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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
WASHINGTON, D.C. 20549

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**FORM 10-K**

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2010

OR

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NO. 1-10308

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**AVIS BUDGET GROUP, INC.**

(Exact name of Registrant as specified in its charter)

**DELAWARE**

(State or other jurisdiction of incorporation or organization)

**06-0918165**

(I.R.S. Employer Identification Number)

**6 SYLVAN WAY**  
**PARSIPPANY, NJ**

(Address of principal executive offices)

**07054**

(Zip Code)

**973-496-4700**

(Registrant's telephone number, including area code)

**SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:****TITLE OF EACH CLASS**

Common Stock, Par Value \$.01

**NAME OF EACH EXCHANGE  
ON WHICH REGISTERED**

The NASDAQ Global Select Market

**SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:**

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

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

The aggregate market value of the Registrant's common stock held by non-affiliates of the Registrant on June 30, 2010 was \$1,001,279,006 based on the closing price of our

common stock on the New York Stock Exchange. All executive officers and directors of the registrant have been deemed, solely for the purpose of the foregoing calculation, to be "affiliates" of the registrant.

The number of shares outstanding of the Registrant's common stock was 103,654,955 as of January 31, 2011.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Registrant's definitive proxy statement to be mailed to stockholders in connection with the Registrant's annual stockholders' meeting scheduled to be held on May 20, 2011 (the "Annual Proxy Statement") are incorporated by reference into Part III hereof.

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

- the high level of competition in the vehicle rental industry and the impact such competition may have on pricing and rental volume;
- an increase in our fleet costs as a result of an increase in the cost of new vehicles and/or a decrease in the price at which we dispose of used vehicles either in the used vehicle market or under repurchase or guaranteed depreciation programs;
- the results of operations or financial condition of the manufacturers of our cars, which could impact their ability to perform their payment obligations under the agreements we have with them, including repurchase and/or guaranteed depreciation arrangements, and/or their willingness or ability to make cars available to us or the rental car industry as a whole on commercially reasonable terms or at all;
- any reduction in travel demand, including any reduction in airline passenger traffic;
- any weakness in economic conditions generally, including in the housing market, particularly during our peak season or in key market segments;
- our ability to continue to achieve and maintain cost savings and successfully implement our business strategies;
- our ability to obtain financing for our operations, including the funding of our vehicle fleet via the asset-backed securities and lending market consistent with current costs, and the financial condition of financial-guaranty firms that have insured a portion of our outstanding vehicle-backed debt;
- an occurrence or threat of terrorism, pandemic disease, natural disasters or military conflict in the locations in which we operate;
- our dependence on third-party distribution channels, third-party suppliers of other services and co-marketing arrangements with third parties;
- our ability to utilize derivative instruments, and the impact of derivative instruments we currently utilize, which can be affected by fluctuations in interest rates and exchange rates, changes in government regulations and other factors;
- our ability to accurately estimate our future results;
- a major disruption in our communication networks or information systems;
- our exposure to uninsured claims in excess of historical levels;

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- our failure or inability to comply with regulations or contractual obligations or any changes in regulations or contractual obligations, including with respect to personally identifiable information;
- any impact on us from the actions of our licensees, dealers and independent contractors;
- substantial increases in the cost, or decreases in the supply, of fuel, vehicle parts, energy, labor or other resources on which we depend to operate our business;
- risks related to our indebtedness, including our substantial amount of debt and our ability to incur substantially more debt;
- our ability to meet the financial and other covenants contained in the agreements governing our indebtedness;
- the terms of agreements among us and our former real estate, hospitality and travel distribution businesses following the separation of those businesses from us during third quarter 2006, particularly with respect to the allocation of assets and liabilities, including contingent liabilities and guarantees, the ability of each of the separated companies to perform its obligations, including its indemnification obligations, under these agreements, and the former real estate business' right to control the process for resolving disputes related to contingent liabilities and assets;
- risks associated with litigation involving the Company;
- risks related to tax obligations;
- the effect of future changes in accounting standards;
- risks related to the proposed acquisition of Dollar Thrifty Automotive Group, Inc. ("Dollar Thrifty"), including the timing to consummate such acquisition, the ability and timing to obtain required regulatory approvals and financing (and any conditions thereto), the expected incurrence of incremental indebtedness to help fund the acquisition, our ability to promptly and effectively integrate the businesses of Dollar Thrifty and Avis Budget Group, and the impact of pending or future litigation relating to any potential acquisition; and
- other business, economic, competitive, governmental, regulatory, political or technological factors affecting our operations, pricing or services.

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

You should consider the areas of risk described above, as well as those described under "Risk Factors" set forth in Item 1A herein and those that may be disclosed from time to time in filings with the Securities and Exchange Commission (the "Commission"), in connection with any forward-looking statements that may be made by us and our businesses generally. Except to the extent of our obligations under the federal securities laws, we undertake no obligation to release any revisions to any forward-looking statements, to report events or to report the occurrence of unanticipated events. For any forward-looking statements contained in any document, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

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[Table of Contents](#)**PART I****ITEM 1. BUSINESS**

*Except as expressly indicated or unless the context otherwise requires, the “Company”, “Avis Budget”, “we”, “our” or “us” means Avis Budget Group, Inc., and its subsidiaries and “Avis Budget Car Rental” or “ABCR” means Avis Budget Car Rental, LLC, and its subsidiaries, the companies that comprise our vehicle rental operations. “Avis” and “Budget” refer to our Avis and Budget operations, respectively, and do not include the operations of our licensees, including Avis Europe and its affiliates, as further discussed below.*

**Overview**

We operate two of the most recognized brands in the global vehicle rental industry through Avis and Budget. Avis is a leading rental car supplier positioned to serve the premium commercial and leisure segments of the travel industry and Budget is a leading rental car supplier focused primarily on more value-conscious segments of the industry. We are a leading vehicle rental operator in North America, Australia, New Zealand and certain other regions we serve and our licensees operate the Avis and Budget brands in more than 100 countries throughout the world. We generally maintain a leading share of airport car rental revenue and we operate one of the leading truck rental businesses in the United States.

Our car rental business enjoys significant benefits from operating two distinct brands that target different industry segments but share the same fleet, maintenance facilities, systems, technology and administrative infrastructure. We believe that Avis and Budget both enjoy complementary demand patterns with mid-week commercial demand balanced by weekend leisure demand. In 2010, we generated total revenues of \$5,185 million. The Avis, Budget and Budget Truck brands accounted for approximately 62%, 31% and 7% of our revenue, respectively, in 2010.

