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

FORM 10-K/A
Amendment No. 1
þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2005
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
COMMISSION FILE NO. 1-10308

AVIS BUDGET GROUP, INC.
(Exact name of Registrant as specified in its charter)

DELAWARE	**06-0918165**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
6 SYLVAN WAY PARSIPPANY, NJ	**07054**
(Address of principal executive offices)	(Zip Code)

973-496-4700
(Registrant s telephone number, including area code)
SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, Par Value $.01	New York Stock Exchange
Preferred Stock Purchase Rights	New York Stock Exchange

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 o No þ
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 o No þ
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 þ No o

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. þ

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

Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

The aggregate market value of the Registrant s common stock held by non-affiliates of the Registrant on June 30, 2005 was $23,181,153,218. 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 1,008,183,706 as of January 31, 2006.

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EXPLANATORY NOTE

Avis Budget Group, Inc., formerly known as Cendant Corporation (Avis Budget, the Company, we, our or us), i filing this Amendment No. 1 on Form 10-K/ A for the year ended December 31, 2005 (Form 10-K/ A Report) to amend our Annual Report on Form 10-K for the year ended December 31, 2005 (Original Filing) that was filed with the Securities and Exchange Commission (SEC) on March 1, 2006.

Discontinued Operations Cendant Separation

During the third quarter of 2006, we completed the separation of Cendant Corporation into four separate companies (the Cendant Separation). The Cendant Separation occurred through distributions to our stockholders of all of the shares of common stock of two of our subsidiaries, Realogy Corporation (Realogy), our former subsidiary that holds the assets and liabilities of our former Real Estate Services businesses, and Wyndham Worldwide Corporation (Wyndham), our former subsidiary that holds the assets and liabilities of our former Hospitality Services (including Timeshare Resorts) businesses. The distributions occurred on July 31, 2006. On August 23, 2006, we completed the sale of Travelport, Inc. (Travelport), our former subsidiary that holds the assets and liabilities of our former Travel Distribution businesses, with substantially all of the net proceeds from such sale being distributed to Realogy and Wyndham as contemplated at the time of their spin-offs. Following the completion of the Cendant Separation, our company now consists of the operations of the Avis and Budget car and truck rental brands, and therefore we changed our name from Cendant to Avis Budget Group, Inc. At the time of our name change, we also effectuated a one-for-ten reverse stock split and our common stock began trading on the New York Stock Exchange under the symbol CAR .

Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets required us to present the account balances and activities of Realogy, Wyndham and Travelport as discontinued operations within our Form 10-Q for the quarterly period ended September 30, 2006 (including the comparable period for the prior year), which was filed with the SEC on November 21, 2006. In accordance with generally accepted accounting principles, we have updated in this Form 10-K/ A report our previously issued annual financial statements and certain other financial information originally reported within our Original Filing. Therefore, this Form 10-K/ A Report updates Items 6, 7 and 8 of our Original Filing to recast the account balances and activities of the aforementioned businesses as discontinued operations and should be read in conjunction with our Form 10-Q for the period ended September 30, 2006 filed on November 21, 2006. Items 6, 7 and 8, as updated, also reflect a change in our segment reporting structure that became effective as of the completion of the Cendant Separation.

Also, as a result of an evaluation performed following the completion of the spin-offs of Realogy and Wyndham and the sale of Travelport, we adopted a new segment reporting structure, whereby our reportable operating segments are Domestic Car Rental, International Car Rental and Truck Rental.

Restatement

On January 31, 2005, we spun-off to our shareholders all of the common stock of our subsidiary, PHH Corporation (PHH), a company engaged in providing mortgage and fleet management services. Following the issuance of our 2005 financial statements, we became aware through notifications required under our separation agreement with PHH and through disclosures in PHH s Current Reports filed on Form 8-K, including PHH s Form 8-K filed on July 21, 2006, that PHH had concluded that its audited and unaudited financial statements for periods prior to September 30, 2005 (the PHH Prior Financial Statements) should not be relied upon because of errors in the PHH Prior Financial Statements, and we therefore conducted a review of the accounting matters that were being evaluated by PHH. In November 2006, we completed such review and determined that we would be required to restate certain of our previously filed financial statements to address these matters, which include the allocation of purchase price among current and former business units associated with our March 2001 acquisition of Avis Group Holdings, Inc. (at such time, the parent of our Avis car rental business, PHH s fleet leasing business and the fuel card business of our former subsidiary, Wright Express Corporation) and a change to disaggregate the fleet leasing and fuel card businesses acquired for purposes of testing goodwill impairment. Such re-allocation and disaggregation have resulted in (i) a restatement of the gain recorded upon the initial public offering of Wright Express Corporation in first quarter 2005; (ii) the recognition of impairment charges related to goodwill of the fleet leasing business of $102 million in 2003 and $100 million in 2002, which in turn has resulted in a restatement of the impairment charge recorded upon the spin-off of PHH (which included the fleet leasing business) in first quarter 2005; and (iii) a restatement of certain of the results of operations of PHH.

This Form 10-K/A Report includes our restated financial statements for 2005, 2004 and 2003 (the Restated Financial Statements), which reflect that, as a result of addressing the matters described above:

- as of the date of the acquisition of Avis Group Holdings we allocated $256 million less purchase price to its fleet leasing business and we allocated additional purchase price of $141 million and $52 million ($51 million, net of amortization in 2001) to its fuel card business and our Avis car rental business, respectively;

- the fair value of the net assets acquired (excluding goodwill) of the fleet leasing business and our Avis car rental business increased $39 million and $24 million, respectively, and as a result, the total amount of goodwill recorded in the March 2001 acquisition decreased $63 million;

- income from continuing operations decreased $8 million and $5 million in 2004 and 2003, respectively, due to additional depreciation and amortization on assets we recorded in connection with the reallocation of purchase price; and

- income from discontinued operations increased $1 million and $17 million in 2005 and 2004, respectively, related to certain operations of PHH and decreased $51 million in 2003 related to certain operations of PHH and the effect of not aggregating the fleet leasing and fuel card businesses for purposes of testing goodwill and the reallocation of purchase price.

The effects of not aggregating the fleet leasing and fuel card businesses for purposes of testing goodwill impairment and the reallocation of purchase price discussed above are:

- the recognition of impairment charges related to goodwill of the fleet leasing business of $102 million in 2003 and $100 million in 2002;

- a decrease in the loss on disposal of PHH (which included the fleet leasing business) in first quarter 2005 due to a reduction in PHH s net assets resulting from the impairment charges and reallocation of purchase price, discussed above; and

- an increase in the gain on the sale of the Wright Express fuel card business in the first quarter of 2005.

The net impact to earnings of recording these adjustments between the date of the acquisition of Avis Group Holdings through the dates of disposition of PHH and the Wright Express fuel card business is an increase of $51 million, which is reflected in the Restated Financial Statements as an increase to goodwill of our Avis car rental business and to retained earnings as of December 31, 2005.

Substantially all of the adjustments to earnings as a result of these corrections pertain to businesses that have been sold or spun-off and that are therefore classified as discontinued operations. We refer you to Note 24 to the Restated Financial Statements for a more detailed discussion of the restatement and tables which present certain of our previously reported balance sheet and income statement data, reclassifications related to the Cendant Separation (as defined above), revisions to such data resulting from the restatement, and corresponding restated amounts currently reported.

This Form 10-K/ A Report sets forth the complete text of the following items contained in the Original Filing, in each case as a result of, and to reflect, the restatement and to recast the account balances and activities of the discontinued operations described above.

Item 6. Selected Financial Data

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Item 8. Financial Statements and Supplementary Data

Item 9A. Controls and Procedures

In addition, we have filed the following exhibits herewith:

12 Computation of Ratio of Earnings to Fixed Charges.

31.1 Certification of Chief Executive Officer Pursuant to Rules 13(a)-14(a) and 15(d)-14(a) Promulgated Under the Securities Exchange Act of 1934, as amended.

31.2 Certification of Chief Financial Officer Pursuant to Rules 13(a)-14(a) and 15(d)-14(a) Promulgated Under the Securities Exchange Act of 1934, as amended.

32 Certifications Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Except for revisions to the Original Filing related to the presentation of discontinued operations, including associated changes to our segment reporting structure, and the restatement, no other changes have been made to the Original Filing and this Form 10-K/ A Report does not amend, update or change any other items or disclosures in the Original Filing. This Form 10-K/ A Report continues to describe conditions as of the date of the Original Filing and any disclosures to reflect events that occurred at a later date have not been updated. Other events occurring after the Original Filing or other disclosures necessary to reflect subsequent events have been or will be addressed in reports filed with the SEC subsequent to the date of the Original Filing.

We have not amended and do not intend to amend our previously filed Annual Reports on Form 10-K or our Quarterly Reports on Form 10-Q for periods prior to December 31, 2005 that are affected by the restatement. However, the information in this Form 10-K/A Report for the years ended December 31, 2001 and 2002 set forth in Selected Financial Data in Item 6 herein and for the quarterly periods of 2004 and 2005 set forth in Consolidated Quarterly Results in Item 7 herein has been amended to reflect the effect of properly accounting for the restatement and to recast the account balances and activities of the discontinued operations described above.

Selling, general and administrative expenses include unallocated corporate expenses related to our discontinued operations. Accordingly, the expenses reflected in the accompanying financial statements may not be indicative of the actual expenses we will incur as a separate company following the spin-offs of Realogy and Wyndham and the sale of Travelport. As mentioned above, in September 2006, we changed our name from Cendant Corporation to Avis Budget Group, Inc. All references to Cendant Corporation in the Original Filing have been changed to Avis Budget Group, Inc. in this Form 10-K/A Report.

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ITEM 6. SELECTED FINANCIAL DATA

	At or For the Year Ended December 31,				
	2005 (restated)	2004 (restated)	2003 (restated)	2002 (restated)	2001 (restated)
	(In millions, except per share data)				
Results of Operations					
Net revenues	$ 5,400	$ 4,820	$ 4,682	$ 3,015	$ 2,317
Income (loss) from continuing operations	$ (11)	$ 71	$ (149)	$ (241)	$ (594)
Income from discontinued operations, net of tax	1,637	2,020	1,558	1,012	1,012
Cumulative effect of accounting changes, net of tax	(8)	-	(329)	-	(38)
Net income	$ 1,618	$ 2,091	$ 1,080	$ 771	$ 380
Per Share Data					
Income (loss) from continuing operations:					
Basic	$ (0.01)	$ 0.07	$ (0.15)	$ (0.24)	$ (0.68)
Diluted	(0.01)	0.07	(0.15)	(0.24)	(0.68)
Income from discontinued operations:					
Basic	$ 1.58	$ 1.96	$ 1.53	$ 1.00	$ 1.16
Diluted	1.58	1.90	1.53	1.00	1.16
Cumulative effect of accounting changes:					
Basic	$ (0.01)	$ -	$ (0.32)	$ -	$ (0.04)
Diluted	(0.01)	-	(0.32)	-	(0.04)
Net income:					
Basic	$ 1.56	$ 2.03	$ 1.06	$ 0.76	$ 0.44
Diluted	1.56	1.97	1.06	0.76	0.44
Cash dividends declared	$ 0.40	$ 0.32	$ -	$ -	$ -
Financial Position					
Total assets	$ 34,493	$ 42,698	$ 39,551	$ 36,337	$ 33,898
Assets of discontinued operations	20,512	29,452	27,232	24,469	21,770
Assets under vehicle programs	8,500	7,072	6,485	6,379	4,132
Long-term debt, including current portion	3,508	4,234	5,900	6,396	6,955
Debt under vehicle programs [*]	7,909	6,727	6,295	6,138	3,771
Stockholders equity	11,342	12,464	9,946	9,167	6,995

[*] Includes related-party debt due to Avis Budget Rental Car Funding (AESOP) LLC. See Note 15 to our Consolidated Financial Statements.

