LANDAMERICA FINANCIAL GROUP INC
Form S-3/A
May 20, 2004
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As filed with the Securities and Exchange Commission on May 20, 2004.

Registration No. 333-113004

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Pre-effective Amendment No.1 to

FORM S-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

LANDAMERICA FINANCIAL GROUP, INC.

(Exact name of registrant as specified in its charter)

Virginia	**54-1589611**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**

101 Gateway Centre Parkway

Richmond, Virginia 23235-5153

(804) 267-8000

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Copies of Communications to:

Michelle H. Gluck, Esquire	**Robert E. Spicer, Jr., Esquire**
Executive Vice President, General Counsel and	**Williams Mullen**
Corporate Secretary	**A Professional Corporation**
LandAmerica Financial Group, Inc.	**1021 East Cary Street**
101 Gateway Centre Parkway	**Richmond, Virginia 23219**
Richmond, Virginia 23235-5153	**(804) 643-1991**
(804) 267-8000	

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Approximate date of commencement of proposed sale to the public: From time to time after this Registration Statement becomes effective.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ¨

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ¨

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in

accordance with Section 8(a) of the Securities Act of 1933 or until this Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. The selling securityholders named in this prospectus may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and the selling securityholders named in this prospectus are not soliciting offers to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to completion, dated May 19, 2004

PROSPECTUS

$115,000,000 Principal Amount of 3.125% Convertible Senior Debentures due 2033

and

1,715,363 Shares of Common Stock Issuable upon Conversion of the Debentures

This prospectus relates to an aggregate principal amount of up to $115,000,000 of our 3.125% Convertible Senior Debentures due 2033 held by the selling securityholders that we identify in this prospectus. This prospectus also relates to up to 1,715,363 shares of our common stock issuable upon conversion of the debentures plus such additional currently indeterminate number of shares of our common stock as are issuable pursuant to the anti-dilution provisions of the debentures. This prospectus will be used by the selling securityholders from time to time to sell their debentures and the shares of our common stock issuable upon conversion of the debentures. We will not receive any proceeds from the sale of these debentures or the underlying shares of our common stock offered by this prospectus.

The principal terms of the debentures include the following:

Interest:	accrues from November 26, 2003 at the rate of 3.125% per annum, payable on each May 15 and November 15, beginning on May 15, 2004; in addition, beginning with the six-month interest period commencing on November 15, 2010, we will pay additional contingent interest if the average trading price of the debentures on the five trading days immediately preceding the first day of the interest period equals or exceeds 120% of the principal amount of the debentures.
Maturity Date:	November 15, 2033, unless earlier converted, redeemed or repurchased by us.
Conversion Rate:	14.9162 shares per $1,000 principal amount of debentures, subject to adjustment.
Conversion Options:	by a holder under the following circumstances:

after December 31, 2003, if the last reported sale price of our common stock is greater than or equal to 125% of the conversion price for a period specified in this prospectus;

subject to certain limitations, if for the period specified in this prospectus the trading price per debenture is less than 98% of the product of the conversion rate and the last reported sale price of our common stock;

if we call the debentures for redemption;

upon the occurrence of certain corporate transactions; or

if we obtain credit ratings for the debentures, during any period when the credit ratings assigned to the debentures are below the levels specified in this prospectus; upon conversion, we will have the right to deliver, in lieu of common stock, cash or a combination of cash and common stock.

Redemption Options:	by us, in cash, at any time, on or after November 15, 2010 at a price equal to 100% of the principal amount, plus accrued and unpaid interest (including contingent interest, if any); by a holder, at a price equal to 100% of the principal amount plus accrued and unpaid interest (including contingent interest, if any) for cash on November 15, 2010, 2013, 2018, 2023 and 2028, or at any time prior to their maturity following a fundamental change as described in this prospectus.
Ranking:	equal in priority with all of our existing and future unsecured and unsubordinated indebtedness; senior in right of payment to all of our existing and future subordinated indebtedness; effectively junior to any of our secured indebtedness to the extent of the assets securing such indebtedness and any of our indebtedness that is guaranteed by our subsidiaries; and payment of principal and interest will be structurally subordinated to the liabilities of our subsidiaries.

The debentures are not listed on any securities exchange. The debentures are designated for trading in the PORTAL market. Our common stock is listed on the New York Stock Exchange under the symbol LFG. The last reported sale price of our common stock on the New York Stock Exchange on May 18, 2004 was $37.51 per share.

The debentures are subject to United States federal income tax rules applicable to contingent payment debt instruments. See Material United States Federal Income Tax Considerations beginning on page 46.

See Risk Factors beginning on page 7 for a discussion of certain risks that you should consider in connection with an investment in the debentures.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2004

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We have not, and the selling securityholders have not, authorized anyone to provide you with information different from that contained or incorporated by reference in the prospectus. We are not, and the selling securityholders are not, offering to sell or seeking offers to buy, the securities in any jurisdiction other than where an offer or sale is permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of the securities.

In this prospectus, LandAmerica, we, us and our refer to LandAmerica Financial Group, Inc. and its subsidiaries, except where the context otherwise requires or as otherwise indicated.

FORWARD-LOOKING STATEMENTS

Certain information contained in this prospectus includes forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. Among other things, these statements relate to our financial condition, results of operation and business. In addition, we and our representatives may from time to time make written or oral forward-looking statements, including statements contained in filings with the Securities and Exchange Commission and in our reports to shareholders. These forward-looking statements are generally identified by the use of words such as we expect, believe, anticipate, estimate or words of similar import. These forward-looking statements involve certain risks and uncertainties and other factors that may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Further, any such statement is specifically qualified in its entirety by the cautionary statements and the Risk Factors that appear elsewhere in this prospectus. We do not undertake to update any forward-looking statement that may be made from time to time by or on our behalf.

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SUMMARY

The following summary provides an overview of selected information about us. This summary is qualified in its entirety by the more detailed information, including our consolidated financial statements and related notes thereto, included and incorporated by reference in this prospectus. You should carefully consider the entire prospectus, including the Risk Factors section, before making an investment decision.

Our Company

Overview

We are a national provider of products and services that are used to facilitate the purchase, sale, transfer and financing of residential and commercial real estate. We are one of the largest title insurance underwriters in the United States based on title premium revenues. We also conduct business in Mexico, Canada, the Caribbean, Latin America and Europe.

In addition to our core business of providing title insurance, we provide a range of other services for residential and commercial real estate transactions including title search, examination, document preparation, escrow and closing. For residential real estate transactions, we also provide home inspections. For commercial real estate transactions, we also provide property appraisal and valuation, building, site assessments and other due diligence services, survey coordination, construction disbursement, coordination of national multi-state transactions, tax-deferred real property exchanges pursuant to Section 1031 of the Internal Revenue Code and Uniform Commercial Code products insuring personal property.

We provide our real estate transaction products and services to a broad based customer group that includes lenders, developers, real estate agents, attorneys and property buyers and sellers. In 2003, we significantly expanded the products and services that we offer primarily to the mortgage lending community. Through LandAmerica Tax and Flood Services, Inc., formerly known as LERETA Corp., which we acquired in October 2003, we began to offer real estate tax processing services and flood zone certifications to mortgage lenders. Through INFO1 Holding Company, Inc., which we acquired in August 2003, we provide credit reporting to lenders engaged in mortgage origination. We also provide comprehensive default management services to lenders and mortgage servicing operations through our subsidiary LandAmerica Default Services Company.

Business strategy

Our long term objective is to enhance our position as a premier, national provider and manager of integrated real estate transaction products and services while maximizing our profitability throughout the real estate market cycle. To accomplish this objective, we are pursuing various business strategies designed to broaden our market position and provide the framework to enhance growth and maximize profitability. These business strategies include:

Focusing on the Customer. In November 2003, we announced, and in 2004 began implementation of, a customer-focused strategy to increase intimacy with our customers. In conjunction with that strategy, we created leadership positions and teams to support our primary customer groups agents, direct, commercial and national lenders. These leaders and teams will be responsible for ensuring consistent service quality and operational excellence by providing common support platforms and structures for the various markets in which we operate.

Expanding Title Insurance Related Transaction Products and Services. Throughout our customer base, there is increased demand for providers of multiple, diverse real estate transaction products and services. In particular, the large national mortgage lenders increasingly expect that necessary services related to the mortgage financing process be available from and billed by a single source. Our strategy is to continue to expand our array of real estate transaction products and services available to lenders and other customers.

Expanding Distribution Capabilities. We seek to increase our share of the title insurance market by expanding and enhancing our distribution channels through the hiring and retention of experienced industry professionals with strong local relationships, the opening of new direct offices in markets with the potential for significant transaction volume, acquisitions of title insurance agencies or underwriters and selectively engaging in joint ventures with title insurance agencies in order to strengthen our presence in particularly attractive markets. In the case of the acquisition of agencies or small to medium-size underwriters, we review the agency s or underwriter s profitability, location, growth potential in its existing market, claims experience and, in the case of an underwriter, the adequacy of its reserves.

Maintaining Commercial Real Estate Market Strength. The title insurance business is closely related to the overall level of commercial and residential real estate activity, which is generally affected by the relative strength or weakness of the United States economy and by changes in interest rates. Participation in the commercial real estate market partially offsets some of the cyclicality of the residential real estate market, where transaction volumes are more susceptible to changes in interest rates. We maintain our presence in the commercial real estate market primarily due to the financial strength ratings of our underwriting subsidiaries, our strong capital position, the high quality service that we provide and our expertise in handling complex transactions. In particular, the combined capital position of our principal underwriting subsidiaries enables us to underwrite large commercial policies while purchasing less reinsurance, thus increasing profitability.

Reducing Costs and Expenses. Losses resulting from claims under title insurance policies represent a relatively small part of our overall costs. However, operating costs, the largest portion of expenses relating to providing title insurance, are relatively high compared to other types of insurers. We continue to implement the concept of service centers, in which our principal title operating subsidiaries share a single back office processing center in a geographic region while continuing to market from separate storefronts under different operating names. This concept has reduced our cost per order in the markets where it is operational. In addition, we have several pilot projects underway to automate title production and workflow in our service centers. We provide escrow support from several centralized locations, thereby increasing service levels and improving efficiency. We are also evaluating other opportunities to streamline operations, such as out-sourcing and off-shoring, where a determination is made that the cost/benefit of these initiatives will improve customer service and provide value to our shareholders.

Using Technology. In 2002, we began providing internet-based order processing, status tracking and document delivery to our direct customers through the Residential Connection. This program was so successful that we expanded the services and geographic coverage of this initiative during 2003. Additionally, we also introduced the Commercial Connection for certain commercial customers in 2002. After receiving a positive market reaction for this product, we expanded the services and geographic coverage of this initiative in 2003. We also provide TitleWave®, a web-based agent relationship and production management system enabling agents to order and receive a variety of title related products from our agency production centers in 19 states. These technology interfaces speed up transactions and create efficiencies for both us and our customers. Also, our agency service center introduced a paperless remittance process for agents. We continue to identify ways to utilize technology to provide superior customer service and increase our operational efficiency.

Enhancing Cost Control Flexibility. We manage our personnel expenses to reflect changes in the level of activity in the real estate market. As a result, our employee base expands and contracts over time. In order to manage personnel costs more efficiently throughout the real estate cycle, we use temporary or part time employees where appropriate to staff operations so that we can respond more rapidly to changes in real estate activity.

Our principal executive offices are located at 101 Gateway Centre Parkway, Richmond, Virginia 23225-5153. Our telephone number is (804) 267-8000.

The Offering

Securities Offered by the Selling Securityholders	Up to $115,000,000 principal amount of 3.125% Convertible Senior Debentures due 2033 and up to 1,715,363 shares of our common stock issuable upon conversion of the debentures plus such additional currently indeterminate number of shares of our common stock as are issuable pursuant to the anti-dilution provisions of the debentures. The initial conversion rate is 14.9162 shares per $1,000 principal amount of debentures.
Use of Proceeds	We will not receive any proceeds from the sale of the debentures or shares of our common stock issuable on conversion of the debentures by the selling securityholders.
NYSE Common Stock Symbol	LFG
Registration Rights	We filed a shelf registration statement of which this prospectus is a part pursuant to a registration rights agreement, dated November 26, 2003, among the initial purchasers of the debentures and us. We also agreed to use our best efforts to have the registration statement declared effective by May 24, 2004 and to use our best efforts to keep the registration statement effective until either of the following has occurred: the second anniversary of the original date of issuance of the debentures; or all of the debentures and the common stock issuable upon conversion thereof cease to be outstanding or have been sold either pursuant to the shelf registration statement or pursuant to Rule 144 under the Securities Act or any similar provision then in force.

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SUMMARY OF THE DEBENTURES

The following summary contains basic information about the debentures and is not intended to be complete. It does not contain all the information that is important to you. For a more complete understanding of the debentures, please refer to the section of this prospectus entitled Description of Debentures. For purposes of the description of debentures included in this prospectus, references to the company, issuer, LandAmerica, us, we and our refer only to LandAmerica Financial Group, Inc. and do not include our subsidiaries.

Maturity Date	November 15, 2033, unless earlier converted, redeemed or repurchased.
Ranking	The debentures are our direct, unsecured and unsubordinated obligations and rank equal in priority with all of our existing and future unsecured and unsubordinated indebtedness and senior in right of payment to all of our existing and future subordinated indebtedness. The debentures effectively rank junior to any of our existing and future secured indebtedness and any of our future indebtedness that is guaranteed by our subsidiaries. The debentures are structurally subordinated to all liabilities of our subsidiaries.
Interest	3.125% per annum on the principal amount, payable semiannually in arrears on May 15 and November 15 of each year, beginning May 15, 2004.
Contingent Interest	Beginning with the six-month interest period commencing on November 15, 2010, we will pay contingent interest during a six-month interest period if the average trading price of the debentures during the five trading day period immediately preceding the first day of the applicable six-month interest period equals or exceeds 120% of the principal amount of the debentures. The amount of contingent interest payable per $1,000 principal amount of debentures during a six-month interest period will equal 0.25% of the average trading price of such $1,000 principal amount of debentures during the applicable five-trading-day reference period, payable in arrears.
Conversion Rights	Holders may convert the debentures into shares of our common stock at a conversion rate of 14.9162 shares per $1,000 principal amount of debentures (equal to a conversion price of approximately $67.04 per share), subject to adjustment, only under the following circumstances:

- during any calendar quarter (and only during such calendar quarter) commencing after December 31, 2003 and before December 31, 2028, if the last reported sale price of our common stock is greater than or equal to 125% of the conversion price for at least 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the preceding calendar quarter;

- at any time on or after January 1, 2029 if the last reported sale price of our common stock on any date on or after December 31, 2028 is greater than or equal to 125% of the conversion price;

subject to certain limitations, during the five business day period after any five consecutive trading day period in which the trading price per debenture for each day of that period was less than 98% of the product of the conversion rate and the last reported sale price of our common stock;

if the debentures have been called for redemption by us;

upon the occurrence of specified corporate transactions described under Description of Debentures Conversion Rights Conversion Upon Specified Corporate Transactions ; or

if we obtain credit ratings with respect to the debentures from Moody s Investors Service, Inc. (Moody s) or Standard & Poor s Rating Services (Standard & Poor s) or both, at any time when (i) the long-term credit rating assigned to the debentures by both Moody s and Standard & Poor s (or by either of them if we obtain a credit rating from only one of Moody s or Standard & Poor s) is two or more levels below the credit rating initially assigned to the debentures, (ii) both Moody s and Standard & Poor s have (or either of them has, if we obtain a credit rating from only one of Moody s or Standard & Poor s) discontinued, withdrawn or suspended their ratings with respect to the debentures or (iii) either Moody s or Standard & Poor s has discontinued, withdrawn or suspended its rating with respect to the debentures and the remaining rating is two or more levels below the credit rating initially assigned to the debentures.

Holders will not receive any cash payment or additional shares representing accrued and unpaid interest upon conversion of a debenture, except in limited circumstances. Instead, interest (including contingent interest, if any) will be deemed paid by the common stock issued to the holder upon conversion. Debentures called for redemption may be surrendered for conversion prior to the close of business on the second business day immediately preceding the redemption date.

Upon conversion, we will have the right to deliver, in lieu of shares of our common stock, cash or a combination of cash and shares of our common stock. See Description of the Debentures Conversion Rights Payment Upon Conversion.

Sinking Fund	None.
Optional Redemption	Prior to November 15, 2010, the debentures will not be redeemable. On or after November 15, 2010, we may redeem for cash some or all of the debentures, at any time and from time to time, upon at least 30 and no more than 60 days notice for a price equal to 100% of the principal amount of the debentures to be redeemed plus any accrued and unpaid interest (including contingent interest, if any) to but excluding the redemption date.

Repurchase of Debentures by Us at the Option of the Holder	Holders may require us to repurchase some or all of your debentures for cash on November 15, 2010, November 15, 2013, November 15, 2018, November 15, 2023 and November 15, 2028 at a repurchase price equal to 100% of the principal amount of the debentures being repurchased, plus any accrued and unpaid interest (including contingent interest, if any) to but excluding the applicable repurchase date.
Fundamental Change	If we undergo a fundamental change (as defined in this prospectus) prior to maturity, holders will have the right, at their option, to require us to repurchase some or all of your debentures for cash at a repurchase price equal to 100% of the principal amount of the debentures being repurchased, plus any accrued and unpaid interest (including contingent interest, if any) to but excluding the applicable repurchase date.
United States Federal Income Tax Considerations	Under the indenture governing the debentures, we agree, and by acceptance of a beneficial interest in a debenture each holder of a debenture is deemed to have agreed, to treat the debentures as indebtedness for United States federal income tax purposes that is subject to the Treasury regulations governing contingent payment debt instruments. For United States federal income tax purposes, interest income on the debentures will accrue at the rate of 7.385% per year, compounded semi-annually, which represents the yield on comparable noncontingent, nonconvertible, fixed rate debt instruments with terms and conditions otherwise similar to the debentures that we would issue. A United States Holder (as defined herein) will be required to accrue interest income on a constant yield to maturity basis at this rate (subject to certain adjustments), with the result that a United States Holder generally will recognize taxable income significantly in excess of regular interest payments received while the debentures are outstanding.
	A United States Holder will also recognize gain or loss on the sale, conversion, exchange or retirement of a debenture in an amount equal to the difference between the amount realized on the sale, conversion, exchange or retirement, including the fair market value of our common stock received, and the United States Holder s adjusted tax basis in the debenture. Any gain recognized on the sale, conversion, exchange or retirement of a debenture generally will be ordinary interest income; any loss will be ordinary loss to the extent of the interest previously included in income, and thereafter, capital loss. See Material United States Federal Income Tax Considerations.
Book-Entry Form	The debentures were issued in book-entry form and are represented by global certificates deposited with, or on behalf of, The Depository Trust Company (DTC) and registered in the name of a nominee of DTC. Beneficial interests in any of the debentures are shown on, and transfers are effected only through, records maintained by DTC or its nominee and any such interest may not be exchanged for certificated securities except in limited circumstances.

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RISK FACTORS

You should consider the following risk factors, in addition to the other information presented in this prospectus and the documents incorporated by reference in this prospectus, in evaluating us, our business and an investment in the debentures. Any of the following risks, as well as other risks and uncertainties, could seriously harm our business and financial results and cause the value of the debentures and common stock issuable upon conversion of the debentures to decline, which in turn could cause you to lose all or part of your investment.

Risks Related to Our Business

Our results of operations and financial condition are susceptible to changes in mortgage interest rates and general economic conditions.

The demand for our title insurance and other real estate transaction products and services is dependent upon, among other things, the volume of commercial and residential real estate transactions, including mortgage refinancing transactions. The volume of these transactions has historically been influenced by factors such as interest rates and the state of the overall economy. For example, when interest rates are increasing or during an economic downturn or recession, real estate activity typically declines and we tend to experience lower revenues and profitability. The cyclical nature of our business has caused fluctuations in revenues and profitability in the past and is expected to do so in the future. In addition, changes in interest rates may have an adverse impact on our return on invested cash, the market value of our investment portfolio and interest paid on our bank debt.

Our operating revenues for the year ended December 31, 2003 increased by 32.0% over the same period last year, primarily due to a favorable residential mortgage interest rate environment and a large volume of mortgage refinancing transactions. However, except during February and March 2004, mortgage interest rates generally have risen during the last three quarters, and we have experienced a decline in refinancing transactions during such periods. For fiscal year 2004, we expect that the level of refinancing transactions will be substantially below the levels experienced in recent years. We began the implementation of a cost reduction program in the fourth quarter of 2003 aimed at reducing staffing and cost levels to a level more consistent with anticipated transaction volumes. In the first quarter of 2004, we announced plans to reduce our cost structure by at least $70 million on an annualized basis. We have implemented reductions to achieve over half of the targeted cost savings. Operating results for our 2002 and 2003 fiscal years, including interim periods, should not be viewed as indicative of results for 2004 or any future period.

Our inability to manage successfully our acquisitions of complementary businesses could adversely affect our business, operating results and financial condition.

An element of our business strategy is to expand the services we provide through acquisitions of complementary businesses. During 2003, we acquired several companies outside of our traditional business operations, including LandAmerica Tax and Flood Services, Inc., formerly known as LERETA Corp., a national real estate tax payment service and flood hazard certification company, for $221.0 million, INFO1 Holding Company, Inc., a mortgage credit reporting company, for approximately $47.0 million and Orange County Bancorp, a bank holding company, for approximately $28.4 million. The businesses of LandAmerica Tax and Flood Services, Inc., INFO1 and Orange County Bancorp are different from each other and from the business of providing title insurance and related services. We also may in the future acquire other businesses outside of our traditional business operations, although no assurances can be given that we will do so or that we will continue to acquire such companies at the levels previously experienced. Such acquisitions involve a number of special risks, including our inexperience in managing businesses that provide products and services beyond our traditional business, new regulatory requirements, diversion of management s attention, failure to retain key acquired personnel, failure to effectively integrate operations, company cultures and services,

increased costs to improve managerial, operational, financial and administrative systems, legal liabilities, and amortization of acquired intangible assets. In addition, there can be no assurance that acquired businesses will achieve anticipated levels of revenues, earnings or performance. The failure to manage our acquisitions successfully could materially and adversely affect our business, operating results and financial condition.

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Competition in our industry affects our revenues.

The business of providing real estate transaction products and services is very competitive. Competition for residential title insurance business is based primarily on price and quality of service. With respect to national and regional mortgage lenders, service quality includes a large distribution network and the ability to deliver a broad array of real estate services quickly, efficiently and through a single point of contact. Competition for commercial title business is based primarily on price, service, expertise in complex transactions and the size and financial strength of the insurer. Title insurance underwriters also compete for agents on the basis of service and commission levels. Although we are one of the largest providers of real estate transaction products and services in the United States, four other companies Fidelity National Financial, Inc., The First American Corporation, Old Republic International Corporation and Stewart Information Services, Inc. have the size, capital base and agency networks to compete effectively with our products and services. In addition, some of our competitors may have, or will have in the future, greater capital and other resources than ours. Competition among the major providers of real estate transaction products and services and any new entrants could adversely affect our revenues and profitability.

Significant industry changes and new product and service introductions require timely and cost-effective responses.

As a national provider of real estate transaction products and services, we participate in an industry that is subject to significant change, frequent new product and service introductions and evolving industry standards. In addition, alternatives to traditional title insurance, such as lien protection products, have emerged in recent years. We believe that our future success will depend on our ability to anticipate changes in technology and customer preferences and to offer products and services that meet evolving standards on a timely and cost-effective basis. The development and implementation of new products and services may require significant capital expenditures and other resources. There is a risk that customers may not accept our new product and service offerings and we may not successfully identify new product and service opportunities or develop and introduce new products and services in a timely and cost-effective manner. In addition, products and services that our competitors and other real estate industry participants develop or introduce may render certain of our products and services obsolete or noncompetitive. Advances in technology could also reduce the useful lives of our products, preventing us from recovering fully our investment in particular products and services. As a result, our inability to anticipate industry changes and to respond with competitive and profitable products and services may have a material adverse effect on our business, operating results or financial condition.

We may not succeed in implementing our strategy of becoming a major provider of real estate transaction management services.

One of our business strategies is to expand our capabilities to manage the delivery of multiple services required in real estate transactions through a centralized source, and to significantly grow the volume of transactions that we manage. There is a risk that our transaction management services may fail to gain market acceptance, particularly from the large national mortgage originators. Furthermore, there are relatively low barriers to entry into the market for real estate transaction management, as opposed to the regulated title insurance business, which may result in a large number of competitors, including large national mortgage originators and others having substantially greater financial resources.

Our insurance and banking subsidiaries are subject to government regulation.

Our insurance subsidiaries are subject to regulation by the state insurance authorities of the various states in which they transact business. These regulations are generally intended for the protection of policyholders rather than security holders. The nature and extent of these regulations vary from jurisdiction to jurisdiction, but typically involve:

regulation of dividend payments and other transactions between affiliates;

prior approval of the acquisition and control of an insurance company or of any company controlling an insurance company;

- regulation of certain transactions entered into by an insurance company with any of its affiliates;
- approval of premium rates for insurance;
- standards of solvency and minimum amounts of capital surplus that must be maintained;
- limitations on types and amounts of investments;
- restrictions on the size of risks that may be insured by a single company;
- licensing of insurers and agents;
- deposits of securities for the benefit of policyholders;
- approval of policy forms;
- methods of accounting;
- establishing reserves for losses and loss adjustment expenses;
- regulation of underwriting and marketing practices;
- regulation of reinsurance; and
- filing of annual and other reports with respect to financial condition and other matters.

These regulations may impede, or impose burdensome conditions on, rate increases or other actions that we might want to take to enhance our operating results. In addition, state regulatory examiners perform periodic examinations of insurance companies. In addition, our banking subsidiaries, Orange County Bancorp and Centennial Bank, are subject to regulation and supervision by the Federal Reserve Bank, the Federal Deposit Insurance Corporation and the California Department of Financial Institutions. Banking regulations are intended primarily to protect depositors and the federal deposit insurance funds and not stockholders. Regulatory requirements affect, among other things, our banking subsidiaries lending practices, capital level, investment practices, dividend policies and growth.

Our litigation risks include substantial claims by large classes of claimants.

We are from time to time involved in litigation arising in the ordinary course of our business. In addition, we currently are and have in the past been subject to claims and litigation not arising in the ordinary course of business from large classes of claimants seeking substantial damages. Material pending legal proceedings not arising in the ordinary course of business are disclosed in our filings with the Securities and Exchange Commission and are incorporated by reference in this offering memorandum. An unfavorable outcome in any class action suit or similar

litigation against us could have a material adverse effect on our financial position or results of operations.

Risks Related to the Debentures

We may not have the ability to raise the funds necessary to repurchase the debentures upon a fundamental change or on any other repurchase date, as required by the indenture governing the debentures.

On November 15, 2010, November 15, 2013, November 15, 2018, November 15, 2023 and November 15, 2028, or following a fundamental change as described under Description of Debentures Repurchase of Debentures by Us at the Option of the Holder Upon a Fundamental Change, holders of debentures may require us to repurchase their debentures for cash. A fundamental change may also constitute an event of default or prepayment under, and result in the acceleration of the maturity of, our then-existing indebtedness. In addition, we believe the repurchase of the debentures upon a fundamental change could constitute an event of default under our outstanding notes due 2006, 2008 and 2011 and our credit facility. We cannot assure you that we will have sufficient financial resources, or will be able to arrange financing, to pay the repurchase price in cash with respect to any debentures tendered by holders for repurchase on any of these dates or upon a fundamental change. In addition, restrictions in our then-existing credit facilities or other indebtedness may not allow us to repurchase the debentures. Our failure to repurchase the debentures when required would result in an event of default with respect to the debentures.

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You should consider the United States federal income tax consequences of owning the debentures.

Under the indenture governing the debentures, we will agree, and by acceptance of a beneficial interest in a debenture each holder of a debenture will be deemed to have agreed, to treat the debentures as indebtedness for United States federal income tax purposes that is subject to the Treasury regulations governing contingent payment debt instruments. For United States federal income tax purposes, interest income on the debentures will accrue at the rate of 7.385% per year, compounded semi-annually, which represents the yield on comparable noncontingent, nonconvertible, fixed rate debt instruments with terms and conditions otherwise similar to the debentures that we would issue. A United States Holder will be required to accrue interest income on a constant yield to maturity basis at this rate (subject to certain adjustments), with the result that a United States Holder generally will recognize taxable income significantly in excess of regular interest payments received while the debentures are outstanding.

A United States Holder will also recognize gain or loss on the sale, conversion, exchange or retirement of a debenture in an amount equal to the difference between the amount realized on the sale, conversion, exchange or retirement, including the fair market value of our common stock received, and the United States Holder s adjusted tax basis in the debenture. Any gain recognized on the sale, conversion, exchange or retirement of a debenture generally will be ordinary interest income; any loss will be ordinary loss to the extent of the interest previously included in income, and thereafter, capital loss. See Material United States Federal Income Tax Considerations.

