until his retirement in 2002.

EXECUTIVE OFFICERS OF THE COMPANY

The following information sets forth the name, age, principal occupation and business experience during the last five years of each of the current executive officers of the Company. The executive officers serve at the pleasure of the Board.

ADOLPHUS B. BAKER, age 60, is Chairman of the Board, Chief Executive Officer and President. See previous description under “Nominees for Directors.”

MICHAEL CASTLEBERRY, age 59, has served as Vice President – Controller of the Company since January 1, 2014. He has been employed by the Company since November 2012, previously serving as Director of Accounting. He served as Chief Financial Officer of Maxim Production Co., Inc. from 2007 until its commercial egg assets and operations were acquired by the Company in 2012.

TIMOTHY A. DAWSON, age 63, is Vice President – Chief Financial Officer, Treasurer and Secretary and a director. See previous description under “Nominees for Directors.”

CHARLES J. HARDIN, age 58, is Vice President – Sales. He has served in such office since 2002 and has been employed by the Company since 1989.

ROBERT L. HOLLADAY, JR., age 41, is Vice President – General Counsel. Mr. Holladay joined the Company and was elected to this position in 2011.

SHERMAN L. MILLER, age 42, is Vice President – Chief Operating Officer and a director. See previous description under “Nominees for Directors.”

JOE M. WYATT, age 78, is Vice President – Feedmill Division. He has served in such office since 1977 and has been employed by the Company since its formation in 1969. He served as a director of the Company from 1998 to 2004.

CORPORATE GOVERNANCE

Meetings and Attendance

Our Board of Directors holds regularly scheduled quarterly meetings. Normally, committee meetings occur the day of the Board meeting. In addition to the quarterly meetings, typically there are some special meetings each year. At each quarterly Board meeting, time is set aside for the independent directors to meet without management present. Our Board held four regularly scheduled quarterly meetings and two special meetings during fiscal year 2017. All of our directors attended 75% or more of the aggregate of all Board of Directors meetings and meetings of the committees on which they served during the last fiscal year. Directors are encouraged to attend the Annual Meeting of Stockholders, and all six directors attended the 2016 Annual Meeting.

Board Committees

Our Board has five standing committees: an Audit Committee, a Compensation Committee, an Executive Committee, a Long-Term Incentive Plan Committee, and a Nominating Committee. In addition, under our bylaws our Board may designate additional committees as it deems appropriate. In certain instances the Board and its committees may take action through written consent. In fiscal year 2017 the Board took action by written consent one time. The Audit and Compensation Committees have written charters which are available on the “Investors” page of our website at www.calmainefoods.com. The Executive, Long-Term Incentive Plan, and Nominating Committees do not have charters. The table below provides the current composition for each of the Board’s standing committees.

Director	Audit	Compensation	Executive	Long-Term Incentive Plan	Nominating
Adolphus B. Baker		Chair	Chair		Chair
Timothy A. Dawson			Member		
Letitia C. Hughes	Chair	Member		Member	Member
Sherman L. Miller			Member		
James E. Poole	Member	Member		Chair	Member
Steve W. Sanders	Member	Member		Member	Member

Audit Committee: The Audit Committee, which is composed of three directors who are independent in accordance with applicable NASDAQ listing standards and SEC rules, including the enhanced criteria with respect to audit committee members, meets with management, internal auditors, and the Company's independent registered public accounting firm to determine the adequacy of internal controls, recommends a registered public accounting firm for the Company to select, evaluates and oversees an internal auditor for the Company, reviews annual audited and quarterly financial statements and recommends whether such statements should be included in the Company's annual reports on Form 10-K and quarterly reports on Form 10-Q, and oversees financial matters. The Audit Committee held four meetings in fiscal year 2017.

Compensation Committee: The Compensation Committee discharges the responsibilities of the Board of Directors relating to compensation of the Company's executive officers by establishing goals and reviewing general policy matters relating to compensation and benefits of employees of the Company, including the issuance of stock options and restricted stock to the Company's officers, employees and directors. It reviews and approves the compensation and benefits of officers who are members of the Executive Committee and of the Chairman Emeritus, and makes recommendations to the Board of Directors and members of the Long-Term Incentive Plan Committee with respect to the Company's incentive compensation plans and equity-based plans. For more information on the Compensation Committee processes and procedures, see "Compensation Discussion and Analysis" below. The Compensation Committee held two meetings in fiscal year 2017.

Executive Committee: The Executive Committee may exercise all of the powers of the full Board of Directors, except for certain major actions, such as the adoption of an agreement of merger or consolidation, the recommendation to stockholders of the disposition of substantially all of the Company's assets or a dissolution of the Company, and the declaration of a dividend or authorization of an issuance of stock. In addition, it may not authorize single capital expenditure projects in excess of $10 million. The Executive Committee did not hold any formal meetings in fiscal year 2017, but worked closely together and took action by written consent three times.

Long-Term Incentive Plan Committee: The Long-Term Incentive Plan Committee, which is composed of three independent directors, administers the Cal-Maine Foods, Inc. 2012 Omnibus Long-Term Incentive Plan, which role includes selection of the persons to whom awards may be made, determining the types of awards, determining the times at which awards will be made and other terms and conditions relating to awards, all in accordance with plan documents. The Long-Term Incentive Plan Committee held two meetings in fiscal year 2017.

Nominating Committee: The Nominating Committee considers potential nominees for directors proposed by committee members, other members of the Board of Directors, management or our stockholders. Any stockholder desiring to submit a director candidate for consideration should submit the candidate's name, address and detailed background information to the Secretary of the Company at the Company's address shown above under "General Matters." The Secretary will forward such information to the Nominating Committee for its consideration. The Nominating Committee held one meeting in fiscal year 2017.

Consideration of Director Nominees; Diversity

In recommending nominees for the Board, the Nominating Committee considers any specific criteria the Board may request from time to time and such other factors as it deems appropriate. These factors may include any special training or skill, experience with businesses and other organizations of comparable size and type, experience or knowledge with businesses that are particularly relevant to the Company's current or future business plans, financial expertise, the interplay of the candidate's experience with the experience of the other directors, sufficient time to devote to the responsibilities of a director, freedom from conflicts of interest or legal issues and the extent to which, in the Nominating Committee's opinion, the candidate would be a desirable addition to the Board. Diversity is taken into

account when determining how the candidates' qualities and attributes would complement the other directors' backgrounds. Type of advanced studies and certification, type of industry experience, area of corporate experience and gender, among other factors, are taken into consideration. The Nominating Committee believes that the different business and educational backgrounds of the directors of the Board contribute to the overall insight necessary to evaluate matters coming before the Board.

Each candidate brought to the attention of the Nominating Committee, regardless of who recommended such candidate, will be considered on the basis of the criteria set forth above.

Stockholder Communications

Stockholders may send communications to the Board by directing them to the Secretary in the manner described above under "General Matters." The Secretary will forward to all members of the Board any such communications he receives which, in his reasonable judgment, he deems to be not spurious and to be sent in good faith.

Risk Oversight

The Board takes its oversight role in the Company's risk management very seriously. The Company's Executive Committee is primarily responsible for managing the day-to-day risks of the Company's business, and is best equipped to assess and manage those risks. The Audit Committee also plays a prominent role in assessing and addressing risks faced by the Company with respect to financial and accounting controls, internal audit functions, pending or threatened legal matters, insurance coverage and the Company's "whistleblower" hotline policy, among other matters. The Board and the Audit Committee receive reports on the Company's exposure to risk and its risk management practices from members of the Executive Committee as well as other members of the Company's management and legal counsel, including reports on the Company's information technology standards and safeguards, financial and accounting controls and security measures, environmental compliance, human resources, litigation and other legal matters, grain purchasing strategies, and customer concentration and product mix, among other things. The Board regularly receives updates about and reassesses the management of these risks throughout the year. In addition, the Board and the Audit Committee review the Company's risk disclosures in its draft periodic reports before they are filed and have the opportunity to question management and outside advisers about the risks presented. The Board's role in risk oversight of the Company is consistent with the Company's leadership structure, with the CEO and other members of senior management having responsibility for assessing and managing the Company's risk exposure on a day-to-day basis, and the Board and its committees providing oversight in connection with those efforts.

The Board's oversight of risks affecting the Company has not specifically affected the Board's leadership structure. The Board believes that its current leadership structure is conducive of and appropriate for its risk oversight function. If in the future the Board believes that a change in its leadership structure is required to, or potentially could, improve the Board's risk oversight function, it may make any change it deems appropriate.

Stock Ownership Guidelines

The Board adopted stock ownership guidelines applicable to the Company's non-employee directors during fiscal year 2016. Under the guidelines, each non-employee director is encouraged to maintain ownership of company stock valued at two times his or her annual retainer, which is currently $45,000. As of August 11, 2017, all non-employee directors exceeded their target ownership levels. Under the stock ownership guidelines, new directors are expected to comply with the stock ownership target within five years of appointment.

Board Independence and Impact of "Controlled Company" Status

The NASDAQ stock market qualitative listing standards require that a majority of a listed company's directors be independent and that a compensation committee and nominating committee of the Board composed solely of independent directors be established. These standards are not applicable to any company where more than 50% of the voting power is held by one individual or group. Mr. Adams, founder and Chairman Emeritus of the Company, Mr. Adam's spouse, Mr. Baker and Mr. Baker's spouse own in the aggregate capital stock of the Company entitling them to 66.25% of the total voting power. Accordingly, the Company is a "controlled company" and thus exempt from those NASDAQ listing standards. As executive officers of the Company, Messrs. Baker, Dawson and Miller do not qualify as independent pursuant to the NASDAQ listing standards. Additionally, Mr. Baker serves as chair of each of the Compensation and Nominating Committees.

The Company is, however, subject to the NASDAQ listing standards requiring that the Audit Committee (i) be composed solely of independent directors; (ii) be directly responsible for the appointment, compensation, retention and oversight of the independent registered public accounting firm, which must report directly to the audit committee; (iii) establish procedures to receive, retain, and treat complaints regarding accounting, internal accounting controls and auditing matters, and for employees' confidential, anonymous submissions of concerns regarding questionable accounting or auditing matters; (iv) have the authority to engage independent counsel and other advisors when the

committee determines such outside advice is necessary; and (v) be adequately funded by the Company. Our Audit Committee is in compliance with these standards. In addition, our Board has determined that each member of our Audit Committee qualifies as an "audit committee financial expert," as such term is defined by the rules of the SEC.

Executive Sessions

The Company is also subject to NASDAQ listing standards that requires the independent directors of the Board to have regularly scheduled meetings at which only independent directors are present. Such meetings were held following each regular meeting of the Board during fiscal year 2017.

Code of Ethics

NASDAQ qualitative listing standards require companies to adopt a code of business conduct and ethics applicable to all directors, officers and employees that is in compliance with certain provisions of the Sarbanes-Oxley Act of 2002. The Board of Directors adopted such a code in 2004. Our Code of Ethics is posted on the "Investors—Corporate Governance" page of our website at www.calmainefoods.com.

Board Leadership Structure

Mr. Baker, our President and Chief Executive Officer, serves as Chairman of the Board. The Company has not named a lead independent director. The Board recognizes that the leadership structure and the decision to combine or separate the roles of the Chief Executive Officer and Chairman of the Board are prompted by the Company's needs at any point in time. The Company's leadership structure has varied over time and has included combining and separating these roles. As a result, the Board has not established a firm policy requiring combination or separation of these leadership roles and the Company's governing documents do not mandate a particular structure. This provides the Board with flexibility to establish the most appropriate structure for the Company at any given time.

The Board has determined that the Company is currently best served by having one person serve as Chairman of the Board and Chief Executive Officer as it promotes communication between management and the Board of Directors and provides essential leadership for addressing the Company's strategic initiatives and challenges. Mr. Baker's service as Chairman of the Board aids the Board's decision-making process because he has firsthand knowledge of the Company's operations and the major issues facing the Company, and he chairs the Board meetings where the Board discusses strategic and business issues.

The Board also considers the above structure appropriate due to the Company's status as a "controlled company." Further, due to the relatively small size of the Board and the fact that one-half of the members of the Board are independent directors, the Board has not felt it necessary to designate a lead independent director.

Chairman Emeritus

Mr. Adams, the former Chairman of the Board, has been designated Chairman Emeritus of the Company. Under the Company's bylaws, Chairman Emeritus is an advisory position. Although the Chairman Emeritus may be invited to participate in Board of Director and committee meetings, the Chairman Emeritus is not counted for quorum purposes and has no director voting rights. The Chairman Emeritus provides such advisory services to the Board of Directors as it requests.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act requires our directors and executive officers, and persons who own more than 10% of a registered class of our equity securities, such as the common stock, to file with the SEC initial reports of ownership and reports of changes in ownership of common stock and other equity securities of the Company. Such persons are also required to furnish us with copies of all forms they file under Section 16(a). To our knowledge, based solely on a review of the copies of such reports and amendments thereto furnished to us and representations that no other reports were required, we believe that no director, executive officer or greater than 10% stockholder failed to file on a timely basis the reports required by Section 16(a) during fiscal 2017.

Related-Party Transactions

We are the largest producer and marketer of shell eggs in the United States. We spend hundreds of millions of dollars for third-party goods and services annually, with the authority to purchase such goods and services dispersed among many different officers and managers across the United States. Consequently, there may be transactions and business arrangements with businesses and other organizations in which one of our directors or nominees, executive officers, or their immediate families, or a greater than 5% owner of either class of our capital stock, may also be a director, executive officer, or investor, or have some other direct or indirect material interest. We may refer to these relationships generally as related-party transactions.