In presenting the financial data above in conformity with generally accepted accounting principles, we are required to make estimates and assumptions that affect the amounts reported. See Critical Accounting Policies under Item 7 included elsewhere herein for a detailed discussion of the accounting policies that we believe require subjective and complex judgments that could potentially affect reported results.

Income from discontinued operations, net of tax, includes the after tax results of the following disposed businesses for all periods presented (through their respective dates of disposition): (i) Travelport, which we sold in August 2006, (ii) Realogy and Wyndham, which were spun-off on July 31, 2006, (iii) our former Marketing Services division, which we sold in October 2005, (iv) Wright Express Corporation, which we sold in February 2005, (v) our former mortgage, fleet leasing and appraisal businesses, which were included in the spin-off of PHH Corporation on January 31, 2005, (vi) Jackson Hewitt Tax Service Inc., which we sold in June 2004, and (vii) National Car Parks (NCP), which we sold in May 2002. Income from discontinued operations,

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net of tax also includes the after tax gains on the sale of our former Marketing Services division and Wright Express in 2005, the after tax loss on the spin-off of PHH in 2005, the after tax gain on the sale of Jackson Hewitt in 2004 and the after tax loss on disposal of NCP in 2002. See Note 3 to our Consolidated Financial Statements for more detailed information regarding discontinued operations.

During 2005, 2004, 2003, 2002 and 2001, we incurred $35 million, $(28) million, $11 million, $103 million and $86 million, respectively, for litigation and related costs (credits) primarily in connection with the 1998 discovery of accounting irregularities in the former business units of CUC International, Inc., with which we merged in December 1997. The amount in 2004 includes a $55 million credit recorded in connection with previously established liabilities for severance and other termination benefits for which we no longer believe we are liable.

We also recorded acquisition and integration related costs (credits) of $1 million, $(5) million and $27 million in 2005, 2004 and 2003, respectively. See Note 5 to our Consolidated Financial Statements for a detailed description of such charges. In 2005, we recorded $26 million of restructuring and transaction-related charges as a result of restructuring activities undertaken following the spin-off of PHH Corporation and the initial public offering of Wright Express Corporation.

During 2003, we consolidated a number of entities pursuant to Financial Accounting Standards Board Interpretation No. 46, Consolidation of Variable Interest Entities, and/or as a result of amendments to the underlying structures of certain of the facilities we used to securitize assets. See Notes 2 and 15 to the Consolidated Financial Statements for more information.

During 2002, we adopted the non-amortization provisions of Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets. Accordingly, our results of operations for 2001 reflect the amortization of goodwill and indefinite-lived intangible assets, while our results of operations for 2005, 2004, 2003 and 2002 do not reflect such amortization. Had we applied the non-amortization provisions of SFAS No. 142 during 2001, net income would have been $539 million on a pro forma basis during 2001.

We incurred restructuring and other unusual charges of $356 million in 2001, which primarily consisted of (i) $94 million related to strategic initiatives committed to as a result of changes in business and consumer behavior following the September 11, 2001 terrorist attacks, (ii) $95 million related to the funding of an irrevocable contribution to an independent technology trust responsible for providing technology initiatives for the benefit of our current and future real estate franchisees, (iii) $85 million related to the funding of Trip Network, Inc. and (iv) $41 million related to the rationalization of the Avis fleet.

As of December 31, 2001, we had accrued a $2.85 billion stockholder litigation settlement liability for our principal securities class action lawsuit relating to the 1998 discovery of accounting irregularities in the former business units of CUC and deposited cash totaling approximately $1.41 billion to a trust established for the benefit of the plaintiffs in this lawsuit. We funded the remaining balance of the liability with cash payments of approximately $1.44 billion during 2002.

The accompanying Consolidated Financial Statements for the years ended December 31, 2005, 2004 and 2003 have been restated. See Note 24 to the Consolidated Financial Statements for a detailed description of the restatement and the impact thereof on our Consolidated Financial Statements for 2005, 2004 and 2003. The effect of the restatement for 2002 and 2001 is a reduction to previously reported net income of $75 million and $5 million, respectively.

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with our Consolidated Financial Statements and accompanying Notes thereto included elsewhere herein. Unless otherwise noted, all dollar amounts are in millions and those relating to our results of operations are presented before taxes. As discussed in Note 24 to our Consolidated Financial Statements, our financial statements for 2005, 2004 and 2003 included herein have been restated. The accompanying discussion gives effect to (i) the restatement, (ii) the presentation of Realogy Corporation, Wyndham Worldwide Corporation and Travelport, Inc. as discontinued operations and (iii) our new reportable operating segments.

As of December 31, 2005, we were a global provider of real estate and travel services. Following the distributions of the shares of Realogy Corporation and Wyndham Worldwide Corporation to our stockholders on July 31, 2006 and the sale of Travelport on August 23, 2006, which are further described below, we changed our name to Avis Budget Group, Inc. Our continuing operations consist primarily of our Avis Budget Car Rental, LLC subsidiary, the parent company of the companies that comprise our vehicle rental operations, which provide car and truck rentals and ancillary services to businesses and consumers in the United States and internationally.

We operate in the following business segments:

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

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

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

In 2004 and 2005, we undertook a strategic realignment to simplify our business model through exiting non-core businesses or businesses that produced volatility to our earnings inconsistent with our business model and the remainder of our core businesses. We began this strategic realignment by completing the initial public offering of Jackson Hewitt Tax Service Inc. in June 2004. We completed the spin-off of our former mortgage, fleet leasing and appraisal businesses in a tax-free distribution of the common stock of PHH Corporation to our stockholders in January 2005. In February 2005, we completed the initial public offering of Wright Express Corporation, raising $964 million of cash. In October 2005, we completed the sale of our Marketing Services division, which was comprised of our former individual membership and loyalty/insurance marketing businesses, for approximately $1.7 billion of cash (approximately $1.8 billion of gross proceeds), representing the culmination of our 2004 and 2005 strategic realignment.

Following this strategic realignment, our management team and Board of Directors, with the aid of financial and legal advisors, performed a comprehensive review of the growth opportunities and estimated market valuations for each of our core businesses. As a result of this review, from October 2005 to July 2006, our Board of Directors approved a plan to separate Cendant into four independent companies:

Realogy Corporation encompasses our former Realogy segment, which is now presented as a discontinued operation.

Wyndham Worldwide Corporation encompasses our former Hospitality Services and Timeshare Resorts segments, which are now presented as discontinued operations.

Travelport, Inc. encompasses our former Travel Distribution Services segment, which is now presented as a discontinued operation.

Avis Budget Group, Inc. encompasses our vehicle rental operations.

On July 31, 2006, we completed the spin-offs of Realogy Corporation and Wyndham Worldwide Corporation in tax-free distributions of one share each of Realogy and Wyndham common stock for every four and five

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shares, respectively, of then outstanding Cendant common stock held on July 21, 2006. On August 1, 2006, Realogy and Wyndham stock began regular-way trading on the New York Stock Exchange under the symbols H and WYN, respectively. On August 23, 2006, we completed the sale of Travelport for proceeds of approximately $4.1 billion, net of closing adjustments, of which approximately $1.8 billion was used to repay indebtedness of Travelport.

During 2005, we incurred costs of $15 million in connection with executing our plan, consisting primarily of legal, accounting, other professional and consulting fees and various employee costs.

In connection with the separation, we entered into a separation agreement, tax sharing agreement and transition services agreement with Realogy, Wyndham and Travelport.

RESULTS OF OPERATIONS

Discussed below are our consolidated results of operations and the results of operations for each of our reportable segments. Generally accepted accounting principles require us to segregate and report as discontinued operations, for all periods presented, the account balances and activities of Jackson Hewitt, PHH, Wright Express, our former Marketing Services division, Realogy, Wyndham and Travelport. Previously, we could not classify our former mortgage business as a discontinued operation due to Realogy s participation in a mortgage origination venture that was established with PHH in connection with our January 2005 spin-off of PHH. However, due to the spin-off of Realogy on July 31, 2006, this business is classified as a discontinued operation.

We measure performance using the following key operating statistics: (i) rental days, which represents the total number of days (or portion thereof) a vehicle was rented, and (ii) time and mileage (T&M) revenue per rental day, which represents the average daily revenue we earned from rental and mileage fees charged to our customers. Our car rental operating statistics (rental days and T&M revenue per rental day) are all calculated based on the actual usage of the vehicle during a 24-hour period. We believe that this methodology, while conservative, provides our management with the most relevant statistics in order to manage the business. Our calculation may not be comparable to other companies calculation of similarly-titled statistics.

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

Year Ended December 31, 2005 vs. Year Ended December 31, 2004

Our consolidated results of operations comprised the following:

	2005	2004	Change
Net revenues	$ 5,400	$ 4,820	$ 580
Total expenses	5,462	4,813	649
Income (loss) before income taxes	(62)	7	(69)
Benefit from income taxes	(51)	(64)	13
Income (loss) from continuing operations	(11)	71	(82)
Income from discontinued operations, net of tax	1,088	1,822	(734)
Gain on disposal of discontinued operations, net of tax	549	198	351
Cumulative effect of accounting change, net of tax	(8)	-	(8)
Net income	$ 1,618	$ 2,091	$ (473)

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During 2005, our total revenues increased $580 million (12%) principally due to an 11% increase in T&M revenue reflecting a 14% increase in domestic rental days and a 17% increase in international rental days. Total expenses increased $649 million (13%) principally reflecting (i) $306 million of additional vehicle related operating expenses primarily associated with increased car rental volume and fleet size, including vehicle maintenance and damage costs, commissions and shuttling costs and (ii) $250 million of additional vehicle depreciation and lease charges, as well as $65 million of additional vehicle interest expense, both primarily resulting from an increase of 15% in the average size of our domestic and international car rental fleets and, in the case of vehicle depreciation, reductions to manufacturer incentives received on our domestic car rental fleet. As a result of these items, as well as a $13 million decrease in our benefit from income taxes, our income from continuing operations decreased $82 million. The benefit from income taxes for 2005 and 2004 reflects the favorable resolution of prior years examination matters.

Selling general and administrative expenses include unallocated corporate expenses related to the discontinued operations treatment of our former subsidiaries. We will not incur the majority of these corporate costs going forward.

Income from discontinued operations decreased $734 million, which primarily reflects (i) a decrease of $291 million in net income generated by Travelport which reflects a $425 million impairment charge recorded during 2005 partially offset by increased revenue, (ii) a decrease of $259 million in net income generated by our Marketing Services division, which principally reflects the reversal of a tax valuation allowance of $121 million in January 2004, and (iii) a decrease of $131 million in net income generated by PHH (this business was included in our 2005 results through January 31, 2005, the date of disposition, but was included in our results for all of 2004).

The net gain we recognized on the disposal of discontinued operations increased $351 million year-over-year, which includes a $581 million gain recognized in connection with the sale of our former Marketing Services division during 2005 and a $253 million gain recognized during 2005 in connection with the initial public offering of Wright Express, partially offset by (i) a $281 million non-cash impairment charge and $4 million of transaction costs relating to the PHH spin-off and (ii) the absence of a $198 million gain recognized in connection with the June 2004 sale of Jackson Hewitt. In 2005, we also recorded a $14 million ($8 million, after tax) non-cash charge to reflect the cumulative effect of accounting change as a result of our adoption of FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations in fourth quarter 2005.

As a result of the above-mentioned items, net income decreased $473 million.

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Following is a more detailed discussion of the results of each of our reportable segments:

	Revenues			EBITDA		
	2005	2004	% Change	2005	2004	% Change
Domestic Car Rental	$ 4,109	$ 3,658	12%	$ 225	$ 265	(15)%
International Car Rental	661	534	24	111	97	14
Truck Rental	546	517	6	103	105	(2)
Total Reportable Segments	5,316	4,709	13	439	467	(6)
Corporate and Other[(a)]	84	111	(24)	(213)	(76)	
Total Company	$ 5,400	$ 4,820	12	226	391	
Less: Non-vehicle related depreciation and amortization				116	115	
Interest expense related to corporate debt, net[(b)]				172	269	
Income (loss) before income taxes				$ (62)	$ 7	

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

(b) The 2005 amount includes a credit resulting from the reversal of $73 million of accrued interest associated with the resolution of amounts due under a litigation settlement reached in 1999.

