MANAGEMENT DISCUSSION SECTION

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

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

Neal Goldner, Vice President – Investor Relations

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

Before we discuss our results for the first quarter, I would like to remind everyone that the Company will be making statements about its future results and expectations, which constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Such statements are based on current expectations and the current economic environment, and are inherently subject to economic, competitive and other uncertainties and contingencies beyond the control of management. You should be cautioned that these statements are not guarantees of future performance. Actual results may differ materially from those expressed or implied in the forward-looking statements. Important assumptions and other important factors that could cause actual results to differ materially from those in the forward-looking statements are specified in our earnings release, which was issued last night, our Form 10-K and other SEC filings.

If you did not receive a copy of our press release, it is available on our website at avisbudgetgroup.com. Comments on this call regarding our results are intended to be a reference to our results excluding certain items, which are non-GAAP financial measures, and are reconciled to GAAP numbers in our press release and on our website.

Now, I'd like to turn the call over to Avis Budget Group's Chairman and Chief Executive Officer, Ron Nelson.

Ronald L. Nelson, Chairman, President, Chief Executive Officer and Chief Operating Officer

Thanks, Neal, and good morning to all of you. There are a number of items I want to address today in varying degrees of detail. High on my list is our first quarter performance, followed by an update on the progress of the strategic initiatives we laid out for you last quarter. I then want to touch upon our outlook and then conclude with an update on the Dollar Thrifty situation.

Touching briefly on our first quarter results, despite the unusually large and frequent snowstorms in North America, floods in Australia and an earthquake in New Zealand, our team was able to capitalize on the economic recovery and take full advantage of the decisions we have made over the last year to accelerate our revenue growth and expand our margins.

Just to summarize, revenue increased 7%, pricing trends remained stable, and we successfully implemented a price increase effective as of April 1st. Our adjusted EBITDA more than doubled with each of our segments once again reporting earnings growth. Margins further expanded reaching the highest first quarter level we have achieved since becoming an independent public company.

Our decision late last summer to add fleet has enabled us to capture incremental demand, including more of our corporate customers' midweek needs, and we are making real progress in key strategic growth initiatives, which I'll talk more about in a bit.

I want to expand on each of these somewhat though, and then have David share more detail with you in his comments. In terms of top-line performance, all of the revenue increase in the quarter was volume driven, as pricing was down across both brands.

The drivers behind the lower price were somewhat unique to us, at least in the case of tough leisure pricing comps, but also include the impact of weather-related soft leisure demand in the first six weeks of the quarter.

Commercial pricing seemed to stabilize at around down 1%. And some of the pricing impact was structural. We had longer length of rental at the airport, particularly in the budget brand, and we had a modest mix shift favoring local market.

There was general uniformity between commercial and leisure volume gains, with leisure actually ending the quarter outperforming commercial. Pricing comparisons did strengthen over the course of the quarter and into April, largely because of the late Easter. And we've even seen some modest gains as we have approached the seasonally slower months of May and early June.

I am particularly pleased with our progress on margins. As we told you last year, our goal was to restore adjusted EBITDA margins to the 8% level. Having reached that goal, or at least come within a hair's breadth of it, we are now rethinking the potential of the business, particularly in light of the initiatives we are pursuing, and are challenging ourselves now to grow margins to the 10% level.

We do think this is achievable in the medium term, although the path to glory is seldom a straight line. I am sure there will be bumps in the road along the way and while it is not a 2011 probability, we are firmly setting our sights on 10% as the next target.

There were also a number of notable milestones with this quarter's results. First, from a seasonal perspective, it's not easy for a commercial and leisure car rental company to make money in the first quarter. So while our vehicle sales gains definitely helped, we are nonetheless pleased to be in the black in Q1, both on an adjusted and a GAAP basis.

The second relates to the truck segment, which reported negative adjusted EBITDA every first quarter since we became public until this year. Third, it is more than notable that our management teams in New Zealand and in Australia survived natural disasters of the highest order and still reported solid results.

Australia had the additional challenge of a weak pricing environment, but offset a good degree of it with solid volume gains from the recently concluded exclusive agreement with Qantas.

And last, but certainly not least, is the performance of our domestic car operations, which doubled their adjusted EBITDA in the first quarter. To be sure, the strong used-car market played a factor in this, but even normalizing for those gains, the benefit of incremental volume and the leverage created by our ongoing focus on costs and productivity gave rise to a healthy increase in adjusted EBITDA.

Let me now segue into the progress we've made on the key strategic initiatives we shared with you last quarter. As you may recall, in late 2010, we adopted a series of strategic initiatives intended to accelerate our revenue growth and improve our margins. As part of that process, we identified and targeted the most attractive segments of our business with a goal of producing meaningful and sustainable top and bottom-line benefits in 2011 and over a longer period of time.

