

Selected historical consolidated financial data

The following table presents our selected historical consolidated financial data and certain other statistical data. The consolidated statement of income data for each of the years in the three-year period ended December 31, 2005 and the consolidated balance sheet data as of December 31, 2004 and 2005 have been derived from our audited Consolidated Financial Statements included elsewhere herein. The consolidated statement of income data for the years ended December 31, 2001 and 2002 and the consolidated balance sheet data as of December 31, 2001, 2002 and 2003 are derived from our unaudited Combined Financial Statements not included elsewhere herein. Such Combined Financial Statements do not include the accounts of Wizcom International, Ltd., which was a subsidiary within the ownership structure of Cendant Car Rental Group, LLC until November 2002.

The selected historical consolidated financial data and other statistical data presented below should be read in conjunction with our Consolidated Financial Statements and accompanying notes and "Management's discussion and analysis of financial condition and results of operations" included elsewhere herein. Our consolidated financial information may not be indicative of our future performance and does not necessarily reflect what our financial position and results of operations would have been had we operated as a separate, stand-alone entity during the periods presented, including changes that will occur in our operations and capitalization as a result of the Separation Transactions.

(in millions, except Other Financial Data)	As of or for the Year Ended December 31,				
	2001(a)	2002(b)	2003	2004	2005
Statement of Income Data:					
Revenues					
Vehicle rental.....	\$ 1,885	\$ 2,471	\$ 3,788	\$ 3,860	\$ 4,302
Other	393	506	811	849	1,014
Total revenues.....	<u>2,278</u>	<u>2,977</u>	<u>4,599</u>	<u>4,709</u>	<u>5,316</u>
Expenses					
Operating, net.....	1,003	1,392	2,346	2,429	2,735
Vehicle depreciation and lease charges, net ..	579	708	1,046	988	1,238
Selling, general and administrative	356	366	616	583	621
Vehicle interest, net.....	187	211	265	244	309
Non-vehicle depreciation and amortization.....	74	43	73	73	80
Non-vehicle interest expense (income), net....	44	42	38	8	(20)
Total expenses.....	<u>2,243</u>	<u>2,762</u>	<u>4,384</u>	<u>4,325</u>	<u>4,963</u>
Income before income taxes	35	215	215	384	353
Provision for income taxes	26	82	79	147	129
Income before cumulative effect of accounting change.....	9	133	136	237	224
Cumulative effect of accounting change, net of tax.....	(3)	—	—	—	(8)
Net income.....	<u>\$ 6</u>	<u>\$ 133</u>	<u>\$ 136</u>	<u>\$ 237</u>	<u>\$ 216</u>

	As of or for the Year Ended December 31,				
	2001	2002	2003	2004	2005
Balance Sheet Data:					
Cash and cash equivalents.....	\$ 13	\$ 25	\$ 124	\$ 154	\$ 58
Vehicles.....	3,429	5,966	5,709	6,375	7,509
Vehicle-backed debt	3,771	6,136	6,193	6,657	7,884
Corporate debt	588	535	337	—	—
Total debt	4,359	6,673	6,530	6,657	7,884
Total stockholder's equity	672	1,363	1,527	2,706	2,923
Other Financial Data:					
Ratio of earnings to fixed charges(c)	1.15x	1.76x	1.62x	2.21x	1.96x

- (a) Reflects results from the date of Cendant's acquisition of Avis Group Holdings, Inc. (March 1, 2001) forward.
- (b) Includes the results of Budget for the period November 22, 2002 through December 31, 2002.
- (c) The ratio of earnings to fixed charges is computed by dividing (i) income before income taxes plus fixed charges by (ii) fixed charges. Fixed charges consist of interest expense on all indebtedness (including amortization of deferred financing costs) and the portion of operating lease rental expense that is representative of the interest factor. On a pro forma basis, after giving effect to the financings and the use of proceeds therefrom, the ratio of earnings to fixed charges for 2005 would have been 1.72x.