Domestic Car Rental

Revenues increased $451 million (12%) while EBITDA decreased $40 million (15%) in 2005 compared with 2004, primarily reflecting growth in rental day volume offset by both reduced T&M revenue per rental day and higher fleet costs.

The revenue increase of $451 million was comprised of a $339 million (11%) increase in T&M revenue and a $112 million (18%) increase in ancillary revenues. The increase in T&M revenues was principally driven by a 14% increase in rental days, partially offset by a 3% decrease in T&M revenue per day. The increase in rental days reflects, in part, our strategic decision to implement more competitive pricing in the second half of 2004. This program was continued into the first half of 2005 when we instituted a price increase in response to rising fleet costs. Accordingly, T&M revenue per day decreased 3% during 2005 when compared with 2004 as a whole, but year-over-year price comparisons strengthened over the course of 2005. Fleet depreciation, interest and lease charges increased $226 million (21%) in 2005 primarily due to (i) an increase of 14% in the average size of our domestic rental fleet and (ii) reductions to manufacturer incentives received on our 2005 model year rental car fleet (which was utilized during 2005) as compared with those received on our 2004 model year rental car fleet (which was utilized during 2004). We also incurred $181 million of additional expenses primarily associated with increased car rental volume and fleet size, including vehicle maintenance and damage costs, commissions and shuttling costs.

The $112 million increase in ancillary revenues was due primarily to (i) a $48 million increase in airport concession and vehicle licensing revenues, which was more than offset in EBITDA by $51 million of higher airport concession and vehicle licensing expenses remitted to airport and other regulatory authorities, (ii) a $35 million increase in counter sales of insurance and other items, and (iii) a $29 million increase in gasoline revenues, which was more than offset in EBITDA by $39 million of higher gasoline costs.

EBITDA from our domestic car rental operations also reflects $28 million of incremental interest income earned on intercompany balances with our corporate parent, which will be forgiven in connection with the separation, partially offset by (i) $12 million of incremental expenses relating to the estimated damages caused by the hurricanes experienced in the Gulf Coast in 2005, which primarily included the impairment of rental cars, and (ii) $10 million of additional litigation expense resulting from the settlement of a dispute.

International Car Rental

Revenues and EBITDA increased $127 million (24%) and $14 million (14%), respectively, in 2005 compared with 2004, primarily reflecting growth in rental day volume.

The revenue increase of $127 million was comprised of an $86 million (22%) increase in T&M revenue and a $41 million (29%) increase in ancillary revenues. The increase in T&M revenues was principally driven by a 17% increase in rental days and a 4% increase in T&M revenue per day. The favorable effect of incremental T&M revenues was partially offset in EBITDA by $49 million (45%) of increased fleet depreciation, interest and lease charges principally resulting from an increase of 21% in the average size of our international rental fleet to support increased demand. We also incurred $48 million of additional expenses primarily associated with increased car rental volume and fleet size, including vehicle maintenance and damage costs, commissions and shuttling costs.

The $41 million increase in ancillary revenues was due primarily to (i) a $24 million increase in counter sales of insurance and other items, (ii) a $12 million increase in airport concession and vehicle licensing revenues, substantially all of which are remitted to airport and other regulatory authorities thereby having a minimal impact on EBITDA, and (iii) a $5 million increase in gasoline revenues, which was more than offset in EBITDA by $6 million of higher gasoline costs.

The increases discussed above include $46 million of revenue and $1 million of EBITDA losses resulting from our acquisitions of international franchisees during 2005, as well as the effect of favorable foreign currency exchange rate fluctuations of $28 million, which was largely offset in EBITDA by the opposite impact of foreign currency exchange rate fluctuations on expenses.

Truck Rental

Revenues increased $29 million (6%), while EBITDA decreased $2 million (2%) in 2005 compared with 2004.

The revenue increase of $29 million was comprised of an $18 million (4%) increase in T&M revenue and an $11 million (16%) increase in counter sales of insurance and other items. The increase in T&M revenues was principally driven by a 3% increase in T&M revenue per day and a modest increase in rental days. The favorable effect of incremental T&M revenues was more than offset in EBITDA by $39 million of increased fleet depreciation, interest and lease charges principally resulting from an increase of 10% in the average size of our truck rental fleet in anticipation of increased demand and higher per unit fleet costs.

EBITDA from our truck rental operations also reflects (i) $6 million of additional dealer commission expense associated with increased T&M revenue, as discussed above and (ii) $5 million of restructuring costs, representing facility, employee relocation and severance costs incurred in connection with the closure of a reservation center and unprofitable Budget truck rental locations. These increases were partially offset by (i) a $13 million credit relating to a refinement made during 2005 in how we estimate repair and refurbishment costs of our truck fleet and (ii) a $7 million decrease in our self-insurance reserve for public liability and property damage costs as a result of more favorable claims experience.

Corporate and Other

Revenues decreased $27 million and the EBITDA loss increased from $76 million in 2004 to $213 million in 2005. Revenues and EBITDA were unfavorably impacted in 2005 by a $22 million reduction to realized gains on the sale of Homestore stock during 2005 compared with 2004 and a $13 million reduction in earnings on a credit card marketing program under which we earn fees based on a percentage of credit card spending. Such amounts were partially offset by a $5 million increase in revenues earned in 2005 under agreements where we provide certain transitional administrative services to businesses we recently sold or distributed (including Jackson Hewitt, PHH and our former Marketing Services division).

EBITDA was further unfavorably impacted year-over-year by (i) the absence of a $55 million credit recorded in 2004 in connection with previously established liabilities for severance and other termination benefits for which we no longer believed we were liable, (ii) $19 million of restructuring charges recorded during 2005, (iii) $15 million of expenses recorded during 2005 in connection with our separation plan and (iv) a credit of $12 million in 2004 relating to the termination of a lease on more favorable terms than originally estimated.

Year Ended December 31, 2004 vs. Year Ended December 31, 2003

Our consolidated results of operations comprised the following:

	2004	2003	Change
Net revenues	$ 4,820	$ 4,682	$ 138
Total expenses	4,813	4,945	(132)
Income (loss) before income taxes	7	(263)	270
Benefit from income taxes	(64)	(114)	50
Income (loss) from continuing operations	71	(149)	220
Income from discontinued operations, net of tax	1,822	1,558	264
Gain on disposal of discontinued operations, net of tax	198	-	198
Cumulative effect of accounting change, net of tax	-	(329)	329
Net income	$ 2,091	$ 1,080	$ 1,011

During 2004, our total revenues increased $138 million (3%) principally due to a 2% increase in T&M revenue, which was primarily driven by an 11% increase in international rental days and a 6% increase in international pricing. Revenues within our domestic operations remained relatively consistent year-over-year. Total expenses decreased $132 million (3%) principally reflecting (i) $106 million of lower non-vehicle interest expense primarily related to the retirement of our former 11% senior subordinated notes, (ii) $58 million of lower vehicle depreciation and lease charges primarily resulting from enhanced incentives offered by car manufacturers on our 2004 model year rental car inventory, (iii) $28 million of lower selling, general and administrative expenses principally due to cost savings realized in connection with our strategic initiative to reduce overhead, including marketing and advertising, as well as cost savings realized upon the completion of the Budget integration and (iv) $21 million of lower vehicle interest expense due primarily to the refinancing of higher-rate borrowings with a more favorable interest rate. The favorable effect of these reductions was partially offset by $83 million of additional operating expenses primarily associated with increased car rental volume and fleet size, including vehicle maintenance and damage costs, commissions and shuttling costs. As a result of these items, as well as a $50 million reduction in our benefit from income taxes, our income from continuing operations increased $220 million. The benefit from income taxes for 2004 reflects the favorable resolution of prior years examination matters and the benefit from income taxes for 2003 reflects reversals in our valuation allowance.

Income from discontinued operations increased $264 million, and reflects (i) an increase of $144 million in net income generated by our Marketing Services division, which principally reflects the reversal of a tax valuation allowance of $121 million in January 2004, and (ii) an increase of $92 million in net income generated by Realogy. We also recorded a net gain of $198 million in connection with the initial public offering of Jackson Hewitt in June 2004. In 2003, we recorded a non-cash charge of $329 million to reflect the cumulative effect of accounting change in relation to the adoption of FASB Interpretation No. 46, Consolidation of Variable Interest Entities.

As a result of the above-mentioned items, net income increased approximately $1.0 billion.

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Following is a more detailed discussion of the results of each of our reportable segments:

	Revenues			EBITDA		
	2004	2003	% Change	2004	2003	% Change
Domestic Car Rental	$ 3,658	$ 3,640	-%	$ 265	$ 165	61%
International Car Rental	534	447	19	97	55	76
Truck Rental	517	512	1	105	108	(3)
Total Reportable Segments	4,709	4,599	2	467	328	42
Corporate and Other [(a)]	111	83	34	(76)	(111)	
Total Company	$ 4,820	$ 4,682	3	391	217	
Less: Non-vehicle related depreciation and amortization				115	105	
Interest expense related to corporate debt, net [(b)]				269	375	
Income (loss) before income taxes				$ 7	$ (263)	

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

Domestic Car Rental

Revenues and EBITDA increased $18 million and $100 million (61%), respectively, in 2004 compared with 2003, primarily reflecting cost savings upon the successful integration of Budget, the assets of which were acquired in November 2002, and the implementation of other cost savings initiatives.

The revenue increase of $18 million was comprised of a $3 million increase in T&M revenues and a $15 million increase in ancillary revenues. T&M revenues increased by a modest $3 million as a 3% increase in rental days was offset by a 3% decrease in T&M revenue per day, which was primarily driven by price competition in the car rental industry. Fleet depreciation, interest and lease charges decreased $81 million (7%) in 2004 despite a 3% increase in the average size of our domestic rental fleet. This decrease primarily resulted from the successful integration of Budget and enhanced incentives offered by car manufacturers on our 2004 model year rental car inventory, which lowered our overall fleet costs in 2004. We also incurred $58 million of additional expenses primarily associated with increased car rental volume and fleet size, including vehicle maintenance and damage costs, commissions and shuttling costs.

The $15 million increase in ancillary revenues was due to (i) a $17 million increase in airport concession and vehicle licensing revenues, which was partially offset in EBITDA by associated expenses required to be remitted to airport and other regulatory authorities and (ii) a $10 million increase in gasoline revenues, which was more than offset in EBITDA by $16 million of higher gasoline costs. These increases were partially offset by a $12 million decrease in counter sales of insurance and other items.

EBITDA from our domestic car rental operations also reflects (i) $51 million of cost savings realized in connection with the successful integration of Budget and other initiatives undertaken by management to reduce overhead, including marketing and advertising and (ii) $33 million of lower vehicle insurance costs, which was driven by our decision to reduce higher-risk rentals.

International Car Rental

Revenues and EBITDA increased $87 million (19%) and $42 million (76%), respectively, in 2004 compared with 2003 due to increased rental day volume, increased pricing and favorable foreign exchange fluctuations.

The revenue increase was comprised of a $59 million (18%) increase in car rental T&M revenue and a $28 million (25%) increase in ancillary revenues. The increase in T&M revenues was principally driven by an 11% increase in rental days and a 6% increase in T&M revenue per day. Fleet depreciation, interest and lease charges increased by $5 million (5%) despite a 12% increase in the average size of our international rental fleet to support increased demand. We also incurred $27 million of additional expenses primarily associated with increased car rental volume and fleet size, including vehicle maintenance and damage costs, commissions and shuttling costs.

