AVIS BUDGET GROUP, INC.
Form 10-Q
August 07, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2008

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ______ to ______

Commission File No. 1-10308

Avis Budget Group, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**06-0918165**
(State or other jurisdiction	*(I.R.S. Employer*
of incorporation or organization)	*Identification Number)*

6 Sylvan Way

Parsippany, NJ **07054**
(Address of principal executive offices) *(Zip Code)*
(973) 496-4700

(Registrant s telephone number, including area code)

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

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨	Smaller reporting company ¨

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

The number of shares outstanding of the issuer s common stock was 101,340,920 shares as of July 31, 2008.

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FORWARD-LOOKING STATEMENTS

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

- the high level of competition in the vehicle rental industry and the impact such competition may have on pricing and rental volume;
- an increase in our fleet costs as a result of an increase in the cost of new vehicles and/or a decrease in the price at which we dispose of used vehicles either in the used vehicle market or under repurchase or guaranteed depreciation programs;
- a decline in the results of operations or financial condition of the manufacturers of our cars and/or their willingness or ability to make cars available to us or the rental car industry as a whole on commercially reasonable terms or at all;
- a downturn in airline passenger traffic in the United States or in the other international locations in which we operate;
- an occurrence or threat of terrorism, pandemic disease, natural disasters or military conflict in the locations in which we operate;
- a decline in general economic conditions, or a decline in the housing market;
- our dependence on third-party distribution channels;
- a disruption or decline in rental activity, particularly during our peak season or in key market segments;
- a significant increase in interest rates or in borrowing costs or a fluctuation in interest rates, which can impact the valuation of our derivatives;
- our ability to successfully implement our business strategy for growth;
- our ability to accurately estimate our future results;
- our ability to successfully integrate operations upon the acquisition of other businesses, potentially including exercise of our option to purchase a majority interest in Carey Holdings, Inc., the parent company of Carey International, Inc.;

a major disruption in our communication or centralized information networks;

our exposure to uninsured claims in excess of historic levels;

our failure or inability to comply with regulations or any changes in regulations;

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

substantial increases in fuel costs or decreases in fuel supply;

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- a disruption in our ability to obtain financing for our operations, including the funding of our vehicle fleet via the asset-backed securities and lending market;

- risks related to our indebtedness, including our substantial amount of debt, our ability to incur substantially more debt, the restrictive and financial covenants in agreements and instruments governing our debt and the amount of cash required to service all of our indebtedness;

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

- the continuation of a low trading price of our stock, which could limit our access to capital, be an indicator that our goodwill is impaired and/or result in a future charge to earnings for an impairment of our goodwill; and

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

Other factors and assumptions not identified above, including those described under Risk Factors set forth in Item 1A of our 2007 Annual Report on Form 10-K and Part II, Item 1A of this Quarterly Report on Form 10-Q, were also involved in the derivation of these forward-looking statements, and the failure of such other assumptions to be realized, as well as other factors, may also cause actual results to differ materially from those projected. Most of these factors are difficult to predict accurately and are generally beyond our control.

You should consider the areas of risk described above, as well as those described under Risk Factors set forth in Item 1A of our 2007 Annual Report on Form 10-K and Part II, Item 1A of this Quarterly Report on Form 10-Q, in connection with any forward-looking statements that may be made by us and our businesses generally. Except for our ongoing obligations to disclose material information under the federal securities laws, we undertake no obligation to release any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events unless required by law. For any forward-looking statements contained in any document, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

Avis Budget Group, Inc.

CONSOLIDATED CONDENSED STATEMENTS OF INCOME

(In millions, except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	**2007**	**2008**	**2007**
Revenues				
Vehicle rental	$ 1,194	$ 1,175	$ 2,313	$ 2,252
Other	383	341	709	629
Net revenues	1,577	1,516	3,022	2,881
Expenses				
Operating	811	785	1,588	1,496
Vehicle depreciation and lease charges, net	441	402	823	764
Selling, general and administrative	173	168	344	327
Vehicle interest, net	74	71	159	142
Non-vehicle related depreciation and amortization	20	20	39	43
Interest expense related to corporate debt, net	32	32	61	65
Separation costs, net	1	3	1	(3)
Total expenses	1,552	1,481	3,015	2,834
Income before income taxes	25	35	7	47
Provision for income taxes	10	12	3	12
Income from continuing operations	15	23	4	35
Gain on disposal of discontinued operations, net of tax		1		1
Net income	$ 15	$ 24	$ 4	$ 36
Earnings per share				
Basic				
Income from continuing operations	$ 0.15	$ 0.22	$ 0.04	$ 0.34
Net income	0.15	0.23	0.04	0.35
Diluted				
Income from continuing operations	$ 0.15	$ 0.22	$ 0.04	$ 0.34
Net income	0.15	0.23	0.04	0.35

See Notes to Consolidated Condensed Financial Statements (Unaudited).

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Avis Budget Group, Inc.

CONSOLIDATED CONDENSED BALANCE SHEETS

(In millions, except share data)

(Unaudited)

	June 30, 2008	December 31, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 262	$ 214
Receivables, net	434	392
Deferred income taxes	44	42
Other current assets	492	570
Total current assets	1,232	1,218
Property and equipment, net	505	500
Deferred income taxes	255	234
Goodwill	1,000	1,000
Other intangibles, net	802	760
Other non-current assets	773	781
Total assets exclusive of assets under vehicle programs	4,567	4,493
Assets under vehicle programs:		
Program cash		1
Vehicles, net	9,139	7,474
Receivables from vehicle manufacturers and other	119	276
Investment in Avis Budget Rental Car Funding (AESOP), LLC related party	567	230
	9,825	7,981
Total assets	$ 14,392	$ 12,474
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable and other current liabilities	$ 1,046	$ 1,094
Current portion of long-term debt	9	10
Total current liabilities	1,055	1,104
Long-term debt	1,784	1,787
Other non-current liabilities	953	998
Total liabilities exclusive of liabilities under vehicle programs	3,792	3,889
Liabilities under vehicle programs:		
Debt	1,186	950
Debt due to Avis Budget Rental Car Funding (AESOP) LLC related party	6,314	4,646

Deferred income taxes		1,254		1,246
Other		389		278
		9,143		7,120
Commitments and contingencies (Note 15)				
Stockholders equity:				
Preferred stock, $.01 par value authorized 10 million shares; none issued and outstanding				
Common stock, $.01 par value authorized 250 million shares; issued 136,734,089 and 136,706,236 shares		1		1
Additional paid-in capital		9,224		9,320
Accumulated deficit		(1,516)		(1,520)
Accumulated other comprehensive income		55		32
Treasury stock, at cost 35,221,142 and 32,719,985 shares		(6,307)		(6,368)
Total stockholders equity		1,457		1,465
Total liabilities and stockholders equity	$	14,392	$	12,474

See Notes to Consolidated Condensed Financial Statements (Unaudited).