You may in certain situations be deemed to have received a distribution subject to United States federal income tax as a dividend in the event of any taxable distribution to holders of common stock or in certain other situations requiring a conversion rate adjustment. For Non-United States Holders (as defined), this deemed distribution may be subject to United States federal withholding requirements. See Material United States Federal Income Tax Considerations.

The trading prices of the debentures could be significantly affected by the trading prices of our common stock.

We expect that the trading prices of the debentures in the secondary market, if such market develops, will be significantly affected by the trading prices of our common stock, the general level of interest rates and our credit quality. This may result in greater volatility in the trading prices of the debentures than would be expected for nonconvertible debt securities.

It is impossible to predict whether the price of our common stock or interest rates will rise or fall. Trading prices of our common stock will be influenced by our operating results and prospects and by economic, financial, regulatory and other factors. In addition, general market conditions, including the level of, and fluctuations in, the trading prices of stocks generally, and sales of substantial amounts of common stock by us in the market after the offering of the debentures, or the perception that such sales may occur, could affect the price of our common stock.

Our holding company structure may adversely affect our ability to meet our debt service obligations under the debentures.

Substantially all of our consolidated assets are held by our subsidiaries. Accordingly, our cash flow and our ability to service our debt, including the debentures, depends on the results of operations of our subsidiaries and upon the ability of our subsidiaries to provide us cash, whether in the form of dividends, loans or otherwise, to pay amounts due on our obligations, including the debentures. Certain of our subsidiaries are subject to state insurance laws and regulations that restrict their ability to pay dividends to us. Our subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to make payments on the debentures or to make any funds available for that purpose. In addition,

dividends, loans or other distributions from our subsidiaries to us may be subject to contractual and other restrictions and are subject to other business considerations.

In a number of states, certain of our insurance subsidiaries are subject to regulations that require minimum amounts of statutory surplus. Under these and other such statutory regulations, approximately $89.0 million of the net assets of our consolidated insurance subsidiaries was available for dividends, loans or advances to us during 2003 and approximately $103.1 million is available to us in 2004. We have received approximately $40.0 million of this 2004 amount in dividends from our insurance subsidiaries as of April 30, 2004. In addition to the minimum statutory surplus requirements described above, these insurance subsidiaries are also subject to state regulations that require that the payment of any extraordinary dividends receive prior approval of the insurance regulators of such states. See Dividend Policy.

Our banking subsidiaries also are subject to regulations that require minimum capital levels and restrict their ability to pay dividends and make loans to us. In addition, as a condition to our receipt of regulatory approval for our acquisition of Orange County Bancorp, the Federal Deposit Insurance Corporation required that Centennial Bank be prohibited from paying dividends until May 2006.

The debentures will be effectively subordinated to the liabilities of our subsidiaries and any of our future secured indebtedness and future indebtedness that is guaranteed by our subsidiaries.

The debentures will be effectively subordinated to all existing and future liabilities of our subsidiaries and any of our future indebtedness that is guaranteed by our subsidiaries. These liabilities may include indebtedness, trade payables, guarantees, lease obligations and letter of credit obligations. As of March 31, 2004, our subsidiaries had approximately $1,256.1 million in liabilities, including approximately $46.0 million of borrowings from the Federal Home Loan Bank and $9.0 million in trust preferred stock that are secured by subsidiary assets, and did not guaranty any of our debt. In addition, the debentures are not secured by any of our assets or those of our subsidiaries and will be effectively subordinated to any of our future secured debt. The debentures do not restrict us from incurring secured debt in the future or having our subsidiaries guaranty our indebtedness

An active trading market for the debentures may not develop.

The debentures are a new issue of securities for which there is currently no public market. We do not intend to list the debentures on any national securities exchange or automated quotation system. Although the debentures were sold to qualified institutional buyers under Rule 144A, which means the debentures are eligible for trading on the PORTAL market, we cannot assure you that an active or sustained trading market for the debentures will develop or that the holders will be able to sell their debentures. The initial purchasers have informed us that they intend to make a market in the debentures. However, the initial purchasers may cease their marketmaking at any time.

Moreover, even if you are able to sell your debentures, we cannot assure you as to the price at which any sales will be made. Future trading prices of the debentures will depend on many factors, including, among other things, prevailing interest rates, our operating results, the price of our common stock and the market for similar securities. Historically, the market for convertible debt has been subject to disruptions that have caused volatility in prices. It is possible that the market for the debentures will be subject to disruptions which may have a negative effect on the holders of the debentures, regardless of our prospects or financial performance.

If you hold debentures, you will not be entitled to any rights with respect to our common stock, but you will be subject to all changes made with respect to our common stock.

If you hold debentures, you will not be entitled to any rights with respect to our common stock (including, without limitation, voting rights and rights to receive any dividends or other distributions on our common stock), but you will be subject to all changes affecting the common stock. You will have rights with respect to our common stock only if and when we deliver shares of common stock to you upon conversion of your debentures and, in limited cases, under the conversion rate adjustments applicable to the debentures. For example, in the event that an amendment is proposed to our articles of incorporation or bylaws requiring shareholder approval

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and the record date for determining the shareholders of record entitled to vote on the amendment occurs prior to delivery of the common stock to you, you will not be entitled to vote on the amendment, although you will nevertheless be subject to any changes in the powers, preferences or special rights of our common stock.

We may issue additional shares of common stock and thereby materially and adversely affect the price of our common stock.

We are not restricted from issuing additional common stock, or securities convertible into or exchangeable for common stock, prior to maturity of the debentures. If we issue additional shares of common stock or such convertible or exchangeable securities, the price of our common stock and, in turn, the price of the debentures may be materially and adversely affected.

Our articles of incorporation and bylaw provisions, and several other factors, could limit another party s ability to acquire us and could deprive you of the opportunity to obtain a takeover premium for your shares of common stock.

Provisions in our articles of incorporation and bylaws, and under Virginia corporation law, may make it difficult for another company to acquire us and for you to receive any related takeover premium for our common stock. See Description of Capital Stock.

These provisions include a staggered Board of Directors, the absence of cumulative voting in the election of directors, the authorization by our board of directors of 200,000 shares of Series A Junior Participating Preferred Stock in connection with our rights agreement and the ability of our board of directors to issue up to 4,800,000 additional shares of preferred stock, the terms of which may be determined by the board at the time of issuance without further action by shareholders. The terms of the Series A Junior Participating Preferred Stock include, and the terms of any other preferred stock may include, voting rights, including the right to vote as a series on particular matters, conversion and redemption rights and preferences as to dividends and liquidation. No shares of preferred stock are currently outstanding and we have no present plans for the issuance of any preferred stock. The issuance of any preferred stock, however, could materially adversely affect the rights of holders of our common stock, and therefore could reduce its value. In addition, specific rights granted to future holders of preferred stock could be used to restrict our ability to merge with, or sell assets to, a third party. The ability of the board of directors to issue preferred stock could delay, discourage, prevent or make it more difficult or costly to acquire us or effect a change in control in our board of directors.

Our bylaws contain provisions regulating the introduction of business at annual shareholders meetings by anyone other than the board of directors.

The conditional conversion features of the debentures could result in you receiving less than the value of the common stock into which a debenture is convertible.

The debentures are convertible into common stock only if specified conditions are met. If the specific conditions for conversion are not met, you may not be able to receive the value of the common stock into which the debentures would otherwise be convertible.

Conversion of the debentures will dilute the ownership interest of existing shareholders.

The conversion of some or all of the debentures will dilute the ownership interests of existing shareholders. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. In addition, the existence of the debentures may encourage short selling by market participants because the conversion of the debentures could depress the price of our common stock.

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RATIO OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges is computed by dividing fixed charges into earnings. Earnings is defined as pre-tax income from continuing operations before adjustment for minority interests in consolidated subsidiaries or income or loss from equity investees, adjusted by adding fixed charges and distributed income of equity investees. Fixed charges is composed of interest expensed and the estimated interest component of rental expense.

The following table presents our historical ratios of earnings to fixed charges for each of the periods indicated:

	Three months ended March 31,	Years ended December 31,				
	2004	2003	2002	2001	2000	1999
Ratio	3.84x	10.19x	9.05x	4.32x	(1)	4.34x

(1) In 2000, our earnings were not sufficient to cover our fixed charges due to non-cash charges to earnings of $177.8 million associated with a change in our method of assessing the recoverability of goodwill. The amount of the earnings deficiency was $70.5 million.

USE OF PROCEEDS

We will not receive any proceeds from the sale of the debentures or the shares of our common stock issuable upon conversion of the debentures by the selling securityholders.

The selling securityholders will pay any underwriting discounts and commissions and expenses incurred by the selling securityholders for brokerage, accounting, tax or legal services or any other expenses incurred by the selling securityholders in disposing of the shares. We will bear all other costs, fees and expenses incurred in effecting the registration of the shares covered by this prospectus, including, without limitation, all registration and filing fees, New York Stock Exchange listing fees, if any, and fees and expenses of our counsel and our accountants.

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DIVIDEND POLICY

Our current dividend policy anticipates the payment of quarterly dividends in the future. The declaration and payment of dividends to holders of our common stock will be in the discretion of our Board of Directors, will be subject to contractual restrictions contained in a loan agreement, as described below, and will be dependent upon our future earnings, financial condition and capital requirements, as well as other factors.

Because we are a holding company, our ability to pay dividends will depend largely on the earnings of, and cash flow available from, our subsidiaries. In a number of states, certain of our insurance subsidiaries are subject to regulations that require minimum amounts of statutory surplus. Under these and other such statutory regulations, approximately $89.0 million of the net assets of our consolidated insurance subsidiaries was available for dividends, loans or advances to us during 2003 and approximately $103.1 million is available to us during 2004. We have received approximately $40.0 million of this 2004 amount in dividends from our insurance subsidiaries as of April 30, 2004.

The following table summarizes the insurance laws and regulations that restrict the amount of dividends that Commonwealth Land Title Insurance Company, Lawyers Title Insurance Corporation and Transnation Title Insurance Company are permitted to distribute to us in the 12-month period ending December 31, 2004 without prior regulatory approval:

Subsidiary	Regulatory Agency	Regulatory Limitation	Financial Limitation (1)
Commonwealth	Pennsylvania Department of Insurance	Payment of dividends or distributions may not exceed the greater of: 10% of such insurer s surplus as of the preceding year end, or the net income of such insurer for such preceding year.	$ 70.6 million
Lawyers Title	Virginia Bureau of Insurance	Payment of dividends or distributions $26.5 millions limited to the lesser of: 10% of such insurer s surplus as of the preceding December 31, or the net income, not including realized capital gains, of such insurer for the preceding calendar year.	$ 26.5 million

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Transnation	Arizona Department of Insurance	Payment of dividends or distributions $5.9 million is limited to the lesser of: 10% of such insurer s surplus as of the preceding December 31, or such insurer s net investment income for the preceding calendar year.	$ 5.9 million

(1) Based on statutory financial results for the year ended December 31, 2003.

In addition to regulatory restrictions, our ability to declare dividends is subject to restrictions under our $200.0 million credit facility, dated as of November 6, 2003, as amended, with a syndicate of banks led by SunTrust Bank, which generally limits the aggregate amount of all cash dividends and stock repurchases by us to 30% of our cumulative consolidated net income arising after December 31, 2002. As of March 31, 2004, approximately $51.3 million was available for the payment of dividends and stock repurchases by us under our credit facility. Management does not believe that the restrictions contained in our credit facility will, in the foreseeable future, adversely affect our ability to pay cash dividends at the current dividend rate.

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SELLING SECURITYHOLDERS

We issued the debentures covered by this prospectus in private placements on November 26, 2003 and December 8, 2003. The debentures were resold by the initial purchasers to qualified institutional buyers under Rule 144A under the Securities Act. These qualified institutional buyers are the selling securityholders, and they, including their transferees, pledgees, donees or their successors, may offer and sell the debentures and the shares of our common stock into which the debentures are convertible pursuant to this prospectus.

The following table sets forth information with respect to the selling securityholders and the principal amount of debentures and the number of shares of our common stock issuable upon conversion of the debentures that are beneficially owned by each selling securityholder and that may be offered and sold from time to time pursuant to this prospectus. The information is based solely on information provided by or on behalf of the selling securityholders to us in questionnaires and is as of the date specified by the securityholders in those questionnaires. The selling securityholders identified below may have transferred or otherwise disposed of all or a portion of their debentures or common stock since the date on which they provided the information to us for inclusion in the following table. As a result, such debentures or common stock may be included in the holdings of other selling securityholders set forth in the following table that provided more current information to us for inclusion than the transferring or disposing selling securityholders. We will set forth updated information, including information about substitute or additional selling securityholders, in prospectus supplements or amendments to this prospectus, as appropriate.

Unless otherwise indicated, none of the selling securityholders has held any position or office with, or has otherwise had a material relationship with us, or any of our subsidiaries, within the past three years. From time to time the selling securityholders may hold other securities that we have issued.

	Debentures		**Common Stock (Issuable Upon Conversion of the Debentures)**	
Full Legal Name of Selling Securityholder	**Principal Amount Beneficially Owned Prior to this Offering**	**Principal Amount Beneficially Owned After Completion of this Offering(1)**	**Shares Beneficially Owned Prior to this Offering(2)**	**Shares Beneficially Owned After Completion of this Offering(1)**
Akela Capital Master Fund, Ltd.	$ 8,000,000	0	119,330	0
Argent Classic Convertible Arbitrage Fund II, L.P.	190,000	0	2,834	0
Argent Classic Convertible Arbitrage Fund, L.P.	830,000	0	12,380	0
Argent LowLev Convertible Arbitrage Fund II, LLC	80,000	0	1,193	0
Argent LowLev Convertible Arbitrage Fund, LLC	520,000	0	7,756	0
Arkansas PERS	1,300,000	0	19,391	0
Astrazeneca Holdings Pension	250,000	0	3,729	0
Barclays Global Investors Diversified Alpha Plus Funds	806,000	0	12,022	0
BNP Paribas Equity Strategies SNC	5,127,000	0	79,536	3,061
Citi JL, Ltd.	206,000	0	3,073	0
Classic Investments PCC, Ltd.	60,000	0	895	0
CNH CA Master Account, L.P.	500,000	0	7,458	0

Common Fund Event Driven Co., Ltd.	156,000	0	2,327	0
CooperNeff Convertible Strategies (Cayman) Master Fund, LP	5,523,000	0	82,382	0

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	Debentures		Common Stock (Issuable Upon Conversion of the Debentures)	
Full Legal Name of Selling Securityholder	**Principal Amount Beneficially Owned Prior to this Offering**	**Principal Amount Beneficially Owned After Completion of this Offering(1)**	**Shares Beneficially Owned Prior to this Offering(2)**	**Shares Beneficially Owned After Completion of this Offering(1)**
DB Equity Opportunities Master Portfolio Ltd.	4,000,000	0	59,665	0
Deam Convertible Arbitrage	2,000,000	0	29,832	0
Delaware PERS	810,000	0	12,082	0
Deutsche Bank Securities, Inc.	3,550,000	0	52,953	0
DKR SoundShore Strategic Holding Fund Ltd.	100,000	0	1,492	0
Forest Fulcrum Fund, LP	1,534,000	0	22,881	0
Forest Global Convertible Fund, Ltd., Class A-5	6,075,000	0	90,615	0
Forest Multi-Strategy Master Fund SPC, on behalf of its Multi-Strategy Segregated Portfolio	1,829,000	0	27,281	0
Froley Revy Investment Convertible Security Fund	70,000	0	1,044	0
FrontPoint Convertible Arbitrage Fund, L.P.	5,000,000	0	74,581	0
HFR CA Global Opportunity Master Trust	252,000	0	3,758	0
HFR CA Global Select Master Trust Account	100,000	0	1,492	0
HFR RVA Select Performance Master Trust	380,000	0	5,668	0
ICI American Holdings Trust	175,000	0	2,610	0
JP Morgan Securities, Inc.(3)	9,294,000	0	138,631	0
KBC Financial Products USA Inc.	1,750,000	0	26,103	0
Levco Alternative Fund, Ltd.	7,054,000		105,219	0
Lighthouse Multi-Strategy Master Fund, Ltd.	300,000	0	4,475	0
LLT Limited	496,000	0	7,398	0
Louisiana CCRF	375,000	0	5,594	0
Lyxor Master Fund	470,000	0	7,011	0
Lyxor/Convertible Arbitrage Fund Limited	989,000	0	14,752	0
Lyxor/Forest Fund Limited	2,511,000	0	37,455	0
Lyxor/JLC Fund, Ltd.	550,000	0	8,204	0
Lyxor/Quest Fund Ltd.	300,000	0	4,475	0
Marathon Global Convertible Master Fund	5,000,000	0	74,581	0
McMahan Securities Co L.P.	1,000,000	0	14,916	0
MLQA Convertible Securities Arbitrage Ltd.	5,000,000	0	74,581	0
National Bank of Canada c/o Putnam Lovell NBF Securities, Inc.	4,000,000	0	59,665	0
	25,000	0	372	0

OCLC Online Computer Library Center Inc.				
Prudential Insurance Co. of America	15,000	0	224	0
Purchase Associates II, L.P.	571,000	0	8,517	0

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	Debentures		Common Stock (Issuable Upon Conversion of the Debentures)	
Full Legal Name of Selling Securityholder	Principal Amount Beneficially Owned Prior to this Offering	Principal Amount Beneficially Owned After Completion of this Offering(1)	Shares Beneficially Owned Prior to this Offering(2)	Shares Beneficially Owned After Completion of this Offering(1)
Purchase Associates, L.P.	963,000	0	14,364	0
Quest Global Convertible Fund, Ltd.	1,400,000	0	20,883	0
R^2 Investments, LDC	250,000	0	3,729	0
Relay 11 Holdings Co.	336,000	0	5,012	0
Sage Capital Management, LLC	200,000	0	2,983	0
San Diego County Employee Retirement Association	3,000,000	0	44,749	0
Silver Convertible Arbitrage Fund, LDC	240,000	0	3,580	0
Singlehedge US Convertible Arbitrage Fund	1,441,000	0	21,494	0
Sphinx Convertible Arbitrage 4 Fund	310,000	0	4,624	0
State of Oregon Equity	2,525,000	0	37,663	0
Sturgeon Limited	1,045,000	0	15,587	0
Syngenta AG	135,000	0	2,014	0
Tribeca Investments Ltd.	11,000,000	0	164,078	0
Xavex Convertible Arbitrage 10 Fund	350,000	0	5,221	0
Xavex Convertible Arbitrage 2 Fund	150,000	0	2,237	0
Xavex Convertible Arbitrage 4 Fund	248,000	0	3,699	0
Zazove Convertible Arbitrage Fund, L.P.	4,250,000	0	63,394	0
Zazove Hedged Convertible Fund, L.P.	1,000,000	0	14,916	0
Zurich Institutional Benchmarks Master Fund Ltd. c/o Forest Investment Management, LLC	1,116,000	0	16,646	0
Zurich Institutional Benchmarks Master Fund Ltd. c/o Zazove Associates, LLC	2,000,000	0	29,832	0

(1) We do not know when or in what amounts a selling securityholder may offer the debentures or shares of common stock for sale. The selling securityholders might not sell any or all of the debentures or shares offered by this prospectus. Because the selling securityholders may offer all or some of the debentures or shares pursuant to this offering, and because there are currently no agreements, arrangements or understandings with respect to the sale of any of the debentures or shares, we cannot estimate the number of the debentures or shares that will be held by the selling securityholders after completion of the offering. However, for purposes of this table, we have assumed that, after completion of the offering, none of the debentures or shares covered by this prospectus will be held by the selling securityholders.

(2) Amounts assume conversion of all the securityholders debentures at the initial conversion rate of 14.9162 shares of common stock per $1,000 principal amount of debentures. However, the conversion rate is subject to adjustment as described under Description of Debentures Conversion Rights. As a result, the amount of common stock issuable upon conversion of the debentures may increase or decrease in the future. For presentation purposes, we have rounded the number of shares issuable upon conversion of the debentures to the nearest whole number. However, we will pay cash for all fractional shares of common stock issuable upon conversion of the debentures.

(3) J.P. Morgan Securities Inc. acted as exclusive advisor to us in our recent acquisition of LandAmerica Tax and Flood Services, Inc., formerly known as LERETA Corp., and as sole book-running manager for the offering of the debentures and our 3.25% convertible senior debentures due 2034. JPMorgan Chase Bank, an affiliate of J.P. Morgan Securities Inc., serves as trustee under the indenture for the debentures and under the indenture for our 3.25% convertible senior debentures due 2034, and affiliates of J.P. Morgan Securities Inc. are participants in our credit facility.

DESCRIPTION OF DEBENTURES

We issued the debentures under an indenture dated as of November 26, 2003, between us and JPMorgan Chase Bank, as trustee. Both the debentures and the shares of common stock issuable upon conversion of the debentures are covered by a registration rights agreement. You may request a copy of the indenture and the registration rights agreement from the trustee. In addition, we have filed the indenture and the registration rights agreement as exhibits to the registration statement on Form S-3 of which this prospectus is a part.

The following description is a summary of the material provisions of the debentures, the indenture and the registration rights agreement and does not purport to be complete. This summary is subject to and is qualified by reference to all the provisions of the debentures and the indenture, including the definitions of certain terms used in the indenture, and to all provisions of the registration rights agreement. Wherever particular provisions or defined terms of the indenture or form of debenture are referred to, these provisions or defined terms are incorporated in this prospectus by reference. We urge you to read the indenture because it, and not this description, defines your rights as a holder of the debentures.

As used in this Description of Debentures section, references to LandAmerica, we, our or us refer solely to LandAmerica Financial Group, I and not to our subsidiaries.

General

The debentures will mature on November 15, 2033 unless earlier converted, redeemed or repurchased. You have the option, subject to fulfillment of certain conditions and during the periods described below, to convert your debentures into shares of our common stock at an initial conversion rate of 14.9162 shares of common stock per $1,000 principal amount of debentures. This is equivalent to an initial conversion price of approximately $67.04 per share of common stock. The conversion rate is subject to adjustment if certain events occur. Upon conversion of a debenture and subject to our payment elections, you will receive only shares of our common stock and a cash payment to account for any fractional share. You will not receive any cash payment for interest (or contingent interest or additional amounts, if any) accrued and unpaid to the conversion date except under the limited circumstances described below.

If any interest payment date, maturity date, redemption date or repurchase date (including upon the occurrence of a fundamental change, as described below) falls on a day that is not a business day, the required payment will be made on the next succeeding business day with the same force and effect as if made on the date that the payment was due, and no additional interest will accrue on that payment for the period from and after the interest payment date, maturity date, redemption date or repurchase date (including upon the occurrence of a fundamental change, as described below), as the case may be, to that next succeeding business day.

Substantially all of our consolidated assets are held by our subsidiaries. Accordingly, our cash flow and our ability to service our debt, including the debentures, depends on the results of operations of our subsidiaries and upon the ability of our subsidiaries to provide us cash, whether in the form of dividends, loans or otherwise, to pay amounts due on our obligations, including the debentures. Certain of our subsidiaries are subject to state insurance laws and regulations that restrict their ability to pay dividends to us. Our subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to make payments on the debentures or to make any funds available for that purpose. In addition, dividends, loans or other distributions from our subsidiaries to us may be subject to contractual and other restrictions and are subject to other business considerations.

In a number of states, certain of our insurance subsidiaries are subject to regulations that require minimum amounts of statutory surplus. Under these and other such statutory regulations, approximately $89.0 million of the net assets of our consolidated insurance subsidiaries was available for dividends, loans or advances to us during 2003 and approximately $103.1 million is available to us during 2004. We have received approximately

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$40.0 million of this 2004 amount in dividends from our insurance subsidiaries as of April 30, 2004. In addition to the minimum statutory surplus requirements described above, these insurance subsidiaries are also subject to state regulations that require that the payment of any extraordinary dividends receive prior approval of the insurance regulators of such states. See Dividend Policy.

The debentures are issued only in denominations of $1,000 principal amount and integral multiples thereof. References to a debenture or each debenture in this prospectus refer to $1,000 principal amount of the debentures. The debentures are limited to $115,000,000 aggregate principal amount.

As used in this prospectus, business day means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which commercial banks are authorized or required by law, regulation or executive order to close in The City of New York.

When we refer to common stock, we mean the common stock, without par value, of LandAmerica Financial Group, Inc., which is the only outstanding class of our capital stock.

Ranking

The debentures are our direct, unsecured and unsubordinated obligations. The debentures rank equal in priority with all of our existing and future unsecured and unsubordinated indebtedness and senior in right of payment to all of our existing and future subordinated indebtedness. The debentures effectively rank junior to any of our existing and future secured indebtedness and any of our existing and future indebtedness guaranteed by our subsidiaries. In addition, our rights and the rights of our creditors, including the holders of the debentures, to participate in the assets of a subsidiary during its liquidation or reorganization are effectively subordinated to all existing and future liabilities of that subsidiary, including guarantees by the subsidiary of our existing and future indebtedness.

Interest

The debentures bear interest at a rate of 3.125% per annum. We will also pay contingent interest on the debentures in the circumstances described under Contingent Interest. Interest (including contingent interest and additional amounts, if any) shall be payable semi-annually in arrears on May 15 and November 15 of each year, commencing May 15, 2004.

Interest on a debenture (including contingent interest and additional amounts, if any) will be paid to the person in whose name the debenture is registered at the close of business on the May 1 or November 1, as the case may be (each, a record date), immediately preceding the relevant interest payment date (whether or not such day is a business day). Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months and will accrue from November 26, 2003 or from the most recent date to which interest has been paid or duly provided for.

Contingent Interest

Beginning with the six-month interest period commencing on November 15, 2010, we will pay contingent interest on the interest payment date for a six-month interest period if the average trading price (as defined below) of the debentures during the five trading day period immediately preceding the first day of the applicable six-month interest period equals or exceeds 120% of the principal amount of the debentures.

On any interest payment date when contingent interest shall be payable, the contingent interest payable per debenture will equal 0.25% of the average trading price of such debenture during the applicable five trading-day reference period.

We will notify the holders of the debentures upon a determination that they will be entitled to receive contingent interest with respect to any six-month interest period.

The trading price of a debenture on any date of determination shall be determined by us and shall be the average of the secondary market bid quotations per debenture obtained by the bid solicitation agent for $5,000,000 aggregate principal amount of debentures at approximately 4:00 p.m., New York City time, on such determination date from three independent nationally recognized securities dealers we select, provided that if:

- at least three such bids are not obtained by the bid solicitation agent, or
- in our reasonable judgment, the bid quotations are not indicative of the secondary market value of debentures as of such determination date,

then the trading price for such determination date will equal (1) the applicable conversion rate of the debentures as of such determination date multiplied by (2) the average last reported sale price (as defined below) of our common stock on the five trading days ending on such determination date.

The Trustee is the initial bid solicitation agent. We may change the bid solicitation agent, but the bid solicitation agent will not be our affiliate. The bid solicitation agent will solicit bids from securities dealers that are believed by us to be willing to bid for the debentures.

Optional Redemption by Us

No sinking fund is provided for the debentures. Prior to November 15, 2010, the debentures will not be redeemable. On or after November 15, 2010, we may redeem the debentures in whole or in part at any time for a redemption price in cash equal to 100% of the principal amount of the debentures to be redeemed, plus any accrued and unpaid interest (including contingent interest and additional amounts, if any) to but excluding the redemption date.

If the redemption date is an interest payment date, interest (including contingent interest and additional amounts, if any) shall be paid on such interest payment date to the record holder on the relevant record date.

We will provide not less than 30 nor more than 60 days notice of redemption by mail to each registered holder of debentures to be redeemed. If the redemption notice is given and funds are deposited as required, then interest will cease to accrue on and after the redemption date on those debentures or portions of debentures called for redemption.

If we decide to redeem fewer than all of the outstanding debentures, the trustee will select the debentures to be redeemed (in principal amounts of $1,000 or integral multiples thereof) by lot, on a pro rata basis or by another method the trustee considers fair and appropriate. If the trustee selects a portion of your debentures for partial redemption and you convert a portion of your debentures, the converted portion will be deemed to be from the portion selected for redemption.

We may not redeem the debentures if we have failed to pay any interest (including contingent interest and additional amounts, if any) on the debentures when due and such failure to pay is continuing. We will notify all of the holders if we redeem any of the debentures.

Conversion Rights

Subject to the conditions and during the periods described below, you may convert each of your debentures into shares of our common stock initially at a conversion rate of 14.9162 shares of common stock per $1,000 principal amount of debentures (equivalent to an initial conversion price of approximately $67.04 per share of common stock based on the issue price per debenture). The conversion rate and the equivalent conversion price

in effect at any given time are referred to as the applicable conversion rate and the applicable conversion price, respectively, and will be subject to adjustment as described below. You may convert fewer than all of your debentures so long as the debentures converted are an integral multiple of $1,000 principal amount.