The $28 million increase in ancillary revenues was due to (i) a $15 million increase in counter sales of insurance and other items, (ii) a $9 million increase in airport concession and vehicle licensing revenues, substantially all of which are remitted to airport and other regulatory authorities thereby having a minimal impact on EBITDA, and (iii) a $4 million increase in gasoline revenues, which was offset in EBITDA by $4 million of higher gasoline costs. The increases discussed above include the effect of favorable foreign currency exchange rate fluctuations of $43 million, which was partially offset in EBITDA by $30 million due to the unfavorable impact of foreign currency exchange rate fluctuations on expenses.

Truck Rental

Budget truck rental revenues increased $5 million (1%) in 2004, while EBITDA decreased $3 million (3%) in 2004 compared with 2003.

The revenue increase of $5 million was comprised of a $10 million (2%) increase in T&M revenue, partially offset by a $5 million (7%) reduction in counter sales of insurance and other items. The $10 million increase in T&M revenue was principally driven by an 8% increase in T&M revenue per day, partially offset by a 5% reduction in rental days. In addition to the favorable effect of incremental T&M revenues, EBITDA also benefited from a $6 million (13%) reduction in fleet depreciation and lease charges principally resulting from a 10% reduction in the average size of our truck rental fleet as a result of our efforts to focus on higher utilization of newer and more efficient trucks. Our focus on higher utilization of newer and more efficient trucks also caused the reduction in rental days discussed above, as we had fewer trucks to rent. Additionally, we incurred $5 million of additional vehicle interest expense to fund the purchase of newer and more efficient trucks. EBITDA from our truck rental operations also reflects $9 million of additional commission expense associated with increased T&M revenue.

Corporate and Other

Revenues increased $28 million and the EBITDA loss decreased from $111 million in 2003 to $76 million in 2004. Revenues and EBITDA were favorably impacted in 2004 by $37 million of additional realized gains on the sale of Homestore stock, partially offset by a $30 million gain recognized in 2003 on the sale of our equity investment in Entertainment Publications, Inc. Revenue and EBITDA also reflect $21 million and $13 million, respectively, of incremental earnings on a credit card marketing program under which we earn fees based on a percentage of credit card spending.

EBITDA was also favorably impacted year-over-year by (i) a $39 million reduction in securities-related litigation charges in 2004 compared with 2003 principally resulting from a credit of $55 million in 2004 relating to previously established liabilities for severance and other termination benefits for which we no longer believe we are liable, partially offset by ongoing investigation costs relating to the discovery in 1998 of accounting irregularities in former CUC businesses and (ii) a credit of $12 million in 2004 relating to the termination of a lease on more favorable terms than originally estimated. These favorable EBITDA variances were partially offset by a $35 million increase in incentive-based compensation expenses.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

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

FINANCIAL CONDITION

	2005	2004	Change
Total assets exclusive of assets under vehicle programs	$ 25,993	$ 35,626	$ (9,633)
Total liabilities exclusive of liabilities under vehicle programs	13,889	21,966	(8,077)
Assets under vehicle programs	8,500	7,072	1,428
Liabilities under vehicle programs	9,262	8,268	994
Stockholders equity	11,342	12,464	(1,122)

Total assets exclusive of assets under vehicle programs decreased approximately $9.6 billion primarily due to (i) the spin-off of PHH, which reduced assets by approximately $9.6 billion, (ii) the sale of the Marketing Services division, which (excluding proceeds received on the sale) reduced assets by approximately $1.1 billion, (iii) the sale of Wright Express, which (excluding proceeds received on the sale) reduced assets by $685 million and (iv) a reduction of approximately $1.3 billion in our net deferred tax asset principally due to the utilization of our net operating loss carryforwards during 2005. These decreases were partially offset by approximately $2.3 billion of assets acquired in connection with the completion of certain acquisitions which are now presented as discontinued operations.

Total liabilities exclusive of liabilities under vehicle programs decreased approximately $8.1 billion primarily due to (i) the spin-off of PHH, which reduced liabilities by approximately $8.1 billion, (ii) the sale of the Marketing Services division, which reduced liabilities by $758 million, (iii) the sale of Wright Express, which reduced liabilities by $434 million and (iv) a net reduction of approximately $640 million in borrowings under our revolving credit facility. These decreases were partially offset by approximately $670 million of liabilities that we assumed in connection with certain acquisitions which are now presented as discontinued operations.

Assets under vehicle programs increased approximately $1.4 billion primarily due to the net additions to our vehicle rental fleet, reflecting current and projected year-over-year increases in demand.

Liabilities under vehicle programs increased approximately $1.0 billion primarily due to additional borrowings to support the growth in our vehicle rental fleet described above. See Liquidity and Capital Resources Debt and Financing Arrangements for a detailed account of the change in our debt related to vehicle programs.

Stockholders equity decreased approximately $1.1 billion primarily due to (i) the $1.4 billion dividend of PHH s equity to our shareholders, (ii) our repurchase of approximately $1.3 billion of our common stock and (iii) $423 million of cash dividend payments. Such decreases were partially offset by (i) net income of approximately $1.6 billion for 2005, (ii) the $281 million adjustment to offset the valuation charge associated with the PHH spin-off (which is included in both the $1.4 billion PHH dividend and in the 2005 net income, therefore necessitating the adjustment) and (iii) $347 million related to the exercise of employee stock options (including a $79 million tax benefit).

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LIQUIDITY AND CAPITAL RESOURCES

Our principal sources of liquidity are cash on hand and our ability to generate cash through operations and financing activities, including available funding arrangements and committed credit facilities, each of which is discussed below.

CASH FLOWS

At December 31, 2005, we had $546 million of cash on hand, an increase of $383 million from $163 million at December 31, 2004. The following table summarizes such increase:

	Year Ended December 31,		
	2005	2004	Change
Cash provided by (used in):			
Operating activities	$ 1,000	$ 787	$ 213
Investing activities	27	(810)	837
Financing activities	(1,001)	(1,030)	29
Effects of exchange rate changes	-	4	(4)
Cash provided by discontinued operations	357	639	(282)
Net change in cash and cash equivalents	$ 383	$ (410)	$ 793

During 2005, we generated $213 million more cash from operating activities in comparison to 2004. This change principally reflects (i) an increase in operating results in 2005 compared to 2004, when adjusted for non-cash items, including depreciation and amortization, and (ii) reduced working capital requirements.

During 2005, we generated $27 million of cash from investing activities, compared to using $810 million of cash in investing activities in 2004. This change is primarily due to an increase of approximately $1.8 billion in cash proceeds from dispositions of businesses, net of transaction-related payments, which reflects $1.7 billion and $964 million in proceeds related to the disposition of our former Marketing Services division and the initial public offering of Wright Express in 2005, respectively, partially offset by $772 million we received in connection with the initial public offering of Jackson Hewitt in 2004. These increases were partially offset by (i) an $841 million increase in cash used to purchase rental vehicles during 2005 and (ii) the use of $125 million more cash in 2005 to acquire rental car licensees and associated vehicles.

We used $29 million less cash in financing activities in 2005 compared to 2004. Such change includes a reduction of $541 million in cash used to settle corporate indebtedness, the generation of $710 million more cash from borrowing activity within our vehicle programs in 2005, offset by the absence of proceeds received on the Upper DECS in 2004 and increased net stock repurchases in 2005. The reduction in cash used to settle corporate debt includes (i) the payment of $778 million to repurchase $763 million of our 6.75% notes in 2004 that formed a portion of the Upper DECS, (ii) the use of $345 million to retire our 11% senior subordinated notes in 2004, (iii) the payment of $811 million to redeem our $3^7/8$% convertible senior debentures in 2004, and (iv) the repayment in 2005 of borrowings under our revolving credit facility in 2004. These increases were partially offset by (i) the absence of $863 million of cash we received in connection with the settlement of the forward purchase contract component of our former Upper DECS securities, whereby we issued 38 million shares of common stock in 2004, (ii) an increase of $304 million in cash used for common stock repurchases (net of proceeds received on the issuance of common stock) and (iii) the use of $90 million more cash in 2005 for the payment of dividends.

DEBT AND FINANCING ARRANGEMENTS

At December 31, 2005, we had approximately $11.4 billion of indebtedness (including corporate indebtedness of approximately $3.5 billion and debt under vehicle programs of approximately $7.9 billion).

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Corporate indebtedness consisted of:

		As of December 31,		
	Maturity Date	2005	2004	Change
Term notes				
$6^{7}/8$% notes	August 2006	$ 850	$ 850	$ -
4.89% notes	August 2006	100	100	-
$6^{1}/4$% notes	January 2008	798	797	1
$6^{1}/4$% notes	March 2010	349	349	-
$7^{3}/8$% notes	January 2013	1,192	1,191	1
$7^{1}/8$% notes	March 2015	250	250	-
Other				
Revolver borrowings [a]	November 2009	7	650	(643)
Net hedging gains (losses) [b]		(47)	17	(64)
Other		9	30	(21)
		$ 3,508	$ 4,234	$ (726)

[a] Outstanding borrowings do not include $350 million of borrowings for which our Travelport subsidiary is the primary obligor. This amount is included within liabilities of discontinued operations on our Consolidated Balance Sheet at December 31, 2005.

[b] As of December 31, 2005, the balance represents $153 million of net mark-to-market adjustments on current interest rate hedges, partially offset by $106 million of net gains resulting from the termination of interest rate hedges. As of December 31, 2004, the balance represents $138 million of net gains resulting from the termination of interest rate hedges, partially offset by $121 million of mark-to-market adjustments on current interest rate hedges.

The following table summarizes the components of our debt under vehicle programs (including related party debt due to Avis Budget Rental Car Funding (AESOP) LLC):

	As of December 31,		
	2005	2004	Change
Avis Budget Rental Car Funding [a]	$ 6,957	$ 5,935	$ 1,022
Budget Truck financing:			
HFS Truck Funding program [b]	149	220	(71)
Capital leases [c]	370	225	145
Other [d]	433	347	86
	$ 7,909	$ 6,727	$ 1,182

[a] The change in the balance at December 31, 2005 principally reflects the issuance of fixed and floating rate asset-backed notes at various interest rates to support the acquisition of vehicles, partially offset by net repayments

of outstanding term notes.

(b) The change in the balance at December 31, 2005 reflects payment of floating rate notes in connection with the retirement of portions of our truck rental fleet, which currently is acquired primarily under capital lease arrangements.

(c) The change in the balance at December 31, 2005 reflects $145 million of additional capital lease arrangements to finance the acquisition of a portion of our truck rental fleet.

(d) The change in the balance at December 31, 2005 primarily reflects incremental borrowings under our bank loan and commercial paper conduit facilities to support the acquisition of vehicles in our international operations.

On January 19, 2006, we issued $600 million of asset-backed notes under our vehicle rental program. The issuance consisted of five-year floating rate notes currently bearing interest at LIBOR plus 22 basis points.

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The following table provides the contractual maturities for our corporate debt and our debt under vehicle programs (including related party debt due to Avis Budget Rental Car Funding) at December 31, 2005:

	Corporate Debt	Debt Under Vehicle Programs
Due in 2006	$ 975	$ 2,456
Due in 2007	5	1,816
Due in 2008	797	1,639
Due in 2009	-	480
Due in 2010	331	800
Thereafter	1,400	718
	$ 3,508	$ 7,909

At December 31, 2005, we had approximately $2.9 billion of available funding under our various financing arrangements (comprised of approximately $1.9 billion of availability at the corporate level and approximately $1.0 billion available for use in our vehicle programs). As of December 31, 2005, the committed credit facility and commercial paper programs at the corporate level included:

	Total Capacity	Outstanding Borrowings	Letters of Credit Issued	Available Capacity
Revolving credit facility and commercial paper program [(a)]	$ 3,500	$ 7	$ 1,256	$ 1,887
Letter of credit facility [(b)]	303	-	303	-

[(a)] In addition to the letters of credit issued as of December 31, 2005, the revolving credit facility contains the committed capacity to issue an additional $494 million in letters of credit. The letters of credit outstanding under this facility at December 31, 2005 were issued primarily to support our vehicle rental business.

[(b)] Final maturity date is July 2010.

