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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 8-K

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

February 6, 1998 (February 6, 1998)
(Date of Report (date of earliest event reported))

CENDANT CORPORATION
(Exact name of Registrant as specified in its charter)

DELAWARE	1-10308	06-0918165
(State or other jurisdiction of incorporation or organization)	(Commission File No.)	(I.R.S. Employer Identification Number)

6 SYLVAN WAY PARSIPPANY, NEW JERSEY	07054
(Address of principal executive office)	(Zip Code)

(973) 428-9700
(Registrant's telephone number, including area code)

None

(Former name, former address and former fiscal year, if applicable)

Item 5. Other Events

This Current Report on Form 8-K is being filed by Cendant Corporation (the "Registrant") for purposes of incorporating by reference the exhibits listed in Item 7 hereof in certain Registration Statements filed with the Securities and Exchange Commission.

Item 7. Exhibits

Exhibit No.	Description
23.1	Consent of Deloitte & Touche LLP relating to the financial statements of Avis Rent A Car, Inc.
99.1	Consolidated Annual Financial Statements of Avis Rent A Car, Inc.
99.2	Consolidated Financial Statements of Avis Rent A Car, Inc. for the quarterly period ended September 30, 1997.

SIGNATURE

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 hereunto duly authorized.

CENDANT CORPORATION

BY: /s/ Scott E. Forbes
Scott E. Forbes
Senior Vice President
and Chief Accounting Officer

Date: February 6, 1998

CENDANT CORPORATION
CURRENT REPORT ON FORM 8-K
REPORT DATED FEBRUARY 6, 1998 (FEBRUARY 6, 1998)

EXHIBIT INDEX

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EXHIBIT 23.1

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statement Nos. 33-63237, 33-95126, 333-11035, 333-13537, 333-17323, 333-17411, 333-20391, 333-26927, 333-35709, 333-35707, 333-45155, 333-45227 and 333-23063 for Cendant Corporation on Forms S-3 and in Registration Statement Nos. 33-26875, 33-75682, 33-93322, 33-41823, 33-48175, 33-58896, 33-91656, 333-03241, 33-74068, 33-74066, 33-91658, 333-00475, 333-03237, 33-75684, 33-80834, 33-93372, 333-09633, 333-09637, 333-09655, 333-22003, 333-34517-2, 333-42503, 333-30649, 333-45183 and 333-42549 for Cendant Corporation on Forms S-8 of our report dated May 12, 1997 (August 20, 1997 as to Note 15), related to the Avis Rent A Car, Inc. financial statements appearing in the Current Report on Form 8-K for Cendant Corporation dated on or about February 4, 1998.

/s/ DELOITTE & TOUCHE LLP

New York, New York
January 29, 1998

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholder of
Avis Rent A Car, Inc.
Garden City, New York

We have audited the accompanying consolidated statements of financial position of Avis Rent A Car, Inc. and subsidiaries (successor to Avis Rent A Car Systems Holdings, Inc. and subsidiaries, Avis International, Ltd. and subsidiaries, Avis Enterprises, Inc. and subsidiaries, Pathfinder Insurance Company and Global Excess & Reinsurance, Ltd., all previously wholly-owned by Avis, Inc., collectively the "Predecessor Companies"), (collectively referred to as "Avis Rent A Car, Inc." or the "Company") as of December 31, 1996 and as to the Predecessor Companies as of December 31, 1995, and the related consolidated statements of operations, stockholder's equity and cash flows for the period October 17, 1996 (Date of Acquisition) to December 31, 1996 and as to the Predecessor Companies the related consolidated statements of operations, stockholder's equity and cash flows for each of the two years in the period ended December 31, 1995 and the period January 1, 1996 to October 16, 1996. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company at December 31, 1996, and the results of its operations and its cash flows for the period October 17, 1996 to December 31, 1996 (period after the change in control referred to in Note 1 to the consolidated financial statements), and with respect to the Predecessor Companies as of December 31, 1995, and for each of the two years in the period ended December 31, 1995 and the period January 1, 1996 to October 16, 1996 (period up to the change in control referred to in Note 1 to the consolidated financial statements) in conformity with generally accepted accounting principles.

As more fully discussed in Note 1 to the consolidated financial statements, the Predecessor Companies were acquired in a business combination accounted for as a purchase. As a result of the acquisition, the consolidated financial statements for the period subsequent to the acquisition are presented on a different basis of accounting than those for the periods prior to the acquisition and, therefore, are not directly comparable.

/s/ Deloitte & Touche LLP

New York, New York
May 12, 1997
(August 20, 1997 as to Note 15)

AVIS RENT A CAR, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(IN THOUSANDS)

	PREDECESSOR COMPANIES DECEMBER 31, 1995	DECEMBER 31, 1996
ASSETS		
Cash and cash equivalents	$ 39,081	$ 50,886
Accounts receivable, net	194,971	311,179
Due from affiliates, net		61,807
Prepaid expenses	35,053	40,155
Vehicles, net	2,167,167	2,243,492
Property and equipment, net	140,992	98,887
Other assets	20,882	14,526
Deferred income tax assets	81,974	113,660
Cost in excess of net assets acquired, net	144,778	196,765
Total assets	$2,824,898	$3,131,357
LIABILITIES AND STOCKHOLDER'S EQUITY		
Accounts payable	$ 228,146	$ 175,535
Accrued liabilities	183,595	329,245
Due to affiliates, net	385,687	
Current income tax liabilities	6,696	4,790
Deferred income tax liabilities	27,990	35,988
Public liability, property damage and other insurance liabilities	194,677	213,785
Debt	1,109,747	2,295,474
Total liabilities	2,136,538	3,054,817
Commitments and contingencies		
Stockholder's equity:		
Common stock ($.01 par value, 1,000 shares authorized; 100 shares outstanding at December 31, 1996)	2,977	--
Additional paid-in capital	344,531	75,000
Retained earnings	340,596	1,184
Foreign currency translation adjustment	256	356
Total stockholder's equity	688,360	76,540
Total liabilities and stockholder's equity	$2,824,898	$3,131,357

See accompanying notes to the consolidated financial statements.

AVIS RENT A CAR, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	PREDECESSOR COMPANIES			OCTOBER 17, 1996 (DATE OF ACQUISITION) TO DECEMBER 31, 1996
	YEAR ENDED DECEMBER 31,		JANUARY 1, 1996 TO OCTOBER 16, 1996	
	1994	1995		
Revenue	$1,412,400	$1,615,951	$1,504,673	$362,844
Cost and expenses:				
Direct operating	664,993	724,759	650,750	167,682
Vehicle depreciation, net	266,637	324,186	275,867	66,790
Vehicle lease charges	42,778	86,916	100,318	22,658
Selling, general and administrative	252,024	269,434	283,180	68,215
Interest, net	128,898	145,199	120,977	34,212
Amortization of cost in excess of net assets acquired	4,754	4,757	3,782	1,026
	1,360,084	1,555,251	1,434,874	360,583
Income before provision for income taxes	52,316	60,700	69,799	2,261
Provision for income taxes	30,213	34,635	31,198	1,040
Net income	$ 22,103	$ 26,065	$ 38,601	$ 1,221

See accompanying notes to the consolidated financial statements.

AVIS RENT A CAR, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY
(IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	FOREIGN CURRENCY TRANSLATION ADJUSTMENT	TOTAL
Balance, January 1, 1994	$2,827	$318,125	$309,902	$(2,598)	$628,256
Net income for the year ended December 31, 1994			22,103		22,103
Tax benefit of ESOP income tax deductions		13,104			13,104
Foreign currency translation adjustment				3,466	3,466
Cash dividends			(8,578)		(8,578)
Stock dividends	150		(150)		
Balance, December 31, 1994	2,977	331,229	323,277	868	658,351
Net income for the year ended December 31, 1995			26,065		26,065
Tax benefit of ESOP income tax deductions		13,302			13,302
Foreign currency translation adjustment				(612)	(612)
Cash dividends			(8,746)		(8,746)
Balance, December 31, 1995	2,977	344,531	340,596	256	688,360
Net income for the period ended October 16, 1996			38,601		38,601
Tax benefit of ESOP income tax deductions		12,939			12,939
Foreign currency translation adjustment				2,805	2,805
Cash dividends			(1,398)		(1,398)
Balance, October 16, 1996	$2,977	$357,470	$377,799	$ 3,061	$741,307
Avis Rent A Car, Inc. ($.01 par value, 1,000 shares authorized; 100 shares outstanding at October 17, 1996 (Date of Acquisition))	$--	$ 75,000			$ 75,000
Net income for the period from October 17, 1996 to December 31, 1996			$ 1,221		1,221
Foreign currency translation adjustment for the period October 17, 1996 to December 31, 1996				$ 356	356
Additional minimum pension liability for the period October 17, 1996 to December 31, 1996			(37)		(37)
Balance, December 31, 1996	$--	$ 75,000	$ 1,184	$ 356	$ 76,540

See accompanying notes to the consolidated financial statements.

