PARTICIPANTS

Corporate Participants

Neal Goldner – Vice President-Investor Relations
Ronald L. Nelson – Chairman, President, Chief Executive Officer & COO
David B. Wyshner – Chief Financial Officer & Senior Vice President

Other Participants

John Healy – Analyst, Northcoast Research Holdings LLC
Afua A. Ahwoi – Analyst, Goldman Sachs & Co.
Chris Agnew – Analyst, MKM Partners LLC
Brian Arthur Johnson – Analyst, Barclays Capital, Inc.
Emily Eileen Shanks – Analyst, Barclays Capital, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Avis Budget Group's Third Quarter Earnings Conference Call. Today's call is being recorded.

At this time for opening remarks and introductions, I would like to turn the conference over to Mr. Neal Goldner, Vice President of Investor Relations. Please go ahead, sir.

Neal Goldner, Vice President-Investor Relations

Thank you, Tania. Good morning everyone and thank you for joining us. On the call with me are Ron Nelson, our Chairman and Chief Executive Officer; and David Wyshner, our Senior Executive Vice President and Chief Financial Officer.

Before we discuss our results for the third quarter, I would like to remind everyone that the company will be making statements about its future results and expectations, which constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Such statements are based on current expectations and the current economic environment and are inherently subject to economic, competitive and other uncertainties and contingencies beyond the control of management. You should be cautioned that these statements are not guarantees of future performance. Actual results may differ materially from those expressed or implied in the forward-looking statements.

Important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements are specified in our earnings release, which was issued last night, and our Form 10-K and in other SEC filings. If you did not receive a copy of our press release, it is available on our website at IR at avisbudgetgroup.com.

Also certain non-GAAP financial measures will be discussed in this call and these measures are reconciled with the GAAP numbers in our press release and our website.

Now, I'd like to turn the call over to Avis Budget Group's Chairman and Chief Executive Officer, Ron Nelson.

Ronald L. Nelson, Chairman, President, Chief Executive Officer & COO

Thanks, Neal, and good morning everyone. Thanks for joining us. Well at the risk of disappointing the financial media I'm nonetheless very proud to say, we had a record third quarter, experiencing little or no negative effects from the current economic malaise. Demand remained strong and especially so at our leisure segments while pricing remained fairly stable and consistent with prior quarter's experience. As we noted last quarter, some of the pricing pressure can be attributed to longer length of rental. We're continuing to see an especially sharp gain in weekly transactions we believe is a consequence of our brand advertising investments. And certainly margins and overall profitability benefited from strong risk cars sales gains. Although we would be quick to point out that gains had returned to pre-earthquake levels by the time de-fleeting began in early September.

As important our strategic initiatives to profitably accelerate our growth continued to drive incremental volume in the quarter. And as of October 3rd, we now have an additional growth initiative to focus on. Avis Europe which will now operate as Avis Budget EMEA, that's a good place to begin this morning.

With the acquisition of Avis Europe we are now a truly global company. On a combined basis we generate over $7 billion in annual revenue, in excess of 27 million transactions, and we deploy a fleet of over 450,000 cars and trucks. We and our licensees have vehicles for rent at over 10,000 locations at 175 countries around the world. Price alone, however was not to determining force behind the acquisition. We approached the transactions with two strongly held views about where our business is headed.

First, from a customer standpoint our large multinational organizations are increasingly demanding global travel solution providers, while our leisure customers travel internationally today as easily as they travel within their own borders. Both customer groups expect their preferred brands to operate and offer consistent service wherever they travel. Delivering on that expectation is how you optimize brand loyalty.

Second, from a market standpoint, growth in air travel outside of the United States both intra and international exceeds the U.S. domestic rate by a significant margin. Taken together, the customer and market opportunities represent growth potential that our company with two global brands, one P&L and a singular focus on driving profitable growth can capitalize on. This drove the rational for the acquisition.

Now let me elaborate on how we intend to maximize the return on our investment. First and foremost the acquisition resolves an unnatural split in our brand ownership; the split that has kept us from truly capitalizing on growth in the global marketplace especially given that we own two of only three global car rental brands Avis and Budget.

Second, the acquisition gives us a meaningful presence in some of the long-term growth engines of the global economy, countries such as China, India and Russia.

Third, the synergies we expect to realize from this acquisition are significant, representing 40% of Avis Europe's 2010 pre-tax income. Many of these synergies are the basic cost savings you would expect from any large acquisition, items like eliminating duplicate public company costs, consolidating fixed cost infrastructure, rationalizing IT expenditures, combining procurement on a global basis, and driving best practices across a larger entity.

These items alone are expected to generate the bulk of the more than $30 million in annual benefits we expect to achieve, and we expect to be at that run rate within 6 to 12 months. We've been actively planning the integration phases over the last few months and we're able to hit the ground running at the close. In fact if our acquisition successes are limited to achieving only these three objectives, recombining our brands globally, increasing our presence in certain high-growth markets and capturing the basic synergies, this will wind up as a very good financial transaction.

