MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Avis Budget Group fourth 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, Tanya. 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 Executive Vice President and Chief Financial Officer.

Before we discuss the results for the 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 third quarter Form 10-Q, 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 www.avisbudgetgroup.com. Comments on this call regarding our results are intended to be a reference to our results excluding certain items which are non-GAAP financial measures and are reconciled to GAAP numbers in our press release and on 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 and Chief Executive Officer

Thanks, Neal, and good morning to all of you. You know, as I look back, 2010 was really an outstanding year. It was a year that the travel industry began to recover from an unusually severe recession. It was a year in which our difficult first-half volume comparisons gave way to volume-growth acceleration in the second half. It was a year in which every segment of our company reported double-digit growth and adjusted EBITDA. It was the year that our profitability returned to pre-recession levels despite revenue that was $800 million lower and it was a year once again where we asked all of our employees to accomplish more with less and they delivered. And as I will discuss in a moment, it was a year in which we set a course for revenue and profit growth that I believe will move us from being not just a good company but a great one. My enthusiasm has never been greater, and I hope that over the next half-hour or so you will take away an understanding about why we are so optimistic.

However, since I do want our strategies and outlook to be the focus of much of this call, let me tackle the elephant in the room, our proposed acquisition of Dollar Thrifty. We remain committed to acquiring Dollar Thrifty. There's an important growth opportunity for our company, one which moves us squarely into the deep value renter space, one which results in significant consolidation efficiencies, and one which we believe enhances competition in the marketplace.

We have been working closely with DTG and their counsel in order to obtain antitrust clearance for our proposed transaction. We've had good dialogue with the FTC staff over the last few months about the complexities of our industry, and we hope to gain clarity from the FTC in the coming weeks about what actions, if any, would be required of us in order to obtain antitrust clearance.

In fact, with our certification of substantial compliance with the FTC's second request earlier this month, we have taken a further step towards securing the greater clarity that both we and DTG would like. Despite the relative absence of financial press surrounding this transaction in the last few months, our discussions with the FTC have been very constructive, although we are not yet at a point of resolution. Beyond that, I don't think there's much for us to report at this time.

So moving on to our business, as travel volumes began to stabilize, we decided it was an appropriate time to reflect on where the company stood and where it could go. So we initiated a more robust strategic planning process than usual, rather than and examining every aspect of our business, a candid review that looked at what we were good at, where we could grow, where our opportunities lay and what resources we needed to get there.

The result of this work is a series of initiatives we will be undertaking that we believe have the capability to accelerate revenue and profit growth, sharpen the value proposition we offer to customers, build brand loyalty and reposition our company to be more innovative by using technology to capture new opportunities and further reduce costs.

To be frank, we had already begun working on a few of these initiatives but our planning process resulted in a number of new initiatives as well as helping us prioritize the ones having the highest potential return and those at the end of the day that just weren't worth pursuing. We've identified both near term clear line of sight projects, ones which are expected to add to income in this year and beyond, as well as longer term cross functional initiatives that will lay the foundation for achieving growth well above the industry's natural growth rate.

Some of these initiatives we'll share with you today and others we don't plan to discuss publicly for competitive reasons, but they will begin showing up in our earnings over time. These initiatives are all organic. The baseline assumption was to assume no benefit from acquisitions. The profits we expect to generate will be incremental to the growth we would otherwise achieve, and none of these initiatives are expected to negatively impact the substantial progress we've made to strengthen our margins. Driving profitable growth has been and will continue to be the underpinning of everything we do.

First initiative I want to highlight is branding. To be clear, the multi-brand strategy we successfully adopted in 2002 is not changing. On the contrary, we will be reinforcing and reinvigorating it. As you know, the majority of Avis' rentals are made by business renters. And we have found that there's a lot of overlap in brand perceptions, attitudes, and affinities between business renters and frequent renters. So with both commercial and leisure customers returning; now is the right time to step up investment to support and promote our brands to drive growth.

In mid-January, we initiated a multi-million dollar integrated marketing campaign to support the Avis brand. Theme of the campaign is treating people, particularly customers, like people. It sounds simple, but each of us can unfortunately recount an experience where a service provider failed to do this. This campaign, which debuted online and in print in The Wall Street Journal and USA Today, also reinforces Avis' We Try Harder approach by recounting letters and e-mails received from customers satisfied by their rental experience. I hope you've had a chance to see it. If not, it is in today's Journal and it is a year-long campaign that few readers of The Wall Street Journal will miss.

Going forward, the campaign will include other print outlets, network and cable television, online advertising, and out-of-home media including airport signage. Given the significant airline affinity agreements that we have assigned in the past six months, we think this campaign will pay meaningful dividends. Budget will have its own campaign targeted to value-conscious customers beginning in April to support its brand positioning. We'll talk about that campaign more in our next earnings call.

The second initiative in the nearer term clear line of sight category is centered on small business. There are over a million small businesses in the United States that rent cars for business purposes, collectively spending over $1 billion annually. This market segment is highly fragmented with customers that have a choice of provider, and aren't generally restricted by a prescribed travel policy. Because small business customers have somewhat different needs and significantly different buying practices than larger companies, in 2010, we committed considerable resources dedicated solely to this segment.

