ZIPCAR INC
Form 10-Q
May 13, 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 March 31, 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 Incorporation or Organization)	**(I.R.S. Employer 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 ¨ No x.

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 ¨ No x

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 May 12, 2011, 38,946,463 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)	March 31, 2011	March 31, 2011 Pro Forma	December 31, 2010
Assets			
Current assets			
Cash and cash equivalents	$ 37,787	$ 99,469	$ 43,005
Accounts receivable, net of allowance for doubtful accounts of $435 and $541 as of March 31, 2011 and December 31, 2010	5,090	5,090	4,223
Restricted cash	1,611	1,611	900
Prepaid expenses and other current assets	10,095	9,561	9,905
Total current assets	54,583	115,731	58,033
Property and equipment, net	74,806	74,806	70,917
Goodwill	101,856	101,856	99,750
Intangible assets	7,739	7,739	8,527
Restricted cash	3,790	3,790	3,503
Deposits and other noncurrent assets	9,047	6,473	8,198
Total assets	$ 251,821	$ 310,395	$ 248,928
Liabilities, Redeemable Convertible Preferred Stock and Stockholders Equity (Deficit)			
Current liabilities			
Accounts payable	$ 7,644	$ 7,644	$ 6,247
Accrued expenses	17,953	17,937	16,594
Deferred revenue	14,873	14,873	14,261
Current portion of capital lease obligations and other debt	27,252	12,594	26,041
Total current liabilities	67,722	53,048	63,143
Capital lease obligations and other debt, net of current portion	67,444	35,927	68,022
Deferred revenue, net of current portion	3,693	3,693	3,651
Redeemable convertible preferred stock warrants	652		478
Other liabilities	3,256	2,348	1,975
Total liabilities	142,767	95,016	137,269
Commitments and contingencies (Note 8)			
Non-controlling interest	366	366	277
Redeemable convertible preferred stock, par value $0.001 per share:	116,683		116,683
Stockholders (deficit) equity:			
Common stock, $0.001 par value: 100,000,000 shares authorized at March 31, 2011 and December 31, 2010; 6,631,703 and 6,415,436 shares issued at March 31, 2011 and December 31, 2010, respectively; 38,396,252 shares issued and outstanding pro forma at March 31, 2011	7	38	6

Additional paid-in capital	60,785	287,304	59,647
Accumulated deficit	(71,570)	(75,112)	(65,380)
Accumulated other comprehensive loss	2,783	2,783	426
Total stockholders (deficit) equity	(7,995)	215,013	(5,301)
Total liabilities, redeemable convertible preferred stock and stockholders (deficit) equity	$ 251,821	$ 310,395	$ 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 per share data)	Three Months Ended March 31, 2011	2010
Revenue	$ 49,133	$ 33,244
Cost and expenses		
Fleet operations	34,966	24,894
Member services and fulfillment	4,071	2,670
Research and development	962	671
Selling, general, and administrative	12,687	9,437
Amortization of acquired intangible assets	1,073	197
Total operating expenses	53,759	37,869
Loss from operations	(4,626)	(4,625)
Interest income	9	12
Interest expense	(2,455)	(805)
Other income, net	987	126
Loss before income taxes	(6,085)	(5,292)
Provision for income taxes	17	36
Net loss	(6,102)	(5,328)
Less: Net loss attributable to the noncontrolling interest	5	8
Net loss attributable to Zipcar, Inc.	$ (6,097)	$ (5,320)
Net loss attributable to common stockholders per share - basic and diluted	$ (0.95)	$ (2.37)
Weighted average number of common shares outstanding used in computing per share amounts - basic and diluted	6,434,923	2,246,505