But we believe there are opportunities to drive significant additional benefits beyond the $30 million which will make this a great investment and we're already building plans to do that. For example, the new global and self-serve technologies we've been testing as part of our strategic plan are likely to have utility in Europe and Asia that we haven't assumed any benefit in our $30 million number. In addition, we've only assumed approximately $10 million of process improvement savings related to our Performance Excellence initiative, compared to the approximately $250 million in annual savings we already achieved within U.S., Canada, Australia and New Zealand. So, we believe there should be a substantial upside to this number.

To add some perspective to that assertion, the percentage of non-fleet operating expenses that the $250 million currently represents is over six times what the $10 million represents on a comparable basis for Avis Europe. Clearly, that suggests there's a much larger opportunity than we have assumed, but I will remind you that we had been at this for three years and it does take time to build.

And there are other potential cost savings that we think could provide incremental margin opportunities but with only one month under our belt, it's a little premature to quantify. We also believe there are significant revenue opportunities that we can capture through this combination. The largest relates to Budget, a brand that has double-digit market shares in the U.S., Canada, Australia, New Zealand and many of the licensed territories across the globe, but commands less than a 2% share across our owned territories in Europe.

In the territories that we own, moving Budget to the level of the U.S. share is potentially a $1 billion opportunity. Suffice to say, whether the potential is $1 billion or in the hundreds of millions, we believe there is a large untapped opportunity to expand Budget's presence and grow its share.

We also believe that the areas of global corporate contracting and international inbound travel will provide significant benefits. We are significantly under-shared in the multibillion dollar international cross-border market due to the split that has existed all these years. As we've discussed in the past, there simply was no profit motive for Avis Europe to focus on driving travel volume to our own territories, so they didn't make it a priority. And I can't say, we acted much differently.

Given the growth trajectory of this segment and the profitability of these travelers due to their higher revenue per day, longer length of rental, and greater tendency to purchase insurance and other ancillary products. Growing our cross-border share is very high in our priority list.

On the corporate contracting side, we have an opportunity to improve our position by going to market with both the premium and value brand on a global scale. And many of our multinational customers have already told us that they view this acquisition as a significant positive development.

There are other opportunities too, areas such as licensee acquisition, fleet financing and revenue management. We're already working on creating a pan-European securitization facility, which should over time drive down interest costs. And we're clearly using the integration work to understand more fully the disparate demand, fleet, and pricing systems that are currently used across the various markets.

The success of the first three points I laid out makes this a good financial transaction. Capitalizing on just a few of these additional costs and revenue opportunities will make this a home run.

One last point about Avis Europe and an important underpinning of this transaction is the importance of license fees to Avis Europe's income stream. Having recently met with all of the Avis and Budget licensees, I have come to appreciate that their entrepreneurial drive and commitment to the brands is one of the most important assets we acquired. On a purely financial basis, the fact is that nearly 80% of Avis Europe's 2010 pre-tax income was derived from high margin licensees, with nearly 50% of that coming from outside of Europe. Given that a meaningful percentage of their revenue comes from long-term leasing, this is a highly stable source of annuity like cash flows. Equally important is that many of our licensees are very substantial companies. All told, this drives a very strong geographically diverse earnings stream.

So I hope you understand why we're so excited about this transaction. We now have a truly global platform from which to grow, with substantial cost savings potential beyond what we've promised, and opportunities to accelerate revenue growth.

Of course, the path to prosperity is not always a straight line. We are well aware that since our announcement of the acquisition in mid-June, Europe has picked up some significant economic headwinds.

Avis Europe's rental volume comparisons were positive in each month of the third quarter, but the rate of growth declined month-by-month over the course of the quarter driven by softening leisure demand. We currently expect rental volumes in Europe to be flat in the fourth quarter and we'll be spending much of this month pulling together our 2012 business plan.

Our decision to acquire Avis Europe anticipated that there would be economic cycles in Europe. And the fact that we might find a downturn sooner than we would have liked means one thing, that our drive to achieve the expected and potential synergies will be even stronger.

Finally, we're thrilled to have one of Avis Europe's Directors and its former Chief Executive, Alun Cathcart, agree to join our board. We believe he brings a wealth of institutional knowledge and experience along with a European point of view that now as a multinational company we will value highly.

On the management side we're fortunate to have within our ranks a wealth of talent to manage the new regional structure that we've put in place. Larry De Shon, who previously headed our Domestic Operations Group assumed the new role of President Avis Budget, EMEA in October. Larry brings to the role both an intimate knowledge of Avis Budget Group and prior experience managing operations in Europe. So we're pleased that he agreed to accept this assignment.