Unaudited pro forma consolidated financial statements

The following Unaudited pro forma condensed consolidated balance sheet as of December 31, 2005 and the Unaudited pro forma condensed consolidated statement of income for the year ended December 31, 2005 have been derived from our historical Consolidated Financial Statements and adjusted to give effect to the following Pro Forma Transactions:

- the establishment of a \$1,500 million senior secured revolving credit facility, under which we do not expect to borrow initially;
- the borrowing of \$875 million of senior secured debt under our new term loan facility;
- the issuance of \$1,000 million of senior unsecured notes offered hereby;
- the repayment of \$1,875 million of vehicle-backed debt with the proceeds from the above issuances;
- the payment of anticipated fees and costs associated with our new senior secured revolving credit facility, the borrowing of \$875 million of senior secured debt under our new term loan facility and the issuance of \$1,000 million of senior unsecured notes offered hereby;
- the elimination of the \$802 million intercompany balance with Cendant and associated interest income;
- incremental interest expense associated with the new debt issuances and the replacement of letters of credit associated with our business currently provided under Cendant's revolving credit facility with letters of credit provided under our new revolving credit facility; and
- incremental costs associated with operating separately from Cendant's other businesses.

Refer to the section titled "The Separation Transactions" for a detailed description of Cendant's separation plan.

The Unaudited pro forma condensed consolidated balance sheet assumes that the Pro Forma Transactions occurred on the date of such balance sheet and the Unaudited pro forma condensed consolidated statement of income assumes that the transactions occurred on January 1, 2005.

Management believes that the assumptions used to derive the Unaudited pro forma condensed consolidated financial statements are reasonable under the circumstances and given the information available. The Unaudited pro forma condensed consolidated financial statements have been provided for informational purposes only and are not necessarily indicative of the financial condition or results of future operations or the actual financial condition or results that would have been achieved had the Pro Forma Transactions occurred on the dates indicated. These Unaudited pro forma condensed consolidated financial statements (together with the footnotes thereto) should be read in conjunction with "Selected historical consolidated financial data" and "Management's discussion and analysis of financial condition and results of operations" included elsewhere in this offering memorandum and our audited historical Consolidated Financial Statements and accompanying notes thereto, also included elsewhere in this offering memorandum.

The Unaudited pro forma condensed consolidated statement of income does not reflect any material non-recurring charges which may be incurred in conjunction with the Separation Transactions, including costs associated with: (i) information technology activities, including cloning certain systems currently shared by us and Cendant's other businesses, (ii) the

acceleration of certain Cendant equity awards, (iii) the change in our business' name, and (iv) relocating certain employees to or from our corporate headquarters. We expect the aggregate expense associated with these and similar costs to be in the range of \$25 million to \$45 million.

Unaudited pro forma condensed consolidated balance sheet

As of December 31, 2005			
(in millions)	Historical As Reported	Adjustments	Pro Forma
Assets			
Cash and cash equivalents	\$ 58	\$ (30)(a)	\$ 28
Receivables, net	348	—	348
Due from Cendant Corporation and affiliates, net.....	802	(802)(b)	—
Deferred income taxes	207	—	207
Property and equipment, net.....	438	—	438
Goodwill.....	2,137	—	2,137
Trademarks	654	—	654
Other intangibles, net	76	—	76
Other assets	217	30(a)	247
Total assets exclusive of assets under vehicle programs	4,937	(802)	4,135
Assets under vehicle programs	8,500	—	8,500
Total assets.....	\$ 13,437	\$ (802)	\$ 12,635
Liabilities and stockholder's equity			
Liabilities:			
Accounts payable.....	\$ 262	\$ —	\$ 262
Accrued liabilities and other	593	—	593
Public liability, property damage and other insurance liabilities.....	422	—	422
Corporate debt	—	1,875(c)	1,875
Total liabilities exclusive of liabilities under vehicle programs	1,277	1,875	3,152
Liabilities under vehicle programs:			
Vehicle-backed debt	952	—	952
Vehicle-backed debt due to Cendant Rental Car Funding (AESOP) LLC—related party.....	6,932	(1,875)(c)	5,057
Deferred income taxes	1,139	—	1,139
Other	214	—	214
Total liabilities	9,237	(1,875)	7,362
Stockholder's equity	2,923	(802)(b)	2,121
Total liabilities and stockholder's equity.....	\$ 13,437	\$ (802)	\$ 12,635

(a) Represents anticipated fees and costs associated with our new senior secured revolving credit facility, the borrowing of \$875 million of senior secured debt under our new term loan facility and the issuance of \$1,000 million of senior unsecured notes offered hereby.