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Avis Budget Group, Inc.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Operating Activities		
Net income	$ 4	$ 36
Adjustments to arrive at income from continuing operations		(1)
Income from continuing operations	4	35
Adjustments to reconcile income from continuing operations to net cash provided by operating activities exclusive of vehicle programs:		
Non-vehicle related depreciation and amortization	39	43
Net change in assets and liabilities:		
Receivables	(24)	(14)
Income taxes and deferred income taxes	(3)	12
Accounts payable and other current liabilities	23	(53)
Other, net	(19)	(11)
Net cash provided by continuing operating activities exclusive of vehicle programs	20	12
Vehicle programs:		
Vehicle depreciation	820	759
	820	759
Net cash provided by continuing operating activities	840	771
Investing Activities		
Property and equipment additions	(47)	(51)
Net assets acquired, net of cash acquired, and acquisition-related payments	(71)	(1)
Proceeds received on asset sales	9	8
Proceeds from sale of investment		106
Payments made to Realogy and Wyndham, net	1	(88)
Proceeds from dispositions of businesses, net of transaction-related payments	(1)	(1)
Other, net	(8)	(8)
Net cash used in investing activities exclusive of vehicle programs	(117)	(35)
Vehicle programs:		
Decrease (increase) in program cash	1	(4)
Investment in vehicles	(6,202)	(6,480)
Proceeds received on disposition of vehicles	4,027	3,752
Investment in Avis Budget Rental Car Funding (AESOP) LLC related party	(343)	

	(2,517)	(2,732)
Net cash used in investing activities	(2,634)	(2,767)

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Avis Budget Group, Inc.

CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (Continued)

(In millions)

	Six Months Ended June 30,	
	2008	**2007**
Financing Activities		
Principal payments on borrowings	(5)	(39)
Issuances of common stock		39
Repurchases of common stock	(33)	
Net cash used in financing activities exclusive of vehicle programs	(38)	
Vehicle programs:		
Proceeds from borrowings	5,799	6,287
Principal payments on borrowings	(4,136)	(4,362)
Net change in short-term borrowings	226	129
Other, net	(8)	(6)
	1,881	2,048
Net cash provided by financing activities	1,843	2,048
Effect of changes in exchange rates on cash and cash equivalents	(1)	3
Net increase in cash and cash equivalents	48	55
Cash and cash equivalents, beginning of period	214	172
Cash and cash equivalents, end of period	$ 262	$ 227

See Notes to Consolidated Condensed Financial Statements (Unaudited).

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Avis Budget Group, Inc.

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (Unaudited)

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

1. Basis of Presentation and Recently Issued Accounting Pronouncements

Basis of Presentation

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

The Company operates in the following business segments:

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

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

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

In presenting the Consolidated Condensed Financial Statements in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP), management makes estimates and assumptions that affect the amounts reported and related disclosures. Estimates, by their nature, are based on judgments and available information. Accordingly, actual results could differ from those estimates. In management s opinion, the Consolidated Condensed Financial Statements contain all normal recurring adjustments necessary for a fair presentation of interim results reported. The results of operations reported for interim periods are not necessarily indicative of the results of operations for the entire year or any subsequent interim period. These financial statements should be read in conjunction with the Company s 2007 Annual Report on Form 10-K filed on February 29, 2008.

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

Separation. In connection with the separation of Cendant Corporation (as the Company was formerly known) into four independent companies (the Separation), the Company completed the spin-offs of Realogy Corporation (Realogy) and Wyndham Worldwide Corporation (Wyndham) on July 31, 2006 and completed the sale of Travelport, Inc. (Travelport) on August 23, 2006. During the three and six months ended June 30, 2007, the Company recorded costs (credits) of $3 million and $(3) million, respectively, in connection with the Separation, which included costs consisting primarily of professional and consulting fees, as well as a $14 million credit related to tax-related receivables from Realogy and Wyndham recognized in connection with the adoption of Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48) (see Note 8 Income Taxes).

Adoption of New Accounting Standards during 2008

Fair Value Measurements. In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurements (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. In addition, SFAS No. 157 requires the Company to consider its own credit spreads when measuring the fair value of liabilities, including derivatives, and the credit spreads of the Company s counterparties when measuring the fair value of assets, including derivatives. The Company adopted SFAS No. 157 on January 1, 2008, as required, and it had no impact to the Company s financial statements at the time of adoption (see Note 6 Fair Value Measurements).

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In February 2008, the FASB issued FASB Staff Position SFAS 157-1, Application of SFAS No. 157 to SFAS No. 13 and Its Related Interpretative Accounting Pronouncements that Address Leasing Transactions (FSP SFAS 157-1) and FASB Staff Position SFAS 157-2, Effective Date of SFAS No. 157 (FSP SFAS 157-2). FSP SFAS 157-1 excludes SFAS No. 13 and its related interpretive accounting pronouncements that address leasing transactions, with the exception of fair value measurements of assets and liabilities recorded as a result of a lease transaction but measured pursuant to other pronouncements within the scope of SFAS No. 157. FSP SFAS 157-2 delays the effective date of SFAS No. 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). FSP SFAS 157-1 and FSP SFAS 157-2 became effective for the Company upon adoption of SFAS No. 157 on January 1, 2008. The Company is currently evaluating the impact of the additional disclosures required relating to the fair value measurement of nonfinancial assets and nonfinancial liabilities when it fully implements SFAS No. 157 on January 1, 2009.