To round out our international management team, Patric T. Siniscalchi has shifted his responsibilities to focus exclusively on our Latin America and the Asia Pacific regions. Pat is our most experienced and senior Car Rental Executive and his background will prove invaluable to drive these high growth markets.

With that being said, I expect our U.S. operations will still represent almost 60% of our combined revenue, will remain a key source of our earnings and the initiatives we've been pursuing to grow our profitability will remain a critical driver of our near-term success.

Tom Gartland who previously headed Sales and Marketing has seamlessly assumed the role of President, North American region. With most of our strategic initiatives focused on revenue growth, Tom was the ideal candidate to drive this region.

So let me give you a quick update of the progress we've made in implementing these strategies even in the midst of a transformational acquisition. To start with, growing our presence among small business customers has been a key initiative for us. In October, Avis was named the exclusive car rental partner for Chase's industry-leading Small Business Card Inc. from Chase. We had record small business enrollment levels in August. And in September all before the new inc relationship and our small business rental volumes are up 14% year-to-date. With this progress coupled with our multiyear deal with Chase, we feel good about the trajectory of this initiative.

Another key objective for us has been to strengthen our brands through targeted investment. On this front we recently re-launched direct response TV advertising for Budget and signed a relationship through which Avis will be the car rental partner for the PGA. Golf is the second-highest indexing broadcast media within the heavy renter group, it presents a wealth of transactional opportunities for us, including the addition of the PGA Tour, is a very substantial customer.

The third initiative for us has been what we call virtual car rental. The automation of significant components of the vehicle rental transaction. While the applicability of the technology is initially targeted to expanding local market operations, it clearly has longer-term applicability on airport as well.

In the third quarter we officially christened our virtual car rental brand as Avis On Location. We continue to pilot this technology on the corporate campuses of certain our commercial customers and feedback has been highly encouraging.

We are also using the same technology and covering much of the costs of its development by using it to automate the collection of precise mileage and fuel data when cars are returned to our airport rental locations.

We expect to have 25,000 cars equipped and operating by the middle of next year, which at current level should outstrip the largest similarly equipped competitor by a factor of all most three.

Our work to grow international inbound rental volumes continues to bear fruit with domestic inbound revenue up 18% year-to-date and over 20% in the quarter. Of all of our strategic initiatives, this is the one that should see an immediate benefit from the Avis Europe acquisition, with all parts of the globe now having a single focus, driving profitable volume growth for Avis Budget Group.

We're also making good progress in our goal of becoming a customer-lead service-driven organization. With the vast majority of our consumers, we're already achieving our goal of delivering excellent service and value. It is inevitable then in the course of certain rental transactions customer needs change and things happen. And it's how our people respond in such situations that makes all the difference. So we're training our people to listen, own and resolve. This means handling a customer's problem personally and immediately whenever possible. In an organization of more than 28,000 employees around the globe this is as critical as it is difficult.

In addition, we continue to identify and implement improvements in how we communicate with customers, particularly as travelers' use of mobile technologies is so rapidly evolving. Approximately 30% of our customers now receive their rental receipts online, up from less than 1% just a few years ago. Reservations made on mobile devices are growing substantially and we see similar opportunities to modernize numerous other customer interactions.

The last strategic initiative I want to mention is process improvement. Performance Excellence or PEx as we call it has become part of our fabric as a company. David is going to provide an update on PEx but the key takeaway is that our Lean and Six Sigma efforts are producing ongoing and incremental benefits every month.

In aggregate, I hope that gives you a good flavor of our strategic focus and why we remain excited about our future. We continue to benefit from our clear line-of-sight initiatives, such as small business, marketing investments and international inbound. And are also enthusiastic about our longer-term projects like virtual car rental, customer led, service driven and performance excellence. What these efforts have in common is a single goal, driving profitable growth.

Looking forward, we continued year-over-year domestic volume growth in October and are holding solid res builds through November and December. We remain comfortable with our previous estimate of 4% to 6% domestic volume growth in the fourth quarter, despite a 7% comparison in the prior year.

Domestic pricing continue to be down year-over-year in October. However, recent price increase, which has stuck in the majority of locations for Avis and a number of our major markets for Budget has mitigated the decline.

Airline capacity is expected to be down about 1% to 2% this quarter in the U.S., but load factors would appear to be compensating and LOR continues to improve. As we continue to execute against our strategy that's something we think we can overcome.

And while it's premature to comment with any credibility on 2012, our general sense is that other than fleet costs, 2012 look a lot like 2011, increased volume, stable pricing albeit with continued modest downward pressure due to competitive conditions in the commercial segment, favorable interest costs and healthy used car market. Meanwhile, I think, we've only began to scratch the surfaces to the opportunities with our larger, global footprint will offer us. We remain confident that our combining with Avis Europe will benefit our shareholders for many years to come.

With that let me turn the call over to David, who has also assumed an expanded role with the acquisition of Avis Europe. As our global CFO, David will have the oversight of all financial functions across all regions and will be overseeing the integration of Avis Europe. The role he has successfully executed in all of our previous acquisitions. David?

