

AVIS BUDGET GROUP, INC.  
Form 10-Q  
August 06, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

**Form 10-Q**

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

For the quarterly period ended June 30, 2010

OR

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

For the transition period from            to

**Commission File No. 1-10308**

**Avis Budget Group, Inc.**

*(Exact name of registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction*

*of incorporation or organization)*

**06-0918165**

*(I.R.S. Employer*

*Identification Number)*

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6 Sylvan Way

Parsippany, NJ

(Address of principal executive offices)

07054

(Zip Code)

(973) 496-4700

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The number of shares outstanding of the issuer's common stock was 102,856,060 shares as of July 30, 2010.

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**FORWARD-LOOKING STATEMENTS**

The forward-looking statements contained herein are subject to known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. These forward-looking statements are based on various facts and were derived utilizing numerous important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements. Forward-looking statements include the information concerning our future financial performance, business strategy, projected plans and objectives. Statements preceded by, followed by or that otherwise include the words believes, expects, anticipates, intends, projects, estimates, plans, may increase and similar expressions or future or conditional verbs such as will, should, would, may and could are forward-looking in nature and not historical facts. You should understand that the following important factors and assumptions could affect our future results and could cause actual results to differ materially from those expressed in such forward-looking statements:

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

an increase in our fleet costs as a result of an increase in the cost of new vehicles and/or a decrease in the price at which we dispose of used vehicles either in the used vehicle market or under repurchase or guaranteed depreciation programs;

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

travel demand, including airline passenger traffic in the United States and in the other international locations in which we operate;

the effects of economic conditions, including in the housing market, and the impact such conditions may have on us, particularly during our peak season or in key market segments;

our ability to obtain financing for our operations, including the funding of our vehicle fleet via the asset-backed securities and lending market consistent with current costs, and the financial condition of financial-guaranty firms that have insured a portion of our outstanding vehicle-backed debt;

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

our dependence on third-party distribution channels;

our ability to control costs through our cost-savings and efficiency improvement initiatives or otherwise and successfully implement our business strategy;

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

our ability to accurately estimate our future results;

a major disruption in our communication or centralized information networks;

our exposure to uninsured claims in excess of historical levels;

our failure or inability to comply with regulations or contractual obligations or any changes in regulations or contractual obligations, including with respect to personally identifiable information;

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

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

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risks related to our indebtedness, including our substantial amount of debt and our ability to incur substantially more debt;

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

the terms of agreements among us and our former real estate, hospitality and travel distribution businesses following the separation of those businesses from us during third quarter 2006, when we were known as Cendant Corporation, particularly with respect to the allocation of assets and liabilities, including contingent liabilities and guarantees, commercial arrangements, the ability of each of the separated companies to perform its obligations, including its indemnification obligations, under these agreements, and the former real estate business' right to control the process for resolving disputes related to contingent liabilities and assets;

risks associated with litigation involving the Company;

the settlement in principle of the audit of our federal tax returns for the years 2003 through 2006 with the IRS, and other risks related to tax obligations;

risks related to the Company's offer to acquire Dollar Thrifty Automotive Group, Inc.;

our exposure to fluctuations in foreign exchange rates; and

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

Other factors and assumptions not identified above, including those described under "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2009 Annual Report on Form 10-K and this Quarterly Report on Form 10-Q were also involved in the derivation of these forward-looking statements, and the failure of such other assumptions to be realized, as well as other factors, may also cause actual results to differ materially from those projected. Most of these factors are difficult to predict accurately and are generally beyond our control.

You should consider the areas of risk described above, as well as those described under "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2009 Annual Report on Form 10-K and this Quarterly Report on Form 10-Q and those that may be disclosed from time to time in filings with the Securities and Exchange Commission, in connection with any forward-looking statements that may be made by us and our businesses generally. Except to the extent of our obligations under the federal securities laws, we undertake no obligation to release any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events. For any forward-looking statements contained in any document, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****Avis Budget Group, Inc.****CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS**

(In millions, except per share data)

(Unaudited)

|   | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|---|--------------------------------|-----------|------------------------------|-----------|
|   | 2010                           | 2009      | 2010                         | 2009      |
| <b>Revenues</b>                                   |                                |           |                              |           |
| Vehicle rental                                    | \$ 961                         | \$ 995    | \$ 1,827                     | \$ 1,913  |
| Other   | 333                            | 317       | 619                          | 593       |
| Net revenues                                      | 1,294                          | 1,312     | 2,446                        | 2,506     |
| <b>Expenses</b>                                   |                                |           |                              |           |
| Operating   | 639                            | 648       | 1,251                        | 1,288     |
| Vehicle depreciation and lease charges, net       | 339                            | 393       | 636                          | 747       |
| Selling, general and administrative               | 145                            | 133       | 276                          | 267       |
| Vehicle interest, net                             | 76                             | 71        | 150                          | 140       |
| Non-vehicle related depreciation and amortization | 23                             | 24        | 46                           | 45        |
| Interest expense related to corporate debt, net   |                                |           |                              |           |
| Interest expense                                  | 41                             | 37        | 81                           | 77        |
| Early extinguishment of debt                      |                                |           | 40                           |           |
| Restructuring charges                             | 2                              | 8         | 3                            | 13        |
| Impairment  |                                |           |                              | 1         |
| Total expenses                                    | 1,265                          | 1,314     | 2,483                        | 2,578     |
| <b>Income (loss) before income taxes</b>          | 29                             | (2)       | (37)                         | (72)      |
| Provision for (benefit from) income taxes         | 3                              | 4         | (25)                         | (17)      |
| <b>Net income (loss)</b>                          | \$ 26                          | \$ (6)    | \$ (12)                      | \$ (55)   |
| <b>Earnings (loss) per share</b>                  |                                |           |                              |           |
| Basic   | \$ 0.25                        | \$ (0.06) | \$ (0.12)                    | \$ (0.54) |
| Diluted   | \$ 0.22                        | \$ (0.06) | \$ (0.12)                    | \$ (0.54) |

See Notes to Consolidated Condensed Financial Statements (Unaudited).

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

|  | <b>June 30,<br/>2010</b> | <b>December 31,<br/>2009</b> |
|--|--------------------------|------------------------------|
| <b>Assets</b>  |                          |                              |
| Current assets:  |                          |                              |
| Cash and cash equivalents  | \$ 458                   | \$ 482                       |
| Receivables, net   | 304                      | 290                          |
| Deferred income taxes  | 104                      | 107                          |
| Other current assets   | 908                      | 851                          |
| Total current assets   | 1,774                    | 1,730                        |
| Property and equipment, net  | 419                      | 442                          |
| Deferred income taxes  | 603                      | 597                          |
| Goodwill   | 76                       | 76                           |
| Other intangibles, net   | 475                      | 478                          |
| Other non-current assets   | 256                      | 248                          |
| Total assets exclusive of assets under vehicle programs                | 3,603                    | 3,571                        |
| Assets under vehicle programs:   |                          |                              |
| Program cash   | 51                       | 157                          |
| Vehicles, net  | 7,660                    | 5,967                        |
| Receivables from vehicle manufacturers and other                       | 128                      | 170                          |
| Investment in Avis Budget Rental Car Funding (AESOP) LLC related party | 256                      | 228                          |
|  | 8,095                    | 6,522                        |
| <b>Total assets</b>  | <b>\$ 11,698</b>         | <b>\$ 10,093</b>             |
| <b>Liabilities and stockholders equity</b>                             |                          |                              |
| Current liabilities:   |                          |                              |
| Accounts payable and other current liabilities                         | \$ 1,364                 | \$ 1,272                     |
| Current portion of long-term debt                                      | 8                        | 12                           |
| Total current liabilities  | 1,372                    | 1,284                        |
| Long-term debt   | 2,115                    | 2,119                        |
| Other non-current liabilities  | 576                      | 630                          |
| Total liabilities exclusive of liabilities under vehicle programs      | 4,063                    | 4,033                        |
| Liabilities under vehicle programs:                                    |                          |                              |
| Debt   | 820                      | 714                          |
| Debt due to Avis Budget Rental Car Funding (AESOP) LLC related party   | 5,148                    | 3,660                        |



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|  |                  |                  |
|--|------------------|------------------|
| Deferred income taxes  | 1,269            | 1,267            |
| Other  | 173              | 197              |
|  | 7,410            | 5,838            |
| Commitments and contingencies (Note 11)  |                  |                  |
| Stockholders' equity:  |                  |                  |
| Preferred stock, \$.01 par value authorized 10 million shares; none issued and outstanding             |                  |                  |
| Common stock, \$.01 par value authorized 250 million shares; issued 136,955,040 and 136,931,540 shares | 1                | 1                |
| Additional paid-in capital   | 8,918            | 9,098            |
| Accumulated deficit  | (2,703)          | (2,691)          |
| Accumulated other comprehensive income (loss)  | (28)             | (37)             |
| Treasury stock, at cost 33,746,467 and 34,612,016 shares   | (5,963)          | (6,149)          |
| Total stockholders' equity   | 225              | 222              |
| <b>Total liabilities and stockholders' equity</b>  | <b>\$ 11,698</b> | <b>\$ 10,093</b> |

See Notes to Consolidated Condensed Financial Statements (Unaudited).

**Table of Contents****Avis Budget Group, Inc.****CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS****(In millions)****(Unaudited)**

|   | <b>Six Months Ended<br/>June 30,</b> |             |
|---|--------------------------------------|-------------|
|   | <b>2010</b>                          | <b>2009</b> |
| <b>Operating Activities</b>   |                                      |             |
| Net loss  | \$ (12)                              | \$ (55)     |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities exclusive of vehicle programs: |                                      |             |
| Non-vehicle related depreciation and amortization   | 46                                   | 45          |
| Net change in assets and liabilities, excluding the impact of acquisitions and dispositions:                            |                                      |             |
| Receivables   | (26)                                 | 16          |
| Income taxes and deferred income taxes  | (41)                                 | (26)        |
| Accounts payable and other current liabilities  | 109                                  | (36)        |
| Other, net  | (42)                                 | 11          |
| <b>Net cash provided by (used in) operating activities exclusive of vehicle programs</b>                                | <b>34</b>                            | <b>(45)</b> |
| <i>Vehicle programs:</i>  |                                      |             |
| Vehicle depreciation  | 626                                  | 733         |
|   | 626                                  | 733         |
| <b>Net cash provided by operating activities</b>  | <b>660</b>                           | <b>688</b>  |
| <b>Investing Activities</b>   |                                      |             |
| Property and equipment additions  | (23)                                 | (14)        |
| Proceeds received on asset sales  | 8                                    | 7           |
| Proceeds received from Realogy and Wyndham, net   |                                      | 2           |
| Other, net  | (4)                                  | (1)         |
| <b>Net cash used in investing activities exclusive of vehicle programs</b>  | <b>(19)</b>                          | <b>(6)</b>  |
| <i>Vehicle programs:</i>  |                                      |             |
| Decrease in program cash  | 113                                  | 11          |
| Investment in vehicles  | (5,448)                              | (3,949)     |
| Proceeds received on disposition of vehicles  | 3,127                                | 3,966       |
| Investment in debt securities of Avis Budget Rental Car Funding (AESOP) related party                                   | (280)                                |             |
| Proceeds from debt securities of Avis Budget Rental Car Funding (AESOP) related party                                   | 280                                  |             |
| Distribution from Avis Budget Rental Car Funding (AESOP) LLC related party  |                                      | 47          |
|   | (2,208)                              | 75          |
| <b>Net cash provided by (used in) investing activities</b>  | <b>(2,227)</b>                       | <b>69</b>   |



**Table of Contents****Avis Budget Group, Inc.****CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Continued)****(In millions)****(Unaudited)**

|  | <b>Six Months Ended<br/>June 30,</b> |               |
|--|--------------------------------------|---------------|
|  | <b>2010</b>                          | <b>2009</b>   |
| <b>Financing Activities</b>  |                                      |               |
| Proceeds from borrowings   | 444                                  | 100           |
| Principal payments on borrowings   | (457)                                | (6)           |
| Debt financing fees  | (30)                                 |               |
| Other, net   | 4                                    | (2)           |
| <b>Net cash provided by (used in) financing activities exclusive of vehicle programs</b> | <b>(39)</b>                          | <b>92</b>     |
| <i>Vehicle programs:</i>   |                                      |               |
| Proceeds from borrowings   | 5,626                                | 4,261         |
| Principal payments on borrowings   | (4,229)                              | (5,097)       |
| Net change in short-term borrowings  | 202                                  | 144           |
| Other, net   | (12)                                 |               |
|  | 1,587                                | (692)         |
| <b>Net cash provided by (used in) financing activities</b>                               | <b>1,548</b>                         | <b>(600)</b>  |
| Effect of changes in exchange rates on cash and cash equivalents                         | (5)                                  | 19            |
| Net (decrease) increase in cash and cash equivalents                                     | (24)                                 | 176           |
| Cash and cash equivalents, beginning of period   | 482                                  | 258           |
| <b>Cash and cash equivalents, end of period</b>  | <b>\$ 458</b>                        | <b>\$ 434</b> |

See Notes to Consolidated Condensed Financial Statements (Unaudited).

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**Avis Budget Group, Inc.**

**NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)**

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

**1. Basis of Presentation and Recently Issued Accounting Pronouncements**

***Basis of Presentation***

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

The *Company* operates in the following business segments:

**Domestic Car Rental** provides car rentals and ancillary products and services in the United States.

**International Car Rental** provides vehicle rentals and ancillary products and services primarily in Argentina, Australia, Canada, New Zealand, Puerto Rico and the U.S. Virgin Islands.

**Truck Rental** provides truck rentals and related services to consumers and light commercial users in the United States. In presenting the Consolidated Condensed Financial Statements in accordance with accounting principles generally accepted in the United States of America ( *U.S. GAAP* ), management makes estimates and assumptions that affect the amounts reported and related disclosures. Estimates, by their nature, are based on judgments and available information. Accordingly, actual results could differ from those estimates. In management's opinion, the Consolidated Condensed Financial Statements contain all normal recurring adjustments necessary for a fair presentation of interim results reported. The results of operations reported for interim periods are not necessarily indicative of the results of operations for the entire year or any subsequent interim period. These financial statements should be read in conjunction with the *Company's* 2009 Annual Report on Form 10-K filed on February 24, 2010.

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

*Separation.* In connection with the separation of Cendant Corporation (as the *Company* was formerly known) into four independent companies (the *Separation* ), the *Company* completed the spin-offs of Realogy Corporation ( *Realogy* ) and Wyndham Worldwide Corporation ( *Wyndham* ) on July 31, 2006 and completed the sale of Travelport, Inc. ( *Travelport* ) on August 23, 2006.

***Adoption of New Accounting Standards during 2010***

In June 2009, the Financial Accounting Standards Board ( *FASB* ) issued Accounting Standards Update ( *ASU* ) No. 2009-16, *Accounting for Transfers of Financial Assets* . The *Company* adopted this guidance on January 1, 2010, as required, and it did not have a significant impact on its financial statements.

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In December 2009, the FASB issued ASU No. 2009-17, Accounting by Enterprises Involved with Variable Interest Entities . The Company adopted this guidance on January 1, 2010, as required, and it did not have a significant impact on its financial statements.

In February 2010, the FASB issued ASU No. 2010-09, Subsequent Events Amendments to Certain Recognition and Disclosure Requirements . The Company adopted this guidance upon its issuance, as required, and it did not have a significant impact on its financial statements.

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In January 2010, the FASB issued ASU No. 2010-06, Fair Value Measurements and Disclosures (ASU No. 2010-06). ASU No. 2010-06 will expand fair value disclosures, requiring companies to provide (i) information about movements of assets between levels 1 and 2, (ii) a reconciliation of purchases, sales, issuance and settlements for all level 3 instruments and (iii) fair value measurement disclosures for each class of assets and liabilities. The Company adopted this guidance on January 1, 2010, as required, except for the disclosures about purchases, sales, issuances, and settlements for all level 3 instruments and fair value measurements, which will be adopted on January 1, 2011, as required, and it did not have, and is not expected to have, a significant impact on its financial statements.

**2. Restructuring Charges**

Beginning in late 2008, the Company implemented initiatives within the Company's Domestic Car Rental, International Car Rental and Truck Rental segments to reduce costs, enhance organizational efficiency and consolidate and rationalize existing processes and facilities. During the six months ended June 30, 2010, as part of this process, the Company formally communicated the termination of employment to approximately 725 employees, within its Domestic Car Rental segment and incurred \$3 million in restructuring charges. These charges primarily represent severance, outplacement services and other costs associated with the employee terminations. As of June 30, 2010, the Company had terminated approximately 700 of these employees.

At June 30, 2010, the remaining liability relating to restructuring actions amounted to \$3 million, primarily for lease obligation costs related to vacated locations which are expected to be paid through 2011. As part of this process, the Company continues to implement steps to reduce costs and consolidate certain customer facing and non-customer facing activities and locations. The Company expects further restructuring costs related to this process of approximately \$9 million to be incurred through December 31, 2010.