Just to remind you, as part of this work we are investing in our brands, aggressively pursuing additional international inbound revenue opportunities, putting incremental resources towards winning and keeping small business customers, strengthening our local market profitability, expanding our use of technology, and continuing to generate significant benefits from our Performance Excellence process improvement efforts.

Let me give you an early progress report on a few of these initiatives, starting with branding. As we discussed last quarter, we initiated a multimillion dollar marketing campaign for the Avis brand in January. The theme of the campaign, Treating People Like People, is intended to update and complement the iconic We Try Harder platform by shining a light on the excellent customer service our employees deliver to our renters everyday.

It is both a print and broadcast campaign, running predominately in media that index very high with frequent renters, both male and female. We know it is resonating, as evidenced by the coverage we've received and customer reactions. And importantly, it lays the foundation for all the work we are doing in our customer-led service-driven initiative.

We've also launched a new campaign for Budget, featuring Wendie Malick, the star of NBC's long-running Just Shoot Me! and TV Land's Hot in Cleveland, as our spokesperson. Wendie is a quickly recognizable celebrity, scoring equally high in both male and female demographics. The integrated television online and e-mail campaign we've developed with her reinforces Budget's trusted value position. The heart of the campaign, however, is its direct response element. And the early returns on the transactional aspect of this advertising are more than encouraging.

Our creative people did a tremendous job this quarter creating three new television spots and seven print ads for Avis, two new Budget commercials and multiple digital advertisements. I hope you have had a chance to see the ads and commercials. If you haven't, they are available on avis.com, budget.com and YouTube.

Another one of our clear line of sight initiatives is our work to grow our international inbound volumes. When you consider car rental, there are really only two brands that have a global presence, and Avis is one of them. Given that dynamic, we think our market position is under-penetrated in inbound U.S. rentals, particularly in the largest U.S. inbound market, Europe. Given that view, we launched our own sales force in the European territory rather than sharing Avis Europe's as a means to own and leverage the local opportunities and customers to drive inbound business.

We firmly believe international inbound growth is a $30 million to $50 million revenue opportunity for us this year and more next. It has very high margins as customers tend to buy coverages, rent GPS' and have long LORs. We have hit the ground running, driving first quarter revenue growth of nearly 15% in this highly profitable segment.

Even before we announced this initiative, we signed three significant partnership agreements in Latin America, helping to drive growth of nearly 25% from that region. We also saw nearly 25% growth out of our Pacific region, aided in part by the new Qantas agreement we signed last year.

We are also making excellent progress in accelerating our small business initiative. The highly fragmented small business segment is growing faster than the large commercial market, and our efforts to accelerate growth in this profitable segment are yielding positive results.

Volume is up 18% year-over-year in the first quarter, and new account activations are up more than that. But while the small business segment is attractive, it is at the same time also elusive. The attractive part is that many small business travelers aren't constrained in terms of car class, coverages or contractual pricing. This tends to drive higher RPDs.

On the other hand, if there is one impediment to sustainably growing small business revenue, it's that customers often don't demonstrate the same loyalty as their large commercial brethren.

A part of our initiative in this channel has been to designate a portion of our commercial account managers to focus exclusively on our small business customers, and in just a few months we've been able to improve customer retention by reducing customer churn. This attention, combined with incremental selling resources and a strong brand proposition, is delivering the desired results.

Moving to local market, you may recall that this is a business where we are already doing $0.75 billion in revenue, but earning several margin points less than we do on the airport. Our goal is to, first, narrow this gap and then exceed airport margins through thoughtful integration of locations, closing unprofitable stores, and most importantly, dedicating sufficient fleet to service the available demand.

We've made good progress in our local market initiative in the first quarter, benefiting from the incremental fleet we allocated at the end of 2010 and co-branding additional locations. Our results support the wisdom of this move, same-store growth was up 10% and contribution margins improved substantially.

We closed approximately 25 money-losing stores in the first quarter, and in the majority of situations replaced them with better-situated locations. We also co-branded approximately 75 local market locations during the quarter, more than doubling the number of co-branded locations we had at year-end.

Co-branding is an important component of our strategy to improve local market profits. And we have an aggressive plan to co-brand, and where zoning rules allow, tri-brand additional locations this year.

In fact, by the end of the year, we expect to have approximately 300 co-branded stores, with about one-third of them being what we call rental centers, locations that actually have all three of our brands, Avis, Budget and Budget Truck under one roof, all leveraging one fixed cost infrastructure.

By way of example, in the locations co-branded through the end of last year, revenue in the first quarter was up 20%, including 40% revenue growth in locations where we simply added a second brand to the existing store. Not only did co-branded stores benefit from infrastructure leverage, but by having multiple brands available under one roof, we were better able to match a consumer need by providing choice, while also driving incremental revenue.

We're also deploying technology to lower our costs, expand our service offering and improve our customer's experience. We firmly believe that enabling customers to rent vehicles when they want, where they want and how they want is an important part of the future of the vehicle rental industry. And that wireless, or what we're calling virtual rental technology, will be a tremendous opportunity.

