PARTICIPANTS

Corporate Participants

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

Other Participants

Fred T. Lowrance, CFA – Senior Research Analyst, Avondale Partners LLC
Neil W. Portus, CFA – Research Analyst, Goldman Sachs & Co.
John Healy – Managing Director & Equity Research Analyst, Northcoast Research Holdings LLC
Emmanuel Rosner – Research Analyst, Barclays Capital, Inc.
Chris Agnew – Managing Director & Senior Analyst, MKM Partners LLC
Steve O'Hara – Research Analyst, Sidoti & Co. LLC
Emily Eileen Shanks – Research Analyst, Barclays Capital, Inc.

MANAGEMENT DISCUSSION SECTION

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

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

Neal Goldner, Vice President-Investor Relations

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

Before we discuss our results for the second quarter, I would like to remind everyone that the company will be making statements about its future results and expectations, which constitutes forward-looking within the meaning of the Private Securities Litigation Reform Act.

Such statements are based on current expectations and the current 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, 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 to 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, President, CEO & COO

Thanks, Neal, and good morning to all of you. Needless to say, we had a very strong, in fact, record second quarter with revenue up 9%, adjusted EBITDA up 95%, and margins up 600 basis points excluding certain items.

Our domestic rental volumes increased significantly growing 9% on airport and 7% in local markets. We reported a 2% decline in domestic pricing, but that primarily reflected a somewhat exaggerated seasonal lower fleeting. We and likely the rest of the industry held more cars than otherwise would have been the case due to concerns about potential supply disruptions following the earthquake in Japan.

Fortunately supply problems never really materialized and pricing started to strengthen in late June as the summer season kicked-off. To be sure, our results were bolstered by the strength of the domestic used car market, which remained at record levels for most of the quarter.

Frankly, our results could have been even stronger or not for the investments we've been making in strategic initiatives to drive brand awareness, increase our presence in faster growing and more profitable segments of our industry and improve our long-term competitive position.

But in a somewhat cyclical industry like ours, we believe this is absolutely the right time to be making these investments. But while our strong quarter and year-to-date results certainly merit attention, I'd actually like to focus this morning on our strategic investments. Both our pending acquisition of Avis Europe, as well as some of the initiatives we've been executing against to strengthen our existing business.

I'll also comment on our outlook before I turn it over to David to discuss our financials. As we mentioned in June, we've agreed to acquire Avis Europe, an independently publicly traded company operating the Avis and Budget brands across Europe, the Middle East, Africa and parts of Asia for approximately $1 billion.

For the historians on the call, Avis Europe was part of our company until 1986, when the private equity owners at Avis, IPO the European assets on the London Stock Exchange. While we've worked closely over the years with Avis Europe to provide a seamless product offering to our customers, the increasing globalization of our business has over time caused that to be suboptimal. As a result, we have tried on several occasions over the past few years to reacquire Avis Europe, and finally reached an agreement in the early June to recombine the Avis and Budget brands globally.

This past Monday, Avis Europe shareholders overwhelmingly approved the transaction and we look forward to closing the acquisition in early October, subject to regulatory clearances and final court approvals, which we expect will be straightforward.

Avis Europe is well positioned in the markets it serves. The company has a strong efficient operating platform, leading market shares across Europe, key partnerships and growth markets and established presence from which to drive cross-border revenue from all, but in particular, the faster growing geographies.

We've always believed that the ability to control both of our brands on a worldwide basis is important to the long-term success of our business and now that we're further along in our integration planning, we're even more confident in that belief and more excited than just a few weeks ago.

Reuniting the Avis Budget brands globally under one corporate umbrella will give our shareholders a meaningful presence in rapidly growing international markets, such as Eastern Europe, Africa and Asia, including China and India.

From a financial perspective, the acquisition is expected to deliver $30 million of synergies which represents more than 40% of Avis Europe's 2010 pre-tax income. It will also be meaningfully accretive to our earnings on a pro forma basis, excluding any integration and other one-time costs and the non-cash effects of purchase accounting.

As we discussed on our last call, we do think we've been disadvantaged in the recent past with respect to our ability to compete for car rental business of multinational corporations, or for affiliations with global airlines and travel service companies.

This now gives us the unique opportunity to capture more of this business by having two of the only three global brands housed under one corporate umbrella and a singularly focused sales strategy. In particular, the acquisition of Avis Europe will make us the only company to be truly be able to offer all customers a differentiated choice on a global scale.

The rationale for combining with Avis Europe extends beyond simply capturing a higher share of the global car rental standard of multi-national companies. To elaborate, it's about our ability to expand into high growth markets where car rental is still in its early stages. It's about capturing our share of the multi-billion dollar inbound, outbound car rental business, one of the most profitable segments of other industry and one which we are not getting our fair share. It's about further developing and expanding budget, brand that currently has less than a 2% share of the European car rental market, compared to a share which is five times greater than that in the United States. It's about acquiring a company that has undertaken many of the same cost control measures that we have and has only recently started benefiting from the operating leverage provided by economic recovery.