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)	Three Months Ended March 31, 2011	2010
Cash flows from operating activities		
Net loss	$ (6,102)	$ (5,328)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities, net of acquisition		
Depreciation and amortization	6,095	1,216
Amortization & accretion of debt related warrants	148	323
Stock-based compensation expense	1,014	551
Loss on disposal of fixed assets	631	10
Redeemable convertible preferred stock warrant adjustment to fair value	174	60
Changes in operating assets and liabilities		
Accounts receivable	(807)	(136)
Prepaid expenses and other assets	43	(1,074)
Accounts payable	1,314	42
Accrued expenses	(35)	800
Deferred revenue	539	(145)
Net cash provided by (used in) operating activities, net of acquisition	3,014	(3,681)
Cash flows from investing activities		
(Increase) in deposits	(17)	(80)
(Increase) decrease in restricted cash	(999)	1,253
Proceeds from sale of property and equipment	2,614	
Purchases of property and equipment	(10,965)	(856)
Net cash (used in) provided by investing activities	(9,367)	317
Cash flows from financing activities		
Proceeds from issuance of debt	6,300	16,000
Proceeds from exercise of stock options and warrants	115	125
Proceeds from issuance of unvested restricted stock	2,500	
Payments of issuance costs for contemplated initial public offering of common stock	(931)	
Payments of principal under capital lease obligations and other debt	(6,905)	(1,134)
Net cash provided by financing activities	1,079	14,991
Effect of exchange rate changes on cash and cash equivalents	56	(61)
Net (decrease) increase in cash and cash equivalents	(5,218)	11,566
Cash and cash equivalents		
Beginning of period	43,005	19,228
End of period	$ 37,787	$ 30,794

Supplemental cash flow information				
Cash paid for interest	$	1,934	$	459
Cash paid for taxes	$	258	$	112
Noncash investing and financing activities				
Capital leases		296		
Return of guaranteed residual value of expired leases		(2)		(302)

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

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Zipcar, Inc.

Notes to 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, 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 March 31, 2011 and for the three months ended March 31, 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 March 31, 2011 and consolidated results of operations for the three months ended March 31, 2011 and 2010 and consolidated cash flows for the three months ended March 31, 2011 and 2010, have been made. The condensed consolidated results of operations and cash flows for the three months ended March 31, 2011 are not necessarily indicative of the results of operations and cash flows that may be expected for the year ending December 31, 2011.

Unaudited Pro Forma Balance Sheet as of March 31, 2011. On April 19, 2011, the Company closed its initial public offering (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 $111,600, after deducting underwriting discounts. All outstanding shares of the Company s redeemable convertible preferred stock converted to 25,097,882 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 was reclassified to stockholders equity at the closing. Upon the closing of the IPO, the Company used the proceeds to repay a significant portion of its debt. Accordingly, the Company has presented an unaudited pro forma condensed balance sheet as of March 31, 2011, which reflects the conversion of all outstanding shares of redeemable convertible preferred stock, the conversion of redeemable convertible preferred stock warrants into warrants to purchase common stock and, accordingly, the liability associated with the warrants reclassified to stockholders equity and the repayments of certain debt balances.

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.

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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 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.

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 equivalents of $37,787 and $43,005 and restricted cash of $5,401 and $4,403 as of March 31, 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. The Company s interest rate swap entered into in May 2010 was $27 at March 31, 2011 and carried at fair value based on Level 2 inputs described above. The change in fair value was ($7) for the period ended March 31, 2011. Management believes that the Company s debt obligations approximate fair value based on the terms and characteristics of those instruments. The Company s redeemable convertible preferred stock warrants at March 31, 2011 and December 31, 2010 were $652 and $478, respectively, and carried at fair value based on Level 3 input described above. The change in fair value was $174 and $60 for the periods ended March 31, 2011 and 2010, respectively, and was recorded in Other Income, net.

Derivatives and 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, net.

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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	3 years
Office and computer equipment	3 years
Software	3 years
Leasehold improvements	Lesser of useful life or lease term

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 $751 or $0.12 per share during the quarter than if the Company had not changed the holding period estimate. During the remainder of 2011, the Company expects higher depreciation expense of approximately $2,400 than if the Company had not changed the holding period estimate.

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.

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.

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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.

The Company 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.

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 Loss Per Share Attributable to Common Stockholders. Basic and diluted net loss attributable to common stockholders per share is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding for the period.

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

	Three Months Ended March 31,	
(in thousands)	**2011**	**2010**
Redeemable convertible preferred stock upon conversion to common stock	25,098	23,713
Options to purchase common stock	5,211	4,369
Warrants to purchase common stock	1,630	664
Warrants to purchase redeemable convertible preferred stock	65	72
Restricted Stock	173	
Total	32,177	28,818

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. During the three months ended March 31, 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.

