ZIPCAR INC
Form 10-Q
November 04, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

OR

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

Commission File Number: 001-35131

ZIPCAR, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**04-3499525**
(State or Other Jurisdiction of	**(I.R.S. Employer**
Incorporation or Organization)	**Identification No.)**
25 First Street, 4th Floor, Cambridge, MA	**02141**
(Address of Principal Executive Offices)	**(Zip Code)**

(617) 995-4231

(Registrant s Telephone Number, Including Area Code)

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 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 x No ¨.

Indicate by checkmark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter time period that the registrant was required to submit and post such files). Yes x No ¨

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

Large accelerated filer	¨	Accelerated filer	¨
Non-accelerated filer	x	Smaller reporting company	¨

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

As of November 1, 2011, 39,301,606 shares of the registrant s common stock were outstanding.

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ZIPCAR, Inc.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Zipcar, Inc.

Condensed Consolidated Balance Sheets

(Unaudited)

(in thousands, except share and per share data)	September 30, 2011	December 31, 2010
Assets		
Current assets		
Cash and cash equivalents	$ 55,843	$ 43,005
Short-term marketable securities	32,152	
Accounts receivable, net of allowance for doubtful accounts of $817 and $541 as of September 30, 2011 and December 31, 2010, respectively	5,692	4,223
Restricted cash	207	900
Prepaid expenses and other current assets	11,493	9,905
Total current assets	105,387	58,033
Long-term marketable securities	5,042	
Property and equipment, net	112,833	70,917
Goodwill	100,338	99,750
Intangible assets	5,668	8,527
Restricted cash	7,811	3,503
Deposits and other noncurrent assets	7,924	8,198
Total assets	$ 345,003	$ 248,928
Liabilities, Redeemable Convertible Preferred Stock and Stockholders Equity (Deficit)		
Current liabilities		
Accounts payable	$ 7,956	$ 6,247
Accrued expenses	19,297	16,594
Deferred revenue	20,135	14,261
Current portion of capital lease obligations and other debt	13,062	26,041
Total current liabilities	60,450	63,143
Capital lease obligations and other debt, net of current portion	62,281	68,022
Deferred revenue, net of current portion	4,700	3,651
Redeemable convertible preferred stock warrants		478
Other liabilities	2,510	1,975
Total liabilities	129,941	137,269
Commitments and contingencies (Note 9)		
Non-controlling interest	492	277
Redeemable convertible preferred stock, par value $0.001 per share:		116,683
Stockholders equity (deficit):		
Common stock, $0.001 par value: 500,000,000 and 100,000,000 shares authorized at September 30, 2011 and December 31, 2010, respectively; 39,068,148 and 6,415,436 shares issued at September 30, 2011 and December 31, 2010, respectively	39	6
Additional paid-in capital	290,519	59,647

Accumulated deficit	(76,609)	(65,380)
Accumulated other comprehensive gain	621	426
Total stockholders equity (deficit)	214,570	(5,301)
Total liabilities, redeemable convertible preferred stock and stockholders equity (deficit)	$ 345,003	$ 248,928

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Zipcar, Inc.

Condensed Consolidated Statements of Operations

(Unaudited)

(in thousands, except share and per share data)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Revenue	$ 68,059	$ 54,788	$ 178,751	$ 133,994
Cost and expenses				
Fleet operations	43,365	34,616	118,856	89,779
Member services and fulfillment	5,543	4,428	14,681	10,973
Research and development	1,083	830	3,055	2,300
Selling, general, and administrative	15,803	13,971	43,213	36,416
Amortization of acquired intangible assets	956	1,173	3,023	2,275
Total operating expenses	66,750	55,018	182,828	141,743
Income (loss) from operations	1,309	(230)	(4,077)	(7,749)
Interest income	45	10	65	32
Interest expense	(810)	(2,450)	(7,795)	(5,670)
Other income (expense), net	(186)	248	528	502
Income (loss) before income taxes	358	(2,422)	(11,279)	(12,885)
Provision (benefit) for income taxes	(304)	94	(264)	192
Net income (loss)	662	(2,516)	(11,015)	(13,077)
Less: net (income) loss attributable to redeemable noncontrolling interest	(11)		1	12
Net income (loss) attributable to Zipcar, Inc.	$ 651	$ (2,516)	$ (11,014)	$ (13,065)
Net earnings (loss) attributable to common stockholders per share:				
Basic	$ 0.02	$ (0.39)	$ (0.42)	$ (2.77)
Diluted	$ 0.02	$ (0.39)	$ (0.42)	$ (2.77)
Weighted average number of common shares outstanding used in computing per share amounts:				
Basic	38,904,375	6,398,216	26,039,538	4,723,870
Diluted	42,479,718	6,398,216	26,039,538	4,723,870

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Zipcar, Inc.

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(in thousands)	Nine Months Ended September 30, 2011	2010
Cash flows from operating activities		
Net loss	$ (11,015)	$ (13,077)
Adjustments to reconcile net loss to net cash provided by operating activities, net of acquisition		
Depreciation and amortization	21,392	8,578
Amortization & accretion of debt related warrants	926	1,120
Amortization & accretion of marketable securities	22	
Stock-based compensation expense	3,069	2,004
Loss (gain) on disposal of fixed assets	2,938	(216)
Redeemable convertible preferred stock warrant adjustment to fair value	724	(12)
Changes in operating assets and liabilities		
Accounts receivable	(1,434)	(1,231)
Prepaid expenses and other assets	(2,114)	(5,163)
Accounts payable	1,705	2,160
Accrued expenses	4,247	8,092
Deferred revenue	7,018	4,513
Net cash provided by operating activities, net of acquisition	27,478	6,768
Cash flows from investing activities		
Increase in deposits	(394)	(589)
Purchases of available-for-sale securities	(37,250)	
Increase in restricted cash	(3,615)	(9)
Cash acquired (paid) in business combination, net of transaction costs		(7,734)
Proceeds from sale of property and equipment	9,066	6,141
Purchases of property and equipment	(59,043)	(33,912)
Net cash used in investing activities	(91,236)	(36,103)
Cash flows from financing activities		
Proceeds from issuance of debt, net of debt issuance costs	32,683	49,356
Proceeds from exercise of stock options and warrants	1,022	265
Proceeds from issuance of restricted stock	2,500	
Proceeds from issuance of common stock in connection with initial public offering, net of issuance costs of $1,831	109,769	
Payments of principal under notes payable, capital lease obligations and other debt	(68,782)	(15,423)
Net cash provided by financing activities	77,192	34,198
Effect of exchange rate changes on cash and cash equivalents	(596)	(54)
Net increase in cash and cash equivalents	12,838	4,809
Cash and cash equivalents		
Beginning of period	43,005	19,228
End of period	$ 55,843	$ 24,037

Supplemental cash flow information				
Cash paid for interest	$	6,456	$	3,730
Cash paid for taxes	$	258	$	229
Noncash investing and financing activities				
Assets acquired under capital leases	$	15,977	$	11,093
Return of guaranteed residual value of expired leases	$	(1)	$	(1,472)
Issuance of note in connection with business combination	$		$	5,000
Issuance of common stock and warrants to purchase common stock in connection with business combination	$		$	50,736

The accompanying notes are an integral part of these condensed consolidated financial statements.

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Zipcar, Inc.

Notes to Condensed Consolidated Financial Statements

(Unaudited)

(in thousands, except share and per share amounts)

1. Nature of the Business

Zipcar, Inc. (Zipcar or the Company), a Delaware corporation, and its subsidiaries comprise a membership organization that provides self-service vehicle use by the hour or by the day. The Company places vehicles in convenient parking spaces throughout major metropolitan areas and universities in North America and in the United Kingdom. Through the use of the Company s proprietary software, members are able to reserve vehicles online, through a wireless mobile device or by phone, access the vehicle with an electronic pass card or mobile device, and receive automatic billings to their credit card.

2. Summary of Significant Accounting Policies

Basis of Presentation. The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

The condensed consolidated balance sheet at December 31, 2010 was derived from audited financial statements, but does not include all disclosures required by GAAP. The accompanying unaudited condensed consolidated financial statements as of September 30, 2011 and for the periods ended September 30, 2011 and 2010 have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These condensed consolidated financial statements should be read in conjunction with the Company s audited consolidated financial statements and the notes thereto for the year ended December 31, 2010 included in the Company s prospectus filed with the SEC on April 14, 2011.

In the opinion of management, all adjustments, consisting only of normal recurring adjustments necessary to present a fair statement of the Company s consolidated financial position as of September 30, 2011 and consolidated results of operations for the three and nine month periods ended September 30, 2011 and 2010 and consolidated cash flows for the nine months ended September 30, 2011 and 2010, have been made. The condensed consolidated results of operations and cash flows for the period ended September 30, 2011 are not necessarily indicative of the results of operations and cash flows that may be expected for the year ending December 31, 2011.

Reverse Stock Split. On March 23, 2011, the board of directors of the Company and the stockholders of the Company approved a 1-for-2 reverse stock split of the Company s outstanding common stock, which was effected on March 29, 2011. All references to shares in the financial statements and the accompanying notes, including but not limited to the number of shares and per share amounts, unless otherwise noted, have been adjusted to reflect the stock split retroactively. Previously awarded options and warrants to purchase shares of the Company s common stock have also been retroactively adjusted to reflect the stock split.