AVIS RENT A CAR, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	PREDECESSOR COMPANIES			OCTOBER 17, 1996 (DATE OF ACQUISITION) TO
	YEARS ENDED DECEMBER 31,		JANUARY 1, 1996 TO	
	1994	1995	OCTOBER 16, 1996	DECEMBER 31, 1996
Cash flows from operating activities:				
Net income	$ 22,103	$ 26,065	$ 38,601	$ 1,221
Adjustments to reconcile net income to net cash provided by operating activities:				
Vehicle depreciation	291,360	342,048	306,159	71,343
Depreciation and amortization of property and equipment	12,782	13,387	12,333	2,212
Amortization of cost in excess of net assets acquired	4,754	4,757	3,782	1,026
Amortization of debt issuance costs	3,454	2,660	2,423	
Deferred income tax provision	19,384	25,852	22,342	33
Undistributed earnings of associated companies	(65)	(376)	(232)	
Provision for (benefit from) losses on accounts receivable	305	(48)	1,238	227
Provision for public liability, property damage and other insurance liabilities	73,900	81,800	74,109	17,355
Change in operating assets and liabilities:				
Decrease (increase) in accounts receivable	53	(22,644)	(204,137)	10,327
Decrease (increase) in prepaid expenses	4,640	(863)	(2,125)	(2,664)
(Increase) decrease in other assets	(595)	1,988	3,266	(3,459)
(Decrease) increase in accounts payable	(44,087)	(5,733)	82,354	(18,712)
Increase (decrease) in accrued liabilities	26,399	42,176	101,069	(24,718)
Decrease in public liability, property damage and other insurance liabilities	(72,363)	(71,159)	(56,364)	(16,015)
Net cash provided by operating activities	342,024	439,910	384,818	38,176
Cash flows from investing activities:				
Payments for vehicle additions	(3,218,613)	(2,553,324)	(2,325,460)	(561,117)
Vehicle deletions	2,680,535	2,028,474	1,795,562	565,896
Payments for additions to property and equipment	(24,487)	(36,939)	(25,953)	(3,484)
Sales of property and equipment	2,898	3,715	1,849	361
Investment in associated companies	(100)			
Investment in Canadian Licensees			(3,134)	
Net cash (used in) provided by investing activities	(559,767)	(558,074)	(557,136)	1,656
Cash flows from financing activities:				
Changes in debt:				
Proceeds	423,502	320,940	519,167	63,903
Repayments	(161,523)	(287,271)	(267,317)	(133,457)
Net increase (decrease) in debt	261,979	33,669	251,850	(69,554)
Deferred debt issuance costs	(4,637)	(5,515)	(2,604)	
(Payments on) proceeds from intercompany loans	(29,090)	104,209	(27,696)	(6,661)
Cash dividends	(8,578)	(8,746)	(1,398)	
Net cash provided by (used in) financing activities	219,674	123,617	220,152	(76,215)
Effect of exchange rate changes on cash	119	(197)	260	94
Net increase (decrease) in cash and cash equivalents	2,050	5,256	48,094	(36,289)
Cash and cash equivalents at beginning of period	31,775	33,825	39,081	87,175
Cash and cash equivalents at end of period	$ 33,825	$ 39,081	$ 87,175	$ 50,886
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:				
Cash paid during the period for:				
Interest	$ 131,877	$ 149,885	$ 135,733	$ 28,170
Income taxes	$ 7,576	$ 8,688	$ 6,220	$ 827
SUPPLEMENTAL DISCLOSURE OF NON-CASH TRANSACTION -- Recapitalization at Date of Acquisition	$ --	$ --	$ --	$ 666,307

See accompanying notes to the consolidated financial statements.

NOTE 1 -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying consolidated financial statements include Avis Rent A Car, Inc. (name changed from and formerly known as Rental Car System Holdings, Inc. which was incorporated on October 17, 1996) and subsidiaries (including the carved out corporate operations of HFS Car Rental, Inc. (name changed from and formerly known as, and hereinafter referred to as, Avis, Inc.), which is the holding company of Rental Car System Holdings, Inc., and Prime Vehicles Trust (the "Vehicle Trust")), Avis International, Ltd. and subsidiaries, Avis Enterprises, Inc. and subsidiaries, Pathfinder Insurance Company and Global Excess & Reinsurance, Ltd. (collectively referred to as "Avis Rent A Car, Inc."). All of the foregoing companies are ultimately wholly-owned subsidiaries of Avis, Inc., which was acquired by HFS Incorporated ("HFS") on October 17, 1996 (the "Date of Acquisition") for approximately $806.5 million. The purchase price was comprised of approximately $367.2 million in cash, $100.9 million of indebtedness and $338.4 million of HFS common stock. Prior to October 16, 1996, the above-named entities were wholly-owned by Avis, Inc. and are referred to collectively as the "Predecessor Companies". Avis Rent A Car, Inc. and the Predecessor Companies are referred to throughout the notes as the "Company". The major shareholder of Avis, Inc. was an Employee Stock Ownership Plan ("ESOP") and the minority shareholder was General Motors Corporation ("General Motors"). The Company purchases a significant portion of its vehicles, obtains financing, and receives certain financial incentives and allowances from General Motors (see Notes 2, 4, 7 and 14). As a result of the acquisition, the consolidated financial statements for the period subsequent to the acquisition are presented on a different basis of accounting than those for the periods prior to the acquisition and, therefore, are not directly comparable. On January 1, 1997, Avis, Inc. contributed the net assets of its corporate operations and all of its common stock ownership in Avis International, Ltd., Avis Enterprises, Inc., Pathfinder Insurance Company and Global Excess & Reinsurance, Ltd. to the Company. After the transfer, the remaining operations of Avis, Inc. consist of an investment in a wholly-owned subsidiary which owns the Avis trade names and trademarks. Pursuant to a plan developed by HFS prior to the Date of Acquisition, HFS will cause the Company to undertake an initial public offering ("IPO") within one year of the Date of Acquisition, which will reduce HFS' equity interest in the Company to 25%. HFS owns and operates the reservation system as well as the telecommunications and computer processing systems which service the rental car operations for reservations, rental agreement processing, accounting and vehicle control. HFS will charge a fee for such services (see Note 3). In addition, HFS will retain the Avis trade name and charge the Company a royalty fee for the use of the Avis name.

The acquisition was accounted for under the purchase method and includes the operations of the Company subsequent to the Date of Acquisition. A portion of this purchase price has been allocated to the estimated fair value of the Company. This estimate is calculated assuming that the Company is an independent franchisee of Avis, Inc. and is required to pay certain fees for use of the Avis trade name, reservation services and other franchise related services. HFS and its advisors have estimated that the value of the Company at the Date of Acquisition was $75 million. The value of the Company is expected to increase to approximately $300 million upon completion of the IPO (with the IPO proceeds retained by the Company) with HFS's equity interest to be reduced to 25% equal to $75 million. If the results of the IPO do not confirm the preliminary value as of the Date of Acquisition, then the allocated purchase price will be adjusted with a corresponding adjustment to cost in excess of net assets acquired. The estimated fair value of the Company has been allocated to individual assets and liabilities based on their estimated fair value at the Date of Acquisition. The final asset and liability fair values may differ from those set forth in the accompanying consolidated statement of financial position on December 31, 1996; however, the changes are not expected to have a material effect on the consolidated financial position of the Company.

The preliminary purchase cost allocation at the Date of Acquisition has been allocated to the Company as follows (in thousands):

Allocated purchase cost	$ 75,000
Fair Value of:	
Liabilities assumed	3,145,395
Assets acquired	3,022,712
Net Liabilities	122,683
Excess of purchase price over net assets acquired	$ 197,683

PRINCIPLES OF CONSOLIDATION

All material intercompany accounts and transactions have been eliminated.

ACCOUNTING ESTIMATES

Generally accepted accounting principles require the use of estimates, which are subject to change, in the preparation of financial statements. Significant accounting estimates used include estimates for determining public liability, property damage and other insurance liabilities, and the realization of deferred income tax assets. Management has exercised reasonableness at deriving these estimates. However, actual results may differ.

REVENUE RECOGNITION

Revenue is recognized over the period the vehicle is rented.

CASH AND CASH EQUIVALENTS

The Company considers deposits and short-term investments with an original maturity of three months or less to be cash equivalents.

VEHICLES

Vehicles are stated at cost net of accumulated depreciation. In accordance with industry practice, when vehicles are sold, gains or losses are reflected as an adjustment to depreciation. Vehicles are generally depreciated at rates ranging from 10% to 25% per annum. Manufacturers provide the Company with incentives and allowances (such as rebates and volume discounts) which are amortized to income over the holding period of the vehicles.