13

Related-party transactions have the potential to create actual or perceived conflicts of interest between the Company and its directors and executive officers or their immediate family members. The Company's Code of Ethics prohibits directors, officers and employees of the Company from engaging in transactions which may create or appear to create a conflict of interest without disclosing all relevant facts and circumstances to, and obtaining the prior written approval of, the Company's General Counsel. The General Counsel reports annually to the Audit Committee concerning any such disclosures. The NASDAQ listing standards require that related-party transactions be reviewed for potential conflicts of interest on an ongoing basis by the Company's Audit Committee or another independent committee of the Board of Directors. The Audit Committee reviews and approves such transactions. While the Audit Committee has no specific written policy and procedures for review and approval of related-party transactions, in the past if a related-party transaction involved a director, executive officer, or their immediate family members, in evaluating such transaction the Audit Committee has considered, among other factors:

- the goods or services provided by or to the related party,
- the nature of the transaction and the costs to be incurred by the Company or payments to the Company,
- the benefits associated with the proposed transaction and whether alternative goods or services are available from unrelated parties,
- the advantages the Company would gain by engaging in the transaction,
- whether the terms of the transaction are fair to the Company and arms-length in nature,
- the materiality of the transaction to the Company and to the related party, and
- management's determination that the transaction is in the best interests of the Company.

No reportable related-party transactions have taken place since the beginning of fiscal year 2017, and none are currently proposed.

COMPENSATION DISCUSSION AND ANALYSIS

This compensation discussion and analysis describes and analyzes our executive compensation philosophy and program in the context of the compensation paid during the last fiscal year to our named executive officers. Our named executive officers for fiscal year 2017 are:

- Adolphus B. Baker, Chairman of the Board, President, and Chief Executive Officer,
- Timothy A. Dawson, Vice President – Chief Financial Officer, Treasurer, and Secretary,
- Charles J. Hardin, Vice President – Sales,
- Sherman L. Miller, Vice President – Chief Operating Officer, and
- Robert L. Holladay, Jr., Vice President – General Counsel.

Compensation Philosophy and Process

We believe we are the only publicly held company in the United States whose primary business is the commercial production, processing, and sale of shell eggs. Accordingly, there is little, if any, public information available regarding the compensation paid by our competitors. It is our intent to compensate our employees at a level that will appropriately reward them for their performance, minimize the number of employees leaving our employment because of inadequate compensation, and enable us to attract sufficient talent as our business expands.

As stock representing more than 50% of the voting power for the election of directors is owned by Mr. Adams, our founder, and members of his family, we are a controlled company as defined in Rule 5615(c)(1) of the NASDAQ listing rules. As such, we are not required to have the compensation of our named executive officers determined by a majority of our independent directors or a Compensation Committee composed entirely of independent directors. However, our independent directors, who are three of the four members of the Compensation Committee, do play a significant role in determining the compensation of certain of our named executive officers. We divide our executive officers into two categories for compensation purposes. The first are members of the Executive Committee of our Board of Directors, which during fiscal year 2017 was composed of Messrs. Baker, Dawson and Miller. The compensation of the members of the Executive Committee is approved by the Compensation Committee, after recommendation by the Executive Committee. The compensation for other executive officers, including named executive officers who are not members of the Executive Committee, is determined by the Executive Committee based on the overall

compensation goals and guidance established by the Compensation Committee. Finally, incentive awards, including equity awards, are approved by the Long-Term Incentive Plan Committee.

Compensation Practices and Risks

We do not believe any risks arise from the Company's compensation policies and practices that are likely to have a material adverse effect on the Company.

Elements of Compensation

During fiscal 2017, our executive compensation program had the following primary components: base salary, an annual cash bonus and equity compensation in the form of restricted stock awards. Our named executive officers also received certain perquisites and certain of our named executive officers participate in our deferred compensation plan. The tables that follow give details as to the compensation of each of our named executive officers for fiscal year 2017.

Base Salary

We believe that base salaries, which provide fixed compensation, should meet the objective of attracting and retaining the executive officers needed to manage our business successfully. Base salary adjustments, if any, are approved in December of each year and become effective January 1st of the following calendar year. After consideration of the review of peer company compensation prepared in 2016 by Mercer (US) Inc. ("Mercer"), a compensation consulting firm engaged by our Compensation Committee, which review indicated that the base salaries of our executive officers continue to lag behind the peer group, the Compensation Committee approved base salary increases effective January 1, 2017 for the members of the Executive Committee as follows: Mr. Baker – 2%, Mr. Dawson – 2% and Mr. Miller – 7.1%. Based on the same analysis, the Executive Committee approved base salary increases for our other named executive officers, also effective January 1, 2017, as follows: Mr. Hardin – 3% and Mr. Holladay – 3%. See "Benchmarking of Compensation" below for information regarding the Mercer report.

Annual Cash Bonus

Executive Committee Members and General Counsel Bonus Programs

For members of our Executive Committee and Mr. Holladay, our General Counsel, the bonus program is essentially subjective, rather than utilizing objective criteria. The Executive Committee recommends bonuses for its members, which are presented and these recommendations are given to the Compensation Committee for final approval. Our Chief Executive Officer determines Mr. Holladay's bonus. Although these bonus awards are not based on objective goals, the most significant item in determining the amount of the Executive Committee members' and Mr. Holladay's bonuses has historically been the profitability of our Company. Mr. Hardin has historically participated in the general bonus program applicable to our other officers and employees.

General Bonus Program

During fiscal year 2017, Mr. Hardin was covered by our general bonus program. Under this program, the amount of bonus that could be earned is equal to 50% of the total of the officer's base salary plus such officer's prior year's bonus, and is designed to reward both company and individual performance during the year.

Of the potential bonus that could be earned by Mr. Hardin under this program, 50% is based on our profitability, subject to the discretion of the Chief Executive Officer. If we earn a minimum profit, on a pre-tax basis, of five cents per dozen eggs produced, Mr. Hardin could earn the full portion of his bonus attributable to our profitability, subject to adjustment at the discretion of the Chief Executive Officer. If our profit is less than five cents per dozen eggs produced, the officer's bonus would be reduced by a corresponding percentage.

The remaining bonus that could be earned by Mr. Hardin is based on his individual performance as evaluated by our Chief Executive Officer in his discretion. Mr. Baker's evaluation includes his personal assessment of the overall efficiency, cooperativeness, enthusiasm, judgment and attitude that Mr. Hardin brings to the performance of his duties.

Equity Compensation

The Company believes it is essential to provide our named executive officers with a long-term equity component of compensation in order to better align their interests with those of the Company's stockholders.

Our named executive officers participate in our 2012 Omnibus Long-Term Incentive Plan ("2012 Plan"). The 2012 Plan is administered by the Long-Term Incentive Plan Committee of the Board ("LTIP Committee"). On December 22, 2016, the LTIP Committee authorized grants of restricted stock (the "RSAs") to a broad base of employees of the Company, including the named

15

executive officers, which grants were effective January 16, 2017. The RSAs vest fully on the third anniversary of the date of grant, January 16, 2020. The LTIP Committee's use of RSAs, the level of RSAs awarded to each named executive officer, and the vesting structure of such RSAs were based in large part on the recommendations of Mercer during fiscal year 2016, and comparisons to the Company's peer group. See the "Benchmarking of Compensation" and "Compensation Consultants" sections below.

While the LTIP Committee has not developed formal policies concerning the timing of grants, setting of exercise prices and other matters, its practice has been to authorize grants of restricted shares annually in mid-December, with the grants to be made effective the following January.

Deferred Compensation Arrangements

In 2006 our Board adopted the Deferred Compensation Plan, in which all of our officers are eligible to participate. Currently, Messrs. Baker, Dawson and Hardin are the only named executive officers who participate in the plan. Under the Deferred Compensation Plan, the Company will establish an account for each officer, and each year the Board may elect to make a contribution for each participant in an amount determined by the Board. Each participant's account will be credited with investment earnings equal to a fund selected by the Board. For fiscal year 2017, the Company contribution for Messrs. Baker, Dawson and Hardin was approximately 18% of each officer's base salary. Currently, the index fund selected by the Board is the Vanguard 500 Index Fund Admiral Shares. Participants may elect to receive their distribution in a lump sum or in annual installments. Each of the named executive officers participating in this Deferred Compensation Plan has elected the lump sum distribution alternative. All contributions to each officer's account are immediately vested. The Board determines which contributions, if any, will be made during December of each year. The contributions made for our named executive officers under the Deferred Compensation Plan are reflected in the "Nonqualified Deferred Compensation" table in the "Compensation Tables" section below.

Employee Benefits and Perquisites

While we do not maintain a pension plan, we do maintain the Cal-Maine Foods, Inc. KSOP ("KSOP"), which is a combination 401(k) and employee stock ownership plan. We currently contribute an amount not less than 3% of each participant's base salary and bonus to the KSOP each year, subject to statutory limitations. All full time employees 21 years of age or older with at least one year of service, including our named executive officers, are members of the KSOP. We also sponsor an elective 401(k) component within the KSOP, but we make no contributions directly to the 401(k) component on behalf of the participants. Each of our named executive officers participates in an enhanced health plan pursuant to which we reimburse the participating officer for any eligible health expense not covered by our primary health plan, up to $10,000 per calendar year. In addition, we have a plan under which officers who meet minimum tenure qualifications will be provided health coverage after their retirement. The coverage we provide is secondary to their Medicare coverage.

Each of our named executive officers is provided one automobile for which we pay the operating and maintenance costs. We also pay club dues on behalf of certain of our named executive officers as determined by the Board of Directors.

Certain officers are provided individual life insurance policies, the premiums of which are paid by the Company. Historically, the Executive Committee has made the determination of which officers would be provided such benefit on a case-by-case basis. In fiscal year 2013, the Compensation Committee authorized the Company to implement a split-dollar life insurance arrangement with Mr. Baker as to two life insurance policies, which was accomplished in fiscal year 2014. This replaced two existing term life insurance policies for Mr. Baker being funded by the Company, the premiums for which were scheduled to materially escalate. The premiums paid on behalf of the named executive officers and the imputed income relating to the split-dollar life insurance policies for Mr. Baker are set forth in the "All Other Compensation Table" in the "Compensation Tables" section below.

General Matters Regarding Executive Compensation

Employment Agreements and Severance and Change-in-Control Arrangements

None of our named executive officers has an employment agreement with the Company. In addition, no named executive officer is entitled to receive any severance or change-in-control payment; however, existing grants of restricted stock do vest on death, disability or change-in-control, and the LTIP Committee in its sole discretion may determine that such grants will vest partially or in full as of retirement. See the "Potential Payments Upon Termination or Change in Control" section below.

Stock Ownership Guidelines

The Board adopted stock ownership guidelines applicable to the Company's executive officers during fiscal year 2016. Under the guidelines, the chief executive officer is required to maintain ownership of company stock valued at five times his or her base salary, the chief financial officer is required to maintain ownership of company stock valued at three times his or her base salary and each other executive officer is required to maintain ownership of company stock valued at two times his or her base salary. Under the stock ownership guidelines, executive officers are expected to comply with the stock ownership target by April 1, 2021, or in the case of new executives, within five years of the date of their appointment.

Compensation Advisors

Benchmarking of Compensation

Since fiscal year 2013 the Compensation Committee has engaged the consulting firm of Mercer (US) Inc. ("Mercer") to periodically provide compensation analysis and consulting services regarding executive and director compensation. Part of this engagement involves benchmarking the Company's executive pay against a peer group and published compensation surveys. During 2016, Mercer provided the Compensation Committee with an update of its prior analysis through July 2016, including the benchmarking. The most current peer group consisted of 16 companies, all of which are publicly traded. The peer group was selected based on research by Mercer and input from management and consisted of the following companies based on size (as measured by revenues), industry focus and market capitalization:

Alliance One International, Inc.	Lancaster Colony Corporation
B&G Foods, Inc.	Post Holdings, Inc.
Calavo Growers, Inc.	Sanderson Farms, Inc.
Flowers Foods, Inc.	Seneca Foods Corporation
Farmer Brothers Co.	Snyder's-Lance Inc.
The Hain Celestial Group, Inc.	TreeHouse Foods, Inc.
J & J Snack Foods Corp.	Universal Corporation
John B. Sanfilipo & Son, Inc.	The WhiteWave Foods Company

Compensation Consultants

In addition to the services described above, the Chairman of the Compensation Committee also periodically engages Mercer to review annual and long-term incentive plan designs for competitiveness and alignment with peer companies, and to update management and the Board on executive compensation trends, including director compensation. This review was last completed in fiscal 2016.

Mercer reported directly to Mr. Baker, as Chairman of the Compensation Committee, but also consulted with Mr. Dawson, Vice President and Chief Financial Officer of the Company, and Mr. Poole, an independent director and member of the Compensation Committee. During fiscal year 2017, the LTIP Committee based its grants of restricted stock to officers and directors on Mercer's 2016 recommendations.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the above Compensation Discussion and Analysis with management of the Company and, based on the review and discussions, the Compensation Committee has recommended to the Board of Directors that the above Compensation Discussion and Analysis be included in the Company's proxy statement on Schedule 14A for the 2017 Annual Meeting of Stockholders.

17

Adolphus B. Baker, Compensation Committee — Chairman
Letitia C. Hughes, Compensation Committee Member
James E. Poole, Compensation Committee Member
Steve W. Sanders, Compensation Committee Member

Compensation Committee Interlocks and Insider Participation

The members of the Compensation Committee during fiscal year 2017 were Mr. Baker, who is Chairman of the Board, Chief Executive Officer and President of the Company, Ms. Hughes, Mr. Poole and Mr. Sanders. Only Mr. Baker was an officer or employee of the Company. None of Ms. Hughes, Mr. Poole and Mr. Sanders was formerly an officer of the Company.

During fiscal year 2017, none of our executive officers served as a member of the compensation committee, or as a director, of another entity, one of whose executive officers served on our Compensation Committee or as one of our directors.