The results speak for themselves. Our small business volume was up 14% this past quarter and 9% for the full year. Our margins in this segment, even after customer acquisition costs were among the highest in our portfolio. We believe there exists a substantial opportunity for us to continue to grow our small business revenue, and in 2011, we have further increased the resources we're allocating, the expectation that our volume growth in this segment will outstrip the overall market by several points.

The next initiative I want to talk about is local market. Off-airport or local market is a $5 billion business, excluding insurance replacement and is an important part of our overall growth strategy. We spent the last two years strengthening our local market business and improving margins along the way, aided somewhat by closing underperforming locations. We know that our brands resonate effectively in the local market, particularly with customers who use us regularly for their airport rental needs.

As a result, we have an opportunity to strengthen our footprint with better located stores that can profitably be sustained without necessarily having to expand our insurance replacement business. In other words, the advantage of not having the dominant off-airport share that Enterprise enjoys in the more location-centric insurance replacement business is that we can and will pick our spots, investing in areas where we can drive more commercial and leisure volume through our local market locations to generate profitable revenue growth. This does not mean that we're foregoing the pursuit of revenue growth obtainable in the broader local market business. To the contrary, our off-airport business grew 11% on a same-store basis in the fourth quarter.

But to be clear, our more immediate and significant local market opportunity is in expanding margins. One of the ways we'll do this is by co-branding locations. We have tested several co-branded locations over the course of 2010 and have not only experienced the benefits of lower costs associated with the single shared infrastructure, but have actually seen revenue increase in the consolidation due to better location siting for the brand that moved.

And in locations where we have available space, we've also added truck rental, which only increases the drop-through effect on profitability. The concept of developing vehicle rental centers encompassing Avis, Budget, and Budget Truck has much more potential beyond this initial step of leveraging infrastructure and brand building. It will take some time to develop.

Our off-airport margins are several percentage points lower than our airport margins, and we think there's a real opportunity to move margins up to and beyond in some cases, airport margins. This is a significant opportunity as our local market revenue was more than $750 million in 2010. Margin improvement won't happen overnight, but it is one of the initiatives that we have a very clear line of sight on.

The last near-term initiative I want to discuss is international inbound sales. Approximately 7 million overseas visitors rent cars in the U.S. annually, generating some of our most profitable transactions. It's a business characterized by longer average rental lengths and high ancillary product penetration. It's also a segment in which we are under-penetrated, particularly in the largest inbound market, Europe, in part because our sales and marketing efforts have not been commensurate with the profit opportunity. We are investing in this initiative with feet on the street in European territories to increase our share of the volume that comes from international locations to drive incremental revenue and profits. We currently expect the incremental profits from this initiative to absorb the additional expense and be additive to our earnings.

While Europe is the biggest near-term opportunity, Latin America and Asia are obviously not far behind, given the growth trajectory of the middle class and its impact on travel in those markets.

We expect that all of these near-term initiatives and a few others like them will produce incremental returns for us beginning in 2011 and become more significant by 2012, while others have a longer fuse. For instance, enabling customers to rent vehicles precisely where they want them, using technologies that are more convenient to them is an important part of the future of our industry. This has taken shape in the car share market thus far, but our view is that the real opportunity is not hourly car share, but rather the off-airport market in general.

Wireless communication technologies embedded in the vehicle are approaching the point of being cost effective enough to make large scale, non-store front off-airport vehicle rentals a practical reality, particularly on large corporate campuses. This virtual rental technology will eventually allow us to place vehicles almost anywhere and rent them without a sales agent present, potentially replacing infrastructure, reducing costs, and improving processes.

We've been testing virtual technology for a while now, and currently have one of our commercial customers piloting the technology on their corporate campus, with several others lined up for later in the year. To support this growth, we will have more than 3,000 cars equipped with wireless communication technology by the end of March, and a multiple of that by the end of the year.

We believe that integrated mobile self-service technologies will enable a paradigm shift, certainly off-airport, but eventually on-airport, giving us the ability to offer customers exactly what they want, when they want it, and where they want it, all in a cost effective manner.

The next initiative and one that I'm particularly excited about is transforming the rental experience we offer, and strengthening the relationship we maintain with our customers. At its core, this is the driving force behind everything we are doing strategically, whether near or long term. Clearly our Avis media campaign is built around reinforcing the customer service aspect to the brand and delivering on those things that a customer expects when they pay a premium for car rental.

The CRM project we talked about last quarter is part of this initiative and is well underway, which when implemented will represent a watershed in personalizing the experience we offer our customers. In this increasingly commoditized world, customer experience can be a differentiating factor. And in order for us to move from good to great, we need to be better at exceeding our customers' expectation when they transact with us. While we retain some 99% of the large commercial accounts each year, we have a much greater turnover or churn among leisure and unaffiliated business travelers. This is the worst kind of inefficiency, because it not only hurts us, but also benefits our competitors.

The charge to our customer experience team is to help us better understand our customers, their needs, preferences, and objectives, and adapt the Avis and Budget experience and service proposition in ways that our customers value most. Every customer touch point is being examined; from the reservation process all the way through to customer recovery, with the goal of transforming Avis Budget Group into a best-in-class customer-led organization, one that drives increased loyalty, revenue, and profits in the process.

To put this in financial perspective, the volume of rentals that our existing customers do with other rental car companies is over $2 billion. So the financial implications of even a fraction greater of customer loyalty, and ideally customer advocacy, are substantial.