We believe this opportunity is substantially larger than the so-called car-sharing model where to-date technology costs have been high, utilization low, the addressable market small and profits hard to come by.

We've been testing virtual rental technology for sometime now, and our initial foray into the marketplace does not depend on us signing up new leisure customers, but rather offering our existing commercial customer base a brand-new experience. This technology allows us to manage the rental, release and return of a vehicle from an un-staffed location, such as the corporate campus of one of our commercial accounts.

We already nearly 3,000 cars virtually enabled and in test in various parts of North America. We expect to nearly double that over the next six months, and further expect to end the year with a number well in excess of that.

Our test has included a commercial customer using our low-cost virtual technology solution for a few months now, and the feedback has been positive. We expect to turn on additional customer pilots within the next few months and adding to that, over the course of the next year – over the course of this year and into next.

The balance of the virtual equipped fleet is in airport locations. The interesting part of the airport experience is that the technology ties into the car's computer and precisely measures the gas used. And thus far, additional gas collections are actually paying for the installation of the enabling technology.

Ongoing development of new rental technology is a critical initiative for us, and we have additional handheld functionality currently under development, which we expect will improve the customer experience and allow us to further differentiate our service offering from the competition.

At the same time, we're deploying rental kiosks in additional cities, offering our airport customers another way to transact with us by deploying technology that is not only convenient, but familiar and faster.

Our view is that kiosks have to be deployed very tactically; first, as a counter-bypass for our preferred or corporate customers where a predefined profile already determines the exact nature of the rental. And second, at peak times when the customer experience would be negatively impacted by long-wait times.

David will discuss the continued success of our PEx team, so between us we hope to have given you a good sense of the progress we've made on some of our key strategic initiatives over the last several months, as well as the opportunity to accelerate our revenue growth and profits as we move forward.

Let me, however, make one point about PEx. In late 2007, we launched PEx with a commitment to generate $40 million of benefit in the first year, and a three-year cumulative and sustainable benefit of $150 million. At the end of 2008, we had generated $41 million of benefit and at year end 2010, three years later, our run rate benefit stood at $185 million, nearly 25% higher than our commitment.

Moving on to our outlook. We began to see the benefits of our strategic initiatives in the first quarter, with strong volume growth in some of our most profitable segments, such as small business, international inbound. And our local market teams have made real progress in improving margins while also driving profitable revenue growth.

We're also pleased with the recent results of our prepaid product offerings with no-show rates down nicely in Q1, but you really can't talk about the outlook for the coming quarters without addressing fleet.

Fleet is the linchpin in virtually every operating metric we monitor and in almost every operating decision we make. And no period proves that to be more appropriate than the one we have just closed and the one we're about to enter.

Vehicle residual values during the first four months of 2011 have been significantly stronger than we and probably everyone else expected. In the used car market each month of the year has been better than the one before, leading us to report significant vehicle sales gains. As David will discuss in a few minutes, this was the primary factor in lowering our projections for per unit fleet costs.

We saw strength in all vehicle disposition channels, including online and wholesale auctions, through which we managed 35% of our first quarter risk car sales.

We believe that our extensive use of both traditional and online wholesale auction is likely benefit us in the quarter as certain alternative channels, such as selling direct to dealers don't provide the same flexibility to fully capture the rapid increases in car prices we've seen this year.

Despite the strength of the used car market, we kept our fleet appropriately sized for market demand. In fact, our average fleet was up 6% in the quarter, and we ended the quarter with fleet up 6% on a year-over-year basis.

Just as important is that we are well-positioned for the coming quarters. Over 95% of our fleet has less than 30,000 miles, allowing us to hold on to cars should deliveries be delayed as a result of supplier challenges in Japan, without affecting our customer's value proposition or having to sell high mileage cars in the seasonally slower used-car market in the fall.

And keep in mind that while we do in-fleet a lot of cars in the second quarter, we also sell a substantial number of cars, giving us a fair amount of flexibility. Moreover, an adverse turn on deliveries would probably further tighten already tight fleets around the industry, which historically has resulted in firmer pricing.

On the demand side of the equation, results for April were positive, aided by a very late Easter and the forward res-builds for May points to growth over last year. Pricing has been steady in these periods, and we initiated a price increase effective April 1, that has been well-received in the marketplace.

It's still too early to get a sense of the summer, although we would note that airline capacity is still showing year-over-year increases in every region of the U.S., and we tend to outperform enplanements, especially in the summer months.

The wildcard, of course, is gas prices, and it's still unknown if they will have an impact. To-date, we haven't seen much push-back, but of course that could change. Absent a meaningful impact from gas prices, however, we are optimistic about the coming months.

Lastly, let me tackle our proposed acquisition of Dollar Thrifty. While 99.98% of our employees are focusing on delivering results for our shareholders, a small handful of us and a gaggle of lawyers and bankers are also focusing on driving this proposed acquisition to the finish line.