COMPENSATION TABLES

SUMMARY COMPENSATION TABLE

Name and Principal Position	Fiscal Year	Salary ($)[1]	Bonus ($)	Stock Awards ($)[2]	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)[3]	All Other Compensation ($)[4]	Total ($)
Adolphus B. Baker, Chairman/ President/CEO	2017	416,769	223,989	279,500	71,644	141,567	1,133,469
	2016	385,999	615,968	296,340	6,448	135,875	1,440,630
	2015	361,106	422,620	274,725	26,896	160,464	1,245,811
Timothy A. Dawson, VP/CFO/ Treasurer/Secretary	2017	314,077	167,805	93,095	110,400	90,214	775,591
	2016	285,346	461,464	98,780	10,132	76,149	931,871
	2015	264,738	310,750	91,575	50,573	72,914	790,730
Charles J. Hardin, VP/Sales	2017	217,293	101,168	55,900	65,026	47,807	487,194
	2016	200,661	263,656	59,268	5,948	52,497	582,030
	2015	191,466	176,780	54,945	28,493	53,483	505,167
Sherman L. Miller, VP/Chief Operating Officer	2017	224,423	108,456	93,095	-0-	25,360	451,334
	2016	195,027	287,133	98,780	-0-	16,214	597,154
	2015	173,461	186,450	91,575	-0-	15,925	467,411
Robert L. Holladay, Jr., VP/General Counsel	2017	205,077	95,369	93,095	-0-	32,911	426,452
	2016	188,846	248,359	98,780	-0-	28,798	564,783
	2015	179,231	166,250	91,575	-0-	26,980	464,036

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(1) Salary for fiscal year 2017 includes 27 pay periods due to the 53 weeks in the 2017 fiscal year. Salary for 2016 and 2015 reflect 26 pay periods.

(2) The amount listed represents the aggregate grant date fair value of time-vested restricted stock grants computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718 – Compensation – Stock Compensation ("FASB ASC Topic 718").

(3) Reflects aggregate earnings on nonqualified deferred compensation based on the increase in value of the Vanguard 500 Index Fund Admiral Shares, the index fund selected by the Board to determine investment credits under the nonqualified Deferred Compensation Plan.

(4) The detail on amounts in this column is set forth in the "All Other Compensation" table below.

ALL OTHER COMPENSATION TABLE [1]

Name	Fiscal Year	Auto ($)	Deferred Compensation Contributions ($)	Club Dues ($)	Payment or Imputed Income Based on Cost of Life Insurance Coverage ($)[2]	Medical Reimbursement ($)	KSOP Contribution ($)	Total ($)
Adolphus B. Baker	2017	11,500	64,178	9,525	40,112	8,302	7,950	141,567
	2016	24,500	60,513	9,298	29,232	4,382	7,950	135,875
	2015	16,640	55,788	14,856	57,881	7,499	7,800	160,464
Timothy A. Dawson	2017	14,175	54,000	9,525	1,675	2,889	7,950	90,214
	2016	5,400	49,650	8,786	1,551	2,812	7,950	76,149
	2015	6,800	46,188	8,197	1,613	2,316	7,800	72,914
Charles J. Hardin	2017	1,850	37,209	-0-	-0-	798	7,950	47,807
	2016	2,075	35,438	-0-	-0-	7,034	7,950	52,497
	2015	4,280	33,750	-0-	-0-	7,653	7,800	53,483
Sherman L. Miller	2017	8,043	-0-	2,596	631	6,140	7,950	25,360
	2016	2,272	-0-	2,500	585	2,907	7,950	16,214
	2015	2,000	-0-	1,827	608	3,690	7,800	15,925
Robert L. Holladay, Jr.	2017	8,100	-0-	9,525	1,557	5,779	7,950	32,911
	2016	7,500	-0-	8,896	1,442	3,010	7,950	28,798
	2015	6,900	-0-	8,146	1,500	2,634	7,800	26,980

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(1) See “Compensation Discussion and Analysis” for more information on these elements of executive compensation.

(2) For named executive officers other than Mr. Baker, the amount listed represents premiums paid on life insurance policies provided for such officer. Of Mr. Baker’s total amount listed for 2017, $32,290 represents premiums paid on non-split-dollar life insurance policies and $7,822 represents income imputed to Mr. Baker related to the split-dollar life insurance arrangements discussed in “Compensation Discussion and Analysis—Elements of Compensation—Employee Benefits and Perquisites” above.

GRANTS OF PLAN-BASED AWARDS

Name	Grant Date	Approval Date	All Other Stock Awards: Number of Shares of Stock or Units (#)[1]	Grant Date Fair Value of Stock and Option Awards ($)[2]
Adolphus B. Baker	01/16/17	12/22/16	6,500	279,500
Timothy A. Dawson	01/16/17	12/22/16	2,165	93,095
Charles J. Hardin	01/16/17	12/22/16	1,300	55,900
Sherman L. Miller	01/16/17	12/22/16	2,165	93,095
Robert L. Holladay, Jr.	01/16/17	12/22/16	2,165	93,095

(1) Amounts shown in this column represent restricted stock grants of Company stock made in fiscal year 2017, which vest fully on the third anniversary of the date of grant, conditioned upon the grantee remaining employed by the Company. Vesting of such shares is accelerated upon a change of control of the Company or upon the death or disability of the grantee. If the grantee’s employment is terminated due to retirement, the LTIP Committee may provide for full or partial vesting of such shares in its sole discretion.

(2) The grant date fair value of the restricted stock grants set forth in this column is based on the closing price of Company common stock on the business day prior to the grant date, which was $43.00, as the grant date was a holiday.

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

	Stock Awards		
Name	Grant Date	Number of Shares or Units of Stock That Have Not Vested (#)[1]	Market Value of Shares or Units of Stock That Have Not Vested ($)[2]
	01/15/15	7,500	289,125
Adolphus B. Baker	01/15/16	6,000	231,300
	01/16/17	6,500	250,575
	01/15/15	2,500	96,375
Timothy A. Dawson	1/15/2016	2,000	77,100
	01/16/17	2,165	83,461
	01/15/15	1,500	57,825
Charles J. Hardin	1/15/2016	1,200	46,260
	01/16/17	1,300	50,115
	01/15/15	2,500	96,375
Sherman L. Miller	1/15/2016	2,000	77,100
	01/16/17	2,165	83,461
	01/15/15	2,500	96,375
Robert L. Holladay, Jr.	1/15/2016	2,000	77,100
	01/16/17	2,165	83,461

(1) All of these grants of restricted stock have been made under the 2012 Omnibus Long-Term Incentive Plan and shares of restricted stock under these grants vest fully on the third anniversary of the date of grant, conditioned upon the grantee remaining employed by the Company. Vesting of such shares is accelerated upon a change of control of the Company or upon the death or disability of the grantee. If the grantee’s employment is terminated due to retirement, the LTIP Committee may provide for full or partial vesting of such shares in its sole discretion.

(2) Market value is based on the closing price of Company common stock as of June 2, 2017, the last business day of the Company’s fiscal year 2017, which was $38.55.

STOCK VESTED

Name	Restricted Stock Awards	
	Number of Shares Acquired on Vesting (#)[1]	Value Realized On Vesting ($)[2]
Adolphus B. Baker	10,800	464,400
Timothy A. Dawson	3,600	154,800
Charles J. Hardin	2,200	94,600
Sherman L. Miller	3,600	154,800
Robert L. Holladay, Jr.	3,600	154,800

(1) The number of shares acquired is reported on a gross basis. The Company withheld the necessary number of shares of common stock in order to satisfy withholding taxes due upon vesting of the RSAs, thus the named executive officers actually received a lower number of shares of the Company's common stock than the numbers reported in this table.

(2) The value realized on vesting of RSAs is based on the closing sale price on the date of vesting of the RSAs or, if there were no reported sales on such date, on the last preceding date on which any reported sale occurred.

NONQUALIFIED DEFERRED COMPENSATION

Name	Executive Contributions in Last FY ($)	Registrant Contributions in Last FY ($)[1]	Aggregate Earnings in Last FY ($)[2]	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last FYE ($)

The floating rate term loans are part of the Company s senior credit facility, which include its revolving credit facility maturing 2016, and are secured by pledges of all of the capital stock of all of the Company s direct or indirect domestic subsidiaries and up to 66% of the capital stock of each direct foreign subsidiary, subject to certain exceptions, and liens on substantially all of the Company s intellectual property and certain other real and personal property.

(b) As of September 30, 2012, the floating rate notes due 2014 bear interest at three-month LIBOR, plus 250 basis points, for an aggregate rate of 2.93%.

(c) As of September 30, 2012, the 3 1/2% convertible notes are convertible by the holders into approximately 9 million shares of our common stock.

(d) As of September 30, 2012, the floating rate term loan due 2016 bears interest at three-month LIBOR, plus 300 basis points, for an aggregate rate of 3.45%.

(e) As of September 30, 2012, the floating rate term loan due 2018 bears interest at the greater of three-month LIBOR or 1.25%, plus 500 basis points, for an aggregate rate of 6.25%.

(f) As of September 30, 2012, the floating term rate loan due 2019 bears interest at the greater of three-month LIBOR or 1.0%, plus 325 basis points, for an aggregate rate of 4.25%.

During March 2012, the Company amended its Amended and Restated Credit Agreement, dated as of May 3, 2011 (the Credit Agreement) to issue a $500 million term loan, at 99.0% of par, that will mature in March 2019.

During March 2012, the Company issued $125 million aggregate principal amount of 8 1/4% Senior Notes due 2019. The notes constitute a further issuance of the $600 million aggregate principal amount issued in fourth quarter 2010. The notes pay interest semi-annually on January 15 and July 15 of each year, beginning July 2012. The notes are unsecured obligations of Avis Budget Car Rental and are guaranteed on a senior basis by the Company and certain of its domestic subsidiaries. These notes were issued at 103.5% of par. The notes rank equally with all of the Company s existing and future senior unsecured indebtedness and are senior to all of the Company s existing and future subordinated indebtedness. The Company has the right to redeem these notes in whole or in part at any time after October 15, 2014 at the applicable redemption price, plus any accrued and unpaid interest through the redemption date.

During June 2012, the Company borrowed an additional $30 million under its floating rate term loan due 2016, with the proceeds used primarily to repay a portion of its floating rate term loan due 2018.

During the nine months ended September 30, 2012, the Company (i) repurchased approximately $201 million of its 3 1/2% convertible notes for approximately $239 million, plus accrued interest, (ii) repaid the $267 million outstanding principal balance of its floating rate term loan due 2014, (iii) repaid $180 million of its floating rate term loan due 2018, (iv) repaid $200 million of its 7 5/8% notes due 2014 and (v) repaid $50 million of its 7 3/4% notes due 2016. The Company incurred $52 million in expenses related to the early extinguishment of this debt.

Committed Credit Facilities and Available Funding Arrangements

At September 30, 2012, the committed credit facilities available to the Company and/or its subsidiaries included:

	Total Capacity	Outstanding Borrowings	Letters of Credit Issued	Available Capacity
Revolving credit facility maturing 2016 [a]	$ 1,435	$	$ 1,155	$ 280
Other facilities [b]	10	3		7

(a) This revolving credit facility matures in 2016 and bears interest of one-month LIBOR, plus 300 basis points. The senior credit facility, which encompasses the floating rate term loans due 2016, 2018 and 2019 and the revolving credit facility, is secured by pledges of all of the capital stock of all of the Company s domestic subsidiaries and up to 66% of the capital stock of each foreign subsidiary directly owned by the Company s domestic subsidiaries, subject to certain exceptions, and liens on substantially all of the Company s intellectual property and certain other real and personal property.

(b) These facilities encompass bank overdraft lines of credit, bearing interest of 4.75% to 5.69% as of September 30, 2012.

At September 30, 2012 the Company had various uncommitted credit facilities available, under which it had drawn approximately $30 million, which bear interest at rates between 0.45% and 5.97%.

The agreements governing the Company s indebtedness contain restrictive covenants, including restrictions on dividends paid to the Company by certain of its subsidiaries, the incurrence of additional indebtedness by the Company and certain of its subsidiaries, acquisitions, mergers, liquidations, and sale and leaseback transactions. The Company s senior credit facility contains maximum leverage and minimum interest coverage ratio requirements. As of September 30, 2012, the Company was in compliance with the financial covenants of its senior credit facility.

12. Debt Under Vehicle Programs and Borrowing Arrangements

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

	As of September 30, 2012	As of December 31, 2011
Debt due to Avis Budget Rental Car Funding [a]	$ 5,813	$ 4,574
Budget Truck financing [b]	280	188
Capital leases [c]	500	348
Other [c]	1,282	454
	$ 7,875	$ 5,564

(a) The increase principally reflects increased borrowing to fund an increase in the size of the Company s U.S. car rental fleet.

(b) The increase principally reflects increased borrowing to fund vehicle purchases for the Company s U.S. truck rental fleet.

(c) The increase principally reflects increased borrowing to fund an increase in the size of the Company s international vehicle rental fleet.

In 2010, the Company established a variable funding note program with a maximum capacity of $400 million of notes to be issued by Avis Budget Rental Car Funding to the Company to finance the purchase of vehicles. During the nine months ended September 30, 2012, no funding occurred under the program.

15

The following table provides the contractual maturities of the Company s debt under vehicle programs (including related party debt due to Avis Budget Rental Car Funding) at September 30, 2012:

	Vehicle-Backed Debt
Within 1 year [a]	$ 1,122
Between 1 and 2 years	2,955
Between 2 and 3 years	1,258
Between 3 and 4 years	742
Between 4 and 5 years	1,033
Thereafter	765
	$ 7,875

[a] Vehicle-backed debt maturing within one year includes term asset-backed securities of approximately $657 million and bank and bank-sponsored borrowings of $465 million.

As of September 30, 2012, available funding under the Company s vehicle programs (including related party debt due to Avis Budget Rental Car Funding) consisted of:

	Total Capacity [a]	Outstanding Borrowings	Available Capacity
Debt due to Avis Budget Rental Car Funding [b]	$ 7,318	$ 5,813	$ 1,505
Budget Truck financing [c]	295	280	15
Capital leases	529	500	29
Other [d]	1,545	1,282	263
	$ 9,687	$ 7,875	$ 1,812

[a] Capacity is subject to maintaining sufficient assets to collateralize debt.

[b] The outstanding debt is collateralized by approximately $7.5 billion of underlying vehicles and related assets.

[c] The outstanding debt is collateralized by $448 million of underlying vehicles and related assets.

[d] The outstanding debt is collateralized by approximately $2.3 billion of underlying vehicles and related assets.