We've already stepped up our emphasis on listening to what our customers are telling us and developing a more comprehensive understanding of the drivers of customer satisfaction. Even this, early on, it has generated actionable insights. For example, one of our early learnings was that a surprising number of our customer communications from e-mails to confirmations to receipts are not clear or not effective or both. So we are reviewing and reworking all of our documents to make sure they are as clear and customer friendly as possible, simple things with big implications, all you have to do is listen.

Another intermediate term initiative is optimizing our fleet costs. This initiative is really about using technology, refining operating practices, and doing new things in order to make our car buying dollars work harder for us. One way to do this is minimizing costs and maximizing proceeds at the time of disposal. Manheim statistics suggest that our actual realization at auction where we sell the majority of our cars is already several points higher than the rental car average. While that narrows the opportunity it clearly doesn't eliminate it.

A quick look at competitive fleet costs per month would suggest that no one is enjoying a material advantage at this juncture, but like others in the industry, we continue to explore new channels for vehicle sales. The financial motivation is significant. The challenge is to do it in a way that does not require substantial investment in infrastructure. We're already optimizing the wholesale end of our business by using online dealer auctions which now account for more than 30% of our dispositions, as well as dealer direct sales, but we will be expanding our retail sales program through a relationship with a national car chain, which will not require much capital outlay beyond some incremental IT costs to enhance our website.

Perhaps more interesting though is that we believe there's an opportunity to maximize the value of our fleet that goes well beyond simply lowering acquisition and disposition costs. Conceptually, given our dual-brand strategies, on and off-airport locations, and the broad range of customers we serve, there's a further optimization opportunity in how we manage and allocate our fleet. We believe every vehicle we purchase should have a mission. When we acquire – a mission when we acquire it, a usage plan while it is in service, and a strategy to maximize its residual value at the end of its life. Maybe it's a car that we purchased with the intent of using only at Avis or Budget, or maybe it's a car that can serve any number of customers across both brands that also cascades from airport to off-airport in its life, doesn't take a big leap to understand that multiple brand strategies bridging the various customer segments only enhance that opportunity.

Enhancing our current systems will afford us the opportunity to improve fleet allocation and inventory control, driving significant profit improvement along the way. So we're investing to more effectively manage our fleet, making sure the right car gets to the right location and to the right customer, which maximizes the profit potential of our vehicles while in service, and then managing the mileage and usage to generate the best possible residual value at the time of disposal.

The last initiative I want to mention is not new but remains a vital part of our go-forward strategy. Our performance excellence process improvement, or PEx initiative has been a great success and we remain highly committed to it. Our P&L benefited by more than $180 million in 2010 as a result of the PEx work we've done over the last three years. We expect the annual benefits will grow by another $50 million in 2011. The PEx is important not only because of the operational and financial benefits it has delivered, it is also important because it highlights our ability as an organization to successfully manage and implement significant cross-functional, strategic and cultural change in our organization. The same is true of our multiyear efforts to implement a more sales-oriented culture to grow high margin ancillary revenues, efforts which have helped us increase ancillary revenues per day by more than 65%, and increase our up-sell revenue per day by more than 200% since 2006.

From our experience with PEx and our ancillary revenue initiative, we know we can develop a game plan, adapt our culture, and rally our troops to meet our objectives, because we have done so.

So I hope this gives you a sense of the initiatives that we will be implementing over the coming months and quarters that will help us drive growth, realize incremental profits and strengthen our brands. As I noted, this is not the entire list, some initiatives we simply don't want to discuss publicly to gain the competitive advantage we feel they will deliver, but rest assured all of our initiatives share our common objective: grow revenues, grow profits, and improve brand equity.

And then finally, just a word about prepaid rentals. For the time being, prepaid is effective displacing our efforts to institute a no show fee. We launched prepaid capabilities on the Budget website in late 2009 followed with Avis prepaid this past November and the results are very encouraging. We booked over 20,000 prepaid reservations in January on Avis.com, its first full month of deployment, and we expect prepaid revenue to increase significantly in 2011.

We're getting paid sooner, our no-show experience has improved markedly, and importantly, we're seeing a very cost effective shift in online booking trends and we're realizing the cost savings and utilization benefits we hoped for. We will begin offering prepaid rates in our voice channel next month, which should be impactful. No-show rates in this channel are far and away the highest of any of our booking channels.

Just to wrap up, we're optimistic about our 2011 prospects. Domestic airline capacity is expected to increase in the 3% range over the next few months, and historically we've been able to grow faster than in nine months during the upward trending volume environment. We also expect incremental volume from our new airline partnerships.

With the help of some fleet adjustments we made last year, we are well positioned to capture the mid – profitable midweek commercial business that fleet tightness limited in the first eight months of 2010. Pricing and fleet cost trends have also moved in our favor with average price up 4% and the average cost per car down a bit since the middle of 2007. Further, as a result of our lower operating cost structure, we're able to profitably retake some of the volume we stepped away from in 2009, which is serving to enhance our growth.

On the margin side, if you had asked me in 2008 if we would achieve our 8% margin goal by 2010, I'm sure I would have been noncommittal at best. But that's exactly what we accomplished. Given that we were able to return to pre-recession margin and income levels, despite having significantly less volume, we believe it's reasonable for us to look for further margin expansion in the future, particularly as the economy continues to rebound.