In short, there is not much to report, while we had hoped to have more news related to DTG to share with you by now, sometimes things take longer than one would like. So while we aren't ready to talk publicly about our discussions with the FTC, rest assured that we have been working hard on this front, and that we remain committed to acquiring Dollar Thrifty. It remains an important growth opportunity for our company, one that moves us squarely into the value arena, results in significant consolidation efficiencies. And we believe, based on every acquisition completed in the car rental space in the last 10 years, only enhances competition in the industry.

We continue to work closely with DTG and their counsel in order to obtain antitrust clearance for our proposed transaction. And we continue to have a good constructive dialog with the FTC.

In short, while the acquisition of Dollar Thrifty is an important objective for us, we have also been taking significant steps to manage our organic growth and profitability, and the strength of our first-quarter results highlights the potential that we are unlocking. Beyond that, I really don't think there is anything further to say on this topic.

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

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

Thanks, Ron, and good morning everyone. Today, I'd like to discuss our first quarter results, our ongoing cost saving initiatives, and our balance sheet, as well as expand on some of Ron's comments regarding our outlook.

My comments will focus on our results excluding certain items. As Neal mentioned, these results are reconciled to our GAAP numbers in our press release and on our website.

In the first quarter, revenue increased 7% to over $1.2 billion. Adjusted EBITDA more than doubled to $83 million, and margins expanded 330 basis points to 6.7%. All three of our operating segments once again reported growth in adjusted EBITDA, reflecting higher rental volumes and the benefits of our company-wide cost reduction and productivity efforts.

While our reported direct operating costs increased 30 basis points as a percentage of revenue, they declined more than 20 basis points, excluding the impact of rising gas prices and higher truck maintenance expense amidst strong demand in that segment.

SG&A expenses increased 18% in the quarter. While higher rental volumes had some impact on selling expenses, much of the increase reflects the investments in our strategic growth initiatives, including the launch of the Avis print and broadcast campaign, as well as co-marketing partnerships with airlines and others.

Net income increased to $12 million, and diluted earnings were $0.11 per share. Over the last 12 months, our adjusted EBITDA is $454 million. And for those investors and analysts who compare companies' EBITDA excluding deferred financing fees and stock-based compensation, our trailing 12-month adjusted EBITDA on that basis is $493 million.

Turning to our segments, in the first quarter, Domestic Car Rental revenue increased 6% to $929 million, reflecting a 7% increase in volume, partially offset by a 2.6% decline in pricing, reflecting difficult comparisons with January and February of last year. Year-over-year pricing was positive in March as comparisons eased, volume accelerated and industry fleets tightened. And while snowstorms were a factor in the early part of the quarter, as our competitors have pointed out, this clearly didn't hamper our ability to show strong growth, both on and off-airport.

Our commercial business reported its best performance since the recession, with volume up 6%, including 18% small business growth. Commercial pricing declined 1%, reflecting the intense competition for commercial business that has persisted over the last year.

Leisure volumes increased 9% in the first quarter, driven by strong growth in both the on and off-airport markets. Leisure pricing declined 4% in the quarter, but was up in March. High-margin ancillary revenues increased 11% in the quarter, ahead of volume growth, reflecting the benefits of our sales training and marketing initiatives. We recorded our 5 million GPS rental during the quarter and XM satellite radio rentals, which are now available in 50 markets, are gaining traction.

Domestic Car Rental adjusted EBITDA more than doubled to $57 million in the quarter, driven by higher revenues, increased ancillary revenue per rental day, a 16% decline in per unit vehicle depreciation costs, including $30 million in car sale gains, and our cost saving initiatives, partially offset by increased marketing spending for our new Avis brand campaign.

In our International segment, first quarter revenue increased 15% year-over-year, driven by 7% increases in volume and pricing. Excluding the impact of exchange rates, pricing declined 1%, reflecting difficult comparisons with the prior year first quarter, when pricing increased 8% on a constant currency basis.

Adjusted EBITDA increased 1% to $30 million, but was unchanged excluding foreign exchange benefits, as floods in Australia and the earthquake in New Zealand, two of our largest International markets, impacted travel in those countries.

Revenue in our Truck segment increased 6% in the first quarter, driven by 17% growth in volume, partially offset by a 7% decline in pricing. The growth in volume and the decline in pricing were primarily due to a large increase in commercial rental volume, which has a longer length of rental and therefore, a lower average rate than the rest of the Truck segment.

Adjusted EBITDA increased by $4 million, driven by higher revenues and a 23% increase in vehicle utilization. Given the continued and, we believe, sustainable recovery in the truck rental business, we are investing modestly in new trucks to replenish our fleet, which should have a positive effect on maintenance costs.

As Ron alluded to, we are updating our estimates for domestic fleet depreciation, based primarily on the strength we've seen in the used-car market. We now expect per-unit domestic fleet cost to be down 5% to 8% on a per-unit basis in 2011, and continue to expect that no single manufacturer will account for more than 30% of our domestic rental car fleet this year.

