ZIPCAR INC
Form 10-K
March 04, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
December 31, 2011 For the fiscal year ended December 31, 2012

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File Number: 001-35131

ZIPCAR, INC.

(Exact Name of registrant as specified in its charter)

Delaware	**04-3499525**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
25 First Street, 4th Floor, Cambridge, MA	**02141**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (617) 995-4231

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.001 per share	**Nasdaq Global Select Market**

Securities registered pursuant to Section 12(g) of the Act: None

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

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

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

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

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

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

The aggregate market value of the voting stock held by non-affiliates of the registrant, as of June 30, 2012, was approximately $245.2 million (based on the closing price of the registrant s Common Stock on the Nasdaq Global Select Market on June 29, 2012, of $11.73 per share).

The number of shares outstanding of the registrant s $0.001 par value Common Stock as of February 28, 2013 was 40,868,767.

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ANNUAL REPORT ON FORM 10-K

YEAR ENDED DECEMBER 31, 2012

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PART I

This Annual Report on Form 10-K contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Annual Report on Form 10-K that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such forward-looking statements include expectations regarding: any expectation of earnings, revenues or other financial items; any statements of the plans, strategies and objectives of management for future operations; any projections or estimates as to market size; factors that may affect our operating results; statements related to future economic conditions or performance; statements as to industry trends and other matters that do not relate strictly to historical facts or statements of assumptions underlying any of the foregoing. These statements are often identified by the use of words such as, but not limited to, anticipate, believe, continue, could, estimate, expect, intend, may, will, plan, target, continue, and similar expressions or variations intended to identify forward-looking statements. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in Item 1A titled Risk Factors in this Annual Report on Form 10-K and in our other filings with the Securities and Exchange Commission, or SEC. Furthermore, such forward-looking statements speak only as of the date of this report. We undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Item 1. *BUSINESS*

Proposed Merger of the Company

On December 31, 2012, Zipcar, Avis Budget Group, Inc., or Avis Budget, and Millennium Acquisition Sub, Inc., a wholly-owned subsidiary of Avis Budget, or Merger Sub, entered into an Agreement and Plan of Merger, which we refer to herein as the merger agreement, pursuant to which, on the terms and subject to the conditions set forth in the merger agreement, Avis Budget agreed to acquire all of the outstanding shares of Zipcar for $12.25 per share in cash, without interest, and pursuant to which Merger Sub will be merged with and into Zipcar with Zipcar continuing as the surviving corporation and a wholly-owned subsidiary of Avis Budget, which we refer to herein as the merger.

On the terms and subject to the conditions set forth in the merger agreement, which has been unanimously approved by our Board of Directors, at the effective time of the merger, or the effective time, and as a result thereof, each share of our common stock that is issued and outstanding immediately prior to the effective time (other than our common stock owned by Avis Budget, Merger Sub or any of their respective subsidiaries, or by Zipcar or any subsidiary of Zipcar, which will be canceled without payment of any consideration, and shares of our common stock for which appraisal rights have been validly exercised and not withdrawn) will be converted into the right to receive $12.25 in cash, without interest, or the merger consideration. Each outstanding option to purchase our common stock will be accelerated, become fully vested and be cancelled prior to the effective time and each holder of an option will be entitled to receive, in cash, the amount by which the merger consideration exceeds the exercise price of such option multiplied by the number of shares of common stock subject to such option. Each outstanding warrant to purchase or otherwise acquire our common stock will be accelerated, become fully vested and be cancelled at the effective time and each holder of a warrant will be entitled to receive, in cash, the amount by which the merger consideration exceeds the exercise price of such warrant multiplied by the number of shares of our common stock subject to such warrant.

Consummation of the merger is subject to customary conditions, including (i) adoption of the merger agreement by the holders of a majority of the outstanding shares of our common stock, (ii) the absence of any law or order prohibiting the consummation of the merger, (iii) review of the merger by the UK competition authorities and compliance with any other applicable antitrust or competition laws or regulations, and (iv) the absence of a material adverse effect with respect to us. The consummation of the merger is not subject to a financing condition.

The merger agreement contains certain termination rights for both Avis Budget and Zipcar, and further provides that, upon termination of the merger agreement in certain circumstances, we would be required to pay Avis Budget a termination fee of $16,807,250.

A special meeting of stockholders is scheduled for March 7, 2013 to consider and vote upon adoption of the merger agreement.

The foregoing descriptions of the merger and the merger agreement do not purport to be complete and are subject to, and qualified in their entirety by reference to, the full text of the merger agreement, which is attached as Exhibit 2.1 to Zipcar s Current Report on Form 8-K filed with the Securities and Exchange Commission on January 2, 2013 and is incorporated herein by reference.

Overview

Zipcar operates the world s leading car sharing network. Founded in 2000, we provide the freedom of wheels when you want them to over 775,000 members, whom we refer to as Zipsters. We operate our membership-based business in 20 major metropolitan areas and on more than 300 college campuses in the United States, Canada, the United Kingdom, Spain and Austria. We provide Zipsters with self-service vehicles in conveniently located reserved parking spaces in the neighborhoods where they live and work. Our members may reserve cars by the hour or by the day at rates that include gas, insurance and other costs associated with car ownership. Our service is simple and convenient:

Join. A prospective member joins at zipcar.com and chooses from several subscription plans. The new member will receive his or her Zipcard within days of signing up.

Reserve. The Zipster selects a specific vehicle in a particular location and reserves it for the desired period of time. The reservation, which can be made online, on a mobile device or over the phone, is sent by a wireless signal to the selected Zipcar.

Unlock. When the Zipster arrives at the vehicle in its designated parking space, the Zipcar recognizes the member s unique Zipcard and unlocks the doors.

Drive. The Zipster drives away. At the end of the trip, the member returns the Zipcar to its designated parking space and, using the Zipcard, locks the doors.

We believe the benefits to our members extend beyond simplicity and convenience. Zipsters have the flexibility to choose the make, model, type and even the color of the Zipcar they want depending on their specific needs and desires for each trip and the available Zipcars in their neighborhoods. Upon returning the Zipcar, the member simply walks away. The flexibility and affordability of our service, as well as broader consumer trends toward responsible and sustainable living, provide a significant platform for future growth.

Our self-service solution is enabled by our proprietary technology platform, which we specifically designed to manage the complex interactions of real-time, location-based activities inherent in a large scale car sharing operation. Our custom-designed technology supports a fully-integrated set of activities across our rapidly growing operations, including new user application and intake, reservations and keyless vehicle access, fleet management and member management. Our technology also enables us to collect and analyze vast amounts of member usage and fleet operations information to enhance the Zipster experience. On the member side, our system provides car sharing iPhone, Android and Reserve a Zipcar Facebook applications, as well as our mobile website, which can be used on smartphones, providing members with increased avenues through which

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they can make, extend or change reservations. We also provide two-way SMS texting, enabling our vehicles to proactively reach out to members during their reservation via their mobile device to manage their reservation, including instant reservation extension.

We initially focused our operations in three metropolitan areas: Boston, New York and Washington, D.C. These markets have since developed into active car sharing markets that continue to grow. We then applied our knowledge and experience from operating in these markets to develop and grow additional markets, such as San Francisco, Los Angeles, Chicago, Baltimore, Providence, Austin, Miami, Toronto, Vancouver and London. We further increased our geographic footprint to include Seattle, Portland, Atlanta, Philadelphia and Pittsburgh through a merger with Flexcar in 2007. In April 2010, we expanded our operations in the United Kingdom through the acquisition of Streetcar. Our presence in London also serves as our European center of operations and management. We completed the integration of our London operations with those of Streetcar in the fourth quarter of 2011. In February 2012, we acquired a majority interest in Barcelona-based Avancar, the largest car sharing service in Spain, and completed the integration of Avancar s operations with Zipcar s operations in October 2012. In July 2012, we acquired Denzel Mobility CarSharing GmbH, a leading car sharing service in Austria, operating under the name CarSharing.at.

We intend to continue to grow by increasing awareness and adoption in existing markets, extending the car-sharing concept, expanding into new international and domestic markets, broadening our relationships with existing members and continuing to focus on building relationships with businesses, universities and governmental organizations. We believe our 20 major metropolitan areas have significant potential for growth and that we remain early in the adoption cycle in all of our markets. We currently estimate that over 10 million driving age residents, business commuters and university community members live or work within a short walk of a Zipcar and we expect that as we increase our fleet and our geographic footprint, the number of driving age residents living or working within a short walk of a Zipcar is likely to increase. We have identified more than 100 additional global metropolitan areas and hundreds of universities that would be attractive markets for the adoption of car sharing over time.

New mobility models and technologies are emerging, including peer-to-peer, station-less and one-way car sharing, ridesharing and smart parking. We believe these new models are largely complementary to the car sharing services we offer and view the growth of the mobility category as an opportunity for us to expand our addressable market. These new models and technologies may take us into adjacent services that leverage our brand, technology, experience and membership base and hold compelling long-term growth potential in the mobility space.

Transportation Challenges in Cities and University Communities

The current challenges of transportation in cities and university communities are numerous:

For Urban Residents Who Do Not Own Cars. Many urban residents do not own a car and rely heavily on their city s public transportation infrastructure. However, public transportation does not effectively address all of their transportation needs. Within a city, the resident s desired destination may not be located near the predetermined route of a subway or bus. Additionally, the resident s desired travel time often does not coincide conveniently with the fixed and limited schedules of public transportation, and transfers can be inconvenient and time consuming. Errands involving heavy loads, such as bulk grocery shopping or buying furniture, are not well suited for public transportation. Taxi cabs meet the needs of some trips; however, for longer trips or trips that include multiple stops, taxis are expensive and often impractical. Public transportation is also not well suited for travel outside the city, including for short vacations, trips to the beach, shopping in the suburbs or visits to see friends and family. Traditional car rental companies address some of these challenges, but their cars are often inconveniently located, require rental commitments of a day or longer and often include time consuming pick-up and drop-off procedures.

For Urban Residents Who Own Cars. Within cities, car owners face numerous challenges. The cost of owning and maintaining a car in urban areas, including parking, gas, taxes, registration, insurance, maintenance and lease payments, is high and continues to increase and a typical car sits idle the vast majority of the time. Many car owners in urban areas have difficulty finding or affording parking garages that are conveniently located near their homes. Some residents park their cars on the street, which frequently requires a permit, subjects the owner to the daily hassles of alternate day street sweeping and the seasonal inconveniences of shoveling snow and snow emergency parking bans. In addition, cars parked on the street are more vulnerable to damage and theft. Lastly, car owners in urban areas may not have the type of vehicle needed for a desired activity, such as a pick-up truck or van for moving furniture.

For College and University Students, Faculty and Other Community Residents. University communities face unique challenges in accommodating car owners. University communities frequently have a common goal to optimize public space and minimize campus congestion. Many universities discourage students from parking cars on campus and often do not issue parking permits to freshmen. Even when allowed, parking is often inconvenient due to limited space and can be prohibitively expensive. For those who do not own cars, transportation alternatives are often limited.

For Businesses and Government Agencies Located in Cities. Many businesses and government agencies that are located in cities need to provide their employees with transportation alternatives for trips in and around the city, including, for example, meetings with clients, vendors or constituents. Public transportation can be inconvenient and is often impractical when desired destinations are not on public transit routes. Maintaining a dedicated fleet of company or municipal cars is an expensive way to guarantee transportation alternatives for employees. Furthermore, those with a fleet of cars have the additional burden of finding and paying for parking spaces, cleaning and maintaining the vehicles, administering the scheduling system and paying for insurance, among other costs and inconveniences.

Our Solutions

Individual Membership. We offer a simple, effective and sustainable solution that provides Zipsters the freedom of on-demand access to a fleet of vehicles at any hour of the day or night, in their neighborhood or in any of our Zipcar cities and locations, without the costs or hassles of car ownership. Benefits to Zipsters include:

Cost-effective alternative to car ownership. Our Zipsters pay only for the time they actually use the vehicle and have no responsibility for the additional costs and hassles associated with car ownership, including parking, gas, taxes, registration, insurance, maintenance and lease payments.

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

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

Responsible and sustainable living. We are committed to providing Zipsters with socially responsible, sustainable alternatives that support the global environment, their communities and city livability. Studies show that car sharing reduces the number of miles driven, the number of vehicles on the road and CO_2 emissions.

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Zipcar for Universities. We provide college students, faculty, staff and local residents living in or near rural and urban campuses with access to Zipcars. Zipcars are located on over 300 college and university campuses. Our program for universities helps university administrators maximize the use of limited parking space on campus and reduce campus congestion while providing an important amenity for students, faculty, staff and local residents. In some cases, Zipcar is the only automobile transportation available to students, since many traditional rental car services have higher age restrictions.

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

FastFleet. We offer a fleet management solution, known as FastFleet, to organizations that manage their own fleets of vehicles. Through this service, we license our proprietary vehicle-on-demand technology on a software-as-a-service basis to organizations that already manage their own fleets of vehicles. FastFleet enables these organizations to maximize the efficiency and reduce the cost of their own fleets by monitoring and improving per-vehicle utilization levels as well as streamlining the administrative efforts required to manage the vehicle fleet.

Global Trends Supporting Car Sharing

Urbanization. According to the United Nations, the percentage of the world s population living in cities exceeded 50% in 2010 and is expected to reach 59% by 2030. As population density increases in urban areas, traffic and pollution increase, and public space becomes more difficult to preserve. To address the negative effects of increasing urbanization, local governments are searching for solutions, such as car sharing, to make cities more livable for urban residents.

Affordability. The cost of living in urban areas is high and increasing. We believe urban residents in cities throughout the world are searching for ways to consume goods and services more economically. The costs associated with car ownership make affordable urban living more challenging.

Trends Toward Self-Service and Pay-Per-Use Consumption. Consumers increasingly expect a combination of self-service, on-demand and pay-per-use methods to acquire goods and services. The increased usage of online and mobile services for shopping, banking, travel, entertainment and fashion has heightened consumer interest in accessing goods and services anytime, anywhere and paying only for what they use. We believe that car sharing is a natural extension of this trend in consumer behavior. Many consumers are delaying or foregoing car ownership altogether, viewing it as expensive, inconvenient and inefficient. We believe our leading, first-mover brand position has made us synonymous with pay-per-use mobility and smart consumption.

Focus on Sustainability. We believe an important and growing population of consumers, businesses, universities and governments is motivated to adopt and promote sustainable transportation solutions. Increasing concerns about the lasting negative impacts of increased pollution and the depletion of natural resources underscore the need for transportation solutions that promote sustainable living. Governments are also supporting sustainable living by introducing new regulations for vehicle manufacturers that will reduce greenhouse gas emissions and improve fuel economy.

We believe these global trends will continue for decades and that demand for car sharing services will grow accordingly.

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Market Opportunity

We believe that car sharing memberships in our current cities represent a small fraction of the potential global market opportunity, not only because of our ability to increase adoption in existing markets, but also because there are many international and domestic markets with little or no car sharing services. Moreover, while car sharing has existed in many European countries for several years, we believe that the European market in general remains fragmented, with no clear leader. We believe cities with high population densities, strong public transportation infrastructures, significant traffic and parking congestion problems and high costs of car ownership provide the largest opportunities for car sharing solutions. In addition, new mobility models and technologies are emerging, including peer-to-peer, station-less and one-way car sharing, ridesharing and smart parking. We believe these new models are largely complementary to the car sharing services we offer and view the growth of the mobility category as an opportunity for us to expand our addressable market.

Competition

We group our competitors into three classes: car ownership, traditional rental car companies and other providers of car sharing and similar services.

Car Ownership. To compete with car ownership, we must provide a low cost, easy-to-use solution with convenient, around-the-clock vehicle availability. We believe that Zipcars offer the freedom and flexibility of cars on demand without the costs and hassles of car ownership.

Traditional Rental Car Companies. We also compete with traditional rental car companies, which typically have centralized locations near airports and transportation hubs, charge daily rates which exclude the costs of gas and insurance and primarily target business travelers and families on vacation. To offer a competitive alternative to traditional car rental, we intersperse our car locations throughout cities and university campuses within an easy walk of where Zipsters live and work. Our members can reserve Zipcars for as short a period as one hour, and our rates include the costs of gas and insurance.

Other Providers of Car Sharing or Similar Services. In addition to their traditional rental car businesses, Hertz, Enterprise and UHaul have launched separately branded car sharing operations. These companies have long histories operating their core rental car businesses, but none of them has been specifically designed and built as a car sharing network. Therefore, we believe they may have difficulty adapting to a member based service rather than a transaction based service because they do not share many of the key attributes that we believe are essential to succeeding in car sharing, including an integrated and purpose built technology platform, extensive car sharing operating and transactional experience, focus on providing an optimal member experience or brand recognition in the car sharing space. In addition, auto manufacturers such as Daimler and BMW have established, or partnered with other companies to offer, forms of car sharing or car sharing like services.

Our car sharing competitors also include a growing number of for-profit and not-for-profit operators in certain metropolitan areas, such as Chicago, Toronto, Philadelphia, San Francisco, London and other North American and European cities. Many of these competitors operate in only one city and lack a critical mass of vehicles to provide a member experience competitive with that of Zipcar. As a result, they do not benefit from the same operational efficiencies and economies of scale and may be less likely to invest in infrastructure to the degree we believe is necessary to remain competitive.

In addition, new mobility models and technologies have emerged more recently in both North America and Europe, such as station-less, one-way and peer-to-peer car sharing, ridesharing and smart parking. While these new models and technologies may be viewed as competitive with our services, we believe they are largely complementary to, rather than competitive with, the car sharing services we provide and represent an expansion of our addressable market.

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Our Competitive Differentiators

We believe our current leadership position is based on a number of distinct competitive advantages:

Our First Mover Position, Within and Across Cities. We have over 775,000 members and thousands of Zipcars interspersed throughout the largest car sharing network of cities and vehicle locations in the world. Since our members need different vehicles for different purposes, we provide a broad range of vehicle alternatives to suit their specific needs and desires for each trip. Based upon the readily available Zipcars in their neighborhoods, our members have the flexibility to reserve a hybrid vehicle for fuel efficiency, a pick-up truck or a van to bring new furniture home from the store, a minivan to travel with friends to the beach or a luxury vehicle for a night out on the town. No other car sharing service offers the size and diversity of our Zipcar fleet or operates a network within and across as many cities as we do.

We estimate that most of our members live or work within a five to ten minute walk of a Zipcar. We try to provide convenient access to our fleet of vehicles by interspersing them throughout the cities and university campuses in which we operate. We are able to effectively place our vehicles in our members neighborhoods because we have procured thousands of spaces with local parking providers and municipalities. We do not believe any other car sharing or car rental service provides consumers this level of convenient vehicle locations.

