

HERTZ GLOBAL HOLDINGS INC  
Form 10-K  
February 27, 2012

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-K**

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

For the fiscal year ended December 31, 2011

OR

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

Commission File Number 001-33139

**HERTZ GLOBAL HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**20-3530539**  
(I.R.S. Employer  
Identification Number)

**225 Brae Boulevard  
Park Ridge, New Jersey 07656-0713  
(201) 307-2000**

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

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
Common Stock, Par Value \$0.01 per share	New York Stock Exchange
<b>Securities registered pursuant to Section 12(g) of the Act: None</b>	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer       Accelerated filer       Non-accelerated filer   
(Do not check if a smaller reporting company)      Smaller reporting company

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant as of June 30, 2011, the last business day of the registrant's most recently completed second fiscal quarter, based on the closing price of the stock on the New York Stock Exchange on such date was \$4,074,250,644.

As of February 22, 2012, 417,294,046 shares of the registrant's common stock were outstanding.

### **Documents incorporated by reference:**

Portions of the Registrant's Proxy Statement for its Annual Meeting of Stockholders scheduled for May 24, 2012 are incorporated by reference into Part III.

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**INTRODUCTORY NOTE**

*Unless the context otherwise requires, in this Annual Report on Form 10-K, or "Annual Report," (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.*

**Cautionary Note Regarding Forward-Looking Statements**

*Certain statements contained or incorporated by reference in this Annual 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 "Risk Factors" set forth in Item 1A of this Annual Report, and the following, which were derived in part from the risks set forth in Item 1A of this Annual Report:*

*our ability to obtain regulatory approval for and to consummate an acquisition of Dollar Thrifty Automotive Group, or "Dollar Thrifty";*

*the risk that expected synergies, operational efficiencies and cost savings from an acquisition of Dollar Thrifty 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 for an acquisition of Dollar Thrifty;*

*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;*

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*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;*

*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;*

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*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.*

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**PART I**

**ITEM 1. BUSINESS**

**Our Company**

We own what we believe is the largest worldwide airport general use car rental brand, operating from approximately 8,500 locations in approximately 150 countries as of December 31, 2011. Our Hertz brand name is one of the most recognized in the world, signifying leadership in quality rental services and products. Hertz operates both corporate and licensee locations in cities and airports in North America, Europe, Latin America, Australia, Asia and New Zealand. In addition, we have licensee locations in cities and airports in Africa and the Middle East. We are one of the only car rental companies that has an extensive network of company-operated rental locations both in the United States and in all major European markets. We believe that we maintain the leading airport car rental brand market share, by overall reported revenues, in the United States and at the 119 major airports in Europe where we have company-operated locations and where data regarding car rental concessionaire activity is available. We believe that we also maintain the second largest market share, by revenues, in the off-airport car rental market in the United States. In our equipment rental business segment, we rent equipment through approximately 315 branches in the United States, Canada, France, Spain, Italy, China and Saudi Arabia, as well as through our international licensees. We and our predecessors have been in the car rental business since 1918 and in the equipment rental business since 1965. We have a diversified revenue base and a highly variable cost structure and are able to dynamically manage fleet capacity, the most significant determinant of our costs. Our revenues have grown at a compound annual growth rate of 5.2% over the last 20 years, with year-over-year growth in 17 of those 20 years.

**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, or "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.

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 38% of the outstanding shares of common stock of Hertz Holdings.

**Our Markets**

We are engaged principally in the global car rental industry and in the equipment rental industry.

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**ITEM 1. BUSINESS (Continued)**

*Worldwide Car Rental*

We believe that the global car rental industry exceeds \$30 billion in annual revenues. According to Auto Rental News, car rental industry revenues in the United States are estimated to be approximately \$22 billion for 2011 and grew in 2011 by 8.8%. We believe car rental revenues in Europe account for approximately \$12 billion in annual revenues, with the airport portion of the industry comprising approximately 36% of the total. Within Europe, the largest markets are France, Italy, the United Kingdom, Germany and Spain. We believe total rental revenues for the car rental industry in Europe in 2011 were approximately \$9.9 billion in 11 countries France, Italy, the United Kingdom, Germany, Spain, The Netherlands, Switzerland, Belgium, the Czech Republic, the Slovak Republic and Luxembourg where we have company-operated rental locations and approximately \$2.1 billion in 12 other countries Ireland, Portugal, Sweden, Greece, Norway, Denmark, Austria, Poland, Finland, Hungary, Malta and Romania where our brand is present through our licensees.

We estimate that rentals by airline travelers at or near airports, or "airport rentals," accounted for approximately one-half of the total market in the United States in 2011. This portion of the market is significantly influenced by developments in the travel industry and particularly in airline passenger traffic, or "enplanements," as well as the Gross Domestic Product, or "GDP." We believe domestic enplanements increased in 2011 by approximately 3.0% and are expected to increase by 3.2% in 2012. Current data suggests that U.S. GDP increased in 2011 by approximately 1.7% and is expected to increase by 2.3% in 2012. The International Air Transport Association, or "IATA," projected in December 2011 that annual global enplanements would increase by 4.0% in 2012.

The off-airport portion of the industry has rental volume primarily driven by local business use, leisure travel and the replacement of cars being repaired. Because Europe has generally demonstrated a lower historical reliance on air travel, the European off-airport car rental market is significantly more developed than it is in the United States. However, we believe that in recent years, industry revenues from off-airport car rentals in the United States have grown faster than revenues from airport rentals.

We provide commercial fleet leasing and management services to national corporate customers throughout the U.S. and Canada through Donlen Corporation, or "Donlen," a wholly owned subsidiary. Donlen is a fully integrated fleet management services provider with a comprehensive suite of product offerings ranging from leasing and managing vehicle fleets to providing other fleet management services to reduce fleet operating costs.

*Worldwide Equipment Rental*

We estimate the size of the U.S. equipment rental industry, which is highly fragmented with few national competitors and many regional and local operators, remained relatively the same at approximately \$28 billion in annual revenues for 2011 and 2010, but the part of the rental industry dealing with equipment of the type HERC rents is somewhat smaller than that. We believe that the industry is expected to grow at 8.6% compound annual growth rate between 2011 and 2015. Other market data indicates that the equipment rental industries in France, Spain, Italy and China generate approximately \$4.5 billion, \$2.5 billion, \$2.1 billion and \$5.1 billion in annual revenues, respectively, although the portions of those markets in which HERC competes are smaller.

The equipment rental industry serves a broad range of customers from small local contractors to large industrial national accounts and encompasses a wide range of rental equipment from small tools to heavy earthmoving equipment. We believe U.S. non-residential construction spending decreased at an annual rate of 7% in 2011 but is projected to increase at an annual rate of 1% in 2012. We also believe that rental equipment accounted for approximately 40% of all equipment sold into the U.S. construction



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**ITEM 1. BUSINESS (Continued)**

industry in 2011, up from approximately 5% in 1993. In addition, we believe that the trend toward rental instead of ownership of equipment in the U.S. construction industry will continue and that as much as 50% of the equipment used in the industry could be rental equipment by 2014.

**Our Business Segments**

Our business consists of 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." General corporate expenses, certain interest expense (including net interest on corporate debt), as well as other business activities, such as fees and certain cost reimbursements from our licensees and third-party claim management services are included as "other reconciling items."

**Car Rental:** Our "company-operated" rental locations are those through which we, or an agent of ours, rent cars that we own or lease. We maintain a substantial network of company-operated car rental locations both in the United States and internationally, and what we believe to be the largest number of company-operated airport car rental locations in the world, enabling us to provide consistent quality and service worldwide. Our licensees and associates also operate rental locations in over 140 countries and jurisdictions, including most of the countries in which we have company-operated rental locations.

**Equipment Rental:** We believe, based on an article in Rental Equipment Register published in May 2011, that HERC is one of the largest equipment rental companies in the United States and Canada combined. HERC rents a broad range of earthmoving equipment, material handling equipment, aerial and electrical equipment, air compressors, generators, pumps, small tools, compaction equipment and construction-related trucks. HERC also derives revenues from the sale of new equipment and consumables as well as through its Hertz Entertainment Services division.

