



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 introductions, I would like to turn the conference over to Mr. Neal Goldner, Vice President of Investor Relations. Please go ahead, sir.

Neal Goldner: Thank you, Tanya. Good morning, everyone, and thank you for joining us. On the call with me are Ron Nelson, our Chairman and Chief Executive Officer, and David Wyshner, our Executive Vice President and Chief Financial Officer. Before we discuss 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 statements within the meaning of the Private Securities Litigation Reform Act. Such statements are based on current expectations, and the current economic environment, and are inherently subject to economic, competitive, and other uncertainties and contingencies beyond the control of management. You should be cautioned that these statements are not guarantees of future performance.

Actual results may differ materially from those expressed or implied in the forward-looking statements. Important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements, are specified in our earnings release which was issued last night and our Form 10-K. If you did not receive a copy of our press release, it is available on our website at www.avisbudgetgroup.com. Also certain non-GAAP financial measures will be discussed on this call, and these measures are reconciled to the GAAP numbers in our press release. Now I would like to turn the call over to Avis Budget Group's Chairman and Chief Executive Officer, Ron Nelson.

Ron Nelson: Thanks, Neal, and, good morning to all of you. Let me say a word about Dollar Thrifty, and then move on to the balance of the quarter. As you know, last week we submitted a bid to acquire Dollar Thrifty Automotive Group for \$46.50 per share in cash and stock. We believe strongly that our bid constitutes a superior proposal to acquire the Company, and would note that Dollar Thrifty has not said otherwise. We want to reiterate our continued strong, but responsible interest in acquiring Dollar Thrifty, as it represents a substantial growth opportunity for our Company. Other than that, we don't and won't have anything else to say on this topic during today's call, and would ask you to refrain from any questions or comments on the Dollar Thrifty situation during Q&A.

Turning to our business, as I look at how far we've come and where we are going, I'm very enthusiastic. Our first half results highlight that we've come through the worst period our industry has ever experienced, and emerged a stronger, more nimble competitor. We've permanently lowered our fixed cost infrastructure, diversified our fleet, and improved our liquidity. We've avoided the market share game, and managed the business for profitability. And in the process, reset the business at a revenue level from which we now expect to grow profitably, and restore margins to, and beyond historic levels.

Most importantly, we've heightened our focus on the customer experience we offer, which has already produced significant improvements in our customer satisfaction metrics. Under the banner of customer-led service-driven, we are undertaking this initiative across both brands on a global basis. We have allocated resources with the same commitment and energy, we have so successfully devoted to our Performance Excellence Initiative. Over the longer term, we believe customer-led service-driven, may have an even greater impact on our business than Performance Excellence by allowing us to translate positive customer experiences, first into loyalty, then into advocacy, and in turn, into profitable share growth.

For the second quarter we're pleased to once again report results that reflect an improvement in travel trends, as well as our efforts to control costs, to expand margins, and increase earnings. In many ways, we had a typical spring quarter, seeing seasonally soft demand in the months of April and May, adding fleet for the summer, and experiencing normal pricing seasonality. We delivered our best second quarter bottom-line performance since 2006, with adjusted EBITDA of \$98 million, excluding certain items, up over 45%. And all segments, domestic, international and truck, showed significant year-over-year improvement. By way of comparison, second quarter revenues in 2006 were \$1.45 billion, some \$150 million higher than this year's comparable quarter.

Domestically we saw some price erosion as we entered the quarter, but year-over-year pricing firmed as the quarter progressed with May better than April, and June better than May. Similarly, domestic volume trends also improved during the quarter. In total, domestic rental day volume was down 6% in the quarter, with commercial volume down 3%, and leisure volume down 8%. Leisure volume trends improved over the course of the quarter, with June down 4%. Our most pronounced volume declines continue to be in transient leisure channels, where market clearing prices have often not provided an adequate return for us. As is reflected in our metrics, reducing participation in these channels has cost us some volume.

This quarter, we estimate that stepping away from these transactions reduced our rental volume by at least five points year-over-year, accounting for substantially all of the reported decline. In addition, the closing of certain unprofitable off-airport locations last year, reduced our volume by about a point, and turning Budget's LAX back over to the franchisee cost another point. So excluding these factors, all of which were profit positive, we think our comparable volume for the quarter was up about one to two points, better than enplanements, and reflecting the continued improvement in both leisure and commercial travel trends.

Commercial rental activity continued the rebound that started in mid January. Two items of note during the quarter. One, we saw positive volume growth from our largest customer group, the \$1 million plus accounts. And, two, our increased focus on the attractive small business market has been paying dividends, by driving meaningful volume gains, especially at Budget. This was the fourth consecutive quarter of growth in this segment, resulting in a change in mix and a positive impact on RPD. Commercial account retention remains over 99% and we continue to add new accounts.