Further, margin improvement will be a function of revenue growth, our ability to grow ancillary products revenue, competitive dynamics, our continued vigilance with respect to cost controls, and the progress we will make on the strategic initiatives I discussed.

With that, let me turn the call over to David.

David B. Wyshner, Executive Vice President and Chief Financial Officer

Thanks, Ron, and good morning, everyone. Today, I would like to discuss our fourth quarter and full-year 2010 results, our ongoing cost saving initiatives, and our balance sheet, as well as expand on some of Ron's comments regarding our outlook. 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 fourth quarter, revenue increased 6% over $1.2 billion with the year-over-year revenue growth accelerating from the 3% increase we reported in the third quarter. Adjusted EBITDA more than tripled to $54 million. Margins in this seasonally slower quarter expanded 320 basis points to 4.4%.

Our full year revenue increased 1% to $5.2 billion. Adjusted EBITA increased to $410 million in 2010, equaling pre-recession levels, despite $800 million less revenue than in 2007. Adjusted EBITDA margins increased 320 basis points year-over-year to 7.9%, and all three of our operating segments reported substantial EBITDA growth, underscoring the fact that our company-wide cost reduction efforts have proven to be both sizable and sustainable.

For those investors and analysts who compare companies' EBITDA, excluding deferred financing fees and stock-based compensation, our full year adjusted EBITDA on that basis was $450 million.

Pre-tax income increased to $158 million in 2010 compared to a $6 million pre-tax loss in the prior year. Net income increased to $107 million and diluted earnings were $0.90 per share.

Turning to our segments, in the fourth quarter, Domestic Car Rental revenue increased 4% to $905 million, reflecting a 7% increase in volume, partially offset by a 3% decline in pricing. Volume growth would have been about two points higher, were it not for our decision to return Budget LAX to its licensee and select off-airport store closings.

The decline in pricing primarily reflects a difficult comparison with last year's fourth quarter. Even with the year-over-year decline, our average price was still up 6% versus fourth quarter 2008.

Commercial volume increased 3% with the strongest growth coming from small business customers. Among large commercial accounts, our retention rate remained over 99%. Leisure volumes increased 12% year-over-year in the fourth quarter, driven by marketing investments we made, while off-airport volume increased 9%.

Adjusted EBITA increased to $22 million in the quarter, driven by higher revenues, a 5% increase in ancillary revenue per rental day, a 16% decline in pre-unit vehicle depreciation costs, and our cost saving initiatives.

For full-year 2010, domestic car rental EBITA increased 90% to $236 million, and margins expanded by nearly 300 basis points, driven by a 6% increase in ancillary revenue per rental day, a 12% decline in per-unit vehicle depreciation costs, and operating cost savings.

In our International segment, fourth quarter revenue increased 11% year-over-year due to a 7% increase in volume and a 4% increase in pricing. Excluding the impact of exchange rates, pricing declined 2%, reflecting difficult comparisons with the prior year fourth quarter when pricing increased 10% on a constant currency basis.

Our foreign currency hedges for 2011 worked against us in Q4. As a result, fourth quarter adjusted EBITDA declined $2 million to $32 million, but was flat year-over-year excluding foreign exchange effects.

For full year 2010, International revenue grew 14% to $922 million. Adjusted EBITDA increased 21% to $155 million, and margins expanded 100 basis points. Our strong international operations were responsible for 35% of total company adjusted EBITDA in 2010.

Revenue in our truck segment increased 5% in the fourth quarter driven by 13% growth in volume, partially offset by a 4% decline in pricing. The growth in volume and the decline in pricing were both due to huge growth in commercial rental volume which has a longer length of rental, and therefore a lower average rate than one-way and consumer business.

Adjusted EBITDA increased to $3 million and margins expanded by 230 basis points, driven by higher revenues, higher vehicle utilization, and lower fleet costs. With a significant number of trucks out on lengthy commercial rentals, particularly in December when household moving activity is pretty quiet, utilization of our trucks was up more than 15%.

Truck rental performance improved dramatically in 2010. Revenue increased 4% and adjusted EBITDA more than doubled to $34 million with margins expanding by 500 basis points.

Full year growth was driven by 5% higher volume, a 5% decline in per-unit fleet costs, lower interest costs, and higher utilization. We integrated our truck and local market sales teams in 2009, effectively doubling the number of sales people selling truck rentals to commercial accounts, which yielded positive results.

Given the recovery in the truck rental business, we're planning to invest modestly in new truck rental fleet in 2011, primarily to replace a few thousand older trucks. We believe that demand for truck rental is still in the early stage of its typical cyclical recovery.

If we can continue the strong growth we've seen in commercial rentals, mix will continue to negatively impact reported pricing, but should benefit volumes, utilization, and earnings.

Just to recap our full-year 2010 results, adjusted EBITDA increased 69%, driven by a 21% increase in our international segment, a 90% increase in domestic car rental, and 127% increase in truck rental.

As we look ahead to 2011, we estimate our domestic fleet depreciation costs will be flat to slightly down on a per-unit basis, despite having a somewhat richer mix of fleet, which should have a positive benefit on revenue and profits. We expect that no single manufacturer will account for more than 30% of our U.S. rental cars next year, and that vehicles obtained under manufacturer repurchase programs will continue to represent approximately half of our average fleet.

Our fleet will also be the most diverse in our history and will include BMWs and Mini Coopers for the first time this year. We will also be introducing exciting new models later in the year with some like the new Chevy Camaro Convertible, available exclusively from us.