Principles of Consolidation. The consolidated financial statements include the accounts of the Company and its wholly-owned and majority-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates. The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates these estimates and judgments, including those related to revenue recognition, stock-based compensation, software development costs, valuation of long-lived and intangible assets, including goodwill, acquisition accounting, valuation of marketable securities and income taxes. The Company bases these estimates on historical and anticipated results and trends and on various other assumptions that the Company believes are reasonable under the circumstances, including assumptions as to future events. These estimates form the basis for making judgments about the carrying values of assets and liabilities and recorded revenue and expenses. Actual results could differ from those estimates.

Foreign Currency. The financial statements of the Company s foreign subsidiaries are measured using the local currency as the functional currency. Accordingly, monetary accounts maintained in currencies other than the U.S. dollar are remeasured in U.S. Dollars in accordance with authoritative guidance. Assets and liabilities of these subsidiaries are translated at exchange rates as of the balance sheet date. Revenues and expenses are translated at average exchange rates in effect during the year. The resulting cumulative translation adjustments have been recorded in the other comprehensive income component of stockholders equity. Realized foreign currency transaction gains and losses were not material to the consolidated financial statements.

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Fair Value of Financial Instruments. The Company measures fair value of assets and liabilities and discloses the sources for such fair value measurements. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. Under applicable accounting guidance, a fair value hierarchy is based on three levels of inputs, of which the first two are considered observable and the last is considered unobservable, that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The Company s cash and cash equivalents of $55,843 and $43,005 and restricted cash of $8,018 and $4,403 as of September 30, 2011 and December 31, 2010, respectively, are carried at fair value based on quoted market prices, which is a Level 1 measurement in the hierarchy of fair value measurements. Short-term and long-term marketable securities of $37,194 at September 30, 2011 are carried at fair value based on Level 1 input described above. The Company s interest rate swap entered into in May 2011 was $25 at September 30, 2011 and also carried at fair value based on Level 2 inputs. The change in fair value of the interest rate swap was $(69) and $(139) for the three and nine months ended September 30, 2011, respectively. Management believes that the Company s debt obligations approximate fair value based on the terms and characteristics of those instruments using Level 3 inputs. The Company s redeemable convertible preferred stock warrants at December 31, 2010 were $478 and carried at fair value based on Level 3 input described above. The change in fair value was $724 since December 31, 2010 to the closing of the Company s initial public offering (IPO) on April 19, 2011, when these warrants were converted into warrants to purchase common stock and, accordingly, the liability associated with the warrants aggregating $1,202 was reclassified to stockholders equity.

Derivatives Financial Instruments. The Company entered into an interest rate swap agreement to hedge interest rate exposures related to its variable funding note as required under the terms of the facility. This instrument, which does not meet the requirements for hedge accounting, is carried as an asset and is marked to market at each reporting period with the change in fair value recorded in Other Income (Expense), net.

Property and Equipment. Property and equipment are stated at cost and depreciated to their estimated residual value over their estimated useful lives. When assets are retired or otherwise disposed of, the assets and related accumulated depreciation are relieved from the accounts and the resulting gains or losses are included in operating income in the consolidated statements of operations. Repairs and maintenance costs are expensed as incurred. Depreciation is provided using the straight-line method over the following estimated useful lives:

Vehicles	1-3 years
In-car electronic equipment	2-3 years
Office and computer equipment	3 years
Software	3 years
Leasehold improvements	Lesser of useful life or lease term

Depreciation expense for the nine months ended September 30, 2011 and September 30, 2010 was $18,369 and $6,303, respectively. In the first quarter of 2011, the Company changed its estimated holding period of its vehicles and as a result increased the depreciation rates which resulted in higher depreciation expense of approximately $701 and $2,244, or $0.02 and $0.09 per diluted share, during the three and nine months ending September 30, 2011 than if the Company had not changed the holding period estimate. During the remainder of 2011, the Company expects higher depreciation expense of approximately $648 than if the Company had not changed the holding period estimate.

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Property and equipment at cost increased $55,836 during the nine months ended September 30, 2011 including $50,920 related to net vehicle purchases. The composition of property and equipment, net is as follows.

	September 30, 2011	December 31, 2010
Vehicles	$ 118,823	$ 67,903
In-car electronic equipment	9,244	6,673
Office and computer equipment	5,183	4,379
Software	5,275	3,657
Leasehold improvements	2,071	2,148
Total	140,596	84,760
Less: accumulated depreciation	(27,763)	(13,843)
Property and equipment, net	$ 112,833	$ 70,917

Income Taxes. Deferred income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and are measured using the tax rates anticipated to be in effect when such differences reverse. A valuation allowance is provided if, based on currently available evidence, it is more likely than not that some or all of the deferred tax assets may not be realized. The Company applies the authoritative guidance in accounting for uncertainty in income taxes recognized in the financial statements. This guidance prescribes a two-step process to determine the amount of tax benefit to be recognized. First, the tax position must be evaluated to determine the likelihood that it will be sustained upon external examination. If the tax position is deemed more-likely-than-not to be sustained, the tax position is then assessed to determine the amount of benefit to recognize in the financial statements. The amount of the benefit that may be recognized is the largest amount that has a greater than 50% likelihood of being realized upon ultimate settlement.

Revenue Recognition. The Company recognizes revenue only when the following four criteria are met: price is fixed or determinable, persuasive evidence of an arrangement exists, the service is performed and collectability of the resulting receivable is reasonably assured.

The Company generates revenue primarily from vehicle usage and membership fees from individuals, university students and faculty, businesses and government agencies. Vehicle usage revenues are recognized as chargeable hours are incurred. Annual membership fees are nonrefundable and are deferred and recognized ratably over the one-year period of membership. Membership application fees are recorded as deferred revenue and recognized as revenue over the average life of the member relationship, which is currently estimated to be five years. Direct and incremental costs associated with the membership application process, consisting of the cost of driving record checks and the cost of providing membership cards, are deferred and recognized as an expense over the estimated life of the member relationship. Annual damage fee waiver fees to cover the deductible costs are recorded as revenue ratably over the term of the plan. The Company charges a fee for returning the vehicles late. Such fees are recorded as revenue at the time the fee is charged, which is at the end of the reservation period. Sometimes new members are offered driving credits by the Company as an inducement to joining the Company. These driving credits generally expire shortly after a new member joins and allow the member to operate the Company s vehicles without paying for the usage of the vehicles until the credits are exhausted. These driving credits are treated as a deliverable in the arrangement and represent a separate unit of accounting since the credits have value on a stand-alone basis with reliable evidence of fair value. Accordingly, a portion of the annual fee received is allocated to such credits, based on relative fair value of each deliverable, and recorded as revenue upon utilization of such credits or upon expiration, whichever is earlier. The Company also provides driving credits to existing members for various reasons, including referring a new member. The cost related to such driving credits is estimated based on an average cost per hour and applied to the estimated hours of driving a member is eligible for based on the corresponding credits. The amount is recorded in the consolidated statement of operations in Fleet Operations.

In September 2009, the Financial Accounting Standards Board (FASB) issued authoritative guidance on revenue arrangements with multiple deliverables that are not covered by software revenue guidance. This guidance provides another alternative for establishing fair value for a deliverable when vendor specific objective evidence or third-party evidence for deliverables in an arrangement cannot be determined. Under this guidance, companies will be required to develop a best estimate of the selling price for separate deliverables. Arrangement consideration will need to be allocated using the relative selling price method as the residual method will no longer be permitted. This guidance was effective for the Company January 1, 2011, and the adoption of this guidance did not have a material impact on the Company s consolidated financial position or results of operations.

In 2008, the Company commenced offering a fleet management solution by licensing its proprietary vehicle-on-demand technology on a software as a service (SaaS) basis, primarily to local, state and federal government agencies. Customers are generally charged an upfront fee and a monthly fee. Monthly fees are recognized ratably. If upfront fees are charged then the upfront fees are recorded as deferred revenue and recognized as revenue over the expected customer relationship period commencing from the day the customer is granted access to the system.

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Stock-Based Compensation. The Company records stock-based payments under the fair value method. Under this method, the Company is required to record compensation cost based on the fair value estimated for stock-based awards granted or modified over the requisite service periods for the individual awards, which generally equals the vesting period. The Company utilizes the straight-line amortization method for recognizing stock-based compensation expense.

Net Income (Loss) Per Share Attributable to Common Stockholders. Basic net income (loss) attributable to common stockholders per share is computed by dividing net income (loss) attributable to common stockholders by the weighted average number of common shares outstanding for the period. For the purposes of calculating diluted earnings attributable to common stockholders per share, the denominator includes both the weighted average number of shares of common stock outstanding for the period and the number of dilutive common stock equivalents such as stock options and warrants to purchase common stock, as determined using the treasury stock method.

The following common stock equivalents were excluded from the computation of diluted net income (loss) per share attributable to common stockholders because they had an anti-dilutive effect:

	Three months ended September 30,		**Nine months ended September 30,**	
(in thousands)	**2011**	**2010**	**2011**	**2010**
Redeemable convertible preferred stock upon conversion to common stock		23,713		23,713
Options to purchase common stock	590	4,555	4,789	4,555
Warrants to purchase common stock	2	1,665	1,044	1,665
Warrants to purchase redeemable convertible preferred stock		65		65
Restricted Stock	130		130	
Total	722	29,998	5,963	29,998

Segment Information. The Company operates in two reportable segments: North America and the United Kingdom. Both segments derive revenue primarily from members usage of vehicles.

Other Income. In the first quarter of 2011, the Company received $861 from selling some of its zero emission vehicle (ZEV) credits to a third party. The Company received these credits under a state-based low-emission regulation. These laws provide for the purchase and sale of excess credits earned. Because the Company utilizes energy efficient vehicles in its business, the Company was able to earn ZEV credits under state regulations, and recorded the proceeds from the sale of these credits as other income.