As of December 31, 2005, available funding under our asset-backed debt programs related to our vehicle programs consisted of:

	Total Capacity [(a)]	Outstanding Borrowings	Available Capacity
Debt due to Avis Budget Rental Funding [(b)]	$ 7,580	$ 6,957	$ 623
Budget Truck Financing:			
HFS Truck Funding program [(c)]	149	149	-
Capital leases [(d)]	370	370	-
Other [(e)]	821	433	388
	$ 8,920	$ 7,909	$ 1,011

(a) Capacity is subject to maintaining sufficient assets to collateralize debt.

(b) The outstanding debt is collateralized by approximately $7.5 billion of underlying vehicles (the majority of which are subject to manufacturer repurchase agreements) and related assets.

(c) The outstanding debt is collateralized by approximately $148 million of underlying vehicles and related assets.

(d) In connection with these capital leases, there are corresponding unamortized assets of $364 million classified within vehicles, net on our Consolidated Balance Sheet as of December 31, 2005.

(e) The outstanding debt is collateralized by $635 million of vehicles and related assets.

The significant terms for our outstanding debt instruments, credit facilities and available funding arrangements as of December 31, 2005 can be found in Notes 14 and 15 to our Consolidated Financial Statements.

At December 31, 2005, we also had $400 million of availability for public debt or equity issuances under a shelf registration statement.

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LIQUIDITY RISK

We believe that access to our existing financing arrangements is sufficient to meet liquidity requirements for the foreseeable future. We believe that access to our existing financing arrangements is sufficient to meet liquidity requirements for the foreseeable future prior to the full or partial completion of our planned separation into four independent publicly traded companies. Prior to, or in connection with any such separation, our existing financing arrangements will be revised or replaced so that our financing arrangements will remain sufficient to meet our liquidity needs for the foreseeable future. However, we can make no assurances that any such restructuring will be completed and we expect financing costs to increase for some, if not all, of the new stand-alone companies.

Our liquidity position may be negatively affected by unfavorable conditions in the vehicle rental industry. Additionally, our liquidity as it relates to vehicle programs, could be adversely affected by (i) the deterioration in the performance of the underlying assets of such programs or (ii) increased costs associated with the principal financing program for our vehicle rental subsidiaries if General Motors Corporation or Ford Motor Company is not able to honor its obligations to repurchase the related vehicles. Access to our credit facilities may be limited if we were to fail to meet certain financial ratios or other requirements.

Additionally, we monitor the maintenance of required financial ratios and, as of December 31, 2005, we were in compliance with all financial covenants under our credit facilities.

Seasonality

Historically, the third quarter of the year has been our strongest quarter due to the increased level of leisure travel and household moving activity. Any occurrence that disrupts rental activity during the third quarter could have a disproportionately material adverse effect on our results of operations. Set forth below is the percentage of revenues earned by each of our segments during each quarter of fiscal year 2005:

	First	Second	Third	Fourth
Domestic Car Rental	22%	25%	28%	25%
International Car Rental	22	23	29	26
Truck Rental	19	27	31	23

In addition, certain expenses, such as rent, are fixed and cannot be reduced in response to seasonal fluctuations in our operations.

CONTRACTUAL OBLIGATIONS

The following table summarizes our future contractual obligations as of December 31, 2005:

	2006	2007	2008	2009	2010	Thereafter	Total
Long-term debt, including current portion	$ 975	$ 5	$ 797	$ -	$ 331	$ 1,400	$ 3,508
Asset-backed debt under programs [a]	2,456	1,816	1,639	480	800	718	7,909
Operating leases	327	287	220	145	101	618	1,698
Commitments to purchase vehicles [b]	8,035	4,409	1,938	-	-	-	14,382
Other purchase commitments [c]	162	143	77	45	42	35	504
	$ 11,955	$ 6,660	$ 4,671	$ 670	$ 1,274	$ 2,771	$ 28,001

(a) Represents debt under vehicle programs (including related party debt due to Avis Budget Rental Car Funding), which was issued to support the purchase of vehicles.

(b)

Primarily represents commitments to purchase vehicles from either General Motors Corporation or Ford Motor Company. These commitments are subject to the vehicle manufacturers satisfying their obligations under the repurchase agreements. The purchase of such vehicles is financed through the issuance of debt under vehicle programs in addition to cash received upon the sale of vehicles primarily under repurchase agreements (see Note 15 to our Consolidated Financial Statements).

(c) Primarily represents commitments under service contracts for information technology and telecommunications.

The above table does not include future cash payments related to interest expense or any potential amount of future payments that we may be required to make under standard guarantees and indemnifications that we have entered into in the ordinary course of business. For more information regarding guarantees and indemnifications, see Note 16 to our Consolidated Financial Statements. Also not reflected in the above table are costs associated with the separation of the Company.

ACCOUNTING POLICIES

Critical Accounting Policies

In presenting our financial statements in conformity with generally accepted accounting principles, we are required to make estimates and assumptions that affect the amounts reported therein. Several of the estimates and assumptions we are required to make relate to matters that are inherently uncertain as they pertain to future events and/or events that are outside of our control. If there is a significant unfavorable change to current conditions, it could result in a material adverse impact to our consolidated results of operations, financial position and liquidity. We believe that the estimates and assumptions we used when preparing our financial statements were the most appropriate at that time. Presented below are those accounting policies that we believe require subjective and complex judgments that could potentially affect reported results. However, our businesses operate in environments where we are paid a fee for a service performed, and therefore the results of the majority of our recurring operations are recorded in our financial statements using accounting policies that are not particularly subjective, nor complex.

Goodwill and Other Indefinite-lived Intangible Assets. We have reviewed the carrying value of our goodwill and other indefinite-lived intangible assets as required by Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets. In performing this review, we are required to make an assessment of fair value for our goodwill and other indefinite-lived intangible assets. When determining fair value, we utilize various assumptions, including projections of future cash flows. A change in these underlying assumptions will cause a change in the results of the tests and, as such, could cause the fair value to be less than the respective carrying amount. In such event, we would then be required to record a charge, which would impact earnings. We review the carrying value of goodwill and other indefinite-lived intangible assets for impairment annually, or more frequently if circumstances indicate impairment may have occurred.

The aggregate carrying value of our goodwill and other indefinite-lived intangible assets was approximately $2.2 billion and $654 million, respectively, at December 31, 2005.

Our goodwill and other indefinite-lived intangible assets are allocated among three reporting units. Accordingly, it is difficult to quantify the impact of an adverse change in financial results and related cash flows, as such change may be isolated to one of our reporting units or spread across our entire organization. In either case, the magnitude of any impairment to goodwill or other indefinite-lived intangible assets resulting from adverse changes cannot be estimated. However, our businesses are concentrated in one industry and, as a result, an adverse change in the vehicle rental industry will impact our consolidated results and may result in impairment of our goodwill or other indefinite-lived intangible assets.

Income Taxes. We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. We regularly review our deferred tax assets to assess their potential realization and establish a valuation allowance for portions of such assets that we believe will not be ultimately realized. In performing this review, we make estimates and assumptions regarding projected future taxable income, the expected timing of the reversals of existing temporary differences and the implementation of tax planning strategies. A change in these assumptions could cause an increase or decrease to our valuation allowance resulting in an increase or decrease in our effective tax rate, which could materially impact our results of operations. Additionally, our income tax returns are periodically examined by various tax authorities. We establish reserves for tax treatments when, despite our belief that the treatments are fully supportable, certain treatments are likely to be challenged and where we may not succeed in defending our position. We adjust our reserves upon the closing of a tax audit, which in some cases can occur several years following the related transaction or the filing of the tax return under examination, or upon the occurrence of other changes in facts and circumstances that indicate an adjustment may be necessary (including subsequent rulings and interpretations by tax authorities or court decisions on similar matters). Changes to the reserves could materially impact our results of operations.

See Notes 2 and 10 to our Consolidated Financial Statements for more information regarding income taxes.

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Financial Instruments. We estimate fair values for each of our financial instruments, including derivative instruments. Most of these financial instruments are not publicly traded on an organized exchange. In the absence of quoted market prices, we must develop an estimate of fair value using dealer quotes, present value cash flow models, option pricing models or other conventional valuation methods, as appropriate. The use of these fair value techniques involves significant judgments and assumptions, including estimates of future interest rate levels based on interest rate yield curves, volatility factors, and an estimation of the timing of future cash flows. The use of different assumptions may have a material effect on the estimated fair value amounts recorded in the financial statements, which are disclosed in Note 20 to our Consolidated Financial Statements. In addition, hedge accounting requires that at the beginning of each hedge period, we justify an expectation that the relationship between the changes in fair value of derivatives designated as hedges compared to changes in the fair value of the underlying hedged items will be highly effective. This effectiveness assessment, which is performed at least quarterly, involves an estimation of changes in fair value resulting from changes in interest rates, as well as the probability of the occurrence of transactions for cash flow hedges. The use of different assumptions and changing market conditions may impact the results of the effectiveness assessment and ultimately the timing of when changes in derivative fair values and the underlying hedged items are recorded in earnings. See Item 7a. Quantitative and Qualitative Disclosures about Market Risk for a discussion of the effect of hypothetical changes to these assumptions.

Changes in Accounting Policies

During 2005, we adopted the following standard as a result of the issuance of new accounting pronouncements:

FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations

We will adopt the following recently issued standard as required:

SFAS No. 152, Accounting for Real Estate Time-Sharing Transactions and Statement of Position No. 04-2, Accounting for Real Estate Time-Sharing Transactions, and

SFAS No. 123R, Share-Based Payment

For detailed information regarding any of these pronouncements and the impact thereof on our business, see Note 2 to our Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We use various financial instruments, particularly swap contracts, futures and options contracts to manage and reduce the interest rate risk related specifically to our debt. Foreign currency forwards are also used to manage and reduce the foreign currency exchange rate risk associated with our foreign currency denominated receivables and forecasted royalties, forecasted earnings of foreign subsidiaries and other transactions.

We are exclusively an end user of these instruments, which are commonly referred to as derivatives. We do not engage in trading, market-making or other speculative activities in the derivatives markets. More detailed information about these financial instruments is provided in Note 20 Financial Instruments to our Consolidated Financial Statements.

Our principal market exposures are interest and foreign currency rate risks.

Our primary interest rate exposure at December 31, 2005 was to interest rate fluctuations in the United States, specifically LIBOR and commercial paper interest rates due to their impact on variable rate borrowings and other interest rate sensitive liabilities. We anticipate that LIBOR and commercial paper rates will remain a primary market risk exposure for the foreseeable future.

We have foreign currency rate exposure to exchange rate fluctuations worldwide and particularly with respect to the British pound, Canadian dollar, Australian dollar and the New Zealand dollar. We anticipate that such foreign currency exchange rate risk will remain a market risk exposure for the foreseeable future.

We assess our market risk based on changes in interest and foreign currency exchange rates utilizing a sensitivity analysis. The sensitivity analysis measures the potential impact in earnings, fair values and cash flows based on a hypothetical 10% change (increase and decrease) in interest and currency rates.

We use a duration-based model in determining the impact of interest rate shifts on our debt portfolio and interest rate derivative portfolios. The primary assumption used in this model is that a 10% increase or decrease in the benchmark interest rate produces a parallel shift in the yield curve across all maturities.

Our total market risk is influenced by a wide variety of factors including the volatility present within the markets and the liquidity of the markets. There are certain limitations inherent in the sensitivity analyses presented. While probably the most meaningful analysis, these shock tests are constrained by several factors, including the necessity to conduct the analysis based on a single point in time and the inability to include the complex market reactions that normally would arise from the market shifts modeled.

We used December 31, 2005, 2004 and 2003 market rates on outstanding financial instruments to perform the sensitivity analyses separately for each of our market risk exposures. The estimates are based on the market risk sensitive portfolios described in the preceding paragraphs and assume instantaneous, parallel shifts in interest rate yield curves and exchange rates.