One of the areas that investors frequently ask about is just what sort of projects our performance excellence teams focus on. As a result, and because performance excellence is an important part of our strategy, I wanted to spend a few minutes this morning discussing PEx.

PEx is all about enhancing productivity and expanding best practices across our locations, using tools like lean and six sigma as well as training and communications. Many PEx projects come directly from our frontline field employees. When they identify an opportunity, they work with our PEx team to find a better way to do something. We then institutionalize the new approach across our entire system.

For instance, to make sure we're being as efficient as possible when we drive vehicles from one location to another, which we do thousands of times a day, we developed models to better estimate our demand for shuttlers and reduce shuttler idle time. We've established standardized shuttling routes and we're using GPS technology to track shuttle crews.

In the area of preventive maintenance, we compared the efficiency of in-house technicians to third-party vendors. This resulted in us in-sourcing some work, pruning our vendor ranks, and revamping our approval process for outsourced maintenance work.

In our Truck segment, we standardized the customer return process and streamlined inspection and maintenance procedures to reduce out-of-service time, which not only drove down costs, but enhanced revenue.

Another project, one I particularly like, has involved educating our customer facing employees on the buying patterns of walk-up customers to better capture ancillary sales and up-sales from this customer group. This may sound easy, and in hindsight, even obvious, but at one airport alone the incremental revenue generated was nearly $150,000.

A similar project developed a better inventory management system for GPS units, increasing their availability, which then provided an opportunity to rent more of these units to our customers.

In total, our performance excellence team has worked on over 2,400 projects and replications, with more than 300 new projects and replications already underway in 2011. And our most recent experience indicates that we're nowhere close to running out of opportunities.

At the risk of a somewhat sudden segue from the more operational side of our business to the more financial side, let me now turn to the balance sheet. Our liquidity position is strong, with over $4 billion in total liquidity. We ended the quarter with more than $900 million of cash. We had no borrowings under our $1.2 billion corporate revolver and $800 million of availability there under. And we had unused capacity under various vehicle-backed financing programs of $2.4 billion.

Our results for the fourth quarter ended 2010 -- put us well within our debt covenant requirements and in 2010 we achieved our goal of reducing leverage below four times. Our leverage ratio at December 31 was 3.5 times, and our coverage ratio was 2.7 times.

Our access to the asset backed market remains strong as evidenced by the $700 million multi-tranche term deal that we completed in the fourth quarter. It carries an average interest rate of 3.2%, and an advance rate north of 77%. We have a significant amount of term ABS debt scheduled to mature in 2012 with an average interest rate of over 6%, and we will begin to address these maturities in 2011, ideally with bond offerings that look a lot like our most recent ABS transaction.

On the non-vehicle backed financing front, we issued $600 million of corporate term debt in the fourth quarter. We used a portion of the proceeds to redeem $175 million of senior notes due 2014 and repaid $52 million of term loan borrowings and associated swaps that would have matured in 2012. The remaining $350 million of proceeds from our recent offerings will be used either to help fund the acquisition of Dollar Thrifty or to repay additional corporate debt.

For now, we have excluded the interest expense on debt where the proceeds have not been deployed in calculating income excluding certain items. We generated $149 million of free cash flow in 2010, and we continue to manage our capital spending carefully. CapEx totaled just $61 million for 2010, but you should expect the 2011 number to be more in line with our annual non-vehicle depreciation expense of around $90 million.

More generally, we expect 2011 to be the compliment of 2010 with pricing comparisons easing as the year progresses, and volume comparisons becoming more difficult in the second half of the year. We expect to see a continued modest economic recovery this year, which we believe will drive increased demand for both commercial and leisure car rentals.

Looking at the first quarter, January enplanements were impacted by the severe winter storms across many portions of the country, which impacted our volume as well, but adjusted EBITDA held up well, driven by increased ancillary product penetration, car sales, and strong commercial truck rental.

The first week of February was also impacted by winter storms, though February booking trends continued to strengthen. Pricing remains consistent with our fourth quarter trends and well above 2008 levels.

As Ron highlighted, the key elements of our strategy and key tactical objectives for us include investing for growth in profits, maintaining an intense focus on cost controls and process improvement, keeping fleet levels in line with demand, aggressively pursuing ancillary revenue growth opportunities, and refining and improving the vehicle rental experience for our customers.

We expect our cost saving initiatives to provide an incremental $45 million to $55 million in savings for 2011 compared to 2010, although some of our cost saving benefits will be offset by inflation on our nearly $2 billion base of non fleet costs. We expect our 2011 GAAP tax rate to be 38% to 40% excluding any one-time items, and we expect full-year cash taxes to be $35 million to $40 million. We do not expect to become a U.S. federal cash taxpayer in 2011.

So to wrap up, we are excited about the improvement in earnings and margins we achieved in 2010, and we are intensely focused on our prospects for growth in 2011. We achieved our 8% EBITDA margin goal sooner than we expected, and we are investing for and focused on growth in revenues and profits.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from John Healy with Northcoast Research. You may ask your question.

<Q – John Healy>: Hi, good morning, gentlemen. Ron, I wanted to ask you a little bit about your comment that you made earlier in the call about industry rental growth rate. And I wanted to get your view of how you think about the industry and its growth rate, if you think using a multiple of GDP or trends versus enplanement. How do you think about the industry's growth rate versus those metrics and how do you feel Avis should be able to perform over the next couple years versus those metrics?