You may convert your debentures into shares of our common stock only in the following circumstances, which are described in more detail below, and to the following extent:

- in whole or in part, upon satisfaction of the market price condition;
- in whole or in part, upon satisfaction of the trading price condition;
- if any of your debentures are called for redemption, those debentures that have been so called;
- in whole or in part, upon the occurrence of specified corporate transactions; or
- in whole or in part, if a credit ratings event occurs.

If we call your debentures for redemption, you may convert the debentures only until the close of business on the second business day prior to the redemption date unless we fail to pay the redemption price. If you have already delivered a repurchase election with respect to a debenture as described under either Repurchase of Debentures by Us at the Option of the Holder or Repurchase of Debentures by Us at the Option of the Holder Upon a Fundamental Change, you may not surrender that debenture for conversion until you have withdrawn the repurchase election in accordance with the indenture.

Upon conversion, you will not receive any cash payment of interest (including contingent interest and additional amounts, if any) unless such conversion occurs between a regular record date and the interest payment date to which it relates. We will not issue fractional common shares upon conversion of debentures. Instead, we will pay cash in lieu of fractional shares based on the last reported sale price of the common stock on the trading day prior to the conversion date. Our delivery to you of the full number of shares of our common stock into which a debenture is convertible, together with any cash payment for any fractional share, will be deemed to satisfy our obligation to pay:

- the principal amount of the debenture; and
- accrued but unpaid interest (including contingent interest and additional amounts, if any) to but excluding the conversion date.

As a result, accrued but unpaid interest (including contingent interest and additional amounts, if any) to but excluding the conversion date will be deemed to be paid in full rather than cancelled, extinguished or forfeited. For a discussion of your tax treatment upon receipt of our common stock upon conversion, see Material United States Federal Income Tax Considerations.

Notwithstanding the preceding paragraph, if debentures are converted after the close of business on a record date, holders of such debentures at the close of business on the record date will receive the interest (including contingent interest and additional amounts, if any) payable on such

debentures on the corresponding interest payment date notwithstanding the conversion. Debentures, upon surrender for conversion during the period from the close of business on any regular record date to the opening of business on the immediately following interest payment date, must be accompanied by funds equal to the amount of interest (including contingent interest and additional amounts, if any) payable on the debentures so converted; *provided* that no such payment need be made (1) if we have specified a redemption date that is after a record date and on or prior to the next interest payment date, (2) if we have specified a redemption date following a fundamental change that is after a record date and on or prior to the next interest payment date or (3) to the extent of any overdue interest (including any contingent interest and additional amounts) if any overdue interest exists at the time of conversion with respect to such debenture.

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If you convert debentures, we will pay any documentary, stamp or similar issue or transfer tax due on the issue of shares of our common stock upon the conversion, unless the tax is due because you request the shares to be issued or delivered to another person, in which case you will pay that tax.

Conversion Procedures

To convert your debenture into common stock you must do the following:

- complete and manually sign the conversion notice on the back of the debenture, or a facsimile of the conversion notice, and deliver this irrevocable notice to the conversion agent;
- surrender the debenture to the conversion agent;
- if required, furnish appropriate endorsements and transfer documents;
- if required, pay all transfer or similar taxes; and
- if required, pay funds equal to interest payable on the next interest payment date.

The date you comply with these requirements is the conversion date under the indenture. If your interest is a beneficial interest in a global debenture, to convert you must comply with the last three requirements listed above and comply with the depositary s procedures for converting a beneficial interest in a global debenture.

The conversion agent will, on your behalf, convert the debentures into shares of our common stock, to the extent we elect to satisfy our conversion obligation in common stock. See Payment Upon Conversion. You may obtain copies of the required form of the conversion notice from the conversion agent. A certificate, or a book-entry transfer through DTC, for the number of full shares of our common stock into which any debentures are converted, together with a cash payment for any fractional share, will be delivered through the conversion agent as soon as practicable, but no later than the fifth business day, following the conversion date.

Payment Upon Conversion

(1) *Conversion on or prior to the final notice date*. In the event that we receive your notice of conversion on or prior to the day that is 20 days prior to maturity or, with respect to debentures being redeemed, the applicable redemption date (the final notice date), the following procedures will apply:

If we choose to satisfy all or any portion of our obligation (the conversion obligation) in cash, we will notify you through the trustee of the dollar amount to be satisfied in cash (which must be expressed either as 100% of the conversion obligation or as a fixed dollar amount) at any time on or before the date that is two business days following receipt of your notice of conversion (cash settlement notice period). If we timely elect to pay cash for any portion of the shares otherwise issuable to you, you may retract the conversion notice at any time during the two business day period beginning on the day after the final day of the cash settlement notice period (conversion retraction period); no such retraction can be made (and a conversion notice shall be irrevocable) if we do not elect to deliver cash in lieu of shares (other than cash in lieu of fractional shares). If the conversion notice has not been retracted, then settlement (in cash and/or shares) will occur on the business day following the final day of the 10 trading day period beginning on the day after the final day of the conversion retraction period. Settlement amounts will be computed as follows:

If we elect to satisfy the entire conversion obligation in shares, we will deliver to you a number of shares equal to (1) the aggregate original principal amount of debentures to be converted divided by 1,000 multiplied by (2) the applicable conversion rate.

If we elect to satisfy the entire conversion obligation in cash, we will deliver to you cash in an amount equal to the product of:

a number equal to (1) the aggregate original principal amount of debentures to be converted divided by 1,000 multiplied by (2) the conversion rate and

the average of the last reported sale prices of our common stock for the ten consecutive trading days immediately following the date of our notice of our election to deliver cash (the cash settlement averaging period).

If we elect to satisfy in cash a fixed portion of the conversion obligation other than the entire obligation, or a percentage of the conversion obligation other than 100%, we will deliver to you such cash amount (cash amount) and a number of shares equal to the excess, if any, of the number of shares equal to (i) the aggregate original principal amount of debentures to be converted divided by 1,000, multiplied by (ii) the conversion rate, over the number of shares equal to the sum, for each day of the cash settlement averaging period, of (x) 10% of the cash amount, divided by (y) the last reported sale price of our common stock. In addition, we will pay cash for all fractional shares of common stock as described above.

(2) *Conversion after the final notice date*. In the event that we receive your notice of conversion after the final notice date, we will not send individual notices of our election to satisfy all or any portion of the conversion obligation in cash. Instead, if we choose to satisfy all or any portion of the conversion obligation in cash, we will send a single notice to the trustee of the dollar amount to be satisfied in cash (which must be expressed either as 100% of the conversion obligation or as a fixed dollar amount) at any time on or before the final notice date. Settlement amounts will be computed and settlement dates will be determined in the same manner as set forth above under Conversion on or Prior to the Final Notice Date except that the cash settlement averaging period shall be the five consecutive trading days ending on the third trading day prior to the conversion date. Settlement (in cash and/or shares) will occur on the business day following the final day of such cash settlement averaging period.

Trading day means a day during which trading in securities generally occurs on the New York Stock Exchange or, if our common stock is not listed on the New York Stock Exchange, on the principal other United States national or regional securities exchange on which our common stock is then listed or, if our common stock is not listed on a United States national or regional securities exchange, on the principal other market on which our common stock is then traded.

(3) *Conversion after irrevocable election to pay principal in cash.* At any time prior to maturity, we may irrevocably elect, in our sole discretion without the consent of the holders of the debentures, by notice to the trustee and the holders of the debentures to satisfy in cash 100% of the principal amount of the debentures converted after the date of such election. After making such an election, we still may satisfy our conversion obligation to the extent it exceeds the principal amount in cash or common stock or a combination of cash and common stock. If we choose to satisfy all or a portion of the remainder of our conversion obligation in cash, we will provide notice of our election in the same manner as set forth above under either Conversion on or Prior to the Final Notice Date or Conversion After the Final Notice Date, whichever is applicable. If we choose to satisfy all of the remainder of our conversion obligation in common stock, notice of our election to deliver cash for the principal amount will be deemed to have been provided on the last date of the cash settlement notice period and your notice of conversion will not be retractable. Settlement amounts will be computed and settlement dates will be determined in the same manner as set forth above under Conversion on or Prior to the Final Notice Date and Conversion After the Final Notice Date, as applicable.

Conversion Upon Satisfaction of Market Price Condition

You may surrender your debentures for conversion into our common stock (1) in any calendar quarter commencing after December 31, 2003 and before December 31, 2028 (and only during such calendar quarter) if the last reported sale price of our common stock for at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the previous calendar quarter is greater than or equal to 125% of the applicable conversion price per share of our common stock on such last trading day and (2) at any time on or after January 1, 2029 if the last reported sale price of our common stock on any date on or after December 31, 2028 is greater than or equal to 125% of the conversion price.

The last reported sale price of our common stock on any date means the closing sale price per share (or if no closing sale price is reported, the average of the bid and asked prices or, if more than one in either case, the average of the average bid and the average asked prices) on such date as reported in composite transactions for the principal United States securities exchange on which our common stock is traded or, if our common stock is not listed on a United States national or regional securities exchange, as reported by the New York Stock Exchange. If our common stock is not listed for trading on a United States national or regional securities exchange and not reported by the New York Stock Exchange on the relevant date, the last reported sale price will be the last quoted bid price for our common stock in the over-the-counter market on the relevant date as reported by the National Quotation Bureau Incorporated or similar organization. If our common stock is not so quoted, the last reported sale price will be the average of the mid-point of the last bid and asked prices for our common stock on the relevant date from each of at least three independent nationally recognized investment banking firms selected by us for this purpose.

Conversion Upon Satisfaction of Trading Price Condition

You may surrender your debentures for conversion into shares of our common stock during the five business day period after any five consecutive trading day period in which the trading price per debenture, as determined following a request by a holder of debentures in accordance with the procedures described below, for each day of that period was less than 98% of the product of the conversion rate and the last reported sale price of our common stock for each day during such period (the 98% Trading Exception); provided that if, on the date of any conversion pursuant to the 98% Trading Exception, the closing sale price of our common stock is greater than the conversion price, then you will receive, in lieu of common stock based on the conversion rate, an amount in cash equal to the principal amount of the debentures converted, plus accrued and unpaid interest, including contingent interest, if any, to the conversion date.

The trading price of a debenture on any date of determination shall be determined by us and shall be the average of the secondary market bid quotations per debenture obtained by the bid solicitation agent for $5,000,000 aggregate principal amount of debentures at approximately 4:00 p.m., New York City time, on such determination date from three independent nationally recognized securities dealers we select, provided that if at least two such bids cannot reasonably be obtained by the trustee, but one such bid can reasonably be obtained by the trustee, this one bid will be used. If the trustee cannot reasonably obtain at least one bid for $5,000,000 original principal amount of the debentures from a nationally recognized securities dealer, or in our reasonable judgment, the bid quotations are not indicative of the secondary market value of the debentures, then the trading price per debenture will be deemed to be less than 98% of the product of the last reported sale price of our common stock and the applicable conversion rate.

In connection with any conversion upon satisfaction of the above trading price condition, the trustee shall have no obligation to determine the trading price of the debentures unless we have requested such determination; and we shall have no obligation to make such request unless you provide us with reasonable evidence that the trading price per debenture would be less than 98% of the product of the last reported sale price of our common stock and the applicable conversion rate. At such time, we shall instruct the trustee to determine the trading price of the debentures beginning on the next trading day and on each successive trading day until the trading price per debenture is greater than or equal to 98% of the product of the last reported sale price of our common stock and the applicable conversion rate.

Conversion Upon Notice of Redemption

If we call any or all of the debentures for redemption, you may convert any of your debentures that have been called for redemption into our common stock at any time prior to the close of business on the second business day prior to the redemption date.

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Conversion Upon Specified Corporate Transactions

If we elect to:

- distribute to all holders of our common stock rights or warrants entitling them to subscribe for or purchase, for a period expiring within 45 days after the date of the distribution, shares of our common stock at less than the last reported sale price of a share of our common stock on the trading day immediately preceding the declaration date of the distribution; or

- distribute to all holders of our common stock, assets, debt securities or rights to purchase our securities, which distribution has a per share value as determined by our board of directors exceeding 5% of the last reported sale price of our common stock on the trading day immediately preceding the declaration date for such distribution,

we must notify holders of the debentures at least 20 business days prior to the ex-dividend date for such distribution. Once we have given such notice, holders may surrender their debentures for conversion at any time until the earlier of the close of business on the business day immediately prior to the ex-dividend date or any announcement that such distribution will not take place. No holder may exercise this right to convert if the holder otherwise will participate in the distribution without conversion. The ex-dividend date is the first date upon which a sale of the common stock does not automatically transfer the right to receive the relevant distribution from the seller of the common stock to its buyer.

In addition, if we are a party to a consolidation, merger or binding share exchange, in each case pursuant to which our common stock would be converted into cash or property other than securities, a holder may surrender debentures for conversion at any time from and after the date which is 15 days prior to the anticipated effective date of the transaction until and including the date which is 15 days after the actual effective date of such transaction. If we engage in certain reclassifications of our common stock or are a party to a consolidation, merger, binding share exchange or transfer of all or substantially all of our assets, in each case pursuant to which our common stock is converted into cash, securities or other property, then at the effective time of the transaction, the right to convert a debenture into our common stock will be changed into a right to convert a debenture into the kind and amount of cash, securities or other property which a holder would have received if the holder had converted its debentures immediately prior to the applicable record date for such transaction. If we engage in any transaction described in the preceding sentence, the conversion rate will not be adjusted. If the transaction also constitutes a fundamental change, a holder can require us to redeem all or a portion of its debentures as described under Repurchase of Debentures by Us at the Option of the Holder Upon a Fundamental Change.

Conversion Upon Credit Ratings Event

If we obtain a credit rating for the debentures from Moody s Investors Service, Inc. (Moody s) or Standard & Poor s Rating Services (Standard & Poor s) or both, then you will have the right to surrender your debentures for conversion into our common stock prior to maturity as follows:

- if we obtain a credit rating for the debentures from both Moody s and Standard & Poor s, at any time when (i) the long-term credit rating assigned to the debentures by Moody s or Standard & Poor s is two or more levels below the credit rating initially assigned to the debentures, (ii) both Moody s and Standard & Poor s have discontinued, withdrawn or suspended their ratings with respect to the debentures or (iii) either Moody s or Standard & Poor s has discontinued, withdrawn or suspended its rating with respect to the debentures and the remaining rating is two or more levels below the credit rating initially assigned to the debentures; or

if we obtain a credit rating for the debentures from only one of Moody s and Standard & Poor s, at any time when (i) the long-term credit rating assigned to the debentures by such rating agency is two or more levels below the credit rating initially assigned to the debentures or (ii) such rating agency has discontinued, withdrawn or suspended its rating.

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The debentures have not been assigned a credit rating by any rating agency. We have no obligation to obtain a credit rating for the debentures, and these provisions do not apply to any credit rating that we have not requested.

Conversion Rate Adjustments

The conversion rate will be adjusted as described below, except that we will not make any adjustments to the conversion rate if holders of the debentures participate in any of the transactions described below.

(1) If we issue shares of our common stock as a dividend or distribution on shares of our common stock, or if we effect a share split or share combination, the conversion rate will be adjusted based on the following formula:

$$CR^1 = CR_0 \times \frac{OS^1}{OS_0}$$

where,

CR_0 = the conversion rate in effect immediately prior to such event

CR^1 = the conversion rate in effect immediately after such event

OS_0 = the number of our shares of common stock outstanding immediately prior to such event

OS^1 = the number of our shares of common stock outstanding immediately after such event

Car Rental Equipment
Rental Total

Balance as of January 1, 2010

Goodwill

$367.3 $677.5 $1,044.8

Accumulated impairment losses

(46.1) (674.9) (721.0)

321.2 2.6 323.8

Goodwill acquired during the year

2.7
4.3
7.0

Other changes during the year[(1)]

(2.1) (0.1) (2.2)

0.6 4.2 4.8

Balance as of December 31, 2010

Goodwill

367.9 681.7 1,049.6

Accumulated impairment losses

(46.1) (674.9) (721.0)

$321.8 $6.8 $328.6

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(1) Primarily consists of changes resulting from the translation of foreign currencies at different exchange rates from the beginning of the period to the end of the period.

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

Other intangible assets, net, consisted of the following major classes (in millions of dollars):

	September 30, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Amortizable intangible assets:			
Customer-related	$ 671.6	$ (349.3)	$ 322.3
Other[1]	73.9	(25.1)	48.8
Total	745.5	(374.4)	371.1
Indefinite-lived intangible assets:			
Trade name	2,190.0		2,190.0
Other[2]	18.2		18.2
Total	2,208.2		2,208.2
Total other intangible assets, net	$ 2,953.7	$ (374.4)	$ 2,579.3

	December 31, 2010		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Amortizable intangible assets:			
Customer-related	$ 606.5	$ (304.6)	$ 301.9
Other[1]	59.1	(18.6)	40.5
Total	665.6	(323.2)	342.4
Indefinite-lived intangible assets:			
Trade name	2,190.0		2,190.0
Other[2]	18.2		18.2
Total	2,208.2		2,208.2
Total other intangible assets, net	$ 2,873.8	$ (323.2)	$ 2,550.6

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(1) Other amortizable intangible assets primarily consist of our Advantage trade name and concession rights, Donlen trade name, reacquired franchise rights, non-compete agreements and technology-related intangibles.

(2)
Other indefinite-lived intangible assets primarily consist of reacquired franchise rights.

Amortization of other intangible assets for the three months ended September 30, 2011 and 2010, was approximately $17.5 million and $16.3 million, respectively, and for the nine months ended September 30, 2011 and 2010, was approximately $51.2 million and $49.0 million, respectively. Based on our amortizable intangible assets as of September 30, 2011, we expect amortization expense to be approximately $17.7 million for the remainder of 2011, $72.5 million in 2012, $71.2 million in 2013, $67.9 million in 2014, $66.4 million in 2015 and $19.3 million in 2016.

Donlen Acquisition

On September 1, 2011, Hertz acquired 100% of the equity interest in Donlen, a leading provider of fleet leasing and management services. Donlen provides Hertz an immediate leadership position in

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

long-term car, truck and equipment leasing and fleet management. This transaction is part of the overall growth strategy of Hertz to provide the most flexible transportation programs for corporate and general consumers. Additionally, Donlen brings to Hertz a specialized consulting and technology expertise that we expect to enable us to better model, measure and manage fleet performance. All goodwill recognized as part of this acquisition is reported in the car rental segment.

The Donlen base equity valuation for the transaction was $250.0 million, subject to adjustment based on the net assets of Donlen at closing. The preliminary purchase price adjustment at closing resulted in a downward adjustment of $2.4 million (resulting in a closing cash payment for equity of $247.6 million) and is subject to further adjustment upon finalization of the Donlen closing date balance sheet. None of the goodwill recognized as part of this acquisition is expected to be deductible for tax purposes.

The following summarizes the fair values of the assets purchased and liabilities assumed as of the acquisition date (in millions):

Cash and cash equivalents	$	35.6
Receivables		64.0
Prepaid expenses and other assets		7.0
Revenue earning equipment		1,120.6
Property and equipment		13.5
Other intangible assets		75.0
Goodwill		48.8
Accounts payable		(39.4)
Accrued liabilities		(235.2)
Deferred taxes on income		(113.5)
Debt		(728.8)
Total	$	247.6

Other intangible assets and their amortization periods are as follows:

	Useful life (in years)		Fair value (in millions)
Customer relationships	16	$	65.0
Trademark	20		7.0
Non-compete agreement	5		3.0
Total		$	75.0

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

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Unaudited

The amount of Donlen's revenue and earnings included in Hertz's consolidated statement of operations for the three and nine months ended September 30, 2011, and the revenue and earnings of the combined entity had the acquisition date been January 1, 2010, are as follows (in millions):

	Revenue	Earnings
Actual from 9/1/11 9/30/11	$ 35.1	$ 0.1
2011 supplemental pro forma from 7/1/11 9/30/11	$ 2,500.8	$ 211.1
2011 supplemental pro forma from 1/1/11 9/30/11	$ 6,545.8	$ 139.0
2010 supplemental pro forma from 7/1/10 9/30/10	$ 2,272.1	$ 151.6
2010 supplemental pro forma from 1/1/10 9/30/10	$ 5,977.8	$ (22.0)

Donlen's actual earnings for the month of September 2011 was impacted by $0.7 million related to the amortization expense associated with the acquired intangible assets and the fair value adjustment related to acquired software, as well as, the write-off of certain unamortized debt costs.

2011 supplemental pro forma revenue for the three and nine months ended September 30, 2011 excludes $0.6 million and $3.2 million, respectively, related to deferred revenue which was eliminated as part of acquisition accounting. 2011 supplemental pro forma earnings for the three and nine months ended September 30, 2011 excludes $0.4 million and $2.0 million, respectively, related to deferred income which was eliminated as part of acquisition accounting; and $5.3 million and $5.3 million, respectively, of acquisition related costs incurred in 2011.

2010 supplemental pro forma revenue for the three and nine months ended September 30, 2010 excludes $2.0 million and $7.0 million, respectively, related to deferred revenue which was eliminated as part of acquisition accounting. 2010 supplemental pro forma earnings for the three and nine months ended September 30, 2010 excludes $1.2 million and $4.3 million, respectively, related to deferred income which was eliminated as part of acquisition accounting, and includes $5.3 million and $5.3 million, respectively, of acquisition related costs incurred.

This transaction has been accounted for using the acquisition method of accounting in accordance with GAAP and operating results of Donlen from the date of acquisition are included in our consolidated statement of operations. The allocation of the purchase price to the tangible and intangible net assets acquired is preliminary and subject to finalization.

Other Acquisitions

Additionally, during the nine months ended September 30, 2011, we added eight international car rental locations and one domestic equipment rental location through external acquisitions. These acquisitions are not material to the consolidated amounts presented within our statement of operations for the three-month and nine-month periods ended September 30, 2011.

Note 5 Taxes on Income

The effective tax rate for the three and nine months ended September 30, 2011 was 28.1% and 37.9%, respectively. The provision for taxes on income was $83.2 million in the three months ended September 30, 2011 compared to the benefit for taxes of $3.9 million in the three months ended September 30, 2010, primarily due to higher income before income taxes, changes in geographic earnings mix and changes in losses in certain non-U.S. jurisdictions for which tax benefits cannot be realized. The provision for taxes on income was $87.9 million in the nine months ended September 30, 2011 compared to a benefit for taxes of $0.9 million in the nine months ended September 30, 2010,

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

primarily due to higher income before income taxes, changes in geographic earnings mix and changes in losses in certain non-U.S. jurisdictions for which tax benefits cannot be realized.

Note 6 Depreciation of Revenue Earning Equipment and Lease Charges

Depreciation of revenue earning equipment and lease charges includes the following (in millions of dollars):

	Three Months Ended September 30,	
	2011	2010
Depreciation of revenue earning equipment	$ 528.1	$ 467.5
Adjustment of depreciation upon disposal of revenue earning equipment	(30.9)	10.6
Rents paid for vehicles leased	26.1	22.9
Total	$ 523.3	$ 501.0

	Nine Months Ended September 30,	
	2011	2010
Depreciation of revenue earning equipment	$ 1,399.9	$ 1,321.9
Adjustment of depreciation upon disposal of revenue earning equipment	(93.3)	38.0
Rents paid for vehicles leased	72.4	57.0
Total	$ 1,379.0	$ 1,416.9

The adjustment of depreciation upon disposal of revenue earning equipment for the three months ended September 30, 2011 and 2010, included a net gain of $26.3 million and a net loss of $7.1 million, respectively, on the disposal of vehicles used in our car rental operations and a net gain of $4.6 million and a net loss of $3.5 million, respectively, on the disposal of industrial and construction equipment used in our equipment rental operations. The adjustment of depreciation upon disposal of revenue earning equipment for the nine months ended September 30, 2011 and 2010, included a net gain of $86.0 million and a net loss of $27.6 million, respectively, on the disposal of vehicles used in our car rental operations and a net gain of $7.3 million and a net loss of $10.4 million, respectively, on the disposal of industrial and construction equipment used in our equipment rental operations.

Depreciation rates are reviewed on a quarterly basis based on management's routine review of present and estimated future market conditions and their effect on residual values at the time of disposal. During the nine months ended September 30, 2011, depreciation rates being used to compute the provision for depreciation of revenue earning equipment were adjusted on certain vehicles in our car rental operations to reflect changes in the estimated residual values to be realized when revenue earning equipment is sold. These depreciation rate changes resulted in net decreases of $7.7 million and $16.3 million in depreciation expense for the three and nine months ended September 30, 2011, respectively. During the three and nine months ended September 30, 2011, depreciation rate changes in certain of our equipment rental operations resulted in net decreases of $1.3 million and $3.6 million in depreciation expense.

For the three months ended September 30, 2011 and 2010, our worldwide car rental operations sold approximately 46,000 and 44,400 non-program cars, respectively, a 3.6% year over year increase primarily due to higher average number of vehicles in our fleet. For the nine months ended September 30, 2011 and 2010, our worldwide car rental operations sold approximately 121,700 and 130,900 non-program cars, respectively, a 7.0% year over year decrease primarily due to an increase in rental demand which required us to maintain our fleet size.

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Note 7 Debt

Our debt consists of the following (in millions of dollars):

Facility	Average Interest Rate at September 30, 2011(1)	Fixed or Floating Interest Rate	Maturity	September 30, 2011	December 31, 2010
Corporate Debt					
Senior Term Facility[2]	3.75%	Floating	3/2018	$ 1,393.0	$ 1,345.0
Senior ABL Facility[2]	2.47%	Floating	3/2016	200.0	
Senior Notes[3]	7.32%	Fixed	1/2014 1/2021	2,651.4	3,229.6
Senior Subordinated Notes	10.50%	Fixed	1/2016		518.5
Promissory Notes	7.48%	Fixed	6/2012 1/2028	224.8	345.6
Convertible Senior Notes	5.25%	Fixed	6/2014	474.8	474.8
Other Corporate Debt	3.93%	Floating	Various	70.4	22.0
Unamortized Net (Discount) Premium (Corporate)[4]				(72.0)	(104.8)
Total Corporate Debt				4,942.4	5,830.7
Fleet Debt					
U.S. ABS Program					
U.S. Fleet Variable Funding Notes:					
Series 2009-1[5]	1.25%	Floating	3/2013	1,538.0	1,488.0
Series 2010-2[5]	1.29%	Floating	3/2013	185.0	35.0
U.S. Fleet Medium Term Notes					
Series 2009-2 Notes[5]	4.95%	Fixed	3/2013 3/2015	1,384.3	1,384.3
Series 2010-1 Notes[5]	3.77%	Fixed	2/2014 2/2018	749.8	749.8
Series 2011-1 Notes[5]	2.86%	Fixed	3/2015 3/2017	598.0	
Donlen ABS Program					
Donlen GN II Variable Funding Note Facility	1.17%	Floating	8/2012	769.3	
Other Fleet Debt					
U.S. Fleet Financing Facility	2.97%	Floating	9/2015	151.0	163.0
European Revolving Credit Facility	5.10%	Floating	6/2013	297.2	168.6
European Seasonal Revolving Credit Facility	3.86%	Floating	11/2011	135.4	
European Fleet Notes	8.50%	Fixed	7/2015	541.7	529.0
European Securitization[5]	3.76%	Floating	7/2013	454.2	236.9

Canadian Securitization(5)	1.11%	Floating	11/2011	126.3	80.4
Australian Securitization(5)	6.32%	Floating	12/2012	136.9	183.2
Brazilian Fleet Financing Facility	19.01%	Floating	12/2011	30.8	77.8
Capitalized Leases	4.60%	Floating	Various	478.6	398.1
Unamortized Discount (Fleet)				(12.6)	(18.4)
Total Fleet Debt				7,563.9	5,475.7
Total Debt				$ 12,506.3	$ 11,306.4

Note:

For further information on the definitions and terms of our debt, see Note 4 of the Notes to our audited annual consolidated financial statements included in our Form 10-K under the caption "Item 8 Financial Statements and Supplementary Data."

(1)

As applicable, reference is to the September 30, 2011 weighted average interest rate (weighted by principal balance).

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(2) December 31, 2010 balance refers to the former facilities which were refinanced on March 11, 2011, see "2011 Events," below.

(3) References to our "Senior Notes" include the series of Hertz's unsecured senior notes set forth in the table below. As of September 30, 2011, the outstanding principal amount for each such series of the Senior Notes is also specified below.

Senior Notes	Outstanding Principal
8.875% Senior Notes due January 2014	$162.3 million
7.875% Senior Notes due January 2014	$289.1 million (€213.5 million)
7.50% Senior Notes due October 2018	$700 million
7.375% Senior Notes due January 2021	$500 million
6.75% Senior Notes due April 2019	$1,000 million

(4) As of September 30, 2011 and December 31, 2010, $71.3 million and $87.7 million, respectively, of the unamortized corporate discount relates to the 5.25% Convertible Senior Notes.