In addition to the benefits our members experience from our global car sharing network, we benefit from economies of scale in our cost structure. For example, investments we make in our technology, such as our iPhone and Android applications, can be distributed across our wide membership base and fleet of vehicles.

Low Cost, Word of Mouth Marketing. We have established a broad, diverse and active membership base. For many, becoming a Zipster is about much more than cost-effective transportation solutions; it is about joining an engaged and enthusiastic community that is environmentally aware, socially responsible and committed to sustainable city living and smart consumption. Our membership community actively recruits new members and surveys of our members indicate that a significant percentage of new members learn of Zipcar from existing members. We believe the loyalty and active recruiting among our members creates a network effect and provides us with a powerful competitive advantage.

We believe that most of our members positively and proactively identify with Zipcar because they subscribe to our core values and have incorporated our car sharing services into their everyday lifestyle. We have developed a member relationship approach which attempts to reach people in the early stages of their driving life (i.e., at college or university) and continues to serve them through various life stages thereafter. We believe our members remain with us for an average of close to five years.

A Brand Synonymous with Car Sharing and Smart Consumption. We believe the Zipcar brand embodies our mission of enabling simple and responsible urban living. As with any consumer business, there is an important element of trust and reliability associated with an established brand name. We view our Zipsters as brand ambassadors, and their continued advocacy of our brand is a cornerstone of our success. We have won numerous awards which underscore our powerful brand and reputation. We believe our leading, first-mover brand position has made us synonymous with pay-per-use mobility and smart consumption. As a leading smart lifestyle brand, Zipcar is at the forefront of enabling people to fulfill their personal mobility needs in smart and efficient ways.

Our Integrated Technology Platform. Our proprietary technology platform was specifically designed for car sharing and has been continually refined and upgraded to optimize the experience of our members. Our technology supports application processing, reservations and keyless vehicle access, fleet management, member management, bill presentment, payment and reporting, which enables us to collect and analyze vast amounts of customer usage and fleet operations data. This technology platform is fully integrated across our web, wireless and mobile interfaces for the benefit of our members, as well as for internal purposes, ensuring a seamless

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experience across all communication channels. Our systems have been architected modularly and integrated seamlessly to provide a highly flexible, expandable and upgradable infrastructure that can easily scale across global markets.

Our Knowledge Base. Our twelve years of operating experience in new and existing markets is a key advantage. None of our competitors has the benefit of having launched and operated car sharing at a scale in as many cities as we have. Our extensive experience has allowed us to become experts in areas such as member acquisition, member support, fleet mix, vehicle location and key metrics management. We have accumulated over ten years of detailed car sharing data representing millions of member interactions, vehicle reservations and related activities. This database, along with our reporting and business information tools, enables extensive and rapid analysis of member and vehicle usage patterns and supports agile decision-making. This operational experience not only serves as a competitive advantage in our existing markets, but also helps us to effectively launch and expand into new markets. No other car sharing service in the United States has been operating as long as we have.

Our Member Experience. Since our inception, we have focused on optimizing our members online, mobile, vehicle and customer support experience. Consumers increasingly expect 24/7 self-service, pay-per-use and on-demand alternatives in many aspects of their daily lives. We provide this alternative for mobility services. All of these consumer services, including our own, were enabled by the rapid emergence of new technologies in recent years, especially high-speed internet and low-cost wireless networks. We have continually focused on technological innovation to better understand and anticipate our members needs and to enable us to optimize our members experience. Our system provides car sharing iPhone, Android and Reserve a Zipcar Facebook applications, as well as our mobile website, providing members with increased avenues through which they can make, extend or change reservations. We also provide two-way SMS texting, enabling our vehicles to proactively reach out to members during their reservation via their mobile device to manage their reservation, including instant reservation extension. Today, nearly half of our reservation activity is conducted through one of our mobile applications.

Our Growth Strategy

We intend to aggressively pursue growth in our business with the following strategies:

Increase Awareness and Adoption in Existing Markets. In addition to our existing members, we estimate that there are currently more than ten million driving age residents in our existing markets within a short walk of a Zipcar. While we do not expect that all of these driving age residents will become members of Zipcar or any other car sharing service, we plan to attract new members through a combination of awareness campaigns, including advertising, member referrals, community events, search engine marketing, public relations and online banner advertising. As we continue to grow our member base, we believe that brand advocacy by our loyal members, along with our physical presence in branded vehicles and parking location signage, will have a compounding effect on the overall awareness of our brand in each market. We believe the growth of social media, such as Facebook, Twitter and Foursquare, also positively contributes to our brand awareness through word-of-mouth and viral marketing. As an additional avenue of new member growth, we plan to expand the number of businesses, government agencies and universities we serve within our existing markets.

Expand into New Markets. We continue to expand into new international and domestic markets both organically and through acquisitions and other business combinations and partnerships. In November 2007, we acquired Flexcar, which extended our geographic footprint in North America. In April 2010, we acquired Streetcar, which we believe will establish a base for future expansion opportunities in Europe. Our market expansion strategy is based on our experience and expertise in identifying and expanding into attractive new markets that can support car sharing. We intend to enter additional cities in Europe and Asia through a combination of organic growth, acquisitions, joint ventures, franchise opportunities and other relationships. In 2009, we acquired a minority interest in Avancar, the largest car sharing service in Spain, and in 2011, we

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exercised our option to increase our percentage ownership in Avancar to a controlling stake of 60%. In February 2012, we made a strategic equity investment in Wheelz, a peer-to-peer car sharing company. In July 2012, we acquired Denzel Mobility CarSharing GmbH, a leading car sharing service in Austria, operating under the name CarSharing.at. Domestically, we intend to continue expanding into new markets, including cities that are near our current markets. We launched Zipcar in Austin and Miami during 2012.

Leverage Our Network to Broaden Our Relationships with Members. Our members are critical to our success. We actively pursue feedback from our members to better understand and satisfy their needs. We believe continuously improving the member experience translates into longer and more active member relationships. For example, our overnight program, which allows a member to reserve a vehicle during certain periods on weeknights, allows our members to run errands or attend events in the evenings and park the Zipcars around their homes at night before returning them the following morning, all for approximately half the cost of a daily rate. In 2011, we expanded our damage fee waiver program to include a monthly option, significantly increasing the appeal of this program to our members. In early 2012, we began piloting in North America our Zipvan service, building off our successful cargo van service in the United Kingdom, and launched the service in nine North American cities in 2012 and in Barcelona in February 2013. We have also established a commerce and community function and have implemented a new segmentation database to inform our marketing, vehicle location and pricing actions and to improve personalization of the service, while at the same time seeking to drive profitable growth. In January 2012, we began piloting a weekday, no annual fee driving program called the Access Plan, in Toronto and Vancouver, Canada. The Access Plan lets members drive Zipcars and Zipvans (where available) from Monday through Friday, excluding holidays. We will continue to seek ways to leverage our network in order to broaden our product and service offerings and to provide our members with personalized and localized mobility services to meet the unique challenges associated with urban and university lifestyles.

In addition, new mobility models and technologies are emerging, including peer-to-peer, station-less and one-way car sharing, ridesharing and smart parking. We believe these new models are largely complementary to the car sharing services we offer. We view the growth of the mobility category in new directions as an opportunity for us to expand our addressable market. We believe our strong brand and first-to-scale advantage put us in a unique position to exploit the network effects and business synergies we can bring to the broader mobility space.

Continue to Build Offerings for Businesses and Government Agencies. Through our Zipcar for Business program, we offer reduced membership fees and weekday driving rates to employees of companies, federal agencies and local governments that sponsor the use of Zipcars. Through our FastFleet software-as-a-service platform, the technology we use in our core operations is available to businesses and government agencies for the management and administration of their own fleet operations. We have entered into relationships related to our services with a number of municipalities and with government agencies in Boston, New York, Philadelphia, Washington, D.C., Chicago, Wilmington, Delaware and other cities. We have a dedicated marketing group that is targeting additional government agencies and businesses.

Our Technology

We design and build our technology specifically for car sharing with a focus on simplicity and superior membership experience.

Integrated Technology Platform. Our fully-integrated platform centralizes the management of our reservations, member services, fleet operations and financial systems to optimize member experience, minimize costs and leverage efficiencies. Through this platform, we:

- process new member applications;
- manage reservations;
- manage and monitor member interactions;

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- manage billing and payment processing across multiple currencies;
- manage our car sharing fleet remotely; and
- monitor and analyze key metrics of each Zipcar such as utilization rate, mileage and maintenance requirements.

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

Reservation System Software. Our reservation system is built on open source web applications developed by our technology team to process membership applications and enable existing members to reserve Zipcars online, over the phone, using mobile applications on the iPhone or Android platforms, or through a Facebook application. Through our reservation system, members have around-the-clock access to the complete, real-time inventory of Zipcars and can manage all necessary transactions online. Because all of our reservation and member services data is fed back into our centralized Oracle database, we are able to track and analyze aggregated member usage data to better allocate vehicles among locations and improve availability and convenience for our Zipsters.

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

Global Financial System Software. Our global financial system software is also integrated into our technology platform. This module provides us with real-time access to financial information, which improves the accuracy and efficiency of our reporting. In addition, our financial system software allows us to manage multiple currencies and payment processors, providing for accurate billing and timely payment and further gives us the flexibility to scale the system globally. Our financial system software is also built on an Oracle foundation to ensure scalability.

Data Centers, Network Access and Security. Our primary data center is located in Somerville, Massachusetts with a secondary data center located in the United Kingdom that can be brought online in the event of a failure at our primary data center. Our data centers store the information contained in our centralized database and host the Zipcar website and web-based applications that we have developed to manage our integrated technology platform. Our data centers and reservation system software maintain real-time communication with encrypted message protocols and credit card data. We use industry-standard commercial antivirus, firewall and patch-management technology to protect and maintain the systems located at our data centers. Our website is designed to be fault-tolerant, with a collection of identical web servers, which provide us with the flexibility to scale our operations. During the 12 months ended December 31, 2012, we processed over approximately five million reservations and our reservation system was available 99.99% of the time.

Commitment to Technology Development. We designed and built our technology with the goal of providing the most convenient, efficient and reliable car sharing service possible. Our iPhone, Android and Reserve a Zipcar Facebook applications are examples of how we continue to seek ways to improve and simplify our member experience. We will continue to invest in improving our technology platform to meet the needs of our growing business.

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Our Operations and Fleet Management

Efficient operations are a critical element in delivering a high quality member experience. We have designed our Zipcar operations to be scalable through a distributed self-service fleet of vehicles and we continue to make substantial investment in refining, innovating and improving our operations and fleet management systems. We believe that the experience we have gained and continue to accumulate while scaling and operating our network is a key advantage, informing all of our decisions regarding the operation of our existing fleet and services as well as our plans for expansion.

Each of our major metropolitan areas has a fleet manager responsible for planning and coordinating vehicle service and placement of vehicles. The fleet manager has a team of fleet associates, who use our proprietary systems and specialized processes to schedule and perform preventative maintenance and inspections on a regular basis. Our system can also respond to unplanned service issues communicated via our member services escalation system, including repairs. To help manage fleet maintenance and operations, our local fleet managers engage and manage a network of third-party service providers in each major metropolitan market including service shops, parking providers and mobile cleaning vendors.

Our fleet management system integrates vehicle usage data and member feedback with prescribed cleaning and service intervals to generate daily schedules for vendors and technicians who work on cars. Our call center utilizes the same system to troubleshoot vehicle issues with members and seamlessly provide access to another nearby Zipcar if necessary. Our system also provides reporting capability, enabling managers to monitor and compare performance metrics across vehicle types, vendors and fleet teams.

The number and placement of vehicles in our fleet are based upon seasonal demands. As part of our planning process, we forecast fleet requirements by market every month. We generally add vehicles to our fleet to meet expected demand during the spring and summer months and decrease the number of vehicles in our fleet during the winter months. We also have the ability to move vehicles located on university campuses to nearby major metropolitan areas to meet temporary increases in demand. Using a proprietary model based on historical usage trends, we continuously refine and adjust fleet capacity by market.

We plan vehicle purchases for the upcoming fiscal year by market in connection with our business plan objectives. Market plans account for seasonality and model mix. We negotiate a majority of our purchases directly with manufacturers, with the remainder purchased from retail partners. Once vehicles are removed from Zipcar service, vehicles are remarketed either through auction or directly to dealers.

We plan to continue to finance our domestic fleet primarily through the asset-backed vehicle financing model. Amounts borrowed under this facility will be used to purchase vehicles and the facility will be securitized by the vehicles purchased. We believe this financing model permits us to add new vehicles to our domestic fleet more cost-effectively than with traditional leasing arrangements. We believe that most, if not all, of our future vehicle domestic needs will continue to be met through this asset-backed vehicle financing model.

All of our vehicles are insured for third-party liability to cover our members in the case of an accident. Due to the large number of vehicles in our fleet, we do not carry third-party insurance for collision.

Sales and Marketing

We design our sales and marketing efforts to build a global, active lifestyle brand. Our brand is about more than cars, it is about fun and freedom and improving urban life for our Zipsters and the communities in which they live and work.

Our wide-ranging sales and marketing strategy includes leveraging our passionate Zipsters, out-of-home advertising, local sponsorships, public relations and digital and social media that communicate our brand and grassroots initiatives.

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Our marketing street teams target potential Zipsters at the local level, marketing block-by-block. For example, on a busy neighborhood sidewalk, our street team set up a campsite complete with grass, tent, sleeping bag, marshmallows and a sign reading You need a Zipcar for this.

Our branding has resonated with Zipsters, many of whom serve as brand ambassadors. Many of our new members tell us that they were introduced to Zipcar via word-of-mouth from existing members. We also have a formal referral program that awards driving credit for new member referrals. We use social media to provide Zipsters with the tools to advocate our brand electronically. We have over 168,000 Facebook fans and over 50,000 followers on Twitter. Our employees regularly log into and follow the messages on these social media sites to monitor and understand the sentiment of our members and others who post messages or ask questions using these forms of social media.

Our out-of-home advertising program, principally featuring transit ads, highlights simple messages that communicate the benefits of wheels when you want them. We place many of these advertisements in subways and at bus stops near where potential members live and work. These ads are designed both to educate and entertain.

Our marketing efforts are designed to maximize customer lifetime value via a customer lifecycle migration strategy. At the front end of this lifecycle, we acquire younger members through our relationships with universities. These members become acquainted with the benefits and behaviors of car sharing. Upon graduation, many of these Zipsters migrate to the major metropolitan areas we serve, continue their relationship with us and advocate for broad sponsorship of Zipcar membership at their places of work.

Our sales team targets specific businesses based on industry, company size and historical sales data that we maintain on current business customers in our database. We believe this targeted sales approach, supported by an integrated marketing communications program, reduces cost per member acquisition and increases lifetime value.

We partner with other active lifestyle brands that appeal to Zipsters. We also organize community events where Zipsters can get together and we partner with organizations important to our members such as the Leukemia & Lymphoma Society, New England Shelter for Homeless Veterans, the Pan Mass Challenge, Alameda County Community Food Bank and Meals on Wheels. Our goal is to inspire our Zipsters to share an experience that goes beyond car sharing and work towards the betterment of the communities we serve.

Financial Information

Financial information regarding our reporting segments is contained in Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of Part II and our Consolidated Financial Statements included in Item 8 of Part II of this Annual Report on Form 10-K.

Financial information regarding revenue and long-lived assets by geographic area is contained in our Consolidated Financial Statements and Note 13 in the related Notes contained in Item 8 of this Annual Report on Form 10-K.

Intellectual Property

We rely primarily on a combination of trademark, trade secret and copyright laws, as well as contractual provisions with employees and third parties, to establish and protect our intellectual property rights. We have registered Zipcar , wheels when you want them and FastFleet and our other trademarks as trademarks in the United States and in certain other countries. Each registered trademark has a duration of ten to 15 years, depending on the date it was registered and the country in which it is registered, and is subject to an unlimited number of renewals for a like period upon continued use and appropriate application. We intend to continue the use of our trademarks and to renew our registered trademarks based upon each trademark s continued value to us.

Seasonality

We experience some effects of seasonality due to increases in usage during the summer months and on holidays such as Memorial Day, Independence Day, Labor Day, Thanksgiving, Christmas and United Kingdom bank holidays. Accordingly, the number of Zipcar reservations and associated revenue have generally been higher during those periods. Our business also is impacted negatively due to inclement weather conditions, such as blizzards and hurricanes.

Employees

As of December 31, 2012, we had 553 full-time employees, including 169 in fleet operations and support, 118 in member services, 93 in sales and marketing, 52 in engineering and 121 in general and administrative functions. None of our employees is covered by collective bargaining agreements. We consider our current relationship with our employees to be good. In addition, as of December 31, 2012, we had 182 part-time employees, including 27 in fleet operations and support, 29 in member services, 125 in sales and marketing and one in general and administrative functions.

Information Available on the Internet

We maintain a website with the address www.zipcar.com. We are not including the information contained on our website as a part of, or incorporating it by reference into, this Annual Report on Form 10-K. Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports, are available to you free of charge through the Investor Relations / Financial Reports / SEC Filings section of our website as soon as reasonably practicable after those materials have been electronically filed with, or furnished to, the SEC. We also make available on our website our corporate governance guidelines, the charters for our audit committee, compensation committee, and nominating and corporate governance committee, our code of business conduct and ethics, which applies to our directors, officers and employees, and our insider trading policy, and such information is available in print and free of charge to any of our shareholders who requests it. In addition, we intend to disclose on our website any amendments to, or waivers from, our code of business conduct and ethics that are required to be publicly disclosed pursuant to rules of the SEC.

Corporate History and Information

We were incorporated in Delaware in January 2000 as Zipcar, Inc. Our principal executive office is located at 25 First Street, Cambridge, MA 02141 and our telephone number is (617) 995-4231.

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Item 1A. ***Risk Factors***

Our business is subject to numerous risks. We caution you that the following important factors, among others, could cause our actual results to differ materially from those expressed in forward-looking statements made by us or on our behalf in filings with the SEC, press releases, communications with investors and oral statements. Any or all of our forward-looking statements in this Annual Report on Form 10-K and in any other public statements we make may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Many factors mentioned in the discussion below will be important in determining future results. Consequently, no forward-looking statement can be guaranteed. Actual future results may differ materially from those anticipated in forward-looking statements. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosure we make in our reports filed with the SEC.