On average, our rental fleet totaled more than 345,000 vehicles, and we completed more than 22 million vehicle rental transactions worldwide in 2010. In the United States, in 2010, we derived approximately 81% of our nearly \$4.0 billion in total car rental revenue from on-airport locations and approximately 19% of our revenue from off-airport locations, which we refer to as our local market business. We also license the use of the Avis and Budget trademarks to licensees in areas in which we do not operate directly. Our brands have an extended global reach that include more than 10,000 car and truck rental locations throughout the world, including approximately 2,000 company-operated car rental locations primarily in the United States, Canada, Australia, New Zealand and Argentina and approximately 5,800 car rental locations operated by licensees. We rent our fleet of approximately 27,000 Budget trucks through a network of approximately 2,250 dealer-operated and 200 company-operated locations throughout the continental United States.

**Segment Information**

We categorize our operations in three operating segments: domestic car rental, consisting of our Avis and Budget U.S. car rental operations; international car rental, consisting of our international Avis and Budget vehicle rental operations; and truck rental, consisting of our Budget truck rental operations in the United States. In 2010:

- *Domestic car rental.* Our domestic car rental segment generated approximately 71 million rental days and average time and mileage revenue per day of \$41.70 with an average rental fleet of approximately 268,000 vehicles;
- *International car rental.* Our international car rental segment generated approximately 13 million rental days and average time and mileage revenue per day of \$47.75 with an average rental fleet of approximately 51,000 vehicles; and
- *Truck rental.* Our truck rental segment generated approximately 4 million rental days and average time and mileage revenue per day of \$73.06 with an average rental fleet of approximately 27,000 trucks.

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In 2010, while our rental day volumes increased modestly as travel demand began to rebound from the recent recession, our earnings increased substantially. To position our company for improving economic conditions, we continued the implementation of our five-point cost-reduction and efficiency-improvement plan, which we introduced in November 2008, and our Performance Excellence process improvement initiative to reduce expenses. The five-point plan has enabled us to realize cost savings since its initial implementation through:

- Reductions in operating and selling, general and administrative expenses, including staff reductions in 2008, 2009 and 2010, many of which were trimmed from fixed and semi-fixed overhead;
- A review of location, segment and customer profitability to identify and respond appropriately to unprofitable aspects of our businesses, which positively impacted our profit per transaction and our overall profitability but negatively impacted volume;
- Targeted price increases and changes to our sales, marketing and affinity programs in order to improve revenue per day and overall profitability;
- Reductions in fleet costs and further consolidation of purchasing programs; and
- Further consolidation of customer-facing and back-office functions and locations across our operations.

In 2010, we not only completed more than 22 million vehicle rental transactions worldwide, but also made significant progress toward our strategic objectives. We retained approximately 99% of our commercial contracts and maintained, expanded or entered into new marketing alliances with key marketing partners, including with several major airlines. In 2010, Avis was again named the leading car rental company in customer loyalty by the Brand Keys Customer Loyalty Engagement Index and was also named North America's Leading Car Hire and World's Leading Business Car Rental Company for the fifth consecutive year by the World Travel Awards. We achieved significant increases in customer satisfaction, as measured by post-transaction surveys completed by more than 500,000 of our customers in 2010. We also continued our long-standing tradition of being an innovator in the car rental industry, piloting automated check-out kiosks, offering portable satellite radio rentals and delivering more than 7 million electronic receipts to our customers. In 2010, as a result of our continued focus on car class upgrades and sales of ancillary products and services, we increased the revenues per rental day that we generate from car class upgrades, *where2* GPS navigation unit rentals, loss damage waivers and insurance products, and other ancillary services.

In 2010, we maintained a diverse car rental fleet, in which no vehicle manufacturer represented more than 28% of our 2010 U.S. fleet purchases and we continued to adjust our fleet levels to be consistent with demand. We continue to utilize sophisticated yield-management technology to optimize our pricing and fleet planning, and we continue to analyze and streamline our operations to gain efficiencies. In addition, our more than 21,000 employees continue to provide reliable, high-quality vehicle rental services that foster customer satisfaction and customer loyalty.

### **Market Conditions and Outlook**

For 2011, our objective is to focus on growing our business profitably, strengthening our position as a leading provider of vehicle rental services and maintaining and enhancing efficiencies achieved through process improvement and other actions. We expect to achieve our goals by focusing our efforts on the following core strategic initiatives:

- *Optimizing Our Two-Brand Strategy.* We plan to continue to position our two distinct and well-recognized brands to focus on different segments of customer demand. With Avis as a premium brand preferred more by corporate and upscale leisure travelers, and Budget as a mid-tier brand preferred more by value-conscious travelers, we believe we are able to target a broad range of demand, particularly since the two brands share the same operational and administrative infrastructure while providing differentiated though consistently high levels of customer service. We aim to provide products, service

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and pricing, to use various marketing channels and to maintain marketing affiliations and corporate account contracts, which complement each brand's positioning. In 2011, we plan to invest in our brands through expanded television, print and on-line and off-line marketing, and other efforts.

- *Expanding Our Revenue Sources.* We plan to continue to focus on promoting car class upgrades, adjusting our mix of vehicles to match customer demand, expanding our ancillary revenues by offering additional products and services to on- and off-airport customers and increasing, where appropriate, our recovery from our customers of costs imposed on us by third parties. Opportunities for ancillary revenue growth include adding sales of additional insurance coverages and insurance-related and other ancillary products and services, such as electronic toll collection services, satellite radio and our *where2* GPS navigation product, to the rental transactions of an increasing percentage of our renters. We also plan to achieve incremental growth in revenue from small business and international customers.
- *Capturing Incremental Profit Opportunities.* We plan to continue our focus on yield management and pricing optimization and seek to increase the time and mileage rental fees we earn per rental day. We have implemented technology that strengthens our yield management and that enables us to tailor our product/price offerings to specific customer segments. We expect to continue to adjust our pricing to bolster profitability and match changes in demand. In addition, we believe the expansion of our revenue sources (discussed above) should permit us to generate incremental profits from our customer base, while at the same time enhancing our customers' vehicle rental experience. We plan to intensify our efforts to build customer loyalty, and reduce customer acquisition costs, through our *Customer Led, Service Driven*<sup>TM</sup> program that is intended to enhance our customers' rental experience, from reservation to return.
- *Controlling Costs and Promoting Efficiencies.* We have continued our efforts to rigorously control costs. We have taken aggressive action to reduce expenses throughout the organization, through a five-point cost-reduction and efficiency-improvement plan as described above. In addition, we continue to develop and implement our Performance Excellence process improvement initiative to increase efficiencies, reduce operating costs and create sustainable cost savings using LEAN, Six Sigma and other tools. This initiative has generated substantial savings since its implementation and should continue to provide benefits in 2011. We have also implemented technology solutions, including self-service voice reservation technology and fleet optimization technologies, to reduce costs, and we will continue to pursue innovative solutions to support our strategic initiatives. We believe such steps will continue to aid our financial performance.
- *Mitigating Risks.* We expect to continue to face challenges, as demand for travel services is not likely to return in 2011 to the levels experienced before the economic recession, and we operate in a highly competitive industry. We seek to mitigate our exposure to risks in numerous ways, including the actions described above, and through continued optimization of fleet levels to match changes in demand for vehicle rentals, maintenance of liquidity to fund our fleet and our operations, and adjustments in the size, nature and terms of our relationships with vehicle manufacturers.