(b) Represents the elimination of the intercompany balance with Cendant, which represents excess working capital advances of \$294 million and tax attributes of \$508 million. This balance is expected to be forgiven in connection with the Separation Transactions.

(c) Represents the expected borrowing of \$875 million of senior secured debt under our new term loan facility and the expected issuance of \$1,000 million of senior unsecured notes offered hereby. The proceeds from these issuances will be used to repay vehicle-backed debt.

Unaudited pro forma condensed consolidated statement of income

Year Ended December 31, 2005			
(in millions)	Historical As Reported	Adjustments	Pro Forma
Total revenues	\$ 5,316	\$ —	\$ 5,316
Expenses			
Operating, net	2,735	—	2,735
Vehicle depreciation and lease charges, net.....	1,238	—	1,238
Selling, general and administrative.....	621	(5)(a)	616
Vehicle interest, net	309	(87)(b)	222
Non-vehicle depreciation and amortization	80	3 (c)	83
Non-vehicle interest, net.....	(20)	148 (d)	128
Total expenses	4,963	59	5,022
Income before income taxes	353	(59)	294
Provision for income taxes	129	(22)(e)	107
Income before cumulative effect of accounting change.....	224	(37)	187
Cumulative effect of accounting change, net of tax.....	(8)	—	(8)
Net income.....	\$ 216	\$ (37)	\$ 179

- (a) Represents \$56 million of expenses allocated by Cendant, which will be replaced with estimated costs of \$51 million incurred to operate separately from Cendant's other businesses. The new cost estimate of \$51 million reflects: (i) \$18 million related to information technology, (ii) \$13 million related to staff additions and increases in salaries to replace Cendant support, (iii) \$5 million related to insurance, (iv) \$4 million related to Board of Directors and other fees, (v) \$4 million related to audit fees and (vi) \$7 million of other miscellaneous costs. These estimates were prepared using market comparable data and third-party resources, where applicable.
- (b) Represents estimated vehicle interest savings in connection with the expected reduction in our vehicle-backed debt balance resulting from the repayment of \$1,875 million of such debt with proceeds from this offering, together with term borrowings under our new senior secured credit facility of \$875 million. The debt to be repaid has a weighted average interest rate of 4.6% and we incur additional fees in connection with such debt related to credit enhancements.
- (c) Represents incremental depreciation associated with the expected allocation of certain assets from Cendant prior to the Separation Transactions.
- (d) Represents the elimination of interest income that will no longer be earned from Cendant on intercompany cash balances held by Cendant; more than offset by estimated incremental interest expense in connection with the planned issuance of: (i) borrowing of \$875 million of debt under our new senior secured term loan facility and (ii) issuance of \$1,000 million of senior unsecured notes offered hereby. Assumes an average principal amount outstanding of \$1,875 million and a weighted average interest rate of 6.8% on the aggregate borrowings. A change of one-eighth (12.5 basis points) in the interest rate associated with these new borrowings would result in additional interest expense of \$2 million (in the case of an increase in the rate) or a reduction to interest expense of \$2 million (in the case of a decrease in the rate).
- (e) Represents the income tax effects of (a), (b), (c) and (d) above at an effective tax rate of 37.6%.

Management's discussion and analysis of financial condition and results of operations

The following discussion should be read in conjunction with the section titled "Business", "Unaudited pro forma consolidated financial statements" and our Consolidated Financial Statements and accompanying notes thereto included elsewhere herein. Unless otherwise noted, all dollar amounts are in millions and presented before taxes.

We operate two of the most recognized brands in the global vehicle rental industry through Avis Rent A Car System, LLC and Budget Rent A Car System, Inc. We operate within the following business segments, each with differentiated positioning, service and pricing:

- *Domestic Car Rental*—provides car rentals and ancillary products and services to business and leisure travelers in the United States.
- *International Car Rental*—provides car rentals and ancillary products and services to business and leisure travelers in Canada, Puerto Rico, the U.S. Virgin Islands, Argentina, Australia and New Zealand.
- *Truck Rental*—provides truck rentals and related services to consumers and light commercial users in the United States.

Results of operations

Discussed below are our consolidated results of operations and the results of operations for each of our reportable segments. The reportable segments presented below represent our operating segments for which separate financial information is available and which 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 is defined as income before income taxes, non-vehicle depreciation and amortization and non-vehicle interest (other than intercompany interest related to tax benefits and working capital advances). Our presentation of EBITDA may not be comparable to similarly titled measures used by other companies.