The restructuring charges and corresponding utilization are recorded within the Company's segments as follows:

|                               | <b>Domestic<br/>Car Rental</b> | <b>International<br/>Car<br/>Rental</b> | <b>Truck<br/>Rental</b> | <b>Total</b> |
|-------------------------------|--------------------------------|---|-------------------------|--------------|
| Balance as of January 1, 2010 | \$ 3                           | \$ 1                                    | \$ 1                    | \$ 5         |
| Incremental charges           | 3                              |   |                         | 3            |
| Cash payment/utilization      | (3)                            | (1)                                     | (1)                     | (5)          |
| Balance as of June 30, 2010   | \$ 3                           | \$                                      | \$                      | \$ 3         |

The restructuring charges and the corresponding utilization are summarized by category as follows:

|                               | <b>Personnel<br/>Related</b> | <b>Facility<br/>Related</b> | <b>Total</b> |
|-------------------------------|------------------------------|-----------------------------|--------------|
| Balance as of January 1, 2010 | \$ 1                         | \$ 4                        | \$ 5         |
| Incremental charges           | 3                            |                             | 3            |
| Cash payment/utilization      | (3)                          | (2)                         | (5)          |
| Balance as of June 30, 2010   | \$ 1                         | \$ 2                        | \$ 3         |

**Table of Contents****3. Earnings Per Share**

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

|  | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |           |
|--|--------------------------------|-----------|------------------------------|-----------|
|  | 2010                           | 2009      | 2010                         | 2009      |
| Net income (loss) for basic EPS                          | \$ 26                          | \$ (6)    | \$ (12)                      | \$ (55)   |
| Convertible debt interest, net of tax                    | 2                              |           |                              |           |
| Net income (loss) for diluted EPS                        | \$ 28                          | \$ (6)    | \$ (12)                      | \$ (55)   |
| Basic weighted average shares outstanding <sup>(a)</sup> | 103.1                          | 102.2     | 102.8                        | 102.0     |
| Options, warrants and non-vested stock                   | 2.3                            |           |                              |           |
| Convertible debt   | 21.2                           |           |                              |           |
| Diluted weighted average shares outstanding              | 126.6                          | 102.2     | 102.8                        | 102.0     |
| <i>Earnings per share:</i>                               |                                |           |                              |           |
| Basic  | \$ 0.25                        | \$ (0.06) | \$ (0.12)                    | \$ (0.54) |
| Diluted  | \$ 0.22                        | \$ (0.06) | \$ (0.12)                    | \$ (0.54) |

<sup>(a)</sup> As the Company incurred a net loss for the six months ended June 30, 2010, and the three and six months ended June 30, 2009, all outstanding stock options, restricted stock units, stock warrants and issuable shares underlying the 3 1/2% Convertible Senior Notes due 2014 have an anti-dilutive effect and therefore are excluded from the computation of diluted weighted average shares outstanding for the applicable periods. Accordingly, basic and diluted weighted average shares outstanding are equal for such periods.

The following table summarizes the Company's outstanding common stock equivalents that were anti-dilutive and therefore excluded from the computation of diluted EPS:

|   | Three Months Ended<br>June 30, |      | Six Months Ended<br>June 30, |      |
|---|--------------------------------|------|------------------------------|------|
|   | 2010                           | 2009 | 2010                         | 2009 |
| Options <sup>(a)</sup>  | 2.1                            | 7.8  | 5.7                          | 7.8  |
| Warrants <sup>(b)</sup>   | 21.2                           |      | 21.2                         |      |
| Shares underlying 3 1/2% Convertible Senior Notes due 2014 <sup>(c)</sup> |                                |      | 21.2                         |      |

<sup>(a)</sup> The weighted average exercise price for anti-dilutive options for the three months ended June 30, 2010 was \$20.97. For the three and six months ended June 30, 2009 and the six months ended June 30, 2010, all outstanding stock options were anti-dilutive, as the Company incurred a net loss.

<sup>(b)</sup> Represents all outstanding warrants for the three and six months ended June 30, 2010. The exercise price for the warrants outstanding for the three and six months ended June 30, 2010 was \$22.50.

<sup>(c)</sup> Represents the number of shares issuable pursuant to the convertible senior notes issued in October 2009.

**4. Intangible Assets**

Intangible assets consisted of:

As of June 30, 2010

As of December 31, 2009



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|  | <b>Gross<br/>Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> | <b>Net<br/>Carrying<br/>Amount</b> | <b>Gross<br/>Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> | <b>Net<br/>Carrying<br/>Amount</b> |
|--|--------------------------------------|-------------------------------------|------------------------------------|--------------------------------------|-------------------------------------|------------------------------------|
| <i>Amortizable Intangible Assets</i>   |                                      |                                     |                                    |                                      |                                     |                                    |
| Franchise agreements                   | \$ 73                                | \$ 24                               | \$ 49                              | \$ 73                                | \$ 22                               | \$ 51                              |
| Customer lists                         | 19                                   | 9                                   | 10                                 | 19                                   | 9                                   | 10                                 |
| Other                                  | 2                                    | 1                                   | 1                                  | 2                                    | 1                                   | 1                                  |
|  | \$ 94                                | \$ 34                               | \$ 60                              | \$ 94                                | \$ 32                               | \$ 62                              |
| <i>Unamortizable Intangible Assets</i> |                                      |                                     |                                    |                                      |                                     |                                    |
| Goodwill                               | \$ 76                                |                                     |                                    | \$ 76                                |                                     |                                    |
| Trademarks <sup>(a)</sup>              | \$ 415                               |                                     |                                    | \$ 416                               |                                     |                                    |

<sup>(a)</sup> The decrease in trademarks is primarily due to fluctuations in foreign currency.

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Amortization expense relating to all intangible assets was approximately \$1 million during second quarter 2010 and 2009. For the six months ended June 30, 2010 and 2009, amortization expense was approximately \$2 million.

Based on the Company's amortizable intangible assets at June 30, 2010, the Company expects amortization expense of approximately \$1 million for the remainder of 2010 and approximately \$3 million for each of the five fiscal years thereafter.

**5. Financial Instruments**

The fair value of the Company's financial instruments is generally determined by reference to market values resulting from trading on a national securities exchange or in an over-the-counter market. In some cases where quoted market prices are not available, prices are derived by considering the yield of the benchmark security that was initially used to price the instruments and adjusting this rate by the credit spread that market participants would demand for the instruments as of the measurement date. The carrying amounts of cash and cash equivalents, accounts receivable, program cash and accounts payable and accrued liabilities approximate fair value due to the short-term maturities of these assets and liabilities.

**Debt Instruments**

The carrying amounts and estimated fair values of debt instruments are as follows:

|   | As of June 30, 2010 |                      | As of December 31, 2009 |                      |
|---|---------------------|----------------------|-------------------------|----------------------|
|   | Carrying Amount     | Estimated Fair Value | Carrying Amount         | Estimated Fair Value |
| <b>Corporate debt</b>   |                     |                      |                         |                      |
| Current portion of long-term debt                                     | \$ 8                | \$ 8                 | \$ 12                   | \$ 12                |
| Long-term debt, excluding convertible debt                            | 1,770               | 1,700                | 1,774                   | 1,675                |
| Convertible debt  | 345                 | 314                  | 345                     | 376                  |
| <b>Debt under vehicle programs</b>                                    |                     |                      |                         |                      |
| Vehicle-backed debt due to Avis Budget Rental Car Funding (AESOP) LLC | \$ 5,148            | \$ 5,191             | \$ 3,660                | \$ 3,634             |
| Vehicle-backed debt   | 817                 | 823                  | 705                     | 707                  |

**Derivative instruments and hedging activities**

The Company uses foreign exchange forward contracts to manage its exposure to changes in foreign currency exchange rates associated with its foreign currency denominated receivables and forecasted royalties, forecasted earnings of foreign subsidiaries and forecasted foreign currency denominated acquisitions. The Company primarily hedges its foreign currency exposure to the Canadian, Australian and New Zealand dollars. The majority of forward contracts do not qualify for hedge accounting treatment. The fluctuations in the value of these forward contracts do, however, largely offset the impact of changes in the value of the underlying risk they economically hedge. Forward contracts used to hedge forecasted third party receipts and disbursements up to twelve months are designated and do qualify as cash flow hedges. The amount of gains or losses reclassified from accumulated other comprehensive income to earnings resulting from ineffectiveness or from excluding a component of the forward contracts' gain or loss from the effectiveness calculation for cash flow hedges during the three and six months ended June 30, 2010 and 2009 was not material, nor is the amount of gains or losses the Company expects to reclassify from accumulated other comprehensive income to earnings over the next twelve months.

The Company uses various hedging strategies including interest rate swaps and interest rate caps to create an appropriate mix of fixed and floating rate assets and liabilities. The Company uses interest rate swaps, designated as cash flow hedges, to manage the risk related to its floating rate corporate debt. In connection with such cash flow hedges, the Company records changes in the intrinsic value of these cash flow hedges to other comprehensive income and subsequently reclassifies these amounts into earnings in the period during which the hedged transaction is recognized. The changes in fair values of hedges that were determined to be ineffective are immediately reclassified from accumulated other comprehensive income into earnings. In first quarter 2010, the Company reclassified \$36 million from accumulated other comprehensive income to earnings in connection with the early termination of certain interest rate swaps related to the repayment of a portion of the Company's floating rate term loan. The Company estimates that approximately \$77 million of losses deferred in accumulated other

comprehensive income will be recognized over the next twelve months, which is expected to be offset in earnings by the impact of the underlying hedged items.

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To manage the risk associated with its floating rate vehicle-backed debt, the Company uses derivatives. These derivatives include freestanding derivatives and derivatives designated as cash flow hedges. In connection with such cash flow hedges, the Company records the effective portion of the change in fair value in other comprehensive income, net of tax. The Company records the change in fair value gains or losses related to freestanding derivatives in its consolidated results of operations.

The Company periodically enters into derivative commodity contracts to manage its exposure to changes in the price of unleaded gasoline. These instruments were designated as freestanding derivatives and the changes in fair value are recorded in the Company's consolidated results of operations.

Certain of the Company's derivative instruments contain collateral support provisions that require the Company to post cash collateral to the extent that these derivatives are in a liability position. The aggregate fair value of such derivatives that are in a liability position and the aggregate fair value of assets needed to settle these derivatives as of June 30, 2010 was approximately \$6 million, for which the Company has posted cash collateral in the same amount in the normal course of business.

As of June 30, 2010, the Company held derivative instruments with notional values as follows: interest rate caps of approximately \$2.4 billion, interest rate swaps of \$589 million, foreign exchange swaps of \$174 million, foreign exchange forward contracts of \$40 million and commodity contracts for the purchase of 6 million gallons of unleaded gasoline.

The Company used significant observable inputs (level 2 inputs) to determine the fair value of its derivative assets and liabilities. Derivatives entered into by the Company are typically executed over-the-counter and are valued using internal valuation techniques, as no quoted market prices exist for such instruments. The valuation technique and inputs depend on the type of derivative and the nature of the underlying exposure. The principal techniques used to value these instruments are discounted cash flows and Black-Scholes option valuation models. These models take into account a variety of factors including, where applicable, maturity, commodity prices, interest rate yield curves, credit curves of the Company and counterparties, counterparty creditworthiness and forward and spot currency exchange rates. These factors are applied on a consistent basis and are based upon observable inputs where available.

Fair values of derivative instruments are as follows:

|   | As of<br>June 30, 2010                 |  | As of<br>December 31, 2009             |  |
|---|--|--|--|--|
|   | Fair<br>Value,<br>Asset<br>Derivatives | Fair<br>Value,<br>Liability<br>Derivatives | Fair<br>Value,<br>Asset<br>Derivatives | Fair<br>Value,<br>Liability<br>Derivatives |
| <b>Derivatives designated as hedging instruments</b> <sup>(a)</sup>     |  |  |  |  |
| Interest rate swaps <sup>(b)</sup>                                      | \$                                     | \$ 8                                       | \$                                     | \$ 39                                      |
| <b>Derivatives not designated as hedging instruments</b> <sup>(a)</sup> |  |  |  |  |
| Foreign exchange forward contracts <sup>(c)</sup>                       | 1                                      |  |  |  |
| Foreign exchange swaps <sup>(d)</sup>                                   |  | 1  |  |  |
| Interest rate swaps <sup>(e)</sup>                                      |  | 2  |  |  |
| Interest rate contracts <sup>(e)</sup>                                  |  | 1  |  | 9  |
| Total   | \$ 1                                   | \$ 12                                      | \$                                     | \$ 48                                      |

(a) Amounts in this table exclude derivatives issued by Avis Budget Rental Car Funding (AESOP) LLC (Avis Budget Rental Car Funding), as it is not consolidated by the Company; however, certain amounts related to the derivatives held by Avis Budget Rental Car Funding are included within accumulated other comprehensive income, as discussed in Note 12 Stockholders' Equity.

(b) Included in other non-current liabilities.

(c) Included in other current assets.

(d) Included in other current liabilities.

(e) Included in liabilities under vehicle programs.

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The effect of derivative instruments not designated as hedging instruments in the Company's consolidated results of operations for the three months ended June 30, 2010 was (i) a \$2 million gain recognized as a component of operating expenses related to foreign exchange forward contracts, (ii) a \$2 million loss recognized as a component of operating expenses related to foreign exchange swaps, (iii) a loss of \$2 million recognized as a component of operating expenses

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related to our commodity contracts, and (iv) an immaterial gain recognized as a component of interest expense related to interest rate swaps and interest rate caps not designated as hedging instruments.

The effect of derivative instruments not designated as hedging instruments in the Company's consolidated results of operations for the six months ended June 30, 2010 was (i) a \$2 million loss recognized as a component of operating expenses related to foreign exchange swaps, (ii) a \$1 million gain recognized as a component of operating expenses related to foreign exchange forward contracts, (iii) a loss of \$1 million recognized as a component of interest expense related to interest rate swaps and interest rate caps not designated as hedging instruments, and (iv) an immaterial gain recognized as a component of operating expenses related to our commodity contracts.

The Company also recognized unrealized gains of \$8 million and \$14 million, as a component of other comprehensive income, net of tax, during the three and six months ended June 30, 2010, respectively, which relate to interest rate swaps designated as cash flow hedges.

The effect of derivative instruments in the Company's consolidated results of operations for the three months ended June 30, 2009, was (i) a loss of \$3 million recognized as a component of operating expenses related to foreign exchange forward contracts, (ii) a \$3 million gain recognized as a component of operating expenses related to our commodity contracts and (iii) an immaterial loss recognized as a component of interest expense related to interest rate swaps not designated as hedging instruments. The loss on the interest rate swaps had no impact on net interest expense as it was offset by reduced interest expense on the underlying floating rate debt which it hedges.

The effect of derivative instruments in the Company's consolidated results of operations for the six months ended June 30, 2009, was (i) a loss of \$4 million recognized as a component of operating expenses related to foreign exchange forward contracts, (ii) a gain of \$3 million recognized as a component of operating expenses related to our commodity contracts and (iii) a loss of \$2 million recognized as a component of interest expense related to interest rate swaps not designated as hedging instruments. The loss on the interest rate swaps had no impact on net interest expense as it was offset by reduced interest expense on the underlying floating rate debt which it hedges.

The Company also recognized unrealized gains of \$17 million and \$24 million, as a component of other comprehensive income, net of tax, for the three and six months ended June 30, 2009, respectively, which relate to interest rate swaps designated as cash flow hedges.

**6. Vehicle Rental Activities**

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

|                                | <b>As of<br/>June 30,<br/>2010</b> | <b>As of<br/>December 31,<br/>2009</b> |
|--------------------------------|------------------------------------|--|
| Rental vehicles                | \$ 8,525                           | \$ 6,090                               |
| Less: Accumulated depreciation | (1,052)                            | (945)                                  |
|                                | 7,473                              | 5,145                                  |
| Vehicles held for sale         | 187                                | 822                                    |
| Vehicles, net                  | \$ 7,660                           | \$ 5,967                               |

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

|                      | <b>Three Months Ended<br/>June 30,</b> |             | <b>Six Months Ended<br/>June 30,</b> |             |
|----------------------|--|-------------|--------------------------------------|-------------|
|                      | <b>2010</b>                            | <b>2009</b> | <b>2010</b>                          | <b>2009</b> |
| Depreciation expense | \$ 336                                 | \$ 387      | \$ 626                               | \$ 733      |
| Lease charges        | 4                                      | 8           | 19                                   | 15          |

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|  |        |        |        |        |
|--|--------|--------|--------|--------|
| Gain on sales of vehicles, net and vehicle disposition costs | (1)    | (2)    | (9)    | (1)    |
| Vehicle depreciation and lease charges, net                  | \$ 339 | \$ 393 | \$ 636 | \$ 747 |

For the three months ended June 30, 2010 and 2009, vehicle interest, net on the accompanying Consolidated Condensed Statements of Operations excludes \$43 million and \$39 million, respectively, and for the six months ended June 30, 2010 and 2009, excludes \$84 million and \$78 million respectively, of interest expense related to the Company's convertible senior notes and the fixed and floating rate borrowings of the Company's Avis Budget Car Rental, LLC (Avis Budget Car Rental) subsidiary. Such interest is recorded within interest expense related to corporate debt, net.