Risks Related to the Merger

A significant delay in consummating or a failure to consummate the proposed merger could have a material adverse effect on our stock price and operating results.

If the proposed merger with Avis Budget is not completed, it could have a material adverse effect on our stock price. In addition, any significant delay in consummating the merger could have a material adverse effect on our operating results, adversely affect our member and vendor relationships and would likely lead to a significant diversion of management and employee attention and potential employee attrition.

Expenses related to the proposed merger are significant and will adversely affect our operating results.

We have incurred and expect to continue to incur significant expenses in connection with the proposed merger, including legal and investment banker fees and retention bonus expenses. We expect these costs to have an adverse effect on our operating results. In addition, if the merger is not consummated under certain circumstances, we may be required to pay to Avis Budget a termination fee of $16,807,250.

Restrictions on the conduct of our business prior to the completion of the proposed merger may have a negative impact on our operating results.

We have agreed to certain restrictions on the conduct of our business in connection with the proposed merger that require us to conduct our business only in the ordinary course, subject to specific limitations. These restrictions may delay or prevent us from undertaking business opportunities that may arise pending completion of the merger.

Risk Related to Our Business

We have a history of losses, and we may be unable to sustain profitability.

We have experienced net losses in each year from our inception until the year ended December 31, 2011 and recorded our first net profit in the year ended December 31, 2012. We cannot provide assurance that our business operations will sustain profitability and it is possible we may incur net losses for in 2013 and beyond. We expect to incur significant future expenses as we develop and expand our business, which will make it harder for us to maintain future profitability. We may incur losses in the future for a number of reasons, including the other risks described in this Annual Report on Form 10-K, and we may encounter unforeseen expenses, difficulties, complications, delays and other unknown events.

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Because many of our expenses are fixed, we may not be able to limit our losses if we fail to achieve our forecasted revenue.

To fulfill the anticipated demand for our car sharing services, we must make significant investments in vehicles and parking. The build-up of our fleet in advance of actual reservations exposes us to significant fixed costs. If market demand for our services does not increase as quickly as we have anticipated, or if there is a rapid and unexpected decline in demand for our services, we may be unable to offset these fixed costs in the near term and to achieve economies of scale, and our operating results may be adversely affected as a result of high operating expenses, reduced margins, underutilization of fleet capacity and asset impairment charges.

Car sharing is a relatively new market, and the rate of adoption and our associated growth in our current markets may not be representative of rates of adoption or future growth in other markets.

We derive, and expect to continue to derive, substantially all of our revenue from car sharing, a relatively new and rapidly evolving market. If the market for car sharing fails to grow or grows more slowly than we currently anticipate, our business would be negatively affected. To date, we have targeted expansion into markets we believe are the most likely to adopt car sharing. However, our efforts to expand within and beyond our existing markets may not achieve the same success, or rate of adoption, we have achieved to date.

Our growth rate may not be sustainable and a failure to maintain an adequate growth rate will adversely affect our business.

Our revenues have grown rapidly since our inception. We may not sustain these high rates of growth in future periods and you should not rely on the revenue growth of any prior quarterly or annual periods as an indication of our future performance. If we are unable to maintain adequate revenue growth, our ability to be profitable may be adversely affected, and we may not have adequate resources to execute our business strategy.

We face significant risks as we expand our operations internationally, which could harm our business, operating results and financial condition.

Our efforts to expand our operations into new international markets involve various risks, including the need to invest significant resources in such expansion, the possibility that returns on such investments will not be achieved in the near future or at all and competitive environments with which we are unfamiliar. Our expansion into new markets may not prove to be successful in those markets where public transportation systems are limited or where awareness and adoption of car sharing by the local population is limited.

Any future international operations or expansion efforts may also fail to succeed due to other risks, including:

- difficulties or delays in acquiring a critical mass of members, vehicles and/or convenient parking locations;
- different driving expectations and patterns than those in North America and the European Union or other jurisdictions;
- different legal and labor practices and customs;
- the need to adapt our systems and member interfaces for different languages, currencies and financial accounting practices;
- different insurance requirements and difficulties in acquiring or maintaining appropriate insurance;
- different data protection and privacy laws;
- different methods for checking the driving records of new members; and

difficulties in staffing and managing new operations.

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As a result of these obstacles, we may find it impossible or prohibitively expensive to expand internationally or we may be unsuccessful in our attempt to do so, which could harm our business, operating results and financial condition.

Growth may place significant demands on our management and our infrastructure.

We have experienced substantial growth in our business. This growth has placed and may continue to place significant demands on our management and our operational and financial infrastructure. Many of our systems and operational practices were implemented when we were at a smaller scale of operations. In addition, as we grow, we have implemented new systems and software to help run our operations. As our operations grow in size, scope and complexity, we will need to continue to improve and upgrade our systems and infrastructure to offer an increasing number of members enhanced service, solutions and features. We may choose to commit significant financial, operational and technical resources in advance of an expected increase in the volume of business, with no assurance that the volume of business will increase. Continued growth could also strain our ability to maintain reliable service levels for existing and new members, which could adversely affect our reputation and our business. For example, if we experience demand for our vehicles in excess of our estimates, our fleet may be insufficient to support the higher demand, which could harm our member experience and overall reputation.

Future acquisitions, joint ventures and other strategic investments could disrupt our business and harm our financial condition and operating results.

Our success will depend, in part, on our ability to expand our markets and grow our business in response to changing technologies, member needs and competitive pressures. We may seek to grow our business by acquiring or investing in complementary businesses, solutions or technologies or establishing joint ventures. For example, in 2007 we acquired Flexcar, in 2010 we acquired Streetcar in London, in February 2012, we acquired a controlling interest in Avancar in Barcelona and made a strategic equity investment in Wheelz, a peer-to-peer car sharing company, and in July 2012, we acquired CarSharing.at in Vienna. The identification of suitable investments and acquisitions is difficult, time-consuming and costly, and we may not be able to successfully complete identified transactions. In addition, we may not be able to successfully assimilate and integrate the business, technologies, solutions, personnel or operations of any company we acquire. The integration of any acquired company or investment will require, among other things, coordination of administrative, sales and marketing, accounting and finance functions and expansion of information and management systems. This may be challenging depending on the size and other characteristics of the acquisition or investment and the necessity of integrating and retaining personnel with disparate business backgrounds and corporate cultures. These transactions may also involve the entry into geographic or business markets in which we have little or no prior experience. Moreover, the anticipated returns or other benefits of any acquisition, investment or business relationship may not be realized or we may be exposed to unknown liabilities.

In connection with acquisitions and joint ventures, we may:

- issue additional equity securities that would dilute our stockholders;
- use cash that we may need in the future to operate our business;
- incur debt on terms unfavorable to us or that we are unable to repay;
- incur large charges or expenses or assume substantial liabilities;
- encounter difficulties retaining key employees of the acquired companies or integrating diverse software codes or business cultures; and
- become subject to adverse tax consequences, substantial depreciation or deferred compensation charges.

Any of the foregoing could harm our business and operating results.

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In connection with other strategic investments, such as our Wheelz investment, we may receive illiquid stock of the investee company. If the investee fails to execute on its strategic plan, we may be unable to recover our investment and may be required to record an impairment loss on such investments. Failure to achieve the anticipated benefits of a strategic investment could harm our business and operating results.

Members of companies that we have acquired or may acquire in the future may not continue to use our services at the levels we estimate at the time of the acquisition or may not remain members of Zipcar.

In the fourth quarter of 2011, we completed the integration of Streetcar with Zipcar. Some former Streetcar members are not using our services at the same level as they used Streetcar s services and some former Streetcar members have not used our services at all or terminated their membership. If members of car sharing companies that we have acquired or may acquire in the future do not continue to use our services at the level that we estimate at the time of the acquisition or do not remain Zipcar members, our financial results will be adversely affected.

A material amount of our assets represent goodwill and intangible assets, and our earnings would be reduced if our goodwill or intangible assets were to become impaired.

As of December 31, 2012, our goodwill and intangible assets, net, represented approximately $110 million, or 25.7%, of our total assets, the majority of which is related to our Streetcar acquisition. Goodwill is generated when the cost of an acquisition exceeds the fair value of the net tangible and identifiable intangible assets we acquire. Goodwill is subject to an impairment analysis at least annually, or whenever events or changes in circumstances indicate an impairment may exist, based on the fair value of the reporting unit. Intangible assets, which relate primarily to the member relationships, parking spaces, trade name, non-compete agreements and technologies acquired by us as part of our acquisitions of other companies, are subject to an impairment analysis whenever events or changes in circumstances exist that indicate that the carrying value of the intangible asset might not be recoverable. Our earnings would be reduced if our goodwill or intangible assets were to become impaired.

We face residual risks related to the value of vehicles in our fleet and risks related to potential disruptions in the supply of vehicles and parts, all of which could disrupt our business and harm our financial condition and operating results.

Our approximate average holding period for a vehicle is one to three years. Thereafter, we dispose of these vehicles in auctions and by direct sales to dealers. We are not a party to any material contractual repurchase programs or guaranteed depreciation programs with any car manufacturer. Therefore, we carry substantially all of the risk that the market value of a vehicle at the time of its disposition will be less than its estimated residual value at such time. This is known as residual risk. For various reasons the used car market for one or more of the vehicle models in our fleet could experience considerable downward pricing pressure. If we are unable to dispose of our vehicles for amounts that are equal to or greater than their estimated residual value, our financial results may be negatively impacted.

In addition, disruptions in the production of vehicles or parts used in our fleet, such as those caused by the natural disasters in Japan in 2011, may cause a reduction in supply, and an increase in the cost, of vehicles or parts. Substantial increases in the costs, or a significant delay or sustained interruption in the supply, of fleet vehicles or vehicle parts could adversely affect our ability to maintain our vehicle fleet, negatively affect our revenues and increase our operating expenses.

Manufacturer safety recalls could create risks to our business.

Our vehicles may be subject to safety recalls by their manufacturers. Under certain circumstances, the recalls may cause us to attempt to retrieve vehicles in circulation for member use or to decline to allow members to reserve such vehicles until we can arrange for the steps described in the recalls to be taken. This was the case in early 2010 when we prohibited any member from reserving the 2009 or 2010 Toyota Matrix or the 2010 Toyota Prius for a period of time while we waited for Toyota to issue a resolution to the accelerator malfunction. If a large number of vehicles are the subject of simultaneous recalls, or if needed replacement parts are not in adequate supply, we may not be able to use the recalled vehicles in our active fleet for a significant period of time. Depending on the severity of the recall, it could materially adversely affect our revenues, create bad will with some of our members, reduce the residual value of the vehicles involved and harm our general reputation and brand.

We face risks related to liabilities resulting from the use of our vehicles by our members.

Our business can expose us to claims for personal injury, death and property damage resulting from the use of our vehicles by our members. For example, a member may use a Zipcar vehicle that has worn tires or some mechanical or other problem, including a manufacturing defect that contributes to a motor vehicle accident that results in a death, serious injury or significant property damage for which we may be liable. In addition, we depend on our members and third-party service providers to inspect the vehicles prior to driving in order to identify any potential damage or safety concern with the vehicle. To the extent that we are found at fault or otherwise responsible for an accident, our insurance coverage would cover losses up to a maximum of $5 million in the United States, which coverage level may not be sufficient to satisfy our entire financial obligations.

We could be negatively impacted if losses for which we do not have third-party insurance coverage increase, our insurance coverages prove to be inadequate or if we are unable to renew our insurance policies at competitive rates.

We do not have third-party insurance coverage for damage to our vehicles, but we do have third-party insurance coverage, subject to limits and deductibles, for bodily injury and property damage resulting from member accidents involving our vehicles. We account for vehicle damage or the total loss of a vehicle at the time such damage or loss is incurred. For example, some of our vehicles were damaged by Hurricane Sandy and we will incur some unrecoverable losses from damage to those vehicles. Also, because we are responsible for damage to our vehicles, a deterioration in claims management, whether by our management or by a third-party claims administrator, could lead to increased claim costs. Catastrophic uninsured claims filed against us or the inability of our insurance carriers to pay otherwise-insured claims would have an adverse effect on our financial condition. In addition, our current third-party insurance coverage requires us to pay high deductibles. These high deductibles may result in volatility of our quarterly operating results and our operating results may be adversely affected if our actual deductible costs are higher than we anticipate.

Furthermore, many universities, cities and government entities prefer to do business with parties with significant financial resources who can provide substantial insurance coverage. Should we be unable to renew our third-party insurance, excess liability insurance and other commercial insurance policies at competitive rates, higher rates or the loss of such insurance could have an adverse effect on our financial condition and results of operations. In the future, we may again be exposed to liability for which we self-insure at levels in excess of our historical levels and to liabilities for which we are insured that exceed the level of our insurance.

The impact of worldwide economic conditions, particularly in the United States, Canada, the United Kingdom, Spain, Austria and other jurisdictions we may enter, including the resulting effect on consumer spending, may adversely affect our business, operating results and financial condition.

Our performance is subject to worldwide economic conditions, particularly those in the United States, Canada, the United Kingdom, Spain and Austria, and in particular their impact on levels of consumer spending. Consumer purchases of discretionary items generally decline during recessionary periods and other periods in which disposable income is adversely affected. Because a significant portion of spending for our services may be considered to be discretionary, declines in consumer spending may have a more negative effect on our business than on those businesses that sell products or services considered to be necessities.

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Moreover, the majority of our members are located in major metropolitan areas such as Boston, New York City, Washington, D.C., London and the San Francisco Bay Area, and to the extent any one of these geographic areas experiences any of the above described conditions to a greater extent than other geographic areas, the adverse effect on our financial condition and operating results could be exacerbated.

Seasonality may cause fluctuations in our financial results.

We generally experience some effects of seasonality due to increases in travel during the summer months and holidays such as Memorial Day, Independence Day, Labor Day, Thanksgiving, Christmas and United Kingdom bank holidays. Accordingly, the number of vehicle reservations and associated revenue have generally increased at a higher rate during those periods. Our revenue is impacted negatively by inclement weather conditions, such as blizzards and hurricanes. This seasonality may cause fluctuations in our financial results. In addition, other seasonality trends may develop and the existing seasonality and member behavior that we experience may change.

The market for car sharing services is becoming increasingly competitive, and if we fail to compete effectively our business will suffer.

We expect that the competitive environment for our car sharing service will become more intense as additional companies enter our existing markets or try to expand their operations in those markets. Currently, our primary competitors are traditional rental car companies and auto manufacturers that have established operating car sharing services, which generally have greater name recognition among our target members and greater financial, technical and marketing resources. Secondary competitors include for-profit and not-for-profit companies that provide car sharing services in specific neighborhoods, communities or cities. These secondary competitors may increase the number of vehicles in their fleets or enhance the vehicle offerings in their existing fleets to be more competitive, and additional competitors may enter our markets. Some of our competitors may respond more quickly to new or emerging technologies and changes in driver preferences or requirements that may render our services less desirable or obsolete. These competitors could introduce new solutions with competitive price and convenience characteristics or undertake more aggressive marketing campaigns than ours. New mobility models and technologies are emerging, including peer-to-peer, station-less and one-way floating car sharing and ride sharing. These models and technologies may become increasingly competitive with our services. We believe that price is one of the primary competitive factors in our market and pricing in our markets is very transparent. Our competitors, some of whom may have access to substantial capital, could compete aggressively with us on the basis of pricing. To the extent that we decrease our pricing as a result of downward pricing by our competitors and are not able to reduce our operating costs, it could have a material adverse impact on our results of operations. Conversely, if we fail to respond effectively to competitive actions, we may lose members and experience a decrease in vehicle reservations.

Our growth depends on our ability to obtain and maintain a sufficient number of parking locations that are convenient to our members.

Because our members are located primarily in cities, we must compete for limited parking locations in the cities where we operate. Many of these cities are densely populated and parking locations may not be available at locations that are convenient to our members or on terms that are commercially reasonable. We often work with local authorities to obtain parking locations and we and the local authorities may encounter resistance from local businesses and residents who own cars because, once obtained by us, these parking locations would no longer be generally available to the residents or the customers of the local businesses. If we are unable to obtain and maintain a sufficient number of parking locations that are convenient to our members, our ability to attract and retain members would suffer.

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System interruptions that impair access to our website or disrupt communications with our vehicles would damage our reputation and brand and our member experience, which could substantially harm our business and operating results.

The satisfactory performance, reliability and availability of our reservation system software, website and network infrastructure are critical to our reputation, our ability to attract and retain both existing and potential members and our ability to maintain adequate service levels. Any systems interruption that results in the unavailability of our website or a disruption in our vehicle communications platform could result in negative publicity, damage our reputation and brand and cause our business and operating results to suffer. We may experience temporary system interruptions (either to our website or to the vehicle-on-demand hardware systems in our vehicles) for a variety of reasons, including network failures, power failures, cyber attacks, software errors or an overwhelming number of members or visitors trying to reach our website during periods of strong demand. Because we are dependent in part on third parties for the implementation and maintenance of certain aspects of our systems and because some of the causes of system interruptions may be outside of our control, we may not be able to remedy such interruptions in a timely manner, or at all. Problems faced by our third-party web hosting provider, with the telecommunications network providers with whom it contracts or with the systems by which it allocates capacity among its customers, including us, could adversely impact the experience of our members.

Much of our software is proprietary, and we rely on the expertise of our engineering and software development teams for the continued performance of our software and computer systems. Service interruptions, errors in our software or the unavailability of our website could diminish the overall attractiveness of our service to existing and potential members.

Our servers could be vulnerable to computer viruses, physical or electronic break-ins and similar disruptions, which could lead to interruptions and delays in our service and operations as well as loss, misuse or theft of data. Any attempts by hackers to disrupt our website service or our internal systems, if successful, could harm our business, be expensive to remedy and damage our reputation or brand. Our insurance does not cover expenses related to direct attacks on our website or internal systems. Efforts to prevent hackers from entering our computer systems are expensive to implement and may limit the functionality of our services. Any significant disruption to our website or internal computer systems could result in a loss of members and adversely affect our business and results of operations.

If our efforts to build strong brand identity and maintain a high level of member satisfaction and loyalty are not successful, we may not be able to attract or retain members, and our operating results may be adversely affected.

We must continue to build and maintain strong brand identity. Member awareness of, and the perceived value of, our brand will depend largely on the success of our marketing efforts and our ability to provide a consistent, high-quality member experience. Failure to provide our members with high-quality reservation and drive experiences for any reason could substantially harm our reputation and adversely affect our efforts to develop as a trusted brand. To promote our brand, we have incurred and expect to continue to incur substantial expense related to advertising and other marketing efforts, but we cannot be sure that this investment will be produce the returns we expect.