Debt agreements under the Company s vehicle-backed funding programs contain restrictive covenants, including restrictions on dividends paid to the Company by certain of its subsidiaries and restrictions on indebtedness, mergers, liens, liquidations and sale and leaseback transactions and in some cases also require compliance with certain financial requirements. As of September 30, 2012, the Company is not aware of any instances of non-compliance with any of the financial or restrictive covenants contained in the debt agreements under its vehicle-backed funding programs.

13. Commitments and Contingencies

Contingencies

In connection with the separation of Cendant Corporation (as the Company was formerly known) into four independent companies (the Separation), the Company completed the spin-offs of Realogy Corporation (Realogy) and Wyndham Worldwide Corporation (Wyndham) on

July 31, 2006 and completed the sale of Travelport, Inc. (Travelport) on August 23, 2006. In connection with the spin-offs of Realogy and Wyndham, the Company entered into a Separation Agreement, pursuant to which Realogy assumed 62.5% and Wyndham assumed 37.5% of certain contingent and other corporate liabilities of the Company or its subsidiaries, which are not primarily related to any of the respective businesses of Realogy, Wyndham, our former Travelport subsidiary and/or the Company s vehicle rental operations, and in each case incurred or allegedly incurred on or prior to the Separation (Assumed Liabilities). Realogy is entitled to receive 62.5% and Wyndham is entitled to receive 37.5% of the proceeds from certain contingent corporate assets of the Company, which are not primarily related to any of the respective businesses of Realogy, Wyndham, Travelport and/or the Company s vehicle rental operations, arising or accrued on or prior to the Separation (Assumed Assets). Additionally, if Realogy or Wyndham were to default on its payment of costs or expenses to the Company related to any Assumed Liabilities, the Company would be responsible for 50% of the defaulting party s obligation. In such event, the Company would be allowed to use the defaulting party s share of the proceeds of any Assumed Assets as a right of offset.

The Company does not believe that the impact of any resolution of contingent liabilities constituting Assumed Liabilities should result in a material liability to the Company in relation to its consolidated financial position or liquidity, as Realogy and Wyndham each have agreed to assume responsibility for these liabilities.

The Company is also named in various litigation that is primarily related to the businesses of its former subsidiaries, including Realogy, Wyndham and Travelport and their current or former subsidiaries. The Company is entitled to indemnification from such entities under the Separation Agreement for any liability resulting from such litigation.

In accordance with the terms of the Separation Agreement, Realogy posted a letter of credit in April 2007 for the benefit of the Company to cover its estimated share of the Assumed Liabilities discussed above, subject to adjustment, although 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 October 2009, a judgment was entered against the Company in the amount of $16 million following the completion of a jury trial for damages related to breach of contract in the United States District Court for the District of Alaska. The lawsuit, which was filed in 2003, involved breach of contract and other claims by one of the Company s licensees related to the acquisition of its Budget vehicle rental business in 2002. The Company believes the verdict in this case is unsupported by the evidence. 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. The Company has filed an appeal of the judgment and attorneys fees awarded with the United States Court of Appeals for the Ninth Circuit.

In addition to the matters discussed above, the Company is also involved in claims, legal proceedings and governmental inquiries related, among other things, to its vehicle rental operations, including with respect to contract disputes, business practices including wage-and-hour claims and anti-trust claims, insurance claims, intellectual property claims, environmental issues and other commercial, employment and tax matters, and breach of contract claims by licensees. The Company believes that it has adequately accrued for such matters as appropriate, or, for matters not requiring accrual, believes that such matters will not have a material impact on its results of operations, financial position or cash flows based on information currently available. 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 materially impact the Company s results of operations or cash flows in a particular reporting period.

Commitments to Purchase Vehicles

The Company maintains agreements with vehicle manufacturers under which the Company has agreed to purchase approximately $3.4 billion of vehicles from manufacturers over the next 12 months. The majority of these commitments are subject to the vehicle manufacturers satisfying their obligations under their respective repurchase and guaranteed depreciation agreements. The purchase of such vehicles is financed primarily through the issuance of vehicle-backed debt in addition to cash received upon the sale of vehicles in the used car market and under repurchase and guaranteed depreciation programs.

Other Purchase Commitments

In the normal course of business, the Company makes various commitments to purchase other goods or services from specific suppliers, including those related to capital expenditures. None of the purchase commitments made by the Company as of September 30, 2012 (aggregating approximately $163 million) was individually significant. These purchase obligations extend through 2017.

Concentrations

Concentrations of credit risk at September 30, 2012 include (i) risks related to the Company s repurchase and guaranteed depreciation agreements with domestic and foreign car manufacturers, including General Motors Company, Ford Motor Company, Chrysler Group LLC, PSA Peugeot Citroën, Volkswagen Group, Toyota Motor Corporation, Kia Motors America and Fiat Group Automobiles S.p.A. and primarily with respect to receivables for program cars that have been returned to car manufacturers and (ii) risks related to Realogy and Wyndham, including receivables of $68 million and $42 million, respectively, related to certain contingent, income tax and other corporate liabilities assumed by Realogy and Wyndham in connection with the Separation.

Other Guarantees

The Company has provided certain guarantees to, or for the benefit of, subsidiaries of Realogy, Wyndham and Travelport, which, as previously discussed, were disposed in 2006. These guarantees relate primarily to various real estate operating leases. The maximum potential amount of future payments that the Company may be required to make under the guarantees relating to these leases is estimated to be approximately $78 million, the majority of which expire by the end of 2014. At September 30, 2012, the liability recorded by the Company in connection with these guarantees was approximately $2

17

million. To the extent that the Company would be required to perform under any of these guarantees, the Company is entitled to indemnification by Realogy, Wyndham and Travelport, as applicable. The Company monitors the credit ratings and other relevant information for Realogy, Wyndham and Travelport s parent company in order to assess the status of the payment/performance risk of these guarantees.

14. Stockholders Equity

During the nine months ended September 30, 2012, concurrently with the Company s repurchase of a portion of its $3\frac{1}{2}$% convertible notes, the Company repurchased warrants for the purchase of the Company s common stock for $26 million and sold an equal portion of its convertible note hedge for $38 million, reducing the number of shares related to each of the hedge and warrant by approximately 12 million.

Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income were as follows:

	Currency Translation Adjustments	Net Unrealized Gains (Losses) on Cash Flow Hedges	Net Unrealized Gains on Available-for Sale Securities	Minimum Pension Liability Adjustment	Accumulated Other Comprehensive Income
Balance, January 1, 2012	$ 159	$ (13)	$ 2	$ (70)	$ 78
Current period change	14	11			25
Balance, September 30, 2012	$ 173	$ (2)	$ 2	$ (70)	$ 103

All components of accumulated other comprehensive income are net of tax, except currency translation adjustments, which exclude income taxes related to indefinite investments in foreign subsidiaries.

Total Comprehensive Income

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

The components of other comprehensive income were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	$ 280	$ 82	$ 336	$ 141
Other comprehensive income:				
Currency translation adjustment	26	(75)	14	(37)
Net unrealized gains (losses) on available-for-sale securities, net of tax	2			2
Net unrealized gains on cash flow hedges, net of tax		8	11	24
	28	(67)	25	(11)
Total comprehensive income	$ 308	$ 15	$ 361	$ 130

During the nine months ended September 30, 2012 and 2011, the Company s net unrealized losses on cash flow hedges decreased by $20 million and $40 million ($11 million and $24 million, net of tax), respectively, in 2012 primarily due to the realization of losses in income, and in 2011 primarily due to unrealized gains on derivatives used to manage the interest-rate risk associated with the Company s vehicle-backed debt and floating rate debt. Such decreases during the nine months ended September 30, 2012 and 2011 included $19 million and $39 million ($12 million and $24 million, net of tax), respectively, related to the Company s vehicle-backed debt and were offset by a corresponding change in the Company s investment in Avis Budget Rental Car Funding on the Consolidated Condensed Balance Sheets.

18

Table of Contents

15. Stock-Based Compensation
The Company records compensation expense for all outstanding employee stock awards based on the estimated fair value of the award at the grant date, which is recognized over the requisite service period. The Company recorded stock-based compensation expense of $4 million and $3 million ($2 million and $2 million, net of tax) during the three months ended September 30, 2012 and 2011, respectively, and $12 million and $14 million ($7 million and $8 million, net of tax), during the nine months ended September 30, 2012 and 2011, respectively, related to employee stock awards that were granted by the Company.

The Company applies the direct method and tax law ordering approach to calculate the tax effects of stock-based compensation. In jurisdictions with net operating loss carryforwards, tax deductions for 2012 and 2011 exercises of stock-based awards did not generate a cash benefit. Approximately $13 million of incremental tax benefits will be recorded in additional paid-in capital when realized in these jurisdictions.

Restricted Stock and Stock Unit Awards

During the nine months ended September 30, 2012, the Company granted 488,000 market-vesting restricted stock units, 835,000 time-based restricted stock units and 486,000 performance-based restricted stock units under the Company s 2007 Equity and Incentive Plan. Vesting of all or a portion of the market-vesting and performance-based restricted stock units will occur on the third anniversary of the grant date or as otherwise provided by the grant, subject to continued employment through such anniversary, and (i) in the case of the market-based restricted stock units, attainment of certain Company stock price targets and (ii) in the case of the performance-based restricted stock units, attainment of certain Adjusted EBITDA targets. All of the time-based restricted stock units granted during the nine months ended September 30, 2012 vest ratably on the first three anniversaries of the grant date or as otherwise provided by the grant, subject to continued employment.

During the nine months ended September 30, 2011, the Company granted 355,000 market-vesting restricted stock units and 648,000 time-based restricted stock units under the Company s 2007 Equity and Incentive Plan. Of the market-vesting restricted stock units granted during the nine months ended September 30, 2011, vesting of all or a portion of 262,000 units will occur on the third anniversary of the grant date, and vesting of all or a portion of 93,000 units will occur 50% on each of the third and fourth anniversary of the grant date, in each case subject to continued employment through such applicable anniversary and attainment of certain Company stock price targets for a specified number of trading days. Of the time-based restricted stock units granted during the nine months ended September 30, 2011, 617,000 units vest ratably on the first three anniversaries of the grant date and 31,000 units vest on the first anniversary of the grant date, subject in each case to continued employment.

The Company determined the fair value of its market-vesting restricted stock units granted in 2012 and 2011 using a Monte Carlo simulation model. The weighted-average fair value of each of the Company s market-vesting restricted stock units which contain 2.5- and three-year vesting periods, issued in 2012, was estimated to be approximately $11.93 and $10.59, respectively. The weighted-average fair value of each of the Company s market-vesting restricted stock units which contain three- and four-year vesting periods, issued in 2011, was estimated to be approximately $11.39 and $12.53, respectively. The assumptions used to estimate the weighted-average fair values of the market-vesting restricted stock awards in 2012 and 2011 were as follows:

	Nine Months Ended September 30,	
	2012	**2011**
Expected volatility of stock price	50%	48%
Risk-free interest rate	0.30%-0.42%	0.62% - 1.21%
Valuation period	2 $^{1}/_{2}$-3 years	3-4 years
Dividend yield	0.0%	0.0%

Table of Contents

The activity related to the Company s restricted stock units (RSUs) and stock option plans consisted of (in thousands of shares):

	RSUs		Options	
		Weighted		Weighted
	Number of RSUs	Average Grant Price	Number of Options	Average Exercise Price
Balance at January 1, 2012	2,998	$ 12.74	3,432	$ 7.90
Granted at fair market value	1,809	14.44		
Vested/exercised [(a)]	(1,250)	12.61	(603)	0.79
Canceled	(19)	13.06	(772)	27.06
Balance at September 30, 2012 [(b) (c)]	3,538	13.65	2,057	2.79

(a) During the nine months ended September 30, 2012, 615,000 market-vesting and performance-based RSUs vested. Stock options exercised during the nine months ended September 30, 2012 had an intrinsic value of $8 million.

(b) As of September 30, 2012, the Company s outstanding RSUs had an aggregate intrinsic value of $54 million; aggregate unrecognized compensation expense related to RSUs amounted to $30 million; and the balance of RSUs at September 30, 2012, consists of 1,471,000 related to time-based awards and 2,067,000 related to market-vesting and performance-based awards. Approximately 1,000 time-based RSUs are eligible to vest in 2012, if applicable service criteria are satisfied.

(c) As of September 30, 2012, the Company s outstanding stock options had aggregate intrinsic value of $26 million; there were 2 million in-the-money stock options; and aggregate unrecognized compensation expense related to unvested stock options, was immaterial. Approximately 2 million stock options are exercisable as of September 30, 2012.

The table below summarizes information regarding the Company s outstanding stock options as of September 30, 2012 (in thousands of shares):

Range of Exercise Prices	Weighted Average Contractual Life (years)	Number of Options
Less than $5.00	6.3	1,773
$5.01 to $10.00		
$10.01 to $15.00	7.3	160
$15.01 to $20.00	0.5	110
$20.01 and above	1.4	14
	6.1	2,057

As of September 30, 2012, the Company also had approximately 0.5 million outstanding stock appreciation rights with a weighted average exercise price of $24.40, and a weighted average remaining contractual life of 0.8 years.

Table of Contents

16. Segment Information

The reportable segments presented below represent the Company s operating segments for which separate financial information is available and is utilized on a regular basis by its chief operating decision maker, the Company s chief executive officer, to assess performance and to allocate resources. In identifying its reportable segments, the Company also considers the nature of services provided by its operating segments. Management evaluates the operating results of each of its reportable segments based upon revenue and Adjusted EBITDA , which is defined 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. The Company s presentation of Adjusted EBITDA may not be comparable to similarly-titled measures used by other companies.