<A – Ronald L. Nelson>: Well, I think, John, over time that enplanements, at least for our business are probably the best metric. I mean, we're still 80% to 81% on airport, and obviously the traffic on airport is driven by the number of people that get off airplanes. I think when you're in an environment where you're moving upward, though, we do tend to get better growth in rentals than the growth in enplanements. But I think over time that does level out. And so, that in conjunction with whatever you think pricing will do in the market should be sort of the inherent growth rate in the industry.

We're not going to put a number on what we think we've moved the growth rate to with these initiatives. I do think it's meaningful, though, and I think it will take us well above what I think enplanements are going to be over the next couple or three years. I just think there's a lot of opportunity out there that can be harvested by things that we actually have a very clear line of sight on. We're not groping for, gee, there's this opportunity and we haven't quite figured out how to crack the code yet.

I think there's a number of things we're clearly focused on. They are going to add incremental growth, and more importantly, they're impactful. I mean, things like small business and inbound international, our volume-related profit margins are probably several multiples above what our core commercial business drops through. So, they can have a disproportionate impact on margins relative to the amount of revenue growth that they, in fact, generate. So rather than put a number on it, let's just say I'm pretty optimistic that it's going to increase the innate growth rate in the industry pretty significantly.

<Q – John Healy>: Makes sense. And when I thought about the growth initiatives you talked about on the call, it seems like you're taking a very balanced approach to investing in all areas of the business, but I want to take a more shorter term viewpoint of how you think 2011 will fare. As you guys plan the business, are you expecting commercial or leisure to really be the growth side of the business in 2011 or maybe you feel like they're pretty balanced? I was interested in your thoughts.

<A – David B. Wyshner>: Yes. Look, I think if you look back over the last year, commercial sort of started out being the driver of growth, but probably around May or June it started to turn around, and it actually continued through the fourth quarter. Leisure was a bigger driver of volume gains than was commercial.

And looking at the first two months, or the first six weeks of the year that we've got under our belt, leisure continues to hold a slight margin in year-over-year. The numbers are going to be skewed a little bit, because our fleet was so tight last year in the first six months, and we weren't delivering -- there was more commercial volume out there than we were getting. I mean, if you recall in our first half comparisons, I think our commercial growth was flat to down, and our competitors' was up fairly significantly.

So I think with more fleet we're going capture more commercial growth, but I think from an industry standpoint, right now it would appear to me that leisure is outstripping commercial in terms of growth rates.

<**Q – John Healy**>**:** Okay. And with that said, I was hoping I could get a little bit of color on the pricing environment. Down 3% in the 4Q, and looking like trends are similar in the first quarter; is that reflective of the market, or is there some sort of mix issue going on there? And could you give us some color on if there's a market issue going on right now, what part of the market it's focused on?

<**A – Ronald L. Nelson**>**:** I think pricing; I think David said it right. Pricing from the fourth quarter to the third quarter has been relatively stable. I think our comps are a little skewed by the fact that we had higher pricing that we're comparing to, certainly in the fourth quarter of '09 versus '10; and you know, that's probably going to persist for the first two quarters of this year, although to a lesser degree. With tight fleet in the first half of last year we tried to keep pricing as tightly as we could. But, as leisure comes back into the market, length is going to extend a little bit, and that puts a downward pressure on pricing. I think everybody certainly or certainly Avis or us and Hertz are going after the off-airport market with more fleet. Obviously tends to be a lower RPD so that's going to put pressure on reported price comps, but I think the right way to characterize pricing right now in the environment is that it's stable. We're not getting any price increases, but we don't see pricing declining, either.

<**Q – John Healy**>**:** Okay. Fair enough. And then just one housekeeping question, David. I was trying to reconcile one of the tables in the release to the adjusted net income number and the adjusted pre-tax number. It looked like it was both a loss of $6 million for the quarter. I was trying to get a little bit of color, if there was any tax implications, or were there no taxes paid; I was a little confused by that exhibit?

<**A – David B. Wyshner**>**:** Sure, John. Good morning. I think the key issue is that when you're dealing with a small denominator, it's very easy to get caught up, or to get an odd tax rate. When you look at both our reported numbers and our non-GAAP numbers, it works out to about a 35%, 36% tax rate, plus $2 million. And I know it looks odd in the non-GAAP number where we're very close to breakeven, but there's nothing more to it than a couple of million dollars of noise around a normal tax rate.

<**Q – John Healy**>**:** Okay. Thank you, guys.

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

<**Q – Chris Agnew**>**:** Thank you. Good morning. First question, I want to ask about leverage and free cash flow. Just how are you thinking about leverage? Are you looking to become investment grade? And over the next couple – you had good free cash flow generation this year, but should we expect to see free cash flow going forward, or are the investments in your growth initiatives going to soak up a greater amount of your cash flow? Thanks.

<**A – David B. Wyshner**>**:** Sure. With respect to our balance sheet and our leverage position, I feel good about where we currently are, operating at around 3.5 times leverage. And so I think on a net basis, and I think that's a reasonable place for us to be. For what it's worth, I think our debt is a little bit underrated right now in light of where our credit metrics are, but that I think will sort itself out over time.