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**ITEM 1. BUSINESS (Continued)**

Set forth below are charts showing revenues by reportable segment, and revenues by geographic area, both for the year ended December 31, 2011 and revenue earning equipment at net book value as of December 31, 2011 (the majority of our international operations are in Europe).

**Revenues by Segment for  
Year Ended December 31, 2011<sup>(1)</sup>**

**\$8.3 billion**

**Revenues by Geographic Area for  
Year Ended December 31, 2011**

**\$8.3 billion**

**Revenue Earning Equipment at net book  
value as of December 31, 2011**

**\$10.1 billion**

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(1)

Car rental segment revenue includes fees and certain cost reimbursements from licensees. See Note 10 to the Notes to our consolidated financial statements included in this Annual Report under the caption "Item 8 Financial Statements and Supplementary Data."

For further information on our business segments, including financial information for the years ended December 31, 2011, 2010 and 2009, see Note 10 to the Notes to our consolidated financial statements included in this Annual Report under the caption "Item 8 Financial Statements and Supplementary Data."

**Worldwide Car Rental**

*Operations*

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We rent a wide variety of makes and models of cars. We generally accept reservations only for a class of vehicles, although we accept reservations for specific makes and models of vehicles in our Prestige Collection national-scale luxury rental program, our Adrenaline Collection sports car rentals, our Green Traveler Collection environmentally friendly rental program and a limited number of models in high-volume, leisure-oriented destinations. We rent cars on an hourly (in select markets), daily,

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**ITEM 1. BUSINESS (Continued)**

weekend, weekly, monthly or multi-month basis, with rental charges computed on a limited or unlimited mileage rate, or on a time rate plus a mileage charge. Our rates vary at different locations depending on local market conditions and other competitive and cost factors. While cars are usually returned to the locations from which they are rented, we also allow one-way rentals from and to certain locations. In addition to car rentals and licensee fees, we generate revenues from reimbursements by customers of airport concession fees and vehicle licensing costs, fueling charges, and charges for ancillary customer products and services such as supplemental equipment (child seats and ski racks), loss or collision damage waiver, theft protection, liability and personal accident/effects insurance coverage, Hertz NeverLost navigation systems and satellite radio services.

Our international car rental operations have company-operated locations in France, Australia, Italy, the United Kingdom, Germany, Spain, Canada, Brazil, The Netherlands, Switzerland, New Zealand, Belgium, Puerto Rico, the Czech Republic, China, Luxembourg, the Slovak Republic and the U.S. Virgin Islands.

As of December 31, 2011, we had approximately 2,655 staffed rental locations in the United States, of which approximately one-fifth were airport locations and four-fifths were off-airport locations, and we regularly rent cars from 1,335 other locations that are not staffed. As of December 31, 2011, we had approximately 1,130 staffed rental locations internationally, of which approximately one-fifth were airport locations and four-fifths were off-airport locations, and we regularly rent cars from approximately 135 other locations that are not staffed. We believe that our extensive U.S. and international network of company-operated locations contributes to the consistency of our service, cost control, fleet utilization, yield management, competitive pricing and ability to offer one-way rentals.

In order to operate airport rental locations, we have obtained concessions or similar leasing, licensing or permitting agreements or arrangements, or "concessions," granting us the right to conduct a car rental business at all major, and many other airports in each country where we have company-operated rental locations, except for airports where our licensees operate rental locations. Our concessions were obtained from the airports' operators, which are typically governmental bodies or authorities, following either negotiation or bidding for the right to operate a car rental business there. The terms of an airport concession typically require us to pay the airport's operator concession fees based upon a specified percentage of the revenues we generate at the airport, subject to a minimum annual guarantee. Under most concessions, we must also pay fixed rent for terminal counters or other leased properties and facilities. Most concessions are for a fixed length of time, while others create operating rights and payment obligations that are terminable at any time.

The terms of our concessions typically do not forbid us from seeking, and in a few instances actually require us to seek, reimbursement from customers of concession fees we pay; however, in certain jurisdictions the law limits or forbids our doing so. Where we are required or permitted to seek such reimbursement, it is our general practice to do so. The number of car rental concessions available at airports varies considerably, but, except at small, regional airports, it is rarely less than four. Certain of our concession agreements require the consent of the airport's operator in connection with material changes in our ownership. See "Item 1A Risk Factors" in this Annual Report.

The Hertz brand is one of the most recognized brands in the world. Our customer surveys, in the United States, indicate that Hertz is the car rental brand most associated with the highest quality service. This is consistent with numerous published best-in class car rental awards that we have won, both in the United States and internationally, over many years. We have sought to support our reputation for quality and customer service in car rental through a variety of innovative service offerings, such as our customer loyalty program (Gold Plus Rewards), our global expedited rental program (Hertz #1 Club Gold), our one-way rental program (Rent-it-Here/Leave-it-There), our national-scale luxury rental program (Prestige

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**ITEM 1. BUSINESS (Continued)**

Collection), our sports car rental program (Adrenaline Collection), our environmentally friendly rental program (Green Traveler Collection) and our in-car navigational services (Hertz NeverLost). We intend to maintain our position as a premier company through an intense focus on service, quality and product innovation.

In late 2008, we introduced a global car-sharing service, now referred to as Hertz On Demand which rents cars by the hour and/or by the day, at various locations in the U.S., Canada and Europe. Hertz On Demand allows customers to sign up for free for the service and start renting cars by the hour. Members reserve vehicles online, then pick up the vehicles at various locations throughout a city, at a university or a corporate campus without the need to visit a Hertz rental office. Customers are charged an hourly car-rental fee which includes fuel, insurance, <sup>24/7</sup> roadside assistance, in-car customer service and 180 miles per day.

In April 2009, we completed the acquisition of certain assets of Advantage Rent A Car, or "Advantage." Advantage is a popular brand for price-oriented customers at key leisure travel destinations. The purchase agreement provided us with the rights to purchase certain rights, trademarks and copyrights to use the Advantage brand name, website and phone numbers. In addition, the agreement provides us with the option to have assigned to us certain leases, fixed assets, airport concession agreements and other agreements associated with approximately 20 locations that Advantage is or previously was operating. As of December 31, 2011, we had 74 corporate Advantage brand rental locations in the United States and Europe and 15 affiliates in Latin America and the Caribbean.

Beginning in December 2010, we made the next generation of electric vehicles available to the general public through our Hertz On Demand car sharing operation. Electric vehicles have been added to our fleet and are available at various cities across the U.S. such as New York, Washington D.C. and San Francisco, in Europe and in China. We plan continued deployment of electric vehicles and plug-in hybrid electric vehicles in both the U.S. and other countries throughout 2012.

On September 1, 2011, Hertz acquired 100% of the equity interest in Donlen, a leading provider of fleet leasing and management services for corporate fleets and for the four months ended December 31, 2011 (period it was owned by Hertz), had an average of approximately 137,000 vehicles under lease and management. Donlen provides Hertz an immediate leadership position in long-term car, truck and equipment leasing and fleet management. Donlen's fleet management programs provide outsource solutions to reduce fleet operating costs and improve driver productivity. These programs include administration of preventive maintenance, advisory services, and fuel and accident management along with other complementary services. 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 will enable us to model, measure and manage fleet performance more effectively and efficiently.

Based on the latest available data, in the United States, the Hertz brand had the highest market share, by revenues, in 2009, 2010 and in the first nine months of 2011 at approximately 200 of the largest airports where we have company-operated locations. Out of the approximately 190 major European airports at which we have company-operated rental locations, data regarding car rental concessionaire activity for the year ended December 31, 2011 was available at 119 of these airports. Based upon this data, we believe that we were the largest airport car rental company, measured by aggregate airport rental revenues during that period, at those 119 airports taken together. In the United States, we intend to maintain or expand our market share in the airport rental business. For a further description of our competitors, market share and competitive position see " Competition" below.