The second element of our revenue story is our ancillary product offerings. As many of you know, a key component of our strategy for growth and earnings has been growth in ancillary revenue. Our

Note: The following is a verbatim transcription of the Avis Budget Group, Inc. second quarter 2010 earnings conference call. It has been edited from its original version for transcription errors.

ancillary product and service revenue continued to expand in the second quarter, up 5% on a per-rental-day basis, compared to last year, and up 28% over the last two years. The improvement was driven by increased penetration of our portable GPS offering, our emergency roadside assistance product, and our eToll payment service.

In addition to increasing take rates on existing ancillary products, we are vigorously pursuing opportunities to expand our offerings. For example, we recently announced that Avis will become the first car rental brand to offer satellite radio with most airport and certain off airport rentals, with the launch of Avis Blast, a portable XM radio unit. We also continue our work to develop checkout kiosks that effectively offer ancillary products. We're in the early stages of tapping the opportunities to improve customer service levels, and reduce costs at the same time. Customer and employee empowerment are at the heart of this initiative, with a goal of achieving a higher rate of resolution at the first point of contact, whether it's solving a problem or initiating a transaction.

As part of that, we've begun to migrate some basic voice customer interactions to self-service channels, allowing customers to confirm, cancel and modify their reservations through state-of-the-art interactive voice response technology. By the end of the year, customers will be able to make reservations using this technology. The sophistication and ease of use of this technology are being well received by customers, while at the same time lowering our call center and customer service cost by several million dollars. This is an early example of how we're trying harder to be a customer-led service-driven organization.

We also had a solid quarter in truck rental that continued to see strength in one-way and local commercial demand through the summer. Our efforts over the last few years to build better co-marketing and co-location relationships with self-storage companies, small businesses, and package delivery businesses are helping drive volume and revenue growth. Along with these revenue initiatives, we're continuing to reduce our truck fleet, leading to higher utilization, which is also helping profitability. The trajectory of Budget truck is positive, and we expect profitability this year to at least double from 2009, as this business continues to respond very favorably to a firming housing market, and an improving economy.

Our international operations also had another strong quarter. Our most profitable market, Australia continued to perform well, despite some recent pricing pressures, as a result of lower per unit fleet costs and disciplined expense management. Canada continues to benefit from its strong airline affinity relationships, as well as a strong commercial base of business that helps fill out the long winter season. We have also introduced our Budget Unlimited Travel Agency Awards program. We rolled out an invitation-only customer loyalty and rewards program in Canada, that is driving incremental volume. And while our wholly-owned operations in Australia, New Zealand and Canada represent the majority of our international adjusted EBITDA with margins well above 10%, our licensees in Latin America and Caribbean have weathered the economic storm of the last two years with very little incident, and are performing better year-over-year.

Let me spend a minute on fleet and the used car market. Our fleet was generally tight throughout most of the quarter, and length restrictions were more prevalent than normal during the all-important mid week commercial periods. We recognized this, and are evolving our fleet management to strike the right balance among utilization, profitability, and revenue per unit metrics.

We're finding that by stepping away from unprofitable business, much of which occurs towards the tail end of the week and weekend, utilization winds up very high mid-week, but tapers off considerably towards the end. This produces slightly lower average utilization, even though RPUs are still healthy.

As mid-week commercial business continues to recover, RPU will become an increasingly important metric in our fleet management, to make sure we capture all of the commercial volume available to us. The ease in expanding and contracting fleet is largely aided by the buoyancy of the used car market. As we've mentioned in the past, we believe a generally strong used car market is likely to persist for some time. The number of cars built in the US in 2009 was down 21% compared to 2008. The car rental industry purchased 27% fewer cars in 2009, and new lease volume declined more than 25% in each of 2008 and 2009.

We believe the decline in new car production, and the significant decline in new vehicle leasing over the past few years, and the sizeable de-fleeting of the rental car industry have reduced and will keep low the supply of late model used vehicles. This in turn should support strength in late model used car pricing over the next two years. As we've noted before, this would argue for an increase in risk fleet. But as we move through our 2011 fleet negotiations, we're finding the pricing balance between risk and program has changed, and the incentives for taking on risk are not as significant as in the prior years.

Just to comment on non-cancellation fees. We remain on track to roll out the industry's first non-cancellation fees in the US. The early results continue to be quite promising, with systems and procedures working as expected, and no discernible impact on reservations. Our plan continues to be roll -- to roll this out more broadly by the fourth quarter of this year.