David B. Wyshner, Chief Financial Officer & Senior Vice President

Thanks, Ron, and good morning, everyone. Today, I'd like to discuss our third quarter results, our fleet, our Performance Excellence process improvement initiative and our balance sheet. My comments will focus on our results excluding certain items. As Neal mentioned, these results are reconciled to our GAAP numbers in our press release and on our website.

In the third quarter, revenue increased 7% to more than $1.6 billion. Adjusted EBITDA increased 24% to a record $272 million and margins expanded 230 basis points to 16.7%. All of our operating segments reported significant growth in adjusted EBITDA, reflecting strong rental volumes, a robust used vehicle market and benefits generated by our company-wide cost reduction and productivity improvement efforts.

Our reported direct operating costs increased as a percentage of revenue, primarily due to higher maintenance and damage expense and higher gas costs. Importantly, our operating expenses were essentially flat as a percentage of revenue, excluding the effects of lower prices, higher gasoline expense, weather related damage and foreign exchange.

SG&A expenses increased 22% in the quarter, reflecting our strategic decision to invest in our brands through incremental advertising as well as co-marketing partnerships with airlines and others. Excluding items, net income increased to $129 million, our best third quarter results as a standalone public company and diluted earnings were $1.02 per share.

Over the last 12 months, our adjusted EBITDA is over $600 million and our diluted EPS, excluding items is $1.73. And for those investors and analysts who compare company's EBITDA, excluding deferred financing fees and stock-based compensation, our trailing 12 months EBITDA with those adjustments is $642 million.

Turning to our segments. In the third quarter, domestic car rental revenue increased 6% to $1.2 billion, reflecting a 5.5% increase in volume and increased penetration of ancillary products and services, partially offset by a 1% decline in pricing. Volume growth was strong throughout the quarter as we saw good increases both on and off airport. Leisure volume was up 11% in the quarter, as our strategic initiatives continue to gain traction, while leisure pricing was down slightly.

Industry fleet levels appeared to be in line with demand throughout much of the summer and we saw signs of tight fleetedness in mid September as well, indicating that companies throughout the industry had made good progress in de-fleeting following the summer peak.

Commercial volume was up 3% during the quarter, including 6% growth in September as our customers continue to travel despite the negative economic headlines. Commercial pricing was down 2%. Small business volume grew 12%, including 19% for Budget, while large commercial account retention remained north of 99%. Our average length of rental increased 2% year-over-year, reflecting both a modest change in customer demand and actions we've taken to skew our mix toward longer length transactions.

Our local market initiatives also continue to progress as we co-branded an additional 98 stores during the quarter, bringing total co-branded locations to more than 400. With continued volume growth and improved pricing, our local market revenues increased 6% in the quarter with local market profitability growing even faster.

Ancillary revenues increased 13% in the quarter, seven points ahead of volume growth, reflecting the benefits of our sales training initiative. Penetration rates for damage waivers, insurance products, portable satellite radio and roadside protection all increased, while GPS take rates remained fairly constant.

Domestic car rental adjusted EBITDA increased 25% to $179 million in the quarter and margins expanded by over 200 basis points to 15%. The growth in EBITDA was driven by higher revenues, increased ancillary revenue per rental day and a 24% decline in per unit vehicle depreciation cost, including approximately $65 million in car sale gains.

Our International segment continued to post good results. Third quarter revenue increased 16% year-over-year driven by a 6% increase in volume and a 9% increase in pricing. Excluding the impact of exchange rates, pricing declined 1%. Australia reported double-digit volume gains, while New Zealand also reported strong growth. Thanks in part to the Rugby World Cup. Adjusted EBITDA of $74 million increased 19% from the prior year's record level, driven by higher revenues and foreign currency benefits, partially offset by increased investment in marketing.

Revenue in our Truck Rental segment increased slightly in the third quarter, driven by a 4% growth in volume offset by a 2% decline in pricing. The increase in volume and the decline in pricing were primarily due to growth in commercial rental volumes, which have a longer length of rental and a lower average rate than consumer rentals. Adjusted EBITDA from truck rental increased 16% to $22 million, our best third quarter since becoming a standalone company and margins improved by 250 basis points to 20%.

Utilization improved 4% as we grew volume without increasing the size of our fleet. Our Truck segment now is 13% less fleet than it did in the third quarter of 2008, while volume is fully recovered helping to drive more than 14 point increase in margins during that period.

Avis Europe's earnings for the third quarter were largely consistent with our and their expectations. Revenue is up about 3% primarily due to volumes. Commercial and leisure demand were balanced with both sub-segments of revenue showing year-over-year increases. Pricing was essentially flat.