(5) Maturity reference is to the "expected final maturity date" as opposed to the subsequent "legal maturity date." The expected final maturity date is the date by which Hertz and investors in the relevant indebtedness expect the relevant indebtedness to be repaid. The legal final maturity date is the date on which the relevant indebtedness is legally due and payable.

Maturities

The aggregate amounts of maturities of debt for each of the twelve-month periods ending September 30 (in millions of dollars) are as follows:

2012	$	5,198.9	(including $4,989.2 of other short-term borrowings)
2013	$	672.6	
2014	$	703.0	
2015	$	884.1	
2016	$	1,236.3	
After 2016	$	3,896.0	

We are highly leveraged and a substantial portion of our liquidity needs arise from debt service on our indebtedness and from the funding of our costs of operations and capital expenditures. We believe that cash generated from operations and cash received on the disposal of vehicles and equipment, together with amounts available under various liquidity facilities, will be adequate to permit us to meet our debt maturities over the next twelve months.

Our short-term borrowings as of September 30, 2011 include, among other items, the amounts outstanding under the Senior ABL Facility, European Securitization, Australian Securitization, U.S. Fleet Financing Facility, U.S. Variable Funding Notes, Brazilian Fleet Financing Facility, Canadian Securitization, Capitalized Leases, European Revolving Credit Facility, Donlen GN II Variable Funding Note Facility and European Seasonal Revolving Facility. These amounts are reflected as short-term borrowings, regardless of the facility maturity date, as these facilities are revolving in nature and/or the outstanding borrowings have maturities of three months or less. Short-term borrowings also include the Convertible Senior Notes which became convertible on January 1, 2011 and remained as such through September 30, 2011. As of September 30, 2011, short-term borrowings had a weighted average interest rate of 2.8%.

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Letters of Credit

As of September 30, 2011, there were outstanding standby letters of credit totaling $595.3 million. Of this amount, $541.0 million was issued under the Senior Credit Facilities ($291.1 million of which was issued for the benefit of the U.S. ABS Program and $45.1 million was related to other debt obligations) and the remainder is primarily to support self-insurance programs (including insurance policies with respect to which we have agreed to indemnify the policy issuers for any losses) as well as airport concession obligations in the United States, Canada and Europe. As of September 30, 2011, none of these letters of credit have been drawn upon.

2011 Events

On January 1, 2011, our Convertible Senior Notes became convertible. This conversion right was triggered because our closing common stock price per share exceeded $10.77 for at least 20 trading days during the 30 consecutive trading day period ending on December 31, 2010. Since this same trigger was met in the periods ending March 31, 2011 and June 30, 2011, the Convertible Senior Notes were convertible through September 30, 2011. As of October 1, 2011, the Convertible Senior Notes are no longer convertible but may become convertible thereafter, if one or more of the conversion conditions specified in the indenture is satisfied during future measurement periods. Our policy has been and continues to be to settle conversions of Convertible Senior Notes using a combination of cash and our common stock, which calls for settling the fixed dollar amount per $1,000 in principal amount in cash and settling in shares the excess conversion, if any.

In January 2011, Hertz redeemed in full its outstanding ($518.5 million principal amount) 10.50% Senior Subordinated Notes due 2016 which resulted in premiums paid of $27.2 million and the write-off of unamortized debt costs of $8.6 million. In January and February 2011, Hertz redeemed $1,105 million principal amount of its outstanding 8.875% Senior Notes due 2014 which resulted in premiums paid of $24.5 million and the write-off of unamortized debt costs of $14.4 million. Hertz used the proceeds from the September 2010 issuance of $700 million aggregate principal amount of 7.50% Senior Notes, the December 2010 issuance of $500 million aggregate principal amount of 7.375% Senior Notes and the February 2011 issuance of $500 million aggregate principal amount of 6.75% Senior Notes (see below) for these redemptions. Premiums paid are recorded in "Other (income) expense, net" on our consolidated statement of operations.

In February 2011, Hertz issued $500 million aggregate principal amount of 6.75% Senior Notes due 2019. The 6.75% Senior Notes are guaranteed on a senior unsecured basis by the domestic subsidiaries of Hertz that guarantee its Senior Credit Facilities.

In February 2011, Hertz used existing corporate liquidity to pay off the maturing amount of the Brazilian Fleet Financing Facility. A foreign subsidiary continues to maintain another facility as a source of financing for our rental car operations in Brazil.

In March 2011, Hertz issued an additional $500 million aggregate principal of the 6.75% Senior Notes due 2019. The proceeds of this March 2011 offering were used in April 2011 to redeem $480 million principal amount of Hertz's outstanding 8.875% Senior Notes due 2014 which resulted in premiums paid during the three months ended June 30, 2011, of $10.7 million recorded in "Other (income) expense, net" on our consolidated statement of operations and the write-off of unamortized debt costs of $5.8 million.

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In March 2011, Hertz refinanced its 2005 Senior Term Facility and 2005 Senior ABL Facility. A description of the new Senior Term Facility and Senior ABL Facility is set forth below. During the three months ended March 31, 2011, we recorded an expense of $9.3 million in "Interest expense" on our consolidated statement of operations associated with the write-off of unamortized debt costs in connection with the refinancing of our 2005 Senior Term Facility and 2005 Senior ABL Facility. Additionally, a portion of the unamortized debt costs associated with the 2005 Senior Term Facility and 2005 Senior ABL Facility are continuing to be amortized over the terms of the new Senior Term Facility and Senior ABL Facility. The determination of whether these costs were expensed or further deferred was dependent upon whether the terms of the old and new instruments were considered to be substantially different. In regards to the Senior Term Facility, the determination as to whether the 2005 Senior Term Facility and the new Senior Term Facility were considered to be substantially different was made on a lender by lender basis using the "net method" which compares the cash flows related to the lowest common principal balance between the old and new instruments.

In March 2011, Hertz entered into a credit agreement that provides a $1,400.0 million secured term loan facility (as amended, the "Senior Term Facility"). In addition, the Senior Term Facility includes a pre-funded synthetic letter of credit facility in an aggregate principal amount of $200.0 million. Subject to the satisfaction of certain conditions and limitations, the Senior Term Facility allows for the addition of incremental term and/or revolving loans. Hertz used approximately $1,345.0 million of borrowings under the Senior Term Facility to refinance indebtedness under the 2005 Senior Term Facility. We reflected this transaction on a gross basis in our Consolidated Statement of Cash Flows in "Proceeds from issuance of long-term debt" and "Payment of long-term debt." During the three months ended March 31, 2011, we recorded financing costs of $6.6 million in "Interest expense" on our consolidated statement of operations associated with the new Senior Term Facility.

In March 2011, Hertz, Hertz Equipment Rental Corporation and certain other of our subsidiaries entered into a credit agreement that provides for aggregate maximum borrowings of $1,800.0 million (subject to borrowing base availability) on a revolving basis under an asset-based revolving credit facility (as amended, the "Senior ABL Facility"). Up to $1,500.0 million of the Senior ABL Facility is available for the issuance of letters of credit subject to certain conditions including issuing lender participation. Subject to the satisfaction of certain conditions and limitations, the Senior ABL Facility allows for the addition of incremental revolving and/or term loan commitments. In addition, the Senior ABL Facility permits Hertz to increase the amount of commitments under the Senior ABL with the consent of each lender providing an additional commitment, subject to satisfaction of certain conditions.

In March 2011, Hertz amended the Canadian Securitization to extend the maturity date from May 2011 to November 2011.

In June 2011, Hertz Vehicle Financing LLC, or "HVF," a special purpose bankruptcy remote limited liability company of which Hertz is the sole member, closed on $598 million in aggregate principal amount of 3.5 year and 5.5 year weighted average life Series 2011-1 Rental Car Asset Backed Notes, Class A and Class B.

In June 2011, Hertz Holdings Netherlands B.V., an indirect wholly-owned subsidiary of Hertz organized under the laws of The Netherlands, entered into an accordion facility, or the "European Seasonal Revolving Credit Facility," under the European Revolving Credit Facility that provides for aggregate maximum borrowings of €100 million (the equivalent of $135.4 million as of September 30, 2011), subject to borrowing base availability.

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In August 2011, we extended the expected maturity of our European Securitization Facility to July 2013. In connection with the extension, we made a number of modifications to the financing arrangement including increasing the advance rate and decreasing pricing.

In September 2011, we extended the maturity of our U.S. Fleet Financing Facility to September 2015 and increased the facility size to $190.0 million. In connection with the extension, we made a number of modifications to the financing arrangement including decreasing the advance rate and increasing pricing.

On September 1, 2011, in connection with our acquisition of Donlen Corporation, Donlen's GN II Variable Funding Note Facility remained outstanding and lender commitments thereunder were increased to permit aggregate maximum borrowings of $850.0 million (subject to borrowing base availability).

Registration Rights

Pursuant to the terms of exchange and registration rights agreements entered into in connection with the separate issuances of the 7.5% Senior Notes due 2018, the 7.375% Senior Notes due 2021 and the 6.75% Senior Notes due 2019, Hertz agreed to file a registration statement under the Securities Act of 1933, as amended, to permit either the exchange of such notes for registered notes or, in the alternative, the registered resale of such notes. The registration statement was declared effective on August 19, 2011 and the exchange offers were consummated in September 2011.

Guarantees and Security

In September 2011, we added Donlen as a guarantor under certain of our debt instruments and credit facilities. There have been no material changes to the guarantees and security provisions of the debt instruments and credit facilities under which our indebtedness as of September 30, 2011 has been issued from the terms as disclosed in our Form 10-K.

Financial Covenant Compliance

Under the new terms of our amended Senior Term Facility and Senior ABL Facility, we are not subject to ongoing financial maintenance covenants; however, under the Senior ABL Facility we are subject to a springing financial maintenance covenant upon the occurrence of certain triggering events. As of September 30, 2011, no triggering event had occurred requiring testing of the springing financial maintenance covenant.

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Borrowing Capacity and Availability

As of September 30, 2011, the following facilities were available for the use of Hertz and its subsidiaries (in millions of dollars):

	Remaining Capacity	Availability Under Borrowing Base Limitation
Corporate Debt		
Senior ABL Facility	$ 1,258.7	$ 786.4
Total Corporate Debt	1,258.7	786.4
Fleet Debt		
Donlen GN II Variable Funding Note Facility	85.7	85.7
U.S. Fleet Variable Funding Notes	415.1	76.7
U.S. Fleet Financing Facility	39.0	3.6
European Securitization	57.2	30.1
Canadian Securitization	91.4	12.5
Australian Securitization	107.6	1.2
Capitalized Leases	7.4	1.0
Total Fleet Debt	803.4	210.8
Total	$ 2,062.1	$ 997.2

Our borrowing capacity and availability primarily comes from our "revolving credit facilities," which are a combination of asset-backed securitization facilities and asset-based revolving credit facilities. Creditors under each of our revolving credit facilities have a claim on a specific pool of assets as collateral. Our ability to borrow under each revolving credit facility is a function of, among other things, the value of the assets in the relevant collateral pool. We refer to the amount of debt we can borrow given a certain pool of assets as the "borrowing base."

We refer to "Remaining Capacity" as the maximum principal amount of debt permitted to be outstanding under the respective facility (i.e., the amount of debt we could borrow assuming we possessed sufficient assets as collateral) less the principal amount of debt then-outstanding under such facility.

We refer to "Availability Under Borrowing Base Limitation" and "borrowing base availability" as the lower of Remaining Capacity or the borrowing base less the principal amount of debt then-outstanding under such facility (i.e., the amount of debt we could borrow given the collateral we possess at such time).

As of September 30, 2011, the Senior Term Facility had approximately $0.3 million available under the letter of credit facility and the Senior ABL Facility had $1,103.7 million available under the letter of credit facility sublimit, subject to borrowing base restrictions.

Substantially all of our revenue earning equipment and certain related assets are owned by special purpose entities, or are encumbered in favor of our lenders under our various credit facilities.

Some of these special purpose entities are consolidated variable interest entities, of which Hertz is the primary beneficiary, whose sole purpose is to provide commitments to lend in various currencies subject to borrowing bases comprised of rental vehicles and related assets of certain of Hertz

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International, Ltd.'s subsidiaries. As of September 30, 2011 and December 31, 2010, our International Fleet Financing No. 1 B.V., International Fleet Financing No. 2 B.V. and HA Funding Pty, Ltd. variable interest entities had total assets primarily comprised of loans receivable and revenue earning equipment of $693.8 million and $652.1 million, respectively, and total liabilities primarily comprised of debt of $693.3 million and $651.6 million, respectively.

Note 8 Employee Retirement Benefits

The following table sets forth the net periodic pension and postretirement (including health care, life insurance and auto) expense (in millions of dollars):

	Pension Benefits				Postretirement Benefits (U.S.)	
	U.S.		Non-U.S.			
	Three Months Ended September 30,					
	2011	2010	2011	2010	2011	2010
Components of Net Periodic Benefit Cost:						
Service cost	$ 6.6	$ 4.6	$ (0.5)	$ 1.4	$ 0.1	$ 0.1
Interest cost	6.6	6.0	2.9	2.6	0.2	0.3
Expected return on plan assets	(7.7)	(6.6)	(3.5)	(2.5)		
Net amortizations	1.1	0.2	0.1	(0.1)	(0.1)	0.2
Settlement loss	1.5					
Net pension/postretirement expense	$ 8.1	$ 4.2	$ (1.0)	$ 1.4	$ 0.2	$ 0.6

	Pension Benefits				Postretirement Benefits (U.S.)	
	U.S.		Non-U.S.			
	Nine Months Ended September 30,					
	2011	2010	2011	2010	2011	2010
Components of Net Periodic Benefit Cost:						
Service cost	$ 19.7	$ 18.0	$ 3.0	$ 3.9	$ 0.2	$ 0.2
Interest cost	20.6	19.6	8.5	7.7	0.7	0.7
Expected return on plan assets	(22.9)	(20.0)	(9.7)	(7.4)		
Net amortizations	5.4	3.5	(0.5)	(0.2)		
Settlement loss	2.2	0.4				
Curtailment gain			(13.1)			
Net pension/postretirement expense	$ 25.0	$ 21.5	$ (11.8)	$ 4.0	$ 0.9	$ 0.9

Our policy for funded plans is to contribute annually, at a minimum, amounts required by applicable laws, regulations and union agreements. From time to time we make contributions beyond those legally required. For the three and nine months ended September 30, 2011, we contributed $16.6 million and $73.7 million, respectively, to our worldwide pension plans, including discretionary contributions of $0.5 million

and $13.7 million, respectively, to our United Kingdom, or "U.K.," defined benefit pension plan and benefit payments made through unfunded plans. For the three and nine months ended September 30, 2010, we contributed $11.2 million and $57.8 million, respectively, to our worldwide pension plans, including discretionary contributions of $2.3 million and $5.5 million, respectively, to our U.K. defined benefit pension plan and benefit payments made through unfunded plans. Based upon the significant decline in asset values in 2008, which were in line with the overall market declines, it is likely we will continue to make cash contributions in 2011 and possibly in future years.

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We sponsored a defined benefit pension plan in the U.K. On June 30, 2011, we approved an agreement with the trustees of that plan to cease all future benefit accruals to existing members and to close the plan to new members. Effective July 1, 2011, we introduced a defined contribution plan with company matching contributions to replace the defined benefit pension plan. The company matching contributions are generally 100% of the employee contributions, up to 8% of pay, except that former members of the defined benefit plan receive an enhanced match for five years. This will result in somewhat lower contributions this year into the defined benefit plan, which will be offset by matching contributions to the new defined contribution plan. In the three months ended June 30, 2011, we recognized a gain of $13.1 million for the U.K. plan that represented unamortized prior service cost from a 2010 amendment that eliminated discretionary pension increases related to pre-1997 service primarily related to inactive employees.

We participate in various "multiemployer" pension plans. In the event that we withdraw from participation in one of these plans, then applicable law could require us to make an additional lump-sum contribution to the plan, and we would have to reflect that as an expense in our consolidated statement of operations and as a liability on our condensed consolidated balance sheet. Our withdrawal liability for any multiemployer plan would depend on the extent of the plan's funding of vested benefits. At least one multiemployer plan in which we participate is reported to have, and other of our multiemployer plans could have, significant underfunded liabilities. Such underfunding may increase in the event other employers become insolvent or withdraw from the applicable plan or upon the inability or failure of withdrawing employers to pay their withdrawal liability. In addition, such underfunding may increase as a result of lower than expected returns on pension fund assets or other funding deficiencies.

Note 9 Stock-Based Compensation

In March 2011, we granted 371,505 Restricted Stock Units, or "RSUs," to certain executives and employees at fair values ranging from $14.60 to $15.02, 499,515 Performance Stock Units, or "PSUs," at a fair value of $14.60, and 193,798 PSUs at a fair value of $10.19 under the Hertz Global Holdings, Inc. 2008 Omnibus Incentive Plan, or the "Omnibus Plan." For the PSUs, 499,515 have a performance condition under which the number of units that will ultimately be awarded will vary from 0% to 150% of the original grant, based on the sum of 2011 and 2012 Corporate EBITDA results. The remaining 193,798 PSUs granted contain a market condition whereby the 20 day average trailing stock price must equal or exceed a certain price target at any time during the five year performance period. In May 2011, we granted 130,275 RSUs at a fair value of $16.39. In August 2011, we granted 47,473 RSUs at a fair value of $11.79.

In March 2011, we granted options to acquire 2,108,944 shares of our common stock to certain executives and employees at exercise prices ranging from $14.60 to $15.02 under the Omnibus Plan.

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A summary of the total compensation expense and associated income tax benefits recognized under our Hertz Global Holdings, Inc. Stock Incentive Plan and Hertz Global Holdings, Inc. Director Stock Incentive Plan, or the "Prior Plans," and the Omnibus Plan, including the cost of stock options, RSUs, and PSUs, is as follows (in millions of dollars):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Compensation Expense	$ 7.8	$ 8.7	$ 24.4	$ 28.0
Income Tax Benefit	(3.0)	(3.4)	(9.4)	(10.8)
Total	$ 4.8	$ 5.3	$ 15.0	$ 17.2

As of September 30, 2011, there was approximately $43.5 million of total unrecognized compensation cost related to non-vested stock options, RSUs and PSUs granted by Hertz Holdings under the Prior Plans and the Omnibus Plan. The total unrecognized compensation cost is expected to be recognized over the remaining 1.7 years, on a weighted average basis, of the requisite service period that began on the grant dates.

Note 10 Segment Information

Our operating segments are aggregated into reportable business segments based primarily upon similar economic characteristics, products, services, customers, and delivery methods. We have identified two reportable segments: rental and leasing of cars, crossovers and light trucks, or "car rental," and rental of industrial, construction and material handling equipment, or "equipment rental." Other reconciling items include general corporate assets and expenses, certain interest expense (including net interest on corporate debt), as well as other business activities, such as our third party claim management services. Donlen is included in the car rental reportable segment.

Adjusted pre-tax income (loss) is the measure utilized by management in making decisions about allocating resources to segments and measuring their performance. We believe this measure best reflects the financial results from ongoing operations. Adjusted pre-tax income (loss) is calculated as income (loss) before income taxes plus other reconciling items, non-cash purchase accounting charges, non-cash debt charges and certain one-time charges and non-operational items. The

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contribution of our reportable segments to revenues and adjusted pre-tax income (loss) and the reconciliation to consolidated amounts are summarized below (in millions of dollars).

	Three Months Ended September 30,			
	Revenues		Adjusted Pre-Tax Income (Loss)	
	2011	2010	2011	2010
Car rental	$ 2,109.1	$ 1,903.5	$ 375.3	$ 307.1
Equipment rental	321.7	281.2	55.9	33.7
Total reportable segments	2,430.8	2,184.7	431.2	340.8
Other	1.5	1.6		
Total	$ 2,432.3	$ 2,186.3		
Adjustments:				
Other reconciling items[1]			(84.3)	(89.4)
Purchase accounting[2]			(19.1)	(23.8)
Non-cash debt charges[3]			(21.0)	(46.4)
Restructuring charges			(1.9)	(14.6)
Restructuring related charges[4]			(3.2)	(0.6)
Derivative gains (losses)[5]			0.1	(0.2)
Management transition costs			(1.5)	
Acquisition related costs			(4.6)	(9.7)
Income before income taxes			$ 295.7	$ 156.1

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	Nine Months Ended September 30,			
	Revenues		Adjusted Pre-Tax Income (Loss)	
	2011	2010	2011	2010
Car rental	$ 5,388.3	$ 4,938.2	$ 678.8	$ 509.9
Equipment rental	891.6	784.1	99.5	43.0
Total reportable segments	6,279.9	5,722.3	778.3	552.9
Other	4.7	4.5		
Total	$ 6,284.6	$ 5,726.8		
Adjustments:				
Other reconciling items[1]			(263.0)	(275.6)
Purchase accounting[2]			(62.2)	(68.4)
Non-cash debt charges[3]			(108.0)	(144.9)
Restructuring charges			(40.4)	(45.5)
Restructuring related charges[4]			(6.4)	(7.9)
Derivative gains (losses)[5]			0.1	(2.5)
Acquisition related costs			(13.6)	(16.7)
Management transition costs			(4.0)	
Pension adjustment[6]			13.1	
Premiums paid on debt[7]			(62.4)	
Income (loss) before income taxes			$ 231.5	$ (8.6)

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(1) Represents general corporate expenses, certain interest expense (including net interest on corporate debt), as well as other business activities such as our third-party claim management services.

(2) Represents the purchase accounting effects of the Acquisition on our results of operations relating to increased depreciation and amortization of tangible and intangible assets and accretion of revalued workers' compensation and public liability and property damage liabilities. Also represents the purchase accounting effects of subsequent acquisitions on our results of operations relating to increased amortization of intangible assets.

(3) Represents non-cash debt charges relating to the amortization and write-off of deferred debt financing costs and debt discounts. For the three and nine months ended September 30, 2010, also includes $18.0 million and $56.9 million, respectively, associated with the amortization of amounts pertaining to the de-designation of

the Hertz Vehicle Financing LLC, or "HVF," interest rate swaps as effective hedging instruments.

(4)
Represents incremental costs incurred directly supporting our business transformation initiatives. Such costs include transition costs incurred in connection with our business process outsourcing arrangements and incremental costs incurred to facilitate business process re-engineering initiatives that involve significant organization redesign and extensive operational process changes.

(5)
Represents the mark-to-market adjustment on our interest rate cap.

(6)
Represents a gain for the U.K. pension plan relating to unamortized prior service cost from a 2010 amendment that eliminated discretionary pension increases related to pre-1997 service primarily pertaining to inactive employees.

(7)
Represents premiums paid to redeem our 10.5% Senior Subordinated Notes and a portion of our 8.875% Senior Notes.

Total assets increased $1,745.0 million from December 31, 2010 to September 30, 2011. The increase was primarily related to an increase in our car rental segment's revenue earning equipment and receivables, partly offset by a decrease in other cash and cash equivalents primarily relating to the redemption of our 10.5% Senior Subordinated Notes and a portion of our 8.875% Senior Notes.

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

Note 11 Total Equity

(in Millions)	Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total Equity
December 31, 2010	$	413.5	$ 4.1	$ 3,183.2	$ (1,123.2)	$ 37.9	$ 16.5	$2,118.5
Net income attributable to Hertz Global Holdings, Inc. and Subsidiaries' common stockholders					129.1			129.1
Translation adjustment changes, net of tax						(7.9)		(7.9)
Unrealized holding gains on securities, net of tax						(3.8)		(3.8)
Unrealized gain on Euro-denominated debt, net of tax						(4.2)		(4.2)
Defined benefit pension plans, net of tax						(0.2)		(0.2)
Total Comprehensive Loss								113.0
Net income relating to noncontrolling interest							14.5	14.5
Dividend payment to noncontrolling interest							(10.5)	(10.5)
Employee stock purchase plan		0.2		3.2				3.2
Net settlement on vesting of restricted stock		1.2		(11.4)				(11.4)
Stock-based employee compensation charges, net of tax				24.4				24.4
Exercise of stock options, net of tax		1.6	0.1	12.3				12.4
Common shares issued to Directors		0.2		1.5				1.5
September 30, 2011	$	416.7	$ 4.2	$ 3,213.2	$ (994.1)	$ 21.8	$ 20.5	$2,265.6

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

(in Millions)	Preferred Stock	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total Equity
December 31, 2009	$	410.2	$ 4.1	$ 3,141.7	$ (1,072.6)	$ (3.3)	$ 17.3	$2,087.2
Net loss attributable to Hertz Global Holdings, Inc. and Subsidiaries' common stockholders					(20.6)			(20.6)
Change in fair value of derivatives qualifying as cash flow hedges, net of tax						41.9		41.9
Translation adjustment changes, net of tax						(16.6)		(16.6)
Unrealized gain on Euro-denominated debt, net of tax						10.5		10.5
Defined benefit pension plans, net of tax						(0.4)		(0.4)
Total Comprehensive Income								14.8
Dividend payment to noncontrolling interest							(12.7)	(12.7)
Net income relating to noncontrolling interest							13.0	13.0
Employee stock purchase plan		0.2		2.2				2.2
Net settlement on vesting of restricted stock		1.6		(5.7)				(5.7)
Stock-based employee compensation charges, net of tax				28.0				28.0
Exercise of stock options, net of tax		0.3		3.2				3.2
Common shares issued to Directors		0.0		1.0				1.0
Phantom shares issued to Directors		0.0		0.3				0.3
Proceeds from disgorgement of stockholder short-swing profits, net of tax				0.1				0.1
September 30, 2010	$	412.3	$ 4.1	$ 3,170.8	$ (1,093.2)	$ 32.1	$ 17.6	$2,131.4

Accumulated other comprehensive income (loss) as of September 30, 2011 and December 31, 2010 includes accumulated translation gains of $107.0 million and $114.9 million, respectively, pension benefits of $(70.5) million and $(70.2) million, respectively, unrealized losses on our

Euro-denominated debt of $(11.0) million and $(6.8) million, respectively, and unrealized holding losses of $(3.7) million and unrealized holding gains of $0.1 million, respectively.

HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

Note 12 Restructuring

As part of our ongoing effort to implement our strategy of reducing operating costs, we have evaluated our workforce and operations and made adjustments, including headcount reductions and business process reengineering resulting in optimized work flow at rental locations and maintenance facilities as well as streamlined our back-office operations and evaluated potential outsourcing opportunities. When we made adjustments to our workforce and operations, we incurred incremental expenses that delay the benefit of a more efficient workforce and operating structure, but we believe that increased operating efficiency and reduced costs associated with the operation of our business are important to our long-term competitiveness.

During 2007 through 2010, we announced several initiatives to improve our competitiveness and industry leadership through targeted job reductions. These initiatives included, but were not limited to, job reductions at our corporate headquarters and back-office operations in the U.S. and Europe. As part of our re-engineering optimization we outsourced selected functions globally. In addition, we streamlined operations and reduced costs by initiating the closure of targeted car rental locations and equipment rental branches throughout the world. The largest of these closures occurred in 2008 which resulted in closures of approximately 250 off-airport locations and 22 branches in our U.S. equipment rental business. These initiatives impacted approximately 8,500 employees.

During the first quarter of 2011, we continued to streamline operations and reduce costs with the closure of several car rental and equipment rental locations globally as well as a reduction in our workforce by approximately 100 employees.

During the second quarter of 2011, we continued to streamline operations and reduce costs with the closure of twelve equipment rental locations in the U.S., consolidation of our European headquarters and the reduction in our global workforce by approximately 50 employees.

During the third quarter of 2011, we continued to streamline operations and reduce costs by reducing our global workforce by approximately 170 employees.

From January 1, 2007 through September 30, 2011, we incurred $514.6 million ($247.0 million for our car rental segment, $213.8 million for our equipment rental segment and $53.8 million of other) of restructuring charges.

Additional efficiency and cost saving initiatives are being developed, however, we presently do not have firm plans or estimates of any related expenses.

HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

Restructuring charges in our consolidated statement of operations can be summarized as follows (in millions of dollars):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
By Type:				
Involuntary termination benefits	$ 2.4	$ 2.7	$ 6.8	$ 7.5
Pension and post retirement expense			0.3	0.6
Consultant costs	0.3	0.2	0.6	0.9
Asset writedowns	(0.5)	5.0	22.8	19.5
Facility closure and lease obligation costs	(0.4)	5.3	9.6	11.9
Relocation costs and temporary labor costs	0.1	1.3	0.1	3.8
Other		0.1	0.2	1.3
Total	$ 1.9	$ 14.6	$ 40.4	$ 45.5

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
By Caption:				
Direct operating	$ 0.7	$ 12.5	$ 35.3	$ 37.7
Selling, general and administrative	1.2	2.1	5.1	7.8
Total	$ 1.9	$ 14.6	$ 40.4	$ 45.5

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	**2010**	**2011**	**2010**
By Segment:				
Car rental	$ 2.8	$ 4.0	$ 7.3	$ 13.4
Equipment rental	(0.9)	10.6	32.7	31.4
Other reconciling			0.4	0.7

items				
Total	$ 1.9	$ 14.6	$ 40.4	$ 45.5

During the three and nine months ended September 30, 2011, the after-tax effect of the restructuring charges decreased diluted earnings per share by $0.00 and $0.06, respectively. During the three and nine months ended September 30, 2010, the after-tax effect of the restructuring charges decreased diluted earnings per share by $0.03 and increased the diluted loss per share by $0.08, respectively.

The following table sets forth the activity affecting the restructuring accrual during the nine months ended September 30, 2011 (in millions of dollars). We expect to pay the remaining restructuring obligations relating to involuntary termination benefits over the next twelve months. The remainder of the

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

restructuring accrual relates to future lease obligations which will be paid over the remaining term of the applicable leases.

	Involuntary Termination Benefits	Pension and Post Retirement Expense	Consultant Costs	Other	Total
Balance as of January 1, 2011	$ 6.3	$ 0.2	$ 0.1	$ 10.9	$ 17.5
Charges incurred	6.8	0.3	0.6	32.7	40.4
Cash payments	(10.7)		(0.5)	(1.7)	(12.9)
Other[1]	0.9	(0.3)		(31.1)	(30.5)
Balance as of September 30, 2011	$ 3.3	$ 0.2	$ 0.2	$ 10.8	$ 14.5

(1) Primarily consists of decreases of $(22.8) million for asset writedowns, $(8.3) million for facility closures and $(0.3) million FAS 88 pension adjustment, partly offset by increases of $0.8 million for involuntary benefits and an increase of $0.2 million due to foreign currency translation.

Note 13 Financial Instruments

Cash and Cash Equivalents and Restricted Cash and Cash Equivalents

Fair value approximates the amount indicated on the balance sheet at September 30, 2011 and December 31, 2010 because of the short-term maturity of these instruments. Money market accounts, whose fair value at September 30, 2011, is measured using Level 1 inputs, totaling $45.9 million and $177.6 million are included in "Cash and cash equivalents" and "Restricted cash and cash equivalents," respectively. Money market accounts, whose fair value at December 31, 2010, is measured using Level 1 inputs, totaling $1,747.9 million and $24.1 million are included in "Cash and cash equivalents" and "Restricted cash and cash equivalents," respectively.

Marketable Securities

Marketable securities held by us consist of equity securities classified as available-for-sale, which are carried at fair value and are included within "Prepaid expenses and other assets." Unrealized gains and losses, net of related income taxes, are included in "Accumulated other comprehensive income." As of September 30, 2011 and December 31, 2010, the fair value of marketable securities was $26.6 million and $0.0 million, respectively. For the three and nine months ended September, 30, 2011, unrealized losses of $8.2 million and $6.3 million, respectively, were recorded in "Accumulated other comprehensive income." Fair values for marketable securities are based on Level 1 inputs consisting of quoted market prices.

Debt

For borrowings with an initial maturity of 93 days or less, fair value approximates carrying value because of the short-term nature of these instruments. For all other debt, fair value is estimated based on quoted market rates as well as borrowing rates currently available to us for loans

with similar terms and average maturities (Level 2 inputs). The aggregate fair value of all debt at September 30, 2011 was $12,630.4 million, compared to its aggregate unpaid principal balance of $12,590.9 million. The aggregate fair value of all debt at December 31, 2010 was $12,063.5 million, compared to its aggregate unpaid principal balance of $11,429.6 million.

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

Derivative Instruments and Hedging Activities

The following table summarizes our financial assets and liabilities measured at fair value on a recurring basis (in millions of dollars):

	Fair Value of Derivative Instruments(1)			
	Asset Derivatives(2)		Liability Derivatives(2)	
	September 30, 2011	December 31, 2010	September 30, 2011	December 31, 2010
Derivatives not designated as hedging instruments under ASC 815:				
Gasoline swaps	$	$ 3.1	$ 2.2	$
Interest rate caps	0.6	7.2	0.6	7.2
Foreign exchange forward contracts	15.5	2.6	4.7	11.1
Interest rate swaps			0.3	
Foreign exchange options	0.1	0.1		
Total derivatives not designated as hedging instruments under ASC 815	$ 16.2	$ 13.0	$ 7.8	$ 18.3

(1) All fair value measurements were primarily based upon significant observable (Level 2) inputs.

(2) All asset derivatives are recorded in "Prepaid expenses and other assets" and all liability derivatives are recorded in "Accrued liabilities" on our condensed consolidated balance sheets.

	Amount of Gain or (Loss) Recognized in Other Comprehensive Income (Loss) on Derivative (Effective Portion)		Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (Effective Portion)	
	Three Months Ended September 30,			
	2011	2010	2011	2010
Derivatives in ASC 815 Cash Flow Hedging Relationship:				
HVF interest rate swaps	$	$ 3.1	$	$ (21.6)[(1)]

HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

	Amount of Gain or (Loss) Recognized in Other Comprehensive Income (Loss) on Derivative (Effective Portion)		Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) into Income (Effective Portion)	
	Nine Months Ended September 30,			
	2011	2010	2011	2010
Derivatives in ASC 815 Cash Flow Hedging Relationship:				
HVF interest rate swaps	$	$ 11.9	$	$ (72.1)[(1)]

Note:

As of December 31, 2010, the HVF interest rate swaps and associated debt matured. The location of the effective portion reclassified from "Accumulated other comprehensive income" into income is in "Interest expense" on our consolidated statement of operations. No amount of gain or loss was recognized in income (ineffective portion) during the three and nine months ended September 30, 2011 and 2010.

(1)

Includes the amortization of amounts in "Accumulated other comprehensive income" associated with the de-designation of a previous cash flow hedging relationship.

	Location of Gain or (Loss) Recognized on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative Three Months Ended September 30,	
		2011	2010
Derivatives Not Designated as Hedging Instruments under ASC 815:			
Gasoline swaps	Direct operating	$ (1.9)	$ 1.7
Interest rate caps	Selling, general and administrative	0.1	(0.2)
Foreign exchange	Selling, general and administrative	11.3	(18.5)

forward contracts			
Foreign exchange options	Selling, general and administrative	(0.1)	(0.1)
Total		$ 9.4	$ (17.1)

	Location of Gain or (Loss) Recognized on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative Nine Months Ended September 30, 2011	2010
Derivatives Not Designated as Hedging Instruments under ASC 815:			
Gasoline swaps	Direct operating	$ 1.0	$
Interest rate caps	Selling, general and administrative	0.1	(2.5)
Foreign exchange forward contracts	Selling, general and administrative	3.4	(19.9)
Foreign exchange options	Selling, general and administrative	(0.1)	(0.2)
Total		$ 4.4	$ (22.6)

In conjunction with the refinanced Series 2009-1 Notes and the Series 2010-2 Notes, HVF purchased an interest rate cap for $6.7 million, with a maximum notional amount equal to the refinanced Series 2009-1 Notes and the Series 2010-2 Notes with a combined maximum principal amount of $2.1 billion, a strike

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

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rate of 5% and expected maturity date of March 25, 2013. Additionally, Hertz sold a 5% interest rate cap for $6.2 million, with a matching notional amount and term to the HVF interest rate cap. Also in December 2010, the Australian Securitization was completed and our Australian operating subsidiary purchased an interest rate cap for $0.5 million, with a maximum notional amount equal to the Australian Securitization maximum principal amount of A$250 million, a strike rate of 7% and expected maturity date of December 2012. Additionally, Hertz sold a 7% interest rate cap, for $0.4 million with a matching notional amount and term to the Australian operating subsidiary's interest rate cap. The fair values of all interest rate caps were calculated using a discounted cash flow method and applying observable market data (i.e. the 1-month LIBOR yield curve and credit default swap spreads). Gains and losses resulting from changes in the fair value of these interest rate caps are included in our results of operations in the periods incurred.

In connection with our acquisition of Donlen, we acquired interest rate swaps with a total notional amount of $30.4 million at September 30, 2011, associated with floating rate debt. These interest rate swaps are used to effectively convert an amount of floating rate debt into fixed rate debt. The fair values of these interest rate swaps were calculated using a discounted cash flow method and applying observable market data (i.e. the 1-month LIBOR yield curve). Gains and losses resulting from changes in the fair value of these interest rate swaps are included in our results of operations in the periods incurred (in Selling, general and administrative).

We purchase unleaded gasoline and diesel fuel at prevailing market rates and maintain a program to manage our exposure to changes in fuel prices through the use of derivative commodity instruments. We currently have in place swaps to cover a portion of our fuel price exposure through November 2012. We presently hedge a portion of our overall unleaded gasoline and diesel fuel purchases with commodity swaps and have contracts in place that settle on a monthly basis. As of September 30, 2011, our outstanding commodity instruments for unleaded gasoline and diesel fuel totaled approximately 9.3 million gallons and 2.1 million gallons, respectively. The fair value of these commodity instruments was calculated using a discounted cash flow method and applying observable market data (i.e., NYMEX RBOB Gasoline and U.S. Department of Energy surveys, etc.). Gains and losses resulting from changes in the fair value of these commodity instruments are included in our results of operations in the periods incurred.

We manage our foreign currency risk primarily by incurring, to the extent practicable, operating and financing expenses in the local currency in the countries in which we operate, including making fleet and equipment purchases and borrowing for working capital needs. Also, we have purchased foreign exchange options to manage exposure to fluctuations in foreign exchange rates for selected marketing programs. The effect of exchange rate changes on these financial instruments would not materially affect our consolidated financial position, results of operations or cash flows. Our risks with respect to foreign exchange options are limited to the premium paid for the right to exercise the option and the future performance of the option's counterparty. Premiums paid for options outstanding as of September 30, 2011, were approximately $0.2 million. We limit counterparties to the transactions to financial institutions that have strong credit ratings. As of September 30, 2011 and December 31, 2010, the total notional amount of these foreign exchange options was $5.3 million and $3.5 million, respectively. As of September 30, 2011, these foreign exchange options mature through January 2013. The fair value of the foreign exchange options was calculated using a discounted cash flow method and applying observable market data (i.e. foreign currency exchange rates). Gains and losses resulting from changes in the fair value of these options are included in our results of operations in the periods incurred.

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We also manage exposure to fluctuations in currency risk on intercompany loans we make to certain of our subsidiaries by entering into foreign currency forward contracts at the time of the loans which are intended to offset the impact of foreign currency movements on the underlying intercompany loan obligations. As of September 30, 2011 and December 31, 2010, the total notional amount of these forward contracts was $1,043.0 million and $721.8 million, respectively. As of September 30, 2011 these foreign currency forward contracts mature within four months. The fair value of these foreign currency forward contracts was calculated based on foreign currency forward exchange rates.

On October 1, 2006, we designated our 7.875% Senior Notes due 2014 as an effective net investment hedge of our Euro-denominated net investment in our international operations. As a result of this net investment hedge designation, as of September 30, 2011 and December 31, 2010, losses of $11.0 million (net of tax of $7.8 million) and $6.8 million (net of tax of $5.1 million), respectively, attributable to the translation of our 7.875% Senior Notes due 2014 into the U.S. dollar are recorded in our condensed consolidated balance sheet in "Accumulated other comprehensive income."

Note 14 Related Party Transactions

Relationship with Hertz Investors, Inc. and the Sponsors

Other than as disclosed below, in the nine months ended September 30, 2011, there were no material changes to our relationship with Hertz Investors, Inc. or the Sponsors.

On March 31, 2011, the Sponsors sold 50 million of our common shares to Goldman, Sachs & Co. as the sole underwriter in the registered public offering of those shares. Following this offering, the Sponsors continue to own an aggregate of approximately 160 million shares, or approximately 39% of our outstanding common stock.

Financing Arrangements with Related Parties

Affiliates of BAMLCP (which is one of the Sponsors), including Merrill Lynch & Co., Inc., Bank of America, N.A. and certain of their affiliates (which are stockholders of Hertz Holdings), have provided various investment and commercial banking and financial advisory services to us for which they have received customary fees and commissions. In addition, these parties have acted as agents, lenders, purchasers and/or underwriters to us under our respective financing arrangements, for which they have received customary fees, commissions, expenses and/or other compensation. More specifically, these parties have acted in the following capacities, or similar capacities, with respect to our financing arrangements: lenders and/or agents under the Senior Credit Facilities, the U.S. Fleet Financing Facility and certain of the U.S. Fleet Variable Funding Notes; purchasers and/or underwriters under the Senior Notes and certain of the U.S. Fleet Medium Term Notes; and structuring advisors and/or agents under the U.S. ABS Program.

As of September 30, 2011 and December 31, 2010, approximately $182 million and $255 million, respectively, of our outstanding debt was with related parties.

See Note 7 Debt.

Note 15 Contingencies and Off-Balance Sheet Commitments

Off-Balance Sheet Commitments

As of September 30, 2011 and December 31, 2010, the following guarantees (including indemnification commitments) were issued and outstanding.

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

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Indemnification Obligations

In the ordinary course of business, we execute contracts involving indemnification obligations customary in the relevant industry and indemnifications specific to a transaction such as the sale of a business. These indemnification obligations might include claims relating to the following: environmental matters; intellectual property rights; governmental regulations and employment-related matters; customer, supplier and other commercial contractual relationships; and financial matters. Performance under these indemnification obligations would generally be triggered by a breach of terms of the contract or by a third party claim. We regularly evaluate the probability of having to incur costs associated with these indemnification obligations and have accrued for expected losses that are probable and estimable. The types of indemnification obligations for which payments are possible include the following:

Sponsors; Directors

Hertz has entered into customary indemnification agreements with Hertz Holdings, the Sponsors and our stockholders affiliated with the Sponsors, pursuant to which Hertz Holdings and Hertz will indemnify the Sponsors, our stockholders affiliated with the Sponsors and their respective affiliates, directors, officers, partners, members, employees, agents, representatives and controlling persons, against certain liabilities arising out of performance of a consulting agreement with Hertz Holdings and each of the Sponsors and certain other claims and liabilities, including liabilities arising out of financing arrangements or securities offerings. We also entered into indemnification agreements with each of our directors. We do not believe that these indemnifications are reasonably likely to have a material impact on us.

Environmental

We have indemnified various parties for the costs associated with remediating numerous hazardous substance storage, recycling or disposal sites in many states and, in some instances, for natural resource damages. The amount of any such expenses or related natural resource damages for which we may be held responsible could be substantial. The probable expenses that we expect to incur for such matters have been accrued, and those expenses are reflected in our condensed consolidated financial statements. As of September 30, 2011 and December 31, 2010, the aggregate amounts accrued for environmental liabilities including liability for environmental indemnities, reflected in our condensed consolidated balance sheets in "Accrued liabilities" were $1.8 million and $1.6 million, respectively. The accrual generally represents the estimated cost to study potential environmental issues at sites deemed to require investigation or clean-up activities, and the estimated cost to implement remediation actions, including on-going maintenance, as required. Cost estimates are developed by site. Initial cost estimates are based on historical experience at similar sites and are refined over time on the basis of in-depth studies of the sites. For many sites, the remediation costs and other damages for which we ultimately may be responsible cannot be reasonably estimated because of uncertainties with respect to factors such as our connection to the site, the materials there, the involvement of other potentially responsible parties, the application of laws and other standards or regulations, site conditions, and the nature and scope of investigations, studies, and remediation to be undertaken (including the technologies to be required and the extent, duration, and success of remediation).

HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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Legal Proceedings

From time to time we are a party to various legal proceedings. We are currently a defendant in numerous actions and have received numerous claims on which actions have not yet been commenced for public liability and property damage arising from the operation of motor vehicles and equipment rented from us and our licensees. The obligation for public liability and property damage on self-insured U.S. and international vehicles and equipment, as stated on our balance sheet, represents an estimate for both reported accident claims not yet paid and claims incurred but not yet reported. The related liabilities are recorded on a non-discounted basis. Reserve requirements are based on actuarial evaluations of historical accident claim experience and trends, as well as future projections of ultimate losses, expenses, premiums and administrative costs. At September 30, 2011 and December 31, 2010 our liability recorded for public liability and property damage matters was $289.4 million and $278.7 million, respectively. We believe that our analysis was based on the most relevant information available, combined with reasonable assumptions, and that we may prudently rely on this information to determine the estimated liability. We note the liability is subject to significant uncertainties. The adequacy of the liability reserve is regularly monitored based on evolving accident claim history and insurance related state legislation changes. If our estimates change or if actual results differ from these assumptions, the amount of the recorded liability is adjusted to reflect these results.

For a detailed description of certain of our legal proceedings please see Note 11 of the Notes to our audited annual consolidated financial statements included in our Form 10-K under the caption "Item 8 Financial Statements and Supplementary Data."

The following recent developments pertaining to legal proceedings described in our Form 10-K are furnished on a supplemental basis:

Following the entry of the Court's June 27, 2011 Order in *Janet Sobel et al. v. The Hertz Corporation et al.* which formally denied the plaintiffs' motion for final approval of the settlement, the plaintiffs filed a motion for class certification which we opposed and discovery has again commenced. A separate action is proceeding against Enterprise, National and Alamo.

The Kansas Supreme Court issued its decision in *Critchfield Physical Therapy, Inc. v. Taranto Group, Inc.* another Telephone Consumer Protection Act case in September of 2011, so the stay that had been pending in *Fun Services of Kansas City, Inc. v. Hertz Equipment Rental Corporation* has now been lifted and the case will proceed.

None of the other legal proceedings described in our Form 10-K have experienced material changes.

In addition to the above mentioned and those described in our Form 10-K or in our other filings with Securities and Exchange Commission, various other legal actions, claims and governmental inquiries and proceedings are pending or may be instituted or asserted in the future against us and our subsidiaries. Other than with respect to the aggregate claims for public liability and property damage pending against us, management does not believe that any of the matters resolved, or pending against us, are material to us and our subsidiaries taken as a whole.

We have established reserves for matters where we believe that the losses are probable and reasonably estimated. Other than with respect to the reserve established for claims for public liability and property damage, none of those reserves are material. For matters where we have not established a reserve, the ultimate outcome or resolution cannot be predicted at this time, or the amount of ultimate loss, if any, cannot be reasonably estimated. Litigation is subject to many uncertainties and the outcome of the individual litigated matters is not predictable with assurance. It is possible that certain of the actions, claims, inquiries or proceedings, including those discussed in our Form 10-K or in our other filings with

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

Securities and Exchange Commission, could be decided unfavorably to us or any of our subsidiaries involved. Accordingly, it is possible that an adverse outcome from such a proceeding could exceed the amount accrued in an amount that could be material to our consolidated financial condition, results of operations or cash flows in any particular reporting period.

Note 16 Earnings (Loss) Per Share

Basic earnings (loss) per share has been computed based upon the weighted average number of common shares outstanding. Diluted earnings (loss) per share has been computed based upon the weighted average number of common shares outstanding plus the effect of all potentially dilutive common stock equivalents, except when the effect would be anti-dilutive.

The following table sets forth the computation of basic and diluted earnings (loss) per share (in millions of dollars, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Basic and diluted earnings (loss) per share:				
Numerator:				
Net income (loss) attributable to Hertz Global Holdings, Inc. and Subsidiaries' common stockholders	$ 206.7	$ 155.3	$ 129.1	$ (20.6)
Denominator:				
Weighted average shares used in basic computation	416.6	412.2	415.6	411.6
Add: Stock options, RSUs and PSUs	6.4	7.6	8.0	
Add: Potential issuance of common stock upon conversion of Convertible Senior Notes	17.9	10.6	23.7	
Weighted average shares used in diluted computation	440.9	430.4	447.3	411.6
Earnings (loss) per share attributable to Hertz Global Holdings, Inc. and Subsidiaries' common stockholders, basic	$ 0.50	$ 0.38	$ 0.31	$ (0.05)
Earnings (loss) per share attributable to Hertz Global Holdings, Inc. and Subsidiaries' common stockholders, diluted	$ 0.47	$ 0.36	$ 0.29	$ (0.05)

Diluted earnings (loss) per share computations for the three and nine months ended September 30, 2011 excluded the weighted-average impact of the assumed exercise of approximately 8.9 million shares of stock options, RSUs and PSUs because such impact would be antidilutive. Diluted earnings (loss) per share computations for the three and nine months ended September 30, 2010 excluded the weighted-average impact of the assumed exercise of approximately 9.5 million and 23.6 million shares, respectively, of stock options, RSUs and PSUs because such impact would be antidilutive. Additionally, for the nine months ended September 30, 2010, there was no impact to the diluted earnings (loss) per share computations associated with the Convertible Senior Notes, because such impact would be antidilutive.

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

The following discussion and analysis provides information that we believe to be relevant to an understanding of our consolidated financial condition and results of operations. Unless the context otherwise requires, in this Report on Form 10-Q, (i) "Hertz Holdings" means Hertz Global Holdings, Inc., our top-level holding company, (ii) "Hertz" means The Hertz Corporation, our primary operating company and a direct wholly-owned subsidiary of Hertz Investors, Inc., which is wholly-owned by Hertz Holdings, (iii) "we," "us" and "our" mean Hertz Holdings and its consolidated subsidiaries, including Hertz, (iv) "HERC" means Hertz Equipment Rental Corporation, Hertz's wholly-owned equipment rental subsidiary, together with our various other wholly-owned international subsidiaries that conduct our industrial, construction and material handling equipment rental business, (v) "cars" means cars, crossovers and light trucks (including sport utility vehicles and, outside North America, light commercial vehicles), (vi) "program cars" means cars purchased by car rental companies under repurchase or guaranteed depreciation programs with car manufacturers, (vii) "non-program cars" mean cars not purchased under repurchase or guaranteed depreciation programs for which the car rental company is exposed to residual risk and (viii) "equipment" means industrial, construction and material handling equipment.

You should read the following discussion and analysis together with the section below entitled "Cautionary Note Regarding Forward-Looking Statements," with the financial statements and the related notes thereto contained elsewhere in this Form 10-Q, or this "Report."

Cautionary Note Regarding Forward-Looking Statements

Certain statements contained or incorporated by reference in this Report and in reports we subsequently file with the United States Securities and Exchange Commission, or the "SEC," on Forms 10-K, 10-Q and file or furnish on Form 8-K, and in related comments by our management, include "forward-looking statements." Forward-looking statements include information concerning our liquidity and our possible or assumed future results of operations, including descriptions of our business strategies. These statements often include words such as "believe," "expect," "project," "anticipate," "intend," "plan," "estimate," "seek," "will," "may," "would," "should," "could," "forecasts" or similar expressions. These statements are based on certain assumptions that we have made in light of our experience in the industry as well as our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate in these circumstances. We believe these judgments are reasonable, but you should understand that these statements are not guarantees of performance or results, and our actual results could differ materially from those expressed in the forward-looking statements due to a variety of important factors, both positive and negative, that may be revised or supplemented in subsequent reports on SEC Forms 10-K, 10-Q and 8-K.

Some important factors that could affect our actual results include, among others, those that may be disclosed from time to time in subsequent reports filed with the SEC, those described under "Item 1A Risk Factors" included in Hertz Holdings' Annual Report on Form 10-K for the fiscal year ended December 31, 2010, filed with the SEC, on February 25, 2011, or our "Form 10-K," in Part II, "Item 1A Risk Factors" included in Hertz Holdings' Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2011, filed with the SEC, on August 5, 2011, or our "Second Quarter Form 10-Q," and in Part II, "Item 1A Risk Factors" included in this Form 10-Q, and the following, which were derived in part from the risks set forth in the Form 10-K and the Second Quarter Form 10-Q:

- *our ability to consummate our contemplated acquisition of Dollar Thrifty Automotive Group, or "Dollar Thrifty," within the timeframe and upon the terms contemplated by our management;*

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

the risk that expected synergies, operational efficiencies and cost savings from the Dollar Thrifty acquisition may not be fully realized or realized within the expected time frame;

the operational and profitability impact of divestitures that may be required to be undertaken to secure regulatory approval of the Dollar Thrifty acquisition;

levels of travel demand, particularly with respect to airline passenger traffic in the United States and in global markets;

significant changes in the competitive environment, including as a result of industry consolidation, and the effect of competition in our markets, including on our pricing policies or use of incentives;

occurrences that disrupt rental activity during our peak periods;

our ability to achieve cost savings and efficiencies and realize opportunities to increase productivity and profitability;

an increase in our fleet costs as a result of an increase in the cost of new vehicles and/or a decrease in the price at which we dispose of used vehicles either in the used vehicle market or under repurchase or guaranteed depreciation programs;

our ability to accurately estimate future levels of rental activity and adjust the size of our fleet accordingly;

our ability to maintain sufficient liquidity and the availability to us of additional or continued sources of financing for our revenue earning equipment and to refinance our existing indebtedness;

safety recalls by the manufacturers of our vehicles and equipment;

a major disruption in our communication or centralized information networks;

financial instability of the manufacturers of our vehicles and equipment;

any impact on us from the actions of our licensees, franchisees, dealers and independent contractors;

our ability to maintain profitability during adverse economic cycles and unfavorable external events (including war, terrorist acts, natural disasters and epidemic disease);

shortages of fuel and increases or volatility in fuel costs;

our ability to successfully integrate acquisitions and complete dispositions;

our ability to maintain favorable brand recognition;

costs and risks associated with litigation;

risks related to our indebtedness, including our substantial amount of debt, our ability to incur substantially more debt and increases in interest rates or in our borrowing margins;

our ability to meet the financial and other covenants contained in our Senior Credit Facilities, our outstanding unsecured Senior Notes and certain asset-backed and asset-based arrangements;

changes in accounting principles, or their application or interpretation, and our ability to make accurate estimates and the assumptions underlying the estimates, which could have an effect on earnings;

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

- *changes in the existing, or the adoption of new laws, regulations, policies or other activities of governments, agencies and similar organizations where such actions may affect our operations, the cost thereof or applicable tax rates;*
- *changes to our senior management team;*
- *the effect of tangible and intangible asset impairment charges;*
- *the impact of our derivative instruments, which can be affected by fluctuations in interest rates and commodity prices;*
- *our exposure to fluctuations in foreign exchange rates; and*
- *other risks described from time to time in periodic and current reports that we file with the SEC.*

You should not place undue reliance on forward-looking statements. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the foregoing cautionary statements. All such statements speak only as of the date made, and we undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

Corporate History

Hertz Holdings was incorporated in Delaware in 2005 to serve as the top-level holding company for the consolidated Hertz business. Hertz was incorporated in Delaware in 1967. Hertz is a successor to corporations that have been engaged in the car and truck rental and leasing business since 1918 and the equipment rental business since 1965. Ford Motor Company, "Ford," acquired an ownership interest in Hertz in 1987. Prior to this, Hertz was a subsidiary of United Continental Holdings, Inc. (formerly Allegis Corporation), which acquired Hertz's outstanding capital stock from RCA Corporation in 1985.

On December 21, 2005, investment funds associated with or designated by:

- Clayton, Dubilier & Rice, Inc., or "CD&R,"
- The Carlyle Group, or "Carlyle," and
- BAML Capital Partners, or "BAMLCP" (formerly known as Merrill Lynch Global Private Equity),

or collectively the "Sponsors," acquired all of Hertz's common stock from Ford Holdings LLC. We refer to the acquisition of all of Hertz's common stock by the Sponsors as the "Acquisition."

In January 2009, Bank of America Corporation, or "Bank of America," acquired Merrill Lynch & Co., Inc., the parent company of BAMLCP. Accordingly, Bank of America is now an indirect beneficial owner of our common stock held by BAMLCP and certain of its affiliates.

In March 2011, the Sponsors sold 50,000,000 shares of their Hertz Holdings common stock to Goldman, Sachs & Co. as the sole underwriter in the registered public offering of those shares.

As a result of our initial public offering in November 2006 and subsequent offerings in June 2007, May 2009, June 2009 and March 2011, the Sponsors reduced their holdings to approximately 39% of the outstanding shares of common stock of Hertz Holdings.

On September 1, 2011, Hertz completed the acquisition of Donlen Corporation, or "Donlen," a leading provider of fleet leasing and management services.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Overview of Our Business

We are engaged principally in the business of renting and leasing of cars and equipment.

Our revenues primarily are derived from rental and related charges and consist of:

- Car rental revenues (revenues from all company-operated car rental and fleet leasing operations and management services, including charges to customers for the reimbursement of costs incurred relating to airport concession fees and vehicle license fees, the fueling of vehicles and the sale of loss or collision damage waivers, liability insurance coverage and other products);
- Equipment rental revenues (revenues from all company-operated equipment rental operations, including amounts charged to customers for the fueling and delivery of equipment and sale of loss damage waivers, as well as revenues from the sale of new equipment and consumables); and
- Other revenues (primarily relates to fees and certain cost reimbursements from our licensees and revenues from our third-party claim management services).