Looking ahead over the back half of the year, we believe the macroeconomic climate continues to strengthen and we remain optimistic. Year-over-year volume trends are improving sequentially over the summer, driven by both leisure and commercial travelers. And OAG data suggests that the airline capacity should be up a few percentage points for the remainder of the year.

Having now anniversaried many of the actions to avoid certain unprofitable or marginally profitable transactions, our volume growth going forward should be more closely in line with industry growth, although we still have a couple of points headwind from having downsized our off airport footprint a bit, and having to returned the operation of Budget LAX to it's original franchisee. As a result, we expect to begin achieving positive year-over-year volume gains in the second half of the year. In fact, domestic rental volume increased year-over-year in July, and based on reservations to date, we expect August to be up a few points more than that.

The key to the balance of the year, as always, will be pricing. As we've noted, our pricing comparisons become more difficult in the second half of the year, given that we're reported domestic leisure price growth of 13% in last year's third quarter, and 14% in last year's fourth quarter. Pricing during the summer has been somewhat mixed. The June price increase was well received, and reflected itself in the early res builds. But as time went on, discounting in certain channels became more of the norm, and only a portion of the increase remained intact.

One of our competitors announced a price increase effective July 15 in certain markets and channels, but has not been consistently applied in several of the larger association channels. Consequently, we don't think there will be much of an impact. However, a two year perspective is important here, because the good news is that we're holding on to most of the significant price increases achieved last year. And with July now behind us, and good visibility on August, we expect year-over-year profitability to be up significantly in July and August, our two highest earning months of the year.

Fleet levels remain tight, and the used car market continues to be strong, all of which would argue for stability in pricing as we defleet into the fourth quarter. Even with an optimistic outlook on volume in the fourth quarter, visibility is limited on pricing, so we remain cautious in our outlook, if only because of the seasonally softer demand that generally occurs during that period. To be clear though, our outlook does not reflect any change in our pricing strategy, our fleet decisions, or our focus on profitability.

Even taking some price uncertainty into consideration, our potential for margin growth is significant. As we mentioned previously, we need to recover only a fraction of the market decline in volume, a return to the 8% adjusted EBITDA margin we've averaged since 2002. In light of the tremendous amount of fixed cost we've taken and kept out of the business, and the success we continue to have in growing our highly profitable ancillary revenue stream. While a stronger pricing environment would certainly accelerate margin growth, pricing remains dictated by the market. So our focus necessarily remains on improving the customer experience, increasing loyalty, and developing profitable volume growth.

So to wrap up, we're optimistic about the prospects for our Company, both near term and longer term, as well as the industry in general. An improving economy, declining fleet costs, and the leverage of a dramatically lower infrastructure, all point to a cyclical upswing in our business. On a more granular basis, we're holding most of last year's pricing gains, and both commercial and leisure travelers are coming back. Our mix of business is more attractive than ever as a result of the actions we have taken, and our focus on the customer has been re-intensified. As a result, we should be able to show impressive earnings growth this year. With that, let me turn the call over to David to provide some more details on the quarter, and our full-year outlook.

David Wyshner: Thanks, Ron, and good morning, everyone. Today I would like to discuss our second quarter results, our fleet and capitalization, and liquidity, as well as expand on some of Ron's comments regarding our outlook. My comments will focus on our results excluding certain items. As Neal mentioned, these results are reconciled to our GAAP numbers in our press release. And our adjustments are relatively small, totaling just \$5 million in the quarter.

In the second quarter, revenue decreased 1% to \$1.3 billion, adjusted EBITDA grew by 46% to \$98 million, and pre-tax income was \$34 million, an increase of \$28 million versus second quarter 2009. All three of our operating segments reported significant growth in adjusted EBITDA, reflecting our Company-wide cost reduction efforts and improving volume trend. This was the third consecutive quarter that all three of our operating segments reported an increase in adjusted EBITDA. In our domestic car rental segment, revenue declined 5% reflecting a 6% decline in rental days, and a less than 1% decline in price year-over-year. Notably, pricing was up 6% compared to the second

quarter of 2008, illustrating our ability to maintain most of last year's price increases, even as volumes start to rebound.

Adjusted EBITDA increased \$11 million for the quarter, driven by increased ancillary product penetration, 14% decline in per-unit depreciation cost, and the benefit of cost saving initiatives, partially offset by lower volume. Domestic depreciation declines were due to lower costs per model year 2010 vehicles, as well as a strong used car market. International revenue grew 16% year-over-year, driven by a 13% increase in pricing. Excluding the impact of foreign exchange, pricing was flat and ancillary revenues increased 11% per rental day. Adjusted EBITDA grew year-over-year primarily due to a favorable impact from foreign currency, a 4% decline in per vehicle depreciation cost on a constant currency basis, and other cost savings. Excluding the impact of foreign exchange, adjusted EBITDA increased 21%.