PROPERTY AND EQUIPMENT

Property and equipment is stated at cost net of accumulated depreciation and amortization. Depreciation is calculated using the straight-line method over the estimated useful life of the assets. Estimated useful lives range from five to ten years for furniture and office equipment, to thirty years for buildings. Leasehold improvements are amortized over the shorter of twenty years or the remaining life of the lease. Maintenance and repairs are expensed; renewals and improvements are capitalized. When depreciable assets are retired or sold, the cost and related accumulated depreciation are removed from the accounts with any resulting gain or loss reflected in the consolidated statement of operations.

COST IN EXCESS OF NET ASSETS ACQUIRED

Cost in excess of net assets acquired is amortized over a 40 year period and is shown net of accumulated amortization of $37.5 million and $1.0 million at December 31, 1995 and 1996, respectively.

IMPAIRMENT ACCOUNTING

In 1996, the Company adopted Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of". The Company reviews the recoverability of its long-lived assets, including cost in excess of net assets acquired, when events or changes in circumstances occur that indicate that the carrying value of the assets may not be recoverable. The measurement of possible impairment is based on the Company's ability to recover the carrying value of the asset from the expected future pre-tax undiscounted future cash flows generated. The measurement of impairment requires management to use estimates of expected future cash flows. If an impairment loss existed, the amount of the loss would be recorded under the caption Costs and Expenses in the consolidated statement of operations. It is at least reasonably possible that future events or circumstances could cause these estimates to change. The adoption of this statement had no material effect on the consolidated financial statements of the Company.

PUBLIC LIABILITY, PROPERTY DAMAGE AND OTHER INSURANCE LIABILITIES

Insurance liabilities on the accompanying consolidated statements of financial position include additional liability insurance, personal effects protection insurance, public liability and property damage ("PLPD") and personal accident insurance claims for which the Company is self-insured. The Company is self-insured up to $1 million per claim under its automobile liability insurance program for PLPD and additional liability insurance. Costs in excess of $1 million per claim are insured under various contracts with commercial insurance carriers. The liability for claims up to $1 million is estimated based on the Company's historical loss and loss adjustment expense experience and adjusted for current trends.

The insurance liabilities include a provision for both claims reported to the Company as well as claims incurred but not yet reported to the Company. This method is an actuarially accepted loss reserve method. Adjustments to this estimate and differences between estimates and the amounts subsequently paid are reflected in operations as they occur.

FOREIGN CURRENCY TRANSLATION

The assets and liabilities of foreign companies are translated at the year-end exchange rates. The resultant translation adjustment is included as a component of consolidated stockholder's equity. Results of operations are translated at the average rates of exchange in effect during the year.

INCOME TAXES

The Company is included in the consolidated federal income tax return of HFS. Pursuant to the regulations under the Internal Revenue Code, the Company's pro rata share of the consolidated federal income tax liability of HFS is allocated to the Company on a separate return basis. The Predecessor Companies were included in the consolidated federal income tax return of Avis, Inc. The Company files separate income tax returns in states where a consolidated return is not permitted. In accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"), deferred income tax assets and liabilities are measured based upon the difference between the financial accounting and tax bases of assets and liabilities.

PENSIONS

Costs of the defined benefit plans are actuarially determined under the projected unit credit cost method and include amounts for current service and interest on projected benefit obligations and plan assets. The Company's policy is to fund at least the minimum contribution amount required by the Employee Retirement Income Security Act of 1974.

ADVERTISING

Advertising costs are expensed as incurred. Advertising costs were $60.4 million, $48.4 million, $66.1 million and $10.3 million for the periods ended December 31, 1994, December 31, 1995, October 16, 1996 and December 31, 1996, respectively.

ENVIRONMENTAL COSTS

The Company's operations include the storage and dispensing of gasoline. The Company accrues losses associated with the remediation of accidental fuel discharges when such losses are probable and reasonably estimable. Accruals for estimated losses from environmental remediation obligations generally are recognized no later than completion of the remedial feasibility study. Such accruals are adjusted as further information develops or circumstances change. Costs of future expenditures for environmental remediation obligations are not discounted to their present value. Recoveries from insurance companies and other reimbursements are generally not significant. In October 1996, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants issued Statement of Position 96-1 Environmental Remediation Liabilities ("SOP 96-1"). SOP 96-1 provides guidance on the timing and measurement of liabilities associated with environmental remediation. The statement is effective for fiscal years beginning after December 15, 1996. The adoption of this statement is not expected to have a material effect on the results of operations or financial position of the Company.

NOTE 2 -- ACCOUNTS RECEIVABLE

Accounts receivable at December 31, 1995 and 1996 consist of the following (in thousands):

	1995	1996
Vehicle rentals	$ 90,290	$ 94,480
Due from vehicle manufacturers	11,308	14,758
Due from General Motors	69,504	168,546
Damage claims	5,969	10,697
Due from licensees	3,297	3,903
Other	17,349	19,022
	197,717	311,406
Less allowance for doubtful accounts	(2,746)	(227)
	$194,971	$311,179

Amounts due from vehicle manufacturers include receivables for vehicles sold under guaranteed repurchase contracts and amounts due for incentives and allowances. Incentives and allowances are based on the volume of vehicles to be purchased for a model year, or from the manufacturers' willingness to encourage the Company to retain vehicles rather than return the vehicles back to the manufacturer or arise from the purchase of particular models not subject to repurchase under "buyback" arrangements. Incentives and allowances are amortized to income over the holding period of the vehicles (see Notes 4 and 14).

NOTE 3 -- DUE (TO) FROM AFFILIATES, NET

Due (to) from affiliates, net at December 31, 1995 and 1996 consist of the following balances due to or from HFS or its consolidated subsidiaries which will be settled on or before the previously mentioned IPO (in thousands):

	1995	1996
Note receivable from Wizard Co., Inc. (a) ..		$ 196,965
Subordinated vehicle financing notes (b)	$ (180,000)	(247,500)
Due to Avis, Inc. for tax advantaged vehicle financing (c)	(1,000,000)	
Non-interest bearing advances (d)	794,313	112,342
	$ (385,687)	$ 61,807

NOTES:

(a) Consists of a $194.1 million note receivable from Wizard Co., Inc., an indirect wholly-owned subsidiary of HFS, plus accrued interest. The note bears interest at 7.13% and is due on October 1, 2006 and is guaranteed by HFS.

(b) Represents loans from Avis, Inc. to the Vehicle Trust, as described in Note 7, to provide additional subordinated financing. The amounts provided reduce, within certain limits, the amount of subordinated financing required from other lenders. The loans are made under terms of a credit agreement which terminates on October 29, 2003. At December 31, 1995 and 1996, the weighted average interest rate under these loans was 11.16% and 10.75%, respectively.

(c) Represents a $1 billion ESOP related tax advantaged vehicle trust financing consisting of loans under various agreements with banks, insurance companies and vehicle manufacturer finance companies. The tax advantaged notes were issued in September 1987 with a final maturity of 25 years and annual principal reductions commencing in 1998. At December 31, 1995, the weighted average interest rate under these loans was 6.0%. Included within the $1 billion ESOP related vehicle trust financing is $118 million that is ultimately due to General Motors. This loan was retired as of the Date of Acquisition.

(d) Primarily represents the transfer of assets from the Company to HFS and subsidiaries, recorded in connection with the October 17, 1996 acquisition of Avis, Inc. by HFS, as well as intercompany transactions relating to management, service and administrative fees since the Date of Acquisition. The amounts due to or from HFS and subsidiaries are interest free and are guaranteed by HFS.

Expense and (income) items of the Company include the following charges from (to) Avis, Inc. and subsidiaries prior to the Date of Acquisition for the period ended December 31, 1994, December 31, 1995 and October 16, 1996 (in thousands).

	FOR THE YEARS ENDED DECEMBER 31,		JANUARY 1, 1996 TO
	1994	1995	OCTOBER 16, 1996
Vehicle related costs		$(3,954)	$(25,134)
Data processing	$28,671	29,833	30,209
Employee benefits allocation	(2,975)	(3,385)	(2,776)
Rent	(1,730)	(2,188)	(2,459)

These charges seek to reimburse the affiliated company for the actual costs incurred. These amounts reflect the effect of various intercompany agreements, which are subject to renegotiation from time to time, and certain allocations which are based upon such factors as square footage, employee salaries, computer usage time, etc.