We have determined that the impact of a 10% change in interest and foreign currency exchange rates and prices on our earnings, fair values and cash flows would not be material. While these results may be used as benchmarks, they should not be viewed as forecasts.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Financial Statements and Financial Statement Index commencing on page F-1 hereof.

ITEM 9A. CONTROLS AND PROCEDURES

(a) *Disclosure Controls and Procedures.* In connection with the original filing of our 2005 Annual Report on Form-K, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of such period, our disclosure controls and procedures were effective.

As described in Note 24 to the accompanying Consolidated Financial Statements, we have restated the Consolidated Financial Statements included in this report for certain errors in the allocation of purchase price among three businesses acquired in March 2001, the aggregation of two of the businesses for purposes of testing goodwill impairment, and certain items related to the operations of our former PHH Corporation subsidiary. Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has reevaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report to determine whether the restatement changes our prior conclusion, and has determined that it does not change our conclusion that as of the end of the period covered by this report, our disclosure controls and procedures were effective. In arriving at this conclusion, management considered the facts and circumstances that resulted in the financial statement errors and restatement. Based on such considerations, management does not believe the restatement was the result of a material weakness in our internal control over financial reporting because we believe that such controls and procedures operated in a manner that provided management with a reasonable basis for the original conclusions with respect to the allocation of purchase price among three businesses acquired in March 2001 and the aggregation of two of the businesses for purposes of testing goodwill impairment. Additionally, management has concluded that the adjustments related to the operations of PHH Corporation were not the result of control deficiencies that existed within our internal control over financial reporting as of December 31, 2005, as these adjustments were the result of errors that occurred at PHH Corporation, which was spun off as of January 31, 2005.

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(b) *Management s Annual Report on Internal Control over Financial Reporting.* Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2005. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework.* Based on this assessment, our management believes that, as of December 31, 2005, our internal control over financial reporting is effective. Our independent auditors have issued an attestation report on our management s assessment of the Company s internal control over financial reporting, which is included below.

(c) *Changes in Internal Control Over Financial Reporting.* During the second quarter of 2005, we began implementing integration activities related to our acquisitions of ebookers plc and Gullivers Travel Associates, which were consummated on February 28, 2005 and April 1, 2005, respectively. Total revenues and total assets related to these two acquisitions were $303 million for the year ended December 31, 2005 and approximately $1.8 billion as of December 31, 2005, respectively, and are reflected within discontinued in our Consolidated Financial Statements. Each of these companies, headquartered outside of the United States, was accustomed to operating under less stringent financial reporting and operating control frameworks when, compared to the Company s existing frameworks (including reporting deadlines, application of U.S. GAAP, general computer controls, extent of process documentation, etc.). As part of the process of integrating these companies into the Company s process and system of internal controls, we identified areas where improvements in process, systems and documentation were necessary at these businesses. As of December 31, 2005, the majority of the improvements that were initiated to strengthen the control environments at these businesses had been completed.

Given the large number of businesses through which we operate and their wide variety of information systems and processes, we continue to modify our internal controls and procedures throughout the organization on a fairly continuous basis in order to improve our ability to run our businesses more effectively and/or efficiently. During the introduction and training phases related to these new systems and processes, there may be a temporary weakening in our system of internal controls. However, we do not believe that any such temporary weakening has had, or is likely to have, a material effect on the Company s internal control over financial reporting.

Except as described above, there have not been any changes in the Company s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the Company s fiscal fourth quarter that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Avis Budget Group, Inc.:

We have audited management s assessment, included in the accompanying Management s Annual Report on Internal Control Over Financial Reporting, that Avis Budget Group, Inc. and subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that the Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s consolidated balance sheet as of December 31, 2005 and the related consolidated statements of income, stockholders equity, and cash flow for the year ended December 31, 2005, and our report dated February 28, 2006 (March 1, 2007 as to the effects of the presentation of discontinued operations, new segment reporting structure, and restatement described in Notes 1 and 24) expressed an unqualified opinion on those financial statements, and included an explanatory paragraph relating to the change in presentation in 2005 of the Company s consolidated statements of cash flows to present separate disclosure of the cash flows from operating, investing and financing activities of discontinued operations and the retroactive revision of the statements of cash flows for the years ended December 31, 2004 and 2003, for the change.

/s/ Deloitte & Touche LLP
New York, New York
February 28, 2006

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AVIS BUDGET GROUP, INC.

By: /s/ JOHN T. MCCLAIN

John T. McClain

Senior Vice President and Chief Accounting Officer

March 1, 2007

INDEX TO FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Avis Budget Group, Inc.:

We have audited the accompanying consolidated balance sheets of Avis Budget Group, Inc. and subsidiaries (the Company) as of December 31, 2005 and 2004, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, during 2003, the Company adopted the consolidation provisions for variable interest entities.

As discussed in Note 1 to the consolidated financial statements, in 2005, the Company changed the presentation of its consolidated statements of cash flows to present separate disclosure of the cash flows from operating, investing and financing activities of discontinued operations and retroactively revised the statements of cash flows for the years ended December 31, 2004 and 2003, for the change.

As discussed in Note 1 to the consolidated financial statements, in connection with the Company s classification of certain subsidiaries as discontinued operations during the third quarter of 2006, the account balances and activities of these subsidiaries have been segregated and reported as discontinued operations for all periods presented. Also discussed in Note 1, the Company has adopted a new segment reporting structure.

As discussed in Note 24 to the consolidated financial statements, the consolidated financial statements have been restated.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company s internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2006 expressed an unqualified opinion on management s assessment of the effectiveness of the Company s internal control over financial reporting and an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ Deloitte & Touche LLP
New York, New York
February 28, 2006
(March 1, 2007 as to the effects of the presentation of
discontinued operations, new segment reporting
structure, and restatement described in Notes 1 and 24)

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Avis Budget Group, Inc.
CONSOLIDATED STATEMENTS OF INCOME
(In millions, except per share data)

	Year Ended December 31,		
	2005	**2004**	**2003**
	(Restated	**see Note 24)**	
Revenues			
Vehicle rental	$ 4,302	$ 3,860	$ 3,788
Other	1,098	960	894
Net revenues	5,400	4,820	4,682
Expenses			
Operating	2,729	2,413	2,342
Vehicle depreciation and lease charges, net	1,238	988	1,046
Selling, general and administrative	857	784	812
Vehicle interest, net	309	244	265
Non-vehicle related depreciation and amortization	116	115	105
Interest expense related to corporate debt, net:			
Interest expense	172	251	317
Early extinguishment of debt	-	18	58
Separation costs	15	-	-
Restructuring charges	26	-	-
Total expenses	5,462	4,813	4,945
Income (loss) before income taxes	(62)	7	(263)
Benefit from income taxes	(51)	(64)	(114)
Income (loss) from continuing operations	(11)	71	(149)
Income from discontinued operations, net of tax	1,088	1,822	1,558
Gain (loss) on disposals of discontinued operations, net of tax			
PHH valuation and transaction-related charges	(285)	-	-
Gain on disposals	834	198	-
Income before cumulative effect of accounting changes	1,626	2,091	1,409
Cumulative effect of accounting changes, net of tax	(8)	-	(329)
Net income	$ 1,618	$ 2,091	$ 1,080

Earnings (loss) per share
Basic

Income (loss) from continuing operations	$	(0.01)	$	0.07	$	(0.15)
Net income		1.56		2.03		1.06
Diluted						
Income (loss) from continuing operations	$	(0.01)	$	0.07	$	(0.15)
Net income		1.56		1.97		1.06

See Notes to Consolidated Financial Statements.

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Avis Budget Group, Inc.
CONSOLIDATED BALANCE SHEETS
(In millions, except share data)

	December 31,	
	2005	**2004**
	(Restated	**see Note 24)**
Assets		
Current assets:		
Cash and cash equivalents	$ 546	$ 163
Receivables (net of allowance for doubtful accounts of $20 and $19)	348	314
Deferred income taxes	375	166
Other current assets	234	304
Assets of discontinued operations	20,512	29,452
Total current assets	22,015	30,399
Property and equipment, net	516	509
Deferred income taxes	260	1,731
Goodwill	2,188	2,183
Other intangibles, net	731	648
Other non-current assets	283	156
Total assets exclusive of assets under vehicle programs	25,993	35,626
Assets under vehicle programs:		
Program cash	15	-
Vehicles, net	7,509	6,375
Receivables from vehicle manufacturers and other	602	348
Investment in Avis Budget Rental Car Funding (AESOP) LLC related party	374	349
	8,500	7,072
Total assets	$ 34,493	$ 42,698
Liabilities and stockholders equity		
Current liabilities:		
Accounts payable and other current liabilities	$ 2,287	$ 2,007
Current portion of long-term debt	975	679
Liabilities of discontinued operations	7,263	15,027
Total current liabilities	10,525	17,713
Long-term debt	2,533	3,555
Other non-current liabilities	831	698
Total liabilities exclusive of liabilities under vehicle programs	13,889	21,966

Liabilities under vehicle programs:		
Debt	952	792
Debt due to Avis Budget Rental Car Funding (AESOP) LLC related party	6,957	5,935
Deferred income taxes	1,139	1,383
Other	214	158
	9,262	8,268
Commitments and contingencies (Note 16)		
Stockholders equity:		
Preferred stock, $.01 par value authorized 10 million shares; none issued and outstanding	-	-
Common stock, $.01 par value authorized 2 billion shares; issued 1,350,852,215 and 1,333,462,545 shares	14	13
Additional paid-in capital	12,009	11,790
Retained earnings	5,997	5,948
Accumulated other comprehensive income	40	274
Treasury stock, at cost 339,246,211 and 282,135,978 shares	(6,718)	(5,561)
Total stockholders equity	11,342	12,464
Total liabilities and stockholders equity	$ 34,493	$ 42,698

See Notes to Consolidated Financial Statements.

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Avis Budget Group, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Year Ended December 31,		
	2005	**2004**	**2003**
	(Restated	**see Note 24)**	
Operating Activities			
Net income	$ 1,618	$ 2,091	$ 1,080
Adjustments to arrive at income from continuing operations	(1,629)	(2,020)	(1,229)
Income (loss) from continuing operations	(11)	71	(149)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used in) operating activities exclusive of vehicle programs:			
Non-vehicle related depreciation and amortization	116	115	105
Deferred income taxes	(170)	(224)	(315)
Net change in assets and liabilities, excluding the impact of acquisitions and dispositions:			
Receivables	(14)	(2)	3
Income taxes	(69)	78	268
Accounts payable and other current liabilities	(4)	(106)	(74)
Proceeds from (payments for) termination of fair value hedges	-	(9)	200
Other, net	(39)	(77)	210
Net cash provided by (used in) operating activities exclusive of vehicle programs	(191)	(154)	248
Vehicle programs:			
Vehicle depreciation	1,191	941	942
	1,191	941	942
Net cash provided by operating activities	1,000	787	1,190
Investing activities			
Property and equipment additions	(146)	(121)	(147)
Net assets acquired (net of cash acquired) and acquisition-related payments	(211)	(86)	(46)
Proceeds received on asset sales	46	32	90
Proceeds from sales of available-for-sale securities	18	40	-
Proceeds from dispositions of businesses, net of transaction-related payments	2,636	778	-
Other, net	66	16	10

Net cash provided by (used in) investing activities exclusive of vehicle programs	2,409	659	(93)
Vehicle programs:			
Decrease (increase) in program cash	(15)	31	(21)
Investment in vehicles	(11,214)	(10,373)	(9,584)
Payments received on investment in vehicles	8,869	8,882	8,887
Other, net	(22)	(9)	-
	(2,382)	(1,469)	(718)
Net cash provided by (used in) investing activities	27	(810)	(811)

Avis Budget Group, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(In millions)