As we look forward, we continue to expect the used-car market will remain favorable for quite a while for all the reasons we've laid out in the past – lower domestic OEM production, lower industry fleet purchases and fewer off-lease vehicles relative to pre-recession levels, all now compounded by the challenges brought on by the earthquake in Japan. But that doesn't necessarily mean the spike we've seen in late-model used-car prices in March and April is sustainable.

In the last few weeks we've seen a certain amount of dealer pushback on pricing, resulting, at least initially, in lower conversion rates at auction. We look for the used-car market to normalize down to still healthy levels over the next couple of quarters. One of the key factors determining how quickly the used-car market cools down a bit will likely be when there is better clarity about the impact of the Japanese earthquake on global vehicle production.

We have a regular dialog with each of the major manufacturers, but it's still not clear how significantly the earthquake will disrupt the supply of new cars or for how long. At this point, we've had only a handful of cancellations and delays, all of which are eminently manageable given the age and composition of our fleet. With the Japanese manufacturers being the only ones that have declared their status, we are advantaged in that they represent only 6% of our expected second quarter deliveries.

So our exposure coming into the peak summer period is somewhat limited. That could obviously change if the supply of parts and components from Japanese manufacturers becomes a real problem for the domestic OEMs. But thus far we haven't heard anything from our suppliers that leads us to believe we're going to have any significant delivery issues. We're watching this issue carefully and temporarily slowing down our vehicle dispositions a bit until we have greater clarity from each manufacturer. But I really think we're in good shape right now.

In our cost savings and productivity initiatives, we expect our efforts to provide incremental savings in 2011 of $50 million to $60 million compared to 2010, bringing our total annual savings since 2008 to $560 million to $570 million. We've increased the projected savings in 2011 because of solid results from Performance Excellence thus far in the year.

Our PEX team entered 2011 with a group of new projects that were being readied for development and replication this year. We provided a couple of examples on our last call about the type of process improvement projects our teams have worked on. I want to spend a few minutes this morning discussing a few more examples to give you a sense of the scope of projects and how the benefits derived often impact not just expenses, but revenues as well.

One project that just went into replication reduces the downtime of our vehicles for scheduled maintenance. Thanks to the help of the Performance Excellence team, we're now identifying vehicles that require normal maintenance earlier, moving them to repair facilities quicker and getting them back on the road sooner, thereby reducing the number of cars needed at each location.

Other successful projects we're replicating at numerous locations this year include improving and standardizing how we capture walk-up customers, people who arrive at our counter with no reservation, to maximize the revenue potential associated with this customer group. We're also expanding the use of our yield model across our organization to respond more quickly to changing demand dynamics and to maximize revenue per-unit.

We're improving our vehicle assignment processes to better match the vehicle assigned to a customer to his or her actual reservation, eliminating unnecessary upgrades and creating incremental upsell opportunities. It's important to note that we are continually adding to the queue of improvement ideas. For example, even though we are in our fourth year of Performance Excellence, during the first quarter alone we reviewed more than 50 new project ideas and have converted the majority of them into projects. We believe that with the process we have developed to find, evaluate and prioritize new projects, we will continue to keep our pipeline of opportunities full for years to come.

Moving to the balance sheet, our liquidity position remains strong. We ended the quarter with $913 million of cash. We had no borrowings under our corporate revolving credit facility. We had unused capacity under various vehicle backed funding programs of $1.7 billion. Our leverage ratios continue to improve. In fact, our leverage was 3.2 times at March 31, comfortably within our covenant requirements. The improvement in our credit metrics was recently recognized by Moody's, who increased our corporate rating – corporate credit rating by 1 notch.

We continue to take full advantage of the improvements in the capital markets and in our credit metrics to strengthen our balance sheet and lower our interest costs. In March we amended the terms of our $2 billion vehicle-backed bank conduit facility used to help finance our domestic car rental fleet. This amendment reduced the borrowing spreads we will pay on vehicle-backed borrowings – is expected to generate an estimated $6 million of savings in 2011.

This week we expanded and extended our principal $1.2 billion corporate revolving credit facility to mature in 2016, reducing our borrowing spreads under the facility by 150 basis points, which is expected to generate more than $5 million of interest expense savings in 2011.

And last week we priced a $700 million multi-tranche asset-backed offering with a weighted average interest rate of 2.7%. The proceeds will be used in 2012 to replace ABS debt, comparing an average interest rate of more than 5%. With the bank conduit amended and the credit facility extended, both at more attractive rates, no corporate debt maturities until 2014, we feel very good about our financial position and liquidity.

Turning to our 2011 outlook, we expect travel trends to remain positive over the remainder of 2011, which should drive incremental demand for both commercial and leisure car rental. To date the impact of higher fuel prices has been minimal, but we do expect that at the margin they will have some effect on the mix of summer leisure demand by vehicle type.