	Three Months Ended September 30,			
	2012		2011	
	Revenues	Adjusted EBITDA	Revenues	Adjusted EBITDA
North America	$ 1,358	$ 232	$ 1,336	$ 216
International	703	129	175	37
Truck Rental	109	14	112	22
Corporate and Other [(a)]		(5)		(3)
Total Company [(b)]	$ 2,170	370	$ 1,623	272
Less: Non-vehicle related depreciation and amortization		30		22
Interest expense related to corporate debt, net:				
Interest expense		67		48
Early extinguishment of debt		2		
Transaction-related costs [(c)]		11		66
Income before income taxes		$ 260		$ 136

	Nine Months Ended September 30,			
	2012		2011	
	Revenues	Adjusted EBITDA	Revenues	Adjusted EBITDA
North America	$ 3,580	$ 509	$ 3,484	$ 426
International	1,791	210	495	90
Truck Rental	287	32	290	40
Corporate and Other [(a)]	1	(15)		(10)
Total Company [(b)]	$ 5,659	736	$ 4,269	546
Less: Non-vehicle related depreciation and amortization		92		65
Interest expense related to corporate debt, net:				
Interest expense		208		143
Early extinguishment of debt		52		
Transaction-related costs [(c)]		21		102
Income before income taxes		$ 363		$ 236

(a) Includes unallocated corporate overhead and the elimination of transactions between segments.

(b) Adjusted EBITDA for the three months ended September 30, 2012 includes $7 million of restructuring expense. Adjusted EBITDA for the nine months ended September 30, 2012 and 2011, includes $26 million and $1 million, respectively, of restructuring expense.

(c) During the three and nine months ended September 30, 2012, the Company incurred $11 million and $21 million, respectively, in transaction-related costs primarily related to the integration of the operations of Avis Europe. During the three and nine months ended September 30, 2011, the Company incurred $66 million and $102 million, respectively, of costs related to due diligence and other expenses associated with its acquisition of Avis Europe, including $26 million and $49 million, respectively, of losses on foreign currency transactions related to the purchase price, and the Company s previous efforts to acquire Dollar Thrifty.

Table of Contents

Since December 31, 2011, there have been no significant changes in segment assets other than the Company s North America and International segment assets under vehicle programs and North America segment non-current deferred tax assets. As of September 30, 2012 and December 31, 2011, North America segment assets under vehicle programs were approximately $8.3 billion and $6.7 billion, respectively; International segment assets under vehicle programs were approximately $2.7 billion and $2.1 billion, respectively; and North America segment non-current deferred tax assets were approximately $1.2 billion and $401 million, respectively.

17. Guarantor and Non-Guarantor Consolidating Condensed Financial Statements

The following consolidating financial information presents Consolidating Condensed Statements of Comprehensive Income for the three and nine months ended September 30, 2012 and 2011, Consolidating Condensed Balance Sheets as of September 30, 2012 and December 31, 2011, and Consolidating Condensed Statements of Cash Flows for the nine months ended September 30, 2012 and 2011 for: (i) Avis Budget Group, Inc. (the Parent); (ii) Avis Budget Car Rental and Avis Budget Finance, Inc. (the Subsidiary Issuers); (iii) the guarantor subsidiaries; (iv) the non-guarantor subsidiaries; (v) elimination entries necessary to consolidate the Parent with the Subsidiary Issuers, and the guarantor and non-guarantor subsidiaries; and (vi) the Company on a consolidated basis. The Subsidiary Issuers and the guarantor and non-guarantor subsidiaries are 100% owned by the Parent, either directly or indirectly. All guarantees are full and unconditional and joint and several. This financial information is being presented in relation to the Company s guarantee of the payment of principal, premium (if any) and interest on the senior notes issued by Avis Budget Car Rental. These senior notes consist of Avis Budget Car Rental s Floating rate notes due 2014, 7 $^{3}/_{4}$% notes due 2016, 9 $^{5}/_{8}$% notes due 2018, 8 $^{1}/_{4}$% notes due 2019 and 9 $^{3}/_{4}$% notes due 2020 (collectively, the Notes). See Note 11 Long-term Debt and Borrowing Arrangements for additional information regarding these Notes. The Notes are guaranteed by the Parent and certain subsidiaries.

Investments in subsidiaries are accounted for using the equity method of accounting for purposes of the consolidating presentation. The principal elimination entries relate to investments in subsidiaries and intercompany balances and transactions. For purposes of the accompanying Consolidating Condensed Statements of Comprehensive Income, certain expenses incurred by the Subsidiary Issuers are allocated to the guarantor and non-guarantor subsidiaries.

Table of Contents

Consolidating Condensed Statements of Comprehensive Income

Three Months Ended September 30, 2012

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Revenues						
Vehicle rental	$	$	$ 1,007	$ 575	$	$ 1,582
Other			294	616	(322)	588
Net revenues			1,301	1,191	(322)	2,170
Expenses						
Operating			612	424		1,036
Vehicle depreciation and lease charges, net			267	312	(143)	436
Selling, general and administrative	5		153	86		244
Vehicle interest, net			60	77	(60)	77
Non-vehicle related depreciation and amortization			18	12		30
Interest expense related to corporate debt, net:						
Interest expense	2	62		3		67
Intercompany interest expense (income)	(3)	(75)	64	14		
Early extinguishment of debt		2				2
Transaction-related costs	(3)			14		11
Restructuring charges				7		7
Total expenses	1	(11)	1,174	949	(203)	1,910
Income (loss) before income taxes and equity in earnings of subsidiaries	(1)	11	127	242	(119)	260
Provision for (benefit from) income taxes		(124)	61	43		(20)
Equity in earnings (loss) of subsidiaries	281	146	80		(507)	
Net income (loss)	$ 280	$ 281	$ 146	$ 199	$ (626)	$ 280
Comprehensive income	$ 308	$ 307	$ 172	$ 225	$ (704)	$ 308

Table of Contents

Nine Months Ended September 30, 2012

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Revenues						
Vehicle rental	$	$	$ 2,684	$ 1,400	$	$ 4,084
Other	1		806	1,593	(825)	1,575
Net revenues	1		3,490	2,993	(825)	5,659
Expenses						
Operating		3	1,739	1,140		2,882
Vehicle depreciation and lease charges, net			650	736	(298)	1,088
Selling, general and administrative	16		433	247		696
Vehicle interest, net			185	232	(186)	231
Non-vehicle related depreciation and amortization		1	56	35		92
Interest expense related to corporate debt, net:						
Interest expense	7	192		9		208
Intercompany interest expense (income)	(15)	(231)	205	41		
Early extinguishment of debt	39	13				52
Transaction-related costs			1	20		21
Restructuring charges			1	25		26
Total expenses	47	(22)	3,270	2,485	(484)	5,296
Income (loss) before income taxes and equity in earnings of subsidiaries	(46)	22	220	508	(341)	363
Provision for (benefit from) income taxes	(4)	(118)	96	53		27
Equity in earnings (loss) of subsidiaries	378	238	114		(730)	
Net income (loss)	$ 336	$ 378	$ 238	$ 455	$ (1,071)	$ 336
Comprehensive income	$ 361	$ 403	$ 262	$ 483	$ (1,148)	$ 361

24

Table of Contents

Three Months Ended September 30, 2011

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Revenues						
Vehicle rental	$	$	$ 995	$ 216	$	$ 1,211
Other			282	512	(382)	412
Net revenues			1,277	728	(382)	1,623
Expenses						
Operating		1	615	167		783
Vehicle depreciation and lease charges, net			246	318	(260)	304
Selling, general and administrative	3		159	28		190
Vehicle interest, net			59	53	(38)	74
Non-vehicle related depreciation and amortization			20	2		22
Interest expense related to corporate debt, net:						
Interest expense (income)	3	46		(1)		48
Intercompany interest expense (income)		(46)	46			
Transaction-related costs	66					66
Total expenses	72	1	1,145	567	(298)	1,487
Income (loss) before income taxes and equity in earnings of subsidiaries	(72)	(1)	132	161	(84)	136
Provision for (benefit from) income taxes	(27)		58	23		54
Equity in earnings (loss) of subsidiaries	127	128	54		(309)	
Net income (loss)	$ 82	$ 127	$ 128	$ 138	$ (393)	$ 82
Comprehensive income	$ 15	$ 60	$ 61	$ 93	$ (214)	$ 15

Nine Months Ended September 30, 2011

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Revenues						
Vehicle rental	$	$	$ 2,623	$ 540	$	$ 3,163
Other			772	1,399	(1,065)	1,106
Net revenues			3,395	1,939	(1,065)	4,269
Expenses						
Operating	2	5	1,709	450		2,166
Vehicle depreciation and lease charges, net			686	865	(711)	840
Selling, general and administrative	8		427	76		511
Vehicle interest, net		(1)	166	148	(108)	205
Non-vehicle related depreciation and amortization			59	6		65
Interest expense related to corporate debt, net:						
Interest expense (income)	7	138		(2)		143
Intercompany interest expense (income)	(8)	(138)	146			
Transaction-related costs	102					102
Restructuring charges			1			1
Total expenses	111	4	3,194	1,543	(819)	4,033
Income (loss) before income taxes and equity in earnings of subsidiaries	(111)	(4)	201	396	(246)	236
Provision for (benefit from) income taxes	(39)	(1)	90	45		95
Equity in earnings (loss) of subsidiaries	213	216	105		(534)	
Net income (loss)	$ 141	$ 213	$ 216	$ 351	$ (780)	$ 141
Comprehensive income	$ 130	$ 200	$ 203	$ 359	$ (762)	$ 130

26

Table of Contents

Consolidating Condensed Balance Sheets

As of September 30, 2012

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Assets						
Current assets:						
Cash and cash equivalents	$ 4	$ 52	$	$ 498	$	$ 554
Receivables, net			183	457		640
Deferred income taxes	8	65	129	3		205
Other current assets	6	110	65	346		527
Total current assets	18	227	377	1,304		1,926
Property and equipment, net		81	273	145		499
Deferred income taxes	22	1,024	223		(4)	1,265
Goodwill			74	274		348
Other intangibles, net		43	341	324		708
Other non-current assets	112	65	7	65		249
Intercompany receivables (payables)	246	957	(468)	(735)		
Investment in subsidiaries	661	1,925	3,284		(5,870)	
Total assets exclusive of assets under vehicle programs	1,059	4,322	4,111	1,377	(5,874)	4,995
Assets under vehicle programs:						
Program cash				101		101
Vehicles, net		5	14	10,324		10,343
Receivables from vehicle manufacturers and other				575		575
Investment in Avis Budget Rental Car Funding (AESOP) LLC-related party				362		362
		5	14	11,362		11,381
Total assets	$ 1,059	$ 4,327	$ 4,125	$ 12,739	$ (5,874)	$ 16,376
Liabilities and stockholders equity						
Current liabilities:						
Accounts payable and other current liabilities	$ 18	$ 789	$ 43	$ 726	$	$ 1,576
Short-term debt and current portion of long-term debt		46	3	32		81
Total current liabilities	18	835	46	758		1,657
Long-term debt	144	2,733	8	1		2,886
Other non-current liabilities	106	97	268	376	(4)	843
Total liabilities exclusive of liabilities under vehicle programs	268	3,665	322	1,135	(4)	5,386
Liabilities under vehicle programs:						
Debt				2,062		2,062

Due to Avis Budget Rental Car Funding (AESOP) LLC-related party				5,813		5,813
Deferred income taxes			1,878	139		2,017
Other		1		306		307
		1	1,878	8,320		10,199
Total stockholders equity	791	661	1,925	3,284	(5,870)	791
Total liabilities and stockholders equity	$ 1,059	$ 4,327	$ 4,125	$ 12,739	$ (5,874)	$ 16,376

27

Table of Contents

As of December 31, 2011

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Assets						
Current assets:						
Cash and cash equivalents	$ 2	$ 234	$ 1	$ 297	$	$ 534
Receivables, net		61	140	306		507
Deferred income taxes	8		129	3	(20)	120
Other current assets	7	63	76	251	(17)	380
Total current assets	17	358	346	857	(37)	1,541
Property and equipment, net		70	295	128		493
Deferred income taxes	36	177	229	2		444
Goodwill			74	279		353
Other intangibles, net		44	342	327		713
Other non-current assets	124	92	5	83		304
Intercompany receivables (payables)	348	1,158	(1,071)	(435)		
Investment in subsidiaries	376	1,769	3,192		(5,337)	
Total assets exclusive of assets under vehicle programs	901	3,668	3,412	1,241	(5,374)	3,848
Assets under vehicle programs:						
Program cash				11		11
Vehicles, net		6	4	8,346		8,356
Receivables from vehicle manufacturers and other				380		380
Investment in Avis Budget Rental Car Funding (AESOP) LLC-related party				343		343
		6	4	9,080		9,090
Total assets	$ 901	$ 3,674	$ 3,416	$ 10,321	$ (5,374)	$ 12,938
Liabilities and stockholders equity						
Current liabilities:						
Accounts payable and other current liabilities	$ 32	$ 284	$ 531	$ 620	$ (34)	$ 1,433
Short-term debt and current portion of long-term debt		8	2	27		37
Total current liabilities	32	292	533	647	(34)	1,470
Long-term debt	345	2,814	9			3,168
Other non-current liabilities	112	211	262	375		960
Total liabilities exclusive of liabilities under vehicle programs	489	3,317	804	1,022	(34)	5,598
Liabilities under vehicle programs:						
Debt		3		987		990
Due to Avis Budget Rental Car Funding (AESOP) LLC-related party				4,574		4,574

Deferred income taxes			843	139		982
Other				382		382
		3	843	6,082		6,928
Total stockholders equity	412	354	1,769	3,217	(5,340)	412
Total liabilities and stockholders equity	$ 901	$ 3,674	$ 3,416	$ 10,321	$ (5,374)	$ 12,938