Comprehensive Loss. The comprehensive loss for the Company was $3,740 for the three months ended March 31, 2011, as a result of foreign currency translation gain of $2,357. The comprehensive loss for the Company was $5,513 for the three months ended March 31, 2010 as a result of foreign currency translation loss of $193.

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

The change in intangible assets during the three months ended March 31, 2011 is due to the amortization of $1,073. The change in the goodwill balance during the three months ended March 31, 2011 is due to the impact of changes in foreign currency exchange rates associated with the goodwill resulting from the Company s acquisition of Streetcar Limited (Streetcar) in the United Kingdom.

In connection with the acquisition of Flexcar, 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. 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 is being accreted to the redemption value by recording a corresponding adjustment to accumulated deficit at the end of each reporting period. The amount accreted during the three months ended March 31, 2011 was $94.

4. Common Stock and Stockholders Equity

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. Stockholders entitled to fractional shares as a result of the reverse stock split will receive 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.

As of March 31, 2011, the Company had warrants outstanding and exercisable for the purchase of 1,630,279 shares of common stock at prices ranging from $0.98 to $8.74 per share. As of March 31, 2011, the Company had warrants outstanding and exercisable for the purchase of 129,122 shares of Series F redeemable convertible preferred stock at prices ranging from $3.44 to $68.81 per share.

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 25,097,882 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 was reclassified to stockholders equity at the closing. At the time of the conversion of the redeemable convertible preferred stock warrants, the Company will record a charge of approximately $550 as the final marked to market adjustment.

5. 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 may issue up to 2,500,000 shares of its common stock pursuant to stock options and stock awards, which include (i) shares subject to awards granted under the 2010 Stock Incentive Plan (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 and (ii) shares of common stock reserved for

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issuance under the 2010 Plan that remained available for issuance immediately prior to the closing of the IPO. As of March 31, 2011 and December 31, 2010, stock options to purchase 5,211,246 and 4,705,506 shares of common stock, respectively, were outstanding collectively under the 2000 Plan and the 2010 Plan. As of March 31, 2011 and December 31, 2010, stock options to purchase 1,609,609 shares and 2,306,154 shares of common stock, respectively, were available for future issuance collectively under the 2000 Plan and 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 March 31, 2011, the Company had recorded the entire amount as current and long term liability since none of the restricted shares issued were vested.

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

	Three Months Ended March 31,	
(in thousands)	**2011**	**2010**
Fleet operations	$ 25	$ 17
Research and development	42	40
Selling, general, and administrative	947	494
Total stock-based compensation	$ 1,014	$ 551

6. Accrued Expenses

(in thousands)	**March 31, 2011**	**December 31, 2010**
Sales Tax	$ 3,600	$ 2,358
Payroll and related benefits	2,904	3,884
Fleet related	2,881	2,209
Insurance	2,204	1,993
Member Deposits	2,040	1,969
Deposit Liability	1,250	
Legal, audit, tax, and professional fees	1,174	2,192
Interest and credit card fees	602	606
Marketing	307	142
Rent	262	345
Other	729	896
Total accrued expenses	$ 17,953	$ 16,594

7. 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.

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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 will record a charge of approximately $3,300 related to unamortized debt issue costs, warrant expenses, accrued interest and the remaining interest related to the final interest payments.

On May 11, 2011, ZVF completed the closing of an amendment and extension of the Company s existing ABS variable funding note facility. The committed aggregate principal amount of this facility is $50,000, of which, as of May 11, 2011, the Company had outstanding borrowings of $33,600. 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. ZVF s financial results are consolidated with those of Zipcar since ZVF is a wholly-owned subsidiary of Zipcar.

8. 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 commitments). Lease expenses for the Company s office spaces and vehicles under operating leases were $6,772 and $7,650 for the three months ended March 31, 2011 and 2010, respectively.