New Accounting Guidance. In September 2011, the Financial Accounting Standards Board (FASB) issued ASU 2011-08, Intangibles-Goodwill and Other: Testing Goodwill for Impairment . The objective of this Update is to simplify how entities test for goodwill impairment. The amendments in this Update permit an entity to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. The revised standard is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. However, an entity can choose to early adopt the revised standard even if its annual test date is before September 15, 2011 (the date on which the revised standard was issued), provided that the entity has not yet issued its financial statements for the period that includes its annual test date. The Company does not expect the adoption of this guidance to have a material effect on its consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income: Presentation of Comprehensive Income , authoritative guidance which allows an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This authoritative guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholder s equity. This authoritative guidance is to be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Although the Company will need to modify the presentation of certain information to comply with the requirements of this guidance, the Company does not expect the adoption of this guidance to have a material effect on its consolidated financial statements.

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3. Financial Instruments - Cash, Cash Equivalents and Marketable Securities

All highly liquid investments with maturities of three months or less at the date of purchase are classified as cash equivalents. The Company s marketable securities have been classified and accounted for as available-for-sale. Management determines the appropriate classification of its investments at the time of purchase and reevaluates the available-for-sale designations as of each balance sheet date. The Company classifies its marketable debt securities as either short-term or long-term based on each instrument s underlying contractual maturity date. Marketable debt securities with maturities of 12 months or less are classified as short-term and marketable debt securities with maturities greater than 12 months are classified as long-term.

The following tables summarize the Company s available-for-sale securities adjusted cost, gross unrealized losses and fair value by significant investment category recorded as cash and cash equivalents, short-term marketable securities or long-term marketable securities as of September 30, 2011 and December 31, 2010:

	September 30, 2011					
	Adjusted Cost	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities
Cash	$ 14,262	$	$ 14,262	$ 14,262	$	$
Level 1						
Money market funds	41,581		41,581	41,581		
US Treasury securities	9,007		9,007		8,206	801
US agency securities	22,838	(6)	22,832		22,020	812
Certificates of deposit and time deposits	5,356	(1)	5,355		1,926	3,429
Subtotal	78,782	(7)	78,775	41,581	32,152	5,042
Total	$ 93,044	$ (7)	$ 93,037	$ 55,843	$ 32,152	$ 5,042

	December 31, 2010					
	Adjusted Cost	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities
Cash	$ 9,691	$	$ 9,691	$ 9,691	$	$
Level 1						
Money market funds	33,314		33,314	33,314		
Total	$ 43,005	$	$ 43,005	$ 43,005	$	$

The Company may sell certain of its marketable securities prior to their stated maturities for strategic reasons including, but not limited to, anticipation of credit deterioration and duration management. The Company recognized no net realized gains or losses during the three- and nine-month periods ended September 30, 2011. The maturities of the Company s long-term marketable securities range from one year to two years.

As of September 30, 2011 gross unrealized losses were not material. The Company considers the declines in market value of its marketable securities investment portfolio to be temporary in nature. The Company s investment policy requires investments to be U.S. Treasury securities, overnight sweep bank deposits, securities of U.S. Federal agencies and money market investments that are direct obligations of the U.S. Treasury, with the objective of preserving the principal value of the investment portfolio while maintaining liquidity to meet anticipated cash flow needs.

Fair values were determined for each individual security in the investment portfolio. When evaluating the investments for other-than-temporary impairment, the Company reviews factors such as the length of time and extent to which fair value has been below cost basis, the financial condition of the issuer and any changes thereto, and the Company s intent to sell, or whether it is more likely than not it will be required to sell, the investment before recovery of the investment s amortized cost basis. During the three- and nine-month periods ended September 30, 2011, the Company did not recognize any impairment charges. As of September 30, 2011, the Company does not consider any of its investments to be other-than-temporarily impaired.

4. Intangible Assets, Goodwill and Redeemable Non-controlling Interest

The changes in the goodwill and intangible assets balance during the period ended September 30, 2011 are due to the impact of changes in foreign currency exchange rates associated with the goodwill and intangible assets resulting from the Company s acquisition of Streetcar Limited (Streetcar) in the United Kingdom. The change in intangible assets during the three and nine months ended September 30, 2011 is also due to the amortization of $956 and $3,023, respectively.

In connection with the acquisition of Flexcar in November 2007, the Company obtained 85% ownership in one of Flexcar s subsidiaries. The remaining 15% ownership in that subsidiary is held by a third party. The third party representing the redeemable non-controlling interest in the subsidiary holds put rights for the remaining interest in the subsidiary, which it has provided notice of its intention to exercise. The put right provides the redeemable non-controlling interest an option to sell its ownership interest to the Company after September 2011 at a price based on the fair value at the time of the exercise. Since the redeemable non-controlling interest in the subsidiary has a redemption feature, as a result of the put option, the Company has classified the redeemable non-controlling interest in the subsidiary in the mezzanine section of the consolidated balance sheets. The redeemable non-controlling interest was accreted to the estimated redemption value by recording a corresponding adjustment to accumulated deficit at the end of each reporting period. The amount accreted during the nine months ended September 30, 2011 was $216.

5. Common Stock and Stockholders Equity

On March 23, 2011, the Company s Board of Directors and stockholders approved a 1-for-2 reverse stock split of the Company s outstanding common stock, which was effected on March 29, 2011. Stockholders entitled to fractional shares as a result of the reverse stock split received a cash payment for such fractional shares in lieu of receiving fractional shares. Shares of common stock underlying outstanding stock options and warrants were proportionately reduced and the respective exercise prices were proportionately increased in accordance with the terms of the agreements governing such securities. Shares of common stock reserved for issuance upon the conversion of the Company s redeemable convertible preferred stock were proportionately reduced and the respective conversion prices were proportionately increased. All references to shares in the financial statements and the accompanying notes, including but not limited to the number of shares and per share amounts, unless otherwise noted, have been adjusted to reflect the stock split retroactively. Previously awarded options and warrants to purchase shares of the Company s common stock have also been retroactively adjusted to reflect the stock split.

On April 19, 2011, the Company closed its IPO of 11,136,726 shares of common stock at an offering price of $18.00 per share, of which 6,666,667 shares were sold by the Company and 4,470,059 shares were sold by selling stockholders, including 1,452,617 shares pursuant to the underwriters option to purchase additional shares, resulting in net proceeds to the Company of approximately $111,600, after deducting underwriting discounts. All outstanding shares of the Company s redeemable convertible preferred stock converted to 25,097,901 shares of common stock at the closing of the IPO. Redeemable convertible preferred stock warrants were also converted into warrants to purchase common stock and, accordingly, the liability associated with the warrants, aggregating $1,202, was reclassified to stockholders equity at the closing. At the time of the conversion of the redeemable convertible preferred stock warrants in the second quarter of 2011, the Company recorded a charge of $550 as the final mark to market adjustment.

As of September 30, 2011, the Company had warrants outstanding and exercisable for the purchase of 1,044,210 shares of common stock at prices ranging from $0.98 to $137.62 per share.

Comprehensive Income (Loss). The Company s other comprehensive income (loss) consists of foreign currency translation adjustments from those subsidiaries that do not use the U.S. dollar as their functional currency and unrealized gains and losses on marketable securities categorized as available-for-sale.

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The following table summarizes the components of total comprehensive income (loss), net of taxes, during the three and nine months ended September 30, 2011 and 2010:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income (loss) attributable to Zipcar, Inc.	$ 651	$ (2,516)	$ (11,014)	$ (13,065)
Other comprehensive income (loss):				
Change in foreign currency translations	(1,939)	3,125	202	2,033
Change in unrealized gains/losses on marketable securities	(7)		(7)	
Total comprehensive income (loss)	$ (1,295)	$ 609	$ (10,819)	$ (11,032)

The following table summarizes the components of accumulated other comprehensive income, net of taxes, as of September 30, 2011 and December 31, 2010:

	September 30, 2011	December, 30, 2010
Net unrealized gains/losses on marketable securities	$ (7)	$
Cumulative foreign currency translation	628	426
Accumulated other comprehensive income	$ 621	$ 426

6. Stock-based Compensation

Employee Stock-Based Awards.

In March 2011, the Company s Board of Directors and stockholders approved the 2011 Stock Incentive Plan (the 2011 Plan), which became effective upon the closing of the IPO. Under the 2011 Plan, the Company originally reserved up to 2,500,000 shares of its common stock for issuance pursuant to stock options and stock awards, which include shares of common stock reserved for issuance under the Company s 2010 Stock Incentive Plan (the 2010 Plan) that remained available for issuance immediately prior to the closing of the IPO. The number of shares available for issuance under the 2011 Plan will be increased by any shares subject to awards previously granted under the 2010 Plan or the 2000 Stock Option/Stock Issuance Plan (the 2000 Plan) which expire, terminate or are otherwise surrendered, canceled, forfeited or repurchased by the Company at their original issuance price pursuant to a contractual repurchase right. As of September 30, 2011 and December 31, 2010, stock options to purchase 4,788,941 and 4,705,506 shares of common stock, respectively, were outstanding collectively under the 2000 Plan and the 2010 Plan. As of September 30, 2011, 2,630,321 shares of common stock were available for future issuances under the 2011 Plan and as of December 31, 2010, 2,306,154 shares of common stock were available for future issuance under the 2010 Plan. After the effective date of the 2011 Plan, the Company granted no further stock options or other awards under the 2010 Plan.