Table of Contents

Consolidating Condensed Statements of Cash Flows

Nine Months Ended September 30, 2012

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net cash provided by (used in) operating activities	$ (48)	$ 128	$ 42	$ 1,402	$	$ 1,524
Investing activities						
Property and equipment additions		(19)	(26)	(37)		(82)
Proceeds received on asset sales		5	3	8		16
Other, net	4	(3)	(1)	(30)		(30)
Net cash provided by (used in) investing activities exclusive of vehicle programs	4	(17)	(24)	(59)		(96)
Vehicle programs:						
Increase in program cash				(90)		(90)
Investment in vehicles		(2)	(19)	(8,941)		(8,962)
Proceeds received on disposition of vehicles		4	2	6,130		6,136
		2	(17)	(2,901)		(2,916)
Net cash provided by (used in) investing activities	4	(15)	(41)	(2,960)		(3,012)
Financing activities						
Proceeds from long-term borrowings		654				654
Principal payments on long-term borrowings	(201)	(704)	(2)			(907)
Net change in short-term borrowings				1		1
Purchase of warrants	(26)					(26)
Proceeds from sale of call options	38					38
Net intercompany transactions	234	(234)				
Debt financing fees		(11)				(11)
Other, net	1					1
Net cash provided by (used in) financing activities exclusive of vehicle programs	46	(295)	(2)	1		(250)
Vehicle programs:						
Proceeds from borrowings				9,238		9,238
Principal payments on borrowings				(7,467)		(7,467)
Debt financing fees				(18)		(18)
				1,753		1,753
Net cash provided by (used in) financing activities	46	(295)	(2)	1,754		1,503
Effect of changes in exchange rates on cash and cash equivalents				5		5
Net increase (decrease) in cash and cash equivalents	2	(182)	(1)	201		20

Cash and cash equivalents, beginning of period	2	234	1	297		534
Cash and cash equivalents, end of period	$ 4	$ 52	$	$ 498	$	$ 554

Table of Contents

Nine Months Ended September 30, 2011

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Net cash provided by (used in) operating activities	$ (11)	$ 183	$ (256)	$ 874	$ 482	$ 1,272
Investing activities						
Property and equipment additions		(9)	(16)	(5)		(30)
Proceeds received on asset sales		6	2	1		9
Acquisition-related restricted cash	(401)					(401)
Other, net	(7)	(3)		(1)		(11)
Net cash used in investing activities exclusive of vehicle programs	(408)	(6)	(14)	(5)		(433)
Vehicle programs:						
Decrease (increase) in program cash				(19)		(19)
Investment in vehicles		(12)	(3)	(6,686)		(6,701)
Proceeds received on disposition of vehicles		9	8	4,362		4,379
Investment in debt securities of AESOP-related party	(400)					(400)
Proceeds from debt securities of AESOP-related party	400					400
		(3)	5	(2,343)		(2,341)
Net cash used in investing activities	(408)	(9)	(9)	(2,348)		(2,774)
Financing activities						
Principal payments on borrowings		(3)	(3)			(6)
Net intercompany transactions	177	38	268	(1)	(482)	
Debt financing fees	(14)	(19)				(33)
Other, net	1					1
Net cash provided by (used in) financing activities exclusive of vehicle programs	164	16	265	(1)	(482)	(38)
Vehicle programs:						
Proceeds from borrowings				8,235		8,235
Principal payments on borrowings				(6,568)		(6,568)
Debt financing fees		(15)	(1)	(4)		(20)
		(15)	(1)	1,663		1,647
Net cash provided by (used in) financing activities	164	1	264	1,662	(482)	1,609
Effect of changes in exchange rates on cash and cash equivalents				(16)		(16)
Net increase (decrease) in cash and cash equivalents	(255)	175	(1)	172		91
Cash and cash equivalents, beginning of period	257	513	3	138		911
Cash and cash equivalents, end of period	$ 2	$ 688	$ 2	$ 310	$	$ 1,002

18. Subsequent Events

During October 2012, the Company acquired New Zealand-based Apex Car Rentals, for approximately $29 million in cash, plus the book value of Apex rental fleet and potential earn-out payments based on Apex future financial performance. The acquisition of Apex expands the Company s presence in Australia and New Zealand primarily in the value-oriented traveler market.

During October 2012, the Company issued $200 million of term loan borrowings, which bear interest at the greater of three-month LIBOR or 1.0%, plus 325 basis points and mature in 2019. Proceeds from this offering and approximately $40 million of available cash were used to repay approximately $240 million of outstanding term loan borrowings.

During October 2012, the Company s Avis Budget Rental Car Funding subsidiary completed the renewal of its principal U.S. asset-backed bank conduit facility, reducing its capacity by $250 million to $2.25 billion, lowering its interest rate and extending the facility s expiration date to October 2014.

30

Table of Contents

During November 2012, the Company completed an offering of $300 million of 4.875% Senior Notes due 2017. These notes were issued at par and will pay interest semi-annually on May 15 and November 15. The Company intends to use the proceeds to repay other corporate indebtedness and to pay fees in connection with this offering and other related expenses.

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Table of Contents

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

The following discussion should be read in conjunction with our Consolidated Condensed Financial Statements and accompanying Notes thereto included elsewhere herein and with our 2011 Annual Report on Form 10-K filed with the Securities and Exchange Commission (the 2011 Form 10-K). Unless otherwise noted, all dollar amounts in tables are in millions and those relating to our results of operations are presented before taxes.

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 more than 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.

We categorize our operations into three 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 operational and financial results of Avis Europe plc (Avis Europe) since our October 2011 acquisition of such business.

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.

Thus far in 2012, we have faced an uneven macroeconomic environment. Our rental volumes in North America have increased amid a modest economic recovery, while rental demand in Europe has been constrained by an economic recession and socio-political issues there. In addition, we have elected to incur certain restructuring and other expenses as we work to integrate the operations of Avis Europe and to gain operational efficiencies.

We believe that the following factors, among others, have impacted 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 fleet costs and in conditions in the used vehicle marketplace and/or the value of used vehicles;
- Changes in borrowing costs and in market willingness to purchase corporate and vehicle-related debt;
- Our 2011 acquisition of Avis Europe and our integration of its operations and realization of synergies;

- Changes in the price of unleaded gasoline;
- Changes in currency exchange rates; and
- Demand for truck rentals.

We may pursue acquisitions or investments and could incur additional indebtedness to help fund such transactions, which could have a material impact on our operations, financial condition and liquidity. Due to uncertainties related to our business, there can be no assurance that we will be able to satisfy the covenants contained in our senior credit facility and our asset-backed car rental conduit facilities. Failure to comply with such covenants could significantly impact our liquidity if we were unable to obtain an amendment or waiver or were unable to refinance or replace such facilities. See Risk Factors set forth in Item 1A of our 2011 Form 10-K.

Table of Contents

RESULTS OF OPERATIONS

Discussed below are our consolidated results of operations and the results of operations for each of our reportable segments. Our revenues and expenses have increased significantly in the first nine months of 2012 compared to the first nine months of 2011 primarily due to our acquisition of Avis Europe, which was a separate, publicly traded company domiciled in the United Kingdom, in October 2011.

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.

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 vehicle rental operating statistics (rental days and T&M revenue per rental day) are all calculated based on the actual rental of the vehicle during a 24-hour period. Our calculation may not be comparable to other companies calculation of similarly-titled statistics.

Three Months Ended September 30, 2012 vs. Three Months Ended September 30, 2011

Our consolidated results of operations comprised the following:

	Three Months Ended September 30,		
	2012	2011	Change
Net revenues	$ 2,170	$ 1,623	$ 547
Total expenses	1,910	1,487	423
Income before income taxes	260	136	124
Provision for (benefit from) income taxes	(20)	54	(74)
Net income	$ 280	$ 82	$ 198

During third quarter 2012, our net revenues increased $547 million (34%), with most of our revenue growth due to the acquisition of Avis Europe in fourth quarter 2011 and the inclusion of its revenue in our results. T&M revenue increased 31% driven by 4% growth in North America rental days and 447% growth in International rental days. The growth in revenues also includes a 43% increase in our ancillary revenues, primarily driven by sales of loss damage waivers and insurance products, GPS navigation unit rentals, gasoline sales and fees charged to customers, partially offset by a $2 million unfavorable effect related to the translation of our international results into U.S. dollars. Excluding the acquisition of Avis Europe, net revenues increased 1% during third quarter 2012, primarily driven by a 4% increase in rental days partially offset by a 3% decrease in pricing.

Total expenses increased $423 million (28%) with substantially all of the increase due to the inclusion of the operating results of Avis Europe. The increase was attributable to (i) a $253 million (32%) increase in our direct operating expenses largely resulting from costs associated with the 40% increase in total rental days; (ii) a $132 million (43%) increase in vehicle depreciation and lease charges resulting from a 40% increase in our rental fleet; (iii) a $54 million (28%) increase in selling, general and administrative expenses primarily because of the Avis Europe acquisition; (iv) a $19 million (40%) increase in interest expense on corporate debt due to increased indebtedness, primarily related to the acquisition of Avis Europe; (v) an $8 million increase in non-vehicle related depreciation and amortization expense, primarily due to the Avis Europe acquisition; (vi) $7 million in restructuring charges; (vii) a $3 million (4%) increase in vehicle interest expense related to the growth in our rental fleet mitigated by lower borrowing rates; and (viii) $2 million of expense in third quarter 2012 for the early extinguishment of a portion of our corporate debt. These increases were partially offset by a $55 million 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 due-diligence and other costs associated with the acquisition of Avis Europe and our previous efforts to acquire Dollar Thrifty Automotive Group, Inc. (Dollar Thrifty). Our expenses were not materially impacted by currency exchange rates. As a result of these items, and a $74 million decrease in our provision for income taxes, due to an effective settlement of a $128 million unrecognized tax benefit, we generated a $198 million increase in our net income. Our effective tax rates were a benefit of 8% and a provision of 40% for third quarter 2012 and 2011, respectively.

In the three months ended September 30, 2012, operating expenses declined to 47.7% of revenue, compared to 48.2% in the prior-year period. Operating expenses decreased as percentage of revenue in North America, as well as in our International segment. Our efforts to reduce costs helped lower operating costs as a percentage of revenue in North America in an environment where our time and mileage revenue per rental day declined 3%.

Table of Contents

Vehicle depreciation and lease charges increased to 20.1% of revenue from 18.7% in third quarter 2011 due to lower revenue per rental day and normalization of used-car residual values. Selling, general and administrative costs decreased to 11.2% of revenue from 11.7% in third quarter 2011 reflecting our continued cost-reduction measures. Vehicle interest costs declined to 3.5% of revenue, compared to 4.6% in the prior-year period, principally due to lower borrowing rates.

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	$ 1,358	$ 1,336	2%	$ 232	$ 216	7%
International	703	175	302%	129	37	249%
Truck Rental	109	112	(3%)	14	22	(36%)
Corporate and Other [(a)]			*	(5)	(3)	*
Total Company	$ 2,170	$ 1,623	34%	370	272	36%
Less: Non-vehicle related depreciation and amortization				30	22	
Interest expense related to corporate debt, net:						
Interest expense				67	48	
Early extinguishment of debt				2		
Transaction-related costs [(b)]				11	66	
Income before income taxes				$ 260	$ 136	

* Not meaningful.

(a) Includes unallocated corporate overhead and the elimination of transactions between segments.

(b) For 2012, includes $11 million in costs primarily related to the integration of the operations of Avis Europe and for 2011, includes $66 million in costs related to our acquisition of Avis Europe and our previous efforts to acquire Dollar Thrifty.

North America

Revenues and Adjusted EBITDA increased $22 million (2%) and $16 million (7%), respectively, during third quarter 2012 compared with third quarter 2011. Revenues increased primarily due to higher rental volumes, partially offset by decreased pricing. The increase in Adjusted EBITDA was primarily due to higher revenue.

The revenue increase of $22 million was comprised of an $11 million (1%) increase in T&M revenue and an $11 million (3%) increase in ancillary revenues. The increase in T&M revenue was principally the result of a 4% increase in rental days, partially offset by a 3% decrease in T&M revenue per day. The increase in ancillary revenues primarily reflects increases in sales of loss damage waivers, insurance products and other items, which increased 2% on a per-rental-day basis.

Adjusted EBITDA reflected a $16 million (2%) decrease in operating expenses, primarily related to a $10 million (20%) decrease in gasoline expense, a $7 million (5%) decrease in selling, general, and administrative expenses primarily due to lower advertising and marketing costs and an $8 million (11%) decrease in vehicle interest expense. These decreases were offset by a $9 million (3%) increase in certain other expenses related to increased volumes, including agency operator commissions, shuttling, credit card fees and other related costs. Adjusted EBITDA was also impacted by $24 million (9%) of increased fleet depreciation and lease charges, reflecting a 3% increase in per-unit fleet costs and a 5% increase in the size of our North America rental fleet.

In the three months ended September 30, 2012, direct operating expenses were 46.3% of revenue, a decrease from 47.1% in the prior-year period, due primarily to our cost-reduction efforts in an environment where our time and mileage revenue per day declined. Vehicle depreciation and lease costs increased to 21.1% of revenue from 19.7% in third quarter 2011 due to the combination of lower pricing and higher per-unit fleet costs, as used-car residual values normalized compared to prior levels. Selling, general and administrative costs decreased to 10.9% of revenue from 11.7% in the prior-year period, reflecting our continued cost-reduction measures. Vehicle interest costs declined to 4.6% of revenue

compared to 5.3% in third quarter 2011, principally due to lower borrowing rates.

International

Revenues increased $528 million (302%) and Adjusted EBITDA increased $92 million (249%) in third quarter 2012 compared to third quarter 2011 primarily due to the acquisition of Avis Europe during fourth quarter 2011. The Avis Europe acquisition contributed $526 million to revenue and $95 million to Adjusted EBITDA in third quarter 2012, including $7 million in restructuring costs. Excluding the acquisition, revenues increased 1% and Adjusted EBITDA decreased 8% in third quarter 2012 compared with third quarter 2011, with such decline in Adjusted EBITDA entirely due to movements in currency exchange rates.

The revenue increase of $528 million was comprised of a $362 million (326%) increase in T&M revenue and a $166 million (259%) increase in ancillary revenues. The total increase in revenue includes a $2 million decrease related to currency exchange rates, impacting T&M revenue by $1 million and ancillary revenues by $1 million. The increase in T&M revenue was principally driven by a 447% increase in rental days, mainly due to the inclusion of the operations of Avis Europe, partially offset by a 22% decrease in T&M revenue per rental day, which was primarily due to the acquisition of Avis Europe and currency exchange-rate effects. The increase in ancillary revenues, which was also primarily due to the acquisition of Avis Europe, reflects (i) a $113 million increase from GPS navigation unit rentals, sales of loss damage waivers, insurance products and other items, (ii) a $31 million increase in airport concession and vehicle licensing revenues, which was offset in Adjusted EBITDA by $30 million of higher airport concession and vehicle licensing fees remitted to airport and other regulatory authorities, and (iii) a $22 million increase in gasoline sales, which was largely offset in Adjusted EBITDA by $16 million higher gasoline expense.