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**ITEM 1. BUSINESS (Continued)**

At our major airport rental locations, as well as at some smaller airport and off-airport locations, customers participating in our Hertz #1 Club Gold program are able to rent vehicles in an expedited manner. In the United States, participants in our Hertz #1 Club Gold program often bypass the rental counter entirely and proceed directly to their vehicles upon arrival at our facility. For the year ended December 31, 2011, rentals by Hertz #1 Club Gold members accounted for approximately 36% of our worldwide rental transactions. We believe the Hertz #1 Club Gold program provides a significant competitive advantage to us, particularly among frequent travelers, and we have, through travel industry relationships, targeted such travelers for participation in the program.

Hertz introduced a number of customer service offerings in 2011 in order to further differentiate itself from the competition. The most significant new offering was Gold Choice. Hertz Gold Choice now offers our customers an option to choose the car they drive. As always for Gold customers, they will have a preassigned car ready and waiting for them, but now they have the freedom to select a different car that's available at the new Gold Choice area. This service is free of charge to Gold customers who book a midsize class or above. The Gold Choice program was launched during August 2011 and rolled out to 32 U.S. airport locations by December 2011.

In addition to our airport locations, we operate off-airport locations offering car rental services to a variety of customers. Our off-airport rental customers include people wishing to rent cars closer to home for business or leisure purposes, as well as those needing to travel to or from airports. Our off-airport customers also include people who have been referred by, or whose rental costs are being wholly or partially reimbursed by, insurance companies following accidents in which their cars were damaged, those expecting to lease cars that are not yet available from their leasing companies and those needing cars while their vehicle is being repaired or is temporarily unavailable for other reasons; we call these customers "replacement renters." At many of our off-airport locations we will provide pick-up and delivery services in connection with rentals.

When compared to our airport rental locations, an off-airport rental location typically services the same variety of customers, uses smaller rental facilities with fewer employees, conducts pick-up and delivery services and deals with replacement renters using specialized systems and processes. In addition, on average, off-airport locations generate fewer transactions per period than airport locations. At the same time, though, our airport and off-airport rental locations employ common car fleets, are supervised by common country, regional and local area management, use many common systems and rely on common maintenance and administrative centers. Moreover, airport and off-airport locations, excluding replacement rentals, benefit from many common marketing activities and have many of the same customers. As a consequence, we regard both types of locations as aspects of a single, unitary, car rental business.

We believe that the off-airport portion of the car rental market offers opportunities for us on several levels. First, presence in the off-airport market can provide customers a more convenient and geographically extensive network of rental locations, thereby creating revenue opportunities from replacement renters, non-airline travel renters and airline travelers with local rental needs. Second, it can give us a more balanced revenue mix by reducing our reliance on airport travel and therefore limiting our exposure to external events that may disrupt airline travel trends. Third, it can produce higher fleet utilization as a result of the longer average rental periods associated with off-airport business, compared to those of airport rentals. Fourth, replacement rental volume is far less seasonal than that of other business and leisure rentals, which permits efficiencies in both fleet and labor planning. Finally, cross-selling opportunities exist for us to promote off-airport rentals among frequent airport Hertz #1 Club Gold program renters and, conversely, to promote airport rentals to off-airport renters. In view of those benefits, along with our belief that our market share for off-airport rentals is generally smaller than our

Table of Contents**ITEM 1. BUSINESS (Continued)**

market share for airport rentals, we intend to seek profitable growth in the off-airport rental market, both in the United States and internationally.

Since January 1, 2009, we increased the number of our off-airport rental locations in the United States by approximately 32% to 2,175 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. We anticipate that same-store sales growth will be driven by our traditional leisure and business traveler customers and by increasing penetration of the insurance replacement market, of which we currently have a low market share. In the United States during the year ended December 31, 2011, approximately one-third of our rental revenues at off-airport locations were related to replacement rentals. We believe that if we successfully pursue our strategy of profitable off-airport growth, the proportion of replacement rental revenues will increase. As we move forward, our determination of whether to continue to expand our U.S. off-airport network will be based upon a combination of factors, including, commercial activity and potential profitability as well as the concentration of target insurance company policyholders, car dealerships and auto body shops. We also intend to increase the number of our staffed off-airport rental locations internationally based on similar criteria.

Our worldwide car rental segment generated \$7,083.5 million in revenues during the year ended December 31, 2011.

***Customers and Business Mix***

We categorize our car rental business based on two primary criteria the purpose for which customers rent from us (business or leisure) and the type of location from which they rent (airport or off-airport). The table below sets forth, for the year ended December 31, 2011, the percentages of rental revenues and rental transactions in our U.S. and international operations derived from business and leisure rentals and from airport and off-airport rentals.

	<b>Year ended December 31, 2011</b>			
	<b>U.S.</b>		<b>International</b>	
<b>Type of Car Rental</b>	<b>Revenues</b>	<b>Transactions</b>	<b>Revenues</b>	<b>Transactions</b>
<b>By Customer:</b>				
Business	43%	48%	54%	55%
Leisure	57	52	46	45
	100%	100%	100%	100%
<b>By Location:</b>				
Airport	70%	73%	56%	59%
Off-airport	30	27	44	41
	100%	100%	100%	100%

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**ITEM 1. BUSINESS (Continued)**

Customers who rent from us for "business" purposes include those who require cars in connection with commercial activities, the activities of governments and other organizations or for temporary vehicle replacement purposes. Most business customers rent cars from us on terms that we have negotiated with their employers or other entities with which they are associated, and those terms can differ substantially from the terms on which we rent cars to the general public. We have negotiated arrangements relating to car rental with many large businesses, governments and other organizations, including most Fortune 500 companies.

Customers who rent from us for "leisure" purposes include not only individual travelers booking vacation travel rentals with us but also people renting to meet other personal needs. Leisure rentals, generally, are longer in duration and generate more revenue per transaction than do business rentals, although some types of business rentals, such as rentals to replace temporarily unavailable cars, have a long average duration. Business rentals and leisure rentals have different characteristics and place different types of demands on our operations. We believe that maintaining an appropriate balance between business and leisure rentals is important to the profitability of our business and the consistency of our operations.

Our business and leisure customers rent from both our airport and off-airport locations. Demand for airport rentals is correlated with airline travel patterns, and transaction volumes generally follow enplanement and GDP trends on a global basis. Customers often make reservations for airport rentals when they book their flight plans, which make our strong relationships with travel agents, associations and other partners (e.g., airlines) a key competitive advantage in generating consistent and recurring revenue streams.

Off-airport rentals typically involve people wishing to rent cars closer to home for business or leisure purposes, as well as those needing to travel to or from airports. This category also includes people who have been referred by, or whose rental costs are being wholly or partially reimbursed by, insurance companies because their cars have been damaged. In order to attract these renters, we must establish agreements with the referring insurers establishing the relevant rental terms, including the arrangements made for billing and payment. While we estimate our share of the insurance replacement rental market was approximately 11% of the estimated insurance rental revenue volume for the year ended December 31, 2011, we have identified 203 insurance companies, ranging from local or regional carriers to large, national companies, as our target insurance replacement market. As of December 31, 2011, we were a preferred or recognized supplier of 188 of these 203 insurance companies and a co-primary at 44 of these 203 insurance companies.

We conduct active sales and marketing programs to attract and retain customers. Our commercial and travel industry sales force calls on companies and other organizations whose employees and associates need to rent cars for business purposes. In addition, our sales force works with membership associations, tour operators, travel companies and other groups whose members, participants and customers rent cars for either business or leisure purposes. A specialized sales force calls on companies with replacement rental needs, including insurance and leasing companies and car dealers. We also advertise our car rental offerings through a variety of traditional media channels, such as television and newspapers, direct mail and the Internet. In addition to advertising, we also conduct a variety of other forms of marketing and promotion, including travel industry business partnerships and press and public relations activities.

In almost all cases, when we rent a car, we rent it directly to an individual who is identified in a written rental agreement that we prepare. Except when we are accommodating someone who cannot drive, the individual to whom we rent a car is required to have a valid driver's license and meet other rental criteria (including minimum age and creditworthiness requirements) that vary on the basis of location and type



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**ITEM 1. BUSINESS (Continued)**

of rental. Our rental agreements permit only licensed individuals renting the car, people signing additional authorized operator forms and certain defined categories of other individuals (such as fellow employees, parking attendants and in some cases spouses or domestic partners) to operate the car.