Truck rental revenue increased 3% versus last year, due to a 2% increase in pricing, and a 1% increase in volume. We achieved this revenue growth despite a 9% reduction in our truck rental fleet, meaning that revenue per vehicle was up 11% year-over-year. Importantly, one way revenue, the most profitable part of the business was up, driven by mid single digit pricing gains. Adjusted EBITDA increased \$6 million, and margins expanded over 500 basis points, the fifth straight quarter of margin expansion, primarily due to increased revenue, lower fleet costs, and our cost saving initiatives.

As we plan our domestic car rental fleet, we have largely completed our negotiations with several of our vehicle suppliers for the purchase of model year 2011 vehicles. And we are well along with the remainder. Manufacturers continue to seek our purchase volumes at a reasonable price, and the perceived stability of the used car market as Ron mentioned, has caused the gap between program cars and risk cars costs to shrink, but not to vanish. Based on our negotiations to date, we once again expect that no single manufacturer will account for more than 30% of our US rental car fleet next year. Our model year 2011 per unit vehicle costs should be generally consistent with, and possibly lower than our model year 2010 costs.

We expect to maintain a balance of risk and program cars, with program cars continuing to represent approximately half of our fleet. Program cars give us the flexibility to adjust our fleet quickly, without the potential negative consequence of trying to sell a large number of vehicles in a short time period. And it also enables us to offer specialty vehicles, such as large SUVs and convertibles, without taking on the residual value risk of these models. We'll also be introducing some exciting new models to our fleet next year, including a few on an exclusive basis.

Turning to the balance sheet, our liquidity position remains strong. We ended the quarter with more than \$450 million of cash. We had no borrowing under our \$1.2 billion corporate revolver. We also had more than \$800 million of capacity under our vehicle backed financing programs. We clearly have substantial liquidity. Our results put us well within our covenant requirements. Our leverage ratio at June 30 was 4.2 times, compared to a permitted maximum of 6.25 times. And our coverage ratio was 2.7 times, double the requirement of at least 1.3 times. Covenants will tighten a bit over the coming quarters, but not nearly to the extent of the cushion that existed as of June 30, between our ratios and the requirements.

We reached our peak June 2010 rental fleet size in late July, and never had less than \$500 million of unused capacity under our domestic vehicle backed facilities. We have about \$600 million of domestic term ABS maturities in 2011, and we will probably look to opportunistically tap the ABS markets late this year or early next. We continue to manage our capital spending conservatively, with our year-to-date spending number aided by the fact that several of our larger projects this year are weighted towards the second half.

CapEx totaled just \$16 million in the second quarter, and \$23 million year-to-date, but you should expect the back half numbers to be higher. Our Federal tax returns for 2003 to 2006, the year we separated into four independent companies, have been under audit and we are indemnified for most pre-separation tax matters by two of our former subsidiaries. In July, we reached a settlement in principal with the IRS, so we currently expect the audit of our tax returns to conclude in the third quarter without any findings that would have a significant impact on our earnings or financial position.

Let me now touch on our outlook. As Ron mentioned, the key elements of our strategy remain the same, an intense focus on cost controls and process improvements, a persistent drive for improved profitability, keeping fleet levels in line with demand, aggressively pursuing ancillary revenue growth opportunities through refining and improving the vehicle rental experience. We continue to expect to see a modest economic recovery this year which we believe will drive increased car rental demand, led by the return of corporate travel.

On the expense side, we now project an 8% to 10% reduction of domestic per unit depreciation cost, which is helping us by more than \$100 million year-over-year. These savings are partially offset by higher vehicle interest costs of approximately \$25 million to \$35 million compared to 2009. Please remember though, that our third quarter domestic fleet cost comparison is a tough one, since we recorded a \$23 million gain on the sale of used vehicles in third quarter 2009 when the Government Cash For Clunkers program was in full gear.

We have also upped our estimate of the current year benefits from our cost saving initiatives by \$10 million, meaning that we expect them to provide an incremental \$50 million to \$70 million in savings for 2010 compared to 2009, much of which was realized in the first half of the year. Of course, some of our cost saving benefits will be offset by inflation on our approximately \$2 billion non-vehicle related U.S. cost base. Finally, our 2010 GAAP tax rate is expected to be less than 40%. Full-year cash taxes should be around \$30 million to \$35 million, and we don't expect to become a partial federal cash taxpayer in the US until 2011.