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### **Company History**

Avis Budget Group's operations consist of two of the most recognized brands in the global vehicle rental industry through Avis Budget Car Rental, LLC, the parent of Avis Rent A Car System, LLC, Budget Rent A Car System, Inc. and Budget Truck Rental, LLC. Founded in 1946, Avis is believed to be the first company to rent cars from airport locations. Avis expanded its geographic reach throughout the United States in the 1950s and 1960s. In 1963, Avis introduced its award winning "We try harder" advertising campaign, which is considered one of the top ten advertising campaigns of the 20th century by Advertising Age magazine. Budget was founded in 1958. The company name was chosen to appeal to the "budget-minded" or "value-conscious" vehicle rental customer. Avis possesses a long history of using proprietary information technology systems in its business, and its established, but continually updated, Wizard System remains the backbone of our operations.

We acquired the Avis brand in 1996, Avis' capital stock in 2001, and the Budget brand and substantially all of the domestic and certain international assets of Budget's predecessor in 2002. We were created through a merger with HFS Incorporated in December 1997 with the resultant corporation being renamed Cendant Corporation. On August 23, 2006, Cendant completed a separation into four separate companies (the "Separation"), one for each of its former Real Estate Services businesses (Realogy Corporation), its former Hospitality Services businesses (Wyndham Worldwide Corporation), its former Travel Distribution Services businesses (Travelport) and its Vehicle Rental businesses (Cendant, now Avis Budget Group). Following completion of the Separation, Cendant changed its name to Avis Budget Group, Inc. Our common stock currently trades on the NASDAQ Global Select Market under the symbol "CAR".

In addition to our vehicle rental operations, we continue to manage the administration of certain legacy items which remain following the completion of the Separation. In connection with the Separation, we entered into certain agreements, including the Separation and Distribution Agreement dated as of July 27, 2006 (the "Separation Agreement"), with Realogy, Wyndham and Travelport governing our relationships following the separation, including the assumption by Realogy and Wyndham of 62.5% and 37.5%, respectively, of certain contingent and other liabilities of Cendant.

### **Car rental business**

#### ***Operations—Avis***

We operate or license the Avis car rental system (the "Avis System"), which is comprised of approximately 5,050 locations worldwide and represents one of the largest car rental systems in the world. The Avis System encompasses locations at most of the largest airports and cities in the United States and internationally.

We operate approximately 1,250 Avis car rental locations in both the on-airport and local rental segments in North America, Australia, New Zealand, Latin America and the Caribbean. In 2010, our Avis operations generated total revenue of approximately \$3.2 billion, of which approximately 80% (or \$2.6 billion) was derived from U.S. operations. The Avis System in Europe, Africa, the Middle East and parts of Asia is primarily operated under royalty-free license agreements with a subsidiary of Avis Europe plc ("Avis Europe"), an independent third party, which generally expire in 2036, and is comprised of approximately 2,900 locations (as disclosed by Avis Europe) operated by Avis Europe and its sub-licensees. In addition, we license the Avis System to other independent business owners in approximately 900 locations throughout the United States, Canada, Latin America, the Caribbean, Australia, New Zealand and parts of Asia. In 2010, approximately 95% of the Avis System total U.S. revenue was generated by our locations and the remainder was generated by locations operated by independent licensees, which generally pay royalty fees to us based on a percentage of applicable revenue.

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The table below presents the approximate number of locations that make up the Avis System:

### **Avis System Locations \***

	<u>U.S.</u>	<u>International</u>	<u>Total</u>
Company-operated locations	950	300	1,250
Licensee locations	300	3,500	3,800
<b>Total Avis System Locations</b>	<b><u>1,250</u></b>	<b><u>3,800</u></b>	<b><u>5,050</u></b>

\* Location counts are approximate.

In 2010, Avis derived approximately 60% and 40% of its U.S. time and mileage revenue from commercial and leisure customers, respectively, and 79% and 21% of its U.S. revenue from customers renting at airports and locally, respectively.

The Avis brand provides high-quality car rental services at price points generally above non-branded and value-branded national car rental companies. We offer Avis customers a variety of premium services, including:

- Avis Preferred, a counter bypass program, which is available at major airport locations;
- *where2*, a navigation system that features Bluetooth hands-free calling and MP3 playback capability;
- Avis Cool Cars, a line of fun-to-drive vehicles such as the Chevrolet Camaro, Ford Mustang, Cadillac CTS and Chevrolet Corvette;
- Availability of eco-friendly vehicles, such as gas/electric hybrid vehicles or the Chevrolet Cruze, which has an EPA-estimated highway fuel economy of 36 miles per gallon;
- Roving Rapid Return, wireless technology which permits customers who are returning vehicles to obtain a printed charge record from service agents at the vehicle as it is being returned;
- Emergency roadside assistance, and a 100% smoke-free car rental fleet;
- Amenities such as Avis Blast, a portable satellite radio product, and Avis Access, a full range of special products and services for drivers and passengers with disabilities;
- Avis Interactive, a proprietary management tool that allows corporate clients to easily view and analyze their rental activity via the Internet, permitting these clients to better manage their travel budgets and monitor employee compliance with applicable travel policies; and
- Avis First, a customer loyalty program that rewards customers with additional benefits for frequent rentals.

### ***Operations—Budget***

We operate or license the Budget vehicle rental system (the “Budget System”), which is comprised of approximately 2,750 car rental locations and represents one of the largest car rental systems in the world. The Budget System encompasses locations at most of the largest airports and cities in the United States and internationally.