Fair Value Option. In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115, (SFAS No. 159). SFAS No. 159 permits a company to irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and financial liabilities on a contract-by-contract basis, with changes in fair value recognized in earnings. The election to use the fair value option is available when an entity first recognizes a financial asset or a financial liability or upon entering into a firm commitment. Additionally, SFAS No. 159 allows for a one-time election for existing positions upon adoption, with the transition adjustment recorded to beginning retained earnings. The Company adopted SFAS No. 159 on January 1, 2008 and has elected not to apply the option to measure any of its financial assets or liabilities.

Recently Issued Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS No. 141(R)). SFAS No. 141(R) seeks to improve the relevance, representational faithfulness, and comparability of the information that a reporting entity provides in its financial reports about a business combination and its effects. SFAS No. 141(R) requires an acquiror to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date, with limited exceptions. SFAS No. 141(R) also requires the acquiror in a business combination achieved in stages to recognize the identifiable assets and liabilities, as well as the noncontrolling interest in the acquiree, at the full amounts of their fair values. SFAS No. 141(R) requires an acquiror to recognize adjustments made during the measurement period to the acquired assets and liabilities as if they had occurred on the acquisition date and to revise prior period financial statements in subsequent filings for changes. In addition, SFAS No. 141(R) requires that all acquisition related costs be expensed as incurred, rather than capitalized as part of the purchase price and those restructuring costs that an acquiror expected but was not obligated to incur to be recognized separately from the business combination. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company will adopt SFAS No. 141(R) on January 1, 2009, as required, and is currently evaluating the impact of such adoption on its financial statements.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51 (SFAS No. 160). SFAS No. 160 amends Accounting Research Bulletin (ARB) No. 51 to establish accounting and reporting standards for the noncontrolling (minority) interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the Consolidated Financial Statements. SFAS No. 160 also requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest on the face of the consolidated statement of income. Under SFAS No. 160, the accounting for changes in a parent s ownership interest in a subsidiary that do not result in deconsolidation must be accounted for as equity transactions for the difference between the parent s carrying value and the cash exchanged in the transaction. In addition, SFAS No. 160 also requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated (except in the case of a spin-off), and requires expanded disclosures in the Consolidated Financial Statements that clearly identify and distinguish between the interests of the parent s ownership interest and the interests of the noncontrolling owners of a subsidiary. SFAS No. 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The Company will adopt SFAS No. 160 on January 1, 2009, as required, and is currently evaluating the impact of such adoption on its financial statements.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (SFAS No. 161). SFAS No. 161 requires entities to provide qualitative disclosures about the objectives and strategies for using derivatives, quantitative data about the fair value of and gains and losses on derivative contracts, and details of credit-risk-related contingent features in their hedged positions. SFAS No. 161 also asks entities to disclose more information about the location and amounts of derivative instruments in financial statements; how derivatives and related hedges are accounted for under SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities ; and how the hedges affect the entity s financial position, financial

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performance, and cash flows. SFAS No. 161 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after November 15, 2008. The Company will adopt SFAS No. 161 on January 1, 2009, as required, and is currently evaluating the impact of such adoption on its financial statements.

2. Discontinued Operations

The $1 million gain on disposal of discontinued operations, net of tax in the three and six months ended June 30, 2007 represents purchase price adjustments related to the sale of Travelport.

3. Earnings Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Income from continuing operations	$ 15	$ 23	$ 4	$ 35
Gain on disposal of discontinued operations, net of tax		1		1
Net income	$ 15	$ 24	$ 4	$ 36
Basic weighted average shares outstanding	101.4	103.4	102.1	102.5
Stock options, warrants and restricted stock units [(a)]		1.4		1.2
Diluted weighted average shares outstanding	101.4	104.8	102.1	103.7
Earnings per share:				
Basic				
Income from continuing operations	$ 0.15	$ 0.22	$ 0.04	$ 0.34
Gain on disposal of discontinued operations		0.01		0.01
Net income	$ 0.15	$ 0.23	$ 0.04	$ 0.35
Diluted				
Income from continuing operations	$ 0.15	$ 0.22	$ 0.04	$ 0.34
Gain on disposal of discontinued operations		0.01		0.01
Net income	$ 0.15	$ 0.23	$ 0.04	$ 0.35

(a) Excludes restricted stock units for which performance-based vesting criteria have not been achieved.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Options [(a)]	5.3	3.0	5.3	4.6
Warrants		0.2		0.2

(a) The weighted average exercise price for anti-dilutive options for the three and six months ended June 30, 2008 was $24.97 and $24.96, respectively. The

weighted average exercise price for anti-dilutive options for the three and six months ended June 30, 2007 was $39.32 and $35.25, respectively.

4. Acquisitions

Assets acquired and liabilities assumed in business combinations were recorded on the Company s Consolidated Condensed Balance Sheets as of the respective acquisition dates based upon their estimated fair values at such dates. The results of operations of businesses acquired by the Company have been included in the Company s Consolidated Condensed Statements of Income since their respective dates of acquisition. The excess of the purchase price over the estimated fair values of the underlying assets acquired and liabilities assumed is allocated to goodwill. In certain circumstances, the allocations of the excess purchase price are based upon preliminary estimates and assumptions. Accordingly, the allocations may be subject to revision when the Company receives final information, including appraisals and other analyses. Any revisions to the fair values, within the allocation period, will be recorded by the Company as further adjustments to the purchase price allocations.

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During the six months ended June 30, 2008, the Company acquired the exclusive rights to certain vehicle rental franchise territories and related assets, which included $23 million of associated vehicles, for $70 million in cash, resulting in trademark intangible assets of $46 million. These acquisitions for 2008 relate primarily to the Company s Domestic Car Rental segment and were not significant individually or in the aggregate to the Company s results of operations, financial position or cash flows.