We continue to be focused on, and excited about our potential to grow earnings in 2010 and beyond. The Company's cost structure is significantly leaner, and our increased emphasis on profitable rental transaction, ancillary rental growth, and fleet diversity gives us the opportunity to return over time to margin levels we achieved during previous economic cycles, even at a lower revenue base. Volume is returning, the summer booking trends have been encouraging, pricing remains well above 2008 levels in line with our business plan, our full-year cost savings are coming in ahead of expectations, and our balance sheet and liquidity position are strong. With that, Ron and I, would be pleased to take your questions.

Q&A

Operator: Thank you.

(Operator Instructions).

Our first question comes from Chris Agnew with MKM Partners. You may ask your question .

Christopher Agnew: Thank you very much. Good morning. First of all, I wanted to ask about corporate travel, as it's 50% of your mix. I don't know if I missed on the call, if you gave us any specific numbers. But I would guess that your volume trends are a little lighter than certainly one of your competitors talks about. And also, maybe if I look at the hotel companies, and what they talk about in terms of double digit volume trends. I'm just wondering what we need to be thinking about, in terms of maybe reasons for the difference.

Ron Nelson: Yes, Chris. It's Ron. A couple of things that I would ask you to think about. One obviously, is definitional. You need to be sure that we're both defining commercial, as encompassing the exact same segments. But probably the most important impact is -- government business is a lot like association business. It's included in our business channel. You post a rate to a website, and you get government business or you don't. We moved away from a fair amount of government business, because it just wasn't that profitable.

And so with a very tight fleet, you end up not servicing a lot of it. I think our government business was down 30% or 40% during the quarter. And I suspect that that accounts for a big amount of the difference. Having said that, I suspect that our fleet was very tight during the quarter. As I said in the call, we had a lot of mid week LOR restrictions, so there probably was a little bit of commercial volume that we could get. But to me, that's opportunity in the back half of the year. But I think the principal reason is the amount of government business that we walked away from.

Christopher Agnew: Okay. And then I guess related to that, just can you comment on the activity and corporate pricing that you're seeing? With recovering corporate volumes are you able to go back to your corporate customers, and start talking about getting pricing?

Ron Nelson: I think the market still remains very competitive. There is three of us that are actively competing for commercial business. And procurement managers are still very focused on managing costs. So we're always trying to get price increases, believe me. But I think, in this environment we ended up -- I think our commercial rate increase in the second quarter we were flat on pricing. And a lot of that has to do with the gains in small business that we're getting, because the RPDs are higher, and we're changing the mix of the business. Large \$1 million dollar plus accounts just aren't getting very significant price increases, if any.

Christopher Agnew: Okay. Thanks. And just a final housekeeping question, maybe for David. Can you give us an idea of what, if it all a tax credit benefit will be for the rest of the year, and does that also extend into next year?

David Wyshner: Sure, Chris. Good morning. Most of the tax credits related to us, relate to Australia and they have been recognized in the first half of this year. It is a 2010 program, and we took advantage of it primarily in the first half of the year. I wouldn't expect to see much more than what we've already recognized.

Christopher Agnew: Okay. Great. Thank you very much.

Operator: Our next question, John Healy with Northcoast Research. Your line is open.

John Healy: Good morning. A question for you on fleet, Ron. You talked a lot about program cars beginning to move into the market, and some attractive prices on those vehicles. Can you talk about how you feel about that for next year, in terms of the program cars moving back in the market a little bit, and what you think that would do to the fleet dynamics in the industry? And maybe how we should think about the stability of the competitive environment based on that?

Ron Nelson: Well, I think everybody is going to make their own fleet decisions, John, depending on the variability or the seasonality of the business. Our fleet flex is up about 20% during the summer quarter, and program cars are the right vehicle to do that. And as you know, we also use program cars for high-end luxury vehicles and convertibles and things, that we simply don't think it's prudent to take residual risk on. I think our model year 2011 mix, which I think as I said earlier we would have liked to have take up into the low to mid 60s for risk, is probably going to end up remaining about where it is in 2010, 50/50, just because of the decreased pricing we're seeing on program cars. I don't -- it -- honestly I don't see a lot of impact on competitive pricing from differing fleet cost dynamics. Ultimately, it will impact your margins, but I just -- I don't think that it alters the competitive profile much in the marketplace.

John Healy: We should take your comment on program cars as not necessarily a significant change in strategy, but just the ability to keep depreciation costs lower, based on the attractive terms you're getting program cars at a similar cost as a risk car?

Ron Nelson: Yes. I mean look -- we try and balance -- yes, the objective is to get the depreciation cost as low as we possibly can, without taking on what we think is imprudent risk in the resale market. So every fleet deal, we pour over pretty assiduously about balancing program and risk and delivery dates and things of that nature, to make sure that we have optimized depreciation -- for the risk characteristics.