And finally, it's about acquiring a company at a multiple lower than ours, including synergies and better positioning our company for long-term success. In many ways, Avis Europe's recent history mirrors our own. Both companies' revenue remained below prerecession levels, yet margins have improved substantially. But despite that Avis Europe's current pre-tax margin is still below ours. And as you know, our existing international operations have particularly strong margins to not only do we have a proven benchmark to guide us but we have proven capabilities in the international arena.

We believe that by combining the two companies, we'll be able to learn from each other, adopt best practices on a global scale to improve margins, expand our strategic growth initiatives across a much larger footprint and invest in other growth and profit opportunities that may not have been feasible for Avis Europe to pursue as a smaller standalone company.

The net result is that we're confident that there are significant profit improvement opportunities still to be unlocked at Avis Europe. Opportunities that underscore the strategic nature of this transaction and that go beyond the synergies we have forecast. After all a strategic transaction that doesn't also make financial sense is not something that we're terribly interested in.

Just to be clear, the acquisition of Avis Europe does make very good financial sense, having been struck at a lower multiple than our standalone multiple including synergies. Synergies that we are increasingly thinking could ultimately turn out to be quite conservative.

For example, the $30 million of synergies assumes very lilted, if any for revenue growth from the multi-billion dollar inbound, outbound market, consolidation of contracts with global service providers, by way of example, credit card companies, tax and capital optimization, leveraging our customer relationship platform and managing our customer relationships and loyalty programs on a unified global basis, applying our virtual car and interactive voice response technology worldwide and redeveloping the budget brand in certain markets including Europe, China and India.

With the strategic and financial rationale, this transaction is compelling as they are, even using the conservative assumptions we've made on the potential synergies. I hope you understand why we're so excited about this acquisition. In addition, as we noted in our release earlier this week, we now expect to fund the acquisition entirely with a combination of cash, term loan borrowings and high-yield notes and do not expect to look to the equity markets as a source of funding for the transaction. This obviously makes the acquisition of Avis Europe even more compelling from a financial perspective.

Ultimately, the strength of our second quarter results, our cash balance and our expectations for the significant third quarter cash generation gave us the flexibility we needed to look at funding this transaction in a more efficient way.

Meanwhile, we continue to actively monitor the Dollar Thrifty situation. We have a good understanding of the FTC's divestiture requirements and are evaluating the related economic impact and potential divestiture partners. That being said, our focus remains on planning the integration and completing the acquisition of Avis Europe.

Let now me change gears and talk about the progress we've made in the first half on some of our key strategic initiatives. First a little bit about our branding initiatives. By now, I hope all of you have seen the multimedia advertising campaign, we launched for Avis aimed at reinforcing the quality of the service that our brand reputation has been built on.

These ads which are currently in print, online and broadcast TV media are clearly resonating with renders as evidenced by Avis's leisure volume being up 7% in the first half, even more than that, as we entered the summer months. Our PGA and Wall Street Journal campaigns, in particular, inducts extremely high with our customer base and would appear to be paying dividends.

But Avis isn't our only brand to have a new advertising campaign. We also launched the new advertising campaign in April for Budget, emphasizing both value and service. This campaign was almost immediately impactful in driving incremental rental volume as we experienced a 20% growth in weekly rentals in May, more than twice of that of the previous month and watched it continue at double-digit levels throughout the balance of the second quarter. In fact, the campaign was such a success in driving growth that we extended it for the balance of the year with TV advertising slated to restart later this month.

Moving on to our local market initiatives, our efforts here have also been very gratifying. You will recall we had three primary objectives. Whole brand stores to create greater operating leverage, create a separate baseline fleet to improve availability and improve the business mix to drive margins and profitability. The results speak for themselves. In the first half alone, we co-branded an additional 200 local market stores, established a separately managed dedicated fleet, shifted our business mix towards more profitable segments with volumes up 7%, strategically expanded our footprint with Sears and signed a new partnership agreement with MGM that gives Avis a significant presence on the Las Vegas strip. Suffice to say, all of this contribute to a several hundred basis point improvement in local market margins.

We've also made excellent progress in our small business initiative in the first half of the year with over 10,000 new account activations turned down by 50% and volume growing over 15%, including 25% plus growth at Budget. Budget's value proposition resonates well with small business customers, yet historically, it has not generated the same revenue as Avis, largely because we didn't aggressively market to this segment. As part of the initiative, we've expanded our sales team, increased our base of strategic partnerships to drive new account acquisition and changed our marketing message. The results reflect the success of these moves.

Like our other strategic initiatives, the small business segment is a very attractive market that has much more room to grow, especially with the Budget brand and has margin significantly higher than corporate average. The same is true of international inbound, because international travelers tend to rent for a longer period of time and purchase more ancillary services, such as insurance and GPS navigation. We have devoted incremental sales and marketing efforts to growing our presence in this profitable segment. We've added experienced sales people, strengthened our ability to reach international travelers, particularly in the online channels, and taken steps to increase the retention among its customer group.