The Company also leases vehicles under various capital leases, generally with a 36-month stated term. Under the terms of the 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 March 31, 2011, the average guaranteed residual value was 31.2%, 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 March 31, 2011 are as follows:

(in thousands)	Operating Leases	Capital Leases
2011	$ 7,439	$ 9,906
2012	3,763	9,652
2013	1,639	3,767
2014	523	96
2015	175	
Total future minimum lease payments	$ 13,539	23,421
Less amounts related to interest		
		23,421
Less amounts currently due		9,906
		$ 13,515

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Capitalized vehicle leases have interest rates between 3.8% and 13.5%. Under certain capital lease agreements, the Company is required to maintain prescribed levels of cash and cash equivalents and working capital, which the Company is in compliance with as of March 31, 2011 and December 31, 2010.

Litigation. The Company is subject, from time to time, to various 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.

9. Income Taxes

The provision for income taxes for the three months ended March 31, 2011 and 2010 consists of a state current provision of $17 and $36, 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 March 31, 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 March 31, 2011, the Company had no accrued interest or tax penalties recorded. The Company s 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.

10. 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, 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 March 31,	
	2011	2010
Revenue:		
North America	$ 40,167	$ 32,057
United Kingdom	8,966	1,187
Total segment revenue	$ 49,133	$ 33,244
(Loss) income before income taxes:		
North America	5,696	3,046
United Kingdom	(2,036)	(1,052)
Total segment income before income taxes	3,660	1,994
Corporate expenses	(6,442)	(5,018)
Acquisition and integration costs	(898)	(752)
Stock-based compensation	(1,014)	(551)
Amortization of acquired intangible assets	(1,073)	(197)
Interest income	9	12
Interest expense	(1,313)	(717)
Other income, net	987	(63)
Loss before income taxes and noncontrolling interest	$ (6,084)	$ (5,292)

	Three Months Ended March 31,	
	2011	2010
Interest expense:		
North America	$ 789	$ 62
United Kingdom	353	26
Total segment interest expense	1,142	88
Corporate interest expense	1,313	717
Total	$ 2,455	$ 805

	Three Months Ended March 31,	
	2011	2010
Depreciation and amortization:		
North America	$ 2,443	$ 466
United Kingdom	2,175	229
Total segment depreciation and amortization	4,618	695
Corporate depreciation	404	324
Amortization of acquired intagible assets	1,073	197

Total	$ 6,095	$ 1,216

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

	Three Months Ended March 31,	
	2011	**2010**
Revenue:		
United States	$ 37,608	$ 30,137
International	11,525	3,107
Total	$ 49,133	$ 33,244

	March 31,	
	2011	**2010**
Long-lived assets:		
United States	$ 46,618	$ 5,933
International	28,188	2,816
Total	$ 74,806	$ 8,749

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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 our prospectus filed pursuant to Rule 424(b) under the Securities Act with the Securities and Exchange Commission, or SEC, on April 14, 2011. 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 over 8,000 vehicles in 14 major metropolitan areas and on more than 230 college campuses in the United States, Canada and the United Kingdom. Our car sharing service provides over 575,000 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 $49.1 million for the three months ended March 31, 2011. From our inception through March 31, 2011, a substantial portion of our revenue has been generated in North America. We have experienced losses since inception and, as of March 31, 2011, had an accumulated deficit of $71.6 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.

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.

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.

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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.

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.

Sales and Marketing

Sales and marketing expenses consist primarily of labor-related costs, online search and advertising, trade shows, marketing agency fees, public relations and other promotional 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. We expect that sales and marketing expenses will continue to increase in the future but decrease as a percentage of revenue as certain fixed costs are leveraged over a larger revenue base.

General and Administrative

General and administrative expenses consist primarily of labor-related expenses for administrative, human resources, internal information technology support, legal, finance and accounting personnel, professional fees, insurance and other corporate expenses. 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 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. 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;

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- Software development costs;
- Income taxes;
- Valuation of Long-Lived and Intangible Assets, Including Goodwill;
- Accounting for Acquisitions; and
- Stock-based compensation