Our expenses primarily consist of:

- Direct operating expenses (primarily wages and related benefits; commissions and concession fees paid to airport authorities, travel agents and others; facility, self-insurance and reservation costs; the cost of new equipment and consumables purchased for resale; and other costs relating to the operation and rental of revenue earning equipment, such as damage, maintenance and fuel costs);
- Depreciation expense and lease charges relating to revenue earning equipment (including net gains or losses on the disposal of such equipment). Revenue earning equipment includes cars and rental equipment;
- Selling, general and administrative expenses (including advertising); and
- Interest expense.

Our profitability is primarily a function of the volume, mix and pricing of rental transactions and the utilization of cars and equipment. Significant changes in the purchase price or residual values of cars and equipment or interest rates can have a significant effect on our profitability depending on our ability to adjust pricing for these changes. We continue to balance our mix of non-program and program vehicles based on market conditions. Our business requires significant expenditures for cars and equipment, and consequently we require substantial liquidity to finance such expenditures. See "Liquidity and Capital Resources" below.

We have revised our consolidated statement of operations as a result of adjustments relating to additional telecommunication charges (direct operating expenses) and depreciation of revenue earning equipment and lease charges. See Note 2 to the Notes to our condensed consolidated financial statements included in this Report.

Car Rental

In the U.S., as of September 30, 2011, the percentage of non-program cars was 70% as compared to 64% as of September 30, 2010. Internationally, as of September 30, 2011, the percentage of non-program cars was 61% as compared to 60% as of September 30, 2010. In the U.S., as of December 31, 2010, the percentage of non-program cars was 72% as compared to 67% as of

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

December 31, 2009. Internationally, as of December 31, 2010, the percentage of non-program cars was 70%, compared to 71% as of December 31, 2009.

In recent periods we have decreased the percentage of program cars in our car rental fleet. Non-program cars typically have lower acquisition costs and lower depreciation rates than comparable program cars. As a result of decreasing our reliance on program cars, we reduce our risk related to the creditworthiness of the vehicle manufacturers. With fewer program cars in our fleet, we have an increased risk that the market value of a car at the time of its disposition will be less than its estimated residual value. Program cars generally provide us with flexibility to reduce the size of our fleet by returning cars sooner than originally expected without risk of loss in the event of an economic downturn or to respond to changes in rental demand. This flexibility will be reduced as the percentage of non-program cars in our car rental fleet increases. Furthermore, it is expected that the average age of our fleet will increase since the average holding period for non-program vehicles is longer than program vehicles. However, the longer holding period does not necessarily equate to higher costs due to the stringent turnback requirements imposed by vehicle manufacturers for program cars.

In the nine months ended September 30, 2011, our vehicle depreciation costs decreased as compared to the prior year period due to improved residual values in the U.S., a continued move towards a greater proportion of non-program vehicles, mix optimization and improved procurement and remarketing efforts. We believe the increase in residual values in the U.S. was partially due to the events in Japan earlier this year which have started to level off as these events have worked their way through the vehicle supply chain.

For the nine months ended September 30, 2011, we experienced an 8.4% increase in transaction days versus the prior period in the United States, while rental rate revenue per transaction day, or "RPD," declined by 4.2%. During the nine months ended September 30, 2011, in our European operations, we experienced a 7.1% improvement in transaction days while RPD declined by 3.3% compared to the nine months ended September 30, 2010.

Our U.S. off-airport operations represented $907.1 million and $816.9 million of our total car rental revenues in the nine months ended September 30, 2011 and 2010, respectively. As of September 30, 2011, we have approximately 2,090 off-airport locations. Our strategy includes selected openings of new off-airport locations, the disciplined evaluation of existing locations and the pursuit of same-store sales growth. Our strategy also includes increasing penetration in the off-airport market and growing the online leisure market, particularly in the longer length weekly sector, which is characterized by lower vehicle costs and lower transaction costs at a lower RPD. Increasing our penetration in these sectors is consistent with our long-term strategy to generate profitable growth. When we open a new off-airport location, we incur a number of costs, including those relating to site selection, lease negotiation, recruitment of employees, selection and development of managers, initial sales activities and integration of our systems with those of the companies who will reimburse the location's replacement renters for their rentals. A new off-airport location, once opened, takes time to generate its full potential revenues and, as a result, revenues at new locations do not initially cover their start-up costs and often do not, for some time, cover the costs of their ongoing operations.

Equipment Rental

HERC experienced higher rental volumes and pricing worldwide for the nine months ended September 30, 2011 compared to the prior year period as the industry continued its recovery and fleet levels began to align with demand in the industry. Specifically, we continued to see growth in our

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

specialty services such as Pump & Power, Industrial Plant Services and Hertz Entertainment Services capitalizing on the opportunities in these strategic market niches.

HERC locations:

	Total	U.S.	Canada	France	Spain	Italy	China	Saudi Arabia
December 31, 2010	322	210	38	65	4	1	4	
Net increase (decrease)	(10)	(9)			(2)			1
Additions relating to acquisitions	1	1						
September 30, 2011	313	202	38	65	2	1	4	1

Seasonality

Our car rental and equipment rental operations are seasonal businesses, with decreased levels of business in the winter months and heightened activity during the spring and summer. We have the ability to dynamically manage fleet capacity, the most significant portion of our cost structure, to meet market demand. For instance, to accommodate increased demand, we increase our available fleet and staff during the second and third quarters of the year. As business demand declines, fleet and staff are decreased accordingly. A number of our other major operating costs, including airport concession fees, commissions and vehicle liability expenses, are directly related to revenues or transaction volumes. In addition, our management expects to utilize enhanced process improvements, including efficiency initiatives and the use of our information technology systems, to help manage our variable costs. Approximately two-thirds of our typical annual operating costs represent variable costs, while the remaining one-third is fixed or semi-fixed. We also maintain a flexible workforce, with a significant number of part time and seasonal workers. However, certain operating expenses, including rent, insurance, and administrative overhead, remain fixed and cannot be adjusted for seasonal demand.

Restructuring

During the first quarter of 2011, we continued to streamline operations and reduce costs with the closure of several car rental and equipment rental locations globally as well as a reduction in our workforce by approximately 100 employees.

During the second quarter of 2011, we continued to streamline operations and reduce costs with the closure of twelve equipment rental locations in the U.S., consolidation of our European headquarters and the reduction in our global workforce by approximately 50 employees.

During the third quarter of 2011, we continued to streamline operations and reduce costs by reducing our global workforce by approximately 170 employees.

For the three and nine months ended September 30, 2011, our consolidated statement of operations includes restructuring charges of $1.9 million and $40.4 million, respectively. For the three and nine months ended September 30, 2010, our consolidated statement of operations includes restructuring charges relating to the initiatives discussed above of $14.6 million and $45.5 million, respectively.

Additional efficiency and cost saving initiatives are being developed, however, we presently do not have firm plans or estimates of any related expenses. See Note 12 to the Notes to our condensed consolidated financial statements included in this Report.

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

RESULTS OF OPERATIONS

Three Months Ended September 30, 2011 Compared with Three Months Ended September 30, 2010

Summary

The following table sets forth the percentage of total revenues represented by the various line items in our consolidated statements of operations for the three months ended September 30, 2011 and 2010 (in millions of dollars):

	Three Months Ended September 30,		Percentage of Revenues Three Months Ended September 30,	
	2011	2010	2011	2010
Revenues:				
Car rental	$ 2,062.5	$ 1,862.6	84.8%	85.2%
Equipment rental	321.6	281.1	13.2	12.9
Other	48.2	42.6	2.0	1.9
Total revenues	2,432.3	2,186.3	100.0	100.0
Expenses:				
Direct operating	1,247.6	1,159.6	51.2	53.0
Depreciation of revenue earning equipment and lease charges	523.3	501.0	21.5	22.9
Selling, general and administrative	197.6	168.7	8.1	7.7
Interest expense	169.3	202.2	7.0	9.3
Interest income	(1.2)	(1.3)		
Total expenses	2,136.6	2,030.2	87.8	92.9
Income before income taxes	295.7	156.1	12.2	7.1
(Provision) benefit for taxes on income	(83.2)	3.9	(3.4)	0.2
Net income	212.5	160.0	8.8	7.3
Less: Net income attributable to noncontrolling interest	(5.8)	(4.7)	(0.3)	(0.2)
Net income attributable to Hertz Global Holdings, Inc. and Subsidiaries' common stockholders	$ 206.7	$ 155.3	8.5%	7.1%

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

The following table sets forth certain of our selected car rental, equipment rental and other operating data for the three months ended or as of September 30, 2011 and 2010:

	Three Months Ended or as of September 30,	
	2011	2010
Selected Car Rental Operating Data:		
Worldwide number of transactions (in thousands)	7,401	6,969
Domestic (Hertz)	5,368	5,016
International (Hertz)	2,033	1,953
Worldwide transaction days (in thousands)[a]	40,240	36,441
Domestic (Hertz)	26,452	23,637
International (Hertz)	13,788	12,804
Worldwide rental rate revenue per transaction day[b]	$ 42.50	$ 44.85
Domestic (Hertz)	$ 41.44	$ 44.21
International (Hertz)	$ 44.52	$ 46.03
Worldwide average number of company-operated cars during the period	667,800	487,100
Domestic (Hertz)	352,700	312,400
International (Hertz)	186,000	174,700
Donlen	129,100	N/A
Adjusted pre-tax income (in millions of dollars)[c]	$ 375.3	$ 307.1
Worldwide revenue earning equipment, net (in millions of dollars)	$ 9,859.4	$ 8,103.7
Selected Worldwide Equipment Rental Operating Data:		
Rental and rental related revenue (in millions of dollars)[d]	$ 292.3	$ 259.9
Same store revenue growth (decline), including growth initiatives[e]	11.3%	2.6%
Average acquisition cost of rental equipment operated during the period (in millions of dollars)	$ 2,830.3	$ 2,691.9
Adjusted pre-tax income (in millions of dollars)[c]	$ 55.9	$ 33.7
Revenue earning equipment, net (in millions of dollars)	$ 1,779.1	$ 1,681.4

(a) Transaction days represents the total number of days that vehicles were on rent in a given period.

(b)

Car rental rate revenue consists of all revenue, net of discounts, associated with the rental of cars including charges for optional insurance products, but excluding revenue derived from fueling and concession and other expense pass-throughs, NeverLost units in the U.S. and certain ancillary revenue. Rental rate revenue per transaction day is calculated as total rental rate revenue, divided by the total number of transaction days, with all periods adjusted to eliminate the effect of fluctuations in foreign currency. Our management believes eliminating the effect of fluctuations in foreign currency is appropriate so as not to affect the comparability of underlying trends. This statistic is important to our management as it represents the best measurement of the changes in underlying pricing in the car rental business and encompasses the elements in car rental pricing that management has the ability to control. The optional insurance products are packaged within certain negotiated corporate, government and membership programs and within certain retail rates being charged. Based upon these existing programs and rate packages, management believes that these optional insurance products should be consistently included in the daily pricing of car rental transactions. On the other hand, non-rental rate revenue items such as refueling and concession pass-through expense items are driven by factors beyond the control of management (i.e. the price of fuel and the concession fees charged by airports). Additionally, NeverLost units are an optional revenue product which management does not consider to be part of their daily pricing of car rental transactions. The following table reconciles our car rental

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

segment revenues to our rental rate revenue and rental rate revenue per transaction day (based on December 31, 2010 foreign exchange rates) for the three months ended September 30, 2011 and 2010 (in millions of dollars, except as noted):

	Three Months Ended September 30,	
	2011	2010
Car rental segment revenues	$ 2,109.1	$ 1,903.5
Non-rental rate revenue	(354.1)	(291.1)
Foreign currency adjustment	(44.9)	22.0
Rental rate revenue	$ 1,710.1	$ 1,634.4
Transaction days (in thousands)	40,240	36,441
Rental rate revenue per transaction day (in whole dollars)	$ 42.50	$ 44.85

(c)

Adjusted pre-tax income is calculated as income (loss) before income taxes plus non-cash purchase accounting charges, non-cash debt charges and certain one-time charges and non-operational items. Adjusted pre-tax income is the measure utilized by management in making decisions about allocating resources to segments and measuring their performance. Management believes this measure best reflects the financial results from ongoing operations. The contribution of our reportable segments to adjusted pre-tax income and reconciliation to consolidated amounts are presented below (in millions of dollars):

	Three Months Ended September 30,	
	2011	2010
Adjusted pre-tax income:		
Car rental	$ 375.3	$ 307.1
Equipment rental	55.9	33.7
Total reportable segments	431.2	340.8
Adjustments:		
Other reconciling items(1)	(84.3)	(89.4)
Purchase accounting(2)	(19.1)	(23.8)
Non-cash debt charges(3)	(21.0)	(46.4)
Restructuring charges	(1.9)	(14.6)
Restructuring related charges(4)	(3.2)	(0.6)
Derivative gains (losses)(5)	0.1	(0.2)
Acquisition related costs	(4.6)	(9.7)
Management transition costs	(1.5)	
Income before income taxes	$ 295.7	$ 156.1

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(1) Represents general corporate expenses, certain interest expense (including net interest on corporate debt), as well as other business activities such as our third-party claim management services.

(2) Represents the purchase accounting effects of the Acquisition on our results of operations relating to increased depreciation and amortization of tangible and intangible assets and accretion of revalued workers' compensation and public liability and property damage liabilities. Also represents the purchase accounting effects of subsequent acquisitions on our results of operations relating to increased amortization of intangible assets.

(3) Represents non-cash debt charges relating to the amortization and write-off of deferred debt financing costs and debt discounts. For the three months ended September 30, 2010, also includes $18.0 million associated with the amortization of amounts pertaining to the de-designation of the Hertz Vehicle Financing LLC, or "HVF," interest rate swaps as effective hedging instruments.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

(4)

Represents incremental costs incurred directly supporting our business transformation initiatives. Such costs include transition costs incurred in connection with our business process outsourcing arrangements and incremental costs incurred to facilitate business process re-engineering initiatives that involve significant organization redesign and extensive operational process changes.

(5)

Represents the mark-to-market adjustment on our interest rate cap.

(d)

Equipment rental and rental related revenue consists of all revenue, net of discounts, associated with the rental of equipment including charges for delivery, loss damage waivers and fueling, but excluding revenue arising from the sale of equipment, parts and supplies and certain other ancillary revenue. Rental and rental related revenue is adjusted in all periods to eliminate the effect of fluctuations in foreign currency. Our management believes eliminating the effect of fluctuations in foreign currency is appropriate so as not to affect the comparability of underlying trends. This statistic is important to our management as it is utilized in the measurement of rental revenue generated per dollar invested in fleet on an annualized basis and is comparable with the reporting of other industry participants. The following table reconciles our equipment rental segment revenues to our equipment rental and rental related revenue (based on December 31, 2010 foreign exchange rates) for the three months ended September 30, 2011 and 2010 (in millions of dollars):

	Three Months Ended September 30,	
	2011	**2010**
Equipment rental segment revenues	$ 321.7	$ 281.2
Equipment sales and other revenue	(26.0)	(24.1)
Foreign currency adjustment	(3.4)	2.8
Rental and rental related revenue	$ 292.3	$ 259.9

(e)

Same store revenue growth or decline is calculated as the year over year change in revenue for locations that are open at the end of the period reported and have been operating under our direction for more than twelve months. The same store revenue amounts are adjusted in all periods to eliminate the effect of fluctuations in foreign currency. Our management believes eliminating the effect of fluctuations in foreign currency is appropriate so as not to affect the comparability of underlying trends.

REVENUES

(in millions of dollars)	**Three Months Ended September 30, 2011**	**2010**	**$ Change**	**% Change**
Revenues by Segment				
Car rental	$ 2,109.1	$ 1,903.5	$ 205.6	10.8%

Equipment rental		321.7		281.2		40.5	14.4%
Other reconciling items		1.5		1.6		(0.1)	(6.3)%
Total revenues	$	2,432.3	$	2,186.3	$	246.0	11.3%

Car Rental Segment

Revenues from our car rental segment increased 10.8%, primarily as a result of increases in car rental transaction days worldwide of 10.4%, refueling fees of $12.2 million and airport concession recovery fees of $10.1 million, as well as the effects of foreign currency translation of approximately $109.8 million. The three months ended September 30, 2011 also includes $35.1 million of revenues related to Donlen. These increases were partly offset by a decrease in worldwide RPD.

RPD for worldwide car rental for the three months ended September 30, 2011 decreased 5.2% from 2010, due to decreases in U.S. and International RPD of 6.3% and 3.3%, respectively. U.S. off-airport RPD decreased by 4.3% and U.S. airport RPD decreased 6.8%. A mix shift to longer life, lower RPD

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

rentals (including increased growth of off-airport and the Advantage brand); as well as a difficult year-over-year RPD comparison to last year, reduced U.S. RPD. International RPD decreased due to a decrease in Europe's airport RPD which was due to the competitive pricing environment and a mix shift of increased growth of the Advantage brand.

Equipment Rental Segment

Revenues from our equipment rental segment increased 14.4%, primarily due to increases of 9.9% and 3.4% in equipment rental volumes and pricing, respectively, as well as the effects of foreign currency translation of approximately $7.0 million. The increase in volume was primarily due to strong industrial performance.

Other

Revenues from all other sources decreased $0.1 million, primarily due to a decrease in revenues from our third-party claim management services.

EXPENSES

(in millions of dollars)	Three Months Ended September 30, 2011	2010	$ Change	% Change
Expenses:				
Fleet related expenses	$ 318.5	$ 284.3	$ 34.2	12.0%
Personnel related expenses	378.4	353.0	25.4	7.2%
Other direct operating expenses	550.7	522.3	28.4	5.4%
Direct operating	1,247.6	1,159.6	88.0	7.6%
Depreciation of revenue earning equipment and lease charges	523.3	501.0	22.3	4.4%
Selling, general and administrative	197.6	168.7	28.9	17.1%
Interest expense	169.3	202.2	(32.9)	(16.2)%
Interest income	(1.2)	(1.3)	0.1	(11.9)%
Total expenses	$ 2,136.6	$ 2,030.2	$ 106.4	5.2%

Total expenses increased 5.2%, but total expenses as a percentage of revenues decreased from 92.9% for the three months ended September 30, 2010 to 87.8% for the three months ended September 30, 2011.

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Direct Operating Expenses

Car Rental Segment

Direct operating expenses for our car rental segment of $1,071.8 million for the three months ended September 30, 2011 increased 8.4% from $988.6 million for the three months ended September 30, 2010 as a result of increases in other direct operating expenses, fleet related expenses and personnel related expenses

Other direct operating expenses for our car rental segment was $490.6 million for the three months ended September 30, 2011, an increase of 6.5%, from the three months ended September 30, 2010. The increase was primarily related to increases in field systems of $5.8 million, third-party claim management expenses of $3.9 million, customer service costs of $3.2 million, concession fees of $3.1 million and charge card fees of $1.9 million, as well as the effects of foreign currency translation of approximately $17.3 million. These increases were primarily a result of improved worldwide rental volume demand.

Fleet related expenses for our car rental segment was $267.8 million for the three months ended September 30, 2011, an increase of 13.3%, from the three months ended September 30, 2010. The increase was primarily related to worldwide rental volume demand which resulted in increases in gasoline costs of $18.6 million and self insurance expenses of $2.5 million, as well as the effects of foreign currency translation of approximately $13.2 million. The increase in gasoline costs also related to higher gasoline prices. These increases were partly offset by a decrease of $4.0 million in vehicle damage costs.

Personnel related expenses for our car rental segment was $313.4 million for the three months ended September 30, 2011, an increase of 7.5%, from the three months ended September 30, 2010. The increase was primarily related to the effects of foreign currency translation of approximately $9.8 million, as well as increases in salaries and outside services, including transporter wages associated with improved volume and additional U.S. off-airport locations in 2011.

Equipment Rental Segment

Direct operating expenses for our equipment rental segment of $175.4 million for the three months ended September 30, 2011 increased 2.0% from $172.0 million for the three months ended September 30, 2010 as a result of increases in personnel related expenses and fleet related expenses, partly offset by a decrease in other direct operating expenses.

Personnel related expenses for our equipment rental segment of $56.0 million for the three months ended September 30, 2011 increased $4.7 million, or 9.1%, from the three months ended September 30, 2010. The increase was related to wages and benefits of $2.3 million and incentives of $1.3 million primarily related to improved results, as well as the effects of foreign currency translation of approximately $1.1 million.

Fleet related expenses for our equipment rental segment of $50.7 million for the three months ended September 30, 2011 increased $2.7 million, or 5.7% from the three months ended September 30, 2010. The increase was primarily related to continued aging of the fleet which resulted in an increase in maintenance costs of $1.7 million, as well as the effects of foreign currency translation of approximately $0.8 million.

Other direct operating expenses for our equipment rental segment of $68.7 million for the three months ended September 30, 2011 decreased $4.0 million, or 5.5% from the three months ended

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

September 30, 2010. The decrease was primarily related to a decrease in restructuring charges of $11.4 million, partly offset by increases in credit and collection expenses of $1.3 million, legal expenses of $0.8 million, facilities of $0.8 million and field systems and administrative expenses of $0.8 million, as well as the effects of foreign currency translation of approximately $1.6 million.

Depreciation of Revenue Earning Equipment and Lease Charges

Car Rental Segment

Depreciation of revenue earning equipment and lease charges for our car rental segment of $461.3 million for the three months ended September 30, 2011 increased 6.6% from $432.7 million for the three months ended September 30, 2010. The increase was primarily due to the effects of foreign currency translation of approximately $45.0 million and a 10.6% increase in the size of our average fleet, partly offset by an improvement in certain vehicle residual values and a higher mix of non-program cars.

Equipment Rental Segment

Depreciation of revenue earning equipment and lease charges in our equipment rental segment of $62.0 million for the three months ended September 30, 2011 decreased 9.2% from $68.3 million for the three months ended September 30, 2010. The decrease was primarily due to higher residual values on the disposal of used equipment, partly offset by a 5.1% increase in the average acquisition cost of rental equipment operated during the period and the effects of foreign currency translation of approximately $1.3 million.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by $28.9 million or 17.1% from the prior year period, due to increases in administrative expenses, advertising expenses and sales promotion expenses.

Administrative expenses increased $15.7 million, or 15.6%, primarily due to the effects of foreign currency translation of approximately $11.0 million, as well as increases in salaries and related expenses of $2.7 million and consultant fees of $1.6 million. These increases were partly offset by decreases in legal expenses of $2.1 million and restructuring and restructuring related charges of $1.4 million.

Advertising expenses increased $9.2 million, or 25.1%, primarily due to increased media and production related to the new campaign ("Gas and Brake"), as well as the effects of foreign currency translation of approximately $2.3 million.

Sales promotion expenses increased $4.0 million, or 12.5%, primarily related to increases in sales salaries and commissions due to improved results, as well as the effects of foreign currency translation of approximately $1.1 million.

Interest Expense

Car Rental Segment

Interest expense for our car rental segment of $91.2 million for the three months ended September 30, 2011 decreased 19.8% from $113.7 million for the three months ended September 30, 2010. The decrease was primarily due to a decrease in interest rates, partly offset by an increase in the weighted average debt outstanding as result of an increased fleet size.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Equipment Rental Segment

Interest expense for our equipment rental segment of $10.7 million for the three months ended September 30, 2011 increased 17.6% from $9.1 million for the three months ended September 30, 2010. The increase was primarily due to an increase in Senior Term Facility and Senior ABL Facility interest rates in 2011 and an increase in weighted average debt outstanding as a result of an increased fleet size.

Other

Other interest expense relating to interest on corporate debt of $67.4 million for the three months ended September 30, 2011 decreased 15.1% from $79.4 million for the three months ended September 30, 2010. The decrease was primarily due to lower interest rates in 2011.

Interest Income

Interest income decreased $0.1 million from the prior year period.

ADJUSTED PRE-TAX INCOME (LOSS)

Car Rental Segment

Adjusted pre-tax income for our car rental segment of $375.3 million increased 22.2% from $307.1 million for the three months ended September 30, 2010. The increase was primarily due to stronger volumes, improved residual values and disciplined cost management, partly offset by decreased pricing. Adjustments to our car rental segment income before income taxes for the three months ended September 30, 2011 totaled $23.3 million (which consists of non-cash debt charges of $11.1 million, purchase accounting of $8.0 million and restructuring and related charges of $4.3 million, partly offset by a gain on derivatives of $0.1 million). Adjustments to our car rental segment income before income taxes for the three months ended September 30, 2010 totaled $48.1 million (which consists of non-cash debt charges of $34.4 million, purchase accounting of $9.1 million and restructuring and restructuring related charges of $4.6 million). See footnote (c) to the table under "Results of Operations" for a summary and description of these adjustments.

Equipment Rental Segment

Adjusted pre-tax income for our equipment rental segment of $55.9 million increased 65.9% from $33.7 million for the three months ended September 30, 2010. The increase was primarily due to stronger volumes and pricing, strong cost management performance and higher residual values on the disposal of used equipment. Adjustments to our equipment rental segment income before income taxes for the three months ended September 30, 2011 totaled $10.7 million (which consists of purchase accounting of $10.2 million and non-cash debt charges of $0.6 million, partly offset by a reversal of restructuring and related charges of $0.1 million). Adjustments to our equipment rental income before income taxes for the three months ended September 30, 2010 totaled $26.1 million (which consists of purchase accounting of $13.9 million, restructuring charges of $10.6 million and non-cash debt charges of $1.6 million). See footnote (c) to the table under "Results of Operations" for a summary and description of these adjustments.

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

(PROVISION) BENEFIT FOR TAXES ON INCOME, NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST AND NET INCOME ATTRIBUTABLE TO HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES' COMMON STOCKHOLDERS

	Three Months Ended September 30,			
(in millions of dollars)	2011	2010	$ Change	% Change
Income before income taxes	$ 295.7	$ 156.1	$ 139.6	89.4%
(Provision) benefit for taxes on income	(83.2)	3.9	(87.1)	N/M
Net income	212.5	160.0	52.5	32.8%
Less: Net income attributable to noncontrolling interest	(5.8)	(4.7)	(1.1)	23.7%
Net income attributable to Hertz Global Holdings, Inc. and Subsidiaries' common stockholders	$ 206.7	$ 155.3	$ 51.4	33.1%

(Provision) Benefit for Taxes on Income

The effective tax rate for the three months ended September 30, 2011 was 28.1% as compared to (2.5)% in the three months ended September 30, 2010. The provision for taxes on income increased $87.1 million, primarily due to higher income before income taxes, changes in geographic earnings mix and changes in losses in certain non-U.S. jurisdictions for which tax benefits cannot be realized.

Net Income Attributable to Noncontrolling Interest

Net income attributable to noncontrolling interest increased $1.1 million due to an increase in our majority-owned subsidiary Navigation Solutions, L.L.C.'s net income for the three months ended September 30, 2011 as compared to the three months ended September 30, 2010.

Net Income Attributable to Hertz Global Holdings, Inc. and Subsidiaries' Common Stockholders

The net income attributable to Hertz Global Holdings, Inc. and Subsidiaries' common stockholders increased 33.1% primarily due to higher rental volumes in our worldwide car and equipment rental operations, improved residual values on the disposal of certain vehicles and used equipment, disciplined cost management and increased pricing in our equipment rental operations, partly offset by lower pricing in our worldwide car rental operations. The impact of changes in exchange rates on net income was mitigated by the fact that not only revenues but also most expenses outside of the United States were incurred in local currencies.