Avis Europe's results also benefited from lower fleet cost, lower interest costs and higher employee productivity. As a result, operating profit increased significantly year-over-year. In particular, preliminary results indicate that Avis Europe's third quarter pre-tax income grew by 20% or €13 million year-over-year.

Avis Europe's results like ours tend to be fairly seasonal. For modeling purposes you should know that Avis Europe is typically around breakeven from an adjusted EBITDA perspective in the fourth quarter, which means that Europe will generally have a pre-tax loss in Q4.

As Ron mentioned, we remain committed to achieving more than $30 million of annual synergies, we outlined when we announced the acquisition and to reaching that run rate within six to 12 months. Even more importantly, we continue to believe that the longer-term opportunity could be substantially larger than that.

Turning to our car rental fleet, we are updating our estimates for domestic fleet depreciation cost based primarily on the strength we've experienced in the used car market in the third quarter. We now expect per unit domestic fleet cost to be down approximately 20% in 2011. The decline in fleet cost is driven by particularly favorable supply, demand dynamics in the late model used car market following the Japanese earthquake. We feel very good about how we managed our fleet availability and fleet dispositions in 2011.

Looking ahead, don't be misled by the headline of a declining Manheim Index as the used car market comes off the earthquake-related spike. We continue to believe that the used car market will remain fundamentally strong due to a limited supply of late model used vehicles for at least the end of 2012.

According to ADESA, Manheim and other sources, used car market conditions can remain healthy beyond that for all the reasons we talked about in the past, lower OEM production, lower car rental industry purchases and fewer off-lease vehicles in the used car market to compete with off-rental vehicles.

As I mentioned previously, we have finalized negotiations with vehicle suppliers representing substantially all of our model year 2012 fleet purchases and those negotiations were relatively uneventful. We don't expect our risk program mix of vehicle purchases to change much remaining in the 50-50 range and we expect our fleet to remain diversified with no single manufacturer representing more than 30% of our U.S. car rental fleet.

We are pleased with how our model year 2012 buy wound up. We estimate that the purchase price of risk cars will be similar to model year 2011 and that the holding cost of program cars will be slightly less than for model year 2011 vehicles.

We also expect the used car market to step down from its earthquake-related peak and to maintain its longer term secular strength. As a result, we don't anticipate the same magnitude of gains on risk car sales in 2012 that we recorded in 2011. It's therefore inevitable that the aggregate per unit per month cost and the risk cap of our fleet will increase in 2012.

On a related note, I want to try to quantify the impact of the Japanese earthquake and stronger than expected residual values have had on our 2011 results. The earthquake has not only caused us to generate larger than typical car sales gains, it also negatively impacted second quarter utilization and pricing, required us to juggle our in-fleeting and de-fleeting plans and allowed us to reinvest in certain revenue generation and brand building initiatives that we otherwise may not have.

We estimate that the net effect on our domestic car rental adjusted EBITDA in 2011 was $120 million to $140 million. This has translated into an incremental cash flow generation in 2011 and challenging earnings comps for us as we head into 2012. We believe that our competitors will be similarly situated as they all had risk cars representing a larger component of their rental fleet in 2011.

Let me turn now to our Performance Excellence programs, which continue to generate additional benefits. We now expect PEx to provide incremental savings of $65 million in 2011 compared to 2010.

I would like to spend a minute describing some of the recent projects that are providing significant benefits. We've created a system to identify and better capitalize on customers that are more likely to purchase ancillary products. We are driving incremental profits by more effectively using various price structures during tight fleet periods. We are reducing vehicle out of service days and the number of days it takes to bring risk cars to auction. We are driving incremental revenue by better capturing walk-up demand. We are optimizing the schedules of our service agents and shuttlers to drive increased productivity and we are generating cost savings by optimizing preventive maintenance at our off-airport locations.

Whether the benefit winds up in revenue, lower operating costs or increased utilization, all our PEx projects share one common theme, to drive incremental profits for our company. Our pipeline of process improvement projects continue to expand. We continue to find opportunities that we can replicate across our system.

Moving to the balance sheet, our liquidity position remains strong. We ended the quarter with $1.4 billion of cash, no borrowings under our $1.2 billion corporate revolver, more than $400 million of availability under that facility. We had unused capacity under various vehicle-backed funding programs of $2.3 billion. And we have no corporate debt maturities until 2014.

We funded the acquisition of Avis Europe with cash and newly issued debt, primarily $440 million of term-loan borrowings and $250 million of senior notes, and are repaying about $620 million of Avis Europe's existing debt, which had an average interest rate of approximately 6%.

We priced the term loan at a rate less than 7%. And we were able to issue the senior notes at 9.75% despite difficult market conditions. In August, we completed an offering of $650 million of asset-backed bonds with a weighted average interest rate of 3.5%. The proceeds from this offering will help refinance ABS debt maturing in 2012 with a blended interest rate of over 6% and at a similar advance rate.