From time to time, our members express dissatisfaction with our service levels, including our vehicle inventory, available reservation times and response time with respect to questions or incidents with our vehicles. Members who return vehicles late, without sufficient gas or in an unclean condition adversely affect other members experiences, which can also cause dissatisfaction with our service. To the extent dissatisfaction with our service is widespread or not adequately addressed, our reputation could be harmed, and our efforts to develop Zipcar as a trusted brand could be adversely impacted. If our efforts to promote and maintain our brand are not successful, our operating results and our ability to attract and retain members could be adversely affected.

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We rely on third-party support service providers to deliver our services to our members. If these service providers experience operational difficulties or disruptions, our business could be adversely affected.

We depend on third-party service providers to deliver our services to our members. In particular, we rely on a limited number of data center facilities, which are located in the United States and Europe, a U.S. based third-party support service provider to handle many of our routine member support calls and local vendors to manage the cleaning and general maintenance of most of our vehicles. We also rely on third parties to provide gas credit cards in our vehicles for use by our members. We do not control the operation of these providers. If these third-party service providers terminate their relationship with us, or do not provide an adequate level of service to our members, it would be disruptive to our business as we seek to replace the service provider or remedy the inadequate level of service. This disruption could harm our reputation and brand and may cause us to lose members.

If the security of our members confidential information stored in our systems is breached or otherwise subjected to unauthorized access, or if we fail to comply with applicable U.S. or foreign data protection laws, our reputation or brand may be harmed, and we may be exposed to liability and a loss of members.

Our system stores, processes and transmits our members confidential information, including credit card information, driver license numbers and other sensitive data. We rely on encryption, authentication and other technologies licensed from third parties, as well as administrative and physical safeguards, to secure such confidential information. Any compromise of our information security could damage our reputation and brand and expose us to a risk of loss, costly litigation and liability that would substantially harm our business and operating results. We and our third-party data center facilities may not have adequately assessed the internal and external risks posed to the security of our company s systems and information and may not have implemented adequate preventative safeguards or take adequate reactionary measures in the event of a security incident. In addition, we are subject to a variety of laws and regulations in the United States and abroad that relate to protection of personal data, which are constantly evolving and can be subject to significant change. These existing and proposed laws and regulations can be costly to comply with and failure to comply with them could subject us to claims or other remedies, including fines or demands that we modify or cease existing business practices. Most U.S. states have enacted laws requiring companies to notify individuals and often state authorities of data security breaches involving their personal data. These mandatory disclosures regarding a security breach often lead to widespread negative publicity, which may cause our members to lose confidence in the effectiveness of our data security measures. Any security breach, whether successful or not, would harm our reputation and brand, and it could cause the loss of members.

Failure to comply with data protection standards may cause us to lose the ability to offer our members a credit card payment option which would increase our costs of processing vehicle reservations and make our services less attractive to our members, substantially all of whom reserve vehicles with a credit card.

Major payment card issuers have adopted data protection standards and have incorporated these standards into their contracts with us. If we fail to maintain our compliance with the data protection and documentation standards adopted by the major payment card issuers and applicable to us, these issuers could raise the rates they charge us for payment card transactions, impose fines and penalties on us, or terminate their agreements with us, and we could even lose our ability to offer our members a credit card payment option. Substantially all of our members reserve vehicles online with a credit card, and our business depends substantially upon our ability to offer the credit card payment option. Fines, penalties, and increases in the rates charged for payment card transactions could adversely affect our financial results. Any loss of our ability to offer our members a credit card payment option would make our services less attractive to them and hurt our business and cause a loss of revenue. Our administrative costs related to member payment processing would also increase significantly if we were not able to accept credit card payments for vehicle reservations.

Our self-service model may render us more susceptible to fraudulent transactions than in-person car rental companies, which may negatively affect our revenues and profitability

Because we obtain members billing information online, we do not obtain signatures from members in connection with the use of credit cards by them. Under current credit card practices, to the extent we do not obtain cardholders signatures, we are liable for fraudulent credit card transactions, even when the associated financial institution approves payment of the orders. Fraudulent credit cards may be used online to obtain Zipcar membership and make subsequent reservations. Typically, these credit cards would not have been registered as stolen and would not therefore be rejected by our automatic authorization safeguards. We do not currently carry insurance against the risk of fraudulent credit card transactions. A failure to adequately control fraudulent credit card transactions would harm our business and results of operations.

Failure to comply with various country, provincial, state, county and city laws, including the collection of sales or related taxes, could harm our results of operations.

Our business is subject to various country, provincial, local and state tax collection requirements. Amounts that we are required to collect change frequently. As a result we need to continually ensure proper taxes are collected and remitted to the appropriate tax agencies. If we do not collect the appropriate taxes from our members, we may need to pay more than what we have collected. In addition we may be audited by various states and agencies to ensure compliance with tax collection requirements. Such audits could result in additional sales or other tax collection obligations on us which we may not be able to recover from our members. Such obligations could have a material adverse impact on our future operating results.

To date, some taxing authorities have not required us or our customers to pay a rental car tax each time a vehicle is reserved. However, there can be no assurance such tax will not be imposed on us and our members by these authorities in the future. The imposition such tax could have a material adverse effect on our business.

Failure to adequately protect our intellectual property could substantially harm our business and operating results.

Because our business depends substantially on our intellectual property, including our proprietary vehicle platform system, the protection of our intellectual property rights is crucial to the success of our business. We primarily rely on a combination of trademark, trade secret and copyright law and contractual restrictions to protect our intellectual property. These afford only limited protection. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our website features, software and functionality or obtain and use information that we consider proprietary, such as the technology used to operate our website, our content and our trademarks. Moreover, policing our proprietary rights is difficult and may not always be effective. In particular, we may need to enforce our rights under the laws of countries that do not protect proprietary rights to as great an extent as do the laws of the United States.

We have registered Zipcar , wheels when you want them and FastFleet and our other trademarks as trademarks in the United States and in certain other countries. Competitors have adopted and in the future may adopt service names similar to ours, thereby impeding our ability to build brand identity and possibly leading to confusion. In addition, there could be potential trade name or trademark infringement claims brought by owners of other registered trademarks or trademarks that incorporate variations of the term Zipcar or FastFleet or our other trademarks. From time to time, we have acquired or attempted to acquire Internet domain names held by others when such names were causing consumer confusion or had the potential to cause consumer confusion.

Litigation or proceedings before the U.S. Patent and Trademark Office or other governmental authorities and administrative bodies in the United States and abroad may be necessary in the future to enforce our intellectual property rights, to protect our patent rights, trade secrets, trademarks and domain names and to determine the validity and scope of the proprietary rights of others. Our efforts to enforce or protect our proprietary rights may be ineffective and could result in substantial costs and diversion of resources and could substantially harm our operating results.

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Our exposure to risks associated with the use of intellectual property may increase as a result of acquisitions, as we have a lower level of visibility into the development process with respect to acquired technology or the care taken to safeguard against infringement risks. Third parties may make infringement and similar or related claims after we have acquired technology that had not been asserted prior to our acquisition.

If we are unable to protect our domain names, our reputation and brand could be adversely affected.

We currently hold various domain names relating to our brand, including Zipcar.com. Failure to protect our domain names could adversely affect our reputation and brand and make it more difficult for members and potential members to find our website and our car sharing service. The acquisition and maintenance of domain names generally are regulated by governmental agencies and their designees. The regulation of domain names in the United States may change in the near future. Governing bodies may establish additional top-level domains, appoint additional domain name registrars or modify the requirements for holding domain names. As a result, we may be unable to acquire or maintain relevant domain names. Furthermore, the relationship between regulations governing domain names and laws protecting trademarks and similar proprietary rights is unclear. We may be unable, without significant cost or at all, to prevent third parties from acquiring domain names that are similar to, infringe upon or otherwise decrease the value of our trademarks and other proprietary rights.

Confidentiality agreements with employees and others may not adequately prevent disclosure of trade secrets and other proprietary information.

We principally rely on trade secrets to protect our proprietary technologies. We have devoted substantial resources to the development of our proprietary technology, including our proprietary reservation software system, and related processes. In order to protect our proprietary technology and processes, we rely in significant part on confidentiality agreements with our employees, licensees, independent contractors and other advisors. These agreements may not effectively prevent disclosure of confidential information and may not provide an adequate remedy in the event of unauthorized disclosure of confidential information. In addition, others may independently discover trade secrets and proprietary information, and in such cases we would not be able to assert any trade secret rights against such parties. Costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and failure to obtain or maintain trade secret protection could adversely affect our competitive business position.

Our failure to raise additional capital necessary to expand our operations and invest in our business could reduce our ability to compete successfully.

We may require additional capital in the future and we may not be able to obtain additional debt or equity financing on favorable terms, if at all. If we raise additional equity financing, our stockholders may experience significant dilution of their ownership interests, and the per share value of our common stock could decline. Moreover, any new equity securities we issue could have rights, preferences and privileges senior to those of holders of our common stock. If we engage in debt financing, we may be required to accept terms that restrict our ability to incur additional indebtedness and force us to maintain specified liquidity or other ratios. If we need additional capital and cannot raise or otherwise obtain it on acceptable terms, we may not be able to, among other things:

- develop or introduce service enhancements to our members;
- increase our fleet of vehicles;
- continue to expand our development, sales and marketing and general and administrative organizations;
- acquire complementary technologies or businesses;
- expand our operations, in the United States or internationally;

hire, train and retain employees; or

respond to competitive pressures or unanticipated working capital requirements.

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We depend on key and highly skilled personnel to operate our business, and if we are unable to retain our current personnel or hire additional personnel, our ability to develop and successfully market our business could be harmed.

We believe our future success will depend in large part upon our ability to attract and retain highly skilled managerial, technical, finance and sales and marketing personnel. We plan to continue to expand our work force both domestically and internationally. We compete in the market for personnel against numerous companies, including larger, more established competitors who have significantly greater financial resources than we do and may be in a better financial position to offer higher compensation packages to attract and retain human capital. We cannot be certain that we will be successful in attracting and retaining the skilled personnel necessary to operate our business effectively in the future.

Moreover, we believe that our future success is highly dependent on the contributions of our executive team, particularly our Chief Executive Officer, Scott Griffith. All of our employees are at-will employees, which means they may terminate their employment relationship with us at any time. Our key employees possess a specialized knowledge of our business and industry and would be extremely difficult to replace. In addition, the loss of any key employee or the inability to attract or retain qualified personnel could harm the market s perception of us and our brand. Competition for qualified personnel is particularly intense in the Cambridge, Massachusetts area, where our headquarters are located. Further, our principal overseas operations are based in London, which, similar to our headquarters region, has a high cost of living and consequently high compensation standards. Qualified individuals are in high demand, and we may incur significant costs to attract them. We may be unable to attract and retain suitably qualified individuals who are capable of meeting our growing operational and managerial requirements, or may be required to pay increased compensation in order to do so. If we are unable to attract and retain the qualified personnel we need to succeed, our business will suffer.

We may become engaged in legal proceedings that could cause us to incur unforeseen expenses and could occupy a significant amount of our management s time and attention.

From time to time, we are subject to litigation or claims that could negatively affect our business operations and financial position. Many of these matters relate to incidents involving our members while driving our vehicles. As we have grown, we have seen a rise in the number of litigation matters against us. For example, in October 2009, we were named in a class action lawsuit, which was dismissed in its entirety in June 2010. In July 2011, we were named in a similar purported class action lawsuit, Reed v. Zipcar, Inc., Case No. 1:11-cv-11340-RGS, filed in the Federal District Court in Massachusetts, alleging that our late fees are unlawful penalties and unfair and deceptive trade practices. Although the case was dismissed with prejudice on July 31, 2012, on August 29, 2012, the plaintiff filed a notice of appeal with the United States District Court for the District of Massachusetts and that appeal is currently pending. We may be subject to other consumer class action lawsuits in the future. In addition, and as further described in Part I Item 3 of this Annual Report on Form 10-K, since the announcement of our proposed merger with Avis Budget, we have become subject to several class action lawsuits relating to the proposed merger. Litigation disputes could cause us to incur unforeseen expenses, could occupy a significant amount of our management s time and attention and could negatively affect our business operations and financial position.

Our business is subject to the risks of earthquakes, fires, floods and other natural catastrophic events and to interruption by man-made problems such as computer viruses and terrorism.

Our systems and operations are vulnerable to damage or interruption from earthquakes, hurricanes, volcanoes, fires, floods, power losses, telecommunications failures, terrorist attacks, acts of war, human errors, break-ins and similar events. A significant natural disaster, such as an earthquake, fire or flood, could have a material adverse impact on our business, operating results and financial condition, and our insurance coverage may be insufficient to compensate us for losses that may occur. For example, some of our vehicles were damaged by Hurricane Sandy and we will incur some unrecoverable losses from the damage to those vehicles. Acts of terrorism, which may be targeted at metropolitan areas which have higher population density than rural areas, could cause disruptions in our business or the economy as a whole. Our servers may also be vulnerable to computer viruses, break-ins and similar disruptions from unauthorized tampering with our computer systems, which could lead to interruptions, delays, loss of critical data or the unauthorized disclosure of confidential member data. We may not have sufficient protection or recovery plans in certain circumstances and our business interruption insurance may be insufficient to compensate us for losses that may occur. As we rely heavily on our servers, computer and communications systems and the Internet to conduct our business and provide a high quality member experience, such disruptions could negatively impact our ability to run our business, which could have an adverse effect on our operating results.

We incur significant increased costs as a result of operating as a public company, and our management is required to devote substantial time to public company compliance requirements.

As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company. The Sarbanes-Oxley Act of 2002, and rules subsequently implemented by the SEC and the Nasdaq Global Select Market, require public companies to meet certain corporate governance standards. Our management and other personnel have devoted and will continue to devote a substantial amount of time to these requirements. Moreover, these rules and regulations have increased, and will continue to increase, our legal and financial compliance costs and will make some activities more time-consuming and costly. For example, these rules and regulations generally make it more expensive for us to obtain directors and officers liability insurance coverage and more difficult for us to attract and retain qualified persons to serve as directors or executive officers.

If we fail to maintain an effective system of internal controls, we might not be able to report our financial results accurately or prevent fraud; in that case, our stockholders could lose confidence in our financial reporting, which could negatively impact the price of our stock.

Effective internal controls are necessary for us to provide reliable financial reports and prevent fraud. SEC rules require that we maintain effective internal control over financial reporting and disclosure controls and procedures. In particular, for the fiscal year ended December 31, 2012, we performed system and process evaluation and testing of our internal controls over financial reporting to allow management and assist our independent registered public accounting firm in reporting on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Our compliance with Section 404 will continue to require that we incur substantial expense and expend significant management time on compliance-related issues. Even if we conclude, and our independent registered public accounting firm concurs, that our internal control over financial reporting provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, because of its inherent limitations, internal control over financial reporting may not prevent or detect fraud or misstatements. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. If we or our independent registered public accounting firm discover a material weakness in our internal control, the disclosure of that fact, even if quickly remedied, could reduce the market s confidence in our financial statements and harm our stock price. In addition, a delay in compliance with Section 404 could subject us to a variety of administrative sanctions, including ineligibility for short form registration, action by the SEC, the suspension or delisting of our common stock from the Nasdaq Global Select Market and the inability of registered broker-dealers to make a market in our common stock, which would further reduce our stock price and could harm our business.

Our ability to use net operating loss carryforwards in the United States may be limited.

As of December 31, 2012, we had significant net operating loss carryforwards for U.S. federal tax and state tax purposes. The federal net operating loss carryforwards begin to expire in 2021 and certain state net operating

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loss carryforwards began to expire in 2007. To the extent available, we intend to use these net operating loss carryforwards to reduce the corporate income tax liability associated with our operations. Utilization of net operating loss carryforwards may be subject to a substantial annual limitation due to ownership changes that have occurred previously or that could occur in the future, as provided by Section 382 of the Internal Revenue Code of 1986, as well as similar state provisions. We have performed an analysis on the annual limitations and determined that majority of our net operating loss carryforwards are available to reduce future corporate income tax liability. However, future ownership changes including as a result of the proposed merger, could further limit our ability to use these net operating loss carryforwards. To the extent our use of net operating loss carryforwards is significantly limited, our income could be subject to corporate income tax earlier than it would if we were able to use net operating loss carryforwards, which could have a negative effect on our financial results.

Risks Related to Our Indebtedness

We have substantial debt and may incur additional debt, which could adversely affect our financial condition, our ability to obtain financing in the future and our ability to react to changes in our business.

As of December 31, 2012, we had an aggregate principal amount of capital lease obligations and debt outstanding of approximately $109.1 million, $32.1 million of which represents vehicle leases of Zipcar with several third parties and $77.0 million of which is directly associated with Zipcar Vehicle Financing LLC, or ZVF, our wholly-owned bankruptcy-remote special purpose entity. ZVF has entered into a securitization program and variable funding note facilities, pursuant to which ZVF can borrow up to $100 million from third-party lenders. ZVF has used these borrowed funds to purchase vehicles that it has leased to us. We refer to these vehicle financing lines as our ABS facility and expect that over time they will largely replace our existing domestic leasing arrangements.

Our substantial debt could have important consequences to us. For example, it could:

- make it more difficult for us to satisfy our obligations to the holders of our outstanding debt securities and for ZVF to satisfy its obligations to the lenders under the ABS facility, resulting in possible defaults on and acceleration of such indebtedness;
- require us to dedicate a substantial portion of our cash flows from operations to make payments on our debt, which would reduce the availability of our cash flows from operations to fund working capital, capital expenditures or other general corporate purposes;
- increase our vulnerability to general adverse economic and industry conditions, including interest rate fluctuations, because a portion of our borrowings, including under the agreements governing our ABS facility, are at variable rates of interest;
- place us at a competitive disadvantage to our competitors with proportionately less debt or comparable debt at more favorable interest rates;
- limit our ability to refinance our existing indebtedness or borrow additional funds in the future;
- limit our flexibility in planning for, or reacting to, changing conditions in our business; and
- limit our ability to react to competitive pressures, or make it difficult for us to carry out capital spending that is necessary or important to our growth strategy.

Any of the foregoing impacts of our substantial indebtedness could have a material adverse effect on our business, financial condition and results of operations.

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The restrictive covenants contained in the agreements governing our ABS facility may limit our ability to incur additional indebtedness, limit our capital expenditures and restrict our future operations.