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The Company's effective tax rate for the six months ended June 30, 2010 is a benefit of 67.6%. Such rate differs from the Federal statutory rate of 35.0% primarily due to an \$11 million benefit relating to additional tax depreciation within the Company's operations in Australia.

The Company's effective tax rate for the six months ended June 30, 2009 is a benefit of 23.6%. Such rate differs from the Federal statutory rate of 35.0% primarily due to differences in the amount of stock-based compensation recorded for book and tax purposes. In addition, the Company established a valuation allowance related to certain state deferred tax assets.

**8. Accounts Payable and Other Current Liabilities**

Accounts payable and other current liabilities consisted of:

|  | <b>As of<br/>June 30,<br/>2010</b> | <b>As of<br/>December 31,<br/>2009</b> |
|--|------------------------------------|--|
| Income taxes payable - current                                       | \$ 381                             | \$ 399                                 |
| Accounts payable   | 195                                | 151                                    |
| Accrued payroll and related  | 142                                | 145                                    |
| Accrued interest related to tax contingencies                        | 97                                 | 89                                     |
| Public liability and property damage insurance liabilities - current | 97                                 | 97                                     |
| Other  | 452                                | 391                                    |
|  | <b>\$ 1,364</b>                    | <b>\$ 1,272</b>                        |

**9. Long-term Debt and Borrowing Arrangements**

Long-term debt consisted of:

|   | <b>Maturity</b> | <b>As of<br/>June 30,<br/>2010</b> | <b>As of<br/>December 31,<br/>2009</b> |
|---|-----------------|------------------------------------|--|
| Floating rate term loan <sup>(a)</sup>            | April 2012      | \$ 52                              | \$ 778                                 |
| Floating rate term loan <sup>(a)</sup>            | April 2014      | 272                                |  |
| Floating rate notes                               | May 2014        | 250                                | 250                                    |
| 7 <sup>5</sup> / <sub>8</sub> % notes             | May 2014        | 375                                | 375                                    |
| 3 <sup>1</sup> / <sub>2</sub> % convertible notes | October 2014    | 345                                | 345                                    |
| 7 <sup>3</sup> / <sub>4</sub> % notes             | May 2016        | 375                                | 375                                    |
| 9 <sup>5</sup> / <sub>8</sub> % notes             | March 2018      | 444                                |  |
|   |                 | 2,113                              | 2,123                                  |
| Other   |                 | 10                                 | 8                                      |
| Total long-term debt                              |                 | 2,123                              | 2,131                                  |
| Less: Current portion                             |                 | 8                                  | 12                                     |
| <b>Long-term debt</b>                             |                 | <b>\$ 2,115</b>                    | <b>\$ 2,119</b>                        |



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- (a) The floating rate term loans and our revolving credit facilities are secured by pledges of all of the capital stock of all of the Company's direct or indirect domestic subsidiaries and up to 66% of the capital stock of each direct foreign subsidiary, subject to certain exceptions, and liens on substantially all of the Company's intellectual property and certain other real and personal property. In March 2010, the Company repaid \$451 million of outstanding indebtedness under its floating rate term loan and the term loan outstanding subsequent to such repayment was amended with \$52 million maturing in April 2012 and the balance maturing in April 2014. The floating rate term loan due 2012 bears interest at three month LIBOR plus 375 basis points, for a rate of 4.28% at June 30, 2010, and the floating rate term loan due 2014 bears interest at the greater of three month LIBOR or 1.50%, plus 425 basis points, for a rate of 5.75% at June 30, 2010.

During March 2010, the Company issued \$450 million aggregate principal amount of 9<sup>5</sup>/<sub>8</sub>% Senior Notes due 2018. The notes will pay interest semi-annually on March 15 and September 15 of each year, beginning on September 15, 2010. The notes are unsecured obligations of Avis Budget Car Rental and are guaranteed on a senior basis by the Company and certain of its domestic subsidiaries. These notes were issued at approximately 98.6% of par and the proceeds were used primarily to repay a portion of the Company's floating rate term loan. The notes rank equally with all existing and future senior unsecured indebtedness and are senior to all existing and future subordinated indebtedness. The Company has the right to redeem these notes in whole or in part at any time at the applicable redemption price plus any accrued and unpaid interest through the redemption date.

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In connection with the sale of the notes, the Company entered into a Registration Rights Agreement (the "Registration Rights Agreement"), pursuant to which it filed an exchange offer registration statement related to the notes with the SEC on July 13, 2010. Under certain circumstances, the Company may also be required to file and pursue effectiveness of a shelf registration statement with respect to the resale of the notes. In accordance with the Registration Rights Agreement, the Company could be required to pay additional interest of up to 0.50% per annum on the principal amount of the notes from April 18, 2011 until the exchange offer is completed, a shelf registration statement, if required, is declared effective or the restricted notes become freely tradable under the Securities Act of 1933, as amended. The Company believes the likelihood of occurrence of such event is remote and, accordingly, the Company has not recorded a related liability at June 30, 2010.

**Committed Credit Facilities and Available Funding Arrangements**

At June 30, 2010, the committed credit facilities available to the Company and/or its subsidiaries at the corporate or Avis Budget Car Rental level were as follows:

|   | <b>Total<br/>Capacity</b> | <b>Outstanding<br/>Borrowings</b> | <b>Letters of<br/>Credit<br/>Issued</b> | <b>Available<br/>Capacity</b> |
|---|---------------------------|-----------------------------------|---|-------------------------------|
| Revolving credit facility maturing 2011 <sup>(a)</sup> <sup>(c)</sup> | \$ 192                    | \$                                | \$ 71                                   | \$ 121                        |
| Revolving credit facility maturing 2013 <sup>(b)</sup> <sup>(c)</sup> | 983                       |                                   | 365                                     | 618                           |

(a) This revolving credit facility expires in April 2011 and bears interest of one month LIBOR plus 400 basis points.

(b) This revolving credit facility, which is the portion of the pre-existing revolving credit facility that was amended in March 2010 to extend its maturity by two years (to April 2013), bears interest of one month LIBOR plus 450 basis points.

(c) The senior credit facilities, which encompass the floating rate term loans and the revolving credit facilities, are secured by pledges of all of the capital stock of all of the Company's direct or indirect domestic subsidiaries and up to 66% of the capital stock of each direct foreign subsidiary, subject to certain exceptions, and liens on substantially all of the Company's intellectual property and certain other real and personal property.

The Company's debt agreements contain restrictive covenants, including restrictions on dividends paid to the Company by certain of its subsidiaries, the incurrence of additional indebtedness by the Company and certain of its subsidiaries, acquisitions, mergers, liquidations, and sale and leaseback transactions. The Company's senior credit facilities contain maximum leverage and minimum coverage ratio requirements. The indentures governing the Company's senior unsecured notes, among other things, limit its ability to incur additional debt, subject to certain exceptions. As of June 30, 2010, the Company was in compliance with the financial covenants of its senior credit facilities.

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

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

|   | <b>As of<br/>June 30,<br/>2010</b> | <b>As of<br/>December 31,<br/>2009</b> |
|---|------------------------------------|--|
| Debt due to Avis Budget Rental Car Funding <sup>(a)</sup> | \$ 5,148                           | \$ 3,660                               |
| Budget Truck financing:                                   |                                    |  |
| Budget Truck Funding program                              | 234                                | 220                                    |
| Capital leases  | 20                                 | 31                                     |
| Other <sup>(b)</sup>                                      | 566                                | 463                                    |
|   | <b>\$ 5,968</b>                    | <b>\$ 4,374</b>                        |

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- (a) The increase reflects increased borrowing within Domestic Car Rental operations due to an increase in the size of the Company's domestic car rental fleet.
- (b) The increase principally reflects increased borrowing within International Car Rental operations due to an increase in the size of the Company's international vehicle rental fleet.

*Avis Budget Rental Car Funding (AESOP) LLC.* Avis Budget Rental Car Funding, an unconsolidated bankruptcy remote qualifying special purpose limited liability company, issues privately placed notes to investors as well as to banks and bank-sponsored conduit entities. Avis Budget Rental Car Funding uses the proceeds from its note issuances to make loans to a wholly-owned subsidiary of the Company, AESOP Leasing LP (AESOP Leasing), on a continuing basis. AESOP Leasing is required to use the proceeds of such loans to acquire or finance the acquisition of vehicles used in the Company's rental car operations. By issuing debt through the Avis Budget Rental Car Funding program, Avis Budget pays a lower rate of interest than if it had issued debt directly to third parties. Avis Budget Rental Car Funding is not consolidated, as the Company is not the primary beneficiary of Avis Budget Rental Car Funding. The Company determined that it is not the primary beneficiary because the Company does not have the obligation to absorb the

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potential losses or receive the benefits of Avis Budget Rental Car Funding's activities since the Company's only significant source of variability in the earnings, losses or cash flows of Avis Budget Rental Car Funding is exposure to its own creditworthiness, due to its loan from Avis Budget Rental Car Funding. Because Avis Budget Rental Car Funding is not consolidated, AESOP Leasing's loan obligations to Avis Budget Rental Car Funding are reflected as related party debt on the Company's Consolidated Condensed Balance Sheets as of June 30, 2010 and December 31, 2009. The Company also has an asset within Assets under vehicle programs on its Consolidated Condensed Balance Sheets at June 30, 2010 and December 31, 2009 which represents securities issued to the Company by Avis Budget Rental Car Funding. AESOP Leasing is consolidated, as the Company is the primary beneficiary of AESOP Leasing; as a result, the vehicles purchased by AESOP Leasing remain on the Company's Consolidated Condensed Balance Sheets. The Company determined it is the primary beneficiary of AESOP Leasing, as it has the ability to direct its activities, an obligation to absorb a majority of its expected losses and the right to receive the benefits of AESOP Leasing's activities. AESOP Leasing's vehicles and related assets, which approximate \$6.7 billion and many of which are subject to manufacturer repurchase and guaranteed depreciation agreements, collateralize the debt issued by Avis Budget Rental Car Funding. The assets and liabilities of AESOP Leasing are presented on the Company's Consolidated Condensed Balance Sheets within Assets under vehicle programs and Liabilities under vehicle programs, respectively. The assets of AESOP Leasing, included within Assets under vehicle programs (excluding the Investments in Avis Budget Rental Car Funding (AESOP) LLC related party) are restricted. Such assets may be used only to repay the respective AESOP Leasing liabilities, included within Liabilities under vehicle programs, and to purchase new vehicles, although if certain collateral coverage requirements are met, AESOP Leasing may pay dividends from excess cash. The creditors of AESOP Leasing and Avis Budget Rental Car Funding have no recourse to the general credit of the Company. The Company periodically provides Avis Budget Rental Car Funding with non-contractually required support, in the form of equity and loans, to serve as additional collateral for the debt issued by Avis Budget Rental Car Funding. The Company also finances vehicles through other variable interest entities and partnerships, which are consolidated and whose assets and liabilities are included within Assets under vehicle programs and Liabilities under vehicle programs, respectively. The requirements of these entities include maintaining sufficient collateral levels and other covenants.

The business activities of Avis Budget Rental Car Funding are limited primarily to issuing indebtedness and using the proceeds thereof to make loans to AESOP Leasing for the purpose of acquiring or financing the acquisition of vehicles to be leased to the Company's rental car subsidiaries and pledging its assets to secure the indebtedness. Because Avis Budget Rental Car Funding is not consolidated by the Company, its results of operations and cash flows are not reflected within the Company's financial statements. Borrowings under the Avis Budget Rental Car Funding program primarily represent floating rate notes and have a weighted average interest rate of 3% and 2% as of June 30, 2010 and December 31, 2009, respectively.

During the six months ended June 30, 2010, the Company established a variable funding note program with a maximum capacity of \$400 million of notes to be issued by Avis Budget Rental Car Funding to the Company to finance the purchase of vehicles. These variable funding notes pay interest of 5.5% at June 30, 2010 and mature in March 2011. As of June 30, 2010, there were no outstanding amounts due to the Company from Avis Budget Rental Car Funding under the program; however, in the six months ended June 30, 2010, the Company earned interest income and incurred interest expense of \$2 million on these notes, which was eliminated in consolidation in the Company's financial statements. As of June 30, 2010, the Company's related interest receivable from Avis Budget Rental Car Funding was insignificant.

The following table provides the contractual maturities of the Company's debt under vehicle programs (including related party debt due to Avis Budget Rental Car Funding) at June 30, 2010:

|                       | <b>Vehicle-Backed<br/>Debt</b> | <b>Capital Leases</b> | <b>Total</b>    |
|-----------------------|--------------------------------|-----------------------|-----------------|
| Within 1 year         | \$ 3,133                       | \$ 20                 | \$ 3,153        |
| Between 1 and 2 years | 1,079                          |                       | 1,079           |
| Between 2 and 3 years | 1,111                          |                       | 1,111           |
| Between 3 and 4 years | 56                             |                       | 56              |
| Between 4 and 5 years | 525                            |                       | 525             |
| Thereafter            | 44                             |                       | 44              |
|                       | <b>\$ 5,948</b>                | <b>\$ 20</b>          | <b>\$ 5,968</b> |

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As of June 30, 2010, available funding under the Company's vehicle programs (including related party debt due to Avis Budget Rental Car Funding) consisted of:

|   | <b>Total<br/>Capacity<br/>(a)</b> | <b>Outstanding<br/>Borrowings</b> | <b>Available<br/>Capacity</b> |
|---|-----------------------------------|-----------------------------------|-------------------------------|
| Debt due to Avis Budget Rental Car Funding <sup>(b)</sup> | \$ 5,948                          | \$ 5,148                          | \$ 800                        |
| Budget Truck financing:                                   |                                   |                                   |                               |
| Budget Truck Funding program <sup>(c)</sup>               | 234                               | 234                               |                               |
| Capital leases <sup>(d)</sup>                             | 20                                | 20                                |                               |
| Other <sup>(e)</sup>                                      | 587                               | 566                               | 21                            |
|   | \$ 6,789                          | \$ 5,968                          | \$ 821                        |

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

(b) The outstanding debt is collateralized by approximately \$6.7 billion of underlying vehicles and related assets. Capacity excludes any intercompany arrangements.

(c) The outstanding debt is collateralized by approximately \$383 million of underlying vehicles and related assets.

(d) These capital leases are collateralized by approximately \$27 million of underlying vehicles.

(e) The outstanding debt is collateralized by approximately \$1.0 billion of underlying vehicles and related assets.

Debt agreements under the Company's vehicle-backed funding programs contain restrictive covenants, including restrictions on dividends paid to the Company by certain of its subsidiaries and restrictions on indebtedness, mergers, liens, liquidations, and sale and leaseback transactions. As of June 30, 2010, the Company was not aware of any instances of non-compliance with such covenants.

## 11. Commitments and Contingencies

### Contingencies

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

The Company does not believe that the impact of any unresolved proceedings constituting Assumed Liabilities related to pre-Separation activities, including the Credentials Litigation described below as well as certain other legal matters, should result in a material liability to the Company in relation to its consolidated financial position or liquidity, as Realogy and Wyndham each have agreed to assume responsibility for these liabilities.

In April 2007, Realogy was acquired by an affiliate of Apollo Management VI, L.P. The acquisition does not affect Realogy's obligation to satisfy 62.5% of the contingent and other corporate liabilities of the Company or its subsidiaries pursuant to the terms of the Separation Agreement. As a result of the acquisition, Realogy has greater debt obligations and its ability to satisfy its portion of the contingent and other corporate liabilities may be adversely impacted. In accordance with the terms of the Separation Agreement, Realogy posted a letter of credit in April 2007 for the benefit of the Company to cover its estimated share of the Assumed Liabilities discussed above, subject to adjustment, although there can be no assurance that such letter of credit will be sufficient or effective to cover Realogy's actual obligations if and when they

arise.

The Internal Revenue Service ( IRS ) is in the process of completing its examination of the Company s taxable years 2003 through 2006, the year of the Separation. The Company currently anticipates finalizing such audit prior to September 30, 2010. The Company has recorded within accounts payable and other current liabilities a \$383 million liability, plus interest, in respect of such taxable years. Such liability reflects the Company s estimates of the probable outcome with respect to certain tax positions. The Company believes that its accruals for tax liabilities, including the liabilities for which it is entitled to indemnification pursuant to the Separation Agreement and Tax Sharing Agreement ( Tax Sharing Agreement ), which was also entered into in connection with the Separation, are adequate for all remaining open years based on its assessment of many factors, including past experience and interpretations of tax law

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applied to the facts of each matter. The Company reached a settlement in principle with the IRS in respect of the audit in July 2010 and is entitled to indemnification for most pre-Separation tax matters from Realogy and Wyndham, including all of the \$383 million tax liability discussed above (and has received a letter of credit from Realogy to help ensure Realogy's performance under its indemnification obligations) and therefore, while there can be no assurance as to the final outcome or impact of the audit, the Company does not currently expect the resolution of the audit to have a significant impact on its earnings or financial position.