We measure performance using the following key operating statistics: (i) rental days, which represents the total number of days 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 time and mileage 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.

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

Our consolidated results of operations comprised the following:

	2005	2004	Change
Total revenues	\$ 5,316	\$ 4,709	\$ 607
Total expenses.....	4,963	4,325	638
Income before income taxes.....	353	384	(31)
Provision for income taxes.....	129	147	(18)
Income before cumulative effect of accounting change	224	237	(13)
Cumulative effect of accounting change, net of tax.....	(8)	—	(8)

Net income	\$ 216	\$ 237	\$ (21)
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During 2005, our total revenues increased \$607 million (13%) 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 \$638 million (15%) principally reflecting (i) \$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 2005 model year rental car fleet, (ii) \$306 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 and (iii) \$24 million of incremental interest income earned on intercompany balances with Cendant related to tax benefits and working capital advances, which will be forgiven in connection with the Separation Transactions. Our effective tax rate decreased to 36.5% in 2005 from 38.3% in 2004 primarily due to a reduction in state taxes, as well as benefits received from foreign tax deductions. In addition, we 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 these items, our net income decreased \$21 million (9%).

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 Company	\$ 5,316	\$ 4,709	13	439	467	(6)
Less: Non-vehicle depreciation and amortization				80	73	
Non-vehicle interest expense, net*				6	10	
Income before income taxes				\$ 353	\$ 384	

* Does not reflect intercompany interest income of \$26 million and \$2 million in 2005 and 2004, respectively, related to tax benefits and working capital advances, which are included within EBITDA.

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. We expect further price increases along with continued volume gains in 2006 as we seek to offset the impact of higher fleet costs and anticipated increases in interest costs, which we began to experience in the second half 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.

We have negotiated the purchase of most of our 2006 model year rental car fleet and expect to incur increased fleet depreciation costs throughout 2006. Accordingly, our ability to achieve profit margins consistent with prior periods will be dependent on our ability to successfully reflect corresponding changes in our pricing.

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 \$29 million increase in gasoline revenues, which was more than offset in EBITDA by \$39 million of higher gasoline costs, and (iii) a \$35 million increase in counter sales of insurance and other items.

EBITDA from our domestic car rental operations also reflects \$28 million of incremental interest income earned on intercompany balances with Cendant related to tax benefits and working capital advances, which will be forgiven in connection with the Separation Transactions; 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, some of which may be recovered in future periods, and (ii) \$10 million of additional litigation expense resulting from the settlement of a dispute with licensees of our Avis brand arising out of our acquisition of the Budget business in 2002.

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.

We have negotiated the purchase of most of our 2006 model year rental car fleet and expect to incur increased fleet depreciation costs throughout 2006. Accordingly, our ability to achieve profit margins consistent with prior periods will be dependent on our ability to successfully reflect corresponding changes in our pricing.

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.

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

Our consolidated results from continuing operations are summarized as follows:

	2004	2003	Change
Total revenues	\$ 4,709	\$ 4,599	\$ 110
Total expenses	4,325	4,384	(59)
Income before income taxes	384	215	169
Provision for income taxes	147	79	68
Net income.....	\$ 237	\$ 136	\$ 101

During 2004, our total revenues increased \$110 million (2%) 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 \$59 million (1%) principally reflecting (i) \$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, (ii) \$33 million of lower selling, general and administrative expenses 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, (iii) \$30 million of lower non-vehicle interest expense, net primarily related to the retirement of our former 11% senior subordinated notes 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. Our effective tax rate increased to 38.3% in 2004 from 36.7% in 2003 primarily due to an increase in state taxes, as well as a decrease in benefits received from foreign operations. As a result of these items, our net income increased \$101 million (74%).

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 Company	\$ 4,709	\$ 4,599	2	467	328	42
Less: Non-vehicle depreciation and amortization				73	73	
Non-vehicle interest expense, net*				10	40	
Income before income taxes				\$ 384	\$ 215	

* Does not reflect intercompany interest income of \$2 million in both 2004 and 2003 related to tax benefits and working capital advances, which are included within EBITDA.

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.