5. Intangible Assets
Intangible assets consisted of:

	As of June 30, 2008			As of December 31, 2007		
	Gross Carrying Amount	**Accumulated Amortization**	**Net Carrying Amount**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Carrying Amount**
Amortized Intangible Assets						
Franchise agreements	$ 74	$ 19	$ 55	$ 75	$ 18	$ 57
Customer lists	19	7	12	19	7	12
Other	2	1	1	2	1	1
	$ 95	$ 27	$ 68	$ 96	$ 26	$ 70
Unamortized Intangible Assets						
Goodwill	$ 1,000			$ 1,000		
Trademarks	$ 734			$ 690		

Amortization expense relating to all intangible assets was approximately $1 million during the second quarter of 2008 and 2007. For the six month periods ended June 30, 2008 and 2007, amortization expense was less than $2 million.

Based on the Company s amortizable intangible assets at June 30, 2008, the Company expects amortization expense of approximately $2 million for the remainder of 2008 and approximately $3 million for each of the five fiscal years thereafter.

6. Fair Value Measurements
SFAS No. 157 requires disclosures about the Company s assets and liabilities that are measured at fair value. The Company used significant observable inputs (Level 2 inputs), other than quoted unadjusted prices from active markets (Level 1 inputs), to determine the fair value of its derivative assets and liabilities.

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

The following table presents information about the Company s assets and liabilities measured at fair value on a recurring basis:

Based on Significant Other Observable Inputs (Level 2):	**As of June 30, 2008**

Assets:		
Interest rate swaps and other derivatives	$	
Interest rate caps under vehicle programs		3
Total	$	3
Liabilities:		
Interest rate swaps and other derivatives	$	34
Interest rate swaps and other derivatives under vehicle programs		21
Total	$	55

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7. Vehicle Rental Activities

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

	As of June 30, 2008	As of December 31, 2007
Rental vehicles	$ 10,072	$ 7,947
Less: Accumulated depreciation	(1,165)	(1,022)
	8,907	6,925
Vehicles held for sale, net	232	549
Vehicles, net	$ 9,139	$ 7,474

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Depreciation expense	$ 441	$ 407	$ 820	$ 759
Lease charges	8	12	16	26
Gain on sales of vehicles, net and cost of vehicle disposition	(8)	(17)	(13)	(21)
Vehicle depreciation and lease charges, net	$ 441	$ 402	$ 823	$ 764

During the three months ended June 30, 2008 and 2007, vehicle interest, net on the accompanying Consolidated Condensed Statements of Income excludes $33 million and $35 million, respectively, and for the six months ended June 30, 2008 and 2007, excludes $66 million and $71 million, respectively, of interest expense related to the fixed and floating rate borrowings of the Company s Avis Budget Car Rental, LLC (Avis Budget Car Rental) subsidiary. Such interest is recorded within interest expense related to corporate debt, net on the accompanying Consolidated Condensed Statements of Income.

8. Income Taxes

The Company s effective tax rate from continuing operations for the six months ended June 30, 2008 is a provision of 42.9%. Such rate differs from the Federal statutory rate of 35.0% primarily due to state taxes and differences in the amount of stock-based compensation recorded for book and tax purposes.

The Company s effective tax rate from continuing operations for the six months ended June 30, 2007 is a provision of 25.5%. Such rate differs from the Federal statutory rate of 35.0% primarily due to an increase in the receivables due from Realogy and Wyndham in connection with the adoption of FIN 48 and a corresponding credit to the Separation costs which is not subject to income taxes, as well as a decrease for changes in New York State and Canadian tax law.

9. Other Current Assets

Other current assets consisted of:

	As of June 30, 2008	As of December 31, 2007
Receivables from Realogy [(a)]	$ 142	$ 169
Receivables from Wyndham [(a)]	95	122
Prepaid expenses	162	148
Other	93	131
	$ 492	$ 570

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(a) Represents amounts due for certain contingent and other corporate liabilities assumed by Realogy and Wyndham in connection with the Separation and services performed under the Transition Services Agreement entered into in connection with the Separation. These amounts are due from Realogy and Wyndham on demand upon the Company s settlement of the related liability. At June 30, 2008 and December 31, 2007, there are corresponding liabilities recorded within accounts payable and other current liabilities. In connection with the Company s adoption of FIN 48, receivables from Realogy and Wyndham related to income taxes were classified as non-current assets. At June 30, 2008, non-current assets related to income taxes receivable were $612 million.

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10. Equity Investment

At June 30, 2008, the Company s equity-method investee and the Company s approximate ownership interest, based on outstanding shares, are as follows:

Company	Percentage Ownership
Carey Holdings, Inc.	47.9%

The Company s investment in Carey Holdings, Inc. (Carey) is recorded within other non-current assets on the Consolidated Condensed Balance Sheets and the Company s share of Carey s operating results is reported within operating expenses on the Consolidated Condensed Statements of Income. At June 30, 2008, the Company s investment totaled $61 million and included $2 million of deferred acquisition costs. The Company has the option until October 2008 to increase its ownership stake in Carey to approximately 80%, subject to certain conditions that would most likely include the assumption or repayment of Carey s existing indebtedness.

11. Accounts Payable and Other Current Liabilities

Accounts payable and other current liabilities consisted of:

	As of June 30, 2008	As of December 31, 2007
Accounts payable	$ 231	$ 210
Accrued payroll and related	160	171
Disposition related liabilities	120	125
Accrued legal settlements	110	121
Public liability and property damage insurance liabilities	108	109
Other	317	358
	$ 1,046	$ 1,094

12. Other Non-Current Liabilities

Other non-current liabilities consisted of:

	As of June 30, 2008	As of December 31, 2007
Long-term income taxes payable	$ 422	$ 440
Public liability and property damage insurance liabilities	237	252
Other	294	306
	$ 953	$ 998

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13. Long-term Debt and Borrowing Arrangements
Long-term debt consisted of:

	Maturity Date	As of June 30, 2008	As of December 31, 2007
Floating rate term loan [a]	April 2012	$ 791	$ 796
Floating rate notes	May 2014	250	250
7 5/8% notes	May 2014	375	375
7 3/4% notes	May 2016	375	375
		1,791	1,796
Other		2	1
Total long-term debt		1,793	1,797
Less: Current portion		9	10
Long-term debt		$ 1,784	$ 1,787

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(a) The floating rate term loan and our revolving credit facility are secured by pledges of all of the capital stock of all of the Company s direct or indirect domestic subsidiaries and up to 66% of the capital stock of each direct foreign subsidiary, subject to certain exceptions, and liens on substantially all of the Company s intellectual property.