Expense items of the Company include the following charges from HFS and affiliates of HFS for the period October 17, 1996 (Date of Acquisition) to December 31, 1996 (in thousands):

Reservations	$10,900
Data processing	8,772
Management, service and administrative fees	8,568
Interest on intercompany debt, net	2,561
Rent	950
	$31,751

Reservations and data processing services are charged to the Company based on actual cost. Effective January 1, 1997, HFS will charge the Company a royalty fee of 4.0% of revenue for the use of the Avis trade name. On an unaudited pro forma basis, had the royalty fee been charged to the Company beginning on October 17, 1996, net income for the period October 17, 1996 to December 31, 1996 would have been reduced by $4.3 million resulting in a pro forma net loss of $3.1 million.

NOTE 4 -- VEHICLES

Vehicles at December 31, 1995 and 1996 consist of the following (in thousands):

	1995	1996
Vehicles	$2,283,003	$2,250,309
Vehicles acquired under long-term capital lease (Note 7)	95,084	19,324
Buses and support vehicles	42,075	45,868
Vehicles held for sale	42,332	36,378
	2,462,494	2,351,879
Less accumulated depreciation	(295,327)	(108,387)
	$2,167,167	$2,243,492

Depreciation expense recorded for vehicles was $266.6 million, $324.2 million, $275.9 million and $66.8 million, for the periods ended December 31, 1994, December 31, 1995, October 16, 1996 and December 31, 1996, respectively. Depreciation expense reflects a net gain on the disposal of vehicles of $24.8 million, $17.8 million, $30.3 million and $4.5 million for the periods ended December 31, 1994, December 31, 1995, October 16, 1996 and December 31, 1996, respectively. It also reflects the amortization of certain incentives and allowances from various vehicle manufacturers (the most significant of which was received from General Motors) of approximately $74 million, $77 million, $61 million and $14 million for the periods ended December 31, 1994, December 31, 1995, October 16, 1996 and December 31, 1996, respectively.

During the periods ended December 31, 1994, December 31, 1995, October 16, 1996 and December 31, 1996, the Company purchased from General Motors $2.7 billion, $2.0 billion, $1.8 billion and $0.4 billion of vehicles, net of incentives and allowances, respectively (see Notes 1 and 14).

In November 1988 and April 1990, the Company entered into seven year operating leases under which an original amount of $324.3 million of vehicles were leased, with the ability to exchange such leased vehicles for newly manufactured vehicles with the same value to the lessor. The leases are cancelable at the Company's option, however, additional costs may be incurred upon termination based upon the fair value of the vehicles at the time the option is exercised. At the termination of the leases, the Company may purchase the vehicles at the agreed upon fair market value or return them to the lessor.

In December 1994, the Company entered into a financing arrangement whereby it may lease up to $503 million of vehicles. This arrangement was amended on October 17, 1996 to increase the amount to $650 million. Under this arrangement, at December 31, 1995 and 1996, there were $219 million and $322 million of vehicles under operating leases. The vehicles leased under this arrangement may be leased for periods of up to 18 months. The lease cost charged to the Company varies with the number of vehicles leased and the repurchase agreement offered by the vehicle manufacturer to the lessor and includes all expenses including the interest costs of the financing company.

The rental payments due in each of the years ending December 31 for the operating leases as described above are as follows (in thousands):

1997 ...	$69,444
1998 ...	15,388

Rental expense for those vehicles under operating leases as described above was $59.2 million, $106.1 million, $93.0 million and $16.1 million for the periods ended December 31, 1994, December 31, 1995, October 16, 1996 and December 31, 1996, respectively.

NOTE 5 -- PROPERTY AND EQUIPMENT

Property and equipment at December 31, 1995 and 1996 consist of the following (in thousands):

	1995	1996
Land	$ 19,702	$ 19,523
Buildings	13,321	11,862
Leasehold improvements	139,938	48,898
Furniture, fixtures and equipment	30,779	10,997
Construction-in-progress	15,813	9,946
	219,553	101,226
Less accumulated depreciation and amortization................................	(78,561)	(2,339)
	$140,992	$ 98,887

NOTE 6 -- ACCRUED LIABILITIES

Accrued liabilities at December 31, 1995 and 1996 consist of the following (in thousands):

	1995	1996
Payroll and related costs	$ 54,706	$ 73,142
Taxes, other than income taxes	10,740	29,522
Rents and property related	10,594	30,889
Interest	12,081	18,531
Sales and marketing	20,567	20,395
Vehicle related	24,492	18,784
Other various	50,415	137,982
	$183,595	$329,245

NOTE 7 -- FINANCING AND DEBT

Debt outstanding at December 31, 1996 is not guaranteed by HFS and debt outstanding at December 31, 1995 and 1996 is comprised of the following (in thousands):

	1995	1996
VEHICLE TRUST FINANCING		
Commercial paper	$ 3,000	
Short-term vehicle trust financing--revolving credit facilities		$1,970,000
Current portion of long-term debt	56,000	
Total current portion of vehicle trust financing	59,000	1,970,000
Long-term vehicle trust revolving credit facilities	476,000	
Vehicle manufacturer's floating rate notes due September 1998 ($50,719 senior at 8.50% and $16,281 subordinated at 10.00%)		67,000
Vehicle manufacturer's floating rate notes due October 2001 ($63,731 senior at 7.16% and $54,269 subordinated at 8.91%)		118,000
Floating rate notes due September 1998	115,000	
Insurance company notes due from December 1997 to December 1999 at 7.53% to 8.23%	112,000	
Insurance company notes due from June 1998 to June 2003 at 6.75% to 7.92%	150,500	
Total long-term portion of vehicle trust financing	853,500	185,000
OTHER FINANCING		
Short-term notes--foreign at 6.63% to 18.00% in 1995 and 3.89% to 13.00% in 1996	37,264	65,516
Short-term floating rate capital lease terminating in 1996	12,801	
Current portion of 7.50% capital lease terminating November 1997	19,153	40,169
Current portion of long-term debt--other	13,605	1,060
Total current portion of other financing	82,823	106,745
7.50% capital lease terminating November 1997	40,169	
Other domestic	3,974	2,916
Debt of foreign subsidiaries:		
Floating rate notes due April 1997 at 8.26% to 8.44%	51,891	
Floating rate notes due July 1997 at 9.42% to 9.63%	10,378	
Floating rate notes due February 1998 at 7.65% in 1995 and 4.75% in 1996	8,012	2,935
Floating rate notes due August 1998 at 6.94% to 8.65%		27,878
Total long-term portion of other financing	114,424	33,729
	$1,109,747	$2,295,474

Currently, the primary source of funding for domestic vehicles is provided by the Vehicle Trust (a grantor trust). The Vehicle Trust consists of loans from banks, vehicle manufacturer finance companies and Avis, Inc. The Predecessor Companies' financing structure of the Vehicle Trust consisted of loans from banks, insurance companies, vehicle manufacturer finance companies and Avis, Inc. Amounts drawn against this facility may be used to purchase vehicles and pay certain expenses of the Vehicle Trust. The security for the Vehicle Trust financing facility consists of a lien on the vehicles acquired under the facility, which at December 31, 1995 and 1996, totaled approximately $1.9 billion and $2.1 billion, respectively, exclusive of related valuation reserves. The security for the Vehicle Trust financing facility also consists of security interests in certain other assets of the Vehicle Trust. In addition, the Vehicle Trust and its security agreement require that there be outstanding, at all times, subordinated debt in a specified percentage range (10% -25%) of the net book value of the vehicles owned by the Vehicle Trust. Pursuant to the agreement, the subordinated debt is to be provided by vehicle manufacturer finance companies and Avis, Inc. At December 31, 1995 and 1996, subordinated debt of $292.1 million and $318.0 million, respectively, was required under the Vehicle Trust financing of which $180.0 million and $247.5 million, respectively, was due to Avis, Inc. (Note 3).

At December 31, 1995, the weighted average interest rate on commercial paper was 6.4%. For the periods ended December 31, 1994, December 31, 1995 and October 16, 1996, the average outstanding borrowings of commercial paper were $19.9 million, $33.5 million and $30.4 million, respectively, with a weighted average interest rate of 5.3%, 6.5% and 6.0%, respectively.

The short-term notes are issued pursuant to a $2.5 billion revolving credit facility dated as of October 17, 1996 which matures on October 16, 1997. At December 31, 1996, the weighted average interest rate on borrowings under this facility was 6.00%. For the period from October 17, 1996 to December 31, 1996, the average outstanding borrowings under this facility were $2.0 billion with a weighted average interest rate of 5.98%. This facility requires a fee of 1/8 of 1% on the committed amount.

The long-term vehicle trust revolving credit facility consisted of $850 million revolving credit facility expiring on September 30, 1997. The interest rate on these loans is based on the London interbank rate ("LIBOR") plus a spread negotiated at the time of borrowing. At December 31, 1995, the weighted average interest rate on outstanding borrowings under this facility was 6.3%. For the periods ended December 31, 1994, December 31, 1995 and October 16, 1996, the average outstanding borrowings under this facility were $366.5 million, $288.0 million and $516.9 million, respectively, with a weighted average interest rate of 5.2%, 6.5% and 5.7%, respectively. This facility was retired on the Date of Acquisition.