With rare exceptions, individuals renting cars from us are personally obligated to pay all amounts due under their rental agreements. They typically pay us with a charge, credit or debit card issued by a third party, although certain customers use a Hertz charge account that we have established for them, usually as part of an agreement between us and their employer. For the year ended December 31, 2011, all amounts charged to Hertz charge accounts established in the United States and by our international subsidiaries, were billed directly to a company or other organization or were guaranteed by a company. We also issue rental vouchers and certificates that may be used to pay rental charges, mostly for prepaid and tour-related rentals. In addition, where the law requires us to do so, we rent cars on a cash basis. For the year ended December 31, 2011, no customer accounted for more than 1.0% of our car rental revenues.

In the United States for the year ended December 31, 2011, 83% of our car rental revenues came from customers who paid us with third-party charge, credit or debit cards, while 8% came from customers using Hertz charge accounts or direct billing, 8% came from customers using rental vouchers or another method of payment and 1% came from cash transactions. In our international operations for the year ended December 31, 2011, 51% of our car rental revenues came from customers who paid us with third-party charge, credit or debit cards, while 29% came from customers using Hertz charge accounts, 19% came from customers using rental vouchers or another method of payment and 1% came from cash transactions. For the year ended December 31, 2011, bad debt expense represented 0.2% of car rental revenues for our U.S. operations and 0.3% of car rental revenues for our international operations.

***Reservations***

When customers reserve cars for rental from us and our licensees, they may seek to do so through travel agents or third-party travel websites. In many of those cases, the travel agent or website will utilize a third-party operated computerized reservation system, also known as a global distribution system, or "GDS," to contact us and make the reservation.

In major countries, including the United States and all other countries with company-operated locations, customers may also reserve cars for rental from us and our licensees worldwide through local, national or toll-free telephone calls to our reservations center, directly through our rental locations or, in the case of replacement rentals, through proprietary automated systems serving the insurance industry. Additionally, we accept reservations for rentals from us and our licensees worldwide through our websites.

For the year ended December 31, 2011, approximately 33% of the worldwide reservations we accepted came through travel agents using GDSs, while 30% came through our websites, 20% through phone calls to our reservations center, 12% through third-party websites and 5% through local booking sources.

***Fleet***

We believe we are one of the largest private sector purchasers of new cars in the world. During the year ended December 31, 2011, we operated a peak rental fleet in the United States of approximately 355,500 cars and a combined peak rental fleet in our international operations of approximately 174,800 cars, and in each case exclusive of our licensees' fleet and Donlen's leasing fleet. During the year ended

Table of Contents**ITEM 1. BUSINESS (Continued)**

December 31, 2011, our approximate average holding period for a rental car was fourteen months in the United States and thirteen months in our international operations.

Under our repurchase programs, the manufacturers agree to repurchase cars at a specified price or guarantee the depreciation rate on the cars during established repurchase or auction periods, subject to, among other things, certain car condition, mileage and holding period requirements. Repurchase prices under repurchase programs are based on either a predetermined percentage of original car cost and the month in which the car is returned or the original capitalized cost less a set daily depreciation amount. Guaranteed depreciation programs guarantee on an aggregate basis the residual value of the cars covered by the programs upon sale according to certain parameters which include the holding period, mileage and condition of the cars. These repurchase and guaranteed depreciation programs limit our residual risk with respect to cars purchased under the programs and allow us to determine depreciation expense in advance, however, typically the acquisition cost is higher for these program cars.

Program cars as a percentage of all cars purchased by our U.S., International and worldwide operations were as follows:

	<b>Years ended December 31,</b>				
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
U.S.	45%	54%	48%	55%	42%
International	55%	56%	57%	59%	65%
Worldwide	48%	55%	51%	57%	50%

Within our Donlen subsidiary, revenue earning equipment is under longer term lease agreements with our customers. These leases contain provisions whereby we have a contracted residual value guaranteed to us by the lessee, such that we do not experience any gains or losses on the disposal of these vehicles.

We have purchased a significant percentage of our car rental fleet from General Motors Corporation and its successor, General Motors Company, together "General Motors." During the year ended December 31, 2011, approximately 47% of the cars acquired by us for our U.S. car rental fleet, and approximately 21% of the cars acquired by us for our international fleet, were manufactured by General Motors. During the year ended December 31, 2011, approximately 12% of the cars acquired by us for our U.S. car rental fleet, and approximately 4% of the cars acquired by us for our international fleet, were manufactured by Toyota Motor Company. During the year ended December 31, 2011, approximately 5% of the cars acquired by us domestically were manufactured by Ford and its subsidiaries and approximately 22% of the cars acquired by us for our international fleet were manufactured by Ford and its subsidiaries. During the year ended December 31, 2011, approximately 17% of the cars acquired by us for our U.S. car rental fleet and approximately 1% of the cars acquired by us for our international fleet were manufactured by Nissan Motor Company.

Purchases of cars are financed through cash from operations and by active and ongoing global borrowing programs. See "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources," in this Annual Report.

We maintain automobile maintenance centers at certain airports and in certain urban and off-airport areas, which provide maintenance facilities for our car rental fleet. Many of these facilities, which include sophisticated car diagnostic and repair equipment, are accepted by automobile manufacturers as eligible to perform and receive reimbursement for warranty work. Collision damage and major repairs are generally performed by independent contractors.

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**ITEM 1. BUSINESS (Continued)**

We dispose of non-program cars, as well as program cars that become ineligible for manufacturer repurchase or guaranteed depreciation programs, through a variety of disposition channels, including auctions, brokered sales, sales to wholesalers and dealers and, to a lesser extent and primarily in the United States, sales at retail through a network of nine company-operated car sales locations dedicated exclusively to the sale of used cars from our rental fleet.

During 2009, we launched Rent2Buy, an innovative program designed to sell used rental cars. The program was licensed to operate in 32 states as of December 31, 2011. Customers have an opportunity for a three-day test rental of a competitively priced car from our rental fleet. If the customer purchases the car, he or she is credited with up to three days of rental charges, and the purchase transaction is completed through the internet and by mail in those states where permitted.

During the year ended December 31, 2011, of the cars that were not repurchased by manufacturers, we sold approximately 65% at auction, 19% through dealer direct, 9% through our Rent2Buy program or at retail locations and approximately 7% through other channels.

***Licensees***

We believe that our extensive worldwide ownership of car rental operations contributes to the consistency of our high-quality service, cost control, fleet utilization, yield management, competitive pricing and our ability to offer one-way rentals. However, in certain U.S. and international markets, we have found it more efficient to utilize independent licensees, which rent cars that they own. Our licensees operate locations in over 140 countries, including most of the countries where we have company-operated locations. See "Item 1A Risk Factors" in this Annual Report.

We believe that our licensee arrangements are important to our business because they enable us to offer expanded national and international service and a broader one-way rental program. Licenses are issued principally by our wholly-owned subsidiaries, under franchise arrangements to independent licensees and affiliates who are engaged in the car rental business in the United States and in many other countries.

Licensees generally pay fees based on a percentage of their revenues or the number of cars they operate. The operations of all licensees, including the purchase and ownership of vehicles, are financed independently by the licensees, and we do not have any investment interest in the licensees or their fleets. Licensees in the U.S. share in the cost of our U.S. advertising program, reservations system, sales force and certain other services. Our European and other international licensees also share in the cost of our reservations system, sales force and certain other services. In return, licensees are provided the use of the Hertz brand name, management and administrative assistance and training, reservations through our reservations channels, the Gold Plus Rewards and #1 Club Gold programs, our "Rent-it-Here/Leave-it-There" one-way rental program and other services. In addition to car rental, certain licensees outside the United States engage in car leasing, chauffeur-driven rentals and renting camper vans under the Hertz name.