Looking forward, with respect to free cash flow, we would expect that pre-tax income would continue to be a proxy for free cash flow in our business. Our cash taxes, as I mentioned, are going to be relatively manageable this year in the $35 million to $40 million range. And we would -- the investments that we're talking about would either -- would not be a use of that free cash flow. Essentially they would either be expenses, such as additional marketing that we talked about, both for Avis or Budget, or it would be capital spending that's part of the roughly $90 million of CapEx we're looking for this year. So I wouldn't see those as changing our free cash flow from being in the ballpark of pre-tax income.

<Q – Chris Agnew>: Okay. And then, question on operating expenses. If I look -- just thinking about the 4Q as a percentage of revenue, it was lower than in the previous -- in the first three quarters of the year, you were lower on year-over-year basis, looking at OpEx as a percentage of revenue, particularly third quarter I think it was 300 basis points lower. In the fourth quarter, it rose, and I was wondering, is there anything in particular in there? And how should we be thinking about operating expenses next year? What are the moving pieces? Thanks.

<A – David B. Wyshner>: With respect to the fourth quarter, I think the key challenge becomes the fact that pricing was down; and other things equal and price being down that would tend to bring the operating costs up. Our goal is, you know, both in 2010 and going forward into 2011, is to try to offset any sort of impact either from pricing being down or from inflation through our cost saving initiatives and by improving productivity. And that's really a key issue for us, being able to offset as much of -- as much of the effects of inflation as we possibly can, by taking costs out throughout the business, finding ways to be more productive and more efficient in everything we do. And so we actively think about the productivity work that we're actively engaged in as being a key way to offset a significant amount of the effects of inflation.

<Q – Chris Agnew>: So I mean, is it fair to assume with a large chunk of -- or a certain chunk of fixed costs, volume growth, and hopefully pricing, not as much of a headwind, maybe a tailwind, that that should continue to come down as a percentage of revenues going forward?

<A – David B. Wyshner>: I'm not going to forecast a number, but the first point you make there, Chris, is a very good one. We do also, you know, we should also see benefits from some increased operating leverage as volumes strengthen.

<Q – Chris Agnew>: Okay. Great. Thank you very much.

Operator: Our next question comes from Fred Lowrance with Avondale Partners. You may ask your question.

<Q – Fred Lowrance>: Hi, good morning guys. Just a quick one for you, David. If you could just breakout on the depreciation line, I guess, maybe in your filings we'll eventually get the breakup between depreciation expenses, you know, gained loss on sale of vehicles. Do you have those numbers handy or at a minimum do you have what that number was for the – I would assume its gain from sale of vehicles, but anything on that?

<A – David B. Wyshner>: I do. We had about $6 million in gains in the fourth quarter, and the majority of it was in our international operations.

<Q – Fred Lowrance>: All right. Thank you. And then, Ron, for you just, I know one of your near-term opportunities for growth is driving more ancillary revenue. You've done a pretty good job of that. Just wondering, you know, sort of where you think you are in that process, I mean, if you want to think about it in terms of innings in a baseball game or something, but how much more do you see that there is to do in terms of whether you want to call it up-selling or selling extras to customers, how far along are we that in process?

<A – Ronald L. Nelson>: Yes, I think there's two parts to where we are, Fred. And every time I make a prediction like this I tend to be proven wrong, and I'm sure this won't be an exception. But I would guess that we're probably in the sixth or seventh inning of that. We have pretty well penetrated the top 50 airports where we do a fairly significant part of our volume. We've now moved on to the next 50. And – but just as important, we just started the local market initiatives in terms of our ancillary sales training. So there's still some left, and, you know, what's interesting to me is that when I looked at the January numbers a couple of weeks ago, even in an environment where volume was tough to come by because of the winter storms, we were getting increased ancillary penetration. So the effects of – the selling effects of this training are really holding and driving growth, even in the top 50 markets, frankly where they've been – we've more than lapped the one year anniversary of having trained those folks.

So, you know, I continue to be surprised at the increasing amount of penetration that we're able to get and the growth we're able to get. But I would probably say that we're two-thirds of the way through this initiative. And one of the things that I think we continue to look for, what are some other products that we can add to the portfolio. I mean, we added emergency road service insurance this year which, you know is a very high-profit item, and it's an extra $2 or $3 or -- $4 or $5 actually per day of revenue, and almost as much margin. So, you know, with the pressure – the pressure on us is to keep innovating and adding products, and at the same time, continue to drive the penetration in the markets where we haven't really completed the training yet.

<Q – Fred Lowrance>: And are there any products in particular, I mean, you mentioned emergency roadside service as one of the new ones. But where are you seeing, I guess, the most success, whether it be from just vehicle up-sells, or if it is this roadside assistance. Are you seeing any superstars in that group in terms of what's really delivering the bulk of the upside?

<A – Ronald L. Nelson>: Well, the superstar in the group is up-sells. That has proven to be a very big revenue item for us. It probably of the – of the products that we sell, it probably has the lowest margin. But, frankly, when I say low, the incremental margin is probably 50% or 60%. It's just not 80% or 90% like it is on GPS. Garmin is staying stable. And emergency roadside service is growing, insurance penetration is growing modestly. And, we introduced Portable XM radio last year. It continues to do well, but the big revenue items are still GPS up-sells, and insurance.

<Q – Fred Lowrance>: All right. Great. Well, I appreciate all the insight that you guys have provided on this quarter. Very helpful.