The Company also had Vehicle Trust financing outstanding from vehicle manufacturer finance companies under terms of loan agreements dated October 17, 1996. Under these agreements, the maximum amount of borrowings allowed is $267 million, of which up to $260 million may be used as subordinated debt. On December 31, 1996, $185 million was outstanding of which $70.5 million of the outstanding debt was deemed subordinated. At December 31, 1996, the weighted average interest rate of borrowings under this facility was 8.5%. For the period October 17, 1996 to December 31, 1996, the average outstanding borrowings under this facility was $185 million with a weighted average interest rate of 8.41%. The Predecessor Companies, through its parent, Avis, Inc., had substantially similar financing arrangements under a portion of a $1 billion ESOP related tax advantaged vehicle trust financing facility (Note 3). At December 31, 1995, the outstanding borrowings under this arrangement was $185 million, of which $112.1 million was subordinated. The average borrowings under this facility for the periods ended December 31, 1994, December 31, 1995 and October 16, 1996 were $317.0 million, $268.2 million and $185.0 million, respectively. The weighted average interest rate on these average borrowings were 6.2%, 7.7% and 7.3%.

The floating rate notes were issued pursuant to a loan agreement, dated September 1, 1995, for a period of three years. The interest rate on these notes is based on the LIBOR, plus a spread of 0.45%. The interest rate on these notes at December 31, 1995 was 6.2%. For the periods ended December 31, 1995 and October 16, 1996, the average outstanding borrowings under this facility were $35.1 million and $115.0 million, respectively, with a weighted average interest rate of 6.2% and 6.0%, respectively. The notes were retired on the Date of Acquisition.

In December 1992 and May 1993, the Company borrowed a total of $318.5 million from a group of insurance companies. The maturities on these notes ranged from 3 to 10 years, with an average life, when issued, of 6.1 years. The effective interest rate on these notes was 7.3% at December 31, 1995. The average amounts outstanding for the periods ended December 31, 1994, December 31, 1995 and October 16, 1996 were $318.5 million, $318.5 million and $287.1 million, respectively, with a weighted average interest rate of 7.3%, 7.3% and 7.4%, respectively. These notes were retired as of the Date of Acquisition.

In November 1992, the Predecessor Companies entered into a five year capital lease under which $96.7 million of vehicles were leased. The lease is cancelable at the Company's option, however, additional costs may be incurred upon termination based upon the fair value of the vehicles at the time the option is exercised. At the termination of the lease, the Company may purchase the vehicles at an agreed upon fair market value or return them to the lessor. The future minimum lease payments due under the Company's capital lease obligation, which terminates on November 30, 1997, are $41.5 million (including interest of $1.3 million).

Included in total debt at December 31, 1995 and 1996 is indebtedness to General Motors of $10.1 million and $118.3 million, respectively (see Note 14).

Under the terms of the Company's loan agreements, the Company must maintain a minimum net worth, minimum earnings and cash flow ratios.

Mandatory maturities of long-term obligations for each of the next five years ending December 31, and thereafter, are as follows (in thousands):

1997	$ 41,229
1998	98,950
1999	1,086
2000	209
2001	118,228
Thereafter ..	256

OTHER CREDIT FACILITIES

At December 31, 1995 and 1996, the Company has letters of credit/working capital agreements totaling $102.6 million and $102.6 million, respectively, which may be renewed biannually at the Company's option and the banks' discretion. The collateral for certain of these agreements consists of a lien on property and equipment and certain receivables with a carrying value of $140.9 million and $136.9 million, respectively. At December 31, 1995 and 1996, the Company has outstanding letters of credit amounting to $47.6 million and $55.1 million, respectively.

In addition, for certain of its international operations, the Company has available at December 31, 1995 and 1996, unused lines of credit of $176.9 million and $224.3 million, respectively. The unused lines of credit agreements require an annual fee of 0.2% to 0.5% of the unused line.

INTEREST RATE SWAP AGREEMENTS

The Company has entered into interest rate swap agreements to reduce the impact of changes in interest rates on certain outstanding debt obligations. These agreements effectively change the Company's interest rate exposure on $29.1 million and $44.0 million of its outstanding debt from a weighted average variable interest rate to a fixed rate of 7.7% and 7.1% at December 31, 1995 and 1996, respectively. The variable interest element with respect to these interest rate swap agreements is reset quarterly. The interest rate swap agreements will terminate in March 1997, July 1998 and November 1998. The differential to be paid or received is recognized ratably as interest rates change over the life of the agreements as an adjustment to interest expense.

The net interest differential charged to interest expense for the periods ended December 31, 1994, December 31, 1995, October 16, 1996 and December 31, 1996 was $179,000, $146,000, $582,000 and $285,000, respectively. The Company is exposed to credit risk in the event of nonperformance by counterparties to its interest rate swap agreements. Credit risk is limited by entering into such agreements with primary dealers only; therefore, the Company does not anticipate that nonperformance by counterparties will occur. Notwithstanding this, the Company's treasury department monitors counterparty credit ratings at least quarterly through reviewing independent credit agency reports. Both current and potential exposure are evaluated as necessary, by obtaining replacement cost information from alternative dealers. Potential loss to the Company from credit risk on these agreements is limited to amounts receivable, if any.

NOTE 8 -- FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount and the estimated fair value of the Company's interest rate swap agreements represent liabilities of approximately $123,600 and $843,100 at December 31, 1995, and $578,000 and $1.4 million at December 31, 1996, respectively.

For instruments including cash and cash equivalents, accounts receivable and accounts payable, the carrying amount approximates fair value because of the short maturity of these instruments. The fair value of floating-rate debt approximates carrying value because these instruments re-price frequently at current market prices. The fair value of fixed-rate debt approximates carrying value.

The Company believes that it is not practicable to estimate the current fair value of the amounts due from (to) affiliates because of the related party nature of the instruments.

NOTE 9 -- INCOME TAXES

The provision for income taxes for the periods ended December 31, 1994, December 31, 1995, October 16, 1996 and December 31, 1996 consists of the following (in thousands):

	YEARS ENDED DECEMBER 31, 1994	YEARS ENDED DECEMBER 31, 1995	JANUARY 1, 1996 TO OCTOBER 16, 1996	OCTOBER 17, 1996 (DATE OF ACQUISITION) TO DECEMBER 31, 1996
Current:				
State	$ 735	$ 1,422	$ 2,176	$ 719
Foreign	10,094	7,361	6,680	288
	10,829	8,783	8,856	1,007
Deferred:				
Federal	16,020	19,057	19,614	(85)
Foreign	3,364	6,795	2,728	118
	19,384	25,852	22,342	33
Provision for income taxes	$30,213	$34,635	$31,198	$1,040

The effective income tax rate for the periods ended December 31, 1994, December 31, 1995, October 16, 1996 and December 31, 1996 varies from the statutory U.S. federal income tax rate due to the following (dollars amounts in thousands):

	YEARS ENDED DECEMBER 31,			
	1994		1995	
Statutory U.S. federal income tax rate	$18,311	35.0%	$21,245	35.0%
Tax effect of foreign operations and dividends	9,447	18.1	8,984	14.8
Amortization of cost in excess of net assets acquired and other intangibles	1,633	3.1	1,633	2.7
State income taxes, net of federal tax benefit	478	.9	924	1.5
Other non-deductible business expenses			550	.9
Other	344	.7	1,299	2.2
Effective income tax rate	$30,213	57.8%	$34,635	57.1%

(RESTUBBED TABLE CONTINUED FROM ABOVE)

	JANUARY 1, 1996 TO OCTOBER 16, 1996		OCTOBER 17, 1996 (DATE OF ACQUISITION) TO DECEMBER 31, 1996	
Statutory U.S. federal income tax rate	$24,429	35.0%	$ 791	35.0%
Tax effect of foreign operations and dividends	5,134	7.4	(1,073)	(47.5)
Amortization of cost in excess of net assets acquired and other intangibles	1,045	1.5	359	15.9
State income taxes, net of federal tax benefit	1,413	2.0	469	20.8
Other non-deductible business expenses	462	.6	494	21.8
Other	(1,285)	(1.8)		
Effective income tax rate	$31,198	44.7%	$ 1,040	46.0%

In accordance with SFAS 109, the net deferred income tax assets at December 31, 1995 and 1996 include the following (in thousands):

	1995	1996
GROSS DEFERRED INCOME TAX ASSETS:		
Accrued liabilities	$ 108,914	$ 171,050
Net operating loss carryforwards	68,474	78,172
Alternative minimum income tax credit carryforwards	3,025	3,025
	180,413	252,247
GROSS DEFERRED INCOME TAX LIABILITIES:		
Tax depreciation in excess of book depreciation	(116,304)	(152,346)
Tax amortization in excess of book amortization of cost in excess of net assets acquired and difference in book and tax basis of intangibles		(13,547)
Prepaids and other	(10,125)	(8,682)
	(126,429)	(174,575)
Net deferred income tax assets	$ 53,984	$ 77,672

The Company, under its tax disaffiliation agreement with HFS, has allocated alternative minimum tax net operating loss carryforwards of $139.8

million. The net operating loss carryforward is $223.3 million. The net operating loss carryforwards expire as follows: 2001, $4.3 million; 2002, $2.5 million; 2005, $32.6 million; 2008, $23.7 million; 2009, $15.1 million. The Company also has available unused investment tax credits of approximately $5.8 million which expire on February 28, 2002.