U.S. licensees ordinarily are limited as to transferability without our consent and are terminable by us only for cause or after a fixed term. Licensees in the United States may generally terminate for any reason on 90 days' notice. In Europe and certain other international jurisdictions, licensees typically do not have early termination rights. Initial license fees or the price for the sale to a licensee of a company-owned location may be payable over a term of several years. We continue to issue new licenses and, from time to time, purchase licensee businesses.

During the year ended December 31, 2011, we added two locations by acquiring a former licensee from our international car rental operations. See Note 3 to the Notes to our consolidated financial statements

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**ITEM 1. BUSINESS (Continued)**

included in this Annual Report under the caption "Item 8 Financial Statements and Supplementary Data."

***Competition***

In the United States, our principal car rental industry competitors are Avis Budget Group, Inc., or "ABG," which currently operates the Avis and Budget brands, Enterprise Rent-A-Car Company, or "Enterprise," which also operates the National Car Rental and Alamo brands, and Dollar Thrifty Automotive Group, Inc., or "Dollar Thrifty," which operates the Dollar and Thrifty brands. In the United States, the Hertz brand had the highest market share, by revenues, in 2009, 2010 and in the first nine months of 2011 at approximately 200 of the largest airports where we have company-operated locations

We have a significant presence in the off-airport market. We believe that we maintain the second largest market share, by revenues, in the off-airport car rental market in the United States. Since January 1, 2009, we increased the number of our off-airport rental locations in the United States by approximately 32% to 2,175 locations. Revenues from our U.S. off-airport operations represented \$1,197.4 million, \$1,079.7 million and \$953.4 million of our total car rental revenues in the years ended December 31, 2011, 2010 and 2009, respectively. Many smaller companies also operate in the airport and off-airport rental markets.

In Europe, in addition to us, the principal pan-European participants in the car rental industry are Avis Europe Ltd (which was acquired by ABG in 2011), operating the Avis and Budget brands, and Europcar. Europcar also operates the National Car Rental and Alamo brands in the United Kingdom and Germany, and through franchises in Spain, Italy and France. In certain European countries, there are also other companies and brands with substantial market shares, including Sixt AG (operating the Sixt brand) in Germany, France, Spain, the United Kingdom, Switzerland, Belgium, Netherlands and Luxembourg; and Enterprise (operating the Enterprise brand) in the United Kingdom, Ireland and Germany. In every European country, there are also national, regional or other, smaller companies operating in the airport and off-airport rentals markets. Apart from Enterprise-branded operations, all of which Enterprise owns, the other major car rental brands are present in European car rental markets through a combination of company-operated and franchisee- or licensee-operated locations.

Competition among car rental industry participants is intense and is primarily based on price, vehicle availability, service, reliability, distribution locations and product innovation. We believe, however, that the prominence and service reputation of the Hertz brand and our extensive worldwide ownership of car rental operations provide us with a competitive advantage.

**Worldwide Equipment Rental**

***Operations***

We, through HERC, operate an equipment rental business in the United States, Canada, France, Spain, Italy, China and Saudi Arabia. On the basis of total revenues, we believe HERC is one of the largest equipment rental companies in the United States and Canada combined. HERC has operated in the United States since 1965.

HERC's principal business is the rental of equipment. HERC offers a broad range of equipment for rental; major categories include earthmoving equipment, material handling equipment, aerial and electrical equipment, air compressors, pumps, generators, small tools, compaction equipment and construction-related trucks.

Ancillary to its rental business, HERC is also a dealer of certain brands of new equipment in the United States and Canada, and sells consumables such as gloves and hardhats at many of its rental locations.

Table of Contents**ITEM 1. BUSINESS (Continued)**

HERC's comprehensive line of equipment enables it to supply equipment to a wide variety of customers from local contractors to large industrial plants. The fact that many larger companies, particularly those with industrial plant operations, now require single source vendors, not only for equipment rental, but also for management of their total equipment needs fits well with HERC's core competencies. Arrangements with such companies may include maintenance of the tools and equipment they own, supplies and rental tools for their labor force and custom management reports. HERC supports this through its dedicated in-plant operations, tool trailers and plant management systems. As of December 31, 2009, 2010 and 2011, HERC had branches in the following countries:

	<b>Total</b>	<b>U.S.</b>	<b>Canada</b>	<b>France</b>	<b>Spain</b>	<b>Italy</b>	<b>China</b>	<b>Saudi Arabia</b>
January 1, 2009	345	222	36	80	6		1	
Net increase (decrease)	(24)	(8)	(1)	(14)	(3)		2	
Additions relating to acquisitions	1				1			
December 31, 2009	322	214	35	66	4		3	
Net increase (decrease)	(7)	(10)	3	(1)			1	
Additions relating to acquisitions	7	6				1		
December 31, 2010	322	210	38	65	4	1	4	
Net increase (decrease)	(9)	(9)			(2)		1	1
Additions relating to acquisitions	4	4						
December 31, 2011	317	205	38	65	2	1	5	1

HERC's rental locations generally are situated in industrial or commercial zones. A growing number of locations have highway or major thoroughfare visibility. The typical location includes a customer service center, an equipment service area and storage facilities for equipment. The branches are built or conform to the specifications of the HERC prototype branch, which stresses efficiency, safety and environmental compliance. Most branches have stand-alone maintenance and fueling facilities and showrooms.

HERC's broad equipment line in the United States and Canada includes more equipment with an acquisition cost of under \$10,000 per unit, ranging from air compressors and generators to small tools and accessories, in order to supply customers who are local contractors with a greater proportion of their overall equipment rental needs. As of December 31, 2011, these activities, referred to as "general rental activities," were conducted at approximately 30% of HERC's U.S. and Canadian rental locations. Before it begins to conduct general rental activities at a location, HERC typically renovates the location to make it more appealing to walk-in customers and adds staff and equipment in anticipation of subsequent demand.

In early 2010, Hertz launched Hertz Entertainment Services, a division which provides single-source car and equipment rental solutions to the entertainment and special events industries. Hertz Entertainment Services provides customized vehicle and equipment rental solutions to movie, film and television productions, live sports and entertainment events, and all-occasion special events, such as weddings, conventions, and fairs. Hertz Entertainment Services are tailored to fit the needs of large and small productions alike with competitive pricing and customized, monthly billing. Hertz delivers vehicles and equipment to production locations and a dedicated staff is available 24/7 to address specific client needs. Productions can also rent equipment for use at special events such as lighting, generators and other machinery.

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**ITEM 1. BUSINESS (Continued)**

In February 2010, HERC entered into a joint venture with Saudi Arabia based Dayim Holdings Company, Ltd. to set up equipment rental operations in the Kingdom of Saudi Arabia. The joint venture entity rents and sells equipment and tools to construction and industrial markets throughout the Kingdom of Saudi Arabia.

Our worldwide equipment rental segment generated \$1,209.5 million in revenues during the year ended December 31, 2011.

***Customers***

HERC's customers consist predominantly of commercial accounts and represent a wide variety of industries, such as construction, petrochemical, automobile manufacturing, railroad, power generation and shipbuilding. Serving a number of different industries enables HERC to reduce its dependence on a single or limited number of customers in the same business and somewhat reduces the seasonality of HERC's revenues and its dependence on construction cycles. HERC primarily targets customers in medium to large metropolitan markets. For the year ended December 31, 2011, no customer of HERC accounted for more than 2% of HERC's rental revenues. Of HERC's combined U.S. and Canadian rental revenues for the year ended December 31, 2011, approximately 37% were derived from customers operating in the construction industry (the majority of which were in the non-residential sector) and approximately 28% were derived from customers in the industrial business, while the remaining revenues were derived from rentals to governmental and other types of customers.