On February 24, 2011, the Company issued 173,370 restricted shares of common stock to three board members at a purchase price of $14.42 per share. These shares are subject to a right, but not an obligation, of repurchase by the Company at the original issuance price, which lapses quarterly over two years from the date of issuance. The Company received proceeds of $2,500 from the issuance of such shares, which was recorded as deposit liability in the condensed consolidated balance sheet, and the liability will be reclassified to additional paid-in capital over the vesting period. At September 30, 2011, 130,028 shares are restricted and the Company had recorded $1,875 associated with such shares as current and long term liability.

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The Company recognized stock-based compensation expense on all awards in the following expense categories:

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Member services and fulfillment	$ 20	$ 22	$ 69	$ 57
Research and development	39	47	120	134
Selling, general, and administrative	1,056	698	2,880	1,813
Total stock-based compensation	$ 1,115	$ 767	$ 3,069	$ 2,004

7. Accrued Expenses

	September 30, 2011	December 31, 2010
Payroll and related benefits	$ 4,660	$ 3,884
Sales tax	3,857	2,358
Insurance	2,272	1,993
Fleet related	2,264	2,209
Legal, audit, tax, and professional fees	1,323	2,192
Deposit liability	1,250	
Member deposits	1,038	1,969
Interest and credit card fees	712	606
Marketing	448	142
Rent	359	345
Other	1,114	896
Total accrued expenses	$ 19,297	$ 16,594

8. Long-Term Debt

In May 2008, June 2009 and March 2010, the Company entered into Loan and Security Agreements with two financial institutions, which provided for up to $40,000 in term loans. Amounts borrowed under these facilities were payable in monthly installments ranging between 27 and 36 months. In April 2010, in connection with the acquisition of Streetcar, the Company issued $5,000 in notes payable to certain former shareholders of Streetcar (Streetcar Notes). Repayments were due over 27 monthly installments.

On May 24, 2010, Zipcar Vehicle Financing LLC (ZVF), a bankruptcy-remote special purpose entity wholly-owned by the Company, completed the closing of a variable funding note facility (the ABS facility), and entered into a base indenture with Deutsche Bank Trust Company Americas as trustee and securities intermediary for the noteholders in the ABS facility. The committed aggregate principal amount of the ABS facility was $70,000 from two noteholders Credit Agricole Corporate and Goldman, Sachs & Co. (the Goldman Note).

Upon the closing of the IPO on April 19, 2011, the Company used approximately $51,400 of the proceeds to repay all outstanding balances, including interest as of the payment date, associated with the Loan and Security Agreements, the Streetcar Notes and the Goldman Note. In connection with these repayments, the Company recorded an aggregate charge to interest expense of approximately $3,300 of which $640 related to unamortized debt issue costs, $740 related to warrant expenses and the balance of $1,920 was primarily the remaining interest related to the final interest payments.

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On May 11, 2011, ZVF completed the closing of an amendment and extension of the ABS facility. The committed aggregate principal amount of this facility is $50,000, all of which was outstanding as of September 30, 2011. ZVF will continue to use this facility to purchase vehicles and then lease them to the Company. The amended and extended facility has a revolving period of one year, with an amortization period of an additional two years. The interest rate is 2.0% per annum above the 30-day commercial paper conduit interest rates in addition to 1.0% per annum on the undrawn portion. As required under the terms of the ABS facility, the Company purchased an interest rate cap at 3.5% for the entire notional amount of $50,000. ZVF s financial results are consolidated with those of Zipcar since ZVF is a wholly-owned subsidiary of Zipcar.

The amendment and extension of the ABS facility was accounted for as a modification of debt and, accordingly, unamortized debt issue costs associated with this facility along with $335 of additional fees and expenses paid to the lender is being amortized to interest expense over the expected life of the debt, which is three years. The total unamortized balance of debt issue costs was $1,672 as of September 30, 2011.

In May 2011, the Company entered into an interest rate swap agreement to hedge interest rate exposures related to ZVF s variable funding note as noted above. This instrument, which does not meet the requirements for hedge accounting, is marked to market at each reporting period with the change in fair value recorded in Other Income (Expense), net. In connection with the purchase of this interest rate swap, the Company liquidated its interest rate swap entered into in 2010 for an immaterial amount.

9. Commitments and Contingencies

Leases. The Company leases its office spaces under noncancelable lease agreements. The leases include certain lease incentives, payment escalations and rent holidays, the net effect of which is being recognized as a reduction to rent expense such that rent expense is recognized on a straight-line basis over the term of occupancy. The Company also leases vehicles under noncancelable lease agreements (generally one-year minimum commitments). Lease expenses for the Company s office spaces and vehicles under operating leases were $6,218 and $19,410 for the three and nine months ended September 30, 2011, respectively, and $9,207 and $25,651 for the three and nine months ended September 30, 2010, respectively.

The Company also leases vehicles under various capital and operating leases, generally with a 36-month stated term. Under the terms of certain leases, the Company guarantees the residual value of the vehicle at the end of the lease. If the wholesale fair value of the vehicle is less than the guaranteed residual value at the end of the lease, the Company will pay the lessor the difference. If the wholesale fair value is greater than the guaranteed residual value, that difference will be paid to the Company. As of September 30, 2011, the average guaranteed residual value was 26.8% of the vehicle price at the inception of the lease. The Company believes that, based on current market conditions, the average wholesale value of the vehicles at the end of lease term will equal or exceed the average guaranteed residual value, and therefore has not recorded a liability related to guaranteed residual values.

The Company has the option to buy out each lease at any time by paying the lessor the total principal due under the lease, including the guaranteed residual value and taking title of the leased vehicle. The Company historically has not exercised this option. Future minimum annual lease payments under noncancelable leases as of September 30, 2011 are as follows:

	Operating Leases	Capital Leases
2011	$ 2,495	3,895
2012	6,800	11,771
2013	2,965	7,100
2014	705	2,569
2015	345	8
2016	143	0
Total future minimum lease payments	$ 13,453	25,343
Less amounts currently due		13,062
		$ 12,281

Capitalized vehicle leases have interest rates between 3.8% and 13.5% which approximate to $1,320 of interest per year. Under certain capital lease agreements, the Company is required to maintain prescribed levels of cash and cash equivalents and working capital, which the Company was in compliance with as of September 30, 2011 and December 31, 2010.

Litigation. On July 27, 2011, a putative class action lawsuit was filed against the Company in the United States District Court for the District of Massachusetts, *Reed v. Zipcar, Inc.*, Case No. 1:11-cv-11340-RGS. The lawsuit alleges that the Company s late fees are unlawful penalties. The lawsuit purports to assert claims against the Company for unjust enrichment, money had and received, for declaratory judgment, and for unfair and deceptive trade practices under Massachusetts General Laws ch. 93A and requests

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certification of a class consisting of all Zipcar members who have incurred late fees at the presently imposed rates. The plaintiff seeks unspecified amounts of restitution and disgorgement of the revenues and/or profits that the Company allegedly received from imposing late fees, as well as a declaration that such late fees are void, unenforceable, and/or unconscionable, and an award of treble damages, attorneys fees and costs. While the Company intends to contest the plaintiff s claims vigorously, neither the outcome of this litigation nor the amount and range of potential damages or exposure associated with the litigation can be assessed at this time.

The Company is also subject, from time to time, to various other legal proceedings and claims arising in the ordinary course of business. Although occasional adverse decisions or settlements may occur, the Company believes that the final disposition of such matters will not have a material adverse effect on its business, financial position, results of operations or cash flows.

10. Income Taxes

The provision for income taxes consists of a current benefit for state tax refunds expected from 2010 tax filings of $304 and $264 for the three and nine months ended September 30, 2011, respectively, and a provision of $94 and $192 for the three and nine months ended September 30, 2010, respectively.

Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. The Company has significant deferred tax assets related to its net operating loss carryforwards. A valuation allowance against net deferred tax assets is required if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The Company has provided a valuation allowance for the full amount of its net deferred tax assets.

The Company has no amounts recorded for any unrecognized tax benefits as of September 30, 2011. The Company s policy is to record estimated interest and penalties related to the underpayment of income taxes as a component of its income tax provision. As of September 30, 2011, the Company had no accrued interest or tax penalties recorded. The Company s domestic income tax return reporting periods since December 31, 2007 are open to income tax audit examination by the federal and state tax authorities. The Company s foreign jurisdictions in the United Kingdom and in Canada are also open for income tax audit examination since December 31, 2007. In addition, as the Company has net operating loss carryforwards, the Internal Revenue Service is permitted to audit earlier years and propose adjustments up to the amount of net operating loss generated in those years.

Utilization of net operating loss and research and development credit carryforwards may be subject to a substantial annual limitation due to ownership changes that have occurred previously or that could occur in the future, as provided by Section 382 of the Internal Revenue Code of 1986, as well as similar state provisions. These ownership changes may limit the amount of net operating loss and research and development credit carryforwards that can be utilized annually to offset future taxable income and tax, respectively.

The Company has performed an analysis under Section 382, as well as similar state provisions, in order to determine whether any limitations might exist on the utilization of net operating losses and research and development credits carryforward due to ownership changes that have occurred previously. Based on this analysis, the Company has determined that while ownership changes have occurred during its history, a substantial portion of the net operating losses and credits are available for future utilization.