NOTE 10 -- RETIREMENT BENEFITS

The Company, through its subsidiary, Avis Rent A Car System, Inc. ("ARACS"), sponsors non-contributory defined benefit plans covering employees who are members of certain collective bargaining units and non-union full-time employees hired prior to December 31, 1983 who were age 25 or above on January 1, 1985. ARACS also contributes to union sponsored pension plans.

Through ARACS, the Company sponsors a Voluntary Investment Savings Plan under a "qualified cash or deferred arrangement" under Section 401(k) of the Internal Revenue Code. For the periods ended December 31, 1994, December 31, 1995, October 16, 1996, and December 31, 1996, the cost of the plan was $1.6 million, $1.7 million, $1.4 million and $352,000, respectively. Included in the Investment Savings Plan, ARACS sponsors a defined contribution plan for substantially all non-union full-time employees not otherwise covered. Costs for this plan are determined at 2% of each covered employee's compensation. Employer contributions and costs of the plan for the periods ended December 31, 1994, December 31, 1995, October 16, 1996 and December 31, 1996 amounted to $1.7 million, $1.8 million, $1.5 million and $394,000, respectively.

The defined benefit plans provide benefits based upon years of credited service, highest average compensation and social security benefits. Annual retirement benefits, at age 65, are equal to 1 1/2% of the participating employee's final average compensation (average compensation during the highest five consecutive years of employment in the ten years prior to retirement) less 1 3/7% of the Social Security benefits for each year of service up to a maximum of 35 years. In addition, the plan provides for reduced benefits before age 65 and for a joint and survivor annuity option.

The Company also sponsors several foreign pension plans. The most significant of these is the Canadian pension plan.

The status of the defined benefit plans at December 31, 1995 and 1996 is as follows (in thousands):

	1995		
	U.S. PLANS		
	SALARIED AND HOURLY EMPLOYEES AS OF JUNE 30, 1985	BARGAINING PLAN	CANADIAN PLAN
Actuarial present value of accumulated benefit obligations:			
Vested	$(37,040)	$(5,327)	$(2,349)
Nonvested	(4,186)	(201)	
Total	$(41,226)	$(5,528)	$(2,349)
Actuarial present value of projected benefit obligation	$ 57,780	$ 5,528	$ 2,566
Plan assets at fair value	51,633	4,426	7,072
Projected benefit obligation (in excess of) less than plan assets	(6,147)	(1,102)	4,506
Unrecognized net actuarial loss (gain)	4,713	455	(557)
Prior service cost (gain) not yet recognized in net periodic pension cost	(2,798)	996	
Remaining unrecognized obligation		(1,451)	
Unrecognized net transition asset			(2,944)
Pension (liability) asset included in the statement of financial position	$ (4,232)	$(1,102)	$ 1,005

	1996		
	U.S. PLANS		
	SALARIED AND HOURLY EMPLOYEES AS OF JUNE 30, 1985	BARGAINING PLAN	CANADIAN PLAN
Actuarial present value of accumulated benefit obligations:			
Vested	$(43,406)	$(7,147)	$(3,389)
Nonvested	(4,671)	(284)	
Total	$(48,077)	$(7,431)	$(3,389)
Actuarial present value of projected benefit obligation	$ 66,083	$ 7,431	$ 3,703
Plan assets at fair value	60,697	6,623	8,323
Projected benefit obligation (in excess of) less than plan assets	(5,386)	(808)	4,620
Unrecognized net actuarial loss (gain)	1,440	37	(336)
Prior service cost not yet recognized in net periodic pension cost		878	
Remaining unrecognized obligation		(915)	
Unrecognized net transition asset			(2,833)
Pension (liability) asset included in the statement of financial position	$ (3,946)	$ (808)	$ 1,451

Net pension costs of the defined benefit plans for the periods ended December 31, 1994, December 31, 1995, October 16, 1996 and December 31, 1996, include the following components (in thousands):

	YEAR ENDED DECEMBER 31, 1994		YEAR ENDED DECEMBER 31, 1995	
	U.S. PLANS	CANADIAN PLAN	U.S. PLANS	CANADIAN PLAN
Service cost--benefits earned during the period	$ 2,820	$ 102	$ 2,566	$ 76
Interest cost on projected benefit obligation	3,708	271	4,069	304
Return on assets--Actual loss (gain) on plan assets	1,626	(586)	(10,768)	(578)
Net amortization of actuarial (gain) loss and prior service cost	(5,702)		6,184	
Contributions to union plans and other	2,057		2,211	
Amortization of unrecognized net asset at transition		(134)		(130)
Net pension cost (benefit)	$ 4,509	$ (347)	$ 4,262	$(328)

	JANUARY 1, 1996 TO OCTOBER 16, 1996		OCTOBER 17, 1996 (DATE OF ACQUISITION) TO DECEMBER 31, 1996	
	U.S. PLANS	CANADIAN PLAN	U.S. PLANS	CANADIAN PLAN
Service cost--benefits earned during the period	$ 2,401	$ 59	$ 302	$ 28
Interest cost on projected benefit obligation	3,679	206	357	54
Return on assets--Actual (gain) on plan assets	(3,194)	(538)	(551)	(115)
Net amortization of actuarial (gain) loss and prior service cost	(794)		390	
Contributions to union plans and other	2,029		733	
Amortization of unrecognized net asset at transition		(106)		(28)
Net pension cost (benefit)	$ 4,121	$ (379)	$1,231	$ (61)

At December 31, 1995 and 1996, the measurement of the projected benefit obligation was based upon the following:

	1995		1996	
	U.S. PLANS	CANADIAN PLAN	U.S. PLANS	CANADIAN PLAN
Discount rate	7.50%	9.50%	7.75%	7.00%
Compensation increase	5.00	5.50	5.00	4.00
Long-term return on plan assets	8.75	9.50	8.75	7.00

The U.S. plans' assets are invested in corporate bonds, U.S. government securities and common stock mutual funds. The Canadian plan's assets are invested in Canadian stocks, bonds, mutual funds, real estate and money market funds.

The Company also sponsors a non-qualified defined benefit pension plan. The liability for this unfunded plan was $4.6 million and $8.8 million at December 31, 1995 and 1996, respectively, and is included in accrued liabilities on the accompanying statement of financial position. The projected benefit obligation of the plan was $6.0 million and $10.0 million at December 31, 1995 and 1996, respectively.

NOTE 11 -- LEASES, AIRPORT CONCESSION FEES AND COMMITMENTS

The Company is committed to make rental payments under noncancelable operating leases relating principally to vehicle rental facilities and equipment. Under certain leases, the Company is obligated to pay certain additional costs, such as property taxes, insurance and maintenance. Airport concession agreements usually require a guaranteed minimum amount plus contingent fees which are generally based on a percentage of revenues.

Operating lease payments and airport concession fees charged to expense for the periods ended December 31, 1994, December 31, 1995, October 16, 1996 and December 31, 1996 are as follows (in thousands):

	YEARS ENDED DECEMBER 31,		JANUARY 1, 1996 TO OCTOBER 16, 1996	OCTOBER 17, 1996 (DATE OF ACQUISITION) TO DECEMBER 31, 1996
	1994	1995		
Minimum fees...........	$102,104	$108,965	$ 88,787	$23,576
Contingent fees	45,633	56,624	61,290	13,220
	147,737	165,589	150,077	36,796
Less sublease rentals	(4,082)	(4,427)	(3,843)	(1,000)
	$143,655	$161,162	$146,234	$35,796

Future minimum rental commitments under noncancelable operating leases amounted to approximately $338.0 million at December 31, 1996. The minimum rental payments due in each of the next five years ending December 31, and thereafter, are as follows (in thousands):

1997	$86,264
1998	62,400
1999	43,179
2000	32,669
2001	20,805
Thereafter ..	92,709

In addition to the Company's lease commitments, the Company has outstanding purchase commitments of approximately $1.5 billion at December 31, 1996, which relate principally to vehicle purchases.