We expect our 2011 GAAP tax rate to be 38% to 40%, excluding any one-time items. We expect full-year cash taxes to be $35 million to $40 million, and for capital expenditures to be $85 million to $95 million this year. We do not expect to be a U.S. federal cash taxpayer in 2011 or 2012.

More importantly, average fleet costs are declining on a per-unit basis, with the cost reductions for small and mid-sized vehicles having a far greater impact than any increases in depreciation rates for SUVs.

With fleet costs being down year-over-year, our process improvement initiative is providing an expected incremental $50 million to $60 million in benefits compared to 2010. Our corporate and vehicle borrowing rates down relative to 2010, and significant potential for our strategic initiative to accelerate our growth, we are enthusiastic about the opportunities in front of us for 2011.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Brian Johnson with Barclays Capital. You may ask your question.

<Q – Brian Johnson>: Yes. Good morning. You talked about the leisure price – you talked about the leisure pricing, but you included within that both the airport and then you have had significant growth in off-airport, which of course is a lower price point, often longer rental time period. Could you maybe give us some color if we were just to look at airport leisure pricing, where that pricing trend had been going?

<A – David B. Wyshner>: Sure Brian. Good morning. On-airport leisure pricing was down 4%, off-airport it was down 3%. And the weighted average worked out to be 4%.

<Q – Brian Johnson>: Okay. And second set of questions is around your change to your vehicle depreciation forecast. Just – first, just want to clarify your accounting for that. When you see a better used car marketplace, are you marking the expected residuals of existing vehicles in operations up or do you wait till the actual auction or other disposal event to book that gain versus where that piece of equipment had depreciated to?

<A – David B. Wyshner>: Sure. We do not mark the car to market to reflect an improvement in the used vehicle market. We will adjust our depreciation rates and adjust them downward to try to get to having minimal gains on vehicle sale to the extent we see strength in the used car market. But there is no markup of vehicles, and any adjustment to depreciation rates is done on a prospective basis. And then gains, if any, are recorded when vehicles are disposed of.

<Q – Brian Johnson>: Okay, so just to clarify then, when you say you adjust the depreciation rates, is that on something that you put into service that quarter?

<A – David B. Wyshner>: Yes, we – well yes, but we adjust -

<Q – Brian Johnson>: Or on the vehicles that were already in service coming into the quarter?

<A – David B. Wyshner>: Correct, both. We will adjust depreciation rates on vehicles that are already in service, as well as the rates for vehicles being brought into service.

<Q – Brian Johnson>: Okay. And then the $30 million in used car sales gains you talked about, a couple of questions. How does that compare to first quarter of last year? And then, do you have any disclosure of roughly how many used cars you disposed of, so if you think about on a gain per vehicle basis?

<A – David B. Wyshner>: The gain on vehicle dispositions was in the $8 million range in last year's first quarter, I believe. And we had in the range of 15,000 risk dispositions in the first quarter. So you can see that our gains on vehicle dispositions, whether on a per unit basis or in total were strong, because we were pleasantly surprised by the strength of the used car market, particularly the late model used car market in the first quarter.

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

<Q – Chris Agnew>: Thank you. Good morning. I want to ask sort of a broader question on fleet costs. And outside of the recent spike in used car prices that David you talked to, used car prices are at multiyear highs and obviously that's not going to last forever. So how do you weigh some of the structural changes you are making, the way you manage your fleet and remarket your fleet versus what a more normalized used car market looks like? So, basically, is there scope for the structural changes to lower per unit fleet costs more permanently?

<A – David B. Wyshner>: Yeah, I don't think we are changing the way in which we manage fleet based on the cost of fleet, Chris. I think we look at what the market is demanding by way of fleet mix and type of car and we try and target our fleet acquisitions to the marketplace.

I think our view on the used car market is that obviously there has been a supply squeeze for the last couple or three years. It seems to have really caught up with the marketplace in the first quarter as reflected by what happened. And actually, January and February were months that were not out of the ordinary from prior experience. It was really in March when the market accelerated quite a bit.

So I don't think we are changing our fleet strategy, if I understand your question, based upon used car values. We think very carefully about the program and risk mix. As it turned out it obviously would have been better to have more risk cars this year, but over time we think that program cars serve us – have served us well and serve a valuable purpose.

And – as it turned out, that is not lost on the manufacturers either, because program car prices were actually more compelling than risk car prices on a risk-adjusted basis, if you will, this year. So I'm not sure if I answered your question, but...

<Q – Chris Agnew>: I think on the last call you sort of talked about a couple of strategies where you would manage the fleet based on your two – your dual class car brand strategy, I think. And as kind of a follow-up to that, whether you think about how you manage the fleet, newer cars in Avis, slightly longer length aged cars in Budget. And also you talked a bit before about strategies, sort of online Internet remarketing and retail remarketing, I think you had an agreement with someone. So there's more along those sort of strategies.