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Nine Months Ended September 30, 2011 Compared with Nine Months Ended September 30, 2010

Summary

The following table sets forth the percentage of total revenues represented by the various line items in our consolidated statements of operations for the nine months ended September 30, 2011 and 2010 (in millions of dollars):

	Nine Months Ended September 30,		Percentage of Revenues Nine Months Ended September 30,	
	2011	2010	2011	2010
Revenues:				
Car rental	$ 5,272.6	$ 4,842.2	83.9%	84.5%
Equipment rental	891.3	783.8	14.2	13.7
Other	120.7	100.8	1.9	1.8
Total revenues	6,284.6	5,726.8	100.0	100.0
Expenses:				
Direct operating	3,508.6	3,248.4	55.8	56.7
Depreciation of revenue earning equipment and lease charges	1,379.0	1,416.9	21.9	24.8
Selling, general and administrative	575.4	508.4	9.2	8.9
Interest expense	532.1	572.1	8.5	10.0
Interest income	(4.7)	(10.4)	(0.1)	(0.2)
Other (income) expense, net	62.7		1.0	
Total expenses	6,053.1	5,735.4	96.3	100.2
Income (loss) before income taxes	231.5	(8.6)	3.7	(0.2)
Provision for taxes on income	(87.9)	0.9	(1.4)	
Net income (loss)	143.6	(7.7)	2.3	(0.2)
Less: Net income attributable to noncontrolling interest	(14.5)	(12.9)	(0.2)	(0.2)
Net income (loss) attributable to Hertz Global Holdings, Inc. and Subsidiaries' common stockholders	$ 129.1	$ (20.6)	2.1%	(0.4)%

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

The following table sets forth certain of our selected car rental, equipment rental and other operating data for the nine months ended or as of September 30, 2011 and 2010:

	Nine Months Ended or as of September 30,	
	2011	2010
Selected Car Rental Operating Data:		
Worldwide number of transactions (in thousands)	20,575	19,647
Domestic (Hertz)	15,102	14,434
International (Hertz)	5,473	5,213
Worldwide transaction days (in thousands)[a]	104,715	96,751
Domestic (Hertz)	71,162	65,638
International (Hertz)	33,553	31,113
Worldwide rental rate revenue per transaction day[a][b]	$ 41.98	$ 43.55
Domestic (Hertz)	$ 40.70	$ 42.47
International (Hertz)	$ 44.70	$ 45.83
Worldwide average number of company-operated cars during the period	613,700	451,100
Domestic (Hertz)	325,500	302,000
International (Hertz)	159,100	149,100
Donlen	129,100	N/A
Adjusted pre-tax income (in millions of dollars)[a][c]	$ 678.8	$ 509.9
Worldwide revenue earning equipment, net (in millions of dollars)	$ 9,859.4	$ 8,103.7
Selected Worldwide Equipment Rental Operating Data:		
Rental and rental related revenue (in millions of dollars)[a][d]	$ 803.2	$ 715.1
Same store revenue growth (decline), including growth initiatives[a]	10.1%	(6.9)%
Average acquisition cost of rental equipment operated during the period (in millions of dollars)	$ 2,791.7	$ 2,728.5
Adjusted pre-tax income (in millions of dollars)[a][c]	$ 99.5	$ 43.0
Revenue earning equipment, net (in millions of dollars)	$ 1,779.1	$ 1,681.4

(a) For further details relating to car rental transaction days, car rental rate revenue per transaction day, adjusted pre-tax income, equipment rental and rental related revenue and equipment rental same store revenue growth (decline) including growth initiatives, see "Three Months Ended September 30, 2011 Compared with Three Months Ended September 30, 2010 Summary."

(b)

The following table reconciles our car rental segment revenues to our rental rate revenue and rental rate revenue per transaction day (based on December 31, 2010 foreign exchange rates) for the nine months ended September 30, 2011 and 2010 (in millions of dollars, except as noted):

	Nine Months Ended September 30,	
	2011	**2010**
Car rental segment revenues	$ 5,388.3	$ 4,938.2
Non-rental rate revenue	(894.5)	(777.0)
Foreign currency adjustment	(97.6)	52.5
Rental rate revenue	$ 4,396.2	$ 4,213.7
Transaction days (in thousands)	104,715	96,751
Rental rate revenue per transaction day (in whole dollars)	$ 41.98	$ 43.55

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(c)

The contribution of our reportable segments to adjusted pre-tax income and reconciliation to consolidated amounts are presented below (in millions of dollars):

	Nine Months Ended September 30,	
	2011	2010
Adjusted pre-tax income:		
Car rental	$ 678.8	$ 509.9
Equipment rental	99.5	43.0
Total reportable segments	778.3	552.9
Adjustments:		
Other reconciling items(1)	(263.0)	(275.6)
Purchase accounting(2)	(62.2)	(68.4)
Non-cash debt charges(3)	(108.0)	(144.9)
Restructuring charges	(40.4)	(45.5)
Restructuring related charges(4)	(6.4)	(7.9)
Derivative gains (losses)(5)	0.1	(2.5)
Acquisition related costs	(13.6)	(16.7)
Management transition costs	(4.0)	
Pension adjustment(6)	13.1	
Premiums paid on debt(7)	(62.4)	
Income (loss) before income taxes	$ 231.5	$ (8.6)

(1) Represents general corporate expenses, certain interest expense (including net interest on corporate debt), as well as other business activities such as our third-party claim management services.

(2) Represents the purchase accounting effects of the Acquisition on our results of operations relating to increased depreciation and amortization of tangible and intangible assets and accretion of revalued workers' compensation and public liability and property damage liabilities. Also represents the purchase accounting effects of subsequent acquisitions on our results of operations relating to increased amortization of intangible assets.

(3) Represents non-cash debt charges relating to the amortization and write-off of deferred debt financing costs and debt discounts. For the nine months ended September 30, 2010, also includes $56.9 million associated with the amortization of amounts pertaining to the de-designation of the HVF interest rate swaps as effective hedging instruments.

(4)

Represents incremental costs incurred directly supporting our business transformation initiatives. Such costs include transition costs incurred in connection with our business process outsourcing arrangements and incremental costs incurred to facilitate business process re-engineering initiatives that involve significant organization redesign and extensive operational process changes.

(5)

Represents the mark-to-market adjustment on our interest rate cap.

(6)

Represents a gain for the U.K. pension plan relating to unamortized prior service cost from a 2010 amendment that eliminated discretionary pension increases related to pre-1997 service primarily pertaining to inactive employees.

(7)

Represents premiums paid to redeem our 10.5% Senior Subordinated Notes and a portion of our 8.875% Senior Notes.

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(d)

The following table reconciles our equipment rental segment revenues to our equipment rental and rental related revenue (based on December 31, 2010 foreign exchange rates) for the nine months ended September 30, 2011 and 2010 (in millions of dollars):

	Nine Months Ended September 30,	
	2011	**2010**
Equipment rental segment revenues	$ 891.6	$ 784.1
Equipment sales and other revenue	(78.8)	(75.0)
Foreign currency adjustment	(9.6)	6.0
Rental and rental related revenue	$ 803.2	$ 715.1

REVENUES

	Nine Months Ended September 30,			
(in millions of dollars)	**2011**	**2010**	**$ Change**	**% Change**
Revenues by Segment				
Car rental	$ 5,388.3	$ 4,938.2	$ 450.1	9.1%
Equipment rental	891.6	784.1	107.5	13.7%
Other reconciling items	4.7	4.5	0.2	4.4%
Total revenues	$ 6,284.6	$ 5,726.8	$ 557.8	9.7%

Car Rental Segment

Revenues from our car rental segment increased 9.1%, primarily as a result of increases in car rental transaction days worldwide of 8.2%, refueling fees of $35.7 million and airport concession recovery fees of $28.1 million, as well as the effects of foreign currency translation of approximately $201.5 million. The nine months ended September 30, 2011 also includes $35.1 million of revenues related to Donlen. These increases were partly offset by a decrease in worldwide RPD.

RPD for worldwide car rental for the nine months ended September 30, 2011 decreased 3.6% from 2010, due to decreases in U.S. and International RPD of 4.2% and 2.5%, respectively. U.S. off-airport RPD declined by 2.1% and U.S. airport RPD decreased 4.6%. A mix shift to longer life, lower RPD rentals (including increased growth of off-airport and the Advantage brand); the competitive environment in the first half of the year, as well as a difficult year-over-year RPD comparison to last year in the latest quarter, reduced U.S. RPD. International RPD decreased primarily due to a decrease in Europe's airport RPD which was due to the competitive pricing environment.

Equipment Rental Segment

Revenues from our equipment rental segment increased 13.7%, primarily due to increases of 11.7% and 2.0% in equipment rental volumes and pricing, respectively, as well as the effects of foreign currency translation of approximately $18.0 million. The increase in volume was primarily due to strong industrial performance.

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Other

Revenues from all other sources increased $0.2 million, primarily due to an increase in revenues from our third-party claim management services.

EXPENSES

	Nine Months Ended September 30,			
(in millions of dollars)	2011	2010	$ Change	% Change
Expenses:				
Fleet related expenses	$ 855.4	$ 762.1	$ 93.3	12.2%
Personnel related expenses	1,117.9	1,056.4	61.5	5.8%
Other direct operating expenses	1,535.3	1,429.9	105.4	7.4%
Direct operating	3,508.6	3,248.4	260.2	8.0%
Depreciation of revenue earning equipment and lease charges	1,379.0	1,416.9	(37.9)	(2.7)%
Selling, general and administrative	575.4	508.4	67.0	13.2%
Interest expense	532.1	572.1	(40.0)	(7.0)%
Interest income	(4.7)	(10.4)	5.7	(55.7)%
Other (income) expense, net	62.7		62.7	N/M
Total expenses	$ 6,053.1	$ 5,735.4	$ 317.7	5.5%

Total expenses increased 5.5%, but total expenses as a percentage of revenues decreased from 100.2% for the nine months ended September 30, 2010 to 96.3% for the nine months ended September 30, 2011.

Direct Operating Expenses

Car Rental Segment

Direct operating expenses for our car rental segment of $2,953.5 million for the nine months ended September 30, 2011 increased $215.8 million, or 7.9%, from the nine months ended September 30, 2010 as a result of increases in other direct operating expenses, fleet related expenses and personnel related expenses.

Other direct operating expenses for our car rental segment was $1,324.1 million for the nine months ended September 30, 2011, an increase of 7.0% from the nine months ended September 30, 2010. The increase was primarily related to increases in field administrative expenses of $17.9 million, concession fees of $12.2 million, third-party claim management expenses of $10.7 million, customer service costs of $9.8 million, charge card fees of $4.9 million and reservation costs of $2.8 million, as well as the effects of foreign currency translation of approximately $38.7 million. The increases were primarily a result of improved worldwide rental volume demand. The increase in field administrative expenses also related to a reimbursement received from a manufacturer in the nine months ended September 30, 2010. The increases in other direct operating expenses were partly offset by a decrease in restructuring and restructuring related charges of $7.3 million.

Fleet related expenses for our car rental segment was $709.4 million for the nine months ended September 30, 2011, an increase of 12.7% from the nine months ended September 30, 2010. The

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

increase was primarily related to worldwide rental volume demand which resulted in increases in gasoline costs of $41.4 million, vehicle license taxes of $6.0 million, self insurance expenses of $4.9 million and vehicle registration fees of $4.1 million, as well as the effects of foreign currency translation of approximately $31.2 million. The increase in gasoline costs also related to higher gasoline prices. These increases were partly offset by a decrease in vehicle damage costs of $9.3 million.

Personnel related expenses for our car rental segment was $920.0 million for the nine months ended September 30, 2011, an increase of 5.7%, from the nine months ended September 30, 2010. The increase was related to increases in salaries and related expenses of $21.1 million, outside services, including transporter wages of $14.1 million and incentive compensation costs of $1.7 million, as well as the effects of foreign currency translation of approximately $23.1 million, partly offset by a decrease in benefits of $10.6 million. The expense increases were primarily related to improved results, as well as additional U.S. off-airport and Advantage locations in 2011. The decrease in benefits primarily related to the U.K. pension plan curtailment gain.

Equipment Rental Segment

Direct operating expenses for our equipment rental segment of $554.9 million for the nine months ended September 30, 2011 increased 8.9% from $509.6 million for the nine months ended September 30, 2010 as a result of increases in other direct operating expenses, fleet related expenses and personnel related expenses.

Other direct operating expenses for our equipment rental segment of $239.9 million for the nine months ended September 30, 2011 increased $18.6 million, or 8.4% from the nine months ended September 30, 2010. The increase was primarily related to increases in legal expenses of $3.1 million, re-rent expense of $2.7 million, amortization expense of $1.9 million, restructuring and restructuring related charges of $1.2 million and credit and collections expense of $1.1 million, as well as the effects of foreign currency translation of approximately $4.8 million. The increase in re-rent expense primarily related to improved worldwide rental volume demand.

Fleet related expenses for our equipment rental segment of $146.0 million for the nine months ended September 30, 2011 increased $13.4 million, or 10.1% from the nine months ended September 30, 2010. The increase was primarily related to continued aging of the fleet which resulted in an increase in maintenance costs of $9.3 million and increased worldwide rental volume resulting in increased freight and delivery costs of $5.8 million, as well as the effects of foreign currency translation of approximately $2.5 million. These increases were partly offset by a decrease in insurance and licenses of $2.4 million.

Personnel related expenses for our equipment rental segment of $169.0 million for the nine months ended September 30, 2011 increased $13.3 million, or 8.5% from the nine months ended September 30, 2010. The increase was related to increases in wages and benefits of $8.1 million and incentives of $2.0 million primarily related to improved results, as well as the effects of foreign currency translation of approximately $3.1 million.

Depreciation of Revenue Earning Equipment and Lease Charges

Car Rental Segment

Depreciation of revenue earning equipment and lease charges for our car rental segment of $1,185.3 million for the nine months ended September 30, 2011 decreased 2.1% from $1,210.7 million

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for the nine months ended September 30, 2010. The decrease was primarily due to an improvement in certain vehicle residual values and a higher mix of non-program cars, partly offset by the effects of foreign currency translation of approximately $65.2 million.

Equipment Rental Segment

Depreciation of revenue earning equipment and lease charges in our equipment rental segment of $193.7 million for the nine months ended September 30, 2011 decreased 6.1% from $206.2 million for the nine months ended September 30, 2010. The decrease was primarily due to higher residual values on the disposal of used equipment, partly offset by a 2.3% increase in the average acquisition cost of rental equipment operated during the period, as well as the effects of foreign currency translation of approximately $3.2 million.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased 13.2%, due to increases in administrative expenses, sales promotion expenses and advertising expenses.

Administrative expenses increased $40.4 million, or 13.1%, primarily due to increases in salaries and related expenses of $16.7 million and consulting expenses of $6.0 million, as well as the effects of foreign currency translation of approximately $19.2 million.

Sales promotion expenses increased $13.4 million, or 14.0%, primarily related to increases in sales salaries and commissions due to improved results, as well as the effects of foreign currency translation of approximately $2.8 million.

Advertising expenses increased $13.2 million, or 12.5%, primarily due to increased media and production related to the new campaign ("Gas and Brake"), as well as the effects of foreign currency translation of approximately $4.8 million.

Interest Expense

Car Rental Segment

Interest expense for our car rental segment of $245.7 million for the nine months ended September 30, 2011 decreased 18.5% from $301.4 million for the nine months ended September 30, 2010. The decrease was primarily due to lower interest rates in 2011.

Equipment Rental Segment

Interest expense for our equipment rental segment of $34.1 million for the nine months ended September 30, 2011 increased 15.2% from $29.6 million for the nine months ended September 30, 2010. The increase was primarily due to a portion of the write-off of the unamortized debt costs in connection with the refinancing of our Senior ABL Facility which was allocated to our equipment rental segment in 2011.

Other

Other interest expense relating to interest on corporate debt of $252.3 million for the nine months ended September 30, 2011 increased 4.6% from $241.1 million for the nine months ended September 30, 2010. The increase was primarily due to the write-off of unamortized debt costs in connection with the refinancing of our Senior Term Facility and Senior ABL Facility, financing costs incurred in connection

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

with the new Senior Term Facility and the write-off of unamortized debt costs in connection with the redemption of our 10.5% Senior Subordinated Notes and a portion of our 8.875% Senior Notes in 2011.

Interest Income

Interest income decreased $5.7 million primarily due to a value added tax reclaim received in the nine months ended September 30, 2010.

Other (Income) Expense, Net

Other (income) expense, net increased $62.7 million primarily due to premiums paid in connection with the redemption of our 10.5% Senior Subordinated Notes and a portion of our 8.875% Senior Notes during 2011.

ADJUSTED PRE-TAX INCOME (LOSS)

Car Rental Segment

Adjusted pre-tax income for our car rental segment of $678.8 million increased 33.1% million from $509.9 million for the nine months ended September 30, 2010. The increase was primarily due to stronger volumes, improved residual values and disciplined cost management, partly offset by decreased pricing. Adjustments to our car rental segment income before income taxes for the nine months ended September 30, 2011 totaled $53.7 million (which consists of non-cash debt charges of $31.9 million, purchase accounting of $24.6 million, restructuring and restructuring related charges of $9.7 million, pension adjustment of $(13.1) million and loss on derivatives of $0.6 million). Adjustments to our car rental segment income before income taxes for the nine months ended September 30, 2010 totaled $157.5 million (which consists of non-cash debt charges of $107.8 million, purchase accounting of $28.6 million and restructuring and restructuring related charges of $21.1 million). See footnote (c) to the table under "Results of Operations" for a summary and description of these adjustments.

Equipment Rental Segment

Adjusted pre-tax income for our equipment rental segment of $99.5 million increased $56.5 million from $43.0 million for the nine months ended September 30, 2010. The increase was primarily due to stronger volumes and pricing, strong cost management performance and higher residual values on the disposal of used equipment. Adjustments to our equipment rental segment income before income taxes for the nine months ended September 30, 2011 totaled $75.3 million (which consists of restructuring and restructuring related charges of $35.8 million, purchase accounting of $35.0 million and non-cash debt charges of $4.5 million). Adjustments to our equipment rental loss before income taxes for the nine months ended September 30, 2010 totaled $74.6 million (which consists of purchase accounting of $37.4 million, restructuring and restructuring related charges of $31.5 million and non-cash debt charges of $5.7 million). See footnote (c) to the table under "Results of Operations" for a summary and description of these adjustments.

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

(PROVISION) BENEFIT FOR TAXES ON INCOME, NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTEREST AND NET INCOME (LOSS) ATTRIBUTABLE TO HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES' COMMON STOCKHOLDERS

	Nine Months Ended September 30,			
(in millions of dollars)	**2011**	**2010**	**$ Change**	**% Change**
Income (loss) before income taxes	$ 231.5	$ (8.6)	$ 240.1	N/M
(Provision) benefit for taxes on income	(87.9)	0.9	(88.8)	N/M
Net income (loss)	143.6	(7.7)	151.3	N/M
Less: Net income attributable to noncontrolling interest	(14.5)	(12.9)	(1.6)	12.5%
Net income (loss) attributable to Hertz Global Holdings, Inc. and Subsidiaries' common stockholders	$ 129.1	$ (20.6)	$ 149.7	N/M

(Provision) Benefit for Taxes on Income

The effective tax rate for the nine months ended September 30, 2011 was 37.9% as compared to 10.8% in the nine months ended September 30, 2010. The provision for taxes on income increased $88.8 million, primarily due to higher income before income taxes, changes in geographic earnings mix and changes in losses in certain non-U.S. jurisdictions for which tax benefits cannot be realized.

Net Income Attributable to Noncontrolling Interest

Net income attributable to noncontrolling interest increased $1.6 million due to an increase in our majority-owned subsidiary Navigation Solutions, L.L.C.'s net income for the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010.

Net Income (Loss) Attributable to Hertz Global Holdings, Inc. and Subsidiaries' Common Stockholders

The net income attributable to Hertz Global Holdings, Inc. and Subsidiaries' common stockholders increased $149.7 million primarily due to higher rental volumes in our worldwide car and equipment rental operations, improved residual values on the disposal of certain vehicles and used equipment, disciplined cost management and increased pricing in our equipment rental operations, partly offset by lower pricing in our worldwide car rental operations, costs incurred in connection with the refinancing of our Senior Term Facility and Senior ABL Facility and the write-off of unamortized debt costs and premiums paid in connection with the redemption of our 10.5% Senior Subordinated Notes and a portion of our 8.875% Senior Notes during 2011. The impact of changes in exchange rates on net income was mitigated by the fact that not only revenues but also most expenses outside of the United States were incurred in local currencies.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

LIQUIDITY AND CAPITAL RESOURCES

Our domestic and international operations are funded by cash provided by operating activities and by extensive financing arrangements maintained by us in the United States and internationally.

Cash Flows

As of September 30, 2011, we had cash and cash equivalents of $385.8 million, a decrease of $1,988.4 million from $2,374.2 million as of December 31, 2010. The following table summarizes such decrease:

	Nine Months Ended September 30,		
(in millions of dollars)	**2011**	**2010**	**$ Change**
Cash provided by (used in):			
Operating activities	$ 1,648.5	$ 1,729.5	$ (81.0)
Investing activities	(3,465.0)	(2,462.4)	(1,002.6)
Financing activities	(185.9)	1,264.9	(1,450.8)
Effect of exchange rate changes	14.0	(34.3)	48.3
Net change in cash and cash equivalents	$ (1,988.4)	$ 497.7	$ (2,486.1)

During the nine months ended September 30, 2011, we generated $81.0 million less cash from operating activities compared with the same period in 2010. The decrease was primarily due to the timing of our vendor payments as a result of improvements in the operating performance of our business, equipment rental customer receivables and VAT receivables. The decrease was also due to premiums paid to redeem debt in 2011 and timing of interest payments.

Our primary use of cash in investing activities is for the acquisition of revenue earning equipment, which consists of cars and equipment. During the nine months ended September 30, 2011, we used $1,002.6 million more cash for investing activities compared with the same period in 2010. The increase in the use of funds was primarily due to increases in revenue earning equipment and property and equipment expenditures, a decrease in proceeds from disposal of revenue earning equipment and the Donlen acquisition, partly offset by a decrease in the year-over-year change in restricted cash and cash equivalents. The decrease in proceeds from the disposal of revenue earning equipment in our car rental operations was primarily related to the higher mix of less expensive non-program cars sold, partly offset by an increase in proceeds from the disposal of revenue earning equipment in our equipment rental operations primarily related to strategically refreshing the age of our fleet. The increase in revenue earning equipment expenditures was primarily due to higher car and equipment rental volumes. As of September 30, 2011 and December 31, 2010, we had $332.8 million and $207.6 million, respectively, of restricted cash and cash equivalents to be used for the purchase of revenue earning vehicles and other specified uses under our fleet financing facilities, our Like Kind Exchange Program, or "LKE Program," and to satisfy certain of our self-insurance regulatory reserve requirements. The increase in restricted cash and cash equivalents of $125.2 million from December 31, 2010 to September 30, 2011, primarily related to the timing of purchases and sales of revenue earning vehicles.

During the nine months ended September 30, 2011, we used $1,450.8 million more cash for financing activities compared with the same period in 2010. The increase was primarily due to payment of long-term debt (includes redemption of $518.5 million principal amount of 10.5% Senior Subordinated Notes, redemption of $1,585 million principal amount of our outstanding 8.875% Senior Notes and a

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payment of $1.3 billion for the 2005 Senior Term Facility), a decrease in proceeds under the revolving lines of credit, net and payments of short-term borrowings, partly offset by an increase in proceeds from the issuance of long-term debt (includes $1.4 billion Senior Term Facility issued March 2011 and $1 billion of 6.75% Senior Notes issued in February and March 2011).

Capital Expenditures

The tables below set forth the revenue earning equipment and property and equipment capital expenditures and related disposal proceeds on a cash basis consistent with our consolidated statements of cash flows, by quarter for 2011 and 2010 (in millions of dollars).

	Revenue Earning Equipment			Property and Equipment		
	Capital Expenditures	Disposal Proceeds	Net Capital Expenditures (Disposal Proceeds)	Capital Expenditures	Disposal Proceeds	Net Capital Expenditures
2011						
First Quarter	$ 1,963.8	$ (1,690.2)	$ 273.6	$ 56.8	$ (14.5)	$ 42.3
Second Quarter	3,503.0	(1,798.7)	1,704.3	68.6	(13.9)	54.7
Third Quarter	2,397.8	(1,443.5)	954.3	76.9	(19.7)	57.2
	7,864.6	(4,932.4)	2,932.2	202.3	(48.1)	154.2
2010						
First Quarter	$ 2,214.5	$ (1,606.4)	$ 608.1	$ 51.3	$ (6.7)	$ 44.6
Second Quarter	3,102.8	(1,836.8)	1,266.0	40.7	(8.5)	32.2
Third Quarter	1,796.4	(1,702.8)	93.6	42.3	(10.3)	32.0
	$ 7,113.7	$ (5,146.0)	$ 1,967.7	$ 134.3	$ (25.5)	$ 108.8

	Nine Months Ended September 30,			
	2011	2010	$ Change	% Change
Revenue earning equipment expenditures				
Car rental	$ 7,452.1	$ 7,009.6	$ 442.5	6.3%
Equipment rental	412.5	104.1	308.4	296.2%
Total	$ 7,864.6	$ 7,113.7	$ 750.9	10.6%

The increase in our car rental operations revenue earning equipment expenditures was primarily due to higher rental volumes during the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010. The increase in our equipment rental operations revenue earning equipment expenditures was primarily due to a continued improvement in economic conditions as well

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

as efforts to reduce the age of our fleet during the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010.

	Nine Months Ended September 30,			
	2011	2010	$ Change	% Change
Property and equipment expenditures				
Car rental	$ 169.2	$ 116.9	$ 52.3	44.7%
Equipment rental	19.7	9.7	10.0	103.2%
Other	13.4	7.7	5.7	75.2%
Total	$ 202.3	$ 134.3	$ 68.0	50.6%

The increases in property and equipment expenditures were primarily due to a continued improvement in economic conditions.

Financing

Our primary liquidity needs include servicing of corporate and fleet related debt, the payment of operating expenses and purchases of rental vehicles and equipment to be used in our operations. Our primary sources of funding are operating cash flows, cash received on the disposal of vehicles and equipment, borrowings under our asset-backed securitizations and our asset-based revolving credit facilities and access to the credit markets generally.

As of September 30, 2011, we had $12,506.3 million of total indebtedness outstanding. Cash paid for interest during the nine months ended September 30, 2011, was $488.0 million, net of amounts capitalized. Accordingly, we are highly leveraged and a substantial portion of our liquidity needs arise from debt service on our indebtedness and from the funding of our costs of operations and capital expenditures.

Our liquidity as of September 30, 2011 consisted of cash and cash equivalents, unused commitments under our Senior ABL Facility and unused commitments under our fleet debt. For a description of these amounts, see Note 7 to the Notes to our condensed consolidated financial statements included in this Report as well as "Borrowing Capacity and Availability," below.

We have a significant amount of debt that will mature over the next several years. The aggregate amounts of maturities of debt for each of the twelve-month periods ending September 30 (in millions of dollars) are as follows:

2012	$ 5,198.9	(including $4,989.2 of other short-term borrowings)
2013	$ 672.6	
2014	$ 703.0	
2015	$ 884.1	
2016	$ 1,236.3	
After 2016	$ 3,896.0	

Our short-term borrowings as of September 30, 2011 include, among other items, the amounts outstanding under the Senior ABL Facility, European Securitization, Australian Securitization, U.S. Fleet Financing Facility, U.S. Variable Funding Notes, Brazilian Fleet Financing Facility, Canadian Securitization, Capitalized Leases, European Revolving Credit Facility, Donlen GN II Variable Funding Note Facility and European Seasonal Revolving Facility. These amounts are reflected as short-term

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

borrowings, regardless of the facility maturity date, as these facilities are revolving in nature and/or the outstanding borrowings have maturities of three months or less. Short-term borrowings also include the Convertible Senior Notes which became convertible on January 1, 2011 and remained as such through September 30, 2011.

The agreements governing our indebtedness require us to comply with certain covenants. Our failure to comply with the obligations contained in any agreements governing our indebtedness could result in an event of default under the applicable instrument, which could result in the related debt becoming immediately due and payable and could further result in a cross default or cross acceleration of our debt issued under other instruments.

As a result of our successful refinancing efforts in 2009, 2010 and the nine months ended September 30, 2011 and the strategic cost reduction actions taken in the past, we believe that we will remain in compliance with our debt covenants and that cash generated from operations and cash received on the disposal of vehicles and equipment, together with amounts available under various facilities will be adequate to permit us to meet our debt service obligations, ongoing costs of operations, working capital needs and capital expenditure requirements for the next twelve months.

A significant number of cars that we purchase are subject to repurchase by car manufacturers under contractual repurchase or guaranteed depreciation programs. Under these programs, car manufacturers agree to repurchase cars at a specified price or guarantee the depreciation rate on the cars during a specified time period, typically subject to certain car condition and mileage requirements. We use book values derived from this specified price or guaranteed depreciation rate to calculate financing capacity under certain asset-backed and asset-based financing arrangements.

In the event of a bankruptcy of a car manufacturer, our liquidity would be impacted by several factors including reductions in fleet residual values and the risk that we would be unable to collect outstanding receivables due to us from such bankrupt manufacturer. In addition, the program cars manufactured by any such company would need to be removed from our fleet or re-designated as non-program vehicles, which would require us to furnish additional credit enhancement associated with these program vehicles. For a discussion of the risks associated with a manufacturer's bankruptcy or our reliance on asset-backed and asset-based financing, see "Item 1A Risk Factors" included in our Form 10-K.