NOTE 12 -- SEGMENT INFORMATION

The Company operates in the United States and in foreign countries. The operations within major geographic areas for the periods ended December 31, 1994, December 31, 1995, October 16, 1996 and December 31, 1996 are summarized as follows (in thousands):

	YEARS ENDED DECEMBER 31, 1994	YEARS ENDED DECEMBER 31, 1995	JANUARY 1, 1996 TO OCTOBER 16, 1996	OCTOBER 17, 1996 (DATE OF ACQUISITION) TO DECEMBER 31, 1996
Revenue:				
United States	$1,241,465	$1,414,380	$1,313,619	$ 312,194
Australia/New Zealand	92,929	113,744	105,401	31,107
Canada	59,571	67,809	69,814	13,467
Other foreign operations	18,435	20,018	15,839	6,076
	$1,412,400	$1,615,951	$1,504,673	$ 362,844
Income (loss) before provision for income taxes:				
United States	$ 21,759	$ 32,122	$ 48,098	$ (2,346)
Australia/New Zealand	14,736	17,198	15,884	4,706
Canada	7,434	6,838	8,433	(1,752)
Other foreign operations	8,387	4,542	(2,616)	1,653
	$ 52,316	$ 60,700	$ 69,799	$ 2,261
Total assets at end of period:				
United States	$2,344,723	$2,535,621	$2,859,202	$2,750,119
Australia/New Zealand	109,649	133,629	115,082	120,216
Canada	96,660	97,426	147,617	122,657
Other foreign operations	52,081	58,222	65,796	138,365
	$2,603,113	$2,824,898	$3,187,697	$3,131,357

NOTE 13 -- LITIGATION

Certain litigation has been initiated against the Company which has arisen during the normal course of operations. Since litigation is subject to many uncertainties, the outcome of any individual matter is not predictable with any degree of certainty, and it is reasonably possible that one or more of these matters could be decided unfavorably against the Company. The Company maintains insurance policies that cover most of the actions brought against the Company. Two legal actions have been filed against ARACS alleging discrimination in the rental of vehicles. HFS has agreed to indemnify the Company from any unfavorable outcome with respect to these matters upon the consummation of an IPO. The Company is currently not involved in any legal proceeding which it believes would have a material adverse effect upon its consolidated financial condition or results of operations.

NOTE 14 -- RELATED PARTY TRANSACTIONS

The Company and Avis Europe, plc cooperate jointly in marketing and promotional activities, the exchange of reservations, the honoring of charge cards and vouchers, and the transfer of the related billings. A member of the board of directors and an executive officer of HFS serve on the board of Avis Europe Limited (formerly Cilva), the parent company of Avis Europe, plc.

Vehicle manufacturers offer vehicle repurchase programs on an ongoing basis to assist in the acquisition and disposition of vehicles. These programs generally allow the Company, at its option, subject to certain provisions, to sell the vehicles back to the manufacturers at pre-determined prices. Amounts included under these programs are reflected in "Accounts receivable" (see Note 2). Under the terms of certain financing agreements with General Motors, the Company is required to purchase a significant percentage of its fleet from local dealers of General Motors subject to market conditions. In addition, the Company participates in an arrangement whereby General Motors provides payments for purchasing and promoting a specified number and mix of vehicles (see Note 4). At December 31, 1995 and 1996, the Company has a $450.0 million and a $250.0 million line of credit, respectively, from General Motors which may be used for either ESOP or vehicle trust financing (see Note 7). Of this facility, $300.0 million and $200.0 million is available for subordinated debt at December 31, 1995 and 1996, respectively. As of December 31, 1995 and 1996, the Company utilized $118.0 million of this facility, of which $93.4 million and $54.3 million was subordinated, respectively. This facility requires a fee of 1/4 of 1% on the unused portion.

NOTE 15 -- SUBSEQUENT EVENTS

On August 20, 1997, the Company purchased The First Gray Line Corporation and its subsidiaries for approximately $210 million, including expenses. The fair value of unaudited assets and liabilities, exclusive of cost in excess of the fair value of net assets acquired, at June 30, 1997 are $332.3 million and $296.3 million, respectively. The transaction is subject to customary closing conditions and regulatory approval.

On July 31, 1997, the Company refinanced all of its domestic debt. This debt was refinanced by utilizing a $3.65 billion asset-backed structure, which consisted of (i) a $2.0 billion Commercial Paper Program and (ii) a $1.65 billion Medium Term Note Issuance with maturities of 3 and 5 years.

ARACS is party to a $470.0 million secured credit agreement that provides for (i) a revolving credit facility in the amount of up to $125.0 million which is available on a revolving basis until December 31, 2000 (the "Final Maturity Date") in order to finance the general corporate needs of ARACS in the ordinary course of business (with up to $75.0 million of such amount available for the issuance of standby letters of credit to support worker's compensation and other insurance and bonding requirements of ARACS, the Company and their subsidiaries in the ordinary course of business), (ii) a term loan facility in the amount of $120.0 million to finance general corporate needs in the ordinary course of business, which will be repayable in four installments, the first three of which shall be in the amount of $1.0 million payable on June 30, 1998, June 30, 1999 and June 30, 2000 and the remainder of which will be due on the Final Maturity Date, and (iii) a standby letter of credit facility of up to $225.0 million available on a revolving basis to fund (a) any shortfall in certain payments owing pursuant to fleet lease agreements and (b) maturing Commercial Paper Notes if such Commercial Paper Notes cannot be repaid through the issuance of additional Commercial Paper Notes or draws under the Liquidity Facility. Under terms of this facility, the Company will be required to meet the following covenants (i) certain maximum leverage ratios, (ii) certain minimum interest coverage ratios, and (iii) certain minimum fixed charge coverage. In addition, the Credit Facility prohibits the payment of cash dividends until the fiscal year ending December 31, 1998 and, thereafter, permits the payment of dividends only if the Company meets a minimum leverage ratio, the amount of such dividend does not exceed a designated percentage of the Company's cash flow and no default exists. Interest rates under these new facilities ranged from 5.6% to 7.8% at July 31, 1997.

AVIS RENT A CAR, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT SHARE DATA)
UNAUDITED

	Three months ended September 30,		Nine months ended September 30,	
	1997	Predecessor Companies 1996	1997	Predecessor Companies 1996
Revenue	$ 580,049	$531,478	$1,525,696	$1,419,044
Costs and expenses:				
Direct operating	242,997	225,939	641,545	616,064
Vehicle depreciation, net	143,937	93,828	323,355	257,574
Vehicle lease charges	6,766	33,480	75,791	94,342
Selling, general and administrative	110,256	96,290	313,639	264,332
Interest, net	49,465	42,012	117,808	115,165
Amortization of cost in excess of net assets acquired	1,675	1,193	4,245	3,575
	555,096	492,742	1,476,383	1,351,052
Income before provision for income taxes	24,953	38,736	49,313	67,992
Provision for income taxes	11,085	17,315	22,339	30,392
Net income	$ 13,868	$ 21,421	$ 26,974	$ 37,600
Earnings per share	$ 0.45	$ 0.69	$ 0.87	$ 1.22

See accompanying notes to the unaudited consolidated financial statements.

AVIS RENT A CAR, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(IN THOUSANDS)

	September 30, 1997 (Unaudited)	December 31, 1996
ASSETS		
Cash and cash equivalents	$ 159,551	$ 50,886
Accounts receivable, net	400,653	311,179
Due from affiliates, net		61,807
Prepaid expenses	46,025	40,155
Vehicles, net	3,364,660	2,243,492
Property and equipment, net	117,290	98,887
Deferred income tax assets	106,500	113,660
Cost in excess of net assets acquired, net	402,701	196,765
Other assets	119,727	14,526
Total assets	$4,717,107	$3,131,357
LIABILITIES AND STOCKHOLDERS' EQUITY		
Accounts payable	$ 232,065	$ 175,535
Accrued liabilities	386,823	329,245
Due to affiliates, net	62,633	
Current income tax liabilities	7,448	4,790
Deferred income tax liabilities	38,618	35,988
Public liability, property damage and other insurance liabilities	249,866	213,785
Debt	3,285,548	2,295,474
Total liabilities	4,263,001	3,054,817
Commitments and contingencies		
Stockholders' equity:		
Common Stock	309	85
Additional paid-in capital	430,507	74,915
Retained earnings	28,158	1,184
Foreign currency translation adjustment	(4,868)	356
Total stockholders' equity	454,106	76,540
Total liabilities and stockholders' equity	$4,717,107	$3,131,357

See accompanying notes to the unaudited consolidated financial statements.