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

Results of Consolidated Operations

(In thousands, except per share data)	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Revenue	$ 49,133	$ 33,244
Cost and expenses		
Fleet operations	34,966	24,894
Member services and fulfillment	4,071	2,670
Research and development	962	671
Selling, general, and administrative	12,687	9,437
Amortization of acquired intangible assets	1,073	197
Total operating expenses	53,759	37,869
Loss from operations	(4,626)	(4,625)
Interest income	9	12
Interest expense	(2,455)	(805)
Other income, net	987	126
Loss before income taxes	(6,085)	(5,292)
Provision for income taxes	17	36
Net loss	(6,102)	(5,328)
Less: Net loss attributable to the noncontrolling interest	5	8
Net loss attributable to Zipcar, Inc.	$ (6,097)	$ (5,320)
Net loss attributable to common stockholders per share - basic and diluted	$ (0.95)	$ (2.37)
Weighted average number of common shares outstanding used in computing per share amounts - basic and diluted	6,434,923	2,246,505

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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 March 31,	
	2011	2010
Revenue	100.0%	100.0%
Cost and expenses		
Fleet operations	71.2	74.9
Member services and fulfillment	8.3	8.0
Research and development	2.0	2.0
Selling, general, and administrative	25.8	28.4
Amortization of acquired intangible assets	2.2	0.6
Total operating expenses	109.5	113.9
Loss from operations	(9.5)	(13.9)
Interest income	0.0	0.0
Interest expense	(5.0)	(2.4)
Other income, net	2.0	0.4
(Loss) income before income taxes	(12.5)	(15.9)
Provision for income taxes		0.1
Net (loss) income	(12.5)	(16.0)
Less: Net income (loss) attributable to the noncontrolling interest	0.0	0.0
Net (loss) income attributable to Zipcar, Inc.	(12.5)%	(16.0)%

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 Limited, or Streetcar, in 2010. Revenue increased from $32.1 million for the three months ended March 31, 2010 to $40.2 million for the three months ended March 31, 2011 in the North America segment, and the segment income before income taxes, which excludes corporate expenses and certain other costs, improved from $3.0 million to $5.7 million during this period. These improvements are principally a result of the major metropolitan areas and universities in this segment reaching larger scale and achieving higher operational efficiencies. Revenue increased from $1.2 million for the three months ended March 31, 2010 to $9.0 million for the three months ended March 31, 2011 in the United Kingdom segment. During this period, the segment loss before income taxes, which excludes corporate expenses and certain other costs, increased from $1.1 million to $2.0 million. Revenue in the 2011 period increased in the United Kingdom segment due to the acquisition of Streetcar, and the segment loss before income taxes excluding corporate expenses and certain other costs, increased due to the impact of the acquisition of Streetcar. Refer to Note 9 to the consolidated financial statements for additional segment information.

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Comparison of Three Months Ended March 31, 2011 and 2010

Revenue

(amounts in thousands)	Three months ended March 31, 2011	2010	Change $	%
Vehicle usage revenue	$ 41,903	$ 29,262	$ 12,641	43.2%
Fee revenue	7,158	3,948	3,210	81.3%
Other revenue	72	34	38	111.8%
Total	$ 49,133	$ 33,244	$ 15,889	47.8%

Total revenue increased 47.8% for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010, including 23.5% as a result of the Streetcar acquisition in April 2010. Vehicle usage revenue increased primarily due to an increase in reservations associated with new Zipcar members as well as 74,000 members acquired through the Streetcar acquisition, partially offset by lower vehicle usage revenue per member. 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 March 31, 2011 as compared to March 31, 2010 along with higher fees associated with Streetcar. Our average membership increased to 566,000 for the three months ended March 31, 2011 from 360,000 for the three months ended March 31, 2010. The annual and application fee revenue is recognized ratably over one and five years, respectively. Revenue per member decreased by $5 to $87 for the three months ended March 31, 2011 from $92 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. The increase in other revenue is primarily attributable to revenue from our SaaS-based FastFleet, our fleet management solution.

Operating Expenses

(amounts in thousands)	Three months ended March 31, 2011	2010	Change $	%
Fleet Operations	$ 34,966	$ 24,894	$ 10,072	40.5%
Member services and fulfillment	4,071	2,670	1,401	52.5%
Research and development	962	671	291	43.4%
Selling, general and administrative	12,687	9,437	3,250	34.4%
Amortization of acquired intangible assets	1,073	197	876	444.7%
Total	$ 53,759	$ 37,869	$ 15,890	42.0%

Fleet Operations: Fleet operations expenses increased 40.5% for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010, including 26.7% as a result of the Streetcar acquisition. 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 2,062 to 8,123 for the three months ended March 31, 2011 as compared to the comparable period in 2010. In addition, cost per vehicle marginally increased in the three months ended March 31, 2011 as compared to the same period in 2010 primarily due to higher gas prices. Fleet operations expenses as a percentage of revenue decreased to 71.2% for the three months ended March 31, 2011 from 74.9% for the comparable period in 2010 due to an increase in per vehicle usage levels.