We also renewed our principal domestic vehicle-backed conduit facility in October. We increased our borrowing capacity by $450 million to $2.5 billion and structured the facility so that all of the capacity is available for two years. Our borrowing rate under the facility is currently less than 1.5%.

In October we also completed a €350 million Multi-Country European fleet facility. The facility which matures in 2013 will help us fund our European liquidity needs at reasonable rates and allows us to aggregate vehicle titles and special purpose entities as we work to implement a securitization program to lower our fleet borrowing costs in Europe. Any savings from such efforts will be incremental to the synergies we've currently projected.

For the company as a whole, we expect our 2011 GAAP tax rate to be 38% to 40% excluding items. We expect full year cash taxes to be $35 million to $40 million and for capital expenditures to be approximately $60 million. We do not expect to be a U.S. federal cash taxpayer in 2011 or in 2012.

To summarize, we are enthusiastic about the progress we've made in 2011 and longer term about our prospects as our strategic initiatives continue to deliver meaningful benefits and we begin to capitalize on the opportunities we see in the Avis Europe acquisition.

With that, Ron and I would be happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. At this time we are ready for the question-and-answer session. [Operator Instructions] Our first question comes from John Healy with Northcoast Research. You may ask your question.

<Q – John Healy – Northcoast Research Holdings LLC>: Hi, good morning. Wanted to ask you guys a little bit more about the European business probably for modeling purposes mostly. When we think about the quarterly performance of Avis Budget Europe, I know the way they report things different than what we've seen in the past, but how should we think about the revenue maybe the EBITDA and maybe the pre-tax contribution on a quarterly basis? If you could provide that, that would be really helpful.

<A – David Wyshner – Avis Budget Group, Inc.>: Hey, good morning, John. I think their seasonality generally speaking tends to be fairly similar to ours. And we'll look to provide some additional guidance there as we break their semi-annual numbers in quarterly periods for public disclosure. So we'll provide more of a generally speaking, what we've seen is that and the summer is as important in Europe as it is here in the United States and for our business overall.

<Q – John Healy – Northcoast Research Holdings LLC>: Okay. And just a follow-up on that, I was hoping you could give a little bit of color on your view of how the pricing environment in Europe has behaved and some of the countries where Avis Budget Group has competed and maybe the health of the car market there as well?

<A – Ronald Nelson – Avis Budget Group, Inc.>: Well, let me take a stab at it, John. I think the pricing climate over there has actually been on balance a little more positive than it's been here over the course of the past year. I think in the first half of the year Avis Europe reported negative price comps. But that was largely influenced by the Icelandic, ash cloud that allows them to raise rates pretty significantly in the year prior. Pricing actually was up, I think a tenth of a percent over the course of the summer whereas ours was down, I think a point. And pricing over the course of the next quarter looks to be fairly stable to -- I'd say in the flat range. So I don't see it at least in the near term as being -- I do see it as being a little more stable than I think what I've seen has been over here.

In terms of fleet costs, David you want...?

<A – David Wyshner – Avis Budget Group, Inc.>: Sure. The fleet costs, I think have been more stable there. The issues that we have seen in the United States in terms of a spike in residual values haven't been nearly as pronounced, first of all. And second, the nature of the fleet in Europe tends to be a little bit different with a higher percentage of program cars. So even with a little bit of strength in the used car market, it doesn't have the same impact there that it would have in the U.S. But generally speaking, we've seen relative stability and some savings in fleet costs year-over-year.

<A – Ronald Nelson – Avis Budget Group, Inc.>: John, as David was talking, I'm just reminded that in terms of program risk mix the Avis Europe tends to be about 70% program, 30% risk. And in the markets where you would expect there to be challenges, i.e., Italy, Spain, and Portugal, residual values have been fairly tough that's been reflected in their results and the markets – the other markets the UK, Germany, France where they do significant business. They have been good, but as David said, nowhere near the level of goodness that we've had in the U.S. market.

<Q – John Healy – Northcoast Research Holdings LLC>: Got it. Thank you so much.

Operator: Our next question Afua Ahwoi with Goldman Sachs. You may ask your question.

<Q – Afua Ahwoi – Goldman Sachs & Co.>: Thanks. Ron, I think on the call you gave us a lot of color on fleet costs for next year. I'm hoping if you could try to maybe quantify your view on where you think it's could end up. I know some of your competitors have helped put some numbers around it, be it a view on the Manheim or maybe a view on year-on-year percent change? Thanks.

<A – David Wyshner – Avis Budget Group, Inc.>: Good morning, Afua. It's David actually. I think the best number to start with is the estimated impact of the fleet sales gains that we had this year, the $120 million to $140 million impact. The impact on fleet costs itself will be a little bit more than that. And then it was offset by some of the negatives in Q2 pricing and utilization and so forth that will show up in other areas. But we think the gains that we had in 2011 are going to produce a headwind of at least that amount and actually a little bit more as we head into next year. All tied to the risk cap of our fleet.