We operate approximately 750 Budget car rental locations in the United States, Canada, Puerto Rico, Australia and New Zealand. In 2010, our Budget car rental operations generated total revenue of approximately \$1.6 billion, of which 83% (or \$1.3 billion) was derived from U.S. operations. The Budget System in Europe, Africa and the Middle East is primarily operated under a royalty-free license agreement, which generally expires in

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2036, with a subsidiary of Avis Europe, and is comprised of approximately 1,050 locations (as disclosed by Avis Europe) operated by such subsidiary of Avis Europe and its sub-licensees. We also license the Budget System to independent business owners who operate approximately 950 locations throughout the United States, Canada, Latin America, the Caribbean and parts of Asia. In 2010, approximately 84% of the Budget System total U.S. revenue was generated by our locations with the remainder generated by locations operated by independent licensees, which generally pay royalty fees to us based on a percentage of revenues.

The table below presents the approximate number of locations that make up the Budget System:

### **Budget System Locations \***

	<u>U.S.</u>	<u>International</u>	<u>Total</u>
Company-operated locations	600	150	750
Licensee locations	200	1,800	2,000
<b>Total Budget System Locations</b>	<b><u>800</u></b>	<b><u>1,950</u></b>	<b><u>2,750</u></b>

\* Location counts are approximate.

In 2010, Budget derived approximately 30% and 70% of its U.S. time and mileage car rental revenue from commercial and leisure customers, respectively, and 80% and 20% of its U.S. car rental revenue from customers renting at airports and locally, respectively.

Budget is a leading rental car supplier to more value-conscious segments of the industry. Budget offers its customers Fastbreak, an expedited rental service for frequent travelers, which operates much like Avis Preferred, as well as *where2* navigation units and Roving Rapid Return, as described above. Budget also offers the Budget Small Business Program, a program for small businesses that provides discounted rates and central billing options, and Unlimited Budget, a loyalty program for travel professionals established by Budget over ten years ago.

### **Reservations**

Customers can make Avis and Budget reservations through our Avis and Budget websites at [avis.com](http://avis.com) and [budget.com](http://budget.com), through our reservation centers (also referred to as contact centers) toll-free at 1-888-777-AVIS and 1-800-BUDGET7, respectively, through online travel portals, through selected partners, including many major airlines utilizing direct connect technology, through travel agents, or by calling a location directly. Travel agents can access our reservation systems through all major global distribution systems (GDSs) and can obtain information with respect to rental locations, vehicle availability and applicable rate structures through these systems. In 2010, we introduced a voice reservation system which allows customers to conduct certain transactions such as confirmation, cancellation and modification of reservations using self-service voice response technology. We also launched an enhanced version of our Apple mobile application allowing customers to make, view, modify or cancel reservations or automatically include their profile using their iPhone, iPad or iPod Touch.

### **Marketing**

Avis and Budget support their premium and value-conscious brand positions through a range of marketing channels and campaigns, including traditional media, such as television, radio and print advertising, as well as Internet and direct marketing. Avis focuses its marketing around its industry-leading customer loyalty and its award-winning “We try harder” marketing campaign. Budget builds its marketing around retail advertising, key partnerships and online marketing campaigns.

We maintain strong links to the travel industry. Avis and Budget offer customers the ability to earn frequent traveler points with most major airlines’ frequent traveler programs. In 2010, we renewed and expanded our

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partnership agreement with American Airlines and we also entered into new partnership agreements with Jet Blue's and Frontier Airlines' frequent flyer programs. Avis and Budget are also affiliated with the frequency programs of major hotel companies, including Hilton Hotels Corporation, Hyatt Corporation, Starwood Hotels and Resorts Worldwide, Inc. and Wyndham Worldwide. These arrangements provide incentives to program participants and cooperative marketing opportunities, including call transfer programs and online links with various partners' websites. Avis has an agreement with Wyndham Worldwide's lodging brands whereby lodging customers making reservations by telephone may be transferred to Avis if they desire to rent a vehicle.

In 2010, approximately 83% of domestic vehicle rental transactions from our owned and operated Avis locations in the United States were generated by travelers who rented from Avis under contracts between Avis and the travelers' employers or through membership in an organization with whom Avis has a contractual affiliation (such as AARP or Costco). Avis also has marketing relationships with organizations such as American Express Company, Mastercard International Incorporated and Sears Holding Corp., through which we are able to provide customers of these entities with incentives to rent from Avis. Avis licensees also generally have the option to participate in these affiliations. For commercial and leisure travelers who are unaffiliated with any of the employers or organizations that we contract with, Avis solicits business through media, direct mail, e-mail and Internet advertising. Avis conducts various loyalty programs through direct marketing campaigns, including Avis Preferred, which allows customers to bypass the rental counter when renting a vehicle, and Avis First, which offers our customers enhanced benefits for frequent rentals.

Additionally, Budget offers "Unlimited Budget", a loyalty incentive program for travel agents, which had approximately 18,000 travel agents actively enrolled as of December 31, 2010 and which was expanded in 2010 to include Avis as a partner. Budget also offers the Budget Small Business Program, a program for small businesses that offers discounted rates, central billing options and rebates to members. Budget has contractual arrangements with American Express Company, Mastercard International Incorporated and other organizations, which offer members of these groups incentives to rent from Budget. In connection with its focus on value-conscious customers, Budget primarily relies on retail advertising, including Internet advertising, and on value pricing to drive customers to our Budget website, our call centers and other distribution channels. Budget also offers proprietary marketing programs such as Fastbreak, an expedited rental service for frequent renters. Our international Avis and Budget operations maintain close relationships with the travel industry through participation in several non-U.S. based frequent traveler programs with airlines such as Qantas Airways Limited, Air New Zealand and Air Canada. We have been selected as Qantas Airways' exclusive car rental partner for its frequent flyer program, and have expanded our marketing agreement with Air Canada. We also participate in Avis Europe's programs with British Airways Plc, Deutsche Lufthansa AG and other carriers.

### ***Licensing***

Revenue derived from our car rental licensees in 2010 totaled \$45 million, including \$43 million of royalties. Licensed locations range from large operations at major airport locations and territories encompassing an entire country to relatively small operations in suburban locations. Our licensees maintain separate independently owned fleets. Royalties generated from licensing provide us with a source of high margin revenue because there are relatively limited additional fixed costs associated with fees paid by licensees to us. Although licensed locations represent approximately 25% of the domestic Avis and Budget car rental locations, domestic locations operated by licensees represent only approximately 9% of total domestic revenue generated by the Avis and Budget Systems, because the average licensed operation is significantly smaller than the average corporate-operated location. We facilitate one-way car rentals between corporate-owned and licensed locations in the United States, Canada and Australia that enable us to operate as an integrated network of locations.