Our efforts are already bearing fruit, with inbound revenue up 15% in the first half, including a 25% increase in revenue from Latin American travelers.

Even with this recent growth, our share of international inbound business is below our brand's overall share. So, we see significant growth potential continuing in this area, especially with the global coordination that Avis Europe will bring us. Not only are these rentals quite profitable, but car rental demand from cross-border travelers is growing more rapidly than domestic brand. As a result, what we have in international inbound, is an opportunity that was attractive to begin with, given the visibility and leading presence of our brands throughout the world and an opportunity that should now be larger and easier to realize following our acquisition of Avis Europe.

On a separate front, we've been investing in technology and processes that will allows us to rent vehicles and check-in cars virtually, all with the use of a blackberry or other smartphone. In fact, we already have approximately 5,000 vehicles virtually enabled with plan to have significantly more cars outfitted by next spring. We believe our largest near-term opportunity to take advantage of this technology is in driving incremental business with our large established base of corporate customers.

For example, most of our commercial customers we do not capture the business of traveling to and from airports. With this technology, we can not only capture this incremental business, but also serve our customers' other transportation needs that haven't traditionally been met by car rental.

And the cost and nature of this technology is such that we can deploy an enabled car in all of our traditional and non-traditional locations, airport, local market, corporate, and other parking lots, city streets, without the restrictions that competitive car-sharing technologies would seem – competitive car sharing technologies would seem to imply, but with the efficiency that this technology brings. We've been encouraged by the feedback we've received from corporate accounts and from our initial pilot and plan to expand to additional sites in the second half of this year.

As we enable more of our fleet with virtual rental technology, the opportunity to add more corporate customer to the ranks and placed cars in other non-traditional settings makes the size of the current car-sharing market look relatively small. Meanwhile, we're also expanding the use of kiosks at additional locations and releasing new Blackberry and Windows Mobile applications further enabling our customers to transact with us when they want, how they want and where they want.

I hope that gives you a little flavor of how we've been working to accelerate our revenue and profit growth. And while we're benefiting from these clear line-of-sight initiatives, we're also pursuing longer terms projects, including steps to improve the customer experience we offer, better manage customer relationships through CRM, optimize fleet costs, and reduce costs through our performance excellence process improvement initiative. Our successes to-date combined with the upside we see make us optimistic about our prospects.

On a near-term basis, the travel economy seems to be performing better than the economy at large. While our corporate business is probably performing more in line with the general economy, the leisure business is clearly ahead. Airline schedules suggest that capacity will increase slightly in the second half of 2011, compared with the second half of 2010 and we expect the demand from travelers will also grow year-over-year. Our summer is progressing nicely with pricing relatively stable. July volume up approximately 7%, well ahead of expected enplanements and reservations suggesting continued strong volume growth in August.

The used car market continues to be strong, but with 20% fewer risk car sales plan for the second half compared with the first, the effects of the earthquake in Japan dissipating and dealers starting to push back modestly on prices, we would expect vehicle sales gains to moderate, compared with what we recorded in the first half.

Finally, I'd like to clarify a comment I made on the call last quarter. I noted that our goal in the intermediate term was to achieve a 10% adjusted EBITDA margin. While a 10% margin is certainly a possibility this year because of the strength of the used car market, our goal was developed with an assumption of a more normalized fleet environment and not the levels where we now expect for this year. Clearly, if fleet costs remain at these levels longer term, we would reevaluate our goal, but we think it would be premature to do so at this juncture.

So the messages I'd like to leave you with are; we're proud of our second quarter results; we feel good about how the second half is shaping up; our initiatives to profitably accelerate our growth are working and we're thrilled to be moving forward expeditiously on the strategically and financially attractive acquisition of Avis Europe.

With that, I'll turn the call over to David.

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

Thanks, Ron, and good morning everyone. Today, I'd like to talk our second quarter results, our fleet, our investing in technology and our balance sheet. I'll also 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 second quarter, revenue increased 9% to more than $1.4 billion. Adjusted EBITDA nearly doubled to $191 million, and margins expanded 600 basis points to 13.5%. Our Domestic and Truck rental segments once again reported growth in adjusted EBITDA, reflecting strong rental volumes and the benefits of our company-wide cost reduction and productivity efforts. While our International segment was able to repeat the record adjusted EBITDA performance of last year, despite natural disasters that impacted demand in Australia and New Zealand, two of our largest international markets.

While our reported direct operating costs increased as a percentage of revenue, they actually declined as a percentage of revenue, if you exclude the nearly $7 million of hail damage, we incurred in the quarter, and the margin effects of higher gasoline costs, foreign currency movements, and lower pricing.

SG&A expenses increased 18% in the quarter, which was in line with the first quarter and reflected our strategic decision to invest in our brands through incremental advertising, as well as co-marketing partnerships with airlines and others.