ZVF is subject to numerous restrictive covenants and compliance requirements under the agreements governing the ABS facility. The ABS facility agreements include restrictive covenants and compliance requirements applicable to ZVF with respect to liens, further indebtedness, minimum liquidity amounts, funding ratios, collateral enhancements, vehicle manufacturer mix, timely reporting and payments, use of proceeds, and sale of assets. For example, in order to obtain a funding advance under the ABS facility, we are required to contribute a proportionate amount of cash to ZVF for the exclusive use of vehicle purchases. The requirement to contribute cash to ZVF in order to obtain funding under our ABS facility may limit our ability to incur additional indebtedness and limit our capital expenditures. The ABS facility agreements also include restrictive covenants applicable to Zipcar including liens and use and maintenance of vehicles that may place restrictions and limitations on how we operate our business.

Our future reliance on asset-backed or other financing to purchase vehicles subjects us to a number of risks, many of which are beyond our control.

We expect to rely significantly on asset-backed financing to purchase vehicles for our domestic fleet and other sources of financing to purchase vehicles for our international fleet. If our access to asset-backed or other financing were reduced or were to become significantly more expensive for any reason, including as a result of the deterioration in the markets for asset-backed securities or credit in general, we cannot assure you that we would be able to refinance or replace our existing ABS facility or continue to finance new vehicle acquisitions on favorable terms, or at all.

Our ABS facility capacity could be decreased, our financing costs and interest rates could be increased, or our future access to the financial markets could be limited as a result of risks and contingencies, many of which are beyond our control, including, without limitation:

- the acceptance by credit markets of the structures and structural risks associated with our ABS facility, particularly in light of developments in the markets for mortgage-backed securities;

- rating agencies that provide credit ratings for asset-backed indebtedness or other third parties requiring changes in the terms and structure of our asset-backed financing (i) in connection with the incurrence of additional or the refinancing of existing asset-backed debt or (ii) upon the occurrence of external events, such as changes in general economic and market conditions or further deterioration in the credit ratings of our principal car manufacturers;

- the terms, availability and credit market acceptance of the amount of cash collateral required in addition to or instead of guaranties;

- the insolvency or deterioration of the financial condition of one or more of our principal car manufacturers; or

- changes in law or practice that negatively impact our asset-backed financing structure.

Moreover, the volatile state of the global economy threatens to cause tightening of the credit markets, more stringent lending standards and terms and higher volatility in interest rates. Persistence of these conditions could have a material adverse effect on our ability to access short-term debt and the terms and cost of that debt. As a result, we may not be able to secure additional financing in a timely manner, or at all, to meet our future capital needs, which may have an adverse effect on our business, operating results and financial condition. We currently have operating and capital leases provided by various third parties. It is imperative to our business that we be able to continue to access capital through these lines of credit and our ABS facility in order to be able to finance the growth of our vehicle fleet.

Any disruption in our ability to refinance or replace our existing ABS facility or to continue to finance new vehicle acquisitions through asset-backed or other financing, or any negative development in the terms of

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financing available to us, including any increase in variable rates of interest, could cause our cost of financing to increase significantly and have a material adverse effect on our liquidity, financial condition and results of operations.

We may not be able to generate sufficient cash to service all of our debt or refinance or renew our obligations and may be forced to take other actions to satisfy our obligations under such indebtedness, which may not be successful.

Our ability to make scheduled payments on our indebtedness or to refinance or renew our obligations under our ABS facility and other debt agreements will depend on our financial and operating performance, which, in turn, will be subject to prevailing economic and competitive conditions and to the financial and business risk factors we face as described in this section, many of which may be beyond our control. We may not be able to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness. If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures or planned vehicle acquisitions, sell vehicles or other assets, seek to obtain additional equity capital or restructure our indebtedness. In the future, our cash flows and capital resources may not be sufficient for payments of interest on and principal of our debt, and such alternative measures may not be successful and may not permit us to meet scheduled debt service obligations. In addition, the recent worldwide credit crisis will likely make it more difficult for us to refinance our indebtedness on favorable terms, or at all. In the absence of such operating results and resources, we may be required to dispose of material assets to meet our debt service obligations, including our vehicles. We may not be able to consummate those sales, or, if we do, we will not control the timing of the sales or whether the proceeds that we realize will be adequate to meet debt service obligations when due.

Risks Related to Owning Our Common Stock

Our stock price may be volatile, and the market price of our common stock may decline.

Shares of our common stock were sold in our IPO in April 2011 at a price of $18.00 per share, and our common stock has subsequently traded as high as $31.50 and as low as $5.90. The market price of our common stock could continue to be subject to significant fluctuations in response to various factors, some of which are beyond our control. Some of the factors that may cause the market price of our common stock to fluctuate include:

- fluctuations in our quarterly financial results or the quarterly financial results of companies perceived to be similar to us;
- the financial guidance that we provide to the public, any changes in such guidance, or our failure to meet such guidance;
- fluctuations in our revenue due to failure to attract or decreases in members or member usage of vehicles;
- changes in estimates of our financial results or recommendations by securities analysts, or our failure to meet such estimates;
- failure of our car sharing service to achieve or maintain market acceptance;
- changes in market valuations of similar companies;
- success of competitive service offerings or technologies;
- changes in our capital structure, such as future issuances of securities or the incurrence of debt;

- announcements by us or our competitors of significant services, contracts, acquisitions or strategic alliances;
- regulatory developments in the United States, foreign countries or both;
- litigation involving us;
- additions or departures of key personnel;
- investors general perception of us;
- changes in general economic, industry and market conditions; and
- announcements regarding material developments related to the proposed merger with Avis Budget.

In addition, if the market for technology and source sector stocks or the stock market in general experiences a loss of investor confidence, the trading price of our common stock could decline for reasons unrelated to our business, financial condition or results of operations. If any of the foregoing occurs, it could cause our stock price to fall and may expose us to class action lawsuits that, even if unsuccessful, could be costly to defend and a distraction to management.

Future sales of shares by existing stockholders could cause our stock price to decline.

Sales by our existing stockholders of a substantial number of shares of our common stock in the public market, or the threat that substantial sales might occur, could cause the market price of our common stock to decrease significantly. These factors could also make it difficult for us to raise additional capital by selling our common stock.

If securities or industry analysts do not publish or cease publishing research or reports about us, our business or our market, or if they adversely change their recommendations regarding our stock, our stock price and trading volume could decline.

The trading market for our common stock is and will be influenced by the research and reports that industry or securities analysts publish about us, our business, our market or our competitors. If any analyst who covers us adversely changes its recommendation regarding our stock, or provides more favorable relative recommendations about our competitors, our stock price would likely decline. If any analyst who covers us were to cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

Anti-takeover provisions contained in our certificate of incorporation and bylaws, as well as provisions of Delaware law, could impair a takeover attempt.

Our certificate of incorporation, bylaws and Delaware law contain provisions that could have the effect of rendering more difficult or discouraging an acquisition deemed undesirable by our board of directors. Our corporate governance documents include provisions:

- authorizing blank check preferred stock, which could be issued with voting, liquidation, dividend and other rights superior to our common stock;
- limiting the liability of, and providing indemnification to, our directors and officers;

limiting the ability of our stockholders to call and bring business before special meetings and to take action by written consent in lieu of a meeting;

requiring advance notice of stockholder proposals for business to be conducted at meetings of our stockholders and for nominations of candidates for election to our board of directors;

controlling the procedures for the conduct and scheduling of board of directors and stockholder meetings;

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- providing our board of directors with the express power to postpone previously scheduled annual meetings and to cancel previously scheduled special meetings;
- establishing a classified board of directors so that not all members of our board are elected at one time;
- limiting the determination of the number of directors on our board of directors and the filling of vacancies or newly created seats on the board to our board of directors then in office; and
- providing that directors may be removed by stockholders only for cause.

These provisions, alone or together, could delay hostile takeovers and changes in control of our company or changes in our management.

As a Delaware corporation, we are also subject to provisions of Delaware law, including Section 203 of the Delaware General Corporation Law, which prevents some stockholders holding more than 15% of our outstanding common stock from engaging in certain business combinations without approval of the holders of substantially all of our outstanding common stock. Any provision of our amended and restated certificate of incorporation or bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of our common stock, and could also affect the price that some investors are willing to pay for our common stock.

We record substantial expenses related to our issuance of stock options that may have a material adverse impact on our operating results for the foreseeable future.

Our stock-based compensation expenses totaled $5.6 million, $4.1 million, $2.8 million and $1.7 million during 2012, 2011, 2010 and 2009, respectively. In the event the proposed merger with Avis Budget is not consummated, we expect our stock-based compensation will continue to be significant in future periods, which will have an adverse impact on our operating results. The model we used requires the input of highly subjective assumptions, including the price volatility of the option s underlying stock. If facts and circumstances change and we employ different assumptions for estimating stock-based compensation expense in future periods, or if we decide to use a different valuation model, the future period expenses may differ significantly from what we have recorded in the current period and could materially affect the fair value estimate of stock-based payments, our operating income, net income and net income per share.

Our executive officers and directors and their affiliates could have significant influence over us and could delay or prevent a change in corporate control.

As of December 31, 2012, our executive officers and directors and their affiliates beneficially owned, in the aggregate, approximately 33.4% of our outstanding common stock. As a result, these stockholders, if they were to act together, could have significant influence over the outcome of matters submitted to our stockholders for approval, including the election of directors and any merger, consolidation or sale of all or substantially all of our assets. In addition, these stockholders, if they were to act together, could have significant influence over the management and affairs of our company. Accordingly, this concentration of ownership might harm the market price of our common stock by:

- delaying, deferring or preventing a change in corporate control;
- impeding a merger, consolidation, takeover or other business combination involving us; or
- discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of us.

Item 1B. ***Unresolved Staff Comments***

None.

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Item 2. ***Properties***

Our corporate headquarters are located in Cambridge, Massachusetts, where we lease approximately 35,000 square feet of office space. This lease expires on August 31, 2013 with respect to approximately 30,000 square feet and on January 31, 2015 with respect to the balance of the space. On November 30, 2012, we entered into a lease for 46,200 square feet of office space in Boston, Massachusetts. This lease expires on December 31, 2023 and we have the option to extend the lease for two additional five-year periods. We intend to move our corporate headquarters from 25 First Street, Cambridge, Massachusetts to 35 Thomson Place, Boston, Massachusetts during the first half of 2013.

We also lease office facilities in the London area totaling approximately 11,000 square feet. The leases for our London area facilities expire on January 3, 2020 and January 4, 2020.

Item 3. ***Legal Proceedings***

On July 27, 2011, a putative class action lawsuit was filed against us in the United States District Court for the District of Massachusetts, Reed v. Zipcar, Inc., Case No. 1:11-cv-11340-RGS. The lawsuit alleged that our late fees were unlawful penalties. The lawsuit purported to assert claims against us for unjust enrichment, money had and received, for declaratory judgment, and for unfair and deceptive trade practices under Massachusetts General Laws ch. 93A, and requested certification of a class consisting of all Zipcar members who have incurred late fees at the presently imposed rates. The plaintiff sought unspecified amounts of restitution and disgorgement of the revenues and/or profits that we allegedly received from imposing late fees, as well as a declaration that such late fees were void, unenforceable, and/or unconscionable, and an award of treble damages, attorneys fees and costs. On November 10, 2011, we filed a motion to dismiss, and on July 31, 2012, the court granted our motion to dismiss, dismissing the lawsuit with prejudice. On August 29, 2012, the plaintiff filed a notice of appeal with the United States District Court for the District of Massachusetts and the appeal is currently pending before the First Circuit Court of Appeals, with oral argument scheduled for March 5, 2013. While we intend to contest the plaintiff s appeal vigorously, neither the outcome of this appeal nor the amount and range of potential damages or exposure associated with the litigation if the appeal is successful can be assessed at this time.

On January 4, 2013, a putative class action lawsuit was filed in Suffolk County Superior Court in the Commonwealth of Massachusetts by Robert Karrasch, an alleged stockholder of the company (*Karrasch v. Zipcar, Inc. et al.*, Civil Action No. 13-0038-BLS2). The lawsuit alleges, among other things: (i) that the members of our board of directors breached their fiduciary duties to stockholders in negotiating and approving the merger agreement, that the merger consideration negotiated in the merger agreement improperly undervalues the company, that the company s stockholders will not receive adequate or fair value for their Zipcar common stock in the merger, and that the terms of the merger agreement impose improper deal protection devices that will preclude competing offers, and (ii) that Avis Budget and Merger Sub aided and abetted the purported breaches of fiduciary duties. The lawsuit seeks, among other things, an injunction against the consummation of the merger until such time as defendants comply with their obligation to maximize shareholder value and disclose all material information regarding the merger, an award of damages, and costs and expenses, including attorneys and experts fees and expenses. On January 25, 2013, the parties to this lawsuit filed with the court an agreed-upon order, which the court signed, in which the plaintiff agreed not to seek any relief in the Massachusetts courts prior to the closing of the merger, and to seek any such relief in the Delaware courts. In exchange, defendants agreed to provide plaintiff with any discovery provided to the plaintiffs in the pending Delaware proceedings, described further below, and not to oppose plaintiff s attempt to intervene in the Delaware litigation. On February 21, 2013, the plaintiff moved to intervene in the Delaware litigation.

On January 7, 2013, a putative class action lawsuit was filed in Middlesex County Superior Court in the Commonwealth of Massachusetts by Blair Holbrook, an alleged stockholder of the company (*Holbrook v. Zipcar, Inc. et al.*, Civil Action No. 13-0060). The lawsuit alleges, among other things: (i) that the members of our board of directors breached their fiduciary duties to stockholders in negotiating and approving the merger agreement, that the merger consideration negotiated in the merger agreement improperly undervalues the company, that the company s stockholders will not receive adequate or fair value for their Zipcar common stock in the merger, and that the terms of the merger agreement impose improper deal protection devices that will preclude competing offers, and (ii) that Zipcar, Avis Budget and Merger Sub aided and abetted the purported breaches of fiduciary duties. The lawsuit seeks, among other things, an injunction against the consummation of the merger until such time as the company implements a procedure to obtain the highest possible value for stockholders and disclose all material information regarding the merger, rescission of the merger agreement, an award of damages, and costs and expenses, including attorneys and experts fees and expenses. In connection with the agreed order described above in the Karrasch matter, counsel for plaintiff Holbrook has agreed to consolidate this matter with the Karrasch matter above, and therefore to subject this litigation to the same terms of the agreed order in that matter. On February 21, 2013, the plaintiff moved to intervene in the Delaware litigation.

On January 8, 2013, a putative class action lawsuit was filed in the Court of Chancery of the State of Delaware, by Martin Bertisch, an alleged stockholder of the company (*Bertisch v. Zipcar, Inc. et al.*, Transaction ID 48803240, C.A. No. 8185). The lawsuit alleges: (i) that the members of our board of directors breached their fiduciary duties to stockholders in negotiating and approving the merger agreement, that the merger consideration negotiated in the merger agreement improperly undervalues the company, that the company s stockholders will not likely receive adequate or fair value for their Zipcar common stock in the merger, and that the terms of the merger agreement impose improper deal protection devices that will preclude competing offers, and (ii) that Zipcar, Avis Budget and Merger Sub aided and abetted the purported breaches of fiduciary duty. The lawsuit seeks, among other things, an injunction against the consummation of the merger, rescission in the event that the merger has already been consummated prior to the entry of the court s final judgment or an award of rescissory damages, and an award of costs and expenses, including attorneys and experts fees and expenses.

On January 8, 2013, a putative class action lawsuit was filed in the Court of Chancery of the State of Delaware, by Bruce H. Paul, an alleged stockholder of the company (*Paul v. Zipcar, Inc. et al.*, Transaction ID 48818538, C.A. No. 8192). The lawsuit alleges: (i) that the members of our board of directors breached their fiduciary duties to stockholders in negotiating and approving the merger agreement, that the merger consideration negotiated in the merger agreement improperly undervalues the company, that the company s stockholders will not likely receive adequate or fair value for their Zipcar common stock in the merger, and that the terms of the merger agreement impose improper deal protection devices that will preclude competing offers and (ii) that Zipcar, Avis Budget and Merger Sub aided and abetted the purported breaches of fiduciary duty. The lawsuit seeks, among other things, an injunction against the consummation of the merger, rescission in the event that the merger has already been consummated prior to the entry of the court s final judgment or an award of rescissory damages, an award of damages and costs and expenses, including attorneys and experts fees and expenses.

On January 9, 2013, a putative class action lawsuit was filed in the Court of Chancery of the State of Delaware, by Joseph Morcos, an alleged stockholder of the company (*Morcos v. Zipcar, Inc. et al.*, Transaction ID 48840033, C.A. No. 8200). The lawsuit alleges: (i) that the members of our board of directors breached their fiduciary duties to stockholders in negotiating and approving the merger agreement, that the merger consideration negotiated in the merger agreement improperly undervalues the company, that the company s stockholders will not likely receive adequate or fair value for their Zipcar common stock in the merger, and that the terms of the merger agreement impose improper deal protection devices that will preclude competing offers and (ii) that Zipcar, Avis Budget and Merger Sub aided and abetted the purported breaches of fiduciary duty. The lawsuit seeks, among other things, an injunction against the consummation of the merger, rescission in the event that the merger has already been consummated prior to the entry of the court s final judgment or an award of rescissory damages, an award of damages and costs and expenses, including attorneys and experts fees and expenses.

On January 16, 2013, a putative class action lawsuit was filed in the Court of Chancery of the State of Delaware, by Allen Srulowitz, an alleged stockholder of the company (*Srulowitz v. Zipcar, Inc. et al.*,

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Transaction ID 48977007, C.A. No. 8226). The lawsuit alleges: (i) that the members of our board of directors breached their fiduciary duties to stockholders in negotiating and approving the merger agreement, that the merger consideration negotiated in the merger agreement improperly undervalues the company, that the company s stockholders will not likely receive adequate or fair value for their Zipcar common stock in the merger, and that the terms of the merger agreement impose improper deal protection devices that will preclude competing offers and (ii) that Zipcar and Avis Budget aided and abetted the purported breaches of fiduciary duty. The lawsuit seeks, among other things, an injunction against the consummation of the merger until such time as the company implements a procedure to obtain the highest possible value for stockholders, rescission of the merger agreement, and an award of costs and expenses, including attorneys and experts fees and expenses.