John Healy: Okay. Great. And maybe we can talk, David, about the cost side of the business, continuing to make some really nice strides there. You mentioned some of your further thoughts on moving to more self service, and being more efficient on how you touch the customer. Can you talk about maybe where you're having the most success on the cost side of the business today? And maybe where you see additional opportunities, if there are additional opportunities that can be meaningful to the cost structure as we move into 2011?

David Wyshner: Sure, John, and good morning. We're seeing cost benefits really throughout the P&L, primarily in direct operating cost. Maintenance and damage has been a significant positive for us, really as a result, we think, of two things. One being decisions, we've made on the revenue

side in terms of what sorts of business we're going after most aggressively. And then also just in terms of the cost of doing what we need to do on the M&D side. So we're seeing significant savings there. Our self insurance programs have continued to progress very well over the last year.

And as we go back through our core processes, in additional time, there may not be quite the same amount of -- there isn't the same amount of low hanging fruit. But we are seeing significant benefits of going back through our core processes, around check in, check out, vehicle turn around and so forth. So those are the areas where we're spending a fair amount of time. And then the last issue is on the fleet side, where obviously we have had some very significant savings this year. And even as we look ahead to next year, there are a few more program cars that will help us -- that will help us not only manage some cost down but also better manage some of the shoulder periods that exist on a seasonal basis. So we see that as an opportunity as well.

John Healy: Great. And just the last question, kind of stick with the theme of fleet and costs, when you look at your remarketing strategy that you have today, how do you feel that may change other the next year or two? I know one of your competitors has talked about selling a lot more cars direct to dealers, and being more innovative with their remarketing process. Is that something you're taking a close look at right now, and we should expect to hear more commentary going forward?

David Wyshner: It is certainly something that we are looking at, and have been looking at very closely, and very carefully. Somewhere between a quarter and a third of our fleet sales, our risk fleet sales, are already going through a non-traditional channels. And the vast majority of that, is working to find ways other than auctions to sell to dealers. At this point we're not actively involved in the retail space, and I think that's relatively -- and at this point I think that's likely to continue to be the case. But we have significantly ramped up the non-auction portion of our wholesale sales, which were just a few percentage points several years ago, to now being in the range of 30% of our risk car sales.

John Healy: Okay. Thank you, guys.

Operator: Our next question, Steve Kent with Goldman Sachs. You may ask your question.

Steven Kent: Hi. Good morning. Could you talk about fleet levels, more broadly across the industry. Do you perceive that the industry is also keeping their fleet levels in line with demand, and what is your research showing? And then just so I have a better understanding of your commercial business, especially with your biggest accounts, how much of your commercial business is really through long-term contracts where you're negotiating ahead of time, and when do those come up for renegotiation for 2011?

Ron Nelson: Sure. Well, let me take the first one, or the second one first. I would say somewhere between 60% and 70% of our commercial volume is done under contract. It's principally our \$1 million dollar plus customers and our mid market commercial customers. They -- the contracts there tend to be anywhere from a year to 18 months. They all have reopeners in them, so -- but I would say for the most part they tend to last the full duration. In terms of fleet levels around the industry, our sense is that particularly over the summer, that everybody has been relatively tight.

It bounces between competitors, as to who has the LOR restrictions first during the week. But generally we're not seeing anybody significantly over-fleeted and doing any sort of damage to pricing in the industry. And I would say, Steve, that's really been a trend for the last 18 months, that the fleets by and large, have been pretty carefully aligned with demand, and pricing has been pretty true.

Steven Kent: Okay. Thanks, Ron.

Operator: Our next question, Brian Johnson with Barclays Capital. You may ask your question. Please check on your mute button.

Brian Johnson: Excuse me. What -- could you give us the exact price volume percentages for leisure versus commercial.

David Wyshner: Sure, Brian. The volume which was down domestically 6% over all, was down 3% in commercial, and down 8% in leisure. And pricing was flat on the commercial side, and down 1% on the leisure side, which is how we got to the -- in that rounded to minus one over all.

Brian Johnson: Okay. And within commercial, what percent of that -- did you say about 30% of that decline could have been through the -- what was the impact of government on that percent growth rate?

Ron Nelson: Well, what I said, Brian, is that our government business was down between 30% and 40%. Government is just sort of looking at it, it's probably about, oh, 15% or so of our commercial volume.

Brian Johnson: And when you a year ago, sir, did you have more government, do you think, than your major competitor?

Ron Nelson: No, no.