Net income increased to $79 million, our best second quarter results as a standalone public company and diluted earnings were $0.63 per share. Over the last 12 months, our adjusted EBITDA is $547 million. And for those investors and analysts who compare companies' EBITDA excluding deferred financing fees and stock-based compensation, our trailing 12 month EBITDA with those adjustments is $587 million. I can't help, but point out that on that basis our stock closed yesterday at just five times LTM adjusted EBITDA.

Turning to our segments. In the second quarter, domestic car rental revenue increased 8% to $1.1 billion, reflecting 8% growth in volume and increased penetration of ancillary products and services, partially offset by a 2% decline in pricing. It's also worthwhile to note that pricing in the quarter was 4% higher than second quarter 2008.

The year-over-year decline in pricing primarily reflects lose industry fleet conditions following the earthquake in Japan, as we and other car rental operators held extra cars in the spring, due to concerns about potential supply disruptions. These fleeting decisions negatively impacted utilization and price. In fact, were not for this issue, utilization would likely have been roughly flat year-over-year and pricing would have been stronger than what we reported.

Looking forward, we don't expect our higher than normal second quarter fleet levels to negatively impact our second half results. Volume growth was strong throughout the quarter, as we saw high single-digit growth both on and off airport. Leisure volume was up 12% as our strategic initiatives, including our focus on international inbound customers gained momentum. Leisure volume also benefited from our advertising campaigns and our expanded airline marketing partnership. Leisure pricing declined 3% in the quarter impart due to longer average length of rental. Their pricing improved as June progressed and we moved into our summer season.

Our commercial volume was up over 4% in the quarter and our commercial pricing was essentially unchanged. Commercial pricing benefited from faster growth in small business rentals, which have a higher average daily rate than our large commercial business and our retention rate among large and mid-sized corporate accounts was once again over 99%.

Ancillary revenues increased 13% in the quarter, five points ahead of volume growth, reflecting the benefits of our sales training and marketing initiatives. XM Blast, our portable satellite radio offering and roadside protection continue to gain traction, while GPS take rates remained constant.

Domestic car rental adjusted EBITDA nearly tripled to a $144 million in the quarter and margins expanded by over 800 basis points to 13.6%. These results were driven by higher revenues, increased ancillary revenue per rental day, and a 39% decline in per-unit vehicle depreciation cost, including a $100 million in car sale gains.

Our cost saving initiatives continue to drive efficiencies, these are offset by hail damage costs, higher gasoline prices and higher marketing spending for our Avis and Budget brands.

In our International segment, second quarter revenue increased 20% year-over-year, driven by a 6% increase in volume and a 13% increase in pricing. Excluding the impact of exchange rates, pricing was even with last year. Adjusted EBITDA of $32 million was unchanged from the prior year's record level, as higher revenues were offset by increased marketing investment and a negative foreign currency impact. Excluding currency effects, international EBITDA increased slightly.

Given that our management team in Australia and New Zealand has literally had to deal with cyclones, floods, earthquakes and volcanic ash so far this year, I would argue that 3% growth in EBITDA on a constant currency basis is a real accomplishment.

Revenue in our Truck Rental segment increased 3% in the second quarter, driven by 10% growth in volume, partially offset by a 5% decline in pricing. The growth in volume and the decline in pricing were primarily due to a 40% increase in commercial rental volumes, which have a longer length of rental and a lower average rate in consumer rentals.

Adjusted EBITDA from truck rental increased 13% to $18 million, our best second quarter since becoming a standalone company, and margins improved by 150 basis points, to 17.5%. Utilization continued to increase as we reduced the fleet by another 2% year-over-year and nearly 14% since 2008.

Let me turn to our car rental fleet. We are updating our estimates for domestic fleet depreciation cost based primarily on the strength we experienced in the used car market during the first half of the year. We now expect per-unit domestic fleet cost to be down 18% to 20% on a per-unit basis in 2011, including an estimated decline of 8% to 11% in the second half. From a fleet supply standpoint, effects from the Japanese earthquake turned out to be quite manageable and we entered the summer with fleet levels generally in line with expected demand.

A quick note on the car sales gains we reported. Used car prices were exceptionally strong during the second quarter, due to a tighter supply of new vehicles caused by the Japanese earthquake, and fewer late-model cars being brought to auction. In fact, despite recording a significant gain on the sale of vehicles in the quarter, we actually disposed of about 30% fewer risk cars compared with last year and the average age of the vehicle sold was about a month older.

We sold nearly one-third of these vehicles through alternative disposition channels in the second quarter and we continue to look for ways to optimize our vehicle disposition activity. Mannheim is indicated that the peak impact from the Japanese earthquake on used car values is likely passed. We expect a sequential moderation in residual values that will nonetheless lead the used car markets stronger than it was a year ago.

It's important to note that we did not plan for, nor do we need residual values to remain at record levels for us to earn attractive margins. At the same time, we believe we will continue to benefit from a limited supply of late-model used vehicles through at least the end of 2012 and potentially longer for all the reasons we talked about in the past. Lower OEM production, lower car rental industry purchases, and fewer off-lease vehicles in the used car market to compete with off-rental vehicles.