On January 16, 2013, a putative class action lawsuit was filed in the Court of Chancery of the State of Delaware, by Evan Hecker, an alleged stockholder of the company (*Hecker v. Zipcar, Inc. et al.*, Transaction ID 48980399, C.A. No. 8227). The lawsuit alleges: (i) that the members of our board of directors breached their fiduciary duties to stockholders in negotiating and approving the merger agreement, that the merger consideration negotiated in the merger agreement improperly undervalues the company, that the company s stockholders will not likely receive adequate or fair value for their Zipcar common stock in the merger, and that the terms of the merger agreement impose improper deal protection devices that will preclude competing offers and (ii) that Avis Budget and Merger Sub aided and abetted the purported breaches of fiduciary duty. The lawsuit seeks, among other things, an injunction against the consummation of the merger until such time as the company implements a procedure to obtain the highest possible value for stockholders, rescission in the event that the merger has already been consummated prior to the entry of the court s final judgment or an award of rescissory damages, and an award of costs and expenses, including attorneys and experts fees.

On January 17, 2013, a putative class action lawsuit was filed in the Court of Chancery of the State of Delaware, by Jim Billups, an alleged stockholder of the company (*Billups v. Zipcar, Inc. et al.*, Transaction ID 48989086, C.A. No. 8229). The lawsuit alleges: (i) that the members of our board of directors breached their fiduciary duties to stockholders in negotiating and approving the merger agreement, that the merger consideration negotiated in the merger agreement improperly undervalues the company, that the company s stockholders will not likely receive adequate or fair value for their Zipcar common stock in the merger, and that the terms of the merger agreement impose improper deal protection devices that will preclude competing offers and (ii) that Avis Budget and Merger Sub aided and abetted the purported breaches of fiduciary duty. The lawsuit seeks, among other things, an injunction against the consummation of the merger, an order directing our board of directors to maximize shareholder value in any proposed sale of the company, and an award of costs and expenses, including attorneys and experts fees.

On January 25, 2013, the Court of Chancery of the State of Delaware issued an order granting the request by each of the six Delaware plaintiffs to have their lawsuits consolidated into one matter, now entitled *In re Zipcar, Inc. Stockholder Litigation*, C.A. No. 8185-VCP, Transaction ID 49105339. On January 30, 2013, the Delaware plaintiffs filed a verified consolidated amended complaint, or the amended complaint. The amended complaint alleges, among other things: (i) that the members of our board of directors breached their fiduciary duties to stockholders in negotiating and approving the merger agreement, that the merger consideration negotiated in the merger agreement improperly undervalues the company, that certain members of the board of directors put their financial interest ahead of that of the stockholders by favoring a sale over an option for long term growth, that the company s stockholders will not likely receive adequate or fair value for their Zipcar common stock in the merger, that the terms of the merger agreement impose improper deal protection devices that will preclude competing offers, and that the preliminary proxy statement filed with the SEC on January 22, 2013 failed to disclose all material information necessary for stockholders to make an informed vote on the proposed merger; and (ii) that Avis Budget and Merger Sub aided and abetted the purported breaches of fiduciary duty. The lawsuit seeks, among other things, an injunction against the consummation of the merger, rescission in the event that the merger has already been consummated prior to the entry of the court s final judgment or an award of rescissory damages, and an award of costs and expenses, including attorneys and experts fees.

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On February 26, 2013, solely to avoid the costs, risks and uncertainties inherent in litigation, and without admitting any liability or wrongdoing, we agreed to settle all of the pending litigation relating to the merger with Avis Budget. The settlement provides, among other things, that the parties will seek to enter into a stipulation of settlement which provides for the conditional certification of the merger-related litigation as a non-opt-out class action pursuant to Court of Chancery Rule 23 on behalf of a class consisting of all record and beneficial owners of our common stock during the period beginning on December 31, 2012 through the date of the consummation of the proposed merger, including any and all of their respective successors in interest, predecessors and representatives, and the release of all asserted claims. As part of the settlement, we have agreed to make certain additional disclosures related to the proposed merger and to waive a provision of the confidentiality agreement between us and one of the other potential acquirers that would prohibit that party from requesting a waiver of its standstill obligations under the confidentiality agreement. The additional disclosures were made in a Current Report on Form 8-K filed with the SEC on February 26, 2013. The asserted claims will not be released until such stipulation of settlement is approved by the court. There can be no assurance that the parties will ultimately enter into a stipulation of settlement or that the court will approve such settlement even if the parties were to enter into such stipulation. The settlement will not affect the merger consideration to be received by our stockholders.

In connection with the settlement, we may be liable for the plaintiffs attorneys fees and costs; however, as of this time any such fee award is uncertain and no reasonable estimate can be made. We carry a director and officer insurance policy which may cover some or all of the cost of this matter subject to a $500,000 retention.

We are also subject to various other legal proceedings and claims that have arisen or may arise in the ordinary course of business. Although some of these proceedings may result in adverse decisions or settlements, management believes that the final disposition of such matters will not have a material adverse effect on our business, financial position, results of operations or cash flows.

Item 4. ***Mine Safety Disclosures***

Not applicable.

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PART II

Item 5. ***Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

As of February 28, 2013, there were 78 holders of record of our common stock. Our common stock began trading on the Nasdaq Global Select Market on April 14, 2011 under the symbol ZIP.

The following table sets forth for the periods indicated below the high and low sales prices for our common stock, all as reported by the Nasdaq Global Select Market of the Nasdaq Stock Market LLC.

2013	**High**	**Low**
First quarter (through February 28, 2013)	$ 12.24	$ 12.16

2012	**High**	**Low**
First quarter	$ 16.25	$ 12.90
Second quarter	14.79	8.87
Third quarter	11.98	6.50
Fourth quarter	8.95	5.90

2011	**High**	**Low**
Second quarter (beginning April 14, 2011)	$ 31.50	$ 18.92
Third quarter	25.88	16.50
Fourth quarter	21.41	12.04

Zipcar currently intends to retain any earnings for its use in its business. Zipcar has not paid any cash dividends on its capital stock and does not currently anticipate paying any cash dividends in the foreseeable future.

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Stock Performance Graph

The following performance graph and related information shall not be deemed soliciting material or to be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that we specifically incorporate it by reference into such filing.

The comparative stock performance graph below compares the cumulative total stockholder return (assuming reinvestment of dividends, if any) from investing $100 on April 14, 2011, the date on which our common stock was first publicly traded, to the close of the last trading day of 2012, in each of (i) our common stock, (ii) the Russell 3000 Index and (iii) a peer group index shown as The Peer Group in the comparative stock performance graph below, consisting of the following 12 publicly traded companies: Ancestry.com, Constant Contact, Blucora, iRobot, lululemon athletica, OpenTable, Pandora Media, Rosetta Stone, Shutterfly, Under Armour, United Online and Vistaprint. We created the peer group index for purposes of this graph because no published industry or line-of-business index exists for Zipcar. The companies in the peer group are the same publicly-traded companies our compensation committee uses for purposes of compensation benchmarking and were selected because they have one or more business model characteristics similar to ours, including positive sales growth, similar stage (post-IPO) of business life cycle, strong brand recognition, first mover advantage, providing a strong and recognizable user experience, a large field operations component, international sales and presence, growth strategy focused on both organic and inorganic growth, sustainability focus and multiple sales channels.

Recent Sales of Unregistered Securities

During the period from January 1, 2012 through December 31, 2012, holders of our warrants exercised warrants to purchase an aggregate of 207,895 shares of our common stock, either through a cashless exercise or cash exercise. We received an aggregate of $39,440 of cash proceeds from the cash exercises of warrants to purchase an aggregate of 29,021 shares of our common stock. The remainder of the warrants were exercised via a cashless net share settlement process, whereby warrants to purchase an aggregate of 178,874 shares of our common stock were exercised, resulting in the forfeiture of 102,162 shares in satisfaction of the warrant exercise price, and the issuance of 76,712 shares of our common stock.

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These securities were issued in reliance on the exemption provided by Section 4(2) of the Securities Act, and are deemed restricted securities for purposes of the Securities Act. All instruments representing the issued securities described above included appropriate legends setting forth that the securities have not been registered and the applicable restrictions on transfer.

Use of Proceeds

In April 2011, we completed our initial public offering of common stock, or IPO, pursuant to a registration statement on Form S-1 (File No. 333-167220), which the SEC declared effective on April 8, 2011, and a registration statement on Form S-1 (File No. 333-173475) filed pursuant to Rule 462(b) of the Securities Act.

We raised a total of $108.3 million in net proceeds in the IPO. We have used $51.4 million of these net proceeds to repay certain indebtedness, $8.7 million of these proceeds to fund our investment in Wheelz, Inc. and $3.4 million of these proceeds to fund our acquisition of CarSharing.at. None of these repayments were direct or indirect payments to any of our directors or officers or their associates or to persons owning 10 percent or more of our common stock or to any of our affiliates, and none of such payments were direct or indirect payments to others. The remaining net offering proceeds have been invested into short-term investment-grade securities and money market accounts.

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Item 6. ***Selected Financial Data***

You should read the following selected consolidated financial data below in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements, related notes and other financial information included in this Annual Report on Form 10-K. The consolidated statements of operations data for the years ended December 31, 2012, 2011 and 2010 and the consolidated balance sheets data as of December 31, 2012 and 2011 are derived from our audited consolidated financial statements included in this Annual Report on Form 10-K. The consolidated statement of operations data for the years ended December 31, 2009 and 2008 and the consolidated balance sheets data as of December 31, 2010, 2009 and 2008 are derived from our audited consolidated financial statements not included in this Form 10-K.

The historical results presented are not necessarily indicative of future results. You should read the data set forth below in conjunction with the Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and related notes included in this Annual Report on Form 10-K.

	Year Ended December 31,				
	2012	2011	2010 (1)	2009	2008
	(in thousands, except share and per share data)				
Revenue	$ 278,868	$ 241,649	$ 186,101	$ 131,182	$ 105,969
Cost and expenses					
Fleet operations	173,613	159,185	122,634	93,367	84,199
Member services and fulfillment	20,007	19,460	15,114	10,414	7,580
Research and development	4,522	3,948	3,170	2,314	1,549
Selling, general, and administrative	71,558	57,117	49,172	29,973	25,324
Amortization of acquired intangible assets	3,070	3,892	3,414	990	1,226
Total operating expenses	272,770	243,602	193,504	137,058	119,878
Income (loss) from operations	6,098	(1,953)	(7,403)	(5,876)	(13,909)
Other income (expense)					
Interest income	367	128	47	60	429
Interest expense	(4,385)	(8,634)	(8,185)	(2,457)	(1,603)
Other, net	1,170	3,041	1,731	3,690	568
Income (loss) before income taxes	3,250	(7,418)	(13,810)	(4,583)	(14,515)
(Benefit) provision for income taxes	(10,937)	(270)	311	84	
Net income (loss)	14,187	(7,148)	(14,121)	(4,667)	(14,515)
Less: net (income) loss attributable to redeemable noncontrolling interest	489	(4)	(4)	23	
Net income (loss) attributable to Zipcar, Inc.	$ 14,676	$ (7,152)	$ (14,125)	$ (4,644)	$ (14,515)
Net income (loss) attributable to common stockholders per share:					
Basic	$ 0.37	$ (0.24)	$ (2.74)	$ (2.23)	$ (7.15)
Diluted	$ 0.35	$ (0.24)	$ (2.74)	$ (2.23)	$ (7.15)
Weighted average number of common shares outstanding used in computing per share amounts:					
Basic	39,852,035	29,379,940	5,148,559	2,083,943	2,028,986
Diluted	41,545,494	29,379,940	5,148,559	2,083,943	2,028,986

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	Year Ended December 31,				
	2012	2011	2010 (in thousands)	2009	2008
Consolidated Balance Sheet Data					
Cash and cash equivalents	$ 45,255	$ 61,658	$ 43,005	$ 19,228	$ 21,099
Total assets	417,293	344,538	248,928	89,907	87,926
Deferred revenue	26,107	24,028	17,912	12,908	9,870
Redeemable convertible preferred stock warrant			478	400	144
Notes payable and capital lease obligation	109,140	70,275	94,063	15,212	16,956
Redeemable convertible preferred stock			116,683	95,715	95,715
Total stockholders equity (deficit)	247,500	221,450	(5,301)	(47,363)	(45,018)

(1) In April 2010, the Company acquired Streetcar.

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Item 7. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes and the other financial information appearing elsewhere in this Annual Report on Form 10-K.

Overview

Zipcar operates the world s leading car sharing network. We operate our membership-based business with over 9,000 vehicles in 20 major metropolitan areas and on more than 300 college campuses in the United States, Canada, the United Kingdom, Spain and Austria. Our car sharing service provides more than 775,000 members with cars on demand in reserved parking spaces within an easy walk of where they live and work. Our members may reserve cars by the hour or by the day at rates that include gas, insurance and other costs associated with car ownership. We offer our solution to individuals, universities, businesses and government agencies.

On April 19, 2011, we closed our initial public offering, or IPO, of 11,136,726 shares of common stock at an offering price of $18.00 per share, of which 6,666,667 shares were sold by us and 4,470,059 shares were sold by selling stockholders, including 1,452,617 shares pursuant to the underwriters option to purchase additional shares, resulting in net proceeds to us of approximately $111.6 million, after deducting underwriting discounts. Upon the closing of the IPO, we used $51.4 million of the proceeds to repay all outstanding balances including interest as of the payment date associated with certain debt balances.

Our revenue has grown from $106.0 million in 2008 to $278.9 million in 2012. Since our inception, a substantial portion of our revenue has been generated in North America. As of December 31, 2012, we had an accumulated deficit of $58 million. Our business initially requires fleet, marketing and infrastructure investments in each metropolitan area. As markets develop and membership increases, our business benefits from operational efficiencies and economies of scale. Cash flows from our more mature markets are used to fund new and emerging markets as well as investments in our infrastructure.

Although our principal growth has been organic, we have also grown through acquisitions. In November 2007, we acquired Flexcar, a national operator of car sharing services. In December 2009, we made an equity investment for a minority ownership stake in Catalunya Carsharing S.A., known as Avancar, the largest car sharing operator in Spain. In April 2010, we expanded our London operations with the acquisition of Streetcar Limited, or Streetcar, a car sharing service in the United Kingdom. In February 2012, we increased our ownership in Avancar to a majority holding of 60% and made an equity investment of $8.7 million for a minority ownership interest in Wheelz, Inc., a peer-to-peer car sharing company targeting university and other campus communities. In July 2012, we continued to grow our car sharing network globally, expanding our geographical footprint further into Europe with our acquisition of Denzel Mobility CarSharing GmbH, a leading car sharing service in Austria, known as CarSharing.at.

On December 31, 2012, we entered into an Agreement and Plan of Merger with Avis Budget Group, Inc. pursuant to which Avis has agreed to acquire all of our outstanding shares for $12.25 per share in cash, representing a total transaction value of approximately $500 million. The merger agreement was approved by the board of directors of both companies. The closing of the transaction remains subject to customary conditions, including approval by our stockholders, and is expected to close in March or April, 2013. A special meeting of Zipcar stockholders is scheduled for March 7, 2013 to consider and vote upon adoption of the merger agreement.

Revenue

We derive revenue primarily from vehicle usage and membership fees. A prospective member applies for membership online. This initial application is accepted following a driving record check and validation of credit card information provided. To cover these costs, we charge a one-time non-refundable application fee in most markets.

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Vehicle usage revenue is recognized as chargeable hours are incurred. Annual membership fees are deferred and recognized ratably over the one-year period of membership. Membership application fees are recorded as deferred revenue and recognized ratably as revenue over the average life of the member relationship, which we currently estimate to be five years. In 2008, we began to offer a fleet management solution, known as FastFleet, by licensing our proprietary vehicle-on-demand technology on a software-as-a- service, or SaaS, basis to organizations that manage their own fleets of vehicles, including local, state and federal government agencies. Customers are charged a monthly fee, which is recognized ratably. If upfront fees are charged then the upfront fees are recorded as deferred revenue and recognized as revenue over the expected customer relationship period commencing from the day the customer is granted access to the system.

Our revenue is not concentrated within any one customer or business. Substantially all of our members and customers pay their fees and vehicle usage charges via credit card and other forms of electronic payment. Our revenue is currently derived from the United States, the United Kingdom, Canada, Spain and Austria.

Fleet Operations

Fleet operations consist principally of costs associated with operating our vehicles such as lease expense, depreciation, parking, fuel, insurance, gain or loss on disposal of vehicles, accidents, repairs and maintenance as well as employee-related costs. Our fuel costs fluctuate as gasoline prices increase or decrease. We expect fleet operation costs to increase as we expand the number of vehicles in our fleet to service an expanding membership base and support future revenue growth. Over time, however, we expect these costs to decline as a percentage of revenue as we achieve increased efficiencies in our operations, a greater percentage of our markets reach critical mass and vehicle usage levels increase and a greater portion of our vehicles are financed under our asset backed loan facility, which we refer to as the ABS facility.

Member Services and Fulfillment

Member services and fulfillment expenses consist of the cost of our outsourced contact center, personnel expenses related to our member support teams and credit card processing fees. Member services and fulfillment costs are expected to increase as our membership base increases.

Research and Development

Research and development expenses consist primarily of labor-related costs incurred in coding, testing, maintaining and modifying our technology platform. We have focused our research and development efforts on both improving ease of use and functionality of our reservation, back-end and in-vehicle systems. Our internal and external costs associated with new and enhanced functionality are capitalized and amortized generally over three years. We expect research and development expenses to increase as we continue to enhance and expand our technological capabilities but to decrease over time as a percentage of revenue as we leverage our technology platform over a larger membership base.

Selling, General and Administrative

Selling, general and administrative expenses consist primarily of labor-related expenses for sales and marketing, administrative, human resources, internal information technology support, legal, finance and accounting personnel, online search and advertising, trade shows, marketing agency fees, public relations and other promotional expenses, professional fees, insurance and other corporate expenses including certain acquisition-related costs. Online search and advertising costs, which are expensed as incurred, include online advertising media such as banner ads and pay-per-click payments to search engines. We expect to continue to invest in sales and marketing activities to increase our membership base and brand awareness. Additionally, we expect that general and administrative expenses will increase as we continue to add personnel to support the growth of our business. We also have incurred and expect to continue to incur additional personnel expenses,

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professional service fees, including audit and legal, investor relations, costs of compliance with securities laws and regulations, and higher director and officer insurance costs related to operating as a public company. As a result, we expect that our selling, general and administrative expenses will continue to increase in the future but decrease as a percentage of revenue over time as our membership base and related revenue increases.