AVIS RENT A CAR, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
UNAUDITED

	For the Nine Months Ended September 30, 1997	Predecessor Companies 1996
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 26,974	$ 37,600
Adjustments to reconcile net income to net cash provided by operating activities:		
Vehicle depreciation	332,183	287,836
Depreciation and amortization of property and equipment	8,382	11,634
Amortization of cost in excess of net assets acquired	4,245	3,575
Amortization of debt issuance costs	1,630	2,363
Deferred income tax provision	11,680	21,870
Undistributed (earings) losses of associated companies, net	130	(219)
Provision for losses on accounts receivable	2,127	1,178
Provision for public liability, property damage and other insurance liabilities, net	19,315	16,659
Change in operating assets and liabilities:		
Accounts receivable	(82,985)	(32,168)
Prepaid expenses	4,583	(7,361)
Other assets	(73,903)	1,909
Accounts payable	79,713	1,501
Accrued liabilities	(39,680)	99,962
Net cash provided by operating activities	294,394	446,339
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for vehicle additions	(3,169,229)	(2,085,689)
Vehicle deletions	1,987,853	1,414,507
Payments for additions to property and equipment	(30,297)	(23,998)
Retirements of property and equipment	18,070	2,179
Payments for purchase of Licensees	(199,381)	(164)
Net cash used in investing activities	(1,392,984)	(693,165)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Changes in debt:		
Proceeds	3,195,292	594,029
Repayments	(2,390,528)	(271,705)
Net increase in debt	804,764	322,324
Payments for debt issuance costs	(28,202)	(2,429)
Proceeds from initial public offering	359,316	
Proceeds (payments on) from intercompany loans	71,945	(22,142)
Net cash used in financing activities	1,207,823	297,753
Effect of exchange rate changes on cash	(568)	256
Net increase in cash and cash equivalents	108,665	51,183
Cash and cash equivalents at beginning of period	50,886	39,081
Cash and cash equivalents at end of period	159,551	90,264

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:

Cash paid during the period for:		
Interest	$ 129,802	$ 123,809
Income taxes	$ 7,946	$ 6,179

See accompanying notes to the unaudited consolidated financial statements.

AVIS RENT A CAR, INC.
NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include Avis Rent A Car, Inc. and subsidiaries which includes certain carved out corporate operations of HFS Car Rental, Inc., which was formerly known as, Avis, Inc. Avis, Inc. was acquired by HFS Incorporated ("HFS") on October 17, 1996. Prior to October 16, 1996, Avis Rent A Car, Inc. and subsidiaries and the carved out corporate operations of Avis , Inc. are referred to collectively as the "Predecessor Companies". Avis Rent A Car, Inc. and the Predecessor Companies are referred to throughout the notes as the "Company".

These unaudited consolidated financial statements reflect, in the opinion of management, all material adjustments (which include only normal recurring adjustments) necessary to fairly state the financial position, the results of operations and cash flows for the periods presented. Operating results for interim periods are not necessarily indicative of the results that can be expected for a full year. These interim financial statements should be read in conjunction with the Company's audited annual consolidated financial statements and notes thereto.

NOTE 2 - CHANGES IN STOCKHOLDERS' EQUITY

On September 24, 1997, the Company effected an 85,000 to 1 common stock split and increased its authorized shares to 100 million shares. After giving effect to the stock split, the Company issued and sold 22,425,000 shares of its common stock, $.01 par value, in an initial public offering and received net proceeds of $359.3 million.

NOTE 3 - EARNINGS PER SHARE

Earnings per share is computed by dividing net income in each of the three-months and nine-months ended September 30, 1997 and 1996 by 30,925,000 shares outstanding after the initial public offering.

NOTE 4 - ACQUISITIONS

On August 20, 1997, the Company purchased The First Gray Line Corporation. On September 18, 1997, the Company purchased certain assets and repurchased the franchise rights of a franchise based in Albany, New York. These acquisitions had an aggregate purchase cost of $199.4 million. The excess purchase cost over net assets acquired was approximately $171.8 million.

The following is the preliminary purchase cost allocation for the acquisitions mentioned above:

Purchase cost	$ 199,381
Fair value of:	
Assets acquired	353,832
Liabilities assumed	326,251
Net assets	27,581
Cost in excess of net assets acquired	$ 171,800

The preliminary purchase cost allocations for these acquisitions are subject to adjustment when additional information concerning asset and liability valuations are obtained. The final asset and liability fair values may differ from those set forth in the accompanying unaudited statement of financial position at September 30, 1997. However, the changes are not expected to have a material effect on the financial position of the Company. These acquisitions have all been accounted for by the purchase method. The financial statements include the operating results of these acquisitions subsequent to their respective dates of acquisition.

The following unaudited pro forma information presents the results of operations of the Company as if the acquisition of The First Gray Line Corporation had taken place on January 1, of each period. These unaudited pro forma results are not necessarily indications of the actual results of operations that would have occurred had the acquisition of The First Gray Line Corporation actually been made at January 1, of each period.

	Pro forma Nine-months ended September 30, 1997	1996
Revenue	$ 1,655,439	$1,563,017
Income before provision for income taxes	$ 65,247	$ 83,705
Net income	$ 36,147	$ 46,904
Earnings per share	$ 1.17	$ 1.52

The above unaudited pro forma results of operations of the Company do not give effect, for the period ended September 30, 1996 to the acquisition of the Company by HFS and the establishment of a franchisor/franchisee relationship and do not give effect in each period presented to the repayment of debt with the net proceeds (after the purchase of The First Gray Line Corporation) from the initial public offering. (See Management's Discussion and Analysis of Financial Condition and Results of Operations.)

NOTE 5 - FINANCING AND DEBT

Debt outstanding at September 30, 1997 and December 31, 1996 consists of the following:

	September 30, 1997	December 31, 1996
CURRENT DEBT		
Commercial paper (average rate 5.7%)	$ 1,459,149	
Short-term vehicle trust financing-revolving credit facilities		$1,970,000
Short-term notes - foreign at 3.89% to 13.00% in 1997	133,774	65,516
Current portion of 7.5% capital lease		40,169
Other current debt	11,443	1,060
Total current debt	1,604,366	2,076,745
LONG TERM DEBT		
Term loan due December 2000 at 7.94%:	29,000	
Medium term note due July 2000 at 6.22%	800,000	
Medium term note due July 2002 at 6.40%	850,000	
Vehicle manufacturer's floating rate notes due September 1998 ($50,719 senior at 8.50% and $16,281 subordinated at 10.00%)		67,000
Vehicle manufacturer's floating rate notes due October 2001 ($63,731 senior at 7.16% and $54,269 subordinated at 8.91%)		118,000
Other domestic debt	2,182	2,916
Debt of foreign subsidiaries:		
Floating rate notes due February 1998 at 4.75% in 1996		2,935
Floating rate notes due August 1998 at 6.94% to 8.65%		27,878
Total long-term debt	1,681,182	218,729
	$ 3,285,548	$2,295,474

NOTE 6 - SEGMENT INFORMATION
Operations within major geographic areas for the three and nine-months ended September 30, 1997 and 1996 are summarized as follows:

	Three months ended September 30,		Nine months ended September 30,	
	1997	1996	1997	1996
Revenue:				
United States	$ 510,406	$459,419	$1,340,674	$1,237,717
Australia/ New Zealand	30,036	33,219	98,322	99,906
Canada	32,818	33,019	67,452	66,114
Other foreign operations	6,789	5,821	19,248	15,307
	$ 580,049	$531,478	$1,525,696	$1,419,044
Income (loss) before provision for income taxes:				
United States	$ 12,112	$ 26,550	$ 24,803	$ 45,991
Australia/ New Zealand	5,076	5,499	17,309	13,916
Canada	6,964	6,848	7,190	7,411
Other foreign operations	801	(161)	11	674
	$ 24,953	$ 38,736	$ 49,313	$ 67,992

NOTE 7- STOCK OPTIONS
On September 23, 1997, the Avis Rent A Car, Inc. 1997 Stock Option Plan (the "Stock Option Plan") was adopted by the Board of Directors. Shares of common stock totaling 4,602,977 are reserved for issuance upon the exercise of options granted to officers, key employees, and directors of the Company pursuant to the Stock Option Plan. As of September 30, 1997, 3,963,900 options were granted at the fair market value of the Company's common stock on the date of grant. Options become exercisable as to 20% of the shares covered by such options on the first anniversary of the date of grant, with an additional 20% of the shares covered by such options on each of the four succeeding anniversaries of the date of grant. All options granted under the Stock Option Plan, to the extent not exercised, expire on the earliest of (i) the tenth anniversary of the date of grant, (ii) two years following the optionee's termination of employment on account of death, retirement or disability or (iii) one year following the optionee's termination of employment for any other reason.