Adjusted EBITDA reflected a $283 million (358%) increase in operating expenses, a $107 million (344%) increase in fleet depreciation and lease charges, a $59 million (285%) increase in selling, general and administrative expenses and $7 million in restructuring charges. These increases were principally due to the acquisition of Avis Europe, which added to our operating locations, headcount, fleet and other operating expenses, partially offset by 13% lower per-unit fleet costs.

Truck Rental

Revenues and Adjusted EBITDA decreased $3 million (3%) and $8 million (36%), respectively, in third quarter 2012 compared with third quarter 2011. Adjusted EBITDA decreased primarily due to a $4 million increase in vehicle maintenance costs and a $2 million increase in fleet depreciation and lease charges reflecting a 7% increase in our truck rental fleet and a 16% increase in our per-unit truck fleet costs.

Nine Months Ended September 30, 2012 vs. Nine Months Ended September 30, 2011

Our consolidated results of operations comprised the following:

	Nine Months Ended September 30,		
	2012	**2011**	**Change**
Net revenues	$ 5,659	$ 4,269	$ 1,390
Total expenses	5,296	4,033	1,263
Income before income taxes	363	236	127
Provision for income taxes	27	95	(68)
Net income	$ 336	$ 141	$ 195

During the nine months ended September 30, 2012, our net revenues increased approximately $1.4 billion (33%), 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 29% driven by 5% growth in North America rental days and 361% growth in International rental days. The growth in revenues also includes a 42% 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. Currency exchange rates had virtually no impact on the year-over-year change in revenue. Excluding the acquisition of Avis Europe, revenues increased 3% during the nine months ended September 30, 2012, primarily due to a 5% increase in rental days.

Total expenses increased approximately $1.3 billion (31%), with approximately 95% of the increase due to including the results of Avis Europe. The total expense increase was attributable to (i) a $716 million (33%) increase in our direct operating expenses largely resulting from the 36% increase in total rental days; (ii) a $248 million (30%) increase in vehicle depreciation and lease charges resulting from a 37% increase in our total rental fleet, partially offset by a 5% decline in our per-unit fleet costs; (iii) a $185 million (36%) increase in selling, general and administrative expenses primarily because of the Avis Europe acquisition, as well as increased agency operator commissions and other costs related to higher rental volumes; (iv) a $65 million increase in interest expense on corporate debt due to increased indebtedness, primarily related to the acquisition of Avis Europe; (v) $52 million of expense for the early extinguishment of a portion of our corporate debt; (vi) a $27 million increase in non-vehicle depreciation and amortization, primarily due to the acquisition of Avis Europe; (vii) a $26 million (13%) increase in vehicle interest expense related to increased fleet levels; and (viii) a $25 million increase in restructuring charges. These expense increases were partially offset by an $81 million 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 due-diligence and other costs associated with the acquisition of Avis Europe and our previous efforts to acquire Dollar Thrifty. Our expenses were not materially impacted by currency exchange rates. As a result of these items, and a $68 million decrease in our provision for income taxes, due to an effective settlement of a $128 million unrecognized tax benefit, our net income increased $195 million. Our effective tax rates were provisions of 7% and 40% for the nine months ended September 30, 2012 and 2011, respectively.

Table of Contents

In the nine months ended September 30, 2012, operating expenses were 50.9% of revenue, versus 50.7% in the prior-year period. 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 of the results of Avis Europe, which had a higher level of operating expenses as a percentage of revenue in the first nine months of the year. Our efforts to control costs contributed to lower operating costs as a percentage of revenue in North America in an environment where our time and mileage revenue per rental day declined 3%.

Vehicle depreciation and lease costs declined to 19.2% of revenue in the nine months ended September 30, 2012, from 19.7% in the prior-year period, 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 increased to 12.3% of revenue, versus 12.0% in the nine months ended September 30, 2011. Such increase was due in part to the inclusion in 2012 of the results of Avis Europe, which generally has a higher level of selling, general and administrative costs than our North America operations. Vehicle interest costs declined to 4.1% of revenue, compared to 4.8% in the prior-year period, principally due to lower borrowing rates.

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	$ 3,580	$ 3,484	3%	$ 509	$ 426	19%
International	1,791	495	262%	210	90	133%
Truck Rental	287	290	(1%)	32	40	(20%)
Corporate and Other [(a)]	1		*	(15)	(10)	*
Total Company	$ 5,659	$ 4,269	33%	736	546	35%
Less: Non-vehicle related depreciation and amortization				92	65	
Interest expense related to corporate debt, net:						
Interest expense				208	143	
Early extinguishment of debt				52		
Transaction-related costs [(b)]				21	102	
Income before income taxes				$ 363	$ 236	

* Not meaningful.

(a) Includes unallocated corporate overhead and the elimination of transactions between segments.

(b) For 2012, includes $21 million in costs primarily related to the integration of the operations of Avis Europe and for 2011, includes $102 million in costs related to our acquisition of Avis Europe and our previous efforts to acquire Dollar Thrifty.

North America

Revenues and Adjusted EBITDA increased $96 million (3%) and $83 million (19%), respectively, during the nine months ended September 30, 2012 compared with the same period in 2011. Revenues increased primarily due to higher rental volumes, partially offset by decreased pricing. The increase in Adjusted EBITDA was primarily due to higher revenue and lower fleet costs.

The revenue increase of $96 million was comprised of a $59 million (2%) increase in T&M revenue and a $37 million (4%) increase in ancillary revenues. The increase in T&M revenue was principally the result of a 5% increase in rental days, partially offset by a 3% decrease in T&M revenue per day. The $37 million increase in ancillary revenues primarily reflects a $28 million increase in ancillary revenues from sales of loss damage waivers and insurance products, emergency road service and other items, reflecting a 1% increase on a per-rental-day basis, and a $9 million increase in airport concession and vehicle licensing revenue, which was partially offset in Adjusted EBITDA by $4 million higher airport concession and vehicle licensing fees remitted to airport and other regulatory agencies.

Adjusted EBITDA reflected a $36 million (2%) increase in operating expenses, primarily related to (i) a $23 million (3%) increase in certain other expenses related to increased volumes, including agency operator commissions, shuttling, credit card fees and related costs, (ii) a $11 million (2%) increase in employee costs, rents and other expenses reflecting increased staffing levels due to volume and inflationary increases, and (iii) a $7 million (2%) increase in selling, general and administrative expenses principally due to increased rental volumes, partially offset by a $4 million decrease in gasoline expense. Adjusted EBITDA benefited from a $27 million (4%) reduction in fleet depreciation and lease charges, reflecting a 10% decline in per-unit fleet costs and a 6% increase in the average size of our car rental fleet.

In the nine months ended September 30, 2012, direct operating expenses decreased to 49.5% of revenue versus 49.9% in the prior-year period, highlighting our cost-reduction efforts in an environment where our time and mileage revenue per day declined. Vehicle depreciation and lease charges declined to 19.1% of revenue in the first nine months of 2012 from 20.4% primarily due to lower per-unit fleet costs amid strong used-car residual values during much of the period. Selling, general and administrative expenses decreased to 11.8% of revenue, compared to 11.9% of revenue for the nine months ended September 30, 2011, and vehicle interest expense decreased to 5.4% of revenue versus 5.6% in the prior-year period, principally due to lower borrowing rates.

Table of Contents

International

Revenues and Adjusted EBITDA increased approximately $1.3 billion (262%) and $120 million (133%), respectively, in the nine months ended September 30, 2012 compared with the nine months ended September 30, 2011 primarily due to the acquisition of Avis Europe during fourth quarter 2011. The Avis Europe acquisition contributed approximately $1.3 billion to revenue and $117 million to Adjusted EBITDA in the nine months ended September 30, 2012, including $25 million in restructuring costs. Excluding the acquisition, revenues increased 5% and Adjusted EBITDA increased 3% during the nine months ended September 30, 2012, primarily due to a 4% increase in rental days.

The revenue increase of approximately $1.3 billion was comprised of an $864 million (270%) increase in T&M revenue and a $432 million (247%) increase in ancillary revenues. The increase in revenues was not materially impacted by currency exchange rates. The increase in T&M revenue was principally driven by a 361% increase in rental days, partially offset by a 20% decrease in T&M revenue per rental day, which were primarily due to the inclusion of the operations of Avis Europe. The increase in ancillary revenues reflected (i) a $284 million increase from GPS navigation unit rentals, sales of loss damage waivers, insurance products and other items, (ii) an $88 million increase in airport concession and vehicle licensing revenues, which was largely offset in Adjusted EBITDA by $77 million of higher airport concession and vehicle licensing fees remitted to airport and other regulatory authorities, and (iii) a $60 million increase in gasoline sales, which was principally offset in Adjusted EBITDA by $43 million higher gasoline expense.

Adjusted EBITDA reflected a $779 million (345%) increase in operating expenses, a $277 million (295%) increase in fleet depreciation and lease charges, a $172 million (290%) increase in selling, general and administrative expenses and $25 million in restructuring charges. These increases were principally due to the acquisition of Avis Europe, which added to our operating locations, headcount, fleet and other operating expenses, partially offset by 9% lower per-unit fleet costs.

Truck Rental

Revenues and Adjusted EBITDA decreased by $3 million (1%) and $8 million (20%), respectively, in the nine months ended September 30, 2012 compared with the nine months ended September 30, 2011.

A 2% increase in T&M revenue per day was offset by a 3% decrease in rental days. Adjusted EBITDA decreased primarily due to a $6 million increase in vehicle maintenance costs.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

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

FINANCIAL CONDITION

	September 30, 2012	December 31, 2011	Change
Total assets exclusive of assets under vehicle programs	$ 4,995	$ 3,848	$ 1,147
Total liabilities exclusive of liabilities under vehicle programs	5,386	5,598	(212)
Assets under vehicle programs	11,381	9,090	2,291
Liabilities under vehicle programs	10,199	6,928	3,271
Stockholders equity	791	412	379

Total assets exclusive of assets under vehicle programs increased approximately $1.1 billion primarily due to (i) a $906 million increase in deferred income taxes primarily related to the generation of net operating losses, (ii) a $147 million increase in other current assets, largely related to an increase in sales and use tax receivables for taxes paid that are recoverable from government agencies, and (iii) a $133 million increase in accounts receivable, primarily due to the seasonal increase in rental volumes.

Total liabilities exclusive of liabilities under vehicle programs decreased $212 million primarily due to a $238 million net reduction in corporate debt. See Liquidity and Capital Resources Debt and Financing Arrangements regarding the changes in our corporate financings.

37

Assets under vehicle programs increased approximately $2.3 billion principally related to the seasonal increase in the size of our vehicle rental fleet from December 31, 2011.

Liabilities under vehicle programs increased approximately $3.3 billion, reflecting an approximately $2.3 billion additional borrowing to support the increase in our vehicle rental fleet and an approximately $1.0 billion increase in deferred income taxes related to accelerated tax depreciation on vehicles. See Liquidity and Capital Resources Debt and Financing Arrangements regarding the change in our debt related to vehicle programs.

Total stockholders equity increased $379 million primarily due to our net income of $336 million for the nine months ended September 30, 2012.

LIQUIDITY AND CAPITAL RESOURCES

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

During the nine months ended September 30, 2012, we completed several financing transactions which reduced our corporate indebtedness by $238 million. We borrowed $500 million under a floating rate term loan due 2019, issued an additional $125 million of our 8 $^1/_4$% notes due 2019 at 103.5% of par and borrowed an additional $30 million under our floating rate term loan due 2016. We repaid our $267 million floating rate term loan due 2014, $180 million of our floating rate term loan due 2018, $200 million of our 7 $^5/_8$% notes due 2014 and $50 million of our 7 $^3/_4$% notes due 2016, and we repurchased $201 million of our 3 $^1/_2$% convertible notes due 2014.

During the nine months ended September 30, 2012, we also increased our borrowings under vehicle programs to fund an increase in our rental fleet in order to accommodate the seasonal increase in rental demand.

CASH FLOWS

As of September 30, 2012, we had $554 million of cash on hand, an increase of $20 million from $534 million at December 31, 2011. Our corporate indebtedness declined by $238 million from December 31, 2011 to September 30, 2012. The following table summarizes our cash flows:

	Nine Months Ended September 30,		
	2012	**2011**	**Change**
Cash provided by (used in):			
Operating activities	$ 1,524	$ 1,272	$ 252
Investing activities	(3,012)	(2,774)	(238)
Financing activities	1,503	1,609	(106)
Effect of exchange rate changes	5	(16)	21
Net change in cash and cash equivalents	$ 20	$ 91	$ (71)

During the nine months ended September 30, 2012, we generated $252 million more cash from operating activities compared with the same period in 2011 primarily due to improved operating results and the inclusion of Avis Europe in our results for the nine months ended September 30, 2012.

We used $238 million more cash in investing activities during the nine months ended September 30, 2012 compared with the same period in 2011. This change primarily reflects the activities of our vehicle programs, the majority of which was related to the inclusion of Avis Europe in our results for the nine months ended September 30, 2012, in which we used approximately $2.3 billion more cash to purchase vehicles in the current year, partially offset by approximately $1.8 billion more cash received on the disposition of vehicles, and 2011 reflects the use of $401 million for the purchase of British pound sterling related to our acquisition of Avis Europe.

We generated $106 million less cash from financing activities during the nine months ended September 30, 2012 compared with the same period in 2011. This change primarily reflects a $212 million increase in cash used for the net repayment of corporate borrowings and related activity partially offset by a $106 million increase in cash provided under our vehicle programs financing activities primarily due to increased

borrowings to fund a seasonal increase in our vehicle rental fleet.