Critical Accounting Policies

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States, or GAAP. The preparation of our financial statements and related disclosures requires us to make estimates, assumptions and judgments that affect the reported amount of assets, liabilities, revenue, costs and expenses and related disclosures. We believe that the estimates, assumptions and judgments involved in the accounting policies described below have the greatest potential impact on our financial statements and, therefore, we consider these to be our critical accounting policies. Accordingly, we evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates under different assumptions and conditions. See Note 2 to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for information about these critical accounting policies, as well as a description of our other significant accounting policies.

Revenue Recognition

We recognize revenue only when the following four criteria are met: price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed and collectability of the resulting receivable is reasonably assured.

We generate revenue primarily from vehicle usage and membership fees from individuals, university students and faculty, businesses and government agencies. Vehicle usage revenues are recognized as chargeable hours are incurred. Annual membership fees are generally nonrefundable and are deferred and recognized ratably over the one-year period of membership. Membership application fees are recorded as deferred revenue and recognized as revenue over the average life of the member relationship, which we currently estimate to be five years. This estimate is based on several assumptions, including historical retention levels. Any changes to these estimates would increase or decrease our recorded revenue. However, if the average life of the member relationship had changed by one year, our revenue in 2012 would not have changed by a material amount. Direct and incremental costs associated with the membership application process, consisting of the cost of driving record checks and the cost of providing membership cards, are deferred and recognized as an expense over the estimated life of the member relationship. Our members have the ability to purchase a damage fee waiver to reduce or eliminate insurance deductible costs in the event of an accident. Damage waiver fees are recorded as revenue ratably over the term for which such waiver coverage applies. Members are charged a fee for returning our vehicles late. Such fees are recorded as revenue at the time the fee is charged, which is at the end of the reservation period. Sometimes new members are offered driving credits as an inducement to joining Zipcar. These driving credits generally expire shortly after a new member joins Zipcar and allow the member to operate our vehicles without paying for the usage of the vehicles until the credits are exhausted. These driving credits are treated as a deliverable in the arrangement and represent a separate unit of accounting since the credits have value on a stand-alone basis with reliable evidence of fair value. Accordingly, a portion of the annual fee received is allocated to such credits, based on relative fair values of each deliverable, and recorded as revenue upon usage of such credits or upon expiration, whichever is earlier. We provide driving credits to existing members for various reasons, including referring a new member. The cost related to such driving credits is estimated based on an average cost per hour and applied to the estimated hours of driving a member is eligible for based on the corresponding credit. This amount is recorded in the consolidated statement of operations in Fleet Operations.

In 2008, we began offering a fleet management solution known as FastFleet by licensing our proprietary vehicle-on-demand technology on a software-as-a-service, or SaaS basis, primarily to local, state and federal government agencies. Customers are generally charged an upfront fee and a monthly fee. Monthly fees are recognized ratably. If upfront fees are charged, then the upfront fees are recorded as deferred revenue and recognized as revenue over the expected customer relationship period commencing from the day the customer is granted access to the system.

Vehicles

Owned vehicles and vehicles held under capital leases are capitalized as part of property and equipment and depreciated over their expected useful lives to estimated residual value. We record the initial cost of the vehicle net of incentives and allowances from manufacturers. We must estimate what the residual values of these vehicles will be at the expected time of disposal to determine monthly depreciation rates. The estimation of residual values requires us to make assumptions regarding the age and mileage of the car at the time of disposal, as well as expected used vehicle auction market conditions. We reevaluate estimated residual values periodically and adjust depreciation rates as appropriate. Differences between actual residual values and those estimated result in a gain or loss on disposal and are recorded as part of fleet operations at the time of sale. Actual timing of disposal that is either shorter or longer than the life used for depreciation purposes could result in a loss or gain on sale.

Software Development Costs

We capitalize certain costs of computer software developed or obtained for internal use. These costs relate to the development of new or enhanced functionality of the software. The costs incurred in the preliminary stages of development are expensed as incurred. Once a project has reached the application development stage, internal and external costs, if direct and incremental, are capitalized until the software is substantially complete and ready for its intended use. Accordingly, we use the release date to determine when capitalization ceases for a particular project. These capitalized costs are amortized over the expected software benefit period of three years.

Income Taxes

Deferred income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the tax rates anticipated to be in effect when such differences reverse. On a periodic basis, we assess the likelihood that we will be able to recover our deferred tax assets and in doing so we consider the quality and trend of earnings, as well as other relevant factors. A valuation allowance is provided if, based on currently available evidence, it is more likely than not that some or all of the deferred tax assets may not be realized. This assessment requires us to make judgments about the likelihood and amounts of future taxable income. As of December 31, 2012, we evaluated the likelihood that we would realize the deferred income taxes to offset future taxable income and concluded that it is more likely than not that substantially all of our U.S. deferred tax assets will be realized through consideration of both the positive and negative evidence. The evidence consisted primarily of our three year U.S. historical cumulative profitability, projected future taxable income and forecasted utilization of the deferred tax assets. The net change in valuation allowance in 2012 was $20.0 million which includes the reduction in the U.S. valuation allowance as discussed above, a reduction in the valuation allowance associated with net operating losses and credit carryforwards that are unavailable due to ownership changes in the prior years and an increase in the valuation allowance associated with losses not benefited in foreign jurisdictions. We maintain a valuation allowance for certain deferred tax assets of $14.9 million, primarily related to foreign net operating losses and fixed assets, due to the uncertainty regarding their realization. Adjustments could be required in the future if our estimate that the amount of deferred tax assets to be realized is more or less than the net amount recorded.

In accordance with our policy, the remaining undistributed earnings, if any, of our non-U.S. subsidiaries remain indefinitely reinvested as of the end of 2012 as they are required to fund needs outside the U.S. and may not be repatriated in a manner that is substantially tax free. It is not practicable to estimate the amount of additional tax, if any, that might be payable on this undistributed foreign income.

We follow the accounting guidance on Accounting for Uncertain Tax Positions and recognize liabilities for uncertain tax positions. We evaluate our tax positions by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit by applicable taxing authorities. If we determine that a tax position will more likely than not be sustained in the event of an audit, then we estimate and measure the tax benefit likely to be realized upon ultimate settlement. Any such estimates are inherently difficult and subjective, as we have to make judgments regarding the probability of various possible outcomes. We had no amounts recorded for any unrecognized tax benefits as of December 31, 2012. Our policy is to record estimated interest and penalties related to the underpayment of income taxes as a component of our income tax provision. As of December 31, 2012, we had not recorded any accrued interest or tax penalties. Our income tax return reporting periods since December 31, 2008 remain open to income tax audit examination by federal and state taxing authorities. In addition, as we have net operating loss carryforwards, the Internal Revenue Service is permitted to audit earlier years and propose adjustments based on the amount of net operating loss generated in those years.

Utilization of net operating loss and research and development credit carryforwards may be subject to a substantial annual limitation due to ownership changes that have occurred previously or that may occur in the future, as provided by Section 382 of the Internal Revenue Code of 1986, as amended, as well as similar state provisions. These ownership changes may limit the amount of net operating loss and research and development credit carryforwards that can be utilized annually to offset future taxable income and tax, respectively.

We have performed an analysis under Section 382, as well as similar state provisions, in order to determine whether any limitations might exist on the utilization of net operating losses and research and development credits carryforward due to ownership changes that have occurred previously. Based on this analysis, we have determined that while ownership changes have occurred during our history, a substantial portion of the net operating losses and credits are available for future utilization net of any limitations.

Valuation of Long-Lived and Intangible Assets, Including Goodwill

Long-lived assets are reviewed for impairment whenever events or changes in circumstances or a triggering event, such as service discontinuance or technological obsolescence, indicate that the carrying amount of the long-lived asset may not be recoverable. Determining whether a triggering event has occurred often involves significant judgment from management. When such events occur, we compare the carrying amount of the asset to the undiscounted expected future cash flows related to the asset. If the comparison indicates that an impairment exists, the amount of the impairment is calculated and a charge is recorded. The amount of the impairment is determined to be the difference between the carrying amount and the fair value of the asset. If a readily determinable market price does not exist for the asset, fair value is estimated using discounted expected cash flows attributable to the asset. Significant judgment and estimates are involved in any impairment evaluation and our estimates, including estimates used in determining future cash flows.

We test goodwill for impairment at least annually. We review goodwill for impairment on the last day of our fiscal year and whenever events or changes in circumstances indicate that the carrying amount of this asset may exceed its fair value. Our assessment is performed at the reporting unit level. Historically the goodwill evaluation for impairment was performed using a two-step process. The first step was to identify potential impairment by comparing the fair value of a reporting unit to the book value, including goodwill. If the fair value of a reporting unit exceeded the book value, goodwill was not considered impaired. If the book value exceeds the fair value, the second step of the process was performed to measure the amount of impairment. In September 2011, the Financial Accounting Standards Board, or FASB, issued ASU 2011-08, Intangibles-Goodwill and Other: Testing Goodwill for Impairment, or ASU 2011-08. The objective of ASU 2011-08 is to simplify how entities test for goodwill impairment. The amendments in ASU 2011-08 permit an entity to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. ASU 2011-08 is effective for annual and interim goodwill impairment tests performed. As allowed under this guidance we early adopted ASU 2011-08 in 2011.

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We have determined that we have five reporting units: United States of America, United Kingdom, Canada, Spain and Austria.

The fair value of our U.S. reporting unit, which carries approximately $41.9 million in goodwill associated with the Flexcar acquisition, was assessed for impairment using the new ASU 2011-08 model. Accordingly, we performed a qualitative analysis examining key events and circumstances affecting fair value, such as budget- to- actual performance and consistency of operating margins, growth in new members and revenue as well as year over year profitability and overall change in the economic environment and determined it is more likely than not that the reporting unit s fair value is greater than its carrying amount. As such, no further analysis was required for purposes of testing our U.S. reporting unit s goodwill for impairment.

For the UK reporting unit, which carries approximately $60.4 million in goodwill associated with the Streetcar acquisition, we bypassed qualitative analysis under ASU 2011-08 based upon the results of our 2011 annual impairment test and assessed goodwill for impairment using the two step model. The process of evaluating goodwill for impairment under the two step model involves the determination of the fair value of our reporting units. The fair value of the reporting units is determined in part by using a discounted future cash flow method, which involves applying appropriate discount rates to estimated cash flows including terminal value that are based on forecasts of revenue, costs and capital requirements. For our UK reporting unit, we estimated future revenue growth based on a number of key assumptions, including membership growth, frequency of reservations per member, duration of trips, pricing for existing markets and entry into new markets. Our cost structure assumptions were based on historic trends, modified for inflation and nonrecurring items, and expected operational efficiencies. The estimated terminal value was calculated using the Two-Stage Growth model. The cash flows employed in the discounted cash flow analysis are based on our most recent financial plan and various growth rates have been assumed for years beyond the current financial plan period. We used a discount rate in our analysis that was deemed to be commensurate with the underlying uncertainties associated with achieving the estimated cash flows projected. The fair value determination also includes using a guideline public company method in which the reporting unit is compared to publicly traded companies in the industry group. The companies used for comparison under the guideline public company method were selected based on a number of factors, including but not limited to, the similarity of their industry, growth rate and stage of development, business model, and financial risk.

Based on the analysis, we noted that the fair value of the UK reporting unit exceeds the carrying value by approximately 22%, indicating no goodwill impairment. As referenced above, the analysis incorporates quantitative data and qualitative criteria including new information that can change the result of the impairment test. The most significant assumptions used in the analysis are the discount rate, the terminal value and expected future revenues, gross margins and operating margins. Unfavorable trends in our membership growth, frequency of reservations per member, duration of trips and related pricing could negatively impact our revenue growth and terminal value. If our future costs are materially different from our historic cost trends or if we do not realize operational efficiencies as expected, our expected gross and operating margins could be negatively impacted. Our inability to meet expected results could increase the underlying uncertainties of future projections, thereby causing an increase in our discount rate. Accordingly, unfavorable changes to our assumptions could impact our conclusion regarding whether existing goodwill is impaired and result in a material impact on our consolidated financial position or results of operations.

The remainder of our goodwill, $5.2 million, relates to the Spain and Austria reporting units which were acquired during 2012. As of December 31, 2012, we determined there were no changes in events or circumstances that indicate it is more-likely-than-not that the fair value of these reporting units have fallen below their carrying amount since the purchase price allocation and goodwill analysis was performed for Spain and Austria at acquisition in February and July 2012, respectively. Accordingly, no further analysis was required for purposes of testing the Spain and Austria reporting units goodwill for impairment.

Accounting for Acquisitions

Accounting for acquisitions requires us to recognize and measure identifiable assets acquired, liabilities assumed and any non-controlling interest in the acquired entity. Our accounting for acquisitions involves

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significant judgments and estimates, including the fair value of certain forms of consideration such as our common stock, preferred stock or warrants, the fair value of acquired intangible assets, which involve projections of future revenues, cash flows and terminal value which are then discounted at an estimated discount rate, the fair value of other acquired assets and assumed liabilities, including potential contingencies, and the useful lives of the assets. The projections are developed using internal forecasts, available industry and market data and estimates of long-term rates of growth for our business. In addition, warrants are valued using assumptions that include expected volatility and expected terms, which are estimates. The impact of prior or future acquisitions on our financial position or results of operations may be materially impacted by the change in or initial selection of assumptions and estimates.

Stock-Based Compensation

Accounting guidance requires employee stock-based payments to be accounted for under the fair value method. Under this method, we are required to record compensation cost based on the fair value estimated for stock-based awards granted over the requisite service periods for the individual awards, which generally equal the vesting periods. We use the straight-line amortization method for recognizing stock-based compensation expense.

The fair value of each stock option grant was estimated on the date of grant using the Black-Scholes option pricing model, which requires the use of highly subjective estimates and assumptions. Historically, as a private company, we lacked company-specific historical and implied volatility information. Therefore, we estimate our expected volatility based on the historical volatility of our publicly traded peer companies and expect to continue to do so until such time as we have adequate historical data regarding the volatility of our traded stock price. The expected life assumption is based on the simplified method for estimating expected term for awards that qualify as plain-vanilla options. This option has been elected as we do not have sufficient stock option exercise experience to support a reasonable estimate of the expected term. The risk-free interest rate is the yield currently available on U.S. Treasury zero-coupon issues with a remaining term approximating the expected term of the option. We recognize compensation expense for only the portion of options that are expected to vest. Accordingly, we have estimated expected forfeitures of stock options based on our historical forfeiture rate and used these rates in developing a future forfeiture rate. If our actual forfeiture rate varies from our historical rates and estimates, additional adjustments to compensation expense may be required in future periods.

Prior to our IPO in April 2011, the fair value of our common stock was determined on a periodic basis by our board of directors, taking into account our most recent valuations. The assumptions underlying these valuations represent management s best estimates, which involve inherent uncertainties and the application of management judgment. The most significant input into the Black-Scholes option-pricing model used to value our option grants is the fair value of common stock.

Stock options have historically been granted with exercise prices equal to the estimated fair value of our common stock on the date of grant. Commencing in the second quarter 2011, we based fair value on the quoted market price of our common stock. Because there was no public market for our common stock prior to our IPO in April 2011, our Board of Directors determined the fair value of common stock taking into account our most recently available valuation of common stock. In 2008 as well as the first and second quarters of 2009, our Board of Directors determined the fair value of our common stock by using discounted future cash flows under the income method after considering the most recent rounds of financing. Beginning in July 2009 through the date of our IPO, our valuation analysis was prepared using the probability-weighted expected return method as prescribed by the AICPA Practice Aid. Under this methodology, the fair market value of our common stock was estimated based upon an analysis of future values assuming various outcomes. The share value was based on the probability-weighted present value of expected future investment returns considering each of the possible outcomes available to our Board of Directors as well as the rights of each share class.

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Valuation of Marketable Securities

Our investments in available-for-sale securities are reported at fair value. Unrealized gains and losses related to changes in the fair value of investments are included in accumulated other comprehensive income, net of tax, as reported in our consolidated balance sheets included elsewhere in the Annual Report on Form 10-K. Changes in the fair value of investments impact our net income only when such investments are sold or an other-than-temporary impairment is recognized. Realized gains and losses on the sale of securities are determined by specific identification of each security s cost basis. We regularly review our investment portfolio to determine if any investment is other-than-temporarily impaired due to changes in credit risk or other potential valuation concerns, which would require us to record an impairment charge in the period any such determination is made. In making this judgment, we evaluate, among other things, the duration and extent to which the fair value of an investment is less than its cost, the financial condition of the issuer and any changes thereto, and our intent to sell, or whether it is more likely than not we will be required to sell, the investment before recovery of the investment s amortized cost basis. Our assessment on whether an investment is other-than-temporarily impaired or not, could change in the future due to new developments or changes in assumptions related to any particular investment. We have not recorded any other-than-temporarily impairment charges during the years ended December 31, 2012 and 2011.

Results of Consolidated Operations

	Year Ended December 31,		
	2012	**2011**	**2010**
		(in thousands)	
Revenue	$ 278,868	$ 241,649	$ 186,101
Cost and expenses			
Fleet operations	173,613	159,185	122,634
Member services and fulfillment	20,007	19,460	15,114
Research and development	4,522	3,948	3,170
Selling, general and administrative	71,558	57,117	49,172
Amortization of acquired intangible assets	3,070	3,892	3,414
Total operating expenses	272,770	243,602	193,504
Income (loss) from operations	6,098	(1,953)	(7,403)
Other income (expense)			
Interest income	367	128	47
Interest expense	(4,385)	(8,634)	(8,185)
Other, net	1,170	3,041	1,731
Income (loss) before income taxes	3,250	(7,418)	(13,810)
Provision (benefit) for income taxes	(10,937)	(270)	311
Net income (loss)	14,187	(7,148)	(14,121)
Less: net (income) loss attributable to redeemable noncontrolling interest	489	(4)	(4)
Net income (loss) attributable to Zipcar, Inc.	$ 14,676	$ (7,152)	$ (14,125)

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The following table sets forth selected consolidated statements of operations data for each of the periods indicated as a percentage of total revenue.