We generally enjoy good relationships with our licensees and meet regularly with them at regional, national and international meetings. Our relationships with licensees are governed by license agreements that grant the licensee the right to operate Avis or Budget car and/or truck rental businesses exclusively in certain territories. These agreements impose obligations on the licensee regarding its operations and most restrict the licensee's

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ability to transfer its license agreement and capital stock. Licensees are generally required to adhere to our system standards for each brand as updated and supplemented by our policy bulletins, brand manuals and service programs.

We maintain the right to monitor the operations of licensees and, when applicable, can declare a licensee to be in default under its license agreement. We can terminate license agreements for certain defaults, including failure to pay royalties and failure to adhere to our operational standards. Under agreements that predate our ownership of Avis or Budget, a limited number of licensees in the United States are also separately licensed to sell used cars under the Avis or Budget brand in certain territories. Our current domestic license agreements provide for a 20-year term and renewal terms, for no additional fee, so long as the licensee is not in default and provided that certain conditions are met. Some of our older domestic license agreements do not contain a fixed term, or provide for renewal terms for no additional fee so long as the licensee is not in default. Upon renewal, the terms and conditions of the license agreement may generally be amended from those contained in the expiring license agreements, while language in certain older license agreements may limit our ability to do so. The car rental royalty fee payable to us under license agreements is generally 5% to 8% of gross rental revenue but certain licensees of each brand, both internationally and domestically, have license agreements with different royalty fee structures, including Avis Europe, which operates for the most part under royalty-free license agreements.

Pursuant to their license agreements, some licensees must meet certain minimal requirements relating to the number of rental locations in their licensed territory, the number of vehicles available for rental and the amount of their advertising and promotional expenditures. In general, each license agreement provides that the licensee must not engage in any other vehicle rental business within the licensed territory during the term of such agreement and, in the Budget license agreement, for 12 months thereafter. Upon termination of a license, the licensee is also prohibited from using the Avis or Budget name and related marks in any business. In the United States, these license relationships constitute “franchises” under most federal and state laws regulating the offer and sale of franchises and the relationship of the parties to a franchise agreement.

### ***Other Revenue***

In addition to revenue from vehicle rentals and licensee royalties, we generate revenue from Avis and Budget customers through the sale and/or rental of optional products and services. Our employees offer products to customers that will better suit their rental experience, including loss damage waivers, insurance products such as additional/supplemental liability insurance or personal accident/effects insurance, products for driving convenience such as *where2* GPS navigation units, optional emergency roadside assistance, fuel service options and electronic toll collection, and other ancillary products and services as described above, such as rentals of satellite radio units and child safety seats. In 2010, approximately 4% of our domestic vehicle rental operations revenue was generated by the sale of loss damage waivers, under which we agree to relieve a customer from financial responsibility arising from vehicle damage incurred during the rental period if the customer has not breached the rental agreement. In addition, we receive reimbursement from our customers for certain operating expenses we incur, including gasoline and vehicle licensing fees, as well as airport concession fees, which we pay in exchange for the right to operate at airports and other locations.

### ***Websites***

Avis and Budget have strong brand presence on the Internet through their websites, [avis.com](http://avis.com) and [budget.com](http://budget.com), as well as third-party websites. Both Avis and Budget have agreements to promote their car rental services with major online travel agencies such as Expedia, Travelocity and Orbitz, and have a strong advertising presence on various search engines. Bookings over the Internet accounted for 36% of Avis' 2010 domestic rentals, with 28% derived from bookings on [avis.com](http://avis.com), and for 54% of Budget's 2010 domestic rentals, with 31% derived from bookings on [budget.com](http://budget.com).

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### *The Wizard System*

We own the Wizard System, our worldwide reservation, rental, data processing and information management system. The Wizard System enables us to process millions of incoming customer inquiries each day, providing our customers with accurate and timely information about our locations, rental rates and vehicle availability, as well as the ability to place or modify reservations. Additionally, the Wizard System is linked to all major travel distribution networks worldwide and provides real-time processing for travel agents, travel industry partners (such as airlines), corporate travel departments and individual consumers through our websites or calls to our contact centers. The Wizard System also provides personal profile information to our reservation and rental agents to help us better serve our customers.

We also use data supplied from the Wizard System and airline reservation systems in certain proprietary information management systems to maintain centralized control of major business processes such as fleet acquisition and logistics, sales to corporate accounts and determination of rental rates. The principal components of the systems we employ include:

- *Fleet planning model.* We have created a comprehensive decision tool to develop fleet plans and schedules for the acquisition and disposition of our fleet, along with fleet age, mix, mileage and cost reports based upon these plans and schedules. This tool allows management to monitor and change fleet volume and composition on a daily basis and to optimize our fleet plan based on estimated business levels and available repurchase and guaranteed depreciation programs. We also use third-party software to further optimize our fleet acquisition, rotation and disposition activities.
- *Yield management.* We have created a yield management system which is designed to enhance profits by providing greater control of vehicle availability and rate availability changes at our rental locations. Our system monitors and forecasts supply and demand to support our efforts to optimize volume and rate at each location. Integrated into this yield management system is a fleet distribution module that takes into consideration the costs as well as the potential benefits associated with distributing vehicles to various rental locations within a geographic area to accommodate rental demand at these locations. The fleet distribution module makes specific recommendations for movement of vehicles between locations.
- *Pricing decision support system.* Pricing in the vehicle rental industry is highly competitive and complex. To improve our ability to respond to rental rate changes in the marketplace, we have developed sophisticated systems to gather and report competitive industry rental rate changes every day. Our systems, using data from third-party reservation systems as its source of information, automatically scan rate movements and report significant changes to our staff of pricing analysts for evaluation. These systems greatly enhance our ability to gather and respond to rate changes in the marketplace.
- *Business mix model.* We have developed a strategic planning model to evaluate discrete components of our business relative to each other. The model considers revenue and costs to determine the potential margin contribution of each discrete segment. The model develops business mix and fleet optimization recommendations by using data from our financial systems, the Wizard System and the fleet and revenue management systems along with management's objectives and targets.
- *Enterprise data warehouse.* We have developed a sophisticated and comprehensive electronic data storage and retrieval system which retains information related to various aspects of our business. This data warehouse allows us to take advantage of comprehensive management reports, query capability and easy access to data for strategic decision making for both brands.
- *Sales and marketing systems.* We have developed a sophisticated system of online data screens which enables our sales force to analyze key account information of our corporate customers including historical and current rental activity, revenue and booking sources, top renting locations, rate usage

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categories and customer satisfaction data. We use this information, which is updated weekly and captured on a country-by-country basis, to assess opportunities for revenue growth, profitability and improvement.