Unlike in our car rental business, where we enter into rental agreements with the end-user who will operate the cars being rented, HERC ordinarily enters into a rental agreement with the legal entity typically a company, governmental body or other organization seeking to rent HERC's equipment. Moreover, unlike in our car rental business, where our cars are normally picked up and dropped off by customers at our rental locations, HERC delivers much of its rental equipment to its customers' job sites and retrieves the equipment from the job sites when the rentals conclude. HERC extends credit terms to many of its customers to pay for rentals. Thus, for the year ended December 31, 2011, 95% of HERC's revenues came from customers who were invoiced by HERC for rental charges, while 4% came from customers paying with third-party charge, credit or debit cards and 1% came from customers who paid with cash or used another method of payment. For the year ended December 31, 2011, bad debt expense represented 0.3% of HERC's revenues.

***Fleet***

HERC acquires its equipment from a variety of manufacturers. The equipment is typically new at the time of acquisition and is not subject to any repurchase program. The per-unit acquisition cost of units of rental equipment in HERC's fleet varies from over \$200,000 to under \$100. As of December 31, 2011, the average per-unit acquisition cost (excluding small equipment purchased for less than \$5,000 per unit) for HERC's fleet in the United States was approximately \$37,000. As of December 31, 2011, the average age of HERC's rental fleet in the United States was 47 months, 51 months in Canada, 54 months in France, 44 months in Spain, 10 months in Italy, 21 months in China and 14 months in Saudi Arabia.

HERC disposes of its used equipment through a variety of channels, including private sales to customers and other third parties, sales to wholesalers, brokered sales and auctions.

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**ITEM 1. BUSINESS (Continued)**

*Licenses*

HERC licenses the Hertz name to equipment rental businesses in five countries in Europe and in Afghanistan. The terms of those licenses are broadly similar to those we grant to our international car rental licensees.

*Competition*

HERC's competitors in the equipment rental industry range from other large national companies to small regional and local businesses. In each of the six countries where HERC operates, the equipment rental industry is highly fragmented, with large numbers of companies operating on a regional or local scale. The number of industry participants operating on a national scale is, however, much smaller. HERC is one of the principal national-scale industry participants in the U.S., Canada and France. HERC's operations in the United States represented approximately 65% of our worldwide equipment rental revenues during the year ended December 31, 2011. In the United States and Canada, the other top national-scale industry participants are United Rentals, Inc., or "URI," RSC Equipment Rental, Inc., or "RSC," Sunbelt Rentals and Aggreko North America. In December 2011, URI announced it had agreed to buy RSC. A number of individual Caterpillar, Inc., or "CAT," dealers also participate in the equipment rental market in the United States, Canada, France, Spain and Italy. In France, the other principal national-scale industry participants are Loxam, Kiloutou and Laho. Aggreko also participates in the power generation rental markets in France, Spain and Italy. In China, the other principal national-scale industry participants are Zicheng Corporation, Aggreko, Jin He Yuan, Lei Shing Hong and Far East Rental. In Saudi Arabia, the other principal national-scale industry participants are Bin Quraya, Al Zahid Tractors (CAT), Rapid Access, Eastern Arabia and Rental Solutions & Services (RSS) Saudi Ltd.

Competition in the equipment rental industry is intense, and it often takes the form of price competition. HERC's competitors, some of which may have access to substantial capital, may seek to compete aggressively on the basis of pricing. To the extent that HERC matches downward competitor pricing without reducing our operating costs, it could have an adverse impact on our results of operations. We believe that HERC's competitive success has been primarily the product of its more than 40 years of experience in the equipment rental industry, its systems and procedures for monitoring, controlling and developing its branch network, its capacity to maintain a comprehensive rental fleet, the quality of its sales force and its established national accounts program.

**Other Operations**

Our wholly-owned subsidiary, Hertz Claim Management Corporation, or "HCM," provides claim administration services to us and, to a lesser extent, to third parties. These services include investigating, evaluating, negotiating and disposing of a wide variety of claims, including third-party, first-party, bodily injury, property damage, general liability and product liability, but not the underwriting of risks. HCM conducts business at five regional offices in the United States. Separate subsidiaries of ours conduct similar operations in seven countries in Europe.

**Seasonality**

Generally, car rental and equipment rental are seasonal businesses, with decreased levels of business in the winter months and heightened activity during spring and summer. 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. However, certain operating expenses, including real estate taxes, rent, insurance, utilities, maintenance and other facility-related expenses, the costs of operating our information technology systems and minimum staffing costs,

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**ITEM 1. BUSINESS (Continued)**

remain fixed and cannot be adjusted for seasonal demand. Revenues related to our fleet management services are generally not seasonal. See "Item 1A Risk Factors" in this Annual Report. The following tables set forth this seasonal effect by providing quarterly revenues for each of the quarters in the years ended December 31, 2011, 2010 and 2009 (in millions of dollars).

**Employees**

As of December 31, 2011, we employed approximately 23,900 persons, consisting of approximately 16,400 persons in our U.S. operations and 7,500 persons in our international operations. International employees are covered by a wide variety of union contracts and governmental regulations affecting, among other things, compensation, job retention rights and pensions. Labor contracts covering the terms of employment of approximately 5,850 employees in the United States (including those in the U.S. territories) are presently in effect under approximately 140 active contracts with local unions, affiliated primarily with the International Brotherhood of Teamsters and the International Association of Machinists. Labor contracts covering approximately 1,750 of these employees will expire during 2012. We have had no material work stoppage as a result of labor problems during the last ten years, and we believe our labor relations to be good. Nonetheless, we may be unable to negotiate new labor contracts on terms advantageous to us, or without labor interruptions.

In addition to the employees referred to above, we employ a substantial number of temporary workers, and engage outside services, as is customary in the industry, principally for the non-revenue movement of rental cars and equipment between rental locations and the movement of rental equipment to and from customers' job sites.

**Risk Management**

Three types of generally insurable risks arise in our operations:

legal liability arising from the operation of our cars and on-road equipment (vehicle liability);

legal liability to members of the public and employees from other causes (general liability/workers' compensation); and

risk of property damage and/or business interruption and/or increased cost of working as a consequence of property damage.

In addition, we offer optional liability insurance and other products providing insurance coverage, which create additional risk exposures for us. Our risk of property damage is also increased when we waive the



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**ITEM 1. BUSINESS (Continued)**

provisions in our rental contracts that hold a renter responsible for damage or loss under an optional loss or damage waiver that we offer. We bear these and other risks, except to the extent the risks are transferred through insurance or contractual arrangements.

In many cases we self-insure our risks or insure risks through wholly-owned insurance subsidiaries. We mitigate our exposure to large liability losses by maintaining excess insurance coverage, subject to deductibles and caps, through unaffiliated carriers. For our international operations outside of Europe, and for our long-term fleet leasing operations, we maintain some liability insurance coverage with unaffiliated carriers.

*Third-Party Liability*

In our domestic operations, we are required by applicable financial responsibility laws to maintain insurance against legal liability for bodily injury (including death) or property damage to third parties arising from the operation of our cars and on-road equipment, sometimes called "vehicle liability," in stipulated amounts. In most places, we satisfy those requirements by qualifying as a self-insurer, a process that typically involves governmental filings and demonstration of financial responsibility, which sometimes requires the posting of a bond or other security. In the remaining places, we obtain an insurance policy from an unaffiliated insurance carrier and indemnify the carrier for any amounts paid under the policy. As a result of such arrangements, we bear economic responsibility for domestic vehicle liability, except to the extent we successfully transfer such liability to others through insurance or contractual arrangements.

For our car and equipment rental operations in Europe, we have established a wholly-owned insurance subsidiary, Probus Insurance Company Europe Limited, or "Probus," a direct writer of insurance domiciled in Ireland. In European countries with company-operated locations, we have purchased from Probus the vehicle liability insurance required by law, and Probus reinsured the risks under such insurance with Hertz International RE, a reinsurer organized in Ireland, or "HIRE," and / or HIRE Bermuda Limited, a wholly-owned reinsurance company domiciled in Bermuda. This coverage is purchased from unaffiliated carriers for Spain. We also insure a portion of our European property risk through Probus. Thus, as with our domestic operations, we bear economic responsibility for vehicle liability in our European car and equipment rental operations, except to the extent that we transfer such liability to others through insurance or contractual arrangements. For our international operations outside of Europe, we maintain some form of vehicle liability insurance coverage with unaffiliated carriers. The nature of such coverage, and our economic responsibility for covered losses, varies considerably. In all cases, though, we believe the amounts and nature of the coverage we obtain is adequate in light of the respective potential hazards.