	Year Ended December 31,		
	2012	2011	2010
Revenue	100.0%	100.0%	100.0%
Cost and expenses			
Fleet operations	62.3	65.9	65.9
Member services and fulfillment	7.2	8.1	8.1
Research and development	1.6	1.6	1.7
Selling, general and administrative	25.7	23.6	26.4
Amortization of acquired intangible assets	1.1	1.6	1.8
Total operating expenses	97.9	100.8	103.9
Income (loss) from operations	2.1	(0.8)	(3.9)
Other income (expense)			
Interest income	0.1	0.1	0.0
Interest expense	(1.6)	(3.6)	(4.4)
Other, net	0.4	1.3	0.9
Income (loss) before income taxes	1.0	(3.0)	(7.4)
Provision (benefit) for income taxes	(3.9)	(0.1)	0.2
Net income (loss)	4.9	(2.9)	(7.6)
Less: net (income) loss attributable to redeemable noncontrolling interest	0.2	0.0	0.0
Net income (loss) attributable to Zipcar, Inc.	5.1%	(2.9)%	(7.6)%

Segments

We have identified two reportable segments: North America and Europe. In both segments, we derive revenue primarily from self-service vehicle use by our members.

In our North America segment, which includes the United States and Canada, revenue increased to $231.8 million in the year ended 2012 from $157.3 million in the year ended 2010 and the segment income before income taxes, which excludes corporate expenses and certain other costs, improved to $48.8 million from $26.6 million during this timeframe. These improvements are principally the results of growth in membership for the major metropolitan areas and universities in this segment and achieving higher margins based on operational, financing and scale-based efficiencies.

Our Europe segment includes the operations of the United Kingdom for the entire reported periods, the operations of Spain since February 2012, and Austria since July 2012. Revenue increased to $47.1 million in the year ended 2012 from $28.8 million in the year ended 2010 in our Europe segment. During this timeframe, the segment loss before income taxes, which excludes corporate expenses and certain other costs, increased to a loss of $2.7 million from a loss of $1.5 million. These increases are due to a full year of Streetcar operations in 2011 and 2012 compared to a partial year in 2010, as well as general growth in that market and the addition of Spain and Austria during 2012. Refer to Note 13 to the consolidated financial statements for additional segment information.

Comparison of Years Ended December 31, 2012, 2011 and 2010

Revenue

	Years Ended December 31,			2012 Change		2011 Change	
	2012	2011	2010	$	%	$	%
	(amounts in thousands)						
Vehicle usage revenue	$ 235,126	$ 207,231	$ 163,797	$ 27,895	13.5%	$ 43,434	26.5%
Fee revenue	43,376	34,176	22,085	9,200	26.9%	12,091	54.7%
Other revenue	366	242	219	124	51.2%	23	10.5%
Total	$ 278,868	$ 241,649	$ 186,101	$ 37,219	15.4%	$ 55,548	29.8%

Total revenue increased 15.4% or $37.2 million for the year ended December 31, 2012 compared to the year ended December 31, 2011. Vehicle usage revenue increased primarily due to an increase in reservations associated with new Zipcar members. Fee revenue is derived from annual membership, application and damage waiver fees. The increase in fee revenue is primarily a result of a higher average member base during the year ended December 31, 2012 compared to the year ended December 31, 2011 and a strong uptake in our damage waiver offering. Our average membership increased to 739,000 in 2012 from 615,000 in 2011. Annual fee revenue and application fee revenue are recognized ratably over one and five years, respectively. Revenue per member decreased by $14 to $378 in 2012 from $392 in 2011, primarily due to a decrease in vehicle usage revenue per member in part due to an increased mix of more profitable hourly versus daily trips as well as a decrease in the growth of net new members, who on average tend to be more active.

Total revenue increased 29.8% or $55.5 million for the year ended December 31, 2011 compared to the year ended December 31, 2010. Vehicle usage revenue increased primarily due to an increase in reservations associated with new members as well as higher pricing and a full year of Streetcar results compared to 2010, which included Streetcar operations from the date of acquisition on April 20, 2010. Fee revenue is derived from annual membership, application and damage waiver fees. The increase in fee revenue is primarily a result of a higher average member base in 2011 compared to 2010, in part due to the full year of Streetcar operations, along with higher fees and a strong uptake in our damage waiver offering. Our average membership increased to 615,000 in 2011 from 461,000 in 2010, which only included Streetcar operations from the date of acquisition. Annual fee revenue and application fee revenue are recognized ratably over one and five years, respectively. Revenue per member decreased by $10 to $392 in 2011 from $402 in 2010, primarily due to a decrease in vehicle usage revenue per member resulting from a focus on shifting mix from daily reservations to more profitable hourly reservations. Other revenue is primarily attributable to revenue from our SaaS-based FastFleet fleet management solution.

Operating Expenses

	Years Ended December 31,			2012 Change		2011 Change	
	2012	2011	2010	$	%	$	%
	(amounts in thousands)						
Fleet Operations	$ 173,613	$ 159,185	$ 122,634	$ 14,428	9.1%	$ 36,551	29.8%
Member services and fulfillment	20,007	19,460	15,114	547	2.8%	4,346	28.8%
Research and development	4,522	3,948	3,170	574	14.5%	778	24.5%
Selling, general and administrative	71,558	57,117	49,172	14,441	25.3%	7,945	16.2%
Amortization of acquired intangible assets	3,070	3,892	3,414	(822)	-21.1%	478	14.0%
Total	$ 272,770	$ 243,602	$ 193,504	$ 29,168	12.0%	$ 50,098	25.9%

Fleet Operations: Fleet operations expenses increased 9.1% or $14.4 million in 2012 as compared to 2011 as a result of an increase in the number of vehicles in our fleet and, to a lesser extent, costs associated with Hurricane Sandy. The average number of vehicles in our fleet increased by 1,112 to 10,161 in 2012 compared to 2011. Cost

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per vehicle decreased 2.8% in 2012 as compared to 2011 primarily due to improved cost leverage associated with increased average fleet size and a higher mix of vehicles financed under our lower cost ABS facility. Fleet operations expenses as a percentage of revenue decreased to 62.3% in 2012 from 65.9% in 2011 due to lower fleet financing costs resulting from the shift of vehicles onto our ABS facility.

Fleet operations expenses increased 29.8% or $36.6 million in 2011 compared to 2010 primarily as a result of an increase in the number of vehicles in our fleet, in part due to the full year of Streetcar operations. The average number of vehicles in our fleet increased by 1,137 to 9,049 in 2011 compared to 2010. In addition, cost per vehicle increased 13.5% in 2011 compared to 2010 primarily due to higher gas prices and lower gains on vehicle sales. Fleet operations expenses as a percentage of revenue remained flat in 2011 at 65.9% compared to 2010.

Member Services and Fulfillment: Member services and fulfillment costs increased 2.8% or $0.5 million in 2012 compared to 2011 due to an increase in average membership of approximately 124,000 to 739,000 in 2012 from 615,000 in 2011. Member services and fulfillment as a percentage of revenue decreased to 7.2% in 2012 from 8.1% in 2011 due to volume-based improvements in merchant processing fees and leverage from our member service center.

Member services and fulfillment costs increased 28.8% or $4.3 million in 2011 compared to 2010 primarily due to an increase in average membership of approximately 154,000 to 615,000 in 2011 from 461,000 in 2010. Member services and fulfillment as a percentage of revenue remained flat from 2010 to 2011 at 8.1%.

Research and Development: Research and development expenses increased 14.5% or $0.6 million in 2012 compared to 2011 and 24.5% or $0.8 million in 2011 compared to 2010. These changes are attributable to costs associated with additional headcount partially offset by an increase in internal capitalized cost for the continued development of our online reservation and fleet management system. Research and development expenses as a percentage of revenue remained flat from 2011 to 2012 at 1.6% and decreased by 0.1% in 2011 from 1.7% in 2010.

Selling, General and Administrative: Selling, general and administrative expenses increased 25.3% or $14.4 million in 2012 compared to 2011. The increase in selling, general and administrative expenses in 2012 as compared to 2011 was primarily due to an increase in labor and labor-related expenses of $7.3 million, including stock compensation expense and the expansion of our Zipcar for Business direct salesforce; an increase in marketing programs and advertising costs of $4.7 million; an increase in other general and administrative related expenses of $2.9 million primarily associated with operating as a public company; and investment in our expanded European and IT infrastructure. Selling, general and administrative expenses as a percentage of revenue increased to 25.7% in 2012 from 23.6% in 2011.

Selling, general and administrative expenses increased 16.2% or $7.9 million in 2011, compared to 2010. The increase in selling, general and administrative expenses in 2011 was primarily due to an increase in labor and labor-related expenses, including stock compensation expense of $4.8 million, marketing programs, advertising costs and related discretionary spending of $2.6 million and other general and administrative related expenses of $4.4 million. These increased costs and expenses in the 2011 period were offset by a decrease in legal and professional fees of $3.9 million compared to 2010, due to the amounts incurred in 2010 in connection with our acquisition of Streetcar and the investigation by the Office of Fair Trade and the Competition Commission, or CC. Selling, general and administrative expenses as a percentage of revenue decreased by 2.8% to 23.6% in 2011 from 26.4% in 2010 primarily due to economies of scale and reduced legal and professional fees associated with the acquisition and regulatory clearance of Streetcar.

Amortization of Acquired Intangible Assets: Acquired intangible assets associated with the Streetcar, Flexcar, Avancar and CarSharing.at acquisitions include member relationships, parking spaces, non-compete agreements, tradenames and reservation systems in existence at the time of the acquisition, and are amortized

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over their estimated useful lives of up to five years based on the pattern in which the economic benefits of the intangible assets are consumed. Amortization of acquired intangible assets decreased $0.8 million to $3.1 million in 2012 compared to $3.9 million in 2011 due to certain intangible assets that have been fully amortized. For 2011, amortization of acquired intangible assets increased $0.5 million from $3.4 million in 2010 due to a full year of Streetcar amortization in 2011 versus 2010, which only included Streetcar from the date of acquisition on April 20, 2010, slightly offset by lower amortization rates for member relationships related to the Flexcar acquisition.

Interest Income: Interest income increased to $0.4 million in 2012 as compared to 2011 and to $0.1 million in 2011 as compared to 2010 due to the investment of our IPO proceeds for the full year in 2012 verses from IPO date in 2011.

Interest Expense: Interest expense decreased by $4.2 million to $4.4 million in 2012 from $8.6 million in 2011. This decrease resulted from the expenses associated with the retirement of high-cost corporate debt in the second quarter of 2011. Interest expense increased by $0.4 million to $8.6 million in 2011, from $8.2 million in 2010. The increase was due to debt retirement charges of $3.3 million associated with the retirement of certain debt upon the closing of our IPO offset by lower interest expense as a result of the retirement of high-cost debt.

Other Income, net: Other income (expense) decreased $1.9 million to income of $1.2 million in 2012 as compared to $3.0 million in 2011. This change is primarily attributable to the loss of $1.3 million related to our equity investment in Wheelz which was made in 2012 and to a lesser extent the decrease in proceeds on the sale of Zero Emission Vehicle (ZEV) credits by $0.3 million. Under certain state government regulations, vehicle manufacturers are required to ensure that a portion of the vehicles sold in that state are classified as zero emission vehicles . These laws provide for the purchase and sale of excess credits earned. Because we utilize energy efficient vehicles in our business, we were able to earn ZEV credits under state regulations, and recorded the proceeds from the sale of these credits as other income.

Other income (expense), net increased by $1.3 million to $3.0 million in 2011 compared to 2010. During 2011 we recorded the sale of ZEV credits of $3.4 million offset by expense associated with warrants to purchase our Series F Convertible Preferred Stock of $0.6 million and $0.5 million associated with the establishment of a reserve for receivables under a certain state energy conservation program.

(Benefit) Provision for Income Taxes: The income tax benefit for 2012 totaling $10.9 million, is primarily attributable to the reduction of our deferred income tax valuation allowance. We considered the weight of both the positive and negative evidence as of December 31, 2012 and concluded that it was more likely than not that a substantial portion of the deferred tax assets will be realized.

The (benefit) provision for income taxes for the years ended December 31, 2011 and 2010 were related to state income taxes. We did not report a benefit for federal income taxes in our consolidated financial statements in 2011 or 2010; instead, the deferred tax asset generated from our net operating loss was offset by a full valuation allowance.

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Quarterly Results of Operations Data

The following tables set forth our unaudited quarterly consolidated statements of operations data and our unaudited statements of operations data as a percentage of revenues for each of the eight quarters in the period ended December 31, 2012. We have prepared the quarterly data on a consistent basis with our audited consolidated financial statements included in this Annual Report on Form 10-K, and the financial information reflects all necessary adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of this data. The results of historical periods are not necessarily indicative of the results of operations for a full year or any future period.

	For the Three Months Ended							
	Dec. 31, 2012	Sept. 30, 2012	June 30, 2012	March 31, 2012	Dec. 31, 2011	Sept. 30, 2011	June 30, 2011	March 31, 2011
	(in thousands, except share and per share data)							
Statements of Operations Data:								
Revenue	$ 70,694	$ 78,232	$ 70,809	$ 59,133	$ 62,898	$ 68,059	$ 61,559	$ 49,133
Cost and expenses								
Fleet operations	44,141	45,814	43,930	39,728	40,329	43,365	40,525	34,966
Member services and fulfillment	5,237	5,515	5,075	4,180	4,779	5,543	5,067	4,071
Research and development	1,251	1,279	1,058	934	893	1,083	1,010	962
Selling, general and administrative	16,208	20,540	19,274	15,536	13,904	15,803	14,723	12,687
Amortization of acquired intangible assets	689	742	753	886	869	956	994	1,073
Total operating expenses	67,526	73,890	70,090	61,264	60,774	66,750	62,319	53,759
Income (loss) from operations	3,168	4,342	719	(2,131)	2,124	1,309	(760)	(4,626)
Other income (expense)								
Interest income	119	95	77	76	63	45	11	9
Interest expense	(1,146)	(1,244)	(1,025)	(970)	(839)	(810)	(4,530)	(2,455)
Other, net	594	1,017	(307)	(134)	2,513	(186)	(273)	987
Income (loss) before income taxes	2,735	4,210	(536)	(3,159)	3,861	358	(5,552)	(6,085)
(Benefit) provision for income taxes	(10,881)	1		(57)	(6)	(304)	23	17
Net income (loss)	13,616	4,209	(536)	(3,102)	3,867	662	(5,575)	(6,102)
Less: Net (income) loss attributable to the noncontrolling interest	210	111	114	54	(5)	(11)	7	5
Net income (loss) attributable to Zipcar, Inc.	$ 13,826	$ 4,320	$ (422)	$ (3,048)	$ 3,862	$ 651	$ (5,568)	$ (6,097)
Net earnings (loss) attributable to common stockholders per share:								
Basic	$ 0.35	$ 0.11	$ (0.01)	$ (0.08)	$ 0.10	$ 0.02	$ (0.17)	$ (0.95)
Diluted	$ 0.34	$ 0.10	$ (0.01)	$ (0.08)	$ 0.09	$ 0.02	$ (0.17)	$ (0.95)
Weighted average number of common shares outstanding used in computing per share amounts:								
Basic	40,051,721	39,961,460	39,806,999	39,584,560	39,292,172	38,904,375	32,422,508	6,434,923
Diluted	41,201,893	41,434,740	39,806,999	39,584,560	42,150,756	42,479,718	32,422,508	6,434,923

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As a percentage of revenue

	For the Three Months Ended							
	Dec. 31, 2012	**Sept. 30, 2012**	**June 30, 2012**	**March 31, 2012**	**Dec. 31, 2011**	**Sept. 30, 2011**	**June 30, 2011**	**March 31, 2011**
Statements of Operations Data:								
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost and expenses								
Fleet operations	62.4%	58.6%	62.0%	67.2%	64.1%	63.7%	65.8%	71.2%
Member services and fulfillment	7.4%	7.0%	7.2%	7.1%	7.6%	8.1%	8.2%	8.3%
Research and development	1.8%	1.6%	1.5%	1.6%	1.4%	1.6%	1.6%	2.0%
Selling, general and administrative	22.9%	26.3%	27.2%	26.3%	22.1%	23.2%	23.9%	25.8%
Amortization of acquired intangible assets	1.0%	0.9%	1.1%	1.5%	1.4%	1.4%	1.6%	2.2%
Total operating expenses	95.5%	94.4%	99.0%	103.6%	96.6%	98.1%	101.2%	109.4%
Income (loss) from operations	4.5%	5.6%	1.0%	-3.6%	3.4%	1.9%	-1.2%	-9.4%
Other income (expense)								
Interest income	0.2%	0.1%	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%
Interest expense	-1.6%	-1.6%	-1.4%	-1.6%	-1.3%	-1.2%	-7.4%	-5.0%
Other, net	0.8%	1.3%	-0.4%	-0.2%	4.0%	-0.3%	-0.4%	2.0%
Income (loss) before income taxes	3.9%	5.4%	-0.8%	-5.3%	6.1%	0.5%	-9.0%	-12.4%
(Benefit) provision for income taxes	-15.4%	0.0%	0.0%	-0.1%	0.0%	-0.4%	0.0%	0.0%
Net income (loss)	19.3%	5.4%	-0.8%	-5.2%	6.1%	1.0%	-9.1%	-12.4%
Less: Net (income) loss attributable to the noncontrolling interest	0.3%	0.1%	0.2%	0.1%	0.0%	0.0%	0.0%	0.0%
Net income (loss) attributable to Zipcar, Inc.	19.6%	5.5%	-0.6%	-5.2%	6.1%	1.0%	-9.0%	-12.4%

Revenue increased over comparable quarterly periods due to increases in the number of members and associated usage and fee revenue. Sequentially, revenue decreased in the fourth and the first quarters and increased in the second and third quarters, primarily due to the seasonality we experience in our business.

Total operating expenses increased over comparable quarterly periods due to costs associated with increased usage of our vehicles by our members and an associated increase in fleet size.

Key financial and operating metrics, non-GAAP financial measures and supplemental disclosure

In connection with the ongoing operation of our business, our management regularly reviews key financial and operating metrics, including total revenue per member, usage revenue per vehicle per day, cost per new account, member retention, ending members and ending vehicles. Management considers these financial and operating metrics critical to understanding our business, reviewing our historical performance, measuring and identifying current and future trends and for planning purposes.

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In addition to the key metrics described above, we also use Adjusted EBITDA, a non-GAAP financial measure, to assess our performance. We define Adjusted EBITDA as earnings before non-vehicle depreciation, non-vehicle interest, interest income, amortization, preferred stock warrant liability adjustment, stock compensation expenses, acquisition and integration costs, taxes and other income related to ZEV credits and other gains or losses associated with events of a non-recurring nature, such as costs related to Hurricane Sandy and merger related costs. We believe that Adjusted EBITDA is an important measure of our operating performance because it allows management, investors and analysts to evaluate and assess our core operating results from period to period after removing the impact of changes in our capital structure, income tax status and method of vehicle financing, and other items of a non-operational nature that affect compar