The other point that I mentioned is, we really do feel good about the – about the terms of our model year 2012 buy, since program cars are going to cost a little bit less and risk cars at least in terms of their purchase price are fairly steady in terms of purchase price compared to where we were this past year. So the increase that we'll see is really all tied to the gains on disposition that we achieved following the earthquake in Japan.

<Q – Afua Ahwoi – Goldman Sachs & Co.>: Okay. Thanks. And actually just a quick follow-up. On Europe, I know you talked about leisure demand slowing a little bit. Can you give us what you've seen on the commercial side? Thanks.

<A – David Wyshner – Avis Budget Group, Inc.>: Commercial demand, I'd say has slowed slightly, but generally speaking it is holding in fairly stable over – as we look over the fourth quarter.

<Q – Afua Ahwoi – Goldman Sachs & Co.>: Great. Thank you very much.

Operator: Our next question, Chris Agnew with MKM Partners. You may ask your question.

<Q – Chris Agnew – MKM Partners LLC>: Thank you very much, good morning. Ron, I wanted to follow-up on your comments on the airline capacity and volumes. Every public company reported volume growth well ahead of employment trends in the third quarter. Load factors are at record highs although planes aren't 100% sold. And the airlines are looking to trim capacity next year. So, just wondering if there is any more color on why you think you may be able to overcome those headwinds.

<A – Ronald Nelson – Avis Budget Group, Inc.>: Well, I think one of the factors, Chris is that we actually do seem to be driving longer length of rentals from our advertising program and that does seem to be adding more obviously days per employment that is coming. The other is, I mean as you know we look at seats in the markets on regular basis, and while capacity is down in the fourth quarter and has been coming down for the last couple three months and I would say in about half the regions going into the first quarter of next year, capacity actually ticks up about 1% to 2%. So I think that between longer length of rental and in certain regions where we may have greater market shares having more capacity, I think it will drive more days. But I think in general, if I had to say the determinant factor is going to be the collective volume gains that we've been getting out of our strategic initiatives.

<Q – Chris Agnew – MKM Partners LLC>: Got you. And a quick follow up for David. Just on the free cash flow for the nine months, it was obviously well ahead of last year, I mean, would it be fair to say that free cash flow benefited from a similar ballpark amount, to the net impact from Japan related issues that you outlined. And then just is there anything in the fourth quarter we need to be aware of that reverses fleet or something like that? Thanks.

<A – David Wyshner – Avis Budget Group, Inc.>: Sure, good morning Chris. With respect to free cash flow both pre-tax income and free cash flow had benefited from the gains on vehicle sales, so that does come through and have an impact. I think the other piece that shows up as free cash flow is that we did incur about $140 million of additional fleet borrowings against our existing business funds that we had moved to help on the acquisition of Avis Europe and that is free cash flow we generated from or against our existing business and that's part of the benefit that you see as well. That's not something that will recur nor is that something that should reverse.

<Q – Chris Agnew – MKM Partners LLC>: Great. Thank you.

<A – Ronald Nelson – Avis Budget Group, Inc.>: But the answer to your second part of your question Chris is that, just to keep in mind in the fourth quarter that we don't sell anywhere near the amount of risk cars that we do in the second and third. And so you're not going to see the same level of car sales gains in the fourth quarter. We tend to de-fleet using predominantly program cars. So you won't see the same sort of per unit declines in fleet costs in the fourth quarter that you did in the second and third.

<Q – Chris Agnew – MKM Partners LLC>: Okay, thank you.

Operator: Our next question, Brian Johnson with Barclays Capital. You may ask your question.

<Q – Brian Johnson – Barclays Capital, Inc.>: Hey, good morning. More of a strategic question. Can you maybe talk about your strategy in focusing really on the airport and the core travel segment versus two of the other large players who are aggressively growing or a very large and/or aggressively growing off airport and insurance rentals. Where do you see that going forward, what does it mean for kind of your margins? And then, how does Avis Europe tie into that?

<A – Ronald Nelson – Avis Budget Group, Inc.>: Well, I think Avis Europe and the local market strategy here are somewhat different, I mean, Avis Europe tends to be about half local market or off airport whereas here we tend to be about 20%. There is no question the local market – we haven't aggressively gone after the insurance replacement business. I think we've targeted the market differently. We are taking insurance replacement business where we think it makes profitable sense to do so. We certainly aren't turning any away if its profit making. But really what we've been focusing on the last year and a half or so is rationalizing the cost structure, combining the brands and turning them into what we call vehicle rental centers where you'll get an Avis car or a Budget car or Budget truck all at the same store, providing three revenue sources to leverage the infrastructure.