<A – Ronald L. Nelson>: Thanks.

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

<Q – Brian Johnson>: Good morning. Two sets of questions. First, is there any way of quantifying the various growth initiatives that you laid out in terms of either hundreds of millions of dollars of revenue or kind of percent growth that it could add to the overall earnings?

<A – Ronald L. Nelson>: I guess, Brian, the answer is, yes, there is. What I would – we're not going to put a number on it, but what I would point you to is in the local market we have $750 million of revenue. There's clearly a fair amount of room for margin growth in that business. So if you think we can improve margins by three points, four points, two points, that at least brackets the opportunity for you. In terms of building increased loyalty, there's a $2 billion number out there that we know goes to other customers.

Now, I would tell you right off the bat that 40% or 45% of that is because of price. And so you have to look at that and say that that's probably not going to be eligible. But the number gets to be somewhere around $1.25 billion. You increase loyalty by 5%, 10%; you can get a sense of the incremental revenue. And our margin drop-through on incremental revenue on the volume side is probably around 30% on average. So you can come up with some estimates there.

Small business, profitable segment, we really don't put a number on how big that market is. But it's – in terms of the markets that we serve in our commercial business, it's probably the second or third largest. And if our average drop-through on volume is 30%, you can assume that small business is bigger than that. I mean, that's a sense of how you can model it, Brian, but again, we're not going to put specific numbers on each of these.

<Q – Brian Johnson>: Okay. And also on the subject of incrementals, how should we be thinking about incrementals on a currency-adjusted basis in international? It looks like ex-currency that there would have actually been a rental revenue increase of 7% minus 2% would be roughly 5%. Yet adjusted EBITDA was flat so does the 30% rule not apply to international expansion? I mean, incremental volume, on the international side?

<A – David B. Wyshner>: Generally speaking, the 30% on additional volume will tend to hold true. I think given a little bit of noise in international, we probably fell a couple of million dollars short of that in the fourth quarter, but, I'd view that as more noise than trying to read into that any sort of trend.

<Q – Brian Johnson>: Okay, thanks.

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

<Q – Emily Shanks>: Thank you. And thank you for fitting me in. I had just a couple of line item questions. The first is, around non-v CapEx for fiscal year '11, can we assume that it's going to be relatively flat for the guidance that you provided for fiscal year '10, $75 million to $90-ish million?

<A – David B. Wyshner>: Yes, I would look for around $90 million of non-vehicle CapEx for 2011.

<Q – Emily Shanks>: Okay. And then for the Avis Budget base business alone, what is the minimum cash balance that you need to operate the business that you would ideally like to keep on your balance sheet?

<A – David B. Wyshner>: I think when you look at our balance sheet over time we probably have never been lower than a couple of hundred million dollars. And so I would – I'd generally use a number in the $150 million to $200 million range when I do that sort of modeling.

<Q – Emily Shanks>: Perfect. And then in terms of the $450 million of adjusted EBITDA that you noted, is that the EBITDA number at LLC? Is that the way we should think about it?

<A – David B. Wyshner>: I don't have the operating subsidiary number, but I think it should be – it would typically be very close, and we can get it for you. But generally, the best way to estimate is it to take the number we reported for Avis Budget Group and then add back any losses related to our corporate and other segment, which would typically make the operating subsidiary a little bit larger.

<Q – Emily Shanks>: Okay. So as I look at the $410 million that was reported versus the $450 million in your prepared remarks, what exactly is the delta there?

<A – David B. Wyshner>: Yes. Sure. The point I was making in my remarks is that I know some analysts and investors use an EBITDA measure that adds back stock-based compensation as well as deferred financing fees, and, in fact, it's a typical way for debt covenants to be written. And so if you take our reported number of – our reported adjusted number of $410 million and were to add back the stock-based compensation and deferred financing fees for comparison or covenant purposes, you would have a number of $450 million.

<Q – Emily Shanks>: Okay. Do you have the breakout on those two line items?

<A – David B. Wyshner>: Yes, I believe it is $25 million of deferred financing fees and $15 million of stock-based compensation.

<Q – Emily Shanks>: Okay. Perfect. Thank you. And then I just have one last question around the fleet age. I was hoping you could give us a little color around what the average fleet age is of the car fleet, the truck fleet, and then what your target age is for fiscal year '11, or how we should think about it?

<A – David B. Wyshner>: Sure. Our car fleet is right around six months old on average, and we're typically deleting or disposing of cars when they're 12 to 14 months old, with some being a little longer and some program vehicles being shorter, but our typical hold period on average will be in the 12 to 14 month range. And our truck fleet is nearly five years old on average.

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

Ronald L. Nelson, Chairman and Chief Executive Officer

So just to recap, we feel great about our position and where we're heading. We're investing in our brands, upping our commitment to the inbound business, reshaping our local market business and investing to accelerate the growth in the small commercial business.

We're using the insights from our customer-led teams to create a more customer-centric experience, and we're confident that these strategic initiatives will help us drive growth to realize incremental profits and build the strength of our brands by enhancing the customer experience we offer.

Those three things will help us achieve what we know as your principal objective, building shareholder value. So if you take just one message away today, it is that we are investing to drive sustainable revenue and profit growth.

I want to thank you all for staying on the call today. I know it was a lengthy one, but hopefully you'll – you believe that it was worth it, and I look forward to discussing our progress again with you in May.

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