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. Our assets under vehicle programs are funded through borrowings under vehicle-backed funding programs or acquired under capital lease arrangements. Such liabilities are classified as debt under vehicle programs. Cash inflows and outflows relating to the generation or acquisition of such assets and the principal debt repayment (including payments under capital lease arrangements) 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

	December 31, 2005	December 31, 2004	Change
Total assets exclusive of assets under vehicle programs	\$ 4,937	\$ 5,053	\$ (116)
Total liabilities exclusive of liabilities under vehicle programs	1,277	1,214	63
Assets under vehicle programs	8,500	7,072	1,428
Liabilities under vehicle programs	9,237	8,205	1,032
Stockholder's equity.....	2,923	2,706	217

Total assets exclusive of assets under vehicle programs decreased \$116 million primarily due to (i) a \$472 million decrease in our net deferred tax asset principally reflecting the utilization by Cendant of our net operating loss carryforwards during 2005 and (ii) a decrease of \$96 million in cash and cash equivalents (see “—Liquidity and capital resources—Cash flows” for a detailed discussion). These decreases were partially offset by (i) an increase of \$376 million in the receivable due from Cendant and affiliates reflecting incremental operating cash flows we advanced/provided to Cendant during 2005, as well as additional tax attributes utilized by Cendant during 2005 and (ii) an increase of \$88 million in our trademark intangible asset related to the 23 franchise acquisitions we completed during 2005.

Total liabilities exclusive of liabilities under vehicle programs did not change significantly.

Assets under vehicle programs increased approximately \$1.4 billion primarily due to approximately \$1.1 billion of net additions to our vehicle rental fleet, reflecting current and projected year-over-year increases in demand and an increase of \$254 million in receivables from vehicle manufacturers primarily due to timing of collections.

Liabilities under vehicle programs increased approximately \$1.0 billion primarily due to additional borrowings of approximately \$1.2 billion to support the growth in our vehicle rental fleet described above. This increase was partially offset by a \$251 million decrease in our deferred tax liabilities during 2005 relating to accelerated tax depreciation taken on our rental fleet during 2004.

Stockholder's equity increased \$217 million primarily due to \$216 million of net income generated during 2005.

Liquidity and capital resources

Currently, our financing needs are supported by cash generated from operations and vehicle-backed obligations that are collateralized by our vehicles and related assets, as well as letters of credit issued under Cendant facilities. Upon completion of the new financings, our liquidity will be further augmented through available capacity under our new credit facilities. We believe that our financing arrangements should be sufficient to meet our liquidity requirements for the foreseeable future.

Cash flows

At December 31, 2005, we had \$58 million of cash on hand, a decrease of \$96 million from \$154 million at December 31, 2004. The following table summarizes such decrease:

	Year Ended December 31,		
	2005	2004	Change
Cash provided by (used in):			
Operating activities	\$ 1,550	\$ 1,289	\$ 261
Investing activities	(2,593)	(1,600)	(993)
Financing activities	948	337	611
Effects of exchange rate changes	(1)	4	(5)
Net change in cash and cash equivalents	\$ (96)	\$ 30	\$ (126)

During 2005, we generated \$261 million more cash from operating activities in comparison with 2004. This change principally reflects stronger operating results in 2005 when adjusted for non-cash items.

We used \$993 million more cash for investing activities during 2005 as compared with 2004. Such change primarily reflects (i) \$854 million more cash used to acquire vehicles to support current and anticipated increases in rental volumes and (ii) \$125 million more cash used to acquire rental car licensees. During 2006, we expect to utilize at least \$8.0 billion of cash to purchase rental vehicles, which will primarily be funded with proceeds received on the sale of a portion of our existing fleet to the manufacturers under our repurchase agreements, as well as borrowings under our vehicle-backed debt programs.

We generated \$611 million more cash from financing activities during 2005 in comparison with 2004. Such change principally reflects (i) incremental borrowings of \$709 million to support the purchase of vehicles described above and (ii) the absence in 2005 of a \$333 million payment made in 2004 to retire our former 11% senior subordinated notes. These increases were partially offset by \$426 million more cash used in connection with intercompany activities with Cendant, which substantially reflects the impact of the lower deferred tax provision described above. See "—Liquidity and capital resources—Financial obligations" for a detailed discussion of financing activities during 2005. We anticipate non-vehicle capital expenditures in 2006 to be approximately \$85 million to \$100 million.