The other part of the local market is, that it's somewhat tied into our virtual rental and putting cars on corporate campuses in the sense that we are very much trying to grab some of the local market business that our corporate customers have and use our competitors who are when they use, particularly those customers that use us at the airport. That tends to be much higher RPD business. It's a lot more profitable. And we think that going after insurance replacement and fighting it out with three people is probably not the best way to optimize the profits now. We still have the same distribution infrastructure. We have local market offices probably covering 80% to 85% of the population. So I think if we max out on the opportunities, I think then we can go after insurance replacement, but at the moment, it's just not a significant focus for us.

The other thing we've done over the last two years, which is different than we had done prior in local markets is to dedicate a fleet to the local market operations. It used to be that the airports managed the fleet in the local market offices. And so, when the airport had good business, the local markets got starved for a fleet and left a lot of business on the table. We now have separate fleets. Managers are charged with managing the fleet that they are -- that's been committed to them. And it's actually driven much more profitable growth.

I mean, I think, we will do somewhere between $750 million and $800 million in local market revenue in this year. Three years ago, I can tell you we made almost nothing on that business and the changes that we've made in local market strategy over the course for the last two years, our margins in local market are approaching if not exceeding what we do on the airport. So we're pretty happy about the strategic tact that we've taken.

<Q – Brian Johnson – Barclays Capital, Inc.>: So it sounds like your focus is much more on maximizing profit and growing profit as opposed to opening in new locations?

<A – Ronald Nelson – Avis Budget Group, Inc.>: Yeah. I think that's fair. I mean, you got $800 million, $750 million, $800 million revenue stream that we ought to figure out how we make a lot of money with that before we focus on growing it.

<Q – Brian Johnson – Barclays Capital, Inc.>: Okay, thanks.

Operator: Our final question comes from Emily Shanks with Barclays Capital. You may ask your question.

<Q – Emily Shanks – Barclays Capital, Inc.>: Hi. Good morning and thank you for squeezing me in. I wanted to ask a follow up point on the $120 million to $140 million fiscal year '11 car rentals benefit. I'm just curious, two things. First, does that include any estimate of the benefit in the fourth quarter? And then two, can you give us what the EBITDA contribution is year-to-date of actual gains on vehicle sales?

<A – David Wyshner – Avis Budget Group, Inc.>: Yeah, sure Emily, good morning. The $120 million to $140 million includes virtually nothing for the fourth quarter. And in terms of the gains for this year, it's been a larger number than that, closer to $180 million to $200 million domestically. But as I mentioned, I think the right way to look at it and think about it is having been offset by some other items and the fact that we will often have certain models or makes that turn out to generate gains for us. So the idea of having some gains in most years will often be the case. And as a result that's why I think it makes sense to focus on the $120 million to $140 million number, not just the fewer domestic gain number which is larger.

<Q – Emily Shanks – Barclays Capital, Inc.>: Okay. And then, as it relates to the specific to Avis Europe, given the mix that Ron quoted earlier, have they already negotiated their fiscal year '12 program car buys, and if so, can you give us a sense of what the pricing environment or cost environment is from their perspective?

<A – David Wyshner – Avis Budget Group, Inc.>: The answer is a no, generally speaking, they haven't. The cycle tends to be a little bit later in Europe and a lot of the 2012 vehicle negotiations are going on right now. So I don't have – we don't have a number yet for that.

<Q – Emily Shanks – Barclays Capital, Inc.>: Okay. And then my final question is, are you or could you provide what the expectations are around cash taxes in CapEx, cycling in Avis Europe, I know it may be a little ahead of time, but at some point, it doesn't mean that you can give us your fiscal year '12?

<A – David Wyshner – Avis Budget Group, Inc.>: Certainly in terms of capital spending and most other measures, Avis Europe is about a third of our size. And as a result, I think capital spending over time should normalize to being about a third of what we spend and a little bit less as we achieved synergies in our capital spending. Near term, and I call that over the first 12 to 18 months following the acquisition, we will likely be incurring some incremental capital spending in conjunction with integrating the business. I don't have a specific number there yet, but you should assume we'll have a little bit more over the first 12 to 18 months of the acquisition to help produce the synergies and the integration benefits we're looking for.

<Q – Emily Shanks – Barclays Capital, Inc.>: Perfect. Thank you for the detail.

Operator: For closing remarks, the call is being turned back over to Mr. Ronald Nelson. Please go ahead, sir.

Ronald L. Nelson, Chairman, President, Chief Executive Officer & COO

Thank you. So just to recap, we're obviously very enthusiastic about our company and our prospects, for our strategic initiatives are profitably accelerating our revenue growth. The investments we're making are positioning us to compete for the long-term. And the acquisition of Avis Europe is a watershed event that's going to enable us to capture the promise of reuniting our two brands globally, under one corporate umbrella. David, Neal and I are going to be presenting at several conferences over the next couple of months. And we look forward to seeing many you there.

With that, thank you for your time this morning, and we look forward to speaking with you again soon.

Operator: This concludes today's conference call. You may disconnect.