11. Segment Information

The Company s operating segments are the same as its reportable segments. The Company has identified two reportable segments: North America and the United Kingdom. Both segments derive revenue primarily from member s usage of vehicles. The United Kingdom operations increased significantly as a result of the Streetcar acquisition in April 2010. The Company does not allocate certain expenses including corporate costs and overhead, acquisition and integration costs, intangible amortization and stock-based compensation to its segments. Therefore, corporate reconciling items are used to capture the items excluded from segment operating performance measures. No revenue was recorded from transactions between segments. Asset information by operating segment is not reported to or received by the chief operating decision maker, and therefore, the Company has not disclosed asset information for each of the operating segments.

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The Company s segment information is as follows:

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Revenue:				
North America	$ 56,153	$ 44,293	$ 146,683	$ 115,150
United Kingdom	11,906	10,495	32,068	18,844
Total segment revenue	$ 68,059	$ 54,788	$ 178,751	$ 133,994
Income (loss) before income taxes:				
North America	11,223	8,616	26,006	17,737
United Kingdom	(324)	(3)	(3,290)	(1,613)
Total segment income before income taxes	10,899	8,613	22,716	16,124
Corporate expenses	(6,866)	(6,539)	(19,670)	(16,970)
Acquisition and integration costs	(1,548)	(1,541)	(3,537)	(3,853)
Stock-based compensation	(1,115)	(767)	(3,069)	(2,004)
Amortization of acquired intangible assets	(956)	(1,173)	(3,023)	(2,275)
Interest income	45	10	65	32
Interest expense	(10)	(1,113)	(5,006)	(3,903)
Other income (expense), net	(91)	88	245	(36)
Income (loss) before income taxes and noncontrolling interest	$ 358	$ (2,422)	$ (11,279)	$ (12,885)

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Interest expense:				
North America	$ 458	$ 837	$ 1,792	$ 961
United Kingdom	342	500	997	806
Total segment interest expense	800	1,337	2,789	1,767
Corporate interest expense	10	1,113	5,006	3,903
Total	$ 810	$ 2,450	$ 7,795	$ 5,670

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Depreciation and amortization:				
North America	$ 4,687	$ 1,319	$ 10,674	$ 2,462
United Kingdom	1,965	1,435	6,370	2,692
Total segment depreciation	6,652	2,754	17,044	5,154
Corporate depreciation	462	587	1,325	1,149
Amortization of acquired intangible assets	956	1,173	3,023	2,275

Total	$ 8,070	$ 4,514	$ 21,392	$ 8,578

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The Company s revenue and long-lived assets by geographic area are included in the following tables:

	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Revenue:				
United States	$ 52,188	$ 41,435	$ 136,777	$ 107,957
International	15,871	13,353	41,974	26,037
Total	$ 68,059	$ 54,788	$ 178,751	$ 133,994

	September 30, 2011	September 30, 2010
Long-lived assets:		
United States	$ 84,195	$ 34,350
International	28,638	31,965
Total	$ 112,833	$ 66,315

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ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q and our prospectus filed pursuant to Rule 424(b) under the Securities Act of 1933, as amended, with the Securities and Exchange Commission on April 14, 2011.

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. The statements contained in this Quarterly Report on Form 10-Q that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or Exchange Act. Forward-looking statements are often identified by the use of words such as, but not limited to, anticipate, believe, can, continue, could, estimate, expect, intend, may, will, plan, project, seek, should, target, will, wou variations intended to identify forward-looking statements. These statements are based on the beliefs and assumptions of our management based on information currently available to management. Such forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled Risk Factors included in this Quarterly Report on Form 10-Q. Furthermore, such forward-looking statements speak only as of the date of this report. Except as required by law, we undertake no obligation to update any forward-looking statements to reflect events or circumstances after the date of such statements.

Overview

Zipcar operates the world s leading car sharing network. We operate our membership-based business with approximately 9,500 vehicles in 15 major metropolitan areas and on more than 250 college campuses in the United States, Canada and the United Kingdom. Our car sharing service provides nearly 650,000 members with cars on demand in reserved parking spaces within an easy walk of where they live and work. Our members may reserve cars by the hour or by the day at rates that include gas, insurance and other costs associated with car ownership. We offer our solution to individuals, universities, businesses and government agencies.

Our revenue has grown from $30.7 million in 2006 to $186.1 million in 2010 and $178.8 million for the nine months ended September 30, 2011. From our inception through September 30, 2011, a substantial portion of our revenue has been generated in North America. As of September 30, 2011, we have an accumulated deficit of $76.6 million. Our business initially requires fleet, marketing and infrastructure investments in each metropolitan area. As markets develop and membership increases, our business benefits from operational efficiencies and economies of scale. Cash flows from our more mature markets are used to fund new and emerging markets as well as investments in our infrastructure.

On April 19, 2011, we closed our initial public offering, or IPO, of 11,136,726 shares of common stock at an offering price of $18.00 per share, of which 6,666,667 shares were sold by us and 4,470,059 shares were sold by selling stockholders, including 1,452,617 shares pursuant to the underwriters option to purchase additional shares, resulting in net proceeds to us of approximately $111.6 million, after deducting underwriting discounts. Upon the closing of the IPO, we used $51.4 million of the proceeds to repay all outstanding balances including interest as of the payment date associated with certain debt balances.

On May 11, 2011, we completed the closing of an amendment and extension of our existing asset-backed variable funding note facility, or ABS facility. The committed aggregate principal amount of this facility is $50.0 million all of which was outstanding as of September 30, 2011.

Revenue

We derive revenue primarily from vehicle usage and membership fees. A prospective member applies for membership online. This initial application is accepted following a driving record check and validation of credit card information provided. To cover these costs, we charge a one-time non-refundable application fee in most markets.

Vehicle usage revenue is recognized as chargeable hours are incurred. Annual membership fees are deferred and recognized ratably over the one-year period of membership. Membership application fees are recorded as deferred revenue and recognized ratably as revenue over the average life of the member relationship, which we currently estimate to be five years. In 2008, we began to offer a fleet management solution, known as FastFleet, by licensing our proprietary vehicle-on-demand technology on a software as a service, or SaaS, basis to organizations that manage their own fleets of vehicles, including local, state and federal government agencies. Customers are charged a monthly fee, which is recognized ratably. If upfront fees are charged then the upfront fees are recorded as deferred revenue and recognized as revenue over the expected customer relationship period commencing from the day the customer is granted access to the system.

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Our revenue is not concentrated within any one customer or business. Substantially all of our members and customers pay their fees and vehicle usage charges with a credit card. Our revenue is derived from the United States, Canada and the United Kingdom.

Fleet Operations

Fleet operations consist principally of costs associated with operating our vehicles such as lease expense, depreciation, parking, fuel, insurance, gain or loss on disposal of vehicles, accidents, repairs and maintenance as well as employee-related costs. Our fuel costs fluctuate as gasoline prices increase or decrease. We expect fleet operation costs to increase as we expand the number of vehicles in our fleet to service an expanding membership base and support future revenue growth. Over time, however, we expect these costs to decline as a percentage of revenue due to the achievement of increased efficiencies in our operations and as a greater percentage of our markets reach critical mass and vehicle usage levels increase and as a greater portion of our vehicles are financed under our ABS facility.

Member Services and Fulfillment

Member services and fulfillment expenses consist of the cost of our outsourced contact center, personnel expenses related to our member support teams and credit card processing fees. Member services and fulfillment costs are expected to increase as our membership base increases.

Research and Development

Research and development expenses consist primarily of labor-related costs incurred in coding, testing, maintaining and modifying our technology platform. We have focused our research and development efforts on both improving ease of use and functionality of our reservation, back-end and in-vehicle systems. Our internal and external costs associated with new and enhanced functionality are capitalized and amortized generally over three years. We expect research and development expenses to increase as we continue to enhance and expand our technological capabilities but to decrease over time as a percentage of revenue as we leverage our technology platform over a larger membership base.

Selling, General and Administrative

Selling general and administrative expenses consist primarily of labor-related expenses for sales and marketing, administrative, human resources, internal information technology support, legal, finance and accounting personnel, online search and advertising, trade shows, marketing agency fees, public relations and other promotional expenses, professional fees, insurance and other corporate expenses. Online search and advertising costs, which are expensed as incurred, include online advertising media such as banner ads and pay-per-click payments to search engines. We expect to continue to invest in sales and marketing activities to increase our membership base and brand awareness. In addition, we expect that general and administrative expenses will increase as we continue to add personnel to support the growth of our business. In addition, we anticipate that we will incur additional personnel expenses, professional service fees, including audit and legal, investor relations, costs of compliance with securities laws and regulations, and higher director and officer insurance costs related to operating as a public company. As a result, we expect that our selling, general and administrative expenses will continue to increase in the future but decrease as a percentage of revenue over time as our membership base and related revenue increases.

Critical Accounting Policies

Our financial statements are prepared in accordance with accounting principles generally accepted in the United States, or GAAP. The preparation of our financial statements and related disclosures requires us to make estimates, assumptions and judgments that affect the reported amount of assets, liabilities, revenue, costs and expenses and related disclosures. We believe that the estimates, assumptions and judgments involved in the accounting policies described in the notes to the condensed consolidated financial statements appearing elsewhere in this Quarterly Report on Form 10-Q and in our prospectus filed with the SEC on April 14, 2011 have the greatest potential impact on our financial statements and, therefore, we consider these to be our critical accounting policies.