Financial obligations

Indebtedness

The following table summarizes the components of our vehicle-backed debt (including related party debt due to Cendant Rental Car Funding (AESOP) LLC):

	As of December 31,		
	2005	2004	Change
Due to Cendant Rental Car Funding (AESOP) LLC(a).....	\$ 6,932	\$ 5,865	\$ 1,067
Budget Truck financing:(b)			
HFS Truck Funding program	149	220	(71)
Capital leases	370	225	145
Other(c)	433	347	86
	<u>952</u>	<u>792</u>	<u>160</u>
	<u>\$ 7,884</u>	<u>\$ 6,657</u>	<u>\$ 1,227</u>

- (a) The change in the balance at December 31, 2005 principally reflects the issuance of fixed and floating rate vehicle-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 under the HFS Truck Funding program at December 31, 2005 reflects the 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 primarily reflects incremental borrowings under our bank loan and commercial paper conduit facilities to support the acquisition of vehicles in our international rental operations.

Cendant Rental Car Funding (AESOP) LLC. Cendant Rental Car Funding was established as a bankruptcy-remote special purpose limited liability company that issues private placement notes and uses the proceeds from such issuances to make loans to our wholly-owned subsidiary, AESOP Leasing L.P. on a continuing basis. AESOP Leasing is required to use these proceeds to acquire or finance the acquisition of vehicles used in our rental car operations. Prior to December 31, 2003, we consolidated both Cendant Rental Car Funding and AESOP Leasing and, as such, the intercompany transactions between these two entities were eliminated causing only the third party debt issued by Cendant Rental Car Funding and the vehicles purchased by AESOP Leasing to be presented within our Consolidated Financial Statements. However, in connection with the adoption of FASB Interpretation No. 46, "Consolidation of Variable Entities", we determined that we were not the primary beneficiary of Cendant Rental Car Funding. Accordingly, we deconsolidated Cendant Rental Car Funding on December 31, 2003. As a result, AESOP Leasing's obligation to Cendant Rental Car Funding is reflected as related party debt on our Consolidated Balance Sheets as of December 31, 2005 and 2004. We also recorded an asset within assets under vehicle programs on our Consolidated Balance Sheets at December 31, 2005 and 2004, which represented the equity issued by Cendant Rental Car Funding. The vehicles purchased by AESOP Leasing remain on our Consolidated Balance Sheets as we continue to consolidate AESOP Leasing. Such vehicles and related assets, which approximate \$7.5 billion at December 31, 2005, collateralize the debt issued by Cendant Rental Car Funding and are not available to pay our general obligations.

The business activities of Cendant Rental Car Funding are limited primarily to issuing indebtedness and using the proceeds thereof to make loans to AESOP Leasing for the purpose of acquiring or financing the acquisition of vehicles to be leased to our rental car subsidiaries and pledging its assets to secure the indebtedness. As the deconsolidation of Cendant Rental Car Funding occurred on December 31, 2003, our income statement and cash flow activity are not impacted for 2003. Beginning on January 1, 2004, the results of operations and cash flows of Cendant Rental Car Funding are no longer reflected within our Consolidated Financial Statements.

Borrowings under the Cendant Rental Car Funding program primarily represent floating rate term notes with a weighted average interest rate of 4%, 3% and 3% for 2005, 2004 and 2003, respectively. A substantial portion of this floating-rate liability exposure is hedged through transactions that swap our economic liability to being fixed-rate in nature.

Budget Truck financing. Budget Truck financing consists of debt outstanding under the HFS Truck Funding Program as well as capital leases. The HFS Truck Funding Program is a debt facility we established to finance the acquisition of the Budget truck rental fleet. The borrowings under this program are collateralized by \$148 million of corresponding assets and are floating rate term notes with a weighted average interest rate of 4%, 2% and 1% for 2005, 2004 and 2003, respectively. We also obtained a portion of our truck rental fleet under capital lease arrangements for which there are corresponding unamortized assets of \$364 million and \$218 million classified within vehicles, net on our Consolidated Balance Sheets as of December 31, 2005 and 2004, respectively. Interest paid as part of these capital lease obligations was \$14 million and \$5 million during 2005 and 2004, respectively.