<A – David B. Wyshner>: Chris, that's exactly right, we are doing that. We are continuing to optimize how we use vehicles between our brands, our hold period and so forth, and also our disposition methods, including the fact that we saw the auctions performing very, very well in the first quarter. And continue to take advantage of both physical and online auctions to do well. I should also use this as an opportunity to correct something I said a moment ago. We had 21,000 risk vehicle dispositions in the first quarter. The number I had and gave was 15,000, wasn't right, it was 21,000.

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

<Q – John Healy>: Hi, good morning. A question for you guys about the margins in the business. You have done a great job over the last two years in really fixing up the operating expense and SG&A lines. I am trying to understand a little bit more. Where you're really finding the operational improvements? And maybe you can give us a few examples of what the biggest things you have changed in the business are to improve the margins?

And with that, I was curious if you could try to quantify today where you're at, in terms of the combined cost savings you get by operating both the Avis and Budget brand together? And are you finding ways to bring those brands even closer together than maybe you had a year ago or two years ago?

<A – Ronald L. Nelson>: Well, John, I think the margin improvement comes on both parts of the income statement. I think on the revenue line we are targeting those types of transactions, whether it be small business or international inbound, that tend to have much higher contribution margins.

We have spent a fair amount of effort over the last three years with the sales training initiative at the counter trying to drive higher ancillary revenue sales in terms of up-sells in GPS' and coverages.

I think across the board on the expense lines we have taken labor out. We are down some 8,000 people, 9,000 people, both on a variable and fixed basis. So I think our fixed labor head count is down somewhere between 3,000 and 4,000 people. Our PEx process improvement initiative is actually probably reflected in the labor count, but – so that's really been a beneficiary of that.

So, I don't think you can point to just one expense item and say that, gee, that's what it is that drives margins. It's really throughout the whole income statement where we have taken a careful look at every item and tried to make it as efficient and as cost effective as possible without sacrificing the value proposition.

<Q – John Healy>: Okay.

<A – David B. Wyshner>: And with respect to Budget, we estimated several years ago that we were saving more than $100 million a year by operating Budget and Avis with significant elements of a shared infrastructure. And I think not only does that continue to be the case, but over time, we have found incremental ways to take advantage of having both brands in our stable. And I think those cost savings and those benefits have grown over time. And part of it shows up in the savings that we have achieved and the benefits we have recognized over the last several years. We don't necessarily track it as tied just to the Budget acquisition.

<Q – John Healy>: Excellent, that's helpful. And then Ron, I just want to make sure I understood your comment earlier in the call when you talked about where you wanted to drive – I believe you're referring to EBITDA margins in the business. I just wanted to make sure, you felt that the medium term goal, maybe not 2011, was 10% or double digit EBITDA margins. Was I taking the comments the right way?

<A – Ronald L. Nelson>: You took it exactly right.

<Q – John Healy>: Okay.

<A – Ronald L. Nelson>: And I think we got to have a goal. We hit our first goal, and I think as we have told everybody, once you hit one goal then you've got to reset to another goal. And so – look, I wouldn't put it out there if I didn't think we had a shot at hitting it. Again, I don't think it is 2011 issue, but I do think it is achievable. And I think we will get there in the medium term, and it is not a goal that is unreasonable.

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

<Q – Fred Lowrance>: Thank you. Morning, guys. A question kind of along the lines of what Chris was asking earlier. But just as I look at fleet costs and obviously the first quarter this year likely to be mostly driven by used vehicle values, but as we look forward into 2012, look at a time when say used vehicle values maybe continue to come down or even flatten out at some sort of stable level. What are the things that you're doing in the buying and selling process that's actually – is there anything there that would contribute to lower fleet costs over time, or is this something where once we get stable used vehicle values that we might see depreciation starting to creep up, any sort of color on that please?

<A – David B. Wyshner>: A few things. I think the key drivers of our vehicle costs are really going to be where we're buying it – the price at which we're buying them and the price at which we're selling them. And I don't mean to be simplistic about it but on the first point, the price at which we're buying them is going to depend on our negotiations with the manufacturers about future car buys more than anything else. And we're in the early stages right now of the model year '12 buy and we should figure out over the next several months what model year '12 is going to look like.

And then on the disposition side, far and away the biggest driver is the overall strength of the used vehicle market. We are looking at opportunities to improve things a little bit around the margin in terms of further optimizing how we dispose of vehicles. We have a partnership with a large retail chain that we're using to dispose of vehicles. We're doing more direct to dealer. And we're optimizing between online and offline auctions, all to try to get the best possible price for each car we're disposing of – net of disposition cost, while also making sure that we can push through the amount of volume we need to in an efficient manner.

So while we are taking optimizing actions around the margin that may have some marginal benefits to us, I think they will be relatively small compared to the impact of just where we're buying cars and the strength of the used car market.