We believe that the following policies involve the most judgment and complexity:

- Revenue recognition;

- Software development costs;

Income taxes;

Valuation of Long-Lived and Intangible Assets, Including Goodwill;

Accounting for Acquisitions;

Stock-based compensation; and

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Valuation of Marketable Securities

Valuation of Marketable Securities. The Company s investments in available-for-sale securities are reported at fair value. Unrealized gains and losses related to changes in the fair value of investments are included in accumulated other comprehensive income, net of tax, as reported in the Company s Condensed Consolidated Balance Sheets. Changes in the fair value of investments impact the Company s net income only when such investments are sold or an other-than-temporary impairment is recognized. Realized gains and losses on the sale of securities are determined by specific identification of each security s cost basis. The Company regularly reviews its investment portfolio to determine if any investment is other-than-temporarily impaired due to changes in credit risk or other potential valuation concerns, which would require the Company to record an impairment charge in the period any such determination is made. In making this judgment, the Company evaluates, among other things, the duration and extent to which the fair value of an investment is less than its cost, the financial condition of the issuer and any changes thereto, and the Company s intent to sell, or whether it is more likely than not it will be required to sell, the investment before recovery of the investment s amortized cost basis. The Company s assessment on whether an investment is other-than-temporarily impaired or not, could change in the future due to new developments or changes in assumptions related to any particular investment.

Accordingly, we evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates under different assumptions and conditions.

New Accounting Guidance

In September 2011, the FASB issued ASU 2011-08, Intangibles-Goodwill and Other: Testing Goodwill for Impairment . The objective of this Update is to simplify how entities test for goodwill impairment. The amendments in this Update permit an entity to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. If, after assessing the totality of events or circumstances, an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, the performing the two-step impairment test is unnecessary. The revised standard is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. However, an entity can choose to early adopt the revised standard even if its annual test date is before September 15, 2011 (the date on which the revised standard was issued), provided that the entity has not yet issued its financial statements for the period that includes its annual test date. We do not expect the adoption of this guidance to have a material effect on its consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, Comprehensive Income: Presentation of Comprehensive Income , authoritative guidance which allows an entity the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. This authoritative guidance eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholder s equity. This authoritative guidance is to be applied retrospectively and is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Although we will need to modify the presentation of certain information to comply with the requirements of this guidance, we do not expect the adoption of this guidance to have a material effect on its consolidated financial statements.

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Results of Consolidated Operations

(in thousands, except share and per share data)	Three Months Ended September 30, 2011	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2011	Nine Months Ended September 30, 2010
Revenue	$ 68,059	$ 54,788	$ 178,751	$ 133,994
Cost and expenses				
Fleet operations	43,365	34,616	118,856	89,779
Member services and fulfillment	5,543	4,428	14,681	10,973
Research and development	1,083	830	3,055	2,300
Selling, general, and administrative	15,803	13,971	43,213	36,416
Amortization of acquired intangible assets	956	1,173	3,023	2,275
Total operating expenses	66,750	55,018	182,828	141,743
Income (loss) from operations	1,309	(230)	(4,077)	(7,749)
Interest income	45	10	65	32
Interest expense	(810)	(2,450)	(7,795)	(5,670)
Other income (expense), net	(186)	248	528	502
Income (loss) before income taxes	358	(2,422)	(11,279)	(12,885)
Provision (benefit) for income taxes	(304)	94	(264)	192
Net income (loss)	662	(2,516)	(11,015)	(13,077)
Less: net (income) loss attributable to redeemable noncontrolling interest	(11)		1	12
Net income (loss) attributable to Zipcar, Inc.	$ 651	$ (2,516)	$ (11,014)	$ (13,065)
Net earnings (loss) attributable to common stockholders per share:				
Basic	$ 0.02	$ (0.39)	$ (0.42)	$ (2.77)
Diluted	$ 0.02	$ (0.39)	$ (0.42)	$ (2.77)
Weighted average number of common shares outstanding used in computing per share amounts:				
Basic	38,904,375	6,398,216	26,039,538	4,723,870
Diluted	42,479,718	6,398,216	26,039,538	4,723,870

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The following table sets forth selected consolidated statements of operations data for each of the periods indicated as a percentage of total revenue.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenue	100%	100%	100%	100%
Cost and expenses				
Fleet operations	63.7	63.2	66.5	67.0
Member services and fulfillment	8.1	8.1	8.2	8.2
Research and development	1.6	1.5	1.7	1.7
Selling, general, and administrative	23.2	25.5	24.2	27.2
Amortization of acquired intangible assets	1.4	2.1	1.7	1.7
Total operating expenses	98.0	100.4	102.3	105.8
Income (loss) from operations	2.0	(0.4)	(2.3)	(5.8)
Interest income	0.1	0.0	0.0	0.0
Interest expense	(1.2)	(4.5)	(4.4)	(4.2)
Other income (expense), net	(0.3)	0.5	0.3	0.4
Income (loss) income before income taxes	0.6	(4.4)	(6.4)	(9.6)
Provision (benefit) for income taxes	(0.4)	0.2	(0.1)	0.1
Net income (loss)	1.0	(4.6)	(6.3)	(9.7)
Less: Net income (loss) attributable to the noncontrolling interest	0.0	0.0	0.0	0.0
Net income (loss) attributable to Zipcar, Inc.	1.0%	(4.6)%	(6.3)%	(9.7)%

Segments

Our operating segments are the same as our reportable segments. We have identified two reportable segments: North America and the United Kingdom. In both segments, we derive revenue primarily from self-service vehicle use by our members.

The North America segment represented substantially all of our revenue until our acquisition of Streetcar, in the second quarter of 2010. Revenue increased from $44.3 million for the three months ended September 30, 2010 to $56.2 million for the three months ended September 30, 2011 in the North America segment, and the segment income before income taxes, which excludes corporate expenses and certain other costs, improved from $8.6 million to $11.2 million during this period. These improvements are principally a result of growth in membership at the major metropolitan areas and universities in this segment and achieving higher margins based on operational and scale-based efficiencies.

Revenue increased from $10.5 million for the three months ended September 30, 2010 to $11.9 million for the three months ended September 30, 2011 in the United Kingdom segment. During this period, the segment income (loss) before income taxes, which excludes corporate expenses and certain other costs, decreased from break even to a loss of $0.3 million. Revenue in the 2011 period increased in the United Kingdom segment due to increased membership, offset in part by lower spending per member, and the segment income (loss) before income taxes excluding corporate expenses and certain other costs, decreased primarly due to higher vehicle depreciation rates and loss on sale of vehicles due to a weaker used car market in the United Kingdom. Refer to Note 11 to the consolidated financial statements for additional segment information.

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Comparison of Three and Nine Months Ended September 30, 2011 and 2010

Revenue

	Three Months Ended September 30,		Change	
(amounts in thousands)	**2011**	**2010**	**$**	**%**
Vehicle usage revenue	$ 58,779	$ 48,442	$ 10,337	21.3%
Fee revenue	9,227	6,270	2,957	47.2%
Other revenue	53	76	(23)	-30.3%
Total	$ 68,059	$ 54,788	$ 13,271	24.2%

	Nine Months Ended September 30,		Change	
(amounts in thousands)	**2011**	**2010**	**$**	**%**
Vehicle usage revenue	$ 153,942	$ 118,527	$ 35,415	29.9%
Fee revenue	24,620	15,311	9,309	60.8%
Other revenue	189	156	33	21.2%
Total	$ 178,751	$ 133,994	$ 44,757	33.4%

Total revenue increased 24.2% or $13.3 million for the three months ended September 30, 2011 compared to the three months ended September 30, 2010. Total revenue increased 33.4% or $44.8 million for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010, including $13.7 million attributable to Streetcar, which was acquired in April 2010. Vehicle usage revenue increased primarily due to an increase in reservations associated with new members as well as higher pricing, and for the nine months ended September 30, 2011, a full nine months of Streetcar results compared to the nine months ended September 30 2010, which included Streetcar operations from the date of acquisition on April 20, 2010. Fee revenue is derived from annual membership, application and damage waiver fees. The increase in fee revenue is primarily a result of a higher average member base at September 30, 2011 compared to September 30, 2010 along with higher fees. Our average membership increased to 632,000 for the three months ended September 30, 2011 from 505,000 for the three months ended September 30, 2010 and increased to 598,000 for the nine months ended September 30, 2011 from 436,000 for the nine months ended September 30, 2010, which only included Streetcar from the date of acquisition. Annual fee revenue and application fee revenue are recognized ratably over one and five years, respectively. Revenue per member decreased by $1 to $108 for the three months ended September 30, 2011 from $109 for the comparable period in 2010 and decreased by $6 to $298 for the nine months ended September 30, 2011 from $304 for the comparable period in 2010, primarily due to a decrease in vehicle usage revenue per member resulting from a focus on shifting mix from daily reservations to more profitable hourly reservations. Other revenue is primarily attributable to revenue from our SaaS-based FastFleet offering, our fleet management solution.