- *Interactive adjustments.* We have developed a multi-linked customer data system which allows us to easily retrieve pertinent customer information and make needed adjustments to completed rental transactions online for superior customer service. This data system links with other accounting systems to handle any charge card transaction automatically.

### ***Fleet***

We maintain a single fleet of vehicles for Avis and Budget. We rent a wide variety of vehicles, including luxury and specialty vehicles. Our fleet consists primarily of vehicles from the current and immediately preceding model year.

We participate in a variety of vehicle purchase programs with major domestic and foreign vehicle manufacturers. General Motors is the featured supplier for Avis, and Ford is the featured supplier for Budget. During 2010, approximately 28%, 26% and 14% of the cars acquired for our U.S. car rental fleet were manufactured by General Motors, Ford and Chrysler, respectively, compared to 32%, 20% and 14% manufactured by General Motors, Ford and Hyundai, respectively, in 2009. During 2010, we also purchased BMW, Hyundai, Kia, Mitsubishi, Nissan, Subaru, Suzuki, Toyota and Volkswagen vehicles. We have continued to maintain a diverse fleet, with a mix of vehicles sourced from both domestic and foreign manufacturers, with 32% of vehicles acquired for our fleet sourced from foreign manufacturers.

We generally hold a vehicle in our domestic fleet for a term of four to 16 months. In 2010, on average approximately 47% of our domestic rental car fleet was comprised of vehicles subject to agreements requiring automobile manufacturers to repurchase them or guarantee our rate of depreciation during a specified period of time. Cars subject to these agreements are sometimes referred to as “program” cars and cars not subject to these agreements are sometimes referred to as “risk” cars. The programs in which we participate currently require that the program vehicles be maintained in our fleet for a minimum number of months (typically four to 11 months) and impose return conditions, including those related to mileage and condition. At the time of return to the manufacturer, we receive the price guaranteed at the time of purchase and are thus protected from fluctuations in the prices of previously-owned vehicles in the wholesale market at the time of disposition. The future percentages of program and risk vehicles in our fleet will be dependent on the availability and attractiveness of manufacturers’ repurchase and guaranteed depreciation programs. We dispose of our risk vehicles largely through automobile auctions, including auctions that enable dealers to purchase vehicles online more quickly than through traditional auctions.

Of the approximately 294,000 cars from our rental car fleet that we sold in 2010 (compared to 348,000 that we sold in 2009), we sold approximately 55% pursuant to repurchase or guaranteed depreciation programs and the rest were sold through third-party channels such as wholesale auctions.

Our car rental business is subject to seasonal variations in customer demand, with the summer vacation period representing the peak season. The seasonal variation in demand, along with more localized changes in demand at each of our locations, causes us to vary our fleet size over the course of the year. For 2010, our average monthly car rental fleet size in the U.S. ranged from a low of approximately 233,000 vehicles in January to a high of approximately 300,000 vehicles in July. Compared to 2009, our average fleet size decreased approximately 1% in 2010. Average domestic fleet utilization for 2010, which is based on the number of rental days (or portion thereof) that vehicles are rented compared to the total amount of time that vehicles are available for rent, ranged from 78% in August to 65% in December and averaged 73% for 2010, which was generally consistent with 2009 levels. Our calculation of utilization may not be comparable to other companies’ calculation of similarly titled statistics.

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We place a strong emphasis on vehicle maintenance for customer safety and customer satisfaction reasons, as well as because quick and proper repairs are critical to fleet utilization. To accomplish this task we employ a fully-certified National Institute for Automotive Service Excellence (“ASE”) technician instructor at our headquarters. This instructor has developed a specialized training program for our 338 technicians who operate in approximately 85 maintenance and damage repair centers for both Avis and Budget in the United States. We use advanced diagnostic equipment, including General Motors’ Global Diagnostic System, Ford’s Integrated Diagnostic System, Chrysler’s wiTECH scan tool and Hyundai’s Global Diagnostic System. Our technician training department also prepares its own technical service bulletins that can be retrieved electronically at all of our repair locations. Approximately 84% of our technicians are ASE-certified.

### ***Customer Service***

We believe our commitment to delivering a consistently high level of customer service across all of our brands is a critical element of our success and strategy. In 2010, we initiated our *Customer Led, Service Driven*<sup>TM</sup> program, through which we intend to examine our customers’ service preferences and satisfaction levels, with a focus on improving the overall customer experience through the use of our customer relationship management system and enhanced employee training. We track customer satisfaction levels by sending daily location-specific surveys to recent customers. In 2010, we received over 500,000 responses to our online customer satisfaction survey (the Voice of the Customer Survey). The Voice of the Customer Survey asks customers to evaluate their overall satisfaction with their rental experience, among other things. Results are analyzed generally and by location to help further enhance our service levels to our customers. Management receives Voice of the Customer statistics and customer feedback daily via an on-line portal. In addition, we utilize a toll-free “800” number and a dedicated customer service e-mail address to allow customers of both Avis and Budget to report problems directly to our customer relations department. Location associates and managers also receive training and are empowered to resolve most customer issues at the location level. We prepare weekly and monthly reports on the types and number of complaints received for use by location management in conjunction with the customer satisfaction reports as feedback regarding customer service delivery.

### ***Environmental Initiatives***

Over the past several years, we have launched a number of initiatives to manage the environmental aspects of our business. We have focused on and expect to continue to focus on the environmental profile of our car rental fleet, as measured using the United States Environmental Protection Agency (“EPA”) SmartWay Certification program. Many of the 2010 model year rental cars in our fleet met the standards for EPA SmartWay Certification. We also offer gas/electric hybrid cars for rent and flex fuel cars for rent for those seeking to minimize environmental impact through use of E-85 ethanol fuel, where available. We also offer a significant number of vehicles equipped for electronic toll collection, which published research indicates, reduces hydrocarbons and carbon monoxide emissions as well as emissions of nitrogen oxides through reduced wait times at toll booths.

We are creating formal Environmental Management Systems (EMS) for key airport locations in accordance with ISO 14001 international standards. We use these standards to quantify the various environmental aspects of our business operations, and to manage these aspects, reducing our impact when and where practicable. For example, new car washes installed at our Avis and Budget facilities now recycle and reuse at least 80% of their wastewater.