Year Ended December 31,

			2005		**2004**	**2003**		
				(Restated	**see Note 24)**			
Financing activities								
Proceeds from borrowings				-	27	2,586		
Principal payments on borrowings			&n 10pt">	$2,552	$2,958	$1,396	$(65)	$23,351
Net income (loss)		684		154	134	(130)	241	1,083
Provision (benefit) for income taxes		420		177	79	(17)	124	783
Interest expense (income), net (b)		561		(370)	35	413	(283)	356
Depreciation and amortization		1,082		134	64	21	37	1,338
EBITDA (c)	$	2,747		$95	$312	$287	$119	$3,560
Capital expenditures	$	129		$27	$13	$-	$-	$169
Three months ended October 31, 2010 (a):								
Revenues	$	19,572		$2,886	$2,835	$586	$(63)	$25,816
Net income (loss)		1,237		165	119	(894)	104	731
Provision (benefit) for income taxes		663		147	69	(448)	52	483
Interest expense (income), net (b)		568		(271)	23	335	(185)	470
Depreciation and amortization		1,246		182	66	21	37	1,552
EBITDA (c)	$	3,714		$223	$277	$(986)	$8	$3,236
Capital expenditures	$	150		$-	$13	$-	$-	$163
Six months ended October 31, 2011 (a):								
Revenues	$	33,186		$4,899	$5,312	$1,578	$(131)	$44,844

Net income (loss)	1,048	184	(22)	(890)	484	804
Provision (benefit) for income taxes	634	225	(13)	(461)	250	635
Interest expense (income), net (b)	1,132	(728)	66	808	(561)	717
Depreciation and amortization	2,189	271	128	41	74	2,703
EBITDA (c)	$ 5,003	$(48)	$159	$(502)	$247	$4,859
Capital expenditures	$ 616	$68	$13	$-	$-	$697
Six months ended October 31, 2010 (a):						
Revenues	$ 38,423	$6,000	$5,105	$1,499	$(124)	$50,903
Net income (loss)	758	585	88	(1,566)	368	233
Provision (benefit) for income taxes	381	429	51	(822)	195	234
Interest expense (income), net (b)	1,184	(631)	46	667	(373)	893
Depreciation and amortization	2,534	325	120	42	75	3,096
EBITDA (c)	$ 4,857	$708	$305	$(1,679)	$265	$4,456
Capital expenditures	$ 285	$-	$13	$-	$-	$298

(a) Revenue information provided for each segment includes amounts grouped as Interest and other in the accompanying statements of operations. Corporate revenue is net of an intercompany revenue elimination.
(b) Interest expense (income), net includes inter-segment interest income that is eliminated in consolidation.
(c) The Company uses EBITDA (which the Company defines as income before net interest expense, income taxes, and depreciation and amortization) in addition to net income (loss) as a key measure of profit or loss for segment performance and evaluation purposes.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

INTRODUCTION

The Company, through its subsidiaries, is primarily engaged in four business segments: the Subscription Fulfillment Services business operated by Palm Coast Data LLC ("Palm Coast"), the Newsstand Distribution Services business and the Product Services and Other businesses operated by Kable Media Services, Inc. and its subsidiaries ("Kable") (the businesses operated by Palm Coast and Kable are collectively referred to as "Media Services" or "Media services"), and the real estate business operated by AMREP Southwest Inc. and its subsidiaries (collectively, "AMREP Southwest"). The Company's foreign sales and activities are not significant.

The following provides information that management believes is relevant to an assessment and understanding of the Company's consolidated results of operations and financial condition. The discussion should be read in conjunction with the April 30, 2011 consolidated financial statements and accompanying notes. Unless otherwise qualified, all references to 2012 and 2011 are to the fiscal years ending April 30, 2012 and 2011 and all references to the second quarter and first six months of 2012 and 2011 mean the fiscal three and six month periods ended October 31, 2011 and 2010.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's discussion and analysis of financial condition and results of operations is based on the accounting policies used and disclosed in the 2011 consolidated financial statements and accompanying notes that were prepared in accordance with accounting principles generally accepted in the United States of America and included as part of the Company's annual report on Form 10-K for the year ended April 30, 2011 (the "2011 Form 10-K"). The preparation of those consolidated financial statements required management to make estimates and assumptions that affected the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual amounts or results could differ from those estimates.

The critical accounting policies, assumptions and estimates are described in Part II, "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Critical Accounting Assumptions and Estimates" in the 2011 Form 10-K. There have been no changes in these accounting policies.

The significant accounting policies of the Company are described in Note 1 to the 2011 consolidated financial statements contained in the 2011 Form 10-K. Information concerning the Company's implementation and the impact of recent accounting standards issued by the Financial Accounting Standards Board is included in the notes to the 2011 consolidated financial statements. The Company did not adopt any accounting policy in the second quarter of 2012 that had a material impact on its consolidated financial statements.

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RESULTS OF OPERATIONS

For the second quarter of 2012, the Company had net income of $1,083,000, or $0.18 per share, compared to net income of $731,000, or $0.12 per share, for the second quarter of 2011. For the first six months of 2012, the Company had net income of $804,000, or $0.13 per share, compared to net income of $233,000, or $0.04 per share, for the same period of 2011. Revenues were $23,351,000 and $44,844,000 in the second quarter and first six months of 2012 compared to $25,816,000 and $50,903,000 for the same periods of the prior year.

Revenues from Media Services decreased from $25,293,000 and $49,529,000 for the second quarter and first six months of 2011 to $22,020,000 and $43,396,000 for the same periods in 2012. Magazine publishers are the principal customers of these operations, and they have continued to be impacted by the effects of the recent recession and also from increased competition from new media sources. This has resulted in reduced subscription and newsstand sales, which has caused publishers to close some magazine titles and seek more favorable terms from Palm Coast and Kable and their competitors. As a consequence of these and other factors, revenues from the Subscription Fulfillment Services operations decreased from $19,572,000 and $38,423,000 for the second quarter and first six months of 2011 to $16,510,000 and $33,186,000 for the same periods of 2012, primarily reflecting (i) customer losses and (ii) reduced and lost business that resulted from lower publisher customer volumes and the attrition of magazine titles. Revenues from the Newsstand Distribution Services operations decreased from $2,886,000 and $6,000,000 for the second quarter and first six months of 2011 to $2,552,000 and $4,899,000 for the same periods of 2012, principally as a result of lower distribution volumes reflecting a decline in retail magazine sales through the newsstand distribution system. Revenues from the Product Services and Other business segment increased from $2,835,000 and $5,105,000 for the second quarter and first six months of 2011 to $2,958,000 and $5,312,000 for the same periods of 2012, primarily due to an increase in revenues from the temporary staffing business partially offset by lower revenues in the product services business. Substantially offsetting the revenue decline, Media Services operating expenses were $17,263,000 and $35,079,000 (78.4% and 80.8% of related revenues) for the second quarter and first six months of 2012 compared to $19,552,000 and $40,218,000 (77.3% and 81.2% of related revenues) for the same periods in 2011. The decreases in Media Services operating expenses for the second quarter and first six months of 2012 from the same periods in 2011 were primarily attributable to (i) decreases of $1,444,000 and $3,739,000 for the three and six month periods related to payroll and benefits costs as a result of both the reduced and lost business noted earlier and efficiencies achieved in the Company’s consolidation of its Subscription Fulfillment Services business from three locations in Colorado, Florida and Illinois into one existing location at Palm Coast, Florida that was completed during the second quarter of 2011, as well as (ii) decreases of $267,000 and $645,000 for the three and six month periods related to facilities and equipment costs, including depreciation, resulting from the consolidation project.

Revenues from land sales at AMREP Southwest were $1,327,000 and $1,435,000 for the second quarter and first six months of 2012 compared to $489,000 and $1,313,000 for the same periods of 2011. Results for all periods were substantially lower than the Company has experienced prior to fiscal 2009 in its principal market of Rio Rancho, New Mexico, due to a severe decline in the real estate market in the greater Albuquerque-metro and Rio Rancho areas that began late in fiscal 2008. In Rio Rancho, the Company offers for sale both developed and undeveloped lots to national, regional and local home builders, commercial and industrial property developers and others. For the second quarter and first six months of 2012 and 2011, the Company’s land sales in Rio Rancho were as follows:

	Fiscal 2012			Fiscal 2011			
	Acres Sold	Revenues (in 000s)	Revenues Per Acre (in 000s)	Acres Sold	Revenues (in 000s)		Revenues Per Acre (in 000s)
Three months:							
Developed							
Residential	-	$-	$-	1.4	$429		$306
Commercial	4.2	748	178	-	35	[a]	-
Total Developed	4.2	748	178	1.4	464		306
Undeveloped	14.0	579	41	0.8	25		31
Total	18.2	$1,327	$73	2.2	$489		$222
Six months:							
Developed							
Residential	-	$-	$-	2.4	$806		$336
Commercial	4.2	748	178	-	35	[a]	-
Total Developed	4.2	748	178	2.4	841		336
Undeveloped	16.0	687	43	11.7	472		40
Total	20.2	$1,435	$71	14.1	$1,313		$91

[a] Revenues recognized under the Cost Recovery method of sales for real estate. Acres sold were recognized in a prior period.

The average selling price of land sold by the Company in Rio Rancho in recent years has fluctuated, as the Company offers for sale developed and undeveloped land from a number of different projects, and selling prices may vary from project to project and within projects depending on location, the stage of development and other factors. The average gross profit percentage on land sales was 83% and 79% for the second quarter and first six months of 2012 compared to 16% and 38% for the same periods in 2011, with the variance being attributable to the mix of land sold. Land sold in 2012 consisted of developed commercial lots and undeveloped residential lots, both of which have higher gross profit margins than developed residential lots which were a large part of the land sales in 2011. Revenues, gross profits and related gross profit percentages from land sales can vary significantly from period to period as a result of many factors, including the nature and timing of specific transactions, and prior results are not necessarily a good indication of what may occur in future periods.

Real estate commissions and selling expenses were $80,000 and $139,000 for the three and six month periods ended October 31, 2011 compared to $68,000 and $148,000 for the same periods in the prior year. Real estate commissions and selling expenses can vary based on types of land sold.

Other operating expenses were $435,000 and $784,000 for the three and six month periods ended October 31, 2011 compared to $612,000 and $1,552,000 for the same periods last year. The decrease in other operating expenses for both periods was primarily due to reduced real estate taxes on real estate inventory and investment assets in Rio Rancho and restructuring costs incurred in the prior year with no similar costs in 2012 since the consolidation of the Company's Subscription Fulfillment Services business was completed in the second quarter of 2011.

General and administrative costs of Media Services operations were $2,113,000 and $4,338,000 (9.6% and 10.0% of related revenues) for the three and six month periods ended October 31, 2011 compared to $2,289,000 and $4,625,000 (9.0% and 9.3% of related revenues) for the same periods in the prior year. The reduced costs for the three and six month periods ended October 31, 2011 were primarily due to lower consulting costs.

The Company's effective tax rate was 42.0% and 44.0% for the three and six months ended October 31, 2011 compared to 40.0% and 50.0% for the same periods in the prior year. The difference

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between the statutory rate and the effective rates was primarily attributable to the accrual of interest related to unrecognized tax positions, which the Company has elected to include in its income tax expense or benefit. The effect of this interest accrual for both the three and six month periods was to increase the tax provision associated with the pre-tax income in both 2012 and 2011.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary sources of funding for working capital requirements are cash flow from operations and banking facilities. The Company's liquidity is affected by many factors, including some that are based on normal operations and some that are related to the industries in which the Company operates and the economy generally. The Company's Media Services businesses finance their operations in part through a revolving credit facility (defined below as the Media Services Credit Facility) that matures May 12, 2013. The Company's Media Services businesses also rely on cash flow from operations to fund their working capital requirements, including cash flow made available through arrangements with customers and wholesalers that are subject to expiration and renegotiation from time to time. AMREP Southwest finances its business from cash flow from operations and from loans made to it by its parent. It also has a loan agreement (defined below as the ASW Credit Facility) that matures September 1, 2012 under which it may not borrow any additional funds. AMREP Southwest expects to initiate discussions with the bank regarding renewal of this arrangement, but there can be no assurance that this facility can be renewed on acceptable terms. If AMREP Southwest is unable to renew this facility, it would not have sufficient funds to satisfy its obligation to the bank, and the Company would be forced to seek either replacement financing or other sources of capital, such as by selling assets or issuing equity, which replacement financing or other sources of capital might not be available on acceptable terms. It is likely that the expiration without renewal or the termination of any of the credit facilities or arrangements described above would have a material adverse effect on the Company.