In February 2007, the Company agreed to guarantee (the Guarantee) the payment of principal, premium, if any, and interest on the $1.0 billion aggregate principal amount of senior notes issued by Avis Budget Car Rental in April 2006 (the Notes). The Notes consist of Avis Budget Car Rental s 7 5/8% Senior Notes due 2014, 7 3/4 % Senior Notes due 2016 and Floating Rate Senior Notes due 2014. In consideration for providing the Guarantee, the Company received $14 million, before fees and expenses, from certain institutional investors. The $14 million consideration is being treated as deferred income and being amortized over the life of the debt.

Committed Credit Facilities and Available Funding Arrangements

At June 30, 2008, the committed credit facilities available to the Company and/or its subsidiaries at the corporate or Avis Budget Car Rental level were as follows:

	Total Capacity	Outstanding Borrowings	Letters of Credit Issued	Available Capacity
$1.5 billion revolving credit facility [a]	$ 1,500	$	$ 572	$ 928
Letter of credit facility [b]	303		303	

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(a) This secured revolving credit facility was entered into by Avis Budget Car Rental in April 2006, has a five year term and currently bears interest at one month LIBOR plus 125 basis points. The floating rate term loan and the revolving credit facility are secured by pledges of all of the capital stock of all of the Company s direct or indirect domestic subsidiaries and up to 66% of the capital stock of each direct foreign subsidiary, subject to certain exceptions, and liens on substantially all of the Company s intellectual property.
(b) Final maturity date is July 2010.

The Company s debt agreements contain restrictive covenants, including restrictions on dividends paid to the Company by certain of its subsidiaries, the incurrence of indebtedness by the Company and certain of its subsidiaries, mergers, liquidations, and sale and leaseback transactions. The credit facility also requires the maintenance of certain financial ratios. As of June 30, 2008, the Company is not aware of any instances of non-compliance with such financial or restrictive covenants.

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14. Debt Under Vehicle Programs and Borrowing Arrangements

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

	As of June 30, 2008	As of December 31, 2007
Debt due to Avis Budget Rental Car Funding [a]	$ 6,314	$ 4,646
Budget Truck financing:		
Budget Truck Funding program [b]	336	246
Capital leases	179	204
Other [c]	671	500
	$ 7,500	$ 5,596

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(a) The increase principally reflects (i) $1.3 billion of incremental borrowings under the Company s conduit facilities to support the acquisition of rental vehicles within the Company s Domestic Car Rental operations during the six months ended June 30, 2008 and (ii) a $343 million increase in the Company s investment in Avis Budget Rental Car Funding reflecting the Company s decision to invest funds from vehicle sales into Avis Budget Rental Car Funding as equity rather than as a repayment of debt due to Avis Budget Rental Car Funding.

(b) The increase primarily reflects incremental borrowings under the Company s conduit facility to support the acquisition of rental vehicles within the Company s Budget Truck rental fleet.

(c) The increase primarily reflects incremental borrowings under the Company s conduit facilities to support the acquisition of vehicles in the Company s International Car Rental operations and additional fleet loans to support the acquisition of certain vehicles for the Company s Domestic Car Rental operations.

The following table provides the contractual maturities of the Company s debt under vehicle programs (including related party debt due to Avis Budget Rental Car Funding) at June 30, 2008:

	Vehicle-Backed Debt	Capital Leases	Total
Within 1 year	$ 3,240	$ 155	$ 3,395
Between 1 and 2 years	432	24	456
Between 2 and 3 years	1,974		1,974
Between 3 and 4 years	253		253
Between 4 and 5 years	900		900
Thereafter	522		522
Total	$ 7,321	$ 179	$ 7,500

As of June 30, 2008, available funding under the Company s vehicle programs (including related party debt due to Avis Budget Rental Car Funding) consisted of:

	Total Capacity [a]	Outstanding Borrowings	Available Capacity
Debt due to Avis Budget Rental Car Funding [b]	$ 6,889	$ 6,314	$ 575
Budget Truck financing:			
Budget Truck Funding program [c]	375	336	39
Capital leases [d]	179	179	

Other [e]	1,128	671	457
	$ 8,571	$ 7,500	$ 1,071

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(a) Capacity is subject to maintaining sufficient assets to collateralize debt.
(b) The outstanding debt is collateralized by approximately $8.2 billion of underlying vehicles and related assets.
(c) The outstanding debt is collateralized by approximately $345 million of underlying vehicles and related assets.
(d) In connection with these capital leases, there are corresponding assets of approximately $190 million within vehicles, net on the Company s Consolidated Condensed Balance Sheet as of June 30, 2008.
(e) The outstanding debt is collateralized by approximately $1.2 billion of underlying vehicles and related assets.

Debt agreements under the Company s vehicle-backed funding programs contain restrictive covenants, including restrictions on dividends paid to the Company by certain of its subsidiaries and indebtedness of material subsidiaries, mergers, limitations on liens, liquidations, and sale and leaseback transactions. As of June 30, 2008, the Company is not aware of any instances of non-compliance with such covenants.

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15. Commitments and Contingencies
Contingencies

The Internal Revenue Service (IRS) is examining the Company s taxable years 2003 through 2006. Although the Company believes there is appropriate support for the positions taken on its tax returns, the Company has recorded liabilities for uncertain tax positions for all years for which the statute of limitations has not expired. The Company has $422 million accrued for tax liabilities and believes these accruals to be adequate for all open years based on assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter. Although the Company believes the recorded assets and liabilities are reasonable, tax regulations are subject to interpretation and tax litigation is inherently uncertain; therefore, the Company s assessments can involve both a series of complex judgments about future events and rely heavily on estimates and assumptions. While the Company believes that the estimates and assumptions supporting the assessments are reasonable, the final determination of tax audits and any other related litigation could be materially different than that which is reflected in historical income tax provisions and recorded assets and liabilities. The potential results of an audit or litigation related to these matters include a range of outcomes, which may involve material amounts. However, the Company is entitled to indemnification by Realogy and Wyndham for most pre-Separation tax matters and therefore does not expect such resolution to have a significant impact on its earnings, financial position or cash flows.