The rules governing taxation are complex and subject to varying interpretations. Therefore, the Company's tax accruals reflect a series of complex judgments about future events and rely heavily on estimates and assumptions. Although the Company believes the estimates and assumptions supporting its tax accruals are reasonable, the potential result of an audit or litigation related to tax could include a range of outcomes, and could result in tax liabilities for the Company that are materially different than those reflected in the Consolidated Condensed Financial Statements.

As a result of payments made by Realogy and Wyndham in July 2009, the judgment against us in respect of litigation alleging breach of contract and fraud arising out of the acquisition of a business in 1998 ( Credentials Litigation ) has been satisfied. Plaintiffs have petitioned the court for attorneys' fees in the amount of \$33 million, and the Company has accrued liabilities of approximately \$12 million in respect of this petition based on its assessment of amounts that plaintiffs are likely to recover. In January 2010, the court issued a summary order referring the determination of the proper amount of attorneys' fees to a magistrate. Regardless of the ultimate outcome of the petition for attorneys' fees, pursuant to the Separation Agreement, Realogy and Wyndham have assumed all liabilities related to this litigation and therefore a corresponding receivable has been established for such amount. Changes in liabilities related to such legal matters for which the Company is entitled to indemnification, and corresponding changes in the Company's indemnification assets, are recorded net in the Company's Consolidated Condensed Financial Statements. There was no net impact to the Company's financial statements or cash balances as a result of the satisfaction of this judgment or the petition for attorneys' fees.

In October 2009, a judgment was entered against the Company in the amount of \$16 million following the completion of a jury trial for damages related to a breach of contract claim by one of the Company's licensees in the United States District Court for the District of Alaska. The lawsuit, which was filed in 2003, involved claims related to the acquisition of the Budget vehicle rental business in 2002. In June 2010, the district court entered an order against the Company in the amount of \$3 million, in favor of the plaintiff's motions for pre-judgment interest and attorneys' fees. The Company has filed a notice of appeal of the judgment with the United States Court of Appeals for the Ninth Circuit.

In addition to the matters discussed above, the Company is also involved in claims, legal proceedings and governmental inquiries related to its vehicle rental operations, including with respect to contract disputes, business practices, wage and hour claims, insurance claims, intellectual property claims, environmental issues, other commercial, employment and tax matters, and claims by licensees. The Company believes that it has adequately accrued for such matters as appropriate or, for matters not requiring accrual, believes that they will not have a material adverse impact on its results of operations, financial position or cash flows based on information currently available. However, litigation is inherently unpredictable and, although the Company believes that its accruals are adequate and/or that it has valid defenses in these matters, unfavorable resolutions could occur, which could adversely impact the Company's results of operations or cash flows in a particular reporting period.

### ***Commitments to Purchase Vehicles***

The Company maintains agreements with vehicle manufacturers which require the Company to purchase approximately \$1.6 billion of vehicles from manufacturers over the next twelve months. The majority of these commitments are subject to the vehicle manufacturers' satisfying their obligations under repurchase and guaranteed depreciation agreements. The Company is in the process of negotiating and finalizing its purchase commitments with manufacturers for the purchase of model-year 2011 vehicles. The purchase of such vehicles is financed primarily through the issuance of vehicle-backed debt in addition to cash received upon the sale of vehicles in the used car market and under repurchase or guaranteed depreciation programs.

### ***Concentrations***

Concentrations of credit risk at June 30, 2010 include (i) risks related to the Company's repurchase and guaranteed depreciation agreements with domestic and foreign car manufacturers, including General Motors Company, Kia Motors America, Ford Motor Company, Inc., Chrysler Group LLC and Hyundai Motor America, primarily with respect to receivables for program cars that have been returned to the car manufacturers and (ii) risks related to Realogy and Wyndham, including receivables of \$503 million and \$307 million, respectively, related to certain contingent, income tax and other corporate liabilities assumed by Realogy and Wyndham in connection with the Separation. As discussed above, Realogy has posted a letter of credit for the benefit of the Company to cover its estimated share of Assumed





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Liabilities, which includes a substantial portion of the Realogy receivables referred to above.

**Other Guarantees**

The Company has provided certain guarantees to, or for the benefit of, subsidiaries of Realogy, Wyndham and Travelport, which were disposed of during third quarter 2006. These guarantees relate to various real estate operating leases that were entered into prior to the Separation. The maximum potential amount of future payments that the Company may be required to make under the guarantees relating to the various real estate operating leases is estimated to be approximately \$206 million, the majority of which expire by the end of 2013. At June 30, 2010, the liability recorded by the Company in connection with these guarantees was approximately \$4 million. To the extent that the Company would be required to perform under any of these guarantees, the Company is entitled to indemnification by Realogy, Wyndham and Travelport. The Company monitors the credit ratings and other relevant information for Realogy, Wyndham and Travelport's parent company in order to assess the status of the payment/performance risk of these guarantees.

**12. Stockholders Equity**

**Accumulated Other Comprehensive Income (Loss)**

The components of accumulated other comprehensive income (loss) were as follows:

|                               | Currency<br>Translation<br>Adjustments | Net Unrealized<br>Gains<br>(Losses)<br>on Cash<br>Flow<br>Hedges <sup>(a)</sup> | Minimum<br>Pension<br>Liability<br>Adjustment | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) |
|-------------------------------|--|---|---|---|
| Balance as of January 1, 2010 | \$ 111                                 | \$ (106)  | \$ (42)                                       | \$ (37)   |
| Current period change         | (27)                                   | 36  |   | 9   |
| Balance as of June 30, 2010   | \$ 84                                  | \$ (70)   | \$ (42)                                       | \$ (28)   |

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

<sup>(a)</sup> Includes the reclassification of unrealized losses on cash flow hedges of \$36 million (\$22 million, net of tax) to early extinguishment of debt in connection with the repayment of a portion of the Company's floating rate term loan and the settlement of such hedges in first quarter 2010.

**Total Comprehensive Income**

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

The components of other comprehensive income (loss) were as follows:

|                                    | Three Months Ended<br>June 30, |        | Six Months Ended<br>June 30, |         |
|------------------------------------|--------------------------------|--------|------------------------------|---------|
|                                    | 2010                           | 2009   | 2010                         | 2009    |
| Net income (loss)                  | \$ 26                          | \$ (6) | \$ (12)                      | \$ (55) |
| Other comprehensive income (loss): |                                |        |                              |         |

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|   |        |       |        |       |
|---|--------|-------|--------|-------|
| Currency translation adjustment   | (39)   | 62    | (27)   | 53    |
| Reclassification of unrealized losses on cash flow hedges to net loss, net of tax |        |       | 22     |       |
| Unrealized gains on cash flow hedges, net of tax                                  | 8      | 17    | 14     | 24    |
|   | (31)   | 79    | 9      | 77    |
| Total comprehensive income (loss)   | \$ (5) | \$ 73 | \$ (3) | \$ 22 |

During the six months ended June 30, 2010 and 2009, the Company recorded unrealized gains on cash flow hedges of \$23 million and \$39 million (\$14 million and \$24 million, net of tax), respectively, in other comprehensive income (loss), which primarily related to the derivatives used to manage the interest-rate risk associated with the Company's vehicle-backed debt and the Company's floating rate corporate debt. Such amount in the six months ended June 30, 2010 and 2009 included \$28 million and \$48 million of unrealized gains (\$17 million and \$29 million, net of tax),

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respectively, on cash flow hedges related to the Company's vehicle-backed debt and is offset by a corresponding change in the Company's Investment in Avis Budget Rental Car Funding on the Consolidated Condensed Balance Sheets.

**13. Stock-Based Compensation**

The Company records compensation expense for all outstanding employee stock awards based on the estimated fair value of the award at the grant date, which is recognized over the requisite service period. The Company recorded stock-based compensation expense of \$4 million and \$4 million (\$3 million and \$2 million, net of tax) during second quarter 2010 and 2009, respectively, and \$8 million and \$7 million (\$5 million and \$4 million, net of tax) during the six months ended June 30, 2010 and 2009, respectively, related to employee stock awards that were granted by the Company.

The Company applies the direct method and tax law ordering approach to calculate the tax effects of stock-based compensation. In jurisdictions with net operating loss carryforwards, tax deductions for 2010 and 2009 exercises of stock-based awards did not generate a cash benefit. Approximately \$32 million of tax benefits will be recorded in additional paid-in capital when realized in these jurisdictions.

During the six months ended June 30, 2010, the Company granted 160,000 stock options, 968,000 market-vesting restricted stock units and 982,000 time-based restricted stock units under the Company's amended 2007 Equity and Incentive Plan. The stock options (i) vest ratably over a five year term, (ii) expire ten years from the date of grant and (iii) have an exercise price that was set at the closing price of the Company's common stock on the date of the grant. The number of market-vesting restricted stock units which will ultimately vest is based on the Company's common stock achieving certain price targets for a specified number of trading days, with 600,000 of the market-vesting restricted stock units vesting ratably over years two through five following the date of grant and 368,000 of the market-vesting restricted stock units cliff vesting after three years. These market-vesting restricted stock unit awards have five- and three-year terms, respectively. Of the time-based restricted stock units, 782,000 vest ratably over a three-year period and 200,000 of the time-based restricted stock units vest on the first anniversary of the date of the grant.

The Company used the Black-Scholes option pricing model to calculate the fair value of the time-vesting stock options granted in first quarter 2010. The Company determined the fair value of its market-vesting restricted stock units granted in 2010 using a Monte Carlo simulation model with assumptions including, but not limited to, the risk-free rate at the date of grant and the price volatility of the underlying stock. Based on facts and circumstances at the time of the grants, the Company used the implied volatility of its publicly traded, near-the-money stock options with a remaining maturity of at least one year as the most appropriate indicator of the Company's expected volatility. The Company considered several factors in estimating the life of the options granted, including the historical option exercise behavior of employees and the option vesting periods. The risk-free interest rate is derived from the U.S. Treasury yield curve in effect at the time of grant and, since the Company does not currently pay or plan to pay a dividend on its common stock, the expected dividend yield was zero. Based on these assumptions, the fair value of each of the Company's time-vesting stock options and market-vesting restricted stock units which contain five- and three-year vesting periods, issued in first quarter 2010, was estimated to be approximately \$6.16, \$9.57 and \$8.88, respectively.

The weighted average fair value of stock options granted during the periods and the assumptions used to estimate those values using the Black-Scholes simulation option pricing and the Monte Carlo simulation stock unit awards in 2010 and the Black-Scholes and Monte Carlo simulation option pricing in 2009, as applicable, were as follows:

|                                    | <b>Three Months Ended</b> |               |
|------------------------------------|---------------------------|---------------|
|                                    | <b>March 31,</b>          |               |
|                                    | <b>2010</b>               | <b>2009</b>   |
| Expected volatility of stock price | 54%                       | 130%          |
| Risk-free interest rate            | 1.47% - 2.82%             | 1.22% - 1.46% |
| Expected life of options           | 6 years                   | 3-4 years     |
| Dividend yield                     | 0.0%                      | 0.0%          |

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

|  | RSUs           |                              | Options           |                                 |
|--|----------------|------------------------------|-------------------|---------------------------------|
|  | Number of RSUs | Weighted Average Grant Price | Number of Options | Weighted Average Exercise Price |
| Balance as of January 1, 2010                  | 1,855          | \$ 19.32                     | 7,196             | \$ 11.30                        |
| Granted at fair market value                   | 1,950          | 11.56                        | 160               | 11.53                           |
| Vested/exercised <sup>(a)</sup>                | (575)          | 21.98                        | (489)             | 3.32                            |
| Cancelled                                      | (94)           | 22.09                        | (1,187)           | 29.49                           |
| Balance as of June 30, 2010 <sup>(b) (c)</sup> | 3,136          | 13.92                        | 5,680             | 8.19                            |

(a) During the six months ended June 30, 2010, zero performance RSUs vested. Stock options exercised during the six months ended June 30, 2010 had intrinsic value of \$4 million.

(b) As of June 30, 2010, the Company's outstanding RSUs had aggregate intrinsic value of \$31 million; aggregate unrecognized compensation expense related to RSUs amounted to \$35 million; and the balance of RSUs at June 30, 2010 consists of 1,399,000 related to time-based awards and 1,737,000 related to market-vesting and performance-based awards.

(c) As of June 30, 2010, the Company's outstanding stock options had aggregate intrinsic value of \$32 million; aggregate unrecognized compensation expense related to unvested stock options amounted to \$1 million; and there were 3.6 million in-the-money stock options.

The table below summarizes information regarding the Company's outstanding stock options as of June 30, 2010 (in thousands of shares):

| Range of Exercise Prices | Weighted Average Contractual Life (years) | Number of Options |
|--------------------------|---|-------------------|
| Less than \$5.00         | 8.6                                       | 3,597             |
| \$5.01 to \$10.00        |   |                   |
| \$10.01 to \$15.00       | 2.4                                       | 753               |
| \$15.01 to \$20.00       | 1.9                                       | 228               |
| \$20.01 to \$25.00       | 0.6                                       | 84                |
| \$25.01 to \$30.00       | 1.4                                       | 1,008             |
| \$30.01 and above        | 4.3                                       | 10                |
|                          | 6.1                                       | 5,680             |

As of June 30, 2010, the Company also had approximately 0.5 million outstanding stock appreciation rights with a weighted average exercise price of \$24.40, a weighted average remaining contractual life of 3.1 years and an insignificant amount of unrecognized compensation expense.

**14. Segment Information**

The reportable segments presented below represent the Company's operating segments for which separate financial information is available and is utilized on a regular basis by its chief operating decision maker to assess performance and allocate resources. In identifying its reportable segments, the Company also considers the nature of services provided by its operating segments. Management evaluates the operating results of each of its reportable segments based upon revenue and Adjusted EBITDA, which is defined as income from continuing operations before non-vehicle related depreciation and amortization, any impairment charge, non-vehicle related interest and income taxes. The Company's

presentation of Adjusted EBITDA may not be comparable to similarly-titled measures used by other companies.

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|   | Three Months Ended June 30,<br>2010 |                    | 2009            |                    |
|---|-------------------------------------|--------------------|-----------------|--------------------|
|   | Revenues                            | Adjusted<br>EBITDA | Revenues        | Adjusted<br>EBITDA |
| Domestic Car Rental                                     | \$ 981                              | \$ 52              | \$ 1,031        | \$ 37              |
| International Car Rental                                | 212                                 | 32                 | 183             | 18                 |
| Truck Rental  | 100                                 | 16                 | 97              | 9                  |
| Corporate and Other <sup>(a)</sup>                      | 1                                   | (7)                | 1               | (5)                |
| <b>Total Company</b>                                    | <b>\$ 1,294</b>                     | <b>93</b>          | <b>\$ 1,312</b> | <b>59</b>          |
| Less: Non-vehicle related depreciation and amortization |                                     | 23                 |                 | 24                 |
| Interest expense related to corporate debt, net         |                                     | 41                 |                 | 37                 |
| <b>Income (loss) before income taxes</b>                |                                     | <b>\$ 29</b>       |                 | <b>\$ (2)</b>      |

|   | Six Months Ended June 30,<br>2010 |                    | 2009            |                    |
|---|-----------------------------------|--------------------|-----------------|--------------------|
|   | Revenues                          | Adjusted<br>EBITDA | Revenues        | Adjusted<br>EBITDA |
| Domestic Car Rental                                     | \$ 1,861                          | \$ 68              | \$ 1,991        | \$ 26              |
| International Car Rental                                | 413                               | 62                 | 347             | 37                 |
| Truck Rental  | 171                               | 11                 | 167             | (1)                |
| Corporate and Other <sup>(a)</sup>                      | 1                                 | (11)               | 1               | (11)               |
| <b>Total Company</b>                                    | <b>\$ 2,446</b>                   | <b>130</b>         | <b>\$ 2,506</b> | <b>51</b>          |
| Less: Non-vehicle related depreciation and amortization |                                   | 46                 |                 | 45                 |
| Interest expense related to corporate debt, net         |                                   |                    |                 |                    |
| Interest expense  |                                   | 81                 |                 | 77                 |
| Early extinguishment of debt                            |                                   | 40                 |                 |                    |
| Impairment  |                                   |                    |                 | 1                  |
| <b>Loss before income taxes</b>                         |                                   | <b>\$ (37)</b>     |                 | <b>\$ (72)</b>     |

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

Since December 31, 2009, there have been no significant changes in segment assets with the exception of the Company's Domestic Car Rental segment assets under vehicle programs. As of June 30, 2010 and December 31, 2009, Domestic Car Rental segment assets under vehicle programs amounted to approximately \$6.6 billion and approximately \$5.1 billion, respectively.