As a result of the cessation of certain operations in connection with the consolidation of the Company's Subscription Fulfillment Services business, more than 20% of the Company's employees who were active participants in the Company's defined benefit pension plan as of the date of the announcement of the consolidation project were separated from employment. As required by the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), the Company notified the Pension Benefit Guaranty Corporation (the "PBGC") of this occurrence. Pursuant to ERISA regulations, the PBGC has the right to require the Company to accelerate the funding of certain accrued pension-related obligations (i) by making accelerated contributions to the Plan or (ii) by placing an amount in escrow or by furnishing a bond to the PBGC to insure payment, or instead (iii) the Company and the PBGC may enter into an alternative arrangement with respect to any such requirement. The PBGC has advised the Company that its calculation of the unfunded liability, statutorily computed on a "termination basis" which amount differs from that computed for generally accepting accounting principles under ASC 715-30, was approximately $16,000,000 as of the date the certain operations were deemed to have ceased, and as a result, the amount required to be contributed to the Plan or placed in escrow (or supported by a bond) is approximately $12,000,000. The Company and its advisors have reviewed the PBGC's calculations, and the Company has entered into discussions with the PBGC to seek an alternative arrangement; however, there is no assurance that a satisfactory alternative arrangement can be arrived at between the Company and the PBGC. Either the alternative arrangement, if achieved, or the failure to reach an agreement on an alternative arrangement, could have a material adverse effect on the Company. Refer to Note 11 to the consolidated financial statements included in the 2011 Form 10-K for additional pension plan information.

Cash Flows from Operating Activities

Receivables from Media Services operations decreased from $28,125,000 at April 30, 2011 to $23,956,000 at October 31, 2011, primarily due to the timing of the collection of receivables. Receivables from real estate operations and corporate increased from $607,000 at April 30, 2011 to $641,000 at October 31, 2011.

Real estate inventory was $75,551,000 at October 31, 2011 compared to $75,247,000 at April 30, 2011. Inventory in the Company's core real estate market of Rio Rancho increased from $70,968,000 at April 30, 2011 to $71,260,000 at October 31, 2011, reflecting the net effect of development spending and land sales. The balance of real estate inventory consisted of properties in Colorado.

Accounts payable and accrued expenses decreased from $70,876,000 at April 30, 2011 to $70,285,000 at October 31, 2011, primarily from the timing of billings and payments to publishers and vendors.

Cash Flows from Investing Activities

Capital expenditures totaled $697,000 for the first six months of 2012 and were primarily for facility and equipment upgrades for the Media Services businesses and $298,000 in the same period of 2011 for expenditures primarily related to the consolidation of the Subscription Fulfillment Services operations.

Cash Flows From Financing Activities

Media Services has a Revolving Credit and Security Agreement with a bank (the "Media Services Credit Facility") which matures May 12, 2013 that provides for a revolving credit loan and letter of credit facility of up to $20,000,000, with availability within that limit based upon the lesser of (i) a percentage of the borrowers' eligible accounts receivable or (ii) the recent level of collections of accounts receivable. Subject to certain terms, funds may be borrowed, repaid and re-borrowed at any time. Borrowings under the Media Services Credit Facility are being used for Media Services working capital needs and general business purposes and, subject to the Media Services consolidated fixed charge coverage ratio (as defined) being at a stated level, may also be used to provide payments on certain indebtedness due a Company subsidiary that is not a party to the Media Services Credit Facility.

The borrowers' obligations under the Media Services Credit Facility are secured by substantially all of their assets other than real property. The revolving loans under the Media Services Credit Facility may be fluctuating rate borrowings or Eurodollar fixed rate based borrowings or a combination of the two as the borrowers may select. Fluctuating rate borrowings bear interest at a rate which is, at the borrowers' option, either (i) the reserve adjusted daily published rate for one month LIBOR loans plus a margin of 3.0%, or (ii) the highest of two daily published market rates and the bank lender's base commercial lending rate in effect from time to time, but in any case not less than 3.0% plus a margin of 2.0% (that is, not less than 5.0%). Eurodollar fixed rate based borrowings may be for one, two or six months and bear interest at the reserve adjusted Eurodollar interest rates for borrowings of such durations, plus a margin of 3.0%, which may be reduced to 2.75% depending on the borrowers' financial condition. At October 31, 2011, there were no outstanding borrowings under the Media Services Credit Facility. The highest amount borrowed during the quarter ended October 31, 2011 was $4,334,000. The Media Services Credit Facility requires the borrowers to meet certain covenants.

AMREP Southwest has a Loan Agreement and a related Promissory Note dated December 17, 2009 with a bank, both of which were amended on April 29, 2011 (said Loan Agreement and Promissory Note, as so amended, together, the "ASW Credit Facility"). The ASW Credit Facility is a non-revolving loan with an outstanding principal balance at October 31, 2011 of $18,089,000, with principal payments due quarterly on December 15, 2011, March 15, 2012 and June 15, 2012 in installments of the greater of $625,000 or one-half of the net cash received (as defined) by AMREP Southwest during the quarterly periods ended on such dates from the sale of real estate, with the remaining principal due September 1, 2012. No further amounts may be borrowed by AMREP Southwest under the ASW Credit Facility. The outstanding principal of the ASW Credit Facility bears fluctuating interest at the annual rate of reserve adjusted 30-day LIBOR (0.2453% at October 31, 2011) plus 3.5%, but not less than 5.0%, and AMREP Southwest is required to maintain a cash reserve with the lender of not less than $500,000 to fund the interest payments. At October 31, 2011, the interest rate was 5.0% and the cash reserve was $531,000. The ASW Credit Facility is secured by a mortgage on certain real property of AMREP Southwest with a book value of approximately $54,892,000 and requires that the appraised value of the collateral be at least 2.5 times the outstanding principal of the loan. The ASW Credit Facility contains a number of covenants and restrictions, including a covenant requiring AMREP Southwest to maintain a minimum tangible net worth (as defined) and a covenant restricting AMREP Southwest from making distributions and other payments to the Company beyond a stated management fee.

Each of the Company's financing facilities requires the borrowers to meet certain covenants. The borrowers were in compliance with these covenants at October 31, 2011.

Future Payments Under Contractual Obligations

The Company is obligated to make future payments under various contracts, including its debt agreements and lease agreements, and is subject to certain other commitments and contingencies. The table below summarizes significant contractual obligations as of October 31, 2011 for the items indicated (in thousands):

Contractual Obligations	Total	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
Notes payable	$22,655	$18,235	$271	$256	$3,893
Operating leases and other	8,238	2,799	4,921	518	-
Total	$30,893	$21,034	$5,192	$774	$3,893

Operating leases and other includes $618,000 of uncertain tax positions and related accrued interest recorded in accordance with ASC 740 and the expected remaining fiscal 2012 contributions of $255,000 to the Company's defined benefit pension plan. Any additional future defined benefit pension plan contributions necessary to satisfy the minimum statutory funding requirements are dependent upon various factors, including actual plan asset investment returns and discount rates applied. Operating leases and other also does not include any accelerated pension funding that may be required by the PBGC as described above in the second paragraph under this Liquidity and Capital Resources section. Refer to Notes 8, 11, 12, 16 and 17 to the consolidated financial statements included in the 2011 Form 10-K for additional information on long-term debt, pension contributions, taxes and commitments and contingencies.

Risk Factors

In addition to the other information set forth in this report, the factors discussed in Part I, "Item 1A. Risk Factors" in the 2011 Form 10-K, which could materially affect the Company's business, financial condition or future results, should be carefully considered. The risks described in the 2011 Form 10-K are not the only risks facing the Company. Additional risks and uncertainties not currently known to the Company or that currently are deemed to be immaterial also may materially adversely affect the Company's business, financial condition or operating results.

Statement of Forward-Looking Information

The Private Securities Litigation Reform Act of 1995 (the "Act") provides a safe harbor for forward-looking statements made by or on behalf of the Company. The Company and its representatives may from time to time make written or oral statements that are "forward-looking", including statements contained in this report and other filings with the Securities and Exchange Commission, reports to the Company's shareholders and news releases. All statements that express expectations, estimates, forecasts or projections are forward-looking statements within the meaning of the Act. In addition, other written or oral statements, which constitute forward-looking statements, may be made by or on behalf of the Company. Words such as "expects", "anticipates", "intends", "plans", "believes", "seeks", "estimates", "p "forecasts", "may", "should", variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and contingencies that are difficult to predict. These risks and uncertainties include, but are not limited to, the risks described above under the heading "Risk Factors". Many of the factors that will determine the Company's future results are beyond the ability of management to control or predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in or suggested by such forward-looking statements. The forward-looking statements contained in this report include, but are not limited to, statements regarding (i) the possible accelerated funding of the Company's pension plan resulting from the plan's partial termination and (ii) the Company's ability to finance its future working capital and capital expenditure needs. The Company undertakes no obligation to revise or update any forward-looking statements, or to make any other forward-looking statements, whether as a result of new information, future events or otherwise.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company's management, with the participation of the Company's chief executive officer and chief financial officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. As a result of such evaluation, the chief executive officer and chief financial officer have concluded that such disclosure controls and procedures are effective to provide reasonable assurance that the information required to be disclosed in the reports the Company files or submits under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and (ii) accumulated and communicated to the Company's management, including its chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding disclosure. The Company believes that a control system, no matter how well designed and operated, cannot provide absolute assurance that the objectives of the control system are met, and no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

Changes in Internal Control over Financial Reporting

No change in the Company's system of internal control over financial reporting occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On November 28, 2011, in the lawsuit entitled Haan v. Kable News Company, Inc., et al, which is described in subdivision A of Item 3 of Part I of the 2011 Form 10-K, the Court granted the motions to dismiss plaintiff's claims against the Company's subsidiary, Kable News Company, Inc., certain of its other subsidiaries, and the Company (together, the "Kable Defendants") but gave plaintiff leave to replead the dismissed intentional tort claim against Kable News Company, Inc. At this point, subject to the possible repleading, the only claims in the lawsuit that are pending against any of the Kable Defendants are claims for contribution brought by the defendant temporary staffing company and by the defendant architectural and engineering company, which additionally has advised that if plaintiff's case against it continues it may assert an implied indemnity claim against one or more of the Kable Defendants. At this point, it is unknown whether plaintiff will replead the intentional tort claim or whether it will appeal any of the dismissals when the case becomes ripe for appeal.

The lawsuit entitled Alpinist, et al v. Haan, et al, which is described in subdivision B of Item 3 of Part I of the Company's 2011 Form 10-K has been settled and dismissed, with prejudice. The share of the settlement payment allocated to the Company and its subsidiaries has been paid by the Company's liability insurance carrier.

Item 6. Exhibits

Exhibit No.	Description
10.1	Employment Agreement effective August 23, 2011 between John F. Meneough and Palm Coast Data LLC (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed August 16, 2011).
10.2	Incentive compensation plan for Michael P. Duloc for fiscal 2012.*
31.1	Certification of the chief executive officer required by Rule 13a-14(a) under the Securities Exchange Act of 1934.
31.2	Certification of the chief financial officer required by Rule 13a-14(a) under the Securities Exchange Act of 1934.
32	Certification of the chief executive officer and chief financial officer required pursuant to 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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* Portions of this exhibit have been omitted pursuant to a request for confidential treatment under Rule 24b-2 under the Securities Exchange Act of 1934.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: December 9, 2011	AMREP CORPORATION (Registrant)
	By: /s/ Peter M. Pizza Peter M. Pizza Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

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