As we look ahead to model year 2012, we have finalized negotiations with vehicle suppliers representing a majority of our fleet purchases, and those negotiations have been relatively uneventful. Vehicle availability is adequate. Risk car costs will likely increase in 2012, simply due to the significant gains we've recorded in 2011, but our risk program mix won't change much. And perhaps the best way to communicate, why we feel good about how the model year 2012 buy is shaping up, is that on average, model year 2012 program cars may wind up costing less than model year 2011 program cars. In addition, we continue to expect that no single manufacturer will represent more than 30% of our fleet.

We're also being thoughtful in pursuing information technology projects that has significant potential to improve the customer experience, increase the productivity of our employees, and drive revenue and profit growth.

For example, we are investing in a customer relationship management system, which when fully implemented will enable us to offer our customers the vehicles and ancillary products they prefer based on their prior rental history. We are upgrading our e-commerce sites to improve their look, functionality and efficiency, which we believe will increase conversion rates and sales of ancillary products.

We are developing a system that will seamlessly integrate our demand, fleet and pricing decisions, improve our forecasting and pricing capabilities, and optimize our fleet allocation. And over the coming months, we will be rolling out new and improved smartphone apps to allow customers to transact with us, how they want, whether online, over the phone, at the rental counter or virtually at un-staffed locations. We expect the returns associated with these investments to be quite attractive, both from a financial standpoint and in strengthening our brands.

Moving to the balance sheet, our liquidity position remains strong. We ended the quarter with more than $1 billion of cash, including $395 million of restricted cash related to the planned acquisition of Avis Europe. We had no borrowings under our $1.2 billion corporate revolver and approximately $550 million of availability they are under. We also had unused capacity under various vehicle-backed funding program of $1.4 billion.

Our leverage ratios continue to improve. In fact, our leverage was 3.0 times at June 30, a 30% increase compared – a 30% decrease compared with a year ago, comfortably within our covenant requirements and at the low end of the range we typically targeted. We have no corporate debt maturities until 2014.

As we look ahead over the remainder of 2011, we expect to see demand for both commercial and leisure car rentals increase year-over-year. As Ron mentioned, summer travel volume so far have been strong and pricing has been relatively stable.

We expect our 2011 GAAP tax rate to be 38% to 40% excluding items. We expect full-year cash taxes to be $35 million to $40 million, and for capital expenditures to be $60 million to $70 million. We do not expect to be a U.S. federal cash tax payer in 2011 or 2012.

Our performance excellence programs continue to provide additional benefits and we now expect PEx to provide incremental savings of $55 million to $65 million in 2011 compared to 2010. We have a deep pipeline of process improvement projects and continue to unearth more opportunities that we can replicate across our system.

To summarize, we remain enthusiastic about the opportunities we see for the remainder of the year. We are also excited about our prospects for 2012 as our strategic initiatives continue to deliver meaningful benefits, and we look forward to fulfilling the promise of the Avis Europe acquisition. With that, Ron and I would be happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Fred Lowrance with Avondale. You may ask your question.

<Q – Fred Lowrance – Avondale Partners LLC>: Thank you. Good morning, guys. Just a couple of quick questions. First one, obviously if fleet costs weigh down a big Japan impact in there, wonder if there is any way that you can quantify what that Japan impact was of the 30% drop, what piece of that was Japan? And as you look at the used car market, when do you think the – I know we've peaked with the Japan-related issues, but when do you think Japan will completely be washed out of the used car numbers?

<A – Ronald Nelson – Chairman, President, CEO & COO>: Hi, Fred, it's Ron. I think it is hard to separate out one impact from another. I think there is – as we said in our comments, I think there is a variety of things that sort of came together in the second quarter to affect the used car prices, and I think Japan just exaggerated it. I think when you look at the number of cars that we sold and the average gain that we engendered, it's probably $1,500 to $2,000 a car over what we were generating a year ago, or even in the first quarter. So that may be one way to look at it.

I think the longer-term issues that David cited, reduced SAR and off-lease cars and extending the lives of rental cars are going to continue to impact the used car values. We think they will be strong through the end of the year and probably into 2012. But, I would say in middle of June we started to see some push-back from dealers and prices dropped, and gains dropped somewhat. But, I would say above normal gains actually did persist through July. But, I think – a lot of how quickly they normalize will depend on the de-fleeting decisions that get made by us and our competitors in terms of timing and the number of cars in September. So, I'm not sure it's easy to quantify with a single-point estimate, but certainly that's going to have an impact on where values go.

<Q – Fred Lowrance – Avondale Partners LLC>: No, that's fine. And then just quickly, when I look at your operating costs, obviously that creeped up a little bit. It was a little bit of an offset on the margin side, and you identified foreign exchange, and increased marketing. Any way that you can quantify what those individual impacts were? I mean, specifically I'm kind of thinking about the impact of just simply having to hold more cars for longer. That's gone now. That headwind should be gone. As foreign exchange headwinds subside, when we start lapping the same kind of exchange rates that we've been seeing in recent months. How much we could expect to see operating costs improve?