**15. Guarantor and Non-Guarantor Consolidating Condensed Financial Statements**

The following consolidating financial information presents Consolidating Condensed Statements of Operations for the three months and six months ended June 30, 2010, and 2009, Consolidating Condensed Balance Sheets as of June 30, 2010 and December 31, 2009, and Consolidating Condensed Statements of Cash Flows for the six months ended June 30, 2010 and 2009 for: (i) Avis Budget Group, Inc. (the Parent); (ii) Avis Budget Car Rental and Avis Budget Finance, Inc. (the Subsidiary Issuers); (iii) the guarantor subsidiaries; (iv) the non-guarantor subsidiaries; (v) elimination entries necessary to consolidate the Parent with the Subsidiary Issuers, the guarantor and non-guarantor subsidiaries; and (vi) the Company on a consolidated basis. The Subsidiary Issuers and the guarantor and non-guarantor subsidiaries are 100% owned by the Parent, either directly or indirectly. All guarantees are full and unconditional and joint and several. This financial information is being presented in relation to the Company's guarantee of the payment of principal, premium (if any) and interest on the senior notes issued by Avis Budget Car Rental. These senior notes consist of Avis Budget Car Rental's 7<sup>3</sup>/<sub>8</sub>% Senior Notes due 2014, 7<sup>3</sup>/<sub>4</sub>%

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Senior Notes due 2016, Floating Rate Senior Notes due 2014 and 9<sup>5</sup>/<sub>8</sub>% Senior Notes due 2018 (collectively, the Notes ). See Note 9 Long-term Debt and Borrowing Arrangements for an additional description of these Notes. The Notes are guaranteed by the Parent and certain subsidiaries.

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

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Three Months Ended June 30, 2010

|   | <b>Parent</b> | <b>Subsidiary<br/>Issuers</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Total</b> |
|---|---------------|-------------------------------|-----------------------------------|---------------------------------------|---------------------|--------------|
| <b>Revenues</b>   |               |                               |                                   |                                       |                     |              |
| Vehicle rental  | \$            | \$                            | \$ 822                            | \$ 139                                | \$                  | \$ 961       |
| Other   | 1             |                               | 243                               | 437                                   | (348)               | 333          |
| Net revenues  | 1             |                               | 1,065                             | 576                                   | (348)               | 1,294        |
| <b>Expenses</b>   |               |                               |                                   |                                       |                     |              |
| Operating   | 2             | 3                             | 515                               | 119                                   |                     | 639          |
| Vehicle depreciation and lease charges, net                                     |               |                               | 290                               | 281                                   | (232)               | 339          |
| Selling, general and administrative   | 5             |                               | 120                               | 20                                    |                     | 145          |
| Vehicle interest, net   |               |                               | 72                                | 37                                    | (33)                | 76           |
| Non-vehicle related depreciation and amortization                               |               |                               | 21                                | 2                                     |                     | 23           |
| Interest expense related to corporate debt, net:                                |               |                               |                                   |                                       |                     |              |
| Interest expense (income)   | 3             | 39                            |                                   | (1)                                   |                     | 41           |
| Intercompany interest expense (income)  | (4)           | (39)                          | 43                                |                                       |                     |              |
| Restructuring charges   |               |                               | 2                                 |                                       |                     | 2            |
| Total expenses  | 6             | 3                             | 1,063                             | 458                                   | (265)               | 1,265        |
| <b>Income (loss) before income taxes and equity in earnings of subsidiaries</b> |               |                               |                                   |                                       |                     |              |
|   | (5)           | (3)                           | 2                                 | 118                                   | (83)                | 29           |
| Provision for (benefit from) income taxes                                       | (2)           |                               | 2                                 | 3                                     |                     | 3            |
| Equity in earnings (loss) of subsidiaries                                       | 29            | 32                            | 32                                |                                       | (93)                |              |
| <b>Net income (loss)</b>  | <b>\$ 26</b>  | <b>\$ 29</b>                  | <b>\$ 32</b>                      | <b>\$ 115</b>                         | <b>\$ (176)</b>     | <b>\$ 26</b> |



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Six Months Ended June 30, 2010

|   | Parent  | Subsidiary Issuers | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | Total    |
|---|---------|--------------------|------------------------|----------------------------|--------------|----------|
| <b>Revenues</b>   |         |                    |                        |                            |              |          |
| Vehicle rental  | \$      | \$                 | \$ 1,550               | \$ 277                     | \$           | \$ 1,827 |
| Other   | 1       |                    | 445                    | 807                        | (634)        | 619      |
| Net revenues  | 1       |                    | 1,995                  | 1,084                      | (634)        | 2,446    |
| <b>Expenses</b>   |         |                    |                        |                            |              |          |
| Operating   | 3       | 5                  | 1,003                  | 240                        |              | 1,251    |
| Vehicle depreciation and lease charges, net                                     |         |                    | 544                    | 500                        | (408)        | 636      |
| Selling, general and administrative   | 8       |                    | 228                    | 40                         |              | 276      |
| Vehicle interest, net   |         |                    | 141                    | 67                         | (58)         | 150      |
| Non-vehicle related depreciation and amortization                               |         |                    | 43                     | 3                          |              | 46       |
| Interest expense related to corporate debt, net:                                |         |                    |                        |                            |              |          |
| Interest expense (income)   | 5       | 77                 |                        | (1)                        |              | 81       |
| Intercompany interest expense (income)  | (6)     | (77)               | 83                     |                            |              |          |
| Early extinguishment of debt  |         | 40                 |                        |                            |              | 40       |
| Restructuring charges   |         |                    | 3                      |                            |              | 3        |
| Total expenses  | 10      | 45                 | 2,045                  | 849                        | (466)        | 2,483    |
| <b>Income (loss) before income taxes and equity in earnings of subsidiaries</b> |         |                    |                        |                            |              |          |
|   | (9)     | (45)               | (50)                   | 235                        | (168)        | (37)     |
| Provision for (benefit from) income taxes                                       | (4)     | 1                  | (31)                   | 9                          |              | (25)     |
| Equity in earnings (loss) of subsidiaries                                       | (7)     | 39                 | 58                     |                            | (90)         |          |
| <b>Net income (loss)</b>  | \$ (12) | \$ (7)             | \$ 39                  | \$ 226                     | \$ (258)     | \$ (12)  |

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Three Months Ended June 30, 2009

|   | <b>Parent</b> | <b>Subsidiary<br/>Issuers</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Total</b> |
|---|---------------|-------------------------------|-----------------------------------|---------------------------------------|---------------------|--------------|
| <b>Revenues</b>   |               |                               |                                   |                                       |                     |              |
| Vehicle rental  | \$            | \$                            | \$ 871                            | \$ 124                                | \$                  | \$ 995       |
| Other   |               |                               | 238                               | 471                                   | (392)               | 317          |
| Net revenues  |               |                               | 1,109                             | 595                                   | (392)               | 1,312        |
| <b>Expenses</b>   |               |                               |                                   |                                       |                     |              |
| Operating   | 3             | 2                             | 540                               | 103                                   |                     | 648          |
| Vehicle depreciation and lease charges, net                                     |               |                               | 347                               | 320                                   | (274)               | 393          |
| Selling, general and administrative   | 3             |                               | 112                               | 18                                    |                     | 133          |
| Vehicle interest, net   |               |                               | 66                                | 16                                    | (11)                | 71           |
| Non-vehicle related depreciation and amortization                               |               |                               | 22                                | 2                                     |                     | 24           |
| Interest expense related to corporate debt, net:                                |               |                               |                                   |                                       |                     |              |
| Interest expense (income)   |               | 38                            |                                   | (1)                                   |                     | 37           |
| Intercompany interest expense (income)  |               | (38)                          | 38                                |                                       |                     |              |
| Restructuring charges   |               |                               | 7                                 | 1                                     |                     | 8            |
| Total expenses  | 6             | 2                             | 1,132                             | 459                                   | (285)               | 1,314        |
| <b>Income (loss) before income taxes and equity in earnings of subsidiaries</b> |               |                               |                                   |                                       |                     |              |
|   | (6)           | (2)                           | (23)                              | 136                                   | (107)               | (2)          |
| Provision for (benefit from) income taxes                                       | (3)           |                               | (3)                               | 10                                    |                     | 4            |
| Equity in earnings (loss) of subsidiaries                                       | (3)           | (1)                           | 19                                |                                       | (15)                |              |
| <b>Net income (loss)</b>  | \$ (6)        | \$ (3)                        | \$ (1)                            | \$ 126                                | \$ (122)            | \$ (6)       |

**Table of Contents**

Six Months Ended June 30, 2009

|   | <b>Parent</b> | <b>Subsidiary<br/>Issuers</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Total</b> |
|---|---------------|-------------------------------|-----------------------------------|---------------------------------------|---------------------|--------------|
| <b>Revenues</b>   |               |                               |                                   |                                       |                     |              |
| Vehicle rental  | \$            | \$                            | \$ 1,677                          | \$ 236                                | \$                  | \$ 1,913     |
| Other   | 1             |                               | 439                               | 913                                   | (760)               | 593          |
| Net revenues  | 1             |                               | 2,116                             | 1,149                                 | (760)               | 2,506        |
| <b>Expenses</b>   |               |                               |                                   |                                       |                     |              |
| Operating   | 7             | 4                             | 1,076                             | 201                                   |                     | 1,288        |
| Vehicle depreciation and lease charges, net   |               |                               | 658                               | 608                                   | (519)               | 747          |
| Selling, general and administrative   | 5             |                               | 230                               | 32                                    |                     | 267          |
| Vehicle interest, net   |               |                               | 131                               | 33                                    | (24)                | 140          |
| Non-vehicle related depreciation and<br>amortization                                |               |                               | 41                                | 4                                     |                     | 45           |
| Interest expense related to corporate debt, net:                                    |               |                               |                                   |                                       |                     |              |
| Interest expense (income)   |               | 78                            |                                   | (1)                                   |                     | 77           |
| Intercompany interest expense (income)  |               | (78)                          | 78                                |                                       |                     |              |
| Restructuring charges   |               |                               | 12                                | 1                                     |                     | 13           |
| Impairment  |               | 1                             |                                   |                                       |                     | 1            |
| Total expenses  | 12            | 5                             | 2,226                             | 878                                   | (543)               | 2,578        |
| <b>Income (loss) before income taxes and<br/>equity in earnings of subsidiaries</b> |               |                               |                                   |                                       |                     |              |
|   | (11)          | (5)                           | (110)                             | 271                                   | (217)               | (72)         |
| Provision for (benefit from) income taxes   | (6)           | 2                             | (32)                              | 19                                    |                     | (17)         |
| Equity in earnings (loss) of subsidiaries   | (50)          | (43)                          | 35                                |                                       | 58                  |              |
| <b>Net income (loss)</b>  | \$ (55)       | \$ (50)                       | \$ (43)                           | \$ 252                                | \$ (159)            | \$ (55)      |

**Table of Contents****Consolidating Condensed Balance Sheets**

As of June 30, 2010

|  | Parent          | Subsidiary<br>Issuers | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations      | Total            |
|--|-----------------|-----------------------|---------------------------|-------------------------------|-------------------|------------------|
| <b>Assets</b>  |                 |                       |                           |                               |                   |                  |
| Current assets:  |                 |                       |                           |                               |                   |                  |
| Cash and cash equivalents  | \$ 163          | \$ 77                 | \$ 8                      | \$ 210                        | \$                | \$ 458           |
| Receivables, net   |                 | 59                    | 159                       | 86                            |                   | 304              |
| Deferred income taxes  | 8               |                       | 111                       | 4                             | (19)              | 104              |
| Other current assets   | 675             | 89                    | 82                        | 90                            | (28)              | 908              |
| Total current assets   | 846             | 225                   | 360                       | 390                           | (47)              | 1,774            |
| Property and equipment, net  |                 | 54                    | 327                       | 38                            |                   | 419              |
| Deferred income taxes  | 50              | 289                   | 252                       | 12                            |                   | 603              |
| Goodwill   |                 |                       | 74                        | 2                             |                   | 76               |
| Other intangibles, net   |                 | 6                     | 385                       | 84                            |                   | 475              |
| Other non-current assets   | 161             | 83                    | 11                        | 30                            | (29)              | 256              |
| Intercompany receivables (payables)                                    | 105             | 622                   | (918)                     | 191                           |                   |                  |
| Investment in subsidiaries   | 141             | 916                   | 2,266                     |                               | (3,323)           |                  |
| Total assets exclusive of assets under vehicle programs                | 1,303           | 2,195                 | 2,757                     | 747                           | (3,399)           | 3,603            |
| Assets under vehicle programs:   |                 |                       |                           |                               |                   |                  |
| Program cash   |                 |                       |                           | 51                            |                   | 51               |
| Vehicles, net  |                 | 8                     | 48                        | 7,604                         |                   | 7,660            |
| Receivables from vehicle manufacturers and other                       |                 |                       |                           | 128                           |                   | 128              |
| Investment in Avis Budget Rental Car Funding (AESOP) LLC-related party |                 |                       |                           | 256                           |                   | 256              |
|  |                 | 8                     | 48                        | 8,039                         |                   | 8,095            |
| <b>Total assets</b>  | <b>\$ 1,303</b> | <b>\$ 2,203</b>       | <b>\$ 2,805</b>           | <b>\$ 8,786</b>               | <b>\$ (3,399)</b> | <b>\$ 11,698</b> |
| <b>Liabilities and stockholders equity</b>                             |                 |                       |                           |                               |                   |                  |
| Current liabilities:   |                 |                       |                           |                               |                   |                  |
| Accounts payable and other current liabilities                         | \$ 578          | \$ 228                | \$ 516                    | \$ 89                         | \$ (47)           | \$ 1,364         |
| Current portion of long-term debt                                      |                 | 4                     | 4                         |                               |                   | 8                |
| Total current liabilities  | 578             | 232                   | 520                       | 89                            | (47)              | 1,372            |
| Long-term debt   | 345             | 1,764                 | 6                         |                               |                   | 2,115            |
| Other non-current liabilities  | 155             | 87                    | 246                       | 116                           | (28)              | 576              |
| Total liabilities exclusive of liabilities under vehicle programs      | 1,078           | 2,083                 | 772                       | 205                           | (75)              | 4,063            |
| Liabilities under vehicle programs:                                    |                 |                       |                           |                               |                   |                  |
| Debt   |                 | 3                     | 20                        | 797                           |                   | 820              |

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|   |                 |                 |                 |           |              |                   |                  |
|---|-----------------|-----------------|-----------------|-----------|--------------|-------------------|------------------|
| Due to Avis Budget Rental Car Funding (AESOP) LLC-related party |                 |                 |                 |           | 5,148        |                   | 5,148            |
| Deferred income taxes   |                 | 1,097           |                 |           | 172          |                   | 1,269            |
| Other   |                 |                 |                 |           | 173          |                   | 173              |
|   |                 | 3               | 1,117           |           | 6,290        |                   | 7,410            |
| Total stockholders equity                                       | 225             | 117             | 916             |           | 2,291        | (3,324)           | 225              |
| <b>Total liabilities and stockholders equity</b>                | <b>\$ 1,303</b> | <b>\$ 2,203</b> | <b>\$ 2,805</b> | <b>\$</b> | <b>8,786</b> | <b>\$ (3,399)</b> | <b>\$ 11,698</b> |

**Table of Contents**

As of December 31, 2009

|  | Parent          | Subsidiary<br>Issuers | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations      | Total            |
|--|-----------------|-----------------------|---------------------------|-------------------------------|-------------------|------------------|
| <b>Assets</b>  |                 |                       |                           |                               |                   |                  |
| Current assets:  |                 |                       |                           |                               |                   |                  |
| Cash and cash equivalents  | \$ 242          | \$ 70                 | \$ 7                      | \$ 163                        | \$                | \$ 482           |
| Receivables, net   |                 | 82                    | 136                       | 72                            |                   | 290              |
| Deferred income taxes  | 8               |                       | 111                       | 4                             | (16)              | 107              |
| Other current assets   | 674             | 60                    | 70                        | 77                            | (30)              | 851              |
| Total current assets   | 924             | 212                   | 324                       | 316                           | (46)              | 1,730            |
| Property and equipment, net  |                 | 57                    | 344                       | 41                            |                   | 442              |
| Deferred income taxes  | 54              | 274                   | 257                       | 12                            |                   | 597              |
| Goodwill   |                 |                       | 74                        | 2                             |                   | 76               |
| Other intangibles, net   |                 | 7                     | 385                       | 86                            |                   | 478              |
| Other non-current assets   | 166             | 69                    | 10                        | 48                            | (45)              | 248              |
| Intercompany receivables (payables)                                    | 22              | 637                   | (938)                     | 279                           |                   |                  |
| Investment in subsidiaries   | 137             | 932                   | 2,203                     |                               | (3,272)           |                  |
| Total assets exclusive of assets under vehicle programs                | 1,303           | 2,188                 | 2,659                     | 784                           | (3,363)           | 3,571            |
| Assets under vehicle programs:   |                 |                       |                           |                               |                   |                  |
| Program cash   |                 |                       |                           | 157                           |                   | 157              |
| Vehicles, net  |                 | 10                    | 141                       | 5,816                         |                   | 5,967            |
| Receivables from vehicle manufacturers and other                       |                 |                       |                           | 170                           |                   | 170              |
| Investment in Avis Budget Rental Car Funding (AESOP) LLC-related party |                 |                       |                           | 228                           |                   | 228              |
|  |                 | 10                    | 141                       | 6,371                         |                   | 6,522            |
| <b>Total assets</b>  | <b>\$ 1,303</b> | <b>\$ 2,198</b>       | <b>\$ 2,800</b>           | <b>\$ 7,155</b>               | <b>\$ (3,363)</b> | <b>\$ 10,093</b> |
| <b>Liabilities and stockholders equity</b>                             |                 |                       |                           |                               |                   |                  |
| Current liabilities:   |                 |                       |                           |                               |                   |                  |
| Accounts payable and other current liabilities                         | \$ 572          | \$ 168                | \$ 471                    | \$ 105                        | \$ (44)           | \$ 1,272         |
| Current portion of long-term debt                                      |                 | 10                    | 2                         |                               |                   | 12               |
| Total current liabilities  | 572             | 178                   | 473                       | 105                           | (44)              | 1,284            |
| Long-term debt   | 345             | 1,770                 | 4                         |                               |                   | 2,119            |
| Other non-current liabilities  | 164             | 123                   | 267                       | 118                           | (42)              | 630              |
| Total liabilities exclusive of liabilities under vehicle programs      | 1,081           | 2,071                 | 744                       | 223                           | (86)              | 4,033            |
| Liabilities under vehicle programs:                                    |                 |                       |                           |                               |                   |                  |
| Debt   |                 | 10                    | 31                        | 673                           |                   | 714              |
| Due to Avis Budget Rental Car Funding (AESOP) LLC-related party        |                 |                       |                           | 3,660                         |                   | 3,660            |