Table of Contents

DEBT AND FINANCING ARRANGEMENTS

At September 30, 2012, we had approximately $10.8 billion of indebtedness (including corporate indebtedness of approximately $3.0 billion and debt under vehicle programs of approximately $7.8 billion).

Corporate indebtedness consisted of:

	Maturity Date	As of September 30, 2012	As of December 31, 2011	Change
Floating rate term loan [a]	April 2014	$	$ 267	$ (267)
Floating rate notes [b]	May 2014	250	250	
7 5/8% notes	May 2014		200	(200)
3 1/2% convertible notes [c]	October 2014	144	345	(201)
Floating rate term loan [a] [d]	May 2016	49	20	29
7 3/4% notes	May 2016	325	375	(50)
9 5/8% notes	March 2018	445	445	
Floating rate term loan [a] [e]	September 2018	233	412	(179)
8 1/4% notes	January 2019	731	602	129
Floating rate term loan [a] [f]	March 2019	493		493
9 3/4% notes	March 2020	250	250	
		2,920	3,166	(246)
Other		47	39	8
		$ 2,967	$ 3,205	$ (238)

(a) The floating rate term loans are part of our senior credit facility, which also includes our revolving credit facility maturing 2016, and is secured by pledges of all of the capital stock of our domestic subsidiaries and up to 66% of the capital stock of each direct foreign subsidiary, subject to certain exceptions, and liens on substantially all of our intellectual property and certain other real and personal property.

(b) As of September 30, 2012, the floating rate notes due 2014 bear interest at three-month LIBOR, plus 250 basis points, for an aggregate rate of 2.93%.

(c) The 3 1/2% convertible notes due 2014 are convertible by the holders into approximately 9 million shares of our common stock as of September 30, 2012.

(d) As of September 30, 2012, the floating rate term loan due 2016 bears interest at three-month LIBOR, plus 300 basis points, for an aggregate rate of 3.45%.

(e) As of September 30, 2012, the floating rate term loan due 2018 bears interest at the greater of three-month LIBOR or 1.25%, plus 500 basis points, for an aggregate rate of 6.25%.

(f) As of September 30, 2012 the floating term rate loan due 2019 bears interest at the greater of three-month LIBOR or 1.0%, plus 325 basis points, for an aggregate rate of 4.25%.

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

	As of September 30, 2012	As of December 31, 2011	Change
Debt due to Avis Budget Rental Car Funding [a]	$ 5,813	$ 4,574	$ 1,239

Budget Truck funding program [b]	280	188	92
Capital leases [c]	500	348	152
Other [c]	1,282	454	828
	$ 7,875	$ 5,564	$ 2,311

[a] The increase principally reflects increased borrowings to fund an increase in the size of our U.S. car rental fleet.
[b] The increase principally reflects increased borrowings to fund vehicle purchases for our U.S. truck rental fleet.
[c] The increase principally reflects increased borrowings to fund an increase in the size of our international vehicle rental fleet.

Table of Contents

As of September 30, 2012, the committed credit facilities available to us and/or our subsidiaries included:

	Total Capacity	Outstanding Borrowings	Letters of Credit Issued	Available Capacity
Revolving credit facility maturing 2016 [(a)]	$ 1,435	$	$ 1,155	$ 280
Other facilities [(b)]	10	3		7

(a) This revolving credit facility matures in 2016 and bears interest of one-month LIBOR, plus 300 basis points. The senior credit facility, which encompasses our floating rate term loans and the revolving credit facility, is secured by pledges of all of the capital stock of all of our direct or indirect domestic subsidiaries and up to 66% of the capital stock of each foreign subsidiary directly owned by our domestic subsidiaries, subject to certain exceptions, and liens on substantially all of our intellectual property and certain other real and personal property.

(b) These facilities encompass bank overdraft lines of credit, bearing interest of 4.75% to 5.69% as of September 30, 2012.

The following table presents available funding under our debt arrangements related to our vehicle programs at September 30, 2012:

	Total Capacity [(a)]	Outstanding Borrowings	Available Capacity
Debt due to Avis Budget Rental Car Funding [(b)]	$ 7,318	$ 5,813	$ 1,505
Budget Truck financing [(c)]	295	280	15
Capital leases	529	500	29
Other [(d)]	1,545	1,282	263
	$ 9,687	$ 7,875	$ 1,812

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

(b) The outstanding debt is collateralized by approximately $7.5 billion of underlying vehicles and related assets.

(c) The outstanding debt is collateralized by $448 million of underlying vehicles and related assets.

(d) The outstanding debt is collateralized by approximately $2.3 billion of underlying vehicles and related assets.

The significant terms for our outstanding debt instruments, credit facilities and available funding arrangements as of September 30, 2012, can be found in Notes 11 and 12 to our Consolidated Condensed Financial Statements.

LIQUIDITY RISK

Our primary liquidity needs include the payment of operating expenses, servicing of corporate and vehicle related debt and procurement of rental vehicles to be used in our operations. Our primary sources of funding are operating revenue, cash received upon sale of vehicles, borrowings under our vehicle-backed borrowing arrangements and our revolving credit facility, and other financing activities.

As discussed above, as of September 30, 2012, we have cash and cash equivalents of $554 million, available borrowing capacity under our revolving credit facility of $280 million and available capacity under our vehicle programs of approximately $1.8 billion.

Our liquidity position may be negatively affected by financial market disruptions or a downturn in the global economy, which may result in unfavorable conditions in the vehicle rental industry, in the asset-backed financing market, and in the credit markets generally. A downturn in the global economy or a disruption in the credit markets could impact our liquidity due to (i) decreased demand and pricing for vehicles in the used-vehicle market, (ii) increased costs associated with, and/or reduced capacity or increased collateral needs under, our financings, (iii) the adverse impact of vehicle manufacturers, including General Motors Company, Ford Motor Company, Chrysler Group LLC, PSA Peugeot Citroën, Volkswagen Group, Toyota Motor Corporation, Kia Motors America or Fiat Group Automobiles S.p.A. being unable or unwilling to honor obligations under the contracts we have with such manufacturers, including repurchase or guaranteed depreciation obligations related to

program vehicles, (iv) disruption in our ability to obtain financing due to negative credit events specific to us or affecting the overall debt market and (v) the effect of any of Realogy, Wyndham or Travelport being unable or unwilling to honor its obligations under the Separation Agreement and related agreements.

Our liquidity position also may be negatively affected if we are unable to remain in compliance with the financial and other covenants associated with our senior credit facility and other borrowings. The financial covenants of our senior credit facility include maximum leverage and minimum coverage ratio requirements. As of September 30, 2012, we were in compliance with the financial covenants in our senior credit facility. For additional information regarding our liquidity risks, see Part I, Item 1A, Risk Factors of our 2011 Form 10-K.

CONTRACTUAL OBLIGATIONS

Our future contractual obligations have not changed significantly from the amounts reported within our 2011 Form 10-K with the exception of our commitment to purchase vehicles, which decreased by approximately $1.8 billion from December 31, 2011 to approximately $3.4 billion at September 30, 2012. Changes to our obligations related to corporate indebtedness and debt under vehicle programs are presented above within the section titled Liquidity and Capital Resources Debt and Financing Arrangements and also within Notes 11 and 12 to our Consolidated Condensed Financial Statements.

ACCOUNTING POLICIES

The results of the majority of our recurring operations are recorded in our financial statements using accounting policies that are not particularly subjective, nor complex. However, in presenting our financial statements in conformity with generally accepted accounting principles, we are required to make estimates and assumptions that affect the amounts reported therein. Several of the estimates and assumptions that we are required to make pertain to matters that are inherently uncertain as they relate to future events. Presented within the section titled Critical Accounting Policies of our 2011 Form 10-K are the accounting policies (related to goodwill and other indefinite-lived intangible assets, business combinations, vehicles, income taxes, financial instruments and public liability, property damage and other insurance liabilities) that we believe require subjective and/or complex judgments that could potentially affect 2012 reported results. There have been no significant changes to those accounting policies or our assessment of which accounting policies we would consider to be critical accounting policies.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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

Our total market risk is influenced by a wide variety of factors including the volatility present within the markets and the liquidity of the markets. There are certain limitations inherent in the sensitivity analyses presented. These shock tests are constrained by several factors, including the necessity to conduct the analysis based on a single point in time and the inability to include the complex market reactions that normally would arise from the market shifts modeled. For additional information regarding our long-term borrowings and financial instruments, see Notes 7, 11 and 12 to our Consolidated Condensed Financial Statements.

Currency Risk Management

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

We assess our market risk based on changes in currency exchange rates utilizing a sensitivity analysis. Based on our currency forward contracts as of September 30, 2012, we estimate that a 10% change in currency exchange rates would not have a material impact on our earnings. Because gains or losses related to currency forward contracts are expected to be offset by corresponding gains or losses on the underlying exposures being hedged, when combined, these currency forward contracts and the underlying exposures do not create a material impact to our results of operations, balance sheet or liquidity.

Interest Rate Risk Management

Our primary interest rate exposure at September 30, 2012, was interest rate fluctuations in the United States, specifically LIBOR and commercial paper interest rates due to their impact on variable rate borrowings and other interest rate sensitive liabilities. We use interest rate swaps and caps to manage our exposure to interest rate movements. We anticipate that LIBOR and commercial paper rates will remain a primary market risk exposure for the foreseeable future.

We assess our market risk based on changes in interest rates utilizing a sensitivity analysis. Based on our interest rate derivatives as of September 30, 2012, we estimate that a 10% change in interest rates would not have a material impact on our earnings. Because gains or losses related to interest rate derivatives are expected to be offset by corresponding gains or losses on the underlying exposures being hedged, when combined, these interest rate contracts and the offsetting underlying commitments do not create a material impact to our results of operations, balance sheet or liquidity.

Commodity Risk Management

We have commodity price exposure related to fluctuations in the price of unleaded gasoline. We anticipate that such commodity risk will remain a market risk exposure for the foreseeable future. We determined that a hypothetical 10% change in the price of unleaded gasoline would not have a material impact on our earnings for the period ended September 30, 2012.

Item 4. Controls and Procedures

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

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

PART II OTHER INFORMATION

Item 6. Exhibits

See Exhibit Index.

Table of Contents

SIGNATURES

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

AVIS BUDGET GROUP, INC.

Date: November 9, 2012

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

Date: November 9, 2012

/s/ Izilda P. Martins
Izilda P. Martins
Vice President and
Acting Chief Accounting Officer

43

Table of Contents

Exhibit Index

Exhibit No.	Description
10.1	Incremental Commitment Agreement, dated as of August 15, 2012 among Avis Budget Holdings, LLC, Avis Budget Car Rental, LLC, the Tranche C Term Lenders and JPMorgan Chase Bank, N.A., Bank of America Merrill Lynch, Barclays Capital and Deutsche Bank Securities as joint lead arrangers and bookrunners.
10.2	Fourth Amendment, dated as of August 15, 2012, to the Amended and Restated Credit Agreement dated as of May 3, 2011, among Avis Budget Holdings, LLC, Avis Budget Car Rental, LLC, the subsidiary borrowers from time to time parties thereto, JPMorgan Chase Bank, N.A., as administrative agent, and the several lenders from time to time parties thereto, J.P. Morgan Securities LLC, Bank Of America Merrill Lynch, Barclays Bank PLC, Deutsche Bank Securities, acting as joint lead arrangers and bookrunners.
10.3	First Amendment, dated as of September 12, 2012, to the Amended and Restated Series 2010-6 Supplement dated October 14, 2011, among Avis Budget Rental Car Funding (AESOP) LLC, Avis Budget Car Rental, LLC, JPMorgan Chase Bank, N.A., as administrative agent, the Non-Conduit Purchasers, the CP Conduit Purchasers, the APA Banks and the Funding Agents named therein and The Bank of New York Mellon Trust Company, N.A. as Trustee and as Series 2010-6 Agent.
10.4	Amendment No. 3 to Series 2012-1 Supplement, dated September 28, 2012, between Centre Point Funding, LLC, as issuer, Budget Truck Rental LLC, as administrator, Deutsche Bank Securities Inc., as administrative agent, Deutsche Bank Trust Company Americas, as a Non-Conduit Purchaser, Windmill Funding Corporation, as a CP Conduit Purchaser, The Royal Bank of Scotland plc, as a Funding Agent and an APA Bank, and the Bank of New York Mellon Trust Company, N.A., in its capacities as Trustee, Series 2012-1 Agent and Securities Intermediary.
10.5	Incremental Revolving Commitment Agreement, dated as of October 4, 2012 among Avis Budget Holdings, LLC, Avis Budget Car Rental, LLC, Bank of Montreal, as incremental lender and JPMorgan Chase Bank, N.A. as administrative agent.
10.6	Incremental Revolving Commitment Agreement, dated as of October 4, 2012 among Avis Budget Holdings, LLC, Avis Budget Car Rental, LLC, SunTrust Bank, N.A., as incremental lender and JPMorgan Chase Bank, N.A. as administrative agent.
10.7	Agreement dated October 1, 2012 between Avis Budget Car Rental, LLC and General Motors (Incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K dated October 5, 2012).*
10.8	Second Amendment to the Amended and Restated Series 2010-6 Supplement, dated as of October 18, 2012, by and among Avis Budget Rental Car Funding (AESOP) LLC, as Issuer, Avis Budget Car Rental, LLC, as Administrator, JPMorgan Chase Bank, N.A., as Administrative Agent, the Non-Conduit Purchasers, the CP Conduit Purchasers, the APA Banks and the Funding Agents named therein and The Bank of New York Mellon Trust Company, N.A., as Trustee and as Series 2010-6 Agent (Incorporated by reference to Exhibit 10.1 to the Company s Current Report on Form 8-K dated October 24, 2012).
12	Statement re: Computation of Ratio of Earnings to Fixed Charges.
31.1	Certification of Chief Executive Officer pursuant to Rules 13(a)-14(a) and 15(d)-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
31.2	Certification of Chief Financial Officer pursuant to Rules 13(a)-14(a) and 15(d)-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.

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