<A – Ronald Nelson – Chairman, President, CEO & COO>: Well, I think there are a couple of things we can guide you at least. I mean, as David pointed out, there was $7 million of hail costs in the M&D line that normally wouldn't have been there. So that's one item. Two, if you look at our fleet growth versus our rental day growth, there was about a three point gap. So, you can quantify the impact of lower utilization. I mean, there is always maybe 1 point, 1.5 point gap between fleet growth and rental day volume, but that extra 1.5 point of utilization you can quantify that using the chart that we have in one of our...

<Q – Fred Lowrance – Avondale Partners LLC>: Yeah.

<A – Ronald Nelson – Chairman, President, CEO & COO>: One of our presentations. I think it's about $3 million a quarter impact per point. And in terms of the marketing costs, I mean, what I would say is that our SG&A costs, while we've added some people, maybe our SG&A costs, if you take out the incremental marketing we're spending are up 5%, instead of 2% or 3%, which would normally be the case. So anything over that is going to be marketing money that we've spent.

Now what I would say about marketing money, I think, just to keep in the back of your mind, the money we're spending on Budget, I kind of view like online marketing. It's driving business, it has an ROI, and it's money that I think is fully paid for. The money that we're spending on Avis is really about brand awareness and building the brand. We haven't done any brand advertising I think as I pointed out last quarter in four or five years. So, that's the money that you don't have to spend every year. And while I do believe it's driving incremental volume, I can't tie it directly to volume like we can with the Budget advertising.

<Q – Fred Lowrance – Avondale Partners LLC>: All right. Well, thank you. Appreciate it, Ron.

Operator: Our next question comes from Neil Portus with Goldman Sachs. You may ask your question.

<Q – Neil Portus – Goldman Sachs & Co.>: Thanks. Good morning. On your virtual or car-sharing technology, where are those 5,000 cars – existing 5,000 cars located now? And where do you see that number going by next spring? Could you also detail maybe a little bit more your long-term vision for that segment, and how you plan to promote it so more people know about it?

<A – Ronald Nelson – Chairman, President, CEO & COO>: Well, a couple of things. In terms of where those 5,000 cars are now, they are principally in the northwestern United States. We have some other customers in northeast that are using it, but it's on a much smaller scale. The bulk of the cars are in the northwestern United States.

When we say it will grow significantly, I'm reluctant to put a number on it, but it will clearly be a multiple of the 5,000. I would say if it's three, four, five times the 5,000, that's not out of bounds for in terms of the range that – it all depends on how quickly we can get the technology manufactured. It's very easy to install. It's a 15-minute job. So it's not – that isn't any kind of hang up. It's all about manufacturing.

The long-term or at least the near-term and medium-term promotion of this is going to be with our corporate accounts. We think this is a real opportunity to expand what you might loosely call the car-share market by capturing incremental business. Longer-term I think it allows us to build our local market presence without having to invest in infrastructure, but I think near term you should look for us to be driving this business through the corporate side or the commercial side of our business.

<Q – Neil Portus – Goldman Sachs & Co.>: Okay. I wanted to clarify one thing. Do you – on fleet – industry fleet sizes, do you think they've right-sized this quarter or is there still some excess fleet out there?

<A – Ronald Nelson – Chairman, President, CEO & COO>: No, I think that by and large they're right-sized. I think we probably have a little more fleet than everybody else. I feel like we're getting the last rental at the airport, which is always a good thing. And the way you measure it is you look it – when your competitors go on LOR restrictions and who goes first, and who goes last. And we seem to be in a lot of markets, the last one to put LOR restrictions in place over the summer. But I would say for the most part, I think the industry has right-sized the fleet.

<Q – Neil Portus – Goldman Sachs & Co.>: Okay. Maybe just one more. On the cost savings you increased your range by $5 million. What are some of the areas that those extra savings have come from?

<A – David Wyshner – Chief Financial Officer & Executive Vice President>: We did increase the range of savings, and really we've seen them in a number of areas, including yield management activities throughout our operation and just an ability to roll out additional cost savings projects throughout our operations at a faster rate than we've anticipated. So, we just feel good about how they – how they've gone. But there haven't been any significant changes in the nature of those cost savings. They continue to be driven primarily by productivity improvements in our field operations.

Operator: Our next question comes from John Healy with Northcoast Research. You may ask your question.

<Q – John Healy – Northcoast Research Holdings LLC>: Thank you, and congrats on a good quarter, guys. David, I wanted to ask a little bit more about your thought process on vehicle depreciation expense. Can you give us some color on kind of what your depreciating vehicles do? What sort of view of the used car market you have? I don't know if you could compare it to a month that we've seen over the last 6 to 12 months, what – the used car market in that time of the year. I'm just trying to get comfortable with the cars that are in your fleet today and what you're assuming in the used market you're depreciating those cars to?