We rely significantly on asset-backed and asset-based financing arrangements to purchase cars for our domestic and international car rental fleet. The amount of financing available to us pursuant to these programs depends on a number of factors, many of which are outside our control, including recently adopted legislation, proposed SEC rules and regulations and other legislative and administrative developments. In this regard, there has been uncertainty regarding the potential impact of recently proposed SEC rules and regulations governing the issuance of asset-backed securities and additional requirements contained in the Dodd-Frank Wall Street Reform and Consumer Protection Act. While we will continue to monitor these developments and their impact on our ABS program, the SEC rules and regulations, once adopted and implemented, may impact our ability and/or desire to engage in asset-backed financings in the future. For further information concerning our asset-backed financing programs and our indebtedness, see Note 4 to the Notes to our audited annual consolidated financial statements included in our Form 10-K under the caption "Item 8 Financial Statements and Supplementary Data." For a discussion of the risks associated with our reliance on asset-backed and asset-based financing and the significant amount of indebtedness, see "Item 1A Risk Factors" in our Form 10-K.

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

For further information on our indebtedness, see Note 7 to the Notes to our condensed consolidated financial statements included in this Report.

Covenants

Certain of our debt instruments and credit facilities contain a number of covenants that, among other things, limit or restrict the ability of the borrowers and the guarantors to dispose of assets, incur additional indebtedness, incur guarantee obligations, prepay certain indebtedness, make certain restricted payments (including paying dividends, redeeming stock or making other distributions), create liens, make investments, make acquisitions, engage in mergers, fundamentally change the nature of their business, make capital expenditures, or engage in certain transactions with certain affiliates.

Under the new terms of our amended Senior Term Facility and Senior ABL Facility, we are not subject to ongoing financial maintenance covenants; however, under the Senior ABL Facility we are subject to a springing financial maintenance covenant upon the occurrence of certain triggering events. As of September 30, 2011, no triggering event had occurred requiring testing of the springing financial maintenance covenant.

In addition to borrowings under our Senior Credit Facilities, we have a significant amount of additional debt outstanding. For further information on the terms of our Senior Credit Facilities as well as our significant amount of debt outstanding, see Note 7 to the Notes to our condensed consolidated financial statements included in this Report and Note 4 to the Notes to our audited annual consolidated financial statements included in our Form 10-K under the caption "Item 8 Financial Statements and Supplementary Data." For a discussion of the risks associated with our significant indebtedness, see "Item 1A Risk Factors" in our Form 10-K.

Borrowing Capacity and Availability

As of September 30, 2011, the following facilities were available for the use of Hertz and its subsidiaries (in millions of dollars):

	Remaining Capacity	Availability Under Borrowing Base Limitation
Corporate Debt		
Senior ABL Facility	$ 1,258.7	$ 786.4
Total Corporate Debt	1,258.7	786.4
Fleet Debt		
Donlen GN II Variable Funding Note Facility	85.7	85.7
U.S. Fleet Variable Funding Notes	415.1	76.7
U.S. Fleet Financing Facility	39.0	3.6
European Securitization	57.2	30.1
Canadian Securitization	91.4	12.5
Australian Securitization	107.6	1.2
Capitalized Leases	7.4	1.0
Total Fleet Debt	803.4	210.8
Total	$ 2,062.1	$ 997.2

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Our borrowing capacity and availability primarily comes from our "revolving credit facilities," which are a combination of asset-backed securitization facilities and asset-based revolving credit facilities. Creditors under each of our revolving credit facilities have a claim on a specific pool of assets as collateral. Our ability to borrow under each revolving credit facility is a function of, among other things, the value of the assets in the relevant collateral pool. We refer to the amount of debt we can borrow given a certain pool of assets as the "borrowing base."

We refer to "Remaining Capacity" as the maximum principal amount of debt permitted to be outstanding under the respective facility (i.e., the amount of debt we could borrow assuming we possessed sufficient assets as collateral) less the principal amount of debt then-outstanding under such facility.

We refer to "Availability Under Borrowing Base Limitation" and "borrowing base availability" as the lower of Remaining Capacity or the borrowing base less the principal amount of debt then-outstanding under such facility (i.e., the amount of debt we could borrow given the collateral we possess at such time).

As of September 30, 2011, the Senior Term Facility had approximately $0.3 million available under the letter of credit facility and the Senior ABL Facility had $1,103.7 million available under the letter of credit facility sublimit, subject to borrowing base restrictions.

Substantially all of our revenue earning equipment and certain related assets are owned by special purpose entities, or are encumbered in favor of our lenders under our various credit facilities.

Some of these special purpose entities are consolidated variable interest entities, of which Hertz is the primary beneficiary, whose sole purpose is to provide commitments to lend in various currencies subject to borrowing bases comprised of rental vehicles and related assets of certain of Hertz International, Ltd.'s subsidiaries. As of September 30, 2011 and December 31, 2010, our International Fleet Financing No. 1 B.V., International Fleet Financing No. 2 B.V. and HA Funding Pty, Ltd. variable interest entities had total assets primarily comprised of loans receivable and revenue earning equipment of $693.8 million and $652.1 million, respectively, and total liabilities primarily comprised of debt of $693.3 million and $651.6 million, respectively.

Off-Balance Sheet Commitments and Arrangements

As of September 30, 2011 and December 31, 2010, the following guarantees (including indemnification commitments) were issued and outstanding:

Indemnification Obligations

In the ordinary course of business, we execute contracts involving indemnification obligations customary in the relevant industry and indemnifications specific to a transaction such as the sale of a business. These indemnification obligations might include claims relating to the following: environmental matters; intellectual property rights; governmental regulations and employment-related matters; customer, supplier and other commercial contractual relationships; and financial matters. Performance under these indemnification obligations would generally be triggered by a breach of terms of the contract or by a third party claim. We regularly evaluate the probability of having to incur costs associated with these indemnification obligations and have accrued for expected losses that are

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ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

probable and estimable. The types of indemnification obligations for which payments are possible include the following:

Sponsors; Directors

Hertz has entered into customary indemnification agreements with Hertz Holdings, the Sponsors and our stockholders affiliated with the Sponsors, pursuant to which Hertz Holdings and Hertz will indemnify the Sponsors, our stockholders affiliated with the Sponsors and their respective affiliates, directors, officers, partners, members, employees, agents, representatives and controlling persons, against certain liabilities arising out of performance of a consulting agreement with Hertz Holdings and each of the Sponsors and certain other claims and liabilities, including liabilities arising out of financing arrangements or securities offerings. We also entered into indemnification agreements with each of our directors. We do not believe that these indemnifications are reasonably likely to have a material impact on us.

Environmental

We have indemnified various parties for the costs associated with remediating numerous hazardous substance storage, recycling or disposal sites in many states and, in some instances, for natural resource damages. The amount of any such expenses or related natural resource damages for which we may be held responsible could be substantial. The probable expenses that we expect to incur for such matters have been accrued, and those expenses are reflected in our condensed consolidated financial statements. As of September 30, 2011 and December 31, 2010, the aggregate amounts accrued for environmental liabilities, including liability for environmental indemnities, reflected in our condensed consolidated balance sheets in "Accrued liabilities" were $1.8 million and $1.6 million, respectively. The accrual generally represents the estimated cost to study potential environmental issues at sites deemed to require investigation or clean-up activities, and the estimated cost to implement remediation actions, including on-going maintenance, as required. Cost estimates are developed by site. Initial cost estimates are based on historical experience at similar sites and are refined over time on the basis of in-depth studies of the sites. For many sites, the remediation costs and other damages for which we ultimately may be responsible cannot be reasonably estimated because of uncertainties with respect to factors such as our connection to the site, the materials there, the involvement of other potentially responsible parties, the application of laws and other standards or regulations, site conditions, and the nature and scope of investigations, studies, and remediation to be undertaken (including the technologies to be required and the extent, duration, and success of remediation).

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Risk Management

For a discussion of additional risks arising from our operations, including vehicle liability, general liability and property damage insurable risks, see "Item 1 Business Risk Management" in our Form 10-K and "Part II, Item 1A Risk Factors" in our subsequent quarterly reports on Form 10-Q.

Market Risks

We are exposed to a variety of market risks, including the effects of changes in interest rates, foreign currency exchange rates and fluctuations in gasoline prices. We manage our exposure to these market risks through our regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. Derivative financial instruments are viewed as risk management tools and have not been used for speculative or trading purposes. In addition, derivative financial instruments are entered into with a diversified group of major financial institutions in order to manage our exposure to counterparty nonperformance on such instruments. For more information on these exposures, see Note 13 to the Notes to our condensed consolidated financial statements included in this Report.

Interest Rate Risk

From time to time, we may enter into interest rate swap agreements and/or interest rate cap agreements to manage interest rate risk. See Notes 7 and 13 to the Notes to our condensed consolidated financial statements included in this Report and Notes 4 and 13 to the Notes to our audited annual consolidated financial statements included in our Form 10-K under the caption "Item 8 Financial Statements and Supplementary Data."

We have a significant amount of debt with variable rates of interest based generally on LIBOR, Euro inter-bank offered rate, or "EURIBOR," or their equivalents for local currencies or bank conduit commercial paper rates plus an applicable margin. Increases in interest rates could therefore significantly increase the associated interest payments that we are required to make on this debt.

We have assessed our exposure to changes in interest rates by analyzing the sensitivity to our earnings assuming various changes in market interest rates. Assuming a hypothetical increase of one percentage point in interest rates on our debt portfolio as of September 30, 2011, our net income would decrease by an estimated $34.4 million over a twelve-month period.

Consistent with the terms of the agreements governing the respective debt obligations, we may hedge a portion of the floating rate interest exposure under the various debt facilities to provide protection in respect of such exposure.

Foreign Currency Risk

We have foreign currency exposure to exchange rate fluctuations worldwide and primarily with respect to the Euro, Canadian dollar, Australian dollar and British pound.

We manage our foreign currency risk primarily by incurring, to the extent practicable, operating and financing expenses in the local currency in the countries in which we operate, including making fleet and equipment purchases and borrowing for working capital needs. Also, we have purchased foreign exchange options to manage exposure to fluctuations in foreign exchange rates for selected marketing programs. The effect of exchange rate changes on these financial instruments would not materially affect our consolidated financial position, results of operations or cash flows. Our risks with respect to

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foreign exchange options are limited to the premium paid for the right to exercise the option and the future performance of the option's counterparty.

We also manage exposure to fluctuations in currency risk on intercompany loans we make to certain of our subsidiaries by entering into foreign currency forward contracts at the time of the loans which are intended to offset the impact of foreign currency movements on the underlying intercompany loan obligations.

On October 1, 2006, we designated our 7.875% Senior Notes due 2014 as an effective net investment hedge of our Euro-denominated net investment in our international operations.

For the three-month and nine-month periods ended September 30, 2011, our consolidated statement of operations contained realized and unrealized losses relating to the effects of foreign currency of $9.2 million and $16.9 million, respectively.

See Note 13 to the Notes to our condensed consolidated financial statements included in this Report.

Other Risks

We purchase unleaded gasoline and diesel fuel at prevailing market rates. In January 2009, we began a program to manage our exposure to changes in fuel prices through the use of derivative commodity instruments. For the three-month and nine-month periods ended September 30, 2011, we recognized a loss of $1.9 million and a gain of $1.0 million, respectively, in "Direct operating" on our consolidated statement of operations relating to our gasoline swaps. See Note 13 to the Notes to our condensed consolidated financial statements included in this Report.

Inflation

The increased cost of vehicles is the primary inflationary factor affecting us. Many of our other operating expenses are also expected to increase with inflation, including health care costs and gasoline. Management does not expect that the effect of inflation on our overall operating costs will be greater for us than for our competitors.

Income Taxes

In January 2006, we implemented a LKE Program for our U.S. car rental business. Pursuant to the program, we dispose of vehicles and acquire replacement vehicles in a form intended to allow such dispositions and replacements to qualify as tax-deferred "like-kind exchanges" pursuant to section 1031 of the Internal Revenue Code. The program has resulted in deferral of federal and state income taxes for fiscal years 2006, 2007, 2008 and 2009 and part of 2010. A LKE Program for HERC has also been in place for several years. The program allows tax deferral if a qualified replacement asset is acquired within a specific time period after asset disposal. Accordingly, if a qualified replacement asset is not purchased within this limited time period, taxable gain is recognized. Over the last few years, for strategic purposes, such as cash management and fleet reduction, we have recognized some taxable gains in the program. In 2009, the bankruptcy filing of an original equipment manufacturer, or "OEM," also resulted in minimal gain recognition. We had sufficient net operating losses to fully offset the taxable gains recognized. We cannot offer assurance that the expected tax deferral will continue or that the relevant law concerning the programs will remain in its current form. An extended reduction in our car rental fleet could result in reduced deferrals in the future, which in turn could require us to make material cash payments for federal and state income tax liabilities. Our inability to obtain replacement financing as our fleet financing facilities mature would likely result in an extended reduction in the fleet. In the event of an

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extended fleet reduction, we believe the likelihood of making material cash tax payments in the near future is low because of our significant net operating losses. In August 2010, we elected to temporarily suspend the U.S. car rental LKE Program allowing cash proceeds from sales of vehicles to be utilized for various business purposes, including paying down existing debt obligations, future growth initiatives and for general operating purposes. Purchases of vehicles will continue to be funded with a combination of asset-backed securitizations, asset-based revolving credit facilities and corporate liquidity. We expect that recent tax legislation, effective September 2010 through December 2011, will result in the LKE suspension having a neutral effect on our taxes. The new law allows 100% bonus depreciation for qualified asset acquisitions during the period the law is effective. We estimate recognized tax gains on vehicle dispositions resulting from the LKE suspension to be mainly offset by 100% tax depreciation on newly acquired vehicles. Our federal net operating loss position for U.S. tax purposes should remain relatively unchanged when the LKE program is re-instated.

On January 1, 2009, Bank of America acquired Merrill Lynch & Co., Inc., the parent company of BAMLCP. Accordingly, Bank of America is now an indirect beneficial owner of our common stock held by BAMLCP and certain of its affiliates. For U.S. income tax purposes the transaction, when combined with other unrelated transactions during the previous 36 months, resulted in a change in control as that term is defined in Section 382 of the Internal Revenue Code. Consequently, utilization of all pre-2009 U.S. net operating losses is subject to an annual limitation. The limitation is not expected to result in a loss of net operating losses or have a material adverse impact on taxes.

Employee Retirement Benefits

Pension

We sponsor defined benefit pension plans worldwide. Pension obligations give rise to significant expenses that are dependent on assumptions discussed in Note 5 of the Notes to our audited annual consolidated financial statements included in our Form 10-K under the caption "Item 8 Financial Statements and Supplementary Data." Our 2011 worldwide pre-tax pension expense is expected to be approximately $21.2 million, which would represent a decrease of $11.0 million from 2010. The anticipated decrease in expense compared to 2010 is primarily due to a curtailment gain resulting from suspending the U.K. pension plan.

We participate in various "multiemployer" pension plans. In the event that we withdraw from participation in one of these plans, then applicable law could require us to make an additional lump-sum contribution to the plan, and we would have to reflect that as an expense in our consolidated statement of operations and as a liability on our condensed consolidated balance sheet. Our withdrawal liability for any multiemployer plan would depend on the extent of the plan's funding of vested benefits. At least one multiemployer plan in which we participate is reported to have, and other of our multiemployer plans could have, significant underfunded liabilities. Such underfunding may increase in the event other employers become insolvent or withdraw from the applicable plan or upon the inability or failure of withdrawing employers to pay their withdrawal liability. In addition, such underfunding may increase as a result of lower than expected returns on pension fund assets or other funding deficiencies.

Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board "FASB" issued Accounting Standards Update No. 2011-05, "Presentation of Comprehensive Income," requiring companies to present items of net income and other comprehensive income either in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements of net income and

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

other comprehensive income. The amendments in this update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. These provisions will become effective for us beginning with our quarterly report for the period ended March 31, 2012. In October 2011, the FASB decided to propose a deferral of the requirement to present reclassifications of other comprehensive income on the face of the income statement, which was also included in this accounting standards update.

In September 2011, the FASB issued Accounting Standards Update No. 2011-08, "Testing Goodwill for Impairment," which gives companies the option 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. 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. This option is available to us effective immediately for all future goodwill impairment tests.

In September 2011, the FASB issued Accounting Standards Update No. 2011-09, "Disclosures about an Employer's Participation in a Multiemployer Plan," which require that employers provide additional separate disclosures for multiemployer pension plans and multiemployer other postretirement benefit plans. These provisions will become effective for us beginning with our annual report for the period ended December 31, 2011.

Other Financial Information

With respect to the unaudited interim financial information of Hertz Global Holdings, Inc. as of September 30, 2011 and for the three-month and nine-month periods ended September 30, 2011 and 2010 included in this Form 10-Q, PricewaterhouseCoopers LLP reported that they applied limited procedures in accordance with professional standards for reviews of such unaudited interim financial information. However, their separate report dated November 7, 2011 included in this Form 10-Q herein states that they did not audit and they do not express an opinion on such unaudited interim financial information. Accordingly, the degree of reliance on their report should be restricted in light of the limited nature of the review procedures applied. PricewaterhouseCoopers LLP is not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their report on such unaudited interim financial information because that report is not a "report" or "part" of a registration statement prepared or certified by PricewaterhouseCoopers LLP within the meaning of Sections 7 and 11 of the Securities Act of 1933.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

There is no material change in the information reported under "Part II, Item 7A Quantitative and Qualitative Disclosures About Market Risk," included in our Form 10-K for the fiscal year ended December 31, 2010. See "Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations Market Risks," included in this Report.

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ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed in company reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in company reports filed under the Securities Exchange Act of 1934 is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

An evaluation of the effectiveness of our disclosure controls and procedures was performed under the supervision of, and with the participation of, management, including our Chief Executive Officer and Chief Financial Officer, as of the end of the period covered by this Report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective.

Changes in Internal Control Over Financial Reporting

An evaluation of our internal controls over financial reporting was performed under the supervision of, and with the participation of, management, including our Chief Executive Officer and Chief Financial Officer, to determine whether any changes have occurred during the period covered by this Report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that no changes in our internal control over financial reporting have occurred during the three months ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a description of certain pending legal proceedings, see Note 11 to the Notes to our annual audited consolidated financial statements included in our Form 10-K.

The following recent developments pertaining to legal proceedings described in our Form 10-K are furnished on a supplemental basis:

Following the entry of the Court's June 27, 2011 Order in *Janet Sobel et al. v. The Hertz Corporation et al.* which formally denied the plaintiffs' motion for final approval of the settlement, the plaintiffs filed a motion for class certification which we opposed and discovery has again commenced. A separate action is proceeding against Enterprise, National and Alamo.

The Kansas Supreme Court issued its decision in *Critchfield Physical Therapy, Inc. v. Taranto Group, Inc.* another Telephone Consumer Protection Act case in September of 2011, so the stay that had been pending in *Fun Services of Kansas City, Inc. v. Hertz Equipment Rental Corporation* has now been lifted and the case will proceed.

None of the other legal proceedings described in our Form 10-K have experienced material changes.

ITEM 1A. RISK FACTORS

There is no material change in the information reported under "Part I Item 1A Risk Factors" contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 and "Part II, Item 1A Risk Factors" in our subsequent quarterly reports on Form 10-Q with the exception of the following:

Risks Related to Our Substantial Indebtedness

Our substantial level of indebtedness could materially adversely affect our results of operations, cash flows and ability to compete in our industry.

As of September 30, 2011, we had debt outstanding of $12,506.3 million. Our substantial indebtedness could materially adversely affect us. For example, it could: (i) make it more difficult for us to satisfy our obligations to the holders of our outstanding debt securities and to the lenders under our various credit facilities, resulting in possible defaults on, and acceleration of, such indebtedness; (ii) limit our ability to refinance our existing indebtedness or borrow additional funds in the future; (iii) require us to dedicate a substantial portion of our cash flows from operations to make payments on our debt, which would reduce our ability to fund working capital, capital expenditures or other general corporate purposes; (iv) increase our vulnerability to general adverse economic and industry conditions (such as credit-related disruptions in Europe); including interest rate fluctuations, because a portion of our borrowings are at floating rates of interest and are not hedged against rising interest rates, or the risk that one or more of the financial institutions providing commitments under our revolving credit facilities fails to fund an extension of credit under any such facility, due to insolvency or otherwise, leaving us with less liquidity than expected; (v) place us at a competitive disadvantage to our competitors that have proportionately less debt or comparable debt at more favorable interest rates or on better terms; and (vi) limit our ability to react to competitive pressures, or make it difficult for us to carry out capital spending that is necessary or important to our growth strategy and our efforts to improve operating margins. While the terms of the agreements and instruments governing our outstanding indebtedness contain certain restrictions upon our ability to incur additional indebtedness, they do not fully prohibit us from incurring substantial additional indebtedness and do not prevent us from incurring obligations that do not constitute indebtedness. If new debt or other obligations are added to our current liability levels without a corresponding refinancing or redemption of our existing indebtedness and obligations, these risks would increase. For a description of the amounts we have available under certain of our debt facilities,

ITEM 1A. RISK FACTORS (Continued)

see "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Credit Facilities," in this Annual Report. Our ability to manage these risks depends on financial market conditions as well as our financial and operating performance, which, in turn, is subject to a wide range of risks, including those described under " Risks Related to Our Business."

If our capital resources (including borrowings under the revolving portion of our various credit facilities and access to other refinancing indebtedness) and operating cash flows are not sufficient to pay our obligations as they mature or to fund our liquidity needs, we may be forced to do, among other things, one or more of the following:

(i) sell certain of our assets; (ii) reduce the size of our rental fleet; (iii) reduce the percentage of program cars in our rental fleet; (iv) reduce or delay capital expenditures; (iv) obtain additional equity capital; (v) forgo business opportunities, including acquisitions and joint ventures; or (vi) restructure or refinance all or a portion of our debt on or before maturity.

We cannot assure you that we would be able to accomplish any of these alternatives on a timely basis or on satisfactory terms, if at all. Furthermore, we cannot assure you that we will maintain financing activities and cash flows sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness. If we cannot refinance or otherwise pay our obligations as they mature and fund our liquidity needs, our business, financial condition, results of operations, cash flows, ability to obtain financing, and ability to compete in our industry could be materially adversely affected.

ITEM 6. EXHIBITS

(a) Exhibits:

The attached list of exhibits in the "Exhibit Index" immediately following the signature page to this Report is filed as part of this Form 10-Q and is incorporated herein by reference in response to this item.

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SIGNATURE

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

Date: November 7, 2011

HERTZ GLOBAL HOLDINGS, INC.
(Registrant)

By: /s/ ELYSE DOUGLAS

Elyse Douglas
Executive Vice President and
Chief Financial Officer
(principal financial officer and duly
authorized officer)

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EXHIBIT INDEX

Exhibit Number	Description
2.1	Agreement and Plan of Merger by and among The Hertz Corporation, DNL Merger Corp., Donlen Corporation, Gary Rappeport, as Shareholder Representative and Subsidiary Shareholder (solely with respect to Section 2.2, Section 3.3, Section 3.4, Section 6.5, Section 6.8, Section 6.9, Article IX and Article X) and Nancy Liace as Subsidiary Shareholder (solely with respect to Section 2.2 and Article X) dated July 12, 2011 (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K of the Registrant as filed on July 18, 2011).
2.2	Amendment No. 1 to Agreement and Plan of Merger, dated August 25, 2011, by and among The Hertz Corporation, DNL Merger Corp., Donlen Corporation, Gary Rappeport, as Shareholder Representative and Subsidiary Shareholder and Nancy Liace as Subsidiary Shareholder dated July 12, 2011.
4.1.6	Fifth Supplemental Indenture, dated as of March 11, 2011, among Hertz Entertainment Services Corporation, The Hertz Corporation, the Existing Guarantors named therein, and Wells Fargo Bank, National Association, as Trustee, relating to the U.S. Dollar 8.875% Senior Notes due 2014 and the Euro 7.875% Senior Notes due 2014 (Incorporated by reference to Exhibit 4.1.6 of the Registration Statement on Form S-4 (File No. 333-173023) of the Hertz Corporation as filed on March 23, 2011).
4.1.7	Sixth Supplemental Indenture, dated as of March 21, 2011, among The Hertz Corporation, the Existing Guarantors named therein, and Wells Fargo Bank, National Association, as Trustee, relating to the U.S. Dollar 8.875% Senior Notes due 2014 and the Euro 7.875% Senior Notes due 2014 (Incorporated by reference to Exhibit 4.1.7 of the Registration Statement on Form S-4 (File No. 333-173023) of the Hertz Corporation as filed on March 23, 2011).
4.1.8	Seventh Supplemental Indenture, dated as of September 2, 2011, among Donlen Corporation, The Hertz Corporation, the Existing Guarantors named therein, and Wells Fargo Bank, National Association, as Trustee, relating to the U.S. Dollar 8.875% Senior Notes due 2014 and the Euro 7.875% Senior Notes due 2014.
4.2.3	First Supplemental Indenture, dated as of March 11, 2011, among Hertz Entertainment Services Corporation, The Hertz Corporation, as Issuer, the Subsidiary Guarantors from time to time parties thereto, and Wells Fargo Bank, National Association, as Trustee, relating to the 7.50% Senior Notes due 2018 (Incorporated by reference to Exhibit 4.2.2 of the Registration Statement on Form S-4 (File No. 333-173023) of the Hertz Corporation as filed on March 23, 2011).
4.2.4	Second Supplemental Indenture, dated as of March 21, 2011, among The Hertz Corporation, as Issuer, the Subsidiary Guarantors from time to time parties thereto, and Wells Fargo Bank, National Association, as Trustee, relating to the 7.50% Senior Notes due 2018 (Incorporated by reference to Exhibit 4.2.3 of the Registration Statement on Form S-4 (File No. 333-173023) of the Hertz Corporation as filed on March 23, 2011).
4.2.5	Third Supplemental Indenture, dated as of September 2, 2011, among Donlen Corporation, The Hertz Corporation, as Issuer, the Existing Guarantors named therein, and Wells Fargo Bank, National Association, as Trustee, relating to the 7.50% Senior Notes due 2018.
4.3.3	First Supplemental Indenture, dated as of March 11, 2011, among Hertz Entertainment Services Corporation, The Hertz Corporation, as Issuer, the Subsidiary Guarantors from time to time parties thereto, and Wells Fargo Bank, National Association, as Trustee, relating to the 7.375% Senior Notes due 2021 (Incorporated by reference to Exhibit 4.3.2 of the Registration Statement on Form S-4 (File No. 333-173023) of the Hertz Corporation as filed on March 23, 2011).

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Exhibit Number	Description
4.3.4	Second Supplemental Indenture, dated as of March 21, 2011, among The Hertz Corporation, as Issuer, the Subsidiary Guarantors from time to time parties thereto, and Wells Fargo Bank, National Association, as Trustee, relating to the 7.375% Senior Notes due 2021 (Incorporated by reference to Exhibit 4.3.3 of the Registration Statement on Form S-4 (File No. 333-173023) of the Hertz Corporation as filed on March 23, 2011).
4.3.5	Third Supplemental Indenture, dated as of September 2, 2011, among Donlen Corporation, The Hertz Corporation, as Issuer, the Existing Guarantors named therein, and Wells Fargo Bank, National Association, as Trustee, relating to the 7.375% Senior Notes due 2021.
4.4.3	First Supplemental Indenture, dated as of March 11, 2011, among Hertz Entertainment Services Corporation, The Hertz Corporation, as Issuer, the Subsidiary Guarantors from time to time parties thereto, and Wells Fargo Bank, National Association, as Trustee, relating to the 6.75% Senior Notes due 2019 (Incorporated by reference to Exhibit 4.4.2 of the Registration Statement on Form S-4 (File No. 333-173023) of the Hertz Corporation as filed on March 23, 2011).
4.4.4	Second Supplemental Indenture, dated as of September 2, 2011, among Donlen Corporation, The Hertz Corporation, as Issuer, the Existing Guarantors named therein, and Wells Fargo Bank, National Association, as Trustee, relating to the 6.75% Senior Notes due 2019.
10.4	Credit Agreement, dated as of September 22, 2011, among The Hertz Corporation, and Puerto Ricancars, Inc., as Borrowers, the several lenders from time to time parties thereto, Gelco Corporation d/b/a GE Fleet Services, as Administrative Agent, Domestic Collateral Agent and PRUSVI Collateral Agent, Bank of America, N.A., as Documentation Agent and Bank of America, N.A. and GE Capital Markets, Inc. as Joint Lead Arrangers and Bookrunning Managers.
15	Letter from PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm, dated November 7, 2011, relating to Financial Information
31.1 31.2	Rule 13a-14(a)/15d-14(a) Certifications of Chief Executive Officer and Chief Financial Officer
32.1 32.2	18 U.S.C. Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document*
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document*
101.LAB	XBRL Taxonomy Extension Label Linkbase Document*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document*

Note:

Certain instruments with respect to various additional obligations, which could be considered as long-term debt, have not been filed as exhibits to this Report because the total amount of securities authorized under any such instrument does not exceed 10% of our total assets on a consolidated basis. We agree to furnish to the SEC upon request a copy of any such instrument defining the rights of the holders of such long-term debt.

*

Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of

1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.