Member Services and Fulfillment: Member services and fulfillment costs increased 52.5% for the three months ended March 31, 2011 as compared to the comparable period in 2010, including 25.7% as a result of the Streetcar acquisition. Member services and fulfillment costs increased primarily due to an increase in average membership of approximately 205,000 to 566,000 at March 31, 2011 from 360,000 as of March 31, 2010. Member services and fulfillment as a percentage of revenue increased to 8.3% for the three months ended March 31, 2011 from 8.0% for the comparable period in 2010.

Research and Development: Research and development expenses increased 43.4% for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010, including 26.5% as a result of the Streetcar acquisition, 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 remained flat, at 2.0%, for the three months ended March 31, 2011 and 2010.

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Selling, General and Administrative: Selling, general and administrative expenses increased 34.4% for the three months ended March 31, 2011 as compared to the three months ended March 31, 2010, including 22.6% as a result of the Streetcar acquisition. The increase in selling, general and administrative expenses for the three months ended March 31, 2011 from the comparable period in 2010 was primarily due to an increase in labor and labor-related expenses, including stock compensation expense, of $1.9 million, marketing programs, advertising costs and related discretionary spending of $0.6 million and other general and administrative related expenses of $0.6 million primarily due to costs associated with Streetcar operations in the 2011 period and further costs incurred in preparation for operating as a public company. Selling, general and administrative expenses as a percentage of revenue decreased by 2.6% to 25.8% for the three months ended March 31, 2011 from 28.4% for the comparable period in 2010.

Amortization of Acquired Intangible Assets: Acquired intangible assets associated with the Flexcar and Streetcar acquisitions include member relationships, parking spaces, non-compete agreements, tradename and reservation system in existence at the time of the 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 increased $0.9 million for the three months ended March 31, 2011, as compared to the three months ended March 31, 2010, due to the acquisition of Streetcar.

Interest Income: Interest income remained unchanged for the three months ended March 31, 2011, as compared to the three months ended March 31, 2010.

Interest Expense: Interest expense increased by $1.7 million to $2.5 million for the three months ended March 31, 2011, from $0.8 million for the three months ended March 31, 2010. This increase was due to interest expense associated with new corporate debt as well as vehicle related debt acquired as part of Streetcar acquisition and a shift in our domestic fleet financing strategy to the ABS facility.

Other Income, net: Other income, net increased by $0.9 million to $1.0 million for the three months ended March 31, 2011 from $0.1 million for the three months ended March 31, 2010. This increase is primarily attributable to the sale of Zero Emission Vehicle, or ZEV, credits of $0.9 million during the three months ended March 31, 2011. 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 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.

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

	For the Three Months Ended, March 31,	
	2011	**2010**
Key Financial and Operating Metrics:		
Ending members	576,914	366,535
Ending vehicles	8,216	6,085
Usage revenue per vehicle per day	$ 57	$ 54
Total revenue per member per period	$ 87	$ 92
Cost per new account	$ 53	$ 55
Average monthly member retention	98.2%	98.3%
Adjusted EBITDA *(in thousands)*	$ (1,885)	$ (2,601)

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.

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

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 has decreased as we have increased the efficiency of our marketing and advertising programs.

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.

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):

(in thousands)	Three Months Ended March 31, 2011	2010
Reconciliation of adjusted EBITDA		
Net loss attributable to Zipcar, Inc.	$ (6,097)	$ (5,320)
Non-vehicle depreciation	561	418
Amortization	1,073	197
Non-vehicle interest expense	1,345	717
Interest income	(9)	(12)
Preferred stock warrant liability adjustment	174	60
Stock compensation	1,014	551
Acquisition and integration cost	898	752
Taxes	17	36
Zero Emission Vehicle credits	(861)	