We also offer corporate customers a carbon footprint calculator designed to work with our data warehouse and compute the emissions from their rental car use. We then offer our corporate customers a program to help them reduce their carbon impact, including through driver education, and the opportunity to use carbon offset credits aimed at making their rental car use carbon neutral. We have an alliance with Carbonfund.org, a leading non-profit provider of carbon offset credits, to enable both renters and corporate customers to offset the emissions from their rental car use.

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### ***Airport Concession Fees***

In general, concession fees for on-airport locations are based on a percentage of total commissionable revenue (as defined by each airport authority), subject to minimum annual guaranteed amounts. Concessions are typically awarded by airport authorities every three to five years based upon competitive bids. Our concession agreements with the various airport authorities generally impose certain minimum operating requirements, provide for relocation in the event of future construction and provide for abatement of the minimum annual guarantee in the event of extended low passenger volume.

### ***Competition***

The car rental industry is characterized by intense price and service competition. Competition in our vehicle rental operations is based primarily upon price, reliability, vehicle availability, national distribution, usability of booking systems, ease of rental and return, and other elements of customer service. In addition, competition is influenced strongly by advertising, marketing and brand reputation. We compete primarily with the following car rental companies: Hertz Global Holdings, Inc., which operates the Hertz and Advantage brands; Dollar Thrifty Automotive Group, Inc.; Enterprise Rent-A-Car Company, which also operates the National Car Rental and Alamo brands; and Europcar.

### **Truck rental business**

#### ***Operations***

Budget's truck rental business is one of the largest local and one-way truck rental businesses in the United States. The Budget truck rental business has a combined fleet of approximately 27,000 trucks, with an average truck age of five years, which is rented through a network of approximately 2,250 dealers and 200 company-operated locations throughout the continental United States. A certain number of our dealer locations are operated by our Budget car rental licensees. The Budget truck rental business serves both the consumer and light commercial sectors. The consumer sector consists primarily of individuals who rent trucks to move household goods on either a one-way or local basis. The light commercial sector consists of a wide range of businesses that rent light- to medium-duty trucks, which we define as trucks having a gross vehicle weight of less than 26,000 pounds, for a variety of commercial applications. In 2010, the Budget truck rental business generated total revenue of approximately \$367 million.

We advertise in "yellow pages" telephone directories and purchase online ad placements and keywords to help promote our truck rental business to new and existing customers. Budget truck rental customers can make reservations through the Budget truck rental reservation center at 1-800-GO-BUDGET, through our Budget truck rental website at budgettruck.com, or by calling a location directly.

In 2010, we entered into a multi-year agreement under which we have the exclusive right to advertise truck rental services in the Mover's Guide, an official U.S. Postal Service change of address product. We also began a targeted email marketing campaign to reach new customers. In addition, we have relationships with businesses and websites like moving.com and Pep Boys, a leading automotive aftermarket service and retail chain, to promote Budget's truck rental business, as well as a relationship with AARP offering reduced rates to members.

#### ***Distribution***

Budget's truck rental business is offered through a national network, which included approximately 2,250 dealers as of December 31, 2010. These independently-owned dealers primarily operate self-storage facilities, rental centers, hardware stores, service stations and other similar retail service businesses. In addition to their principal businesses, the dealers rent our light- and medium-duty trucks to consumers and to our commercial accounts and are responsible for collecting payments on our behalf. The dealers receive a commission on all truck rentals and ancillary equipment rentals. Generally, agreements with dealers may be terminated by either party upon 30 to 90 days' prior written notice.

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### ***Competition***

The truck rental industry is characterized by intense price and service competition as well as competition based on location (proximity to customer). We compete with a large number of truck rental companies throughout the country, including U-Haul International, Inc., Penske Truck Leasing Corporation, Ryder System, Inc., Enterprise Rent-A-Car Company and many others.

### ***Seasonality***

Our truck rental operations are subject to seasonal demand patterns, with generally higher levels of demand occurring during the late spring and summer months when most self-moves occur, with the third quarter typically being our busiest quarter. Generally, December is also a strong month due to increased retail sales activity and package deliveries.

### ***Ancillary Products and Insurance Coverages***

We supplement our daily truck rental revenue by offering customers a range of ancillary optional products. We rent automobile towing equipment and other moving accessories such as hand trucks, furniture pads and moving supplies, as well as *where2* GPS navigation units. We also make available to customers a range of optional liability-limiting products and coverages such as physical damage waivers, automobile towing protection, personal accident and cargo insurance, and supplemental liability insurance. These ancillary products enhance our appeal to consumers by offering customers “one-stop” moving services.

## **INSURANCE**

We generally assume the risk of liability to third parties arising from vehicle rental services in the United States, Canada, Puerto Rico and the U.S. Virgin Islands, in accordance with the minimum financial responsibility requirements (“MFRs”) and primacy of coverage laws of the relevant jurisdiction. In certain cases, we assume liability above applicable MFRs, but to no more than \$1 million, pursuant to contractual obligations. In cases where we assume liability above applicable MFRs or in cases involving a negligent act on the part of the Company, we retain exposure for up to \$1 million per occurrence and up to \$10 million per occurrence, respectively, through a combination of (i) self-insurance and (ii) insurance coverage provided by an unaffiliated insurance carrier and reinsured by us. We provide such reinsurance through our captive insurance subsidiary, Constellation Reinsurance Co., Ltd. We purchase insurance coverage for exposures of more than \$10 million per occurrence from a combination of unaffiliated excess carriers.

When a customer elects to purchase supplemental liability insurance, with limits of either \$1 million or \$2 million, we largely retain economic exposure to loss, since the insurance is provided by an unaffiliated carrier that is reinsured by our Constellation Reinsurance Co., Ltd. subsidiary.

We insure the risk of liability to third parties in Argentina, Australia and New Zealand through a combination of unaffiliated carriers and one of our affiliates. These carriers provide coverage supplemental to minimum local requirements.

## **POTENTIAL ACQUISITION OF DOLLAR THRIFTY AUTOMOTIVE GROUP, INC.**

In September 2010, we announced an offer to purchase Dollar Thrifty Automotive Group, Inc. (“Dollar Thrifty”) for a combination of \$45.79 in cash (which would include the proceeds of a pre-closing special dividend to be paid by Dollar Thrifty) and 0.6543 shares of our common stock per Dollar Thrifty share, or approximately \$1.5 billion in aggregate (based on the price of our common stock at the close of trading on the New York Stock Exchange on October 6, 2010). We expect that the cash portion of our offer would be funded through a combination of available cash and debt financing. We and Dollar Thrifty have agreed to cooperate with respect to

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our efforts to pursue antitrust clearance. There can be no assurance as to the timing or outcome of the efforts to secure antitrust clearance for a potential acquisition of Dollar Thrifty, that any agreement with respect to a transaction will be reached, or as to the timing or terms thereof.