The Company is involved in litigation asserting claims associated with accounting irregularities discovered in 1998 at former CUC business units outside of the principal common stockholder class action litigation. The Company has accrued liabilities of approximately $103 million regarding such litigation matters. The Company does not believe that it is feasible to predict or determine the final outcome or resolution of such unresolved proceedings. Pursuant to the Separation Agreement (described below), Realogy and Wyndham have assumed all liabilities related to this litigation, as described below, and therefore a corresponding receivable has been established for such amount. Changes in liabilities related to such legal matters for which the Company is entitled to indemnification, and corresponding changes in the Company s indemnification assets, are shown net within the separation costs, net line on the Consolidated Condensed Statements of Income.

In connection with the spin-offs of Realogy and Wyndham, the Company entered into the Separation Agreement, pursuant to which Realogy assumed 62.5% and Wyndham assumed 37.5% of certain contingent and other corporate liabilities of the Company or its subsidiaries, which are not primarily related to any of the respective businesses of Realogy, Wyndham, Travelport and/or the Company s vehicle rental operations, in each case incurred or allegedly incurred on or prior to the separation of Travelport from the Company (Assumed Liabilities). Realogy is entitled to receive 62.5% and Wyndham is entitled to receive 37.5% of the proceeds from certain contingent corporate assets of the Company, which are not primarily related to any of the respective businesses of Realogy, Wyndham, Travelport and/or the Company s vehicle rental operations, arising or accrued on or prior to the separation of Travelport from the Company (Assumed Assets). Additionally, if Realogy or Wyndham were to default on its payment of costs or expenses to the Company related to any Assumed Liability, the Company would be responsible for 50% of the defaulting party s obligation. In such event, the Company would be allowed to use the defaulting party s share of the proceeds of any Assumed Assets as a right of offset. Realogy and Wyndham have also agreed to guarantee each other s as well as the Company s obligation under each entity s deferred compensation plans for amounts deferred in respect of 2005 and earlier years.

The Company does not believe that the impact of any unresolved proceedings constituting an Assumed Liability related to the CUC accounting irregularities should result in a material liability to the Company in relation to its consolidated financial position or liquidity, as Realogy and Wyndham each have agreed to assume responsibility for these liabilities as well as other liabilities related to the Company s litigation that are not related to its vehicle rental operations. Such litigation assumed by Realogy and Wyndham includes litigation which was retained by the Company in connection with the sale of its former Marketing Services division.

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

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

Commitments to Purchase Vehicles

The Company maintains agreements with vehicle manufacturers which require the Company to purchase approximately $1 billion of vehicles from manufacturers over the next twelve months. The majority of these commitments are subject to the vehicle manufacturers satisfying their obligations under the repurchase and guaranteed depreciation agreements. The Company is in the process of finalizing its purchase commitments with manufacturers for 2009 model-year vehicles, which will significantly increase the Company s outstanding commitments. The Company s featured suppliers for the Avis and Budget brands are General Motors Corporation and Ford Motor Company, respectively, although the Company purchases vehicles produced by numerous other manufacturers. The purchase of such vehicles is financed primarily through the issuance of vehicle-backed debt in addition to cash received upon the sale of vehicles in the used car market and under repurchase and guaranteed depreciation programs.

Concentrations

Concentrations of credit risk at June 30, 2008 include (i) risks related to the Company s repurchase and guaranteed depreciation agreements with General Motors Corporation and Ford Motor Company primarily with respect to receivables for program cars that have been returned to the car manufacturers and (ii) receivables from Realogy and Wyndham of $529 million and $327 million, respectively, related to certain contingent, income tax and other corporate liabilities assumed by Realogy and Wyndham in connection with the Separation.

Other Guarantees

The Company has provided certain guarantees to subsidiaries of Realogy, Wyndham and Travelport which, as previously discussed, were disposed during third quarter 2006. These guarantees relate primarily to various real estate leases. The maximum potential amount of future payments that the Company may be required to make under these guarantees is estimated to be approximately $332 million. At June 30, 2008, the liability recorded by the Company in connection with these guarantees was approximately $6 million. To the extent that the Company would be required to perform under any of these guarantees, the Company is entitled to indemnification from Realogy, Wyndham and/or Travelport.

16. Stockholders Equity

Dividends

For the six months ended June 30, 2008 and 2007, the Company did not pay cash dividends.

Share Repurchases

During the six months ended June 30, 2008, the Company used approximately $33 million of available cash to repurchase approximately 2.9 million shares of Avis Budget Group common stock under its common stock repurchase program. The Company did not repurchase any of its common stock during the six months ended June 30, 2007.

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Accumulated Other Comprehensive Income (Loss)

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

	Currency Translation Adjustments	Unrealized Losses on Cash Flow Hedges	Minimum Pension Liability Adjustment	Accumulated Other Comprehensive Income
Balance, January 1, 2008	$ 117	$ (63)	$ (22)	$ 32
Current period change	25	(2)		23
Balance, June 30, 2008	$ 142	$ (65)	$ (22)	$ 55

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

Total Comprehensive Income

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

The components of other comprehensive income were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net income	$ 15	$ 24	$ 4	$ 36
Other comprehensive income:				
Currency translation adjustments	14	26	25	34
Gains (losses) on cash flow hedges, net of tax	68	26	(2)	15
	82	52	23	49
Total comprehensive income	$ 97	$ 76	$ 27	$ 85

During the six months ended June 30, 2008, the Company recorded unrealized losses on cash flow hedges of $2 million, net of tax in accumulated other comprehensive income (loss), which primarily related to the derivatives used to manage the interest-rate risk associated with the Company s vehicle-backed debt and the Company s floating rate debt. Such amount in the six months ended June 30, 2008, included $5 million, excluding tax, of unrealized losses on cash flow hedges related to the Company s vehicle-backed debt and is offset by a corresponding decrease in the Company s Investment in Avis Budget Rental Car Funding (AESOP) LLC on the Consolidated Condensed Balance Sheet.