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|   |                 |                 |                 |                 |                   |                  |       |
|---|-----------------|-----------------|-----------------|-----------------|-------------------|------------------|-------|
| Deferred income taxes                             |                 |                 | 1,093           |                 | 174               |                  | 1,267 |
| Other   |                 |                 |                 |                 | 197               |                  | 197   |
|   |                 | 10              | 1,124           |                 | 4,704             |                  | 5,838 |
| Total stockholders' equity                        | 222             | 117             | 932             | 2,228           | (3,277)           | 222              |       |
| <b>Total liabilities and stockholders' equity</b> | <b>\$ 1,303</b> | <b>\$ 2,198</b> | <b>\$ 2,800</b> | <b>\$ 7,155</b> | <b>\$ (3,363)</b> | <b>\$ 10,093</b> |       |

**Table of Contents****Consolidating Condensed Statements of Cash Flows**

Six Months Ended June 30, 2010

|  | Parent | Subsidiary<br>Issuers | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Total   |
|--|--------|-----------------------|---------------------------|-------------------------------|--------------|---------|
| Net cash provided by (used in) operating activities                                      | \$ 4   | \$ (64)               | \$ (10)                   | \$ 654                        | \$ 76        | \$ 660  |
| <b>Investing activities</b>  |        |                       |                           |                               |              |         |
| Property and equipment additions   |        | (6)                   | (15)                      | (2)                           |              | (23)    |
| Proceeds received on asset sales   |        | 7                     |                           | 1                             |              | 8       |
| Other, net   | (3)    | (1)                   |                           |                               |              | (4)     |
| <b>Net cash used in investing activities exclusive of vehicle programs</b>               | (3)    |                       | (15)                      | (1)                           |              | (19)    |
| <i>Vehicle programs:</i>   |        |                       |                           |                               |              |         |
| Decrease in program cash   |        |                       |                           | 113                           |              | 113     |
| Investment in vehicles   |        | (11)                  |                           | (5,437)                       |              | (5,448) |
| Proceeds received on disposition of vehicles   |        | 11                    | 6                         | 3,110                         |              | 3,127   |
| Investment in debt securities of AESOP-related party                                     | (280)  |                       |                           |                               |              | (280)   |
| Proceeds from debt securities of AESOP-related party                                     | 280    |                       |                           |                               |              | 280     |
|  |        |                       | 6                         | (2,214)                       |              | (2,208) |
| <b>Net cash used in investing activities</b>   | (3)    |                       | (9)                       | (2,215)                       |              | (2,227) |
| <b>Financing activities</b>  |        |                       |                           |                               |              |         |
| Proceeds from borrowings   |        | 444                   |                           |                               |              | 444     |
| Principal payments on borrowings   |        | (455)                 | (2)                       |                               |              | (457)   |
| Net intercompany transactions  | (82)   | 119                   | 38                        | 1                             | (76)         |         |
| Debt financing fees  |        | (30)                  |                           |                               |              | (30)    |
| Other, net   | 2      | 2                     |                           |                               |              | 4       |
| <b>Net cash provided by (used in) financing activities exclusive of vehicle programs</b> | (80)   | 80                    | 36                        | 1                             | (76)         | (39)    |
| <i>Vehicle programs:</i>   |        |                       |                           |                               |              |         |
| Proceeds from borrowings   |        |                       |                           | 5,626                         |              | 5,626   |
| Principal payments on borrowings   |        | (1)                   | (12)                      | (4,216)                       |              | (4,229) |
| Net change in short-term borrowing   |        |                       |                           | 202                           |              | 202     |
| Other, net   |        | (8)                   | (4)                       |                               |              | (12)    |
|  |        | (9)                   | (16)                      | 1,612                         |              | 1,587   |
| <b>Net cash provided by (used in) financing activities</b>                               | (80)   | 71                    | 20                        | 1,613                         | (76)         | 1,548   |
| Effect of changes in exchange rates on cash and cash equivalents                         |        |                       |                           | (5)                           |              | (5)     |



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|  |        |       |      |        |        |
|--|--------|-------|------|--------|--------|
| Net (decrease) increase in cash and cash equivalents | (79)   | 7     | 1    | 47     | (24)   |
| Cash and cash equivalents, beginning of period       | 242    | 70    | 7    | 163    | 482    |
| Cash and cash equivalents, end of period             | \$ 163 | \$ 77 | \$ 8 | \$ 210 | \$ 458 |

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Six Months Ended June 30, 2009

|  | <b>Parent</b> | <b>Subsidiary Issuers</b> | <b>Guarantor Subsidiaries</b> | <b>Non-Guarantor Subsidiaries</b> | <b>Eliminations</b> | <b>Total</b> |
|--|---------------|---------------------------|-------------------------------|-----------------------------------|---------------------|--------------|
| Net cash provided by (used in) operating activities                                      | \$ (4)        | \$ 16                     | \$ 30                         | \$ 715                            | \$ (69)             | \$ 688       |
| <b>Investing activities</b>  |               |                           |                               |                                   |                     |              |
| Property and equipment additions   |               | (8)                       | (5)                           | (1)                               |                     | (14)         |
| Proceeds received on asset sales   |               | 6                         |                               | 1                                 |                     | 7            |
| Proceeds received from Realogy and Wyndham, net  | 2             |                           |                               |                                   |                     | 2            |
| Other, net   |               | (1)                       |                               |                                   |                     | (1)          |
| <b>Net cash provided by (used in) investing activities exclusive of vehicle programs</b> | <b>2</b>      | <b>(3)</b>                | <b>(5)</b>                    |                                   |                     | <b>(6)</b>   |
| <i>Vehicle programs:</i>   |               |                           |                               |                                   |                     |              |
| Decrease in program cash   |               |                           |                               | 11                                |                     | 11           |
| Investment in vehicles   |               | (11)                      |                               | (3,938)                           |                     | (3,949)      |
| Proceeds received on disposition of vehicles   |               | 21                        | 3                             | 3,942                             |                     | 3,966        |
| Distribution from Avis Budget Rental Car Funding (AESOP) LLC-related party               |               |                           |                               | 47                                |                     | 47           |
|  |               | 10                        | 3                             | 62                                |                     | 75           |
| <b>Net cash provided by (used in) investing activities</b>                               | <b>2</b>      | <b>7</b>                  | <b>(2)</b>                    | <b>62</b>                         |                     | <b>69</b>    |
| <b>Financing activities</b>  |               |                           |                               |                                   |                     |              |
| Proceeds from borrowings   |               | 100                       |                               |                                   |                     | 100          |
| Principal payments on borrowings   |               | (5)                       | (1)                           |                                   |                     | (6)          |
| Net intercompany transactions  | (1)           | (43)                      | (20)                          | (5)                               | 69                  | (2)          |
| Other, net   | (2)           |                           |                               |                                   |                     | (2)          |
| <b>Net cash provided by (used in) financing activities exclusive of vehicle programs</b> | <b>(3)</b>    | <b>52</b>                 | <b>(21)</b>                   | <b>(5)</b>                        | <b>69</b>           | <b>92</b>    |
| <i>Vehicle programs:</i>   |               |                           |                               |                                   |                     |              |
| Proceeds from borrowings   |               |                           |                               | 4,261                             |                     | 4,261        |
| Principal payments on borrowings   |               | (21)                      | (17)                          | (5,059)                           |                     | (5,097)      |
| Net change in short-term borrowings  |               |                           |                               | 144                               |                     | 144          |
|  |               | (21)                      | (17)                          | (654)                             |                     | (692)        |
| <b>Net cash provided by (used in) financing activities</b>                               | <b>(3)</b>    | <b>31</b>                 | <b>(38)</b>                   | <b>(659)</b>                      | <b>69</b>           | <b>(600)</b> |
| Effect of changes in exchange rates on cash and cash equivalents                         |               |                           |                               | 19                                |                     | 19           |
| Net increase (decrease) in cash and cash equivalents                                     | (5)           | 54                        | (10)                          | 137                               |                     | 176          |

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|  |      |        |      |        |        |
|--|------|--------|------|--------|--------|
| Cash and cash equivalents, beginning of period | 11   | 51     | 15   | 181    | 258    |
| Cash and cash equivalents, end of period       | \$ 6 | \$ 105 | \$ 5 | \$ 318 | \$ 434 |

**16. Subsequent Event**

On July 28, 2010, The Company submitted an offer to purchase Dollar Thrifty Automotive Group, Inc. for \$46.50 per share of Dollar Thrifty common stock (approximately \$1.4 billion in total), consisting of \$39.25 in cash (which would include the proceeds of a pre-closing special dividend to be paid by Dollar Thrifty) and 0.6543 shares of Avis Budget common stock (valued at \$7.25 as of July 28, 2010). The cash portion of the Company's offer would be funded through a combination of available cash and fully committed financing. The Company has amended the terms of its senior credit facilities to permit the completion of the proposed transaction, including the financing thereof.

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

*The following discussion should be read in conjunction with our Consolidated Condensed Financial Statements and accompanying Notes thereto included elsewhere herein and with our 2009 Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2010 (the "2009 Form 10-K"). Unless otherwise noted, all dollar amounts in tables are in millions and those relating to our results of operations are presented before taxes.*

We operate two of the most recognized brands in the global vehicle rental industry through Avis Rent A Car System, LLC and Budget Rent A Car System, Inc. We provide car and truck rentals and ancillary services to businesses and consumers in the United States and internationally.

We operate in the following business segments:

**Domestic Car Rental** provides car rentals and ancillary products and services in the United States.

**International Car Rental** provides vehicle rentals and ancillary products and services primarily in Argentina, Australia, Canada, New Zealand, Puerto Rico and the U.S. Virgin Islands.

**Truck Rental** provides truck rentals and related services to consumers and light commercial users in the United States.

Our revenues are derived principally from car and truck rentals in our Company-owned operations and include (i) time and mileage ( T&M ) fees charged to our customers for vehicle rentals, (ii) reimbursement from our customers for certain operating expenses we incur, including gasoline and vehicle licensing fees, as well as airport concession fees, which we pay in exchange for the right to operate at airports and other locations, and (iii) sales of loss damage waivers and insurance and rentals of navigation units and other items in conjunction with vehicle rentals. We also earn royalty revenue from our franchisees in the United States and more than 60 other countries in conjunction with their vehicle rental transactions.

Car rental volumes are closely associated with the travel industry, particularly airline passenger volumes, or enplanements. Because we operate primarily in the United States and generate a significant portion of our revenue from our on-airport operations, we expect that our ability to generate revenue growth will be somewhat dependent on increases in domestic enplanements. Accordingly, our ability to achieve profit margins consistent with prior periods remains dependent on our ability to successfully manage our costs and to increase our revenues per vehicle. Our vehicle rental operations are seasonal. Historically, the third quarter of the year has been our strongest quarter due to the increased level of leisure travel and household moving activity. Any occurrence that disrupts rental activity during the third quarter could have a disproportionate adverse effect on our results of operations. We have a partially variable cost structure and routinely adjust the size and, therefore, the cost of our rental fleet in response to fluctuations in demand. However, certain expenses, such as rent, are fixed and cannot be reduced in response to seasonal fluctuations in our operations.

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

Domestic enplanements, which declined in 2009 compared to 2008 and which for 2010 are expected to approximate 2009 levels;

Difficulty in achieving sustained pricing increases;

Changes in per-unit car fleet costs and in conditions in the used vehicle marketplace;

Changes in the financial condition of vehicle manufacturers;

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Our strategies to expand in off-airport or local vehicle rentals, including insurance replacement rentals;

Changes in borrowing costs and in market willingness to purchase corporate and vehicle-related debt;

Changes in foreign exchange rates; and

Demand for truck rentals.

We believe that the downturn in the U.S. and worldwide economies in 2009 negatively impacted demand for vehicle rental services. Historically, our results of operations have declined during periods of general economic weakness. If economic

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conditions in the United States were to weaken further or remain weak, our results of operations could be materially and adversely impacted for the remainder of 2010 and beyond. Due to uncertainties related to our business, there can be no assurance that we will be able to satisfy the covenants contained in our senior credit facilities and our asset-backed car rental conduit facilities. Failure to comply with such covenants could significantly impact our liquidity if we were unable to obtain an amendment or waiver or were unable to refinance or replace such facilities. See Risk Factors set forth in Item 1A of our 2009 Form 10-K.

**RESULTS OF OPERATIONS**

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

We measure performance using the following key operating statistics: (i) rental days, which represents the total number of days (or portion thereof) a vehicle was rented, and (ii) T&M revenue per rental day, which represents the average daily revenue we earned from rental and mileage fees charged to our customers. Our car rental operating statistics (rental days and T&M revenue per rental day) are all calculated based on the actual rental of the vehicle during a 24-hour period. We believe that this methodology, while conservative, provides our management with the most relevant statistics in order to manage the business. Our calculation may not be comparable to other companies' calculation of similarly-titled statistics.

The reportable segments presented below represent our operating segments for which separate financial information is available and is utilized on a regular basis by our chief operating decision maker to assess performance and allocate resources. In identifying our reportable segments, we also consider the nature of services provided by our operating segments. Management evaluates the operating results of each of our reportable segments based upon revenue and Adjusted EBITDA, which we define as income from continuing operations before non-vehicle related depreciation and amortization, any impairment charge, non-vehicle related interest and income taxes. Our presentation of Adjusted EBITDA may not be comparable to similarly-titled measures used by other companies.

**THREE MONTHS ENDED JUNE 30, 2010 VS. THREE MONTHS ENDED JUNE 30, 2009**

Our consolidated results of operations comprised the following:

|                                   | <b>Three Months Ended June 30,</b> |             |               |
|-----------------------------------|------------------------------------|-------------|---------------|
|                                   | <b>2010</b>                        | <b>2009</b> | <b>Change</b> |
| Net revenues                      | \$ 1,294                           | \$ 1,312    | \$ (18)       |
| Total expenses                    | 1,265                              | 1,314       | (49)          |
| Income (loss) before income taxes | 29                                 | (2)         | 31            |
| Provision for income taxes        | 3                                  | 4           | (1)           |
| Net income (loss)                 | \$ 26                              | \$ (6)      | \$ 32         |

During second quarter 2010, our net revenues decreased \$18 million (1%) principally due to a 4% decrease in T&M revenue in our car rental operations. We experienced a 5% decrease in domestic and international car rental days, which was partially offset by a 1% increase in T&M revenue per rental day and a 5% increase in ancillary and other revenues, such as sales of loss damage waivers and insurance products, GPS navigation unit rentals, gasoline sales and fees charged to customers. In addition, the revenue decrease includes a \$25 million favorable effect related to the translation of our international operations' results into U.S. dollars.

Total expenses decreased \$49 million (4%) principally due to (i) a \$54 million (14%) decrease in vehicle depreciation and lease charges resulting from a 3% decline in our average car rental fleet and a reduction in per-unit fleet costs, (ii) a \$9 million (1%) decrease in direct operating expenses largely resulting from the 5% decrease in car rental days and ongoing cost controls and (iii) a \$6 million decrease in restructuring charges. These year-over-year decreases were partially offset by (i) a \$12 million increase in selling, general and administrative expenses primarily related to marketing and commission expenditures and due-diligence costs associated with a potential acquisition and (ii) a \$5 million increase in vehicle interest. The second quarter decrease in expenses includes a \$16 million adverse impact from movements in foreign currency exchange rates. As a result of these items and a \$1 million decrease in our provision for income taxes, our net income increased by \$32 million in the three months ended June 30, 2010 compared to the prior-year period.

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In second quarter 2010, our effective tax rate was a provision of 10%, compared to income tax expense of \$4 million on a loss before income taxes of \$2 million in second quarter 2009.