Both domestically and in our international operations, from time to time in the course of our business we become legally responsible to members of the public for bodily injury (including death) or property damage arising from causes other than the operation of our cars and on-road equipment, sometimes known as "general liability." As with vehicle liability, we bear economic responsibility for general liability losses, except to the extent we transfer such losses to others through insurance or contractual arrangements.

To mitigate these exposures, we maintain excess liability insurance coverage with unaffiliated insurance carriers at an aggregate of \$200 million for policy periods ended December 21, 2012, 2011 and 2010. In the past this policy limit has ranged from \$100 million to \$235 million for policy periods from December 2004 through December 2009. For our international car rental operations outside of Europe, we also maintain liability insurance coverage with unaffiliated carriers in such amounts as we deem adequate in

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**ITEM 1. BUSINESS (Continued)**

light of the respective potential hazards, where such insurance is obtainable on commercially reasonable terms.

Our domestic rental contracts for both car and equipment rental as well as our domestic and international long-term fleet leasing contracts, typically provide that the renter will indemnify us for liability arising from the operation of the rented vehicle or equipment (for car rentals in certain places, though, only to the extent such liability exceeds the amount stipulated in the applicable financial responsibility law). In addition, many of HERC's domestic rental contracts require the renter to maintain liability insurance under which HERC is entitled to coverage. While such provisions are sometimes effective to transfer liability to renters, their value to us, particularly in cases of large losses, may be limited. The rental contracts used in our international operations sometimes contain provisions relating to insurance or indemnity, but they are typically more limited than those employed in our domestic operations.

In our domestic car rental operations, we offer an optional liability insurance product, Liability Insurance Supplement, or "LIS," that provides vehicle liability insurance coverage substantially higher than state minimum levels to the renter and other authorized operators of a rented vehicle. LIS coverage is provided under excess liability insurance policies issued by an unaffiliated insurance carrier, the risks under which are reinsured with a subsidiary of ours, HIRE Bermuda Limited. As a consequence of those reinsurance arrangements, rental customers' purchases of LIS do not reduce our economic exposure to vehicle liability. Instead, our exposure to vehicle liability is potentially increased when LIS is purchased, because insured renters and other operators may have vehicle liability imposed on them in circumstances and in amounts where the applicable rental agreement or applicable law would not, absent the arrangements just described, impose vehicle liability on us.

In both our domestic car rental operations and our company-operated international car rental operations in many countries, we offer optional products providing insurance coverage, or "PAI/PEC" coverage, to the renter and the renter's immediate family members traveling with the renter for accidental death or accidental medical expenses arising during the rental period or for damage or loss of their property during the rental period. PAI/PEC coverage is provided under insurance policies issued by unaffiliated carriers or, in Europe, by Probus, and the risks under such policies either are reinsured with HIRE or another subsidiary of ours or are the subject of indemnification arrangements between us and the carriers. Rental customers' purchases of PAI/PEC coverage create additional risk exposures for us, since we would not typically be liable for the risks insured by PAI/PEC coverage if that coverage had not been purchased.

Our offering of LIS and PAI/PEC coverage in our domestic car rental operations is conducted pursuant to limited licenses or exemptions under state laws governing the licensing of insurance producers. In our international car rental operations, our offering of PAI/PEC coverage historically has not been regulated; however, in the countries of the European Union, the regulatory environment for insurance intermediaries is evolving, and we cannot assure you that we will be able to continue offering PAI/PEC coverage without substantial changes in its offering process or in the terms of the coverage or that such changes, if required, would not render uneconomic our continued offering of the coverage.

Provisions on our books for self-insured vehicle liability losses are made by charges to expense based upon evaluations of estimated ultimate liabilities on reported and unreported claims. As of December 31, 2011, this liability was estimated at \$281.5 million for our combined domestic and international operations.

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**ITEM 1. BUSINESS (Continued)**

***Damage to Our Property***

We bear the risk of damage to our property, unless such risk is transferred through insurance or contractual arrangements.

To mitigate our risk of large, single-site property damage losses globally, we maintain property insurance with unaffiliated insurance carriers in such amounts as we deem adequate in light of the respective hazards, where such insurance is available on commercially reasonable terms.

Our rental contracts typically provide that the renter is responsible for damage to or loss (including loss through theft) of rented vehicles or equipment. We generally offer an optional rental product, known in various countries as "loss damage waiver," "collision damage waiver," "theft protection" or "accident excess reduction," under which we waive or limit our right to make a claim for such damage or loss. This product is not regulated as insurance, but it is subject to specific laws in roughly half of the U.S. jurisdictions where we operate.

Collision damage costs and the costs of stolen or unaccounted-for vehicles and equipment, along with other damage to our property, are charged to expense as incurred.

***Other Risks***

To manage other risks associated with our businesses, or to comply with applicable law, we purchase other types of insurance carried by business organizations, such as worker's compensation and employer's liability, commercial crime and fidelity, performance bonds and directors' and officers' liability insurance from unaffiliated insurance companies in amounts deemed by us to be adequate in light of the respective hazards, where such coverage is obtainable on commercially reasonable terms.

**Governmental Regulation and Environmental Matters**

Throughout the world, we are subject to numerous types of governmental controls, including those relating to prices and advertising, privacy and data protection, currency controls, labor matters, charge card operations, insurance, environmental protection, used car sales and licensing.

***Environmental***

The environmental requirements applicable to our operations generally pertain to (i) the operation and maintenance of cars, trucks and other vehicles, such as heavy equipment, buses and vans; (ii) the ownership and operation of tanks for the storage of petroleum products, including gasoline, diesel fuel and oil; and (iii) the generation, storage, transportation and disposal of waste materials, including oil, vehicle wash sludge and waste water. We have made, and will continue to make, expenditures to comply with applicable environmental laws and regulations.

The use of cars and other vehicles is subject to various governmental requirements designed to limit environmental damage, including those caused by emissions and noise. Generally, these requirements are met by the manufacturer, except in the case of occasional equipment failure requiring repair by us. Measures are taken at certain locations in states that require the installation of Stage II Vapor Recovery equipment to reduce the loss of vapor during the fueling process.

We utilize tanks worldwide, approximately 420 of which, at December 31, 2011, are underground and approximately 1,690 of which are aboveground, to store petroleum products, and we believe our tanks are maintained in material compliance with environmental regulations, including federal and state financial responsibility requirements for corrective action and third-party claims due to releases. Our compliance program for our tanks is intended to ensure that (i) the tanks are properly registered with the

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**ITEM 1. BUSINESS (Continued)**

state or other jurisdiction in which the tanks are located and (ii) the tanks have been either replaced or upgraded to meet applicable leak detection and spill, overflow and corrosion protection requirements.

We are also incurring and providing for expenses for the investigation and cleanup of contamination from the discharge of petroleum substances at, or emanating from, currently and formerly owned and leased properties, as well as contamination at other locations at which our wastes have reportedly been identified. The amount of any such expenses or related natural resource damages for which we may be held responsible could be substantial. The probable losses that we expect to incur for such matters have been accrued, and those losses are reflected in our consolidated financial statements. As of December 31, 2011 and 2010, the aggregate amounts accrued for environmental liabilities reflected in our consolidated balance sheets in "Other accrued liabilities" were \$1.5 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 ongoing 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 site. 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 nature of the contamination, 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).

With respect to cleanup expenditures for the discharge of petroleum substances at, or emanating from, currently and formerly owned or leased properties, we have received reimbursement, in whole or in part, from certain U.S. states that maintain underground storage tank petroleum cleanup reimbursement funds. Such funds have been established to assist tank owners in the payment of cleanup costs associated with releases from registered tanks. With respect to off-site U.S. locations at which our wastes have reportedly been identified, we have been and continue to be required to contribute to cleanup costs due to strict joint and several cleanup liability imposed by the federal Comprehensive Environmental Response, Compensation, and Liability Act of 1980 and comparable state superfund statutes.