17. Stock-Based Compensation

The Company records compensation expense for all outstanding employee stock awards. The Company recorded pretax stock-based compensation expense of $2 million and $5 million ($1 million and $3 million, after tax) during second quarter 2008 and 2007, respectively, and $6 million and $9 million ($4 million and $5 million, after tax) during the six months ended June 30, 2008 and 2007, respectively, related to employee stock awards that were granted by the Company.

The Company applies the direct method and tax law ordering approach to calculate the tax effects of stock-based compensation. In jurisdictions with net operating loss carryforwards, tax deductions for 2008 and 2007 exercises of stock-based awards did not generate a cash benefit. Approximately $31 million of tax benefits will be recorded in additional paid-in capital when realized in these jurisdictions.

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

	Six Months Ended June 30, 2008			
	RSUs		Options	
	Number of RSUs	Weighted Average Grant Price	Number of Options [b]	Weighted Average Exercise Price
Balance at January 1, 2008	2,330	$ 25.03	5,963	$ 26.16
Granted at fair market value	1,128	12.73		
Vested/exercised	(503)	24.89	(5)	10.68
Cancelled	(112)	21.67	(615)	36.79
Balance at June 30, 2008 [a]	2,843	20.30	5,343	24.96

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[a] As of June 30, 2008, the Company s outstanding RSUs had aggregate intrinsic value of $24 million. Aggregate unrecognized compensation expense related to RSUs amounted to $50 million as of June 30, 2008. The balance of RSUs at June 30, 2008 consists of 1,796 related to time-based awards and 1,047 related to performance-based awards.

[b] All stock options outstanding as of June 30, 2008 are exercisable and have a weighted average remaining contractual life of 1.6 years.

The table below summarizes information regarding the Company s outstanding and exercisable stock options as of June 30, 2008 (in thousands of shares):

Range of Exercise Prices	Weighted Average Contractual Life	Number of Options
Less than $15.00	1.1	874
$15.01 to $20.00	2.9	388
$20.01 to $25.00	1.9	214
$25.01 to $30.00	1.8	2,686
$30.01 to $35.00	1.2	1,160
$35.01 and above	0.3	21
	1.6	5,343

As of June 30, 2008, the Company also had approximately 0.5 million outstanding stock appreciation rights with a weighted average exercise price of $24.40, a weighted average remaining contractual life of 5.1 years and unrecognized compensation expense of $2 million.

18. Segment Information

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

	Three Months Ended June 30,			
	2008		2007	
	Revenues	**EBITDA**	**Revenues**	**EBITDA**[a]
Domestic Car Rental	$ 1,241	$ 46	$ 1,195	$ 59
International Car Rental	230	25	202	21
Truck Rental	105	8	114	10
Corporate and Other [b]	1	(2)	5	(3)
Total Company	$ 1,577	77	$ 1,516	87
Less: Non-vehicle related depreciation and amortization		20		20
Interest expense related to corporate debt, net		32		32
Income before income taxes		$ 25		$ 35

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	Six Months Ended June 30,			
	2008		2007	
	Revenues	EBITDA	Revenues	EBITDA[a]
Domestic Car Rental	$ 2,377	$ 61	$ 2,279	$ 110
International Car Rental	460	55	393	45
Truck Rental	183	(2)	197	(1)
Corporate and Other [b]	2	(7)	12	1
Total Company	$ 3,022	107	$ 2,881	155
Less: Non-vehicle related depreciation and amortization		39		43
Interest expense related to corporate debt, net		61		65
Income before income taxes		$ 7		$ 47

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(a) In the three months ended June 30, 2007, EBITDA reflects Separation-related costs of $2 million in Domestic Car Rental, and $1 million within Corporate and Other, respectively. In the six months ended June 30, 2007, EBITDA reflects Separation-related costs (credits) of $3 million in Domestic Car Rental, and $(6) million within Corporate and Other, respectively.

(b) Includes unallocated corporate overhead, the elimination of transactions between segments and the results of operations of certain non-strategic businesses.

Since December 31, 2007, there have been no significant changes in segment assets with the exception of the Company s Domestic Car Rental segment, for which assets under vehicle programs were approximately $8.1 billion and approximately $6.4 billion at June 30, 2008 and December 31, 2007, respectively.

19. Guarantor and Non-Guarantor Consolidating Condensed Financial Statements

The following consolidating financial information presents Consolidating Condensed Balance Sheets as of June 30, 2008 and December 31, 2007, Consolidating Condensed Statements of Income for the three months and six months ended June 30, 2008 and 2007 and Consolidating Condensed Statements of Cash Flows for the six months ended June 30, 2008 and 2007 for: (i) Avis Budget Group, Inc. (the Parent); (ii) Avis Budget Car Rental and Avis Budget Finance, Inc. (the Subsidiary Issuers); (iii) the guarantor subsidiaries; (iv) the non-guarantor subsidiaries; (v) elimination entries necessary to consolidate the Parent with the Subsidiary Issuers, the guarantor and non-guarantor subsidiaries; and (vi) the Company on a consolidated basis. The Subsidiary Issuers and the guarantor and non-guarantor subsidiaries are 100% owned by the Parent, either directly or indirectly. All guarantees are full and unconditional and joint and several. This financial information is being presented in relation to the Company s Guarantee of the Notes issued by Avis Budget Car Rental. See Note 13 Long-term Debt and Borrowing Arrangements for additional description of these Notes. The Notes have separate investors than the equity investors of the Company and the Notes are guaranteed by certain subsidiaries.