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Operating Expenses

	Three Months Ended September 30,		Change	
(amounts in thousands)	**2011**	**2010**	**$**	**%**
Fleet Operations	$ 43,365	$ 34,616	$ 8,749	25.3%
Member services and fulfillment	5,543	4,428	1,115	25.2%
Research and development	1,083	830	253	30.5%
Selling, general and administrative	15,803	13,971	1,832	13.1%
Amortization of acquired intangible assets	956	1,173	(217)	-18.5%
Total	$ 66,750	$ 55,018	$ 11,732	21.3%

	Nine Months Ended September 30,		Change	
(amounts in thousands)	**2011**	**2010**	**$**	**%**
Fleet Operations	$ 118,856	$ 89,779	$ 29,077	32.4%
Member services and fulfillment	14,681	10,973	3,708	33.8%
Research and development	3,055	2,300	755	32.8%
Selling, general and administrative	43,213	36,416	6,797	18.7%
Amortization of acquired intangible assets	3,023	2,275	748	32.9%
Total	$ 182,828	$ 141,743	$ 41,085	29.0%

Fleet Operations: Fleet operations expenses increased 25.3% or $8.7 million for the three months ended September 30, 2011 compared to the three months ended September 30, 2010, and increased 32.4% or $29.1 million for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010, including $12.4 million attributable to Streetcar, which was acquired in April 2010. Fleet operations expenses increased as a result of an increase in the number of vehicles in our fleet. The average number of vehicles in our fleet increased by 1,006 to 9,863 and by 1,250 to 9,047 for the three and nine months ended September 30, 2011, respectively, compared to the same periods in 2010. In addition, cost per vehicle increased 12.5% in the three months ended September 30, 2011 compared to the same period in 2010 primarily due to higher gas prices and lower gains on vehicle sales. Cost per vehicle increased 14.2% for the nine months ended September 30, 2011 compared to the same period in 2010 primarily due to higher gas prices and lower gains on vehicle sales. Fleet operations expenses as a percentage of revenue increased slightly to 63.7% from 63.2% for the three months ended September 30, 2011 compared to the three months ended September 30, 2010 due to lower gains on vehicle sales and decreased to 66.5% from 67.0% for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010 due to an increase in per vehicle usage levels offset by lower gains on vehicle sales.

Member Services and Fulfillment: Member services and fulfillment costs increased 25.2% or $1.1 million for the three months ended September 30, 2011 compared to the three months ended September 30, 2010, and 33.8% or $3.7 million for the nine months ended September 30, 2011 compared to the nine months ended September 30, 2010, including $1.3 million attributable to Streetcar, which was acquired in April 2010. Member services and fulfillment costs increased primarily due to an increase in average membership of approximately 127,000 to 632,000 for the three months ended September 30, 2011 from 505,000 for the three months ended September 30, 2010, and an increase in average membership of approximately 162,000 to 598,000 for the nine months ended September 30, 2011 from 436,000 for the nine months ended September 30, 2010. Member services and fulfillment as a percentage of revenue remained flat for both the three and nine months ended September 30, 2011 and 2010 at 8.1% and 8.2%, respectively.

Research and Development: Research and development expenses increased 30.5% or $0.3 million and 32.8% or $0.8 million for the three and nine months ended September 30, 2011, respectively, compared to the three and nine months ended September 30, 2010, primarily as a result of additional headcount related to continued investment in the development and maintenance of our online reservation and fleet management system. Research and development expenses as a percentage of revenue increased slightly to 1.6% for the three months ended September 30, 2011 from 1.5% for the three months ended September 30, 2010 and remained unchanged at 1.7% for the nine months ended September 30, 2011 as compared to the same period in 2010.

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Selling, General and Administrative: Selling, general and administrative expenses increased 13.1% or $1.8 million and 18.7% or $6.8 million for the three and nine months ended September 30, 2011, respectively, compared to the three and nine months ended September 30, 2010, including an increase of $2.8 million for the nine months ended September 30, 2011 attributable to Streetcar, which was acquired in April 2010. The increase in selling, general and administrative expenses for the three months ended September 30, 2011 from the comparable period in 2010 was primarily due to an increase in labor and labor-related expenses, including stock compensation expense, of $1.0 million, marketing programs, advertising costs and related discretionary spending of $1.0 million and other general and administrative related expenses of $0.9 million. These increased costs and expenses in the 2011 period were offset by a decrease in legal and professional fees of $1.1 million as compared to the three months ended September 30, 2010, due to the amounts incurred in 2010 primarily in connection with our acquisition of Streetcar and the investigation by the U.K. Office of Fair Trading and the U.K. Competition Commission. The increase in selling, general and administrative expenses for the nine months ended September 30, 2011 from the comparable period in 2010 was primarily due to an increase in labor and labor-related expenses, including stock compensation expense of $4.0 million, marketing programs, advertising costs and related discretionary spending of $2.2 million and other general and administrative related expenses of $3.3 million. These increased costs and expenses in the 2011 period were offset by a decrease in legal and professional fees of $2.7 million as compared to the nine months ended September 30, 2010, due to the amounts incurred in 2010 primarily in connection with our acquisition of Streetcar and the investigation by the U.K. Office of Fair Trading and the U.K. Competition Commission. Selling, general and administrative expenses as a percentage of revenue decreased by 2.3% to 23.2% for the three months ended September 30, 2011 from 25.5% for the comparable period in 2010 and decreased by 3.0% to 24.2% for the nine months ended September 30, 2011 from 27.2% for the comparable period in 2010 primarily due to revenue growth.

Amortization of Acquired Intangible Assets: Acquired intangible assets associated with the Flexcar and Streetcar acquisitions include member relationships, parking spaces, non-compete agreements, tradenames and reservation systems in existence at the time of each acquisition, and are amortized over their estimated useful lives of up to five years based on the pattern in which the economic benefits of the intangible assets are consumed. Amortization of acquired intangible assets decreased $0.2 million for the three months ended September 30, 2011 compared to September 30, 2010 primarily due to lower amortization rates for member relationships. For the nine months ended September 30, 2011 amortization of acquired intangible assets increased $0.7 million compared to the nine months ended September 30, 2010 due to a full nine months of Streetcar amortization in 2011 compared to 2010, which included Streetcar from the date of acquisition on April 20, 2010 slightly offset by lower amortization rates for member relationships.

Interest Income: Interest income remained unchanged for the three and nine months ended September 30, 2011, compared to the three and nine months ended September 30, 2010 due to the low yields currently available on low risk investments.

Interest Expense: Interest expense decreased by $1.7 million to $0.8 million for the three months ended September 30, 2011, from $2.5 million for the three months ended September 30, 2010. Interest expense increased by $2.1 million to $7.8 million for the nine months ended September 30, 2011, from $5.7 million for the nine months ended September 30, 2010. This decrease for the three months ended September 30, 2011 compared to 2010 was primarily due to interest savings as a result of the retirement of certain debt in the second quarter of 2011. The increase for the nine months ended September 30, 2011 compared to 2010 was due to debt retirement charges of $3.3 million associated with the retirement of certain debt as noted above as well as a full nine months of interest expense associated with the ABS facility, which was entered into in May 2010.

Other Income (Expense), net: Other income (expense), net decreased by $0.4 million to $(0.2) million for the three months ended September 30, 2011 from $0.2 million for the three months ended September 30, 2010. This decrease is primarily due to the establishment of a reserve for receivables under a certain state energy conservation program. Other income (expense), net was flat for the nine months ended September 30, 2011 compared to 2010 at $0.5 million. During the nine months ended September 30, 2011 we recorded the sale of Zero Emission Vehicle, or ZEV, credits of $0.9 million offset by expense associated with warrants to purchase Series F Convertible Preferred Stock of $0.6 million. Under certain state government regulations, vehicle manufacturers are required to ensure that a portion of the vehicles sold in that state are classified as zero emission vehicles . These laws provide for the purchase and sale of excess credits earned. Because we utilize energy efficient vehicles in our business, we were able to earn ZEV credits under state regulations, and recorded the proceeds from the sale of these credits as other income.

Key financial and operating metrics, Non-GAAP financial measures and supplemental disclosure

In connection with the ongoing operation of our business, our management regularly reviews key financial and operating metrics, including total revenue per member, usage revenue per vehicle per day, cost per new account, member retention, ending members and ending vehicles. Management considers these financial and operating metrics critical to understanding our business, reviewing our historical performance, measuring and identifying current and future trends and for planning purposes.

In addition to the key metrics described above, we also use Adjusted EBITDA, a non-GAAP financial measure, to assess our performance. We define Adjusted EBITDA as earnings before non-vehicle depreciation, non-vehicle interest, interest income, amortization, preferred stock warrant liability adjustment, stock compensation expenses, acquisition and integration costs, taxes and other income related to ZEV credits. We believe that Adjusted EBITDA is an important measure of our operating performance because it allows management, investors and analysts to evaluate and assess our core operating results from period to period after

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removing the impact of changes in our capital structure, income tax status and method of vehicle financing, and other items of a non-operational nature that affect comparability. We include vehicle-related depreciation and interest in our definition of Adjusted EBITDA because vehicles represent core operating assets used in the delivery of our service that require periodic replacement. In addition, the exclusion of these costs would result in a lack of comparability in the treatment of vehicles that are owned or leased under capital leases and those leased under operating leases.

We believe that various forms of the Adjusted EBITDA metric are often used by analysts, investors and other interested parties to evaluate companies such as ours for the reasons discussed above. Adjusted EBITDA is also used for planning purposes and in presentations to our board of directors as well as in our annual incentive compensation program for senior management. Non-GAAP information should not be construed as an alternative to GAAP information, as the items excluded from the non-GAAP measures often have a material impact on our financial results. Management uses, and investors should use, non-GAAP measures in conjunction with our GAAP results.

Our quarterly key financial and operating metrics and non-GAAP financial measures are as follows:

	For the Three Months Ended September 30, 2011	2010
Key Financial and Operating Metrics:		
Ending members	649,627	521,035
Ending vehicles	9,489	8,541
Usage revenue per vehicle per day	$ 65	$ 60
Total revenue per member per period	$ 108	$ 109
Cost per new account	$ 55	$ 45
Average monthly member retention	97.3%	97.8%
Adjusted EBITDA *(in thousands)*	$ 4,567	$ 2,924

Ending members and vehicles reflect the number of members and vehicles at the end of each period. We use this information to measure our success in growing membership and in tracking our supply of vehicles to meet demand.