<A – David Wyshner – Chief Financial Officer & Executive Vice President>: Good morning, John. Thanks. It's a good question particularly in light of the significant gains we had in the second quarter. The background there I think is helpful and that is following the earthquake in Japan. It was -- we've started to see an impact in the used car market. It was really hard for us to estimate both the – both how significant an impact that would have on values as well as how prolonged that impact would be. And I would say the piece that's been somewhat surprising to us and helped to result in the gains that we had, is that the impact ended up being – both more significant, but particularly more prolonged than we had anticipated.

And as a result, I think, we were a little bit slower to reduce our depreciation rates than if we had known in February or March that the impact of the earthquake was going to last as long as it has throughout the second quarter and really into July as well.

With that being said, we are – we do look to adjust our depreciation rates to have little or no gain on disposition. And so as we look at the cars in our fleet, our fleet at this point is primarily model year 2011 cars that will be disposing off over the next 12 to 15 months. And as we mentioned on the call, we don't expect the used car market to be at quite the same record levels that it was at throughout most of the second quarter, and as a result we're assuming more normalized depreciation rates and a more normalized used car market than what we've seen on the model year 2010.

I guess it's a long way of saying, we're depreciating the cars based on where we expect to sell them, and not – usually there's not that much of a difference between where we expect to sell cars going forward and where we've sold them in the recent past. But in this environment given that we think that the second quarter effects were somewhat anomalous, we do have a difference between what we're assuming going forward and where we have been in the recent past.

<Q – John Healy – Northcoast Research Holdings LLC>: Is it safe to assume that the type of normalized used car market that you are establishing in your – kind of your depreciations schedules is like what we saw may be in December or January, February in prior months? Or, I guess, I am just trying to understand kind of what really is that view? I know you guys sort of moderate them. I am just – I don't know if you can put it in terms of a Mannheim index number or may be even some months that we've seen in the prior periods?

<A – David Wyshner – Chief Financial Officer & Executive Vice President>: John, I think December, January, February, is probably the right proxy. We don't find it that helpful to try to translate our numbers into a precise Mannheim index number for a variety of reasons. But that time period is probably the best proxy for what the market will look like as it normalizes.

The other point that we have to consider is as we move into late August and the beginning of September, the model year calendar flips over as well, and so there will be the normal calendar effects and seasonality effects that we see in used car dispositions. But even with that, I think December to February is a decent proxy.

Operator: Our next question Emmanuel Rosner with Barclays Capital. You may ask your question.

<Q – Emmanuel Rosner – Barclays Capital, Inc.>: Good morning. I wanted to ask you about the – your local markets gross initiative. Would you be able to size the opportunity for us, may be in terms of what sort of revenues or market share of that market you have currently, and where your goal is to take it over time?

<A – David Wyshner – Chief Financial Officer & Executive Vice President>: Sure, Emmanuel. The local market is a – is about a $10 billion market and we generally have been doing about three-quarters of $1 billion of revenue in that space. So, we think we have a 7% to 8% share or so. And as a result, we have a significantly smaller presence there then we have in our on-airport locations where we're responsible for about three of every 10 rentals. The local market is attractive to us for a number of reasons. It's a relatively faster growing part of the car rental market, and the opportunity we see is that half of our customers, customers who use us on-airport, don't use us off-airport. And as a result, the opportunity for us is to really improve the customer retention or share of wallet associated with those customers.

At the same time, as Ron mentioned, we have the opportunity to dual-brands, like locations which gives us the benefit of operating leverage, as we move more transactions through the same infrastructure. But the growth opportunity comes from retaining our on-airport customers and our commercial customers, when they have local market needs, as well.

<Q – Emmanuel Rosner – Barclays Capital, Inc.>: So, if you are saying half of Avis customers right now don't use on the off-airport is the goal to keep them all, are you trying to double your revenues over time, is that a realistic goal?

<A – David Wyshner – Chief Financial Officer & Executive Vice President>: I think we certainly would like to keep them all, whether it translates into – I think it's probably unrealistic to assume. It translates into doubling the revenues. But there certainly is a significant opportunity here. And the good news is that, our share of non-insurance replacement business in the local market is significantly higher. We are at significantly less than 8% in the insurance replacement business, and the area that we've been focused on, which is non-insurance replacement portion of local markets, which we think tend to be a bit higher margin. We're closer to a 20% to 25% share there.

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

<Q – Chris Agnew – MKM Partners LLC>: Thanks very much. Good morning. I wonder if you could clarify, I think you made comments on stable pricing going into July. I am just, is that months-on-months, quarter-on-quarter, year-on-year? As I am trying to think about those comments, you've got easier comps this year for pricing. I think you're down 3.5% last year and you described fleet levels sort of currently been tight, and volume trends improving a little bit in August. So, I mean I would assume that's fairly positive, but we had your competitor yesterday describing the pricing environment this summer as soft, which leads me a little bit confused and that's why I was hopefully clarify the stable pricing comments? Thanks.