### **INTEREST IN CAREY HOLDINGS, INC.**

We are an investor in Carey Holdings, Inc., the parent company of Carey International, Inc., a leading worldwide provider of chauffeured ground transportation services which operates directly or through licensees in approximately 550 cities and 60 countries around the world. As a result of a restructuring by Carey Holdings in January 2011, our percentage ownership was reduced to 1.2% of the company's outstanding common stock.

### **TRADEMARKS AND INTELLECTUAL PROPERTY**

The service marks "Avis" and "Budget", related marks incorporating the words "Avis" or "Budget", and related logos and marks such as "We try harder" are material to our vehicle rental business. Our subsidiaries and licensees actively use these marks. All of the material marks used by the Avis and Budget Systems are registered (or have applications pending for registration) with the United States Patent and Trademark Office as well as in over 100 countries. Our subsidiaries own the marks and other intellectual property, including the Wizard System, used in our business.

### **FINANCIAL DATA OF SEGMENTS AND GEOGRAPHIC AREAS**

Financial data for our segments and geographic areas are reported in Note 21—Segment Information to our Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

### **REGULATION**

We are subject to federal, state and local laws and regulations, including those relating to taxing and licensing of vehicles, trademark licensing, consumer credit, consumer protection, environmental protection, insurance, privacy and labor matters.

#### ***Environmental***

The principal environmental regulatory requirements applicable to our vehicle rental operations relate to the ownership or use of tanks for the storage of petroleum products, such as gasoline, diesel fuel and waste oils; the treatment or discharge of waste waters; and the generation, storage, transportation and off-site treatment or disposal of solid or liquid wastes. We operate 395 Avis and Budget locations worldwide at which petroleum products are stored in underground or above-ground tanks and maintain a storage tank liability insurance policy covering these locations. We have instituted an environmental compliance program designed to ensure that these tanks are in compliance with applicable technical and operational requirements, including the replacement and upgrade of underground tanks to comply with the December 1998 EPA upgrade mandate and periodic testing and leak monitoring of underground storage tanks. We believe that the locations where we currently operate are in compliance, in all material respects, with such regulatory requirements.

We may also be subject to requirements related to the remediation of, or the liability for remediation of, substances that have been released into the environment at properties owned or operated by us or at properties to which we send substances for treatment or disposal. Such remediation requirements may be imposed without regard to fault, and liability for environmental remediation can be substantial.

We may be eligible for reimbursement or payment of remediation costs associated with future releases from regulated underground storage tanks and have established funds to assist in the payment of remediation costs for releases from certain registered underground tanks. Subject to certain deductibles, the availability of funds,

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compliance status of the tanks and the nature of the release, these tank funds may be available to us for use in remediating future releases from our tank systems.

### ***Loss Damage Waivers***

Twenty-four states have enacted legislation which requires disclosure to each customer at the time of rental that damage to the rented vehicle may be covered to some extent by the customer's personal automobile insurance and that loss damage waivers may not be necessary. In addition, four states have statutes which establish or cap the daily rate that can be charged for loss damage waivers.

### ***Insurance***

As a result of our reinsurance of the optional insurance coverages that we offer through an unaffiliated third party insurance company as well as other insurance obligations, we are subject to regulation under the insurance statutes, including insurance holding company statutes, of the jurisdictions in which our insurance company subsidiaries are domiciled. These regulations vary from jurisdiction to jurisdiction, but generally require insurance holding companies and insurers that are subsidiaries of insurance holding companies to register and file certain reports, including information concerning their capital structure, ownership, financial condition and general business operations with the regulatory authority of the applicable jurisdiction, and require prior regulatory agency approval of changes in control of an insurer and intra-corporate transfers of assets within the holding company structure. Such insurance statutes may also require that we obtain limited licenses to sell optional insurance coverage to our customers at the time of rental.

### ***Franchise Regulation***

The aspect of our business that involves licensing third parties to operate locations under the Avis or Budget name, in exchange for the payment of a royalty, is regulated by various state franchising laws, as well as by the Federal Trade Commission (the "FTC"). The FTC requires that we make extensive disclosure to prospective licensees but does not require registration. A number of states require registration and/or disclosure in connection with licensing offers and sales. In addition, several states have "franchise relationship laws" that could limit our ability to, among other things, terminate license agreements or withhold consent to the renewal or transfer of these agreements. Although our licensing operations have not been materially adversely affected by such existing regulations, we cannot predict the effect of any future federal, state or local legislation or regulation.

### ***Privacy***

Laws in some countries and jurisdictions limit the types of information we may collect about individuals with whom we deal or propose to deal, as well as how we collect, retain and use the information that we are permitted to collect, some of which is non-public personally identifiable information. The centralized nature of our information systems requires the routine flow of information about customers and potential customers across national borders, particularly into the United States. If this flow of information were to become illegal, or subject to onerous restrictions, our ability to serve our customers could be seriously impaired for an extended period of time. In addition, our failure to maintain the security of the data we hold, whether as a result of our own error or the actions of others, could harm our reputation or give rise to legal liabilities leading to lower revenue, increased costs and otherwise adversely impact our results of operations. In addition, the Payment Card Industry (the "PCI") imposes strict customer credit card data security standards to ensure that customers' credit card information is protected. Failure to meet the PCI data security standards could result in substantial increased fees to credit card companies, other liabilities and/or loss of the right to collect credit card payments.

## **EMPLOYEES**

As of December 31, 2010, we employed approximately 21,000 employees, of which approximately 7,000 were employed on a part-time basis. Approximately 28% of our employees are covered by collective bargaining agreements. We believe our employee relations are satisfactory. We have never experienced a large-scale work stoppage.

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**COMPANY INFORMATION**

Our principal executive office is located at 6 Sylvan Way, Parsippany, New Jersey 07054 (telephone number: (973) 496-4700). We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith, we file reports, proxy and information statements and other information with the Commission and certain of our officers and directors file statements of changes in beneficial ownership on Form 4 with the Commission. Such reports (including our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K and any amendments to such reports), proxy statements, other information and Form 4s can be accessed on our website at [www.avisbudget.com](http://www.avisbudget.com) as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Commission. A copy of our Codes of Conduct and Ethics, as defined under Item 406 of Regulation S-K, including any amendments thereto or waivers thereof, Corporate Governance Guidelines, Director Independence Criteria and Board Committee Charters can also be accessed on our website.