Usage revenue per vehicle per day is derived by dividing the usage revenue for the period by the average number of vehicles during that period and the number of days in that period. Usage revenue per vehicle per day reflects a combination of pricing and the efficiency of vehicle deployment and usage. The increase in usage revenue per vehicle per day over comparable prior year period is primarily due to increased usage of our vehicles, a higher mix of hourly versus daily usage and increased pricing.

Total revenue per member per period is derived by dividing the total revenue for the period by the average number of members during that period. The slight decrease in total revenue per member over comparable prior year period is the result of lower usage revenue principally due to a focus on shifting mix from daily reservations to more profitable hourly reservations, partially offset by higher pricing.

Cost per new account is defined as marketing and advertising expenses at the field level, divided by total gross new member additions in the period. Management uses this metric to determine the efficiency of our marketing and advertising programs in acquiring new members. Cost per new account tends to fluctuate seasonally and based on our testing of different marketing channels but has been relatively consistent over time.

The average monthly member retention is defined as one minus the quotient of the monthly average of members who leave during the quarter divided by the average number of total members for the quarter. Management uses this information to measure its ability to retain existing members. Retention levels have remained relatively stable on a year-on-year basis.

Adjusted EBITDA is reconciled to our net income to show the impact of items not reflected. We use this information to assess our profitability or loss from recurring operations, adjusted for certain non-cash expenses.

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The following tables present a reconciliation of Adjusted EBITDA to net income (loss), the most comparable GAAP measure, for each of the periods indicated (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
(in thousands)				
Reconciliation of adjusted EBITDA				
Net income (loss) attributable to Zipcar, Inc.	$ 651	$ (2,516)	$ (11,014)	$ (13,065)
Non-vehicle depreciation	615	530	1,781	1,424
Amortization	956	1,173	3,023	2,275
Non-vehicle interest expense	31	1,376	5,068	4,007
Interest income	(45)	(10)	(65)	(32)
Preferred stock warrant liability adjustment		(31)	724	(12)
Stock compensation	1,115	767	3,069	2,004
Acquisition and integration cost	1,548	1,541	3,537	3,853
Taxes	(304)	94	(264)	192
Zero Emission Vehicle credits			(861)	
Adjusted EBITDA	$ 4,567	$ 2,924	$ 4,998	$ 646

In addition to key operating and financial metrics, we have chosen to provide further information which we believe is useful for investors and analysts to understand the underlying trends in our business. With respect to our fleet, we have provided the number of vehicles at the end of each period that are owned, held under capital leases and held under operating leases. Vehicles held under operating leases are charged as a period expense to the cost of fleet operations. Owned vehicles and vehicles held under capital leases are capitalized as part of property and equipment and depreciated over their expected useful lives to estimated residual value.

We have provided further financial information with respect to a combination of four markets: Boston, New York, San Francisco and Washington, D.C., together referred to as Established Markets . The Established Markets represent the first four cities that Zipcar entered during the period from 2000 to 2005. We believe it is helpful for investors and analysts to understand the revenue and income before tax in the Established Markets because we believe these trends over time indicate what we may achieve as we grow in our less developed markets. Income before tax from Established Markets includes all costs associated with our operations in those markets, including market-related advertising, public relations expenses and an allocation of the costs of operating of the member services contact center. Corporate costs and overhead are not allocated to our Established Markets.

Our quarterly supplemental data are as follows (dollars in thousands):

	September 30, 2011	September 30, 2010
Owned vehicles	4,592	1,692
Capital lease vehicles	1,608	1,632
Operating lease vehicles	3,289	5,217
Ending vehicles	9,489	8,541

Through May 2010, we principally had used a combination of operating leases and capital leases to fund our vehicle fleet. In May 2010, Zipcar Vehicle Financing LLC, or ZVF, a bankruptcy-remote special purpose entity wholly-owned by us, completed the closing of the ABS facility and entered into a base indenture with Deutsche Bank Trust Company Americas as trustee and securities intermediary for the noteholders in the ABS facility. In May 2011, the ABS facility was amended and extended. As a result of the ABS facility, our mix of owned vehicles increased as we purchased vehicles under the ABS facility. The mix of vehicles under capital lease relates principally to our UK operation, which finances its fleet almost exclusively through capital leases. We expect these shifts in our financing strategy will result in higher property and equipment and higher capital lease obligations and vehicle-related debt on our balance sheet as well as a lower per vehicle cost included in cost of fleet operations and higher vehicle-related interest expense.

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(in thousands)	For the Three Months Ended September 30, 2011	2010
Established Markets:		
Revenue	$ 39,313	$ 31,889
Income before tax	$ 9,061	$ 7,883

(in thousands)	For the Nine Months Ended September 30, 2011	2010
Established Markets:		
Revenue	$ 100,831	$ 82,109
Income before tax	$ 21,081	$ 16,466

During the three and nine months ended September 30, 2011, revenue for Established Markets grew 23.3% and 22.8%, respectively, from the comparable period in 2010 due to new member additions. Income before tax as a percentage of revenue for the three months ended September 30, 2011 and 2010 was 23.0% and 24.7%, respectively, which primarily reflects lower gains on vehicle sales and higher marketing expenses in the 2011 versus 2010 period. For the nine months ended September 30, 2011 and 2010 income before tax as a percentage of revenue was 20.9%, and 20.1%, respectively.

Liquidity and Capital Resources

Since inception, we have incurred recurring losses and have an accumulated deficit of $76.6 million through September 30, 2011. Prior to our IPO, we had financed our operations primarily through the sale of redeemable convertible preferred stock, the issuance of long-term debt, operating and capital lease financings, vehicle related financing and from positive cash flow from operations.

On April 19, 2011, we closed our IPO of 11,136,726 shares of common stock at an offering price of $18.00 per share, of which 6,666,667 shares were sold by us and 4,470,059 shares were sold by selling stockholders, including 1,452,617 shares pursuant to the underwriters option to purchase additional shares, resulting in net proceeds to us of approximately $111.6 million, after deducting underwriting discounts. Upon the closing of the IPO, we used $51.4 million of the proceeds to repay all outstanding balances including interest as of the payment date associated with the following debt:

- Loan and security agreement with Lighthouse Capital Partners VI, L.P.;
- Second loan and security agreement with Pinnacle Ventures L.L.C.;
- Third loan and security agreement with Lighthouse Capital Partners VI, L.P. and Pinnacle Ventures L.L.C.;
- Notes issued to certain former shareholders of Streetcar in connection with our acquisition; and
- Notes issued to Goldman, Sachs & Co., in connection with the ABS facility through ZVF.

On May 11, 2011, we completed the closing of an amendment and extension of the ABS facility. The committed aggregate principal amount of this facility is $50.0 million. ZVF is using this facility to purchase vehicles and then lease them to us. The amended and extended facility has a revolving period of one year, with an amortization period of an additional two years. The interest rate is 2.0% per annum above the 30-day commercial paper conduit interest rates in addition to 1.0% per annum on the undrawn portion. As required under the terms of the ABS facility, we purchased an interest rate cap at 3.5% for the entire notional amount of $50.0 million. ZVF s financial results are consolidated with those of Zipcar since ZVF is a wholly-owned subsidiary of Zipcar.

At September 30, 2011, our principal sources of liquidity were cash, cash equivalents and marketable securities totaling $93.0 million. Our marketable securities investment portfolio is invested in U.S. Treasury securities, overnight sweep bank deposits, securities of U.S. Federal agencies and money market investments that are direct obligations of the U.S. Treasury, with the objective of preserving the principal value of the investment portfolio while maintaining liquidity to meet anticipated cash flow needs.

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(in thousands)	Nine Months Ended September 30, 2011	2010
Condensed cash flows		
Net loss	$ (11,015)	$ (13,077)
Non-cash adjustments	29,071	11,474
Changes in working capital	9,422	8,371
Net cash provided by operating activities, net of acquisition	27,478	6,768
Increase in restricted cash	(3,615)	(9)
Cash paid in business combination, net of transaction costs		(7,734)
Purchases of property and equipment	(59,043)	(33,912)
Purchases of available-for-sale securities	(37,250)	
Other	8,672	5,552
Net cash used in investing activities	(91,236)	(36,103)
Proceeds from issuance of debt	32,683	49,356
Proceeds from issuance of restricted stock	2,500	
Proceeds from issuance of common stock in connection with initial public offering, net of issuance costs of $1,831	109,769	
Payments of principal under capital lease obligations and other debt	(68,782)	(15,423)
Other	1,022	265
Net cash provided by financing activities	77,192	34,198
Effect of exchange rate changes on cash and cash equivalents	(596)	(54)
Net increase in cash and cash equivalents	12,838	4,809
Cash and cash equivalents		
Beginning of period	43,005	19,228
End of period	$ 55,843	$ 24,037

Operating activities:

Net cash provided by operating activities during the nine months ended September 30, 2011 was $27.5 million primarily due to net income after non-cash adjustments and favorable changes in working capital. Net income after non-cash adjustments was $18.1 million excluding items such as depreciation, amortization, accretion of warrants, stock-based compensation and other items totaling $29.1 million. Net income after non-cash adjustments includes $0.9 million of other income associated with the sale of certain ZEV credits. Favorable changes in operating assets and liabilities of $9.4 million primarily relate to increases to liabilities and accrued expenses due to increasing costs associated with labor and employee-related expenses and costs related to our operation as a public company as well as to an increase in deferred revenue as a result of an increase in our membership base by over 109,000.

Investing activities:

Cash used in investing activities during the nine months ended September 30, 2011 of $91.2 million was principally due to purchases of property and equipment of $59.0 million primarily under the ABS facility, purchases of marketable