Environmental legislation and regulations and related administrative policies have changed rapidly in recent years, both in the United States and in other countries. There is a risk that governmental environmental requirements, or enforcement thereof, may become more stringent in the future and that we may be subject to legal proceedings brought by government agencies or private parties with respect to environmental matters. In addition, with respect to the cleanup of contamination, additional locations at which waste generated by us or substances used by us may have been released or disposed, and of which we are currently unaware, may in the future become the subject of cleanup for which we may be liable, in whole or in part. Further, at airport-leased properties, we may be subject to environmental requirements imposed by airports that are more restrictive than those obligations imposed by environmental regulatory agencies. Accordingly, while we believe that we are in substantial compliance with applicable requirements of environmental laws, we cannot offer assurance that our future environmental liabilities will not be material to our consolidated financial position, results of operations or cash flows.

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**ITEM 1. BUSINESS (Continued)**

*Dealings with Renters*

In the United States, car and equipment rental transactions are generally subject to Article 2A of the Uniform Commercial Code, which governs "leases" of tangible personal property. Car rental is also specifically regulated in more than half of the states of the United States. The subjects of state regulation include the methods by which we advertise, quote and charge prices, the consequences of failing to honor reservations, the terms on which we deal with vehicle loss or damage (including the protections we provide to renters purchasing loss or damage waivers) and the terms and method of sale of the optional insurance coverage that we offer. Some states (including California, New York, Nevada and Illinois) regulate the price at which we may sell loss or damage waivers, and many state insurance regulators have authority over the prices and terms of the optional insurance coverage we offer. See " Risk Management" above for further discussion regarding the loss or damage waivers and optional insurance coverages that we offer renters. Internationally, regulatory regimes vary greatly by jurisdiction, but they do not generally prevent us from dealing with customers in a manner similar to that employed in the United States.

Both in the United States and internationally, we are subject to increasing regulation relating to customer privacy and data protection. In general, we are limited in the uses to which we may put data that we collect about renters, including the circumstances in which we may communicate with them. In addition, we are generally obligated to take reasonable steps to protect customer data while it is in our possession. Our failure to do so could subject us to substantial legal liability or seriously damage our reputation.

*Changes in Regulation*

Changes in government regulation of our businesses have the potential to materially alter our business practices, or our profitability. Depending on the jurisdiction, those changes may come about through new legislation, the issuance of new laws and regulations or changes in the interpretation of existing laws and regulations by a court, regulatory body or governmental official. Sometimes those changes may have not just prospective but also retroactive effect; this is particularly true when a change is made through reinterpretation of laws or regulations that have been in effect for some time. Moreover, changes in regulation that may seem neutral on their face may have either more or less impact on us than on our competitors, depending on the circumstances. Several U.S. State Attorneys General have taken the position that car rental companies either may not pass through to customers, by means of separate charges, expenses such as vehicle licensing and concession fees or may do so only in certain limited circumstances. Recent or potential changes in law or regulation that affect us relate to insurance intermediaries, customer privacy and data security and rate regulation, each as described under "Item 1A Risk Factors" in this Annual Report.

In addition, our operations, as well as those of our competitors, also could be affected by any limitation in the fuel supply or by any imposition of mandatory allocation or rationing regulations. We are not aware of any current proposal to impose such a regime in the United States or internationally. Such a regime could, however, be quickly imposed if there were a serious disruption in supply for any reason, including an act of war, terrorist incident or other problem affecting petroleum supply, refining, distribution or pricing.

**Available Information**

We file annual, quarterly and current reports and other information with the United States Securities and Exchange Commission, or the "SEC." You may read and copy any documents that we file at the SEC's public reference room at 100 F Street, N.E., Washington, D.C. 20549. You may call the SEC at

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**ITEM 1. BUSINESS (Continued)**

1-800-SEC-0330 to obtain further information about the public reference room. In addition, the SEC maintains an Internet website ([www.sec.gov](http://www.sec.gov)) that contains reports, proxy and information statements and other information about issuers that file electronically with the SEC, including Hertz Holdings. You may also access, free of charge, our reports filed with the SEC (for example, our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K and any amendments to those forms) indirectly through our Internet website ([www.hertz.com](http://www.hertz.com)). Reports filed with or furnished to the SEC will be available as soon as reasonably practicable after they are filed with or furnished to the SEC. The information found on our website is not part of this or any other report filed with or furnished to the SEC.

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**ITEM 1A. RISK FACTORS**

*In addition to the other information in this Annual Report, you should carefully consider each of the following risks and uncertainties. Any of the following risks and uncertainties could materially and adversely affect our business, financial condition, operating results or cash flow and we believe that the following information identifies the material risks and uncertainties affecting our company; however, the following risks and uncertainties are not the only risks and uncertainties facing us and it is possible that other risks and uncertainties might significantly impact us. Additional risks and uncertainties not currently known to us or those we currently view to be immaterial also may materially and adversely affect our business, financial condition or results of operations, liquidity and cash flows.*

**Risks Related to Our Business**

*Our car rental business, which provides the majority of our revenues, is particularly sensitive to reductions in the levels of airline passenger travel, and reductions in air travel could materially adversely impact our financial condition, results of operations, liquidity and cash flows.*

The car rental industry is particularly affected by reductions in business and leisure travel, especially with respect to levels of airline passenger traffic. Reductions in levels of air travel, whether caused by general economic conditions, airfare increases (such as due to capacity reductions or increases in fuel costs borne by commercial airlines) or other events (such as work stoppages, military conflicts, terrorist incidents, natural disasters, epidemic diseases, or the response of governments to any of these events) could materially adversely affect us.

*We face intense competition that may lead to downward pricing or an inability to increase prices.*

The markets in which we operate are highly competitive. We believe that price is one of the primary competitive factors in the car and equipment rental markets and that the Internet has enabled cost-conscious customers, including business travelers, to more easily compare rates available from rental companies. If we try to increase our pricing, our competitors, some of whom may have greater resources and better access to capital than us, may seek to compete aggressively on the basis of pricing. In addition, our competitors may reduce prices in order to attempt to gain a competitive advantage or to compensate for declines in rental activity. To the extent we do not match or remain within a reasonable competitive margin of our competitors' pricing, our revenues and results of operations could be materially adversely affected. If competitive pressures lead us to match any of our competitors' downward pricing and we are not able to reduce our operating costs, then our margins, results of operations and cash flows could be materially adversely impacted. Additionally, we could be further affected if we are not able to adjust the size of our car rental fleet in response to changes in demand, whether such changes are due to competition or otherwise. See "Item 1 Business Worldwide Car Rental Competition" and "Item 1 Business Worldwide Equipment Rental Competition" in this Annual Report.

*Our business is highly seasonal and any occurrence that disrupts rental activity during our peak periods could materially adversely affect our liquidity, cash flows and results of operations.*

Certain significant components of our expenses are fixed in the short-term, including minimum concession fees, real estate taxes, rent, insurance, utilities, maintenance and other facility-related expenses, the costs of operating our information technology systems and minimum staffing costs. Seasonal changes in our revenues do not alter those fixed expenses, typically resulting in higher profitability in periods when our revenues are higher. The second and third quarters of the year have historically been our strongest quarters due to their increased levels of leisure travel and construction activity. Any occurrence that disrupts rental activity during the second or third quarters could have a disproportionately material adverse effect on our liquidity, cash flows and results of operations.

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**ITEM 1A. RISK FACTORS (Continued)**

*A material downsizing of our rental car fleet could require us to make additional cash payments for tax liabilities, which could be material.*

The Like-Kind Exchange Program, or "LKE Program," allows tax gains on the disposition of vehicles in our car rental fleet to be deferred and has resulted in deferrals of federal and state income taxes for prior years. If a qualified replacement vehicle is not purchased within a specific time period after vehicle disposal, then taxable gain is recognized. A material and extended reduction in vehicle purchases or a downsizing of our car rental fleet, for any reason, could result in fewer qualified replacement vehicles and therefore could result in reduced tax deferrals in the future, which in turn could require us to make material