<A – David Wyshner – Chief Financial Officer & Executive Vice President>: Thanks, Chris. For starters, the comment about stable pricing is a year-over-year comment. We're looking at numbers that are relatively stable year-over-year. And that translates into sort of a month-over-month actually being up due to the seasonality of the business and seasonality of pricing, where summer pricing is typically higher than spring pricing. But stable referred to being – referred to year-over-year. I think the – I think we were also a little bit surprised by some of the comments we heard yesterday, because we have been – we felt that the pricing environment has been quite okay going into the summer.

I don't think it's necessarily due to comps in one direction or another. But, we've been able to achieve relatively stable pricing and we're surprised by the – by our competitors seeing something a little bit different, which typically isn't the case in our industry, as you know. So I can't really reconcile between the two at this point, other than to tell you, you are right to note a little bit of a disconnect in how we're seeing things right now.

<Q – Chris Agnew – MKM Partners LLC>: And as a follow-up, I mean, what's the level of visibility you have at the moment? Is it any different from what you had – have had previously? What are your corporate customers telling you in terms of their spending intentions? And if – would it be right to assume that fleets are relatively tight and there is a little bit demand strengthening a bit, that we could maybe be optimistic directionally on pricing?

<A – David Wyshner – Chief Financial Officer & Executive Vice President>: I don't think our visibility has changed from where we'd typically be at this time of year. What we do have the advantage of it being early August is that we've seen how July has played out, and we've taken a fair amount of our bookings for the summer travel season as a whole, including the next three or so weeks. So I think our visibility on the summer is reasonably good.

I think as we look at the September through mid-November period, that tends to be a heavier commercial season, and I think the best proxy we have is sort of where commercial volumes have been recently, with second quarter, commercial volume being up around 4%, not quite as strong as it's been on the leisure side. And I don't see anything – I don't want to project, but I also don't see any trends that are significantly different than what we've seen over the last several months.

Operator: Our next question, Steve O'Hara, with Sidoti & Company. You may ask your questions.

<Q – Steve O'Hara – Sidoti & Co. LLC>: Hi, good morning. I've had some connectivity issues here. Can you just repeat what the gain was for the quarter on the vehicles?

<A – David Wyshner – Chief Financial Officer & Executive Vice President>: Sure. In domestic car rental, the gain on sale was $100 million.

<Q – Steve O'Hara – Sidoti & Co. LLC>: Okay, $100 million. And then kind of switching gears a little bit. You guys have kind of talked about prepaid rentals and can you kind of tell me where that stands and what you think of that push going forward?

<A – Ronald Nelson – Chairman, President, CEO & COO>: Well, we continue to roll out prepaid rentals. We launched budget I think about a year ago and Avis came online about six months ago. And I don't think it's gotten to a point where I would say it's at steady levels, but it grows every month. We're yield managing the amount of discount that we give for prepaid. It can range anywhere from 5% to 15%, depending on when you book and what time of the year, not unlike the airline model. But we continue to believe it has an important place in pricing hierarchy of car rental. And so it's – we're encouraged by the growth that it's had and by what it does in terms of allowing us to plan our fleet better.

Operator: We have time for one more question. Emily Shanks with Barclays Capital. You may ask your question.

<Q – Emily Shanks – Barclays Capital, Inc.>: Good morning, everybody. Thanks for fitting me in. I had a question around the announcement related to the credit facility amendment. And specifically I was curious, one, are you going to be seeking incremental financing in the unsecured markets?

And then, two, will the Avis European fleet actually be partially financed on balance sheet, part of that security package?

<A – David Wyshner – Chief Financial Officer & Executive Vice President>: Good morning, Emily. The answer to both questions is yes. We will be looking, as Ron mentioned at both the term loan and the high-yield market as potential sources of financing for the Avis Europe transaction. And we – at this point, we would also expect that the European fleet would initially be financed largely on balance sheet in many ways similar to the way that the Avis Europe balance sheet currently looks.

<Q – Emily Shanks – Barclays Capital, Inc.>: Okay. And then just to be clear that incremental – or excuse me, the unsecured market financing potential, would that be above and beyond the $900 million incremental term loans?

<A – David Wyshner – Chief Financial Officer & Executive Vice President>: Yeah. The term loan amount isn't going to be that much. I think as we look at the financing needs, they are likely to be split roughly 50-50 between term-loan and high-yield.

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

Ronald L. Nelson, Chairman, President, CEO & COO

Thanks. Just to recap, we feel great about our position. Our strategic initiatives are profitably accelerating our revenue growth. Investments we're making are positioning us to compete for the longer term. And we are enthusiastically planning for the close of the Avis Europe acquisition. David, Neal and I will be presenting at several conferences over the next three months, we do look forward to seeing many of you at these.

With that, we thank you for your time today, and look forward to speaking with you either at the conferences or on our call in November. Thanks again.

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