Other. Borrowings under our other vehicle rental programs represent amounts issued under financing facilities that provide for the issuance of notes to support the acquisition of vehicles used in the Company's international vehicle rental operations. The debt issued is collateralized by \$635 million of vehicles and related assets and primarily represents floating rate bank loans and commercial paper for which the weighted average interest rate was 4%, 3% and 4% for 2005, 2004 and 2003, respectively.

The following table provides the contractual maturities for vehicle-backed debt (including related party debt due to Cendant Rental Car Funding) as of December 31, 2005:

	Vehicle-Backed Debt	Capital Leases	Total
2006.....	\$ 2,627	\$ 59	\$ 2,686
2007.....	1,449	113	1,562
2008.....	1,500	139	1,639
2009.....	420	59	479
2010.....	800	—	800
Thereafter.....	718	—	718
	\$ 7,514	\$ 370	\$ 7,884

At December 31, 2005, available capacity under our borrowing arrangements was as follows:

	Total Capacity	Outstanding Borrowings	Available Capacity(a)
Cendant Rental Car Funding (AESOP) LLC.....	\$ 7,555	\$ 6,932	\$ 623
Budget Truck financing:			
HFS Truck Funding program.....	149	149	—
Capital leases.....	370	370	—
Other.....	821	433	388
	1,340	952	388
	\$ 8,895	\$ 7,884	\$ 1,011

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

Certain of our vehicle-backed debt instruments contain restrictive covenants, including restrictions on payment of dividends paid to us by certain of our subsidiaries and indebtedness of material subsidiaries, mergers, limitations on liens, liquidations, and sale and leaseback transactions, and also require the maintenance of certain financial ratios. At December 31, 2005, we were in compliance with all financial covenants of our vehicle-backed debt instruments.

Pro Forma indebtedness

The following table reflects our indebtedness as of December 31, 2005 after giving effect to the planned issuances/borrowings in connection with the Separation Transactions, which are described in more detail in the section titled “Business—Overview”.

	As of December 31, 2005	New Issuances/ (Repayments)	Pro Forma
Vehicle-backed debt	\$ 7,884	\$ (1,875)(a)	\$ 6,009
Corporate debt:			
Senior secured revolving credit facility(b).....	—	—	—
Senior secured term loan	—	875(c)	875
Senior unsecured notes offered hereby	—	1,000(d)	1,000
Total corporate debt.....	—	1,875	1,875
Total debt	\$ 7,884	\$ —	\$ 7,884

- (a) Represents the repayment of vehicle-backed debt with the proceeds received on the issuance of the \$1,000 million of senior unsecured term notes and the \$875 million senior secured term loan.
- (b) Represents a five-year, \$1,500 million senior secured revolving credit facility, which bears interest at LIBOR plus 75 to 200 basis points in addition to a commitment fee of 15 to 50 basis points, each of which is dependent on our senior secured credit ratings. We currently expect that the revolving credit facility will bear interest at LIBOR plus 150 basis points in addition to a commitment fee of 35 basis points. Borrowings outstanding under this facility will be collateralized by substantially all of our intellectual property and a pledge of stock of certain of our subsidiaries.
- (c) Represents the borrowings under our senior secured term loan, which is due in 2012 and is expected to bear interest at LIBOR plus 150 basis points and will be collateralized by certain assets of our domestic and certain assets of our significant international subsidiaries.
- (d) Represents the senior unsecured notes offered in this offering memorandum, which are due in 2014 and 2016, bear interest at a weighted average rate of approximately 7.64% and are callable by us beginning in 2008 with respect to the floating rate notes, 2010 with respect to the 7.625% notes and 2011 with respect to the 7.75% notes.

Liquidity risk

Our liquidity position may be negatively affected by unfavorable conditions in the vehicle rental industry, adverse changes in interest rates and access to our vehicle-backed and corporate funding facilities, which may be limited if we were to fail to renew any of the facilities or meet certain ratios.

We also expect that potential unfavorable changes to the repurchase programs under which we currently purchase vehicles would increase the risk relating to the residual market value of our car rental fleet, which could have a material adverse impact on our liquidity. Specifically, the overall cost of cars subject to repurchase programs could increase if the manufacturers were to make changes to these programs, particularly if such changes were to result in a decrease in the repurchase price without a corresponding decrease to the original purchase price. Unfavorable changes to repurchase programs could also limit our ability to rapidly reduce the size of our fleet in response to an economic downturn or changes in demand by returning cars sooner than originally expected.