Brian Johnson: So this is just getting down to levels they are? Or are you ahead of others and backing away?

Ron Nelson: I don't think so, Brian. I think a year ago we were probably doing the same thing. We had fleets pretty tight. We were looking to optimize mid week profitability. So we were restricting - - we weren't posting market clearing prices in government. So I think we were down in the second quarter as well. I can check that for you, but I'm pretty sure.

Brian Johnson: Sure.

Ron Nelson: That's the case.

Brian Johnson: And on the fleet depreciation side, with the fleet cost guided flat to down in 2011, and with better used car pricing, can we assume that depreciation is the same, or should we assume it actually gets better into model year 2011?

David Wyshner: When we talked about the fleet cost, and the model year 2011 fleet cost being similar, and possibly lower than model year 2010, we really are talking about depreciation costs. So that's -- the right way to interpret that is our view on model year 2011 depreciation costs. Does that help?

Brian Johnson: And does that mean what you're paying the manufacturers. It sounds like it's getting better on the program side and about the same on risk?

David Wyshner: No -- I mean, what really matters to us, on a per unit basis is the per month cost, and that's really what we're talking about. There are no particularly noteworthy trends in terms of the cap cost or the purchase prices. But what really matters is the per unit per month cost, and that's what we're talking to and addressing.

Brian Johnson: And in terms of your fleet purchase patterns, are you -- in terms of the timing of that through the year, and taking on the new models, are you done buying cars for the late summer, early fall? Do you not get more until the winter, and just how should we think about the fleet sizes? Any difference from normal, both in terms of the purchases and the overall seasonality of the fleet. Any difference than the usual year?

Ron Nelson: I think what is different about this year is we're probably further along in overall purchases than we ever have been at this point in time during the year. But I think your presumption is right. We're pretty much done for the balance of 2010 in terms of the fleet purchases, and purchases that we're negotiating now are towards the first half of 2011, the (inaudible) deliveries during that period.

Brian Johnson: Okay. And just a little back a little on leisure, is there anyway to split the budget pricing trend versus the core Avis brand pricing trend?

David Wyshner: We do not publicly split out the results by brand.

Brian Johnson: Okay. Thanks.

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

Stephen O'Hara: Good morning. I just had a question on the cost savings. And if you kind of look at most of the costs quarter over -- year-over-year, a lot of them more up, with the exception of vehicle depreciation. Is the SG&A line, is this going to improve as you start to get the benefit of maybe the LAX transaction, and you see more of a better comparisons going forward?

David Wyshner: I get a few things in there. We feel good about a number of comparisons, not just on the fleet cost side, but also the trends we're seeing in direct operating costs. It's a little bit hard when you look just at the P&L, because there are FX issues that are coming in since some of the -- since the mix of costs international is a bit different. Direct operating costs in domestic car rentals are down, as a percentage of revenue. The only area that-- and obviously fleet costs are down very significantly. The only area that moved up was SG&A. We had a -- we did invest in some

marketing, particularly internet-related marketing that drove some costs up in the second quarter, that benefited gross second quarter and will benefit third quarter revenue. The other item in there, is that we also had some expenses related to the potential acquisition of Dollar Thrifty, and those show up in SG&A as well.

Stephen O'Hara: Okay. Thank you.

Operator: Our next question, Derrick Wenger with Jefferies & Co. You may ask your question.

Derrick Wenger: Yes. What is your availability on your lines now? What was your CapEx in the second quarter, and what is your outlook for CapEx?

David Wyshner: Sure. CapEx in the second quarter was \$16 million, \$23 million year-to-date. As I mentioned on the call, we expect that to increase in the back half of the year, probably to end up in the \$70 million to \$80 million range for the full year, more likely 70, than 80. And in terms of availability under our lines, we have a \$1.2 billion corporate resolver. There's only about \$440 million of LCs outstanding as of June 30, so that left us with north of \$700 million of available capacity on the corporate side. And as I mentioned, we had over \$800 million in vehicle back financing availability at quarter end.

Derrick Wenger: Okay. Thank you.

David Wyshner: Sure.

Operator: Our next question Ms. Emily Shanks with Barclays Capital. You may ask your question.

Emily Shanks: Good morning. I wanted to get a little bit of color around the domestic EBITDA performance. You commented in the release that a portion of that was attributable through cost saving initiatives. How much of a boost did you guys recognize in this quarter related to that?

David Wyshner: I -- good morning, Emily. It's always a little bit hard to break out. But the analysis -- the analyses we've done have it at -- in the \$20 million range. As we said year-over-year, we expect to be up \$50 million to \$70 million, as a result of incremental cost savings this year. And the majority of that was in the first half of the year. So I think \$20 million is the right area to be in.