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Following is a discussion of the results of each of our reportable segments during the three months ended June 30:

|   | Revenues        |                 |             | Adjusted EBITDA |           |             |
|---|-----------------|-----------------|-------------|-----------------|-----------|-------------|
|   | 2010            | 2009            | %<br>Change | 2010            | 2009      | %<br>Change |
| Domestic Car Rental                                     | \$ 981          | \$ 1,031        | (5%)        | \$ 52           | \$ 37     | 41%         |
| International Car Rental                                | 212             | 183             | 16%         | 32              | 18        | 78%         |
| Truck Rental  | 100             | 97              | 3%          | 16              | 9         | 78%         |
| Corporate and Other <sup>(a)</sup>                      | 1               | 1               | *           | (7)             | (5)       | *           |
| <b>Total Company</b>                                    | <b>\$ 1,294</b> | <b>\$ 1,312</b> |             | <b>93</b>       | <b>59</b> |             |
| Less: Non-vehicle related depreciation and amortization |                 |                 |             | 23              | 24        |             |
| Interest expense related to corporate debt, net         |                 |                 |             | 41              | 37        |             |
| Income (loss) before income taxes                       |                 |                 |             | \$ 29           | \$ (2)    |             |

\* Not meaningful.

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

**Domestic Car Rental**

Revenues decreased \$50 million (5%) in second quarter 2010 compared with second quarter 2009 due to reduced car rental volumes, while Adjusted EBITDA increased \$15 million primarily due to lower operating and fleet costs.

The revenue decrease of \$50 million was comprised of a \$52 million (7%) decrease in T&M revenue, partially offset by a \$2 million (1%) increase in ancillary and other revenues. The decrease in T&M revenue was principally the result of a 6% decrease in rental days and a 1% decrease in T&M revenue per day. Ancillary and other revenues increased \$2 million despite the reduced rental days, reflecting a \$3 million increase in gasoline sales which was more than offset in Adjusted EBITDA by \$10 million of higher gasoline costs, including a loss on our gas hedge. While revenues from rentals of GPS navigation units, sales of insurance products and other items were down 1% mainly due to reduced rental days, we experienced a 5% increase in ancillary revenues per rental day, excluding gasoline and customer recoveries.

We continued to achieve significant benefits from our cost-saving initiatives. Adjusted EBITDA benefited from \$53 million (16%) of decreased fleet depreciation and lease charges, reflecting a 3% decrease in the average size of our domestic rental fleet and a 14% decrease in per-unit fleet costs. Adjusted EBITDA also reflected a \$22 million (3%) decrease in operating expenses, including (i) a \$27 million decrease in expenses related to fleet size, including maintenance and damage, agency operator commissions, credit card fees and other costs, amid lower rental volumes, (ii) a \$7 million decrease in employee costs, rents and other expenses related primarily to reduced domestic staffing levels and the closure of unprofitable locations and (iii) \$4 million lower restructuring costs. These lower expenses were offset by (i), an \$8 million increase in vehicle interest primarily driven by higher outstanding debt balances during the quarter and (ii) a \$6 million increase in selling, general and administrative expenses primarily related to marketing cost.

**International Car Rental**

Revenues and Adjusted EBITDA increased \$29 million (16%) and \$14 million (78%), respectively, in second quarter 2010 compared with second quarter 2009, primarily due to the impact of foreign currency exchange rate movements and improved operating margins.

The revenue increase of \$29 million was comprised of a \$16 million (13%) increase in T&M revenue and a \$13 million (22%) increase in ancillary revenues. The total increase in revenue includes a \$25 million benefit related to foreign currency exchange rates, impacting T&M revenue by \$17 million and ancillary revenues by \$8 million, and was largely offset in Adjusted EBITDA by the opposite impact on expenses of \$16 million. Rental days declined 1% year-over-year, and T&M revenue per day remained flat excluding foreign-exchange effects.



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Adjusted EBITDA reflected an \$11 million (10%) increase in operating expenses and a \$3 million increase in fleet depreciation and lease charges, all due to foreign-exchange effects. Our per-unit fleet costs decreased 4% excluding the impact of currency rates, while the average size of our international rental fleet decreased 1%.

### ***Truck Rental***

Revenues and Adjusted EBITDA increased \$3 million and \$7 million, respectively, in the second quarter 2010 compared with second quarter 2009.

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The \$3 million revenue increase was comprised of a \$2 million (3%) increase in T&M revenue and a \$1 million increase in ancillary revenues. The increase in T&M revenue was principally the result of a 2% increase in T&M revenue per day and a 1% increase in rental days. Adjusted EBITDA benefited from a \$5 million (21%) decline in fleet depreciation, interest and lease charges, reflecting lower per-unit fleet costs and a 9% decrease in the average size of our truck rental fleet.

**SIX MONTHS ENDED JUNE 30, 2010 VS. SIX MONTHS ENDED JUNE 30, 2009**

Our consolidated results of operations comprised the following:

|                           | Six Months Ended June 30, |          |         |
|---------------------------|---------------------------|----------|---------|
|                           | 2010                      | 2009     | Change  |
| Net revenues              | \$ 2,446                  | \$ 2,506 | \$ (60) |
| Total expenses            | 2,483                     | 2,578    | (95)    |
| Loss before income taxes  | (37)                      | (72)     | 35      |
| Benefit from income taxes | (25)                      | (17)     | (8)     |
| Net loss                  | \$ (12)                   | \$ (55)  | \$ 43   |

During the six months ended June 30, 2010, our net revenues decreased \$60 million (2%) principally due to a 5% decrease in T&M revenue in our car rental operations, resulting primarily from a 9% decrease in domestic and international car rental days and a 4% increase in T&M revenue per rental day. The decrease in T&M revenue was partially offset by a 4% increase in ancillary and other revenues, such as sales of loss damage waivers and insurance products, GPS navigation unit rentals, gasoline sales and fees charged to customers. In addition, the decrease in revenue reflects a \$67 million favorable effect related to the translation of our international operations results into U.S. dollars.

Total expenses decreased \$95 million (4%) principally due to (i) a \$111 million (15%) decrease in vehicle depreciation and lease charges resulting from a 9% decline in car per-unit fleet costs and a 7% decline in our average car rental fleet, (ii) a \$37 million (3%) decrease in direct operating expenses largely resulting from the 9% decrease in car rental days, reduced staffing levels and other cost-saving actions, and (iii) a \$10 million decrease in restructuring charges. These year-over-year decreases were partially offset by (i) a \$40 million expense related to the extinguishment of a portion of our corporate debt and associated interest rate swaps, which occurred in first quarter 2010, and (ii) a \$10 million increase in vehicle interest. The decrease in total expense includes an adverse impact from foreign currency exchange rates of \$52 million. As a result of these items and an \$8 million increase in our benefit from income taxes, our net loss decreased \$43 million in the six months ended June 30, 2010 compared to the prior-year period.

Our effective tax rate was a benefit of 68% and 24% for six months ended June 30, 2010 and 2009, respectively.

Following is a discussion of the results of each of our reportable segments during the six months ended June 30:

|   | Revenues |          |             | Adjusted EBITDA |       |             |
|---|----------|----------|-------------|-----------------|-------|-------------|
|   | 2010     | 2009     | %<br>Change | 2010            | 2009  | %<br>Change |
| Domestic Car Rental                                     | \$ 1,861 | \$ 1,991 | (7%)        | \$ 68           | \$ 26 | 162%        |
| International Car Rental                                | 413      | 347      | 19%         | 62              | 37    | 68%         |
| Truck Rental  | 171      | 167      | 2%          | 11              | (1)   | *           |
| Corporate and Other <sup>(a)</sup>                      | 1        | 1        | *           | (11)            | (11)  | *           |
| Total Company   | \$ 2,446 | \$ 2,506 |             | 130             | 51    |             |
| Less: Non-vehicle related depreciation and amortization |          |          |             | 46              | 45    |             |
| Interest expense related to corporate debt, net:        |          |          |             |                 |       |             |

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|                              |         |         |
|------------------------------|---------|---------|
| Interest expense             | 81      | 77      |
| Early extinguishment of debt | 40      |         |
| Impairment <sup>(b)</sup>    |         | 1       |
| Loss before income taxes     | \$ (37) | \$ (72) |

\* Not meaningful.

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

(b) In first quarter 2009, we recorded an approximately \$1 million charge for the impairment of an investment.

**Table of Contents*****Domestic Car Rental***

Revenues decreased \$130 million (7%) during the six months ended June 30, 2010 compared to the same period in 2009 primarily due to decreased car rental volumes, while Adjusted EBITDA increased \$42 million primarily due to lower operating and fleet costs.

The revenue decrease of \$130 million was comprised of a \$131 million (8%) decrease in T&M revenue and a \$1 million (0%) increase in ancillary revenues. The decrease in T&M revenue was principally the result of a 9% decrease in rental days, partially offset by 1% increase in T&M revenue per day. The \$1 million increase in ancillary and other revenues was due to a \$5 million increase in gasoline sales, which was more than offset in Adjusted EBITDA by \$12 million of higher gasoline costs. While revenue from GPS navigation unit rentals, sales of insurance products and other items decreased primarily due to the decline in rental days, ancillary revenue, excluding gasoline and customer recoveries, increased 9% measured on a per rental day basis.

We continued to achieve significant cost savings during the six months ended June 30, 2010 as a result of our cost-saving initiatives. Adjusted EBITDA benefited from \$112 million (18%) of decreased fleet depreciation and lease charges, reflecting a 7% decrease in the average size of our domestic rental fleet and a 12% decrease in per-unit fleet costs. Adjusted EBITDA also reflected a \$72 million (6%) decrease in operating expenses, including (i) a \$62 million decrease in expenses related to car rental volume including maintenance and damage, agency operator commissions, credit card fees, and other costs, (ii) a \$17 million decrease in employee costs, rents and other expenses related primarily to reduced staffing levels and the closure of unprofitable locations and (iii) an \$8 million decrease in restructuring costs. These cost decreases were partially offset by a \$14 million increase in vehicle interest driven by higher effective interest rates.

***International Car Rental***

Revenues and Adjusted EBITDA increased \$66 million (19%) and \$25 million (68%), respectively, in the six months ended June 30, 2010 compared with the six months ended June 30, 2009, primarily due to the impact of foreign currency exchange rate movements and increased operating margins due to lower fleet depreciation and lease charges on a local currency basis.

The revenue increase of \$66 million was comprised of a \$42 million (18%) increase in T&M revenue and a \$24 million (22%) increase in ancillary and other revenues. The total increase in revenue includes a \$67 million increase related to foreign currency exchange rates, impacting T&M revenue by \$45 million and ancillary and other revenues by \$22 million, and was largely offset in Adjusted EBITDA by the opposite impact on expenses of \$52 million. The increase in T&M revenue was principally driven by a 24% increase in T&M revenue per rental day (4% excluding exchange-rate effects), offset by a 5% decrease in rental days.

Adjusted EBITDA reflected a \$35 million (16%) increase in operating expenses and a \$4 million increase in fleet depreciation and lease charges, primarily due to foreign-exchange effects. Per-unit fleet costs decreased 3% excluding the impact of currency rates, and the average size of our international rental fleet decreased 5%.

***Truck Rental***

Revenues and Adjusted EBITDA increased \$4 million and \$12 million, respectively, in the six months ended June 30, 2010 compared with the six months ended June 30, 2009.

The revenue increase of \$4 million was comprised of a \$3 million (2%) increase in T&M revenue and a \$1 million increase in ancillary revenues. The increase in T&M revenue was principally the result of a 2% year-over-year increase in T&M revenue per day, while rental days remained unchanged year-over-year. Adjusted EBITDA benefited from a \$7 million (15%) decline in fleet depreciation, interest and lease charges reflecting lower per-unit fleet costs and an 8% decline in our average truck rental fleet.

**FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES**

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



**Table of Contents****FINANCIAL CONDITION**

|   | <b>June 30,<br/>2010</b> | <b>December 31,<br/>2009</b> | <b>Change</b> |
|---|--------------------------|------------------------------|---------------|
| Total assets exclusive of assets under vehicle programs           | \$ 3,603                 | \$ 3,571                     | \$ 32         |
| Total liabilities exclusive of liabilities under vehicle programs | 4,063                    | 4,033                        | 30            |
| Assets under vehicle programs                                     | 8,095                    | 6,522                        | 1,573         |
| Liabilities under vehicle programs                                | 7,410                    | 5,838                        | 1,572         |
| Stockholders' equity  | 225                      | 222                          | 3             |

Total assets exclusive of assets under vehicle programs were essentially unchanged.

Total liabilities exclusive of liabilities under vehicle programs also were essentially unchanged.

Assets under vehicle programs increased approximately \$1.6 billion mainly due to an approximately \$1.7 billion increase in our net vehicles, related mainly to the seasonal increase in the size of our domestic car rental fleet from December 31, 2009, offset by (i) a \$106 million decrease in our program cash mainly due to the repayment of certain term notes that reached maturity and (ii) a \$42 million decrease in receivables from vehicle manufacturers.

Liabilities under vehicle programs increased approximately \$1.6 billion reflecting additional borrowing to support the seasonal expansion in our Domestic vehicle rental fleet described above. See "Liquidity and Capital Resources - Debt and Financing Arrangements" for a detailed account of the change in our debt related to vehicle programs.

Stockholders' equity increased \$3 million primarily due to a \$9 million increase in accumulated other comprehensive income resulting from (i) the reclassification of \$22 million of unrealized losses on our interest rate swaps to earnings, primarily all in connection with the extinguishment of a portion of our floating rate term loan in first quarter 2010, (ii) \$14 million of net unrealized gains in our cash flow hedges and (iii) partially offset by a \$27 million decrease in currency translation. This increase was offset by an increase in our accumulated deficit due to a \$12 million net loss for the six months ended June 30, 2010.

**LIQUIDITY AND CAPITAL RESOURCES**

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

**CASH FLOWS**

At June 30, 2010, we had \$458 million of cash on hand, a decrease of \$24 million from \$482 million at December 31, 2009. The following table summarizes such decrease:

|   | <b>Six Months Ended June 30,</b> |             |               |
|---|----------------------------------|-------------|---------------|
|   | <b>2010</b>                      | <b>2009</b> | <b>Change</b> |
| Cash provided by (used in):             |                                  |             |               |
| Operating activities                    | \$ 660                           | \$ 688      | \$ (28)       |
| Investing activities                    | (2,227)                          | 69          | (2,296)       |
| Financing activities                    | 1,548                            | (600)       | 2,148         |
| Effect of exchange rate changes         | (5)                              | 19          | (24)          |
| Net change in cash and cash equivalents | \$ (24)                          | \$ 176      | \$ (200)      |

During the six months ended June 30, 2010, we generated \$28 million less cash from operating activities compared with the same period in 2009. The change principally resulted from the termination of interest rate swaps in the six months ended June 30, 2010, partially offset by a decreased use of cash for working capital requirements.

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We used approximately \$2.3 billion more cash in investing activities during the six months ended June 30, 2010 compared with the same period in 2009. This change primarily reflects the activities of our vehicle programs, which (i) used approximately \$1.5 billion more cash to purchase additional vehicles in the current year due to a larger seasonal increase in our fleet in 2010 and (ii) received \$839 million less in proceeds from the disposition of vehicles due to reduced vehicle sales. We anticipate that our capital expenditures will approximate \$70-80 million in 2010.

We generated approximately \$2.1 billion more cash from financing activities during the first half of 2010 compared with the same period in 2009. This change primarily reflects an approximately \$2.3 billion net increase in cash provided from our vehicle programs financing activities to fund the acquisition of the vehicles discussed above.

**Table of Contents****DEBT AND FINANCING ARRANGEMENTS**

At June 30, 2010, we had approximately \$8.1 billion of indebtedness (including corporate indebtedness of approximately \$2.1 billion and debt under vehicle programs of approximately \$6.0 billion).

Corporate indebtedness consisted of:

|   | <b>Maturity</b> | <b>As of<br/>June 30,<br/>2010</b> | <b>As of<br/>December 31,<br/>2009</b> | <b>Change</b> |
|---|-----------------|------------------------------------|--|---------------|
| Floating rate term loan <sup>(a)</sup>            | April 2012      | \$ 52                              | \$ 778                                 | \$ (726)      |
| Floating rate term loan <sup>(a)</sup>            | April 2014      | 272                                |  | 272           |
| Floating rate notes                               | May 2014        | 250                                | 250                                    |               |
| 7 <sup>5</sup> / <sub>8</sub> % notes             | May 2014        | 375                                | 375                                    |               |
| 3 <sup>1</sup> / <sub>2</sub> % convertible notes | October 2014    | 345                                | 345                                    |               |
| 7 <sup>3</sup> / <sub>4</sub> % notes             | May 2016        | 375                                | 375                                    |               |
| 9 <sup>5</sup> / <sub>8</sub> % notes             | March 2018      | 444                                |  | 444           |
|   |                 | 2,113                              | 2,123                                  | (10)          |
| Other   |                 | 10                                 | 8                                      | 2             |
|   |                 | \$ 2,123                           | \$ 2,131                               | \$ (8)        |

<sup>(a)</sup> The floating rate term loans and our revolving credit facilities are secured by pledges of all of the capital stock of all of our direct or indirect domestic subsidiaries and up to 66% of the capital stock of each direct foreign subsidiary, subject to certain exceptions, and liens on substantially all of our intellectual property and certain other real and personal property. In March 2010, we repaid \$451 million of outstanding indebtedness under our floating rate term loan and the term loan outstanding subsequent to such repayment was amended with \$52 million maturing in April 2012 and the balance maturing in April 2014. The floating rate term loan due 2012 bears interest at three month LIBOR plus 375 basis points, for a rate of 4.28% at June 30, 2010, and the floating rate term loan due 2014 bears interest at the greater of three month LIBOR or 1.50%, plus 425 basis points, for a rate of 5.75% at June 30, 2010.