<A – Ronald L. Nelson>: I would add to that, Fred, it's really hard to look at fleet in a static environment. I think that the used car market changes the prices of risk and program acquisition changes every year. And we've looked fairly carefully that – at cars that you can run for 30,000 to 35,000 miles and optimize the depreciation costs, and cars that can actually go 45,000 to 50,000 miles without affecting the marginal cost of depreciation. And I think all those things change based upon the nature of the market.

So it's hard to generalize with one strategy that you can lock your head into and say that this is what I'm going to pursue for the next couple of years. But it is something that we watch virtually every month. Where can we extend lives without affecting the depreciation, and where do we think we need to sell cars to optimize the depreciation? But, as I said, fleet and fleet management is the linchpin of almost every operating decision we make.

Operator: Our next question comes from Jordan Hymowitz with Philadelphia Financial. You may ask your question.

<Q – Jordan Hymowitz>: Thanks guys. You spoke briefly about the hourly car sharing model, and you said you preferred a different model instead. I'm sorry, can you give a little more clarity on the model you prefer instead, and what – have you tried the car sharing model at all?

<A – Ronald L. Nelson>: So I think it's a couple of things Jordan. One is we think it's a way to leverage and grow our local market business – or just our normal business without having to invest in infrastructure.

Two, we think it's a way to capture incremental business at our corporate customer base. Most of our commercial customers now either utilize an employee car or car service to get to the airport – airport transportation. They put cars on their campus, and then obviously we have the ability to capture the airport transportation. And, truthfully, some of the local volume that our commercial customers have leaks out to Enterprise because we may or may not have a local office, and they clearly have many more offices than either us or Hertz do in the marketplace. So having cars there allows us to capture some of that business that's leaking out. We just think that's a much bigger opportunity than what car share is, or at least what it currently is.

Now, it doesn't suggest that we can't employ car share. I think we can – we have the brand, we have the technology, and we actually have hourly rates. But we're just not sure it's a very big business, and it's not one that we've actively pursued over the last couple years.

<Q – Jordan Hymowitz>: Do you think it's a business model that would work on a larger scale?

<A – Ronald L. Nelson>: Well, I'm not sure what you mean by a larger scale. I think as that business is currently designed, it would seem to be a large city and college campus type of business model and query how much fleet do you think you can deploy in that environment. And I think once they start – assuming they start to expand their model to get into daily and weekly rental, then they start competing square into our wheelhouse, and you wonder how successful that's going to be.

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

<Q – Steve O'Hara>: Hi, good morning. I apologize if you've quantified this already, but in terms of the, let's say, wholesale cars that you sell versus retail sales, what's the differential in terms of the fleet you sell and what's generally – if you can give a general price discrepancy between the two, if you have like an average?

<A – David B. Wyshner>: Sure Steve. We sell virtually all of our cars on a wholesale basis: either direct to dealers or through auction channels, online and offline. So we are not engaged in the business of selling directly to retail customers our cars.

<Q – Steve O'Hara>: And then is there a general price discrepancy between the two? Is it an opportunity possibly down the road or just something you guys just aren't interested in at this point?

<A – David B. Wyshner>: It is an opportunity. I think the size of the opportunity is essentially the difference between a retail and wholesale price for a vehicle, which can easily be in the $1,000 range. And it's that difference, net of the cost associated with retailing cars, whether it's a sales commission or marketing costs or infrastructure costs associated with that. So there is an opportunity there, and right now the way we're exploring that opportunity is, as I mentioned, through a partnership with a – or a relationship with a national used car sales chain that would allow us potentially to capture some of that. I think that's in its early stages right now and compared to the overall volume of vehicles we're disposing of is still quite small.

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

<Q – Emily Shanks>: Thank you. Good morning. My question is around the increased adjusted EBITDA margin target of 10-ish%. Can you give us an update on if that's going to impact your target leverage number longer term? And, secondarily, where you're comfortable operating the business currently? Thank you.

<A – David B. Wyshner>: Good morning, Emily. Thanks for the question. A couple things. Our goal has been to get our leverage ratio down below four times and we're operating there now, and so we are comfortable with where we are. To the extent that our margins improve and excluding the potential acquisition of Dollar Thrifty our debt levels stay roughly the same, you would probably see some improvement in credit metrics as a result of higher earnings, and not really – and so it would be more of a denominator issue than a numerator issue as you think about the leverage calculation.

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

Ronald L. Nelson, Chairman, President, Chief Executive Officer and Chief Operating Officer

Thanks. So just to recap, we feel great about our position. The investments we're making in our brands are resonating with our customers. Our strategic initiatives are doing exactly what they were intended to do, which is profitably accelerating our revenue growth and positioning us to compete for the long-term. And our balance sheet and liquidity are in great shape and we're building sustainable shareholder value.

David, Neal and I will be presenting at a number of conferences over the next two months, and we look forward to seeing many of you on our travels. With that, we thank you for your time this morning and look forward to speaking with you again to discuss our progress.

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