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

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Consolidating Condensed Statements of Income

Three Months Ended June 30, 2008

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Revenues						
Vehicle rental	$	$	$ 1,038	$ 156	$	$ 1,194
Other	1		284	537	(439)	383
Net revenues	1		1,322	693	(439)	1,577
Expenses						
Operating	1	7	678	125		811
Vehicle depreciation and lease charges, net			385	219	(163)	441
Selling, general and administrative	3		149	21		173
Vehicle interest, net			67	52	(45)	74
Non-vehicle related depreciation and amortization			18	2		20
Interest expense related to corporate debt, net:						
Interest expense		33		(1)		32
Intercompany interest expense (income)		(33)	33			
Separation costs, net		1				1
Total expenses	4	8	1,330	418	(208)	1,552
Income (loss) before income taxes and equity in earnings of subsidiaries	(3)	(8)	(8)	275	(231)	25
Provision (benefit) for income taxes	(1)	3	(7)	15		10
Equity in earnings of subsidiaries	17	28	29		(74)	
Net income	$ 15	$ 17	$ 28	$ 260	$ (305)	$ 15

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Six Months Ended June 30, 2008

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Revenues						
Vehicle rental	$	$	$ 1,992	$ 321	$	$ 2,313
Other	1		519	1,032	(843)	709
Net revenues	1		2,511	1,353	(843)	3,022
Expenses						
Operating	2	7	1,319	260		1,588
Vehicle depreciation and lease charges, net			714	624	(515)	823
Selling, general and administrative	6		296	42		344
Vehicle interest, net			146	111	(98)	159
Non-vehicle related depreciation and amortization			35	4		39
Interest expense related to corporate debt, net:						
Interest expense, net	(1)	64		(2)		61
Intercompany interest expense (income)		(64)	64			
Separation costs, net		1				1
Total expenses	7	8	2,574	1,039	(613)	3,015
Income (loss) before income taxes and equity in earnings of subsidiaries	(6)	(8)	(63)	314	(230)	7
Provision (benefit) for income taxes	(3)	3	(26)	29		3
Equity in earnings of subsidiaries	7	18	55		(80)	
Net income	$ 4	$ 7	$ 18	$ 285	$ (310)	$ 4

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Three Months Ended June 30, 2007

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Revenues						
Vehicle rental	$	$	$ 1,033	$ 142	$	$ 1,175
Other	3		257	566	(485)	341
Net revenues	3		1,290	708	(485)	1,516
Expenses						
Operating	3		665	117		785
Vehicle depreciation and lease charges, net			352	404	(354)	402
Selling, general and administrative	1		145	22		168
Vehicle interest, net			67	85	(81)	71
Non-vehicle related depreciation and amortization			18	2		20
Interest expense related to corporate debt, net:						
Interest expense	(1)	33				32
Intercompany interest expense (income)		(33)	33			
Separation costs, net	1	2				3
Total expenses	4	2	1,280	630	(435)	1,481
Income (loss) before income taxes and equity in earnings of subsidiaries	(1)	(2)	10	78	(50)	35
Provision (benefit) for income taxes	(1)	(1)	4	10		12
Equity in earnings of subsidiaries	23	75	69		(167)	
Income from continuing operations	23	74	75	68	(217)	23
Income from discontinued operations, net of tax	1					1
Net income	$ 24	$ 74	$ 75	$ 68	$ (217)	$ 24

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Six Months Ended June 30, 2007

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Revenues						
Vehicle rental	$	$	$ 1,970	$ 282	$	$ 2,252
Other	5		462	1,062	(900)	629
Net revenues	5		2,432	1,344	(900)	2,881
Expenses						
Operating	2		1,263	231		1,496
Vehicle depreciation and lease charges, net			671	750	(657)	764
Selling, general and administrative	7		277	43		327
Vehicle interest, net			134	154	(146)	142
Non-vehicle related depreciation and amortization	1		39	3		43
Interest expense related to corporate debt, net:						
Interest expense	(2)	67				65
Intercompany interest expense (income)		(67)	67			
Separation costs, net	(6)	3				(3)
Total expenses	2	3	2,451	1,181	(803)	2,834
Income (loss) before income taxes and equity in earnings of subsidiaries	3	(3)	(19)	163	(97)	47
Provision (benefit) for income taxes	(4)	(2)	(4)	22		12
Equity in earnings of subsidiaries	28	127	142		(297)	
Income from continuing operations	35	126	127	141	(394)	35
Income from discontinued operations, net of tax	1					1
Net income	$ 36	$ 126	$ 127	$ 141	$ (394)	$ 36

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Consolidating Condensed Balance Sheets

As of June 30, 2008

	Parent	Subsidiary Issuers	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Total
Assets						
Current assets:						
Cash and cash equivalents	$ 17	$ 110	$ 10	$ 125	$	$ 262
Receivables, net		87	241	106		434
Deferred income taxes			73	2	(31)	44
Other current assets	252	98	86	59	(3)	492
Total current assets	269	295	410	292	(34)	1,232
Property and equipment, net		186	268	51		505
Deferred income taxes	4	241		53	(43)	255
Goodwill		3	985	12		1,000
Other intangibles, net		17	691	94		802
Other non-current assets	674	68	24	7		773
Intercompany receivables (payables)	457	584	(1,032)	(9)		
Investment in subsidiaries	853	2,101	2,522		(5,476)	
Total assets exclusive of assets under vehicle programs	2,257	3,495	3,868	500	(5,553)	4,567
Assets under vehicle programs:						
Vehicles, net			192	8,947		9,139
Receivables from vehicle manufacturers and other				119		119
Investment in Avis Budget Rental Car Funding (AESOP) LLC-related party				567		567
			192	9,633		9,825
Total assets	$ 2,257	$ 3,495	$ 4,060	$ 10,133	$ (5,553)	$ 14,392
Liabilities and stockholders equity						
Current liabilities:						
Accounts payable and other current liabilities	$ 280	$ 204	$ 479	$ 117	$ (34)	$ 1,046
Current portion of long-term debt		9				9
Total current liabilities	280	213	479	117	(34)	1,055
Long-term debt		1,784				1,784
Other non-current liabilities	520	102	204	170	(43)	953
Total liabilities exclusive of liabilities under vehicle programs	800	2,099	683	287	(77)	3,792
Liabilities under vehicle programs:						
Debt		84	179	923		1,186
Due to Avis Budget Rental Car Funding (AESOP) LLC-related party				6,314		6,314

Deferred income taxes