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

|   | <b>As of<br/>June 30,<br/>2010</b> | <b>As of<br/>December 31,<br/>2009</b> | <b>Change</b> |
|---|------------------------------------|--|---------------|
| Debt due to Avis Budget Rental Car Funding <sup>(a)</sup> | \$ 5,148                           | \$ 3,660                               | \$ 1,488      |
| Budget Truck financing:                                   |                                    |  |               |
| Budget Truck Funding program                              | 234                                | 220                                    | 14            |
| Capital leases  | 20                                 | 31                                     | (11)          |
| Other <sup>(b)</sup>                                      | 566                                | 463                                    | 103           |
|   | \$ 5,968                           | \$ 4,374                               | \$ 1,594      |

<sup>(a)</sup> The increase reflects increased borrowings within Domestic Car Rental operations due to an increase in the size of our domestic car rental fleet.

<sup>(b)</sup> The increase principally reflects increased borrowings within International Car Rental operations related to the increase in the size of our international vehicle rental fleet.



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As of June 30, 2010, the committed credit facilities available to us and/or our subsidiaries at the corporate or Avis Budget Car Rental, LLC level were as follows:

|   | <b>Total<br/>Capacity</b> | <b>Outstanding<br/>Borrowings</b> | <b>Letters of<br/>Credit Issued</b> | <b>Available<br/>Capacity</b> |
|---|---------------------------|-----------------------------------|-------------------------------------|-------------------------------|
| Revolving credit facility maturing 2011 <sup>(a)</sup> <sup>(c)</sup> | \$ 192                    | \$                                | \$ 71                               | \$ 121                        |
| Revolving credit facility maturing 2013 <sup>(b)</sup> <sup>(c)</sup> | 983                       |                                   | 365                                 | 618                           |

<sup>(a)</sup> This revolving credit facility expires in April 2011 and bears interest of one month LIBOR plus 400 basis points.

<sup>(b)</sup> This revolving credit facility, which is the portion of the pre-existing revolving credit facility that was amended in March 2010 to extend its maturity by two years (to April 2013), bears interest of one month LIBOR plus 450 basis points.

<sup>(c)</sup> The senior credit facilities, which encompass the floating rate term loans and the revolving credit facilities, are secured by pledges of all of the capital stock of all of our direct or indirect domestic subsidiaries and up to 66% of the capital stock of each direct foreign subsidiary, subject to certain exceptions, and liens on substantially all of our intellectual property and certain other real and personal property.

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The following table presents available funding under our debt arrangements related to our vehicle programs at June 30, 2010:

|   | <b>Total<br/>Capacity<br/>(a)</b> | <b>Outstanding<br/>Borrowings</b> | <b>Available<br/>Capacity</b> |
|---|-----------------------------------|-----------------------------------|-------------------------------|
| Debt due to Avis Budget Rental Car Funding <sup>(b)</sup> | \$ 5,948                          | \$ 5,148                          | \$ 800                        |
| Budget Truck financing                                    |                                   |                                   |                               |
| Budget Truck Funding program <sup>(c)</sup>               | 234                               | 234                               |                               |
| Capital leases <sup>(d)</sup>                             | 20                                | 20                                |                               |
| Other <sup>(e)</sup>                                      | 587                               | 566                               | 21                            |
|   | <b>\$ 6,789</b>                   | <b>\$ 5,968</b>                   | <b>\$ 821</b>                 |

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

(b) The outstanding debt is collateralized by approximately \$6.7 billion of underlying vehicles and related assets. Capacity excludes any intercompany arrangements.

(c) The outstanding debt is collateralized by approximately \$383 million of underlying vehicles and related assets.

(d) These capital leases are collateralized by approximately \$27 million of underlying vehicles.

(e) The outstanding debt is collateralized by approximately \$1.0 billion of underlying vehicles and related assets.

**LIQUIDITY RISK**

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

As we discussed above, as of June 30, 2010, we have cash and cash equivalents of \$458 million, available capacity under our revolving credit facilities of \$739 million, and available borrowing capacity under our vehicle programs of approximately \$800 million.

Our liquidity position may be negatively affected by financial market disruptions or adverse economic conditions in the U.S. and worldwide economies, which could result in unfavorable conditions in the vehicle rental industry, in the asset-backed financing market, and in the credit markets generally. We believe these factors could affect the debt ratings assigned to us by credit rating agencies and the cost of our borrowings. Additionally, these factors could impact our liquidity due to (i) decreased demand and pricing for vehicles in the used vehicle market, (ii) increased costs associated with, and/or reduced capacity or increased collateral needs under, our financings, (iii) the adverse impact of vehicle manufacturers, including General Motors Company, Kia Motors America, Ford Motor Company, Inc., Chrysler Group LLC or Hyundai Motor America, being unable or unwilling to honor their obligations to repurchase or guarantee the depreciation on the related program vehicles, (iv) disruption in our ability to obtain financing due to negative credit events specific to us or affecting the overall debt market, (v) the impact of an insolvency event or actual or potential default by any of the financial guaranty firms that have insured a portion of our outstanding vehicle-backed debt and (vi) the effect of any of Realogy, Wyndham or Travelport being unable or unwilling to honor its obligations under the Separation and Distribution Agreement and the Tax Sharing Agreement, entered into in connection with the Cendant Separation (the Separation ). Financial guaranty firms Ambac Assurance Corporation, MBIA Insurance Corporation, Assured Guaranty Corp. and Syncora Guarantee Inc. currently provide financial guarantees for approximately \$992 million, \$600 million, \$250 million and \$42 million, respectively, of our domestic term asset-backed car rental financing. Certain insolvency events by these financial guarantors would result in principal of the related financings being required to be repaid sooner than anticipated.

Our liquidity position also may be negatively affected if we are unable to remain in compliance with the financial and other covenants associated with our senior credit facilities and other borrowings. The financial covenants of our senior credit facilities include maximum leverage and minimum coverage ratio requirements. As of June 30, 2010, we were in compliance with the financial covenants of our senior credit facilities. For additional information regarding our liquidity risks, see Part I, Item 1A, Risk Factors of our 2009 Form 10-K.

**CONTRACTUAL OBLIGATIONS**

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Our future contractual obligations have not changed significantly from the amounts reported within our 2009 Form 10-K with the exception of our commitment to purchase vehicles, which decreased by approximately \$2.6 billion from December 31, 2009 to approximately \$1.6 billion at June 30, 2010. We are in the process of negotiating and finalizing our purchase commitments with manufacturers for model-year 2011 vehicles. Changes to our obligations related to corporate indebtedness and debt under vehicle programs are presented above within the section titled Liquidity and Capital Resources Debt and Financing Arrangements and also within Notes 9 and 10 to our Consolidated Condensed Financial Statements.

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As of June 30, 2010, our liability recorded for tax obligations was \$482 million, plus interest, which includes \$383 million, plus interest, of current liabilities in respect of our taxable years 2003 through 2006, the year of the Separation, which the Internal Revenue Service is examining. We reached a settlement in principle with the IRS with respect to such audit in July 2010 and are entitled to indemnification for most pre-Separation tax matters by Realogy and Wyndham (and we have received a letter of credit from Realogy to help ensure Realogy's performance under its indemnification obligations) and therefore, while there can be no assurance as to the final outcome or impact of the audit, we do not currently expect the resolution of the audit to have a significant impact on our earnings or financial position. For additional information regarding our contractual obligations, including information regarding the audit and the letter of credit from Realogy, see Note 11 to our Consolidated Condensed Financial Statements.

## **ACCOUNTING POLICIES**

The results of the majority of our recurring operations are recorded in our financial statements using accounting policies that are not particularly subjective, nor complex. However, in presenting our financial statements in conformity with generally accepted accounting principles, we are required to make estimates and assumptions that affect the amounts reported therein. Several of the estimates and assumptions that we are required to make pertain to matters that are inherently uncertain as they relate to future events. Presented within the section titled "Critical Accounting Policies" of our 2009 Form 10-K are the accounting policies (related to goodwill and other indefinite-lived intangible assets, vehicles, income taxes, financial instruments and public liability, property damage and other insurance liabilities) that we believe require subjective and/or complex judgments that could potentially affect 2010 reported results. There have been no significant changes to those accounting policies or our assessment of which accounting policies we would consider to be critical accounting policies.

During 2010, we adopted the following standards as a result of the issuance of new accounting pronouncements:

ASU No. 2009-16, Accounting for Transfers of Financial Assets

ASU No. 2009-17, Accounting by Enterprises Involved with Variable Interest Entities

ASU No. 2010-09, Subsequent Events Amendments to Certain Recognition and Disclosure Requirements

ASU No. 2010-06, Fair Value Measurements and Disclosures, except for certain disclosures that will be adopted on January 1, 2011, as required

For detailed information regarding these pronouncements and the impact thereof on our business, see Note 1 to our Consolidated Condensed Financial Statements.

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

We assess our market risk based on changes in interest rates and foreign currency exchange rates utilizing a sensitivity analysis that measures the potential impact in earnings, fair values and cash flows based on a hypothetical 10% change (increase and decrease) in interest rates and foreign currency exchange rates. We used June 30, 2010 market rates to perform a sensitivity analysis separately for each of our market risk exposures. The estimates assume instantaneous, parallel shifts in interest rate yield curves and exchange rates. We have determined, through such analyses, that the impact of a 10% change in interest rates and foreign currency exchange rates on our earnings, fair values and cash flows would not be material.

### **Item 4. Controls and Procedures**

(a)

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*Disclosure Controls and Procedures.* Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act )) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective.

- (b) *Internal Controls Over Financial Reporting.* There have been no changes in our internal control over financial reporting (as such term is defined in rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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### **PART II OTHER INFORMATION**

#### **Item 1. Legal Proceedings Previously Reported Matters**

##### ***Vehicle Rental Litigation***

With respect to the civil collective action complaint filed against us by a former Avis shift manager, Matthew Ravenell, in the United States District Court for the Eastern District of New York alleging that the Company violated the Fair Labor Standards Act, in July 2010, the court granted plaintiff's motion for conditional certification as a collective action.

##### **Corporate Litigation**

##### ***Avis Budget Legal Proceedings***

In October 2009, a judgment was entered against us in the amount of \$16 million following the completion of a jury trial for damages related to a breach of contract claim by one of our licensees in the United States District Court for the District of Alaska. The lawsuit, which was filed in 2003, involved claims related to the acquisition of our Budget vehicle rental business in 2002. In June 2010, the district court entered an order against the Company in the amount of \$3 million, in favor of the plaintiff's motions for pre-judgment interest and attorneys' fees. We filed a notice of appeal of the judgment with the United States Court of Appeals for the Ninth Circuit in February 2010.

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

The Company has had no material changes in its risk factors from those previously reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 other than the following:

##### ***There are risks associated with our potential acquisition of Dollar Thrifty Automotive Group, Inc.***

On July 28, 2010, we submitted an offer to purchase Dollar Thrifty Automotive Group, Inc. for \$46.50 per share of Dollar Thrifty common stock (approximately \$1.4 billion in total), consisting of \$39.25 in cash (which would include the proceeds of a pre-closing special dividend to be paid by Dollar Thrifty) and 0.6543 shares of Avis Budget common stock (valued at \$7.25 as of July 28, 2010). The cash portion of our offer would be funded through a combination of available cash and fully committed financing. There is no assurance that we will enter into a merger agreement with Dollar Thrifty or that any transaction will be consummated.

In addition to the risks we face in connection with acquisitions and indebtedness generally as described under Item 1A of our 2009 Annual Report on Form 10-K, we face risks associated with a potential acquisition of Dollar Thrifty, each of which may have an adverse impact on our business, financial condition, operating results and prospects. Such risks include: our level of indebtedness and/or our cost of indebtedness following an acquisition of Dollar Thrifty will be higher than our existing indebtedness and/or cost of indebtedness and may subject us to additional restrictive covenants; any issuance of our shares in such an acquisition will result in dilution to our existing stockholders; our credit ratings may be adversely affected, which may impact the cost of future borrowings; the need for required approvals, including regulatory approvals and approval by Dollar Thrifty's shareholders, may delay, prevent or otherwise adversely impact an acquisition of Dollar Thrifty or impose conditions that could require divestitures and otherwise have an impact on our business; the market price of our common stock or other securities may decline as a result of a proposed or actual acquisition of Dollar Thrifty; a proposed or actual acquisition of Dollar Thrifty may result in our being subject to unknown liabilities and litigation; such an acquisition could involve unexpected costs and distractions; our ability to successfully integrate, and our ability to achieve anticipated cost savings and synergies as a result of the combination of, our business and operations with Dollar Thrifty's is uncertain; and our business may suffer as a result of uncertainty surrounding the timing and likelihood of any proposed acquisition.

#### **Item 6. Exhibits** See Exhibit Index.



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**SIGNATURES**

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

**AVIS BUDGET GROUP, INC.**

Date: August 6, 2010

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

Date: August 6, 2010

/s/ Brett D. Weinblatt  
Brett D. Weinblatt  
Senior Vice President and  
Chief Accounting Officer



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**Exhibit Index**

| Exhibit No. | Description   |
|-------------|---|
| 2.1         | Separation and Distribution Agreement by and among Cendant Corporation*, Realogy Corporation, Wyndham Worldwide Corporation and Travelport Inc., dated as of July 27, 2006 (Incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K dated August 1, 2006).   |
| 2.2         | Letter Agreement dated August 23, 2006 related to the Separation and Distribution Agreement by and among Realogy Corporation, Cendant Corporation*, Wyndham Worldwide Corporation and Travelport Inc. dated as of July 27, 2006 (Incorporated by reference to Exhibit 2.2 to the Company's Quarterly Report on Form 10-Q for the period ended June 30, 2007).   |
| 3.1         | Amended and Restated Certificate of Incorporation of the Company (Incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated September 5, 2006).  |
| 3.2         | Amended and Restated Bylaws of Avis Budget Group, Inc. (as of November 5, 2009) (Incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K dated November 5, 2009).  |
| 10.1        | Third Amendment, dated as of July 21, 2010, to the Credit Agreement dated as of April 19, 2006, as amended by the First Amendment dated as of December 23, 2008 and the Second Amendment dated March 10, 2010, among Avis Budget Holdings, LLC, Avis Budget Car Rental, LLC, the subsidiary borrowers from time to time parties thereto, the several lenders from time to time parties thereto, Bank of America, N.A., Credit Agricole Corporate & Investment Bank New York Branch (formerly known as Calyon) and Citicorp USA, Inc. as documentation agents, Wachovia Bank, National Association as co-documentation agent, Deutsche Bank Securities Inc. as syndication agent, JPMorgan Chase Bank, N.A., as administrative agent, and Citigroup Global Markets Inc., as arranger of the Amendment (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated July 27, 2010). |
| 10.2        | Approval Letter dated July 21, 2010 between Avis Budget Rental Car Funding (AESOP) LLC and certain noteholders listed as parties thereto, pursuant to the terms of the Series 2008-1 Supplement to the Amended and Restated Base Indenture (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated July 27, 2010).   |
| 10.3        | Approval Letter dated July 21, 2010 between Avis Budget Rental Car Funding (AESOP) LLC and certain noteholders listed as parties thereto, pursuant to the terms of the Series 2009-3 Supplement to the Amended and Restated Base Indenture (Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K dated July 27, 2010).   |
| 12          | Statement re: Computation of Ratio of Earnings to Fixed Charges.  |
| 31.1        | Certification of Chief Executive Officer pursuant to Rules 13(a)-14(a) and 15(d)-14(a) promulgated under the Securities Exchange Act of 1934, as amended.   |
| 31.2        | Certification of Chief Financial Officer pursuant to Rules 13(a)-14(a) and 15(d)-14(a) promulgated under the Securities Exchange Act of 1934, as amended.   |
| 32          | Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| 101         | The following materials from Avis Budget Group, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Condensed Statements of Operations for the three and six months ended June 30, 2010 and 2009, (ii) Consolidated Condensed Balance Sheets as of June 30, 2010 and December 31, 2009, (iii) Consolidated Condensed Statements of Cash Flows for the six months ended June 30, 2010 and 2009, and (iv) Notes to Consolidated Condensed Financial Statements, tagged as block of text**.   |

\* Cendant Corporation is now known as Avis Budget Group, Inc.

\*\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.