Emily Shanks: Great. Thank you, David. And then if I caught , Ron, your comments correctly, my understanding for July and August is that you expect EBIT to be up significantly. And I'm just trying to get a little bit of help around how we should think about that, when we juxtapose the 3Q 2009 EBITDA, which included a \$23 million gain from the vehicle sales, which I think, David, you referenced. Just trying to understand should we be looking at 3Q 2009 ex those gains? And then consider things will be up on a year-over-year basis versus that, or what is the best way to think about that?

Ron Nelson: I think the comment was intended to be adjusted EBITDA to adjusted EBITDA. I wasn't intending to back out vehicle sales gains. They were significant. You're right, Emily, in the third quarter last year. And we're likely not to repeat them. But at the same time, we're enjoying

some fairly significant fleet savings gains along with cost savings gains. And volume has come back, and we're hanging on to the price. So it was intended to be an absolute comment, not an adjusted one, or a caveated one.

Emily Shanks: Great. Great. Okay. And then just my last question would be with Bob leaving, is there -- are there plans to replace the COO position? I know that you're acting as that now, Ron. But is there any plan to add to your management team?

Ron Nelson: We've got a very strong management team that Bob and I put in place over the last five years, that has been coming up the experience curve for -- I mean I think the newest one has still been here two years. That's Tom Gartland in sales and marketing. And the team right now is working very well together, and we don't see a need currently to fill that position.

Emily Shanks: Great. Thanks. Good luck.

Ron Nelson: Thanks.

Operator: Our final question, Jordan Hymowitz with Philadelphia Financial. You may ask your question .

Jordan Hymowitz: Hello, guys. Thank you very much. Just two follow-ups on other people's questions. Did you say the dollar amount on gain on sale in this quarter?

Ron Nelson: We didn't, but we can. Overall we had a slight gain in the \$1 million dollar range including our disposal cost. Now and obviously if you exclude disposal cost, the gain would be larger, but we've always reported net of disposal cost. It was a slight loss in domestic, a slight positive in international, and overall it was a gain of a \$1 million dollars.

Jordan Hymowitz: And can you say with disposal costs, because I think Hertz excludes it and I want to be comparable, because you guys are more conservative the way you report it.

David Wyshner: The numbers we report are always on a net of disposal cost basis.

Jordan Hymowitz: Okay. And next going back to the auction percentage, you guys and Hertz both seem to be going down dramatically in the amount of vehicles you're sending through option. You guys were at like 90%. And now you're at 75% to 70% of Hertz -- was at 87. And they're at 60 going to 50. I assume you guys are the same way. Can you say like what is the average savings you're getting by not going to auction without going in the different channels? In other words, is it 300, is it 400? What's the average savings per car you're getting by bypassing the traditional auctions?

Ron Nelson: Jordan, it's very difficult to quantify and compare because it all depends on the cars you're selling, the mileage on them, the make and model. And what I can tell you is that when you look at both the Adesa and Manheim auction statistics, we're always getting a good couple three points above what they call the MMR, which is sort of the indicative value, adjusted for make, model and mileage. So we tend to do better than the average car rental sale and auction. So I think

that drives a fair amount of our thinking. And I also think you've got to sort of keep in the back of your mind that dealers are not going to pay more for a car, if he can buy it -- to pay more direct than he's going to pay at an auction. They have the ability to go to these auctions. So I think it's -- but it's very difficult to compare as to what's -- whose strategy drives more profitability.

Jordan Hymowitz: And do you have an overall target like Hertz is saying they're well below 50 next year. Do you have a target in 2011, where you intend to be for auctions?

David Wyshner: Not per se. As Ron was alluding to, what it really becomes from our perspective, it is an optimization exercise with respect to each group of cars. And we're going to -- we're going to sell in the way that produces the best aggregate return and residual value, including the disposal costs and shipping costs, and even considering the relative amount of out of service time associated with different channels of selling. With that being said, I would expect the amount that's going through non-auction channels to stay the same or increase over the next year, not to decrease as we continue to optimize our costs on that basis.

Operator: We are now out of time. For closing remarks, the call is being turned back over to Mr. Ronald Nelson. Please go ahead, sir.

Ron Nelson: Thanks. Thanks, operator, and thanks to everybody for the support of Avis Budget. We feel very good about the business for the balance of the year. Volumes are returning. We're holding most of last year's pricing gains. Our cost savings actions are ahead of time. Negotiations with the OEMs have given us optimism regarding our 2011 fleet cost, and our balance sheet is strong. So consequently, our enthusiasm is high. We look forward to speaking with you in November about our third quarter progress. Thanks very much.

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