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 on a pro forma basis after giving effect to the planned debt issuances/borrowings discussed above. The table below does not include future cash payments related to interest expense or contingent payments that may be made to Cendant at a future date in connection with the arrangements described elsewhere herein under the section titled "The Separation Transactions."

	2006	2007	2008	2009	2010	Thereafter	Total
Vehicle-backed debt(a)	\$ 752	\$ 1,449	\$ 1,500	\$ 420	\$ 800	\$ 718	\$ 5,639
Corporate debt(b)	4	9	9	9	9	1,835	1,875
Operating leases(c)	320	279	214	139	95	570	1,617
Capital leases	59	113	139	59	—	—	370
Commitments to purchase vehicles(d)	8,035	4,409	1,938	—	—	—	14,382
Other purchase commitments ..	45	7	—	—	—	—	52
Total	\$ 9,215	\$ 6,266	\$ 3,800	\$ 627	\$ 904	\$ 3,123	\$ 23,935

- (a) Represents vehicle-backed debt (including related party debt due to Cendant Rental Car Funding), which was issued to support the purchase of rental vehicles. Amounts exclude interest expense as the amounts ultimately paid will depend on amounts outstanding under our vehicle-backed funding programs and capital lease arrangements and interest rates in effect during each period. The 2006 amount reflects a reduction of \$1,875 million related to the assumed repayment of current maturities with the proceeds received in connection with the issuance of corporate debt discussed in (b) below.
- (b) Reflects the issuance of \$1,000 million of senior unsecured notes maturing in 2014 and 2016 and \$875 million of senior secured debt maturing in 2012, including amortization.
- (c) Includes minimum payments of \$219 million, \$192 million, \$145 million, \$88 million, \$56 million and \$313 million relating to airport commission fees in 2006, 2007, 2008, 2009, 2010 and thereafter, respectively.
- (d) 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 generally financed through the issuance of vehicle-backed debt in addition to cash received upon the sale of vehicles primarily under repurchase programs (see Notes 10 and 15 to our Consolidated Financial Statements).

Accounting policies

Critical Accounting Policies

In presenting our financial statements in conformity with accounting principles generally accepted in the United States of America, 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. However, events

that are outside of our control cannot be predicted and, as such, they cannot be contemplated in evaluating such estimates and assumptions. 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.

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 \$2.1 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.

Public Liability, Property Damage and Other Insurance Liabilities, Net. Insurance liabilities on our Consolidated Balance Sheets include additional liability insurance, personal effects protection insurance, public liability, property damage and personal accident insurance claims for which we are self-insured. We estimate the required liability of such claims on an undiscounted basis utilizing an actuarial method that is based upon various assumptions which include, but are not limited to, our historical loss experience and projected loss development factors. The required liability is also subject to adjustment in the future based upon changes in claims experience, including changes in the number of incidents (frequency) and changes in the ultimate cost per incident (severity).

Financial Instruments. We estimate fair values of each of our financial instruments, including derivative instruments. 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 present value cash flow models, which may involve significant judgments and assumptions, including estimates of future interest rate levels based on interest rate yield curves and 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 12 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 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 “Quantitative and

qualitative disclosures above market risk” for a discussion of the effect of hypothetical changes to these assumptions.

Changes in Accounting Policies During 2005

During 2005, we adopted FASB Interpretation No. 47, “Accounting for Conditional Asset Retirement Obligations”. For detailed information regarding this pronouncement and the impact thereof on our business, see Note 2 to our Consolidated Financial Statements.

Quantitative and qualitative disclosures about market risk

We use various financial instruments, particularly interest rate swaps and also interest rate caps to manage and reduce the interest rate risk related specifically to our vehicle-backed debt securities.

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 12 to our Consolidated Financial Statements.

Our principal market exposures are interest rate and foreign currency 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 particularly with respect to the Canadian dollar and Australian 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 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 rates.

We use a duration-based model in determining the impact of interest rate shifts on our debt portfolio and interest rate derivatives 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 our instruments to perform the sensitivity analyses separately for our market risk exposures. The estimates are based on the market risk sensitive portfolios and assume instantaneous, parallel shifts in interest rate yield curves.

We have determined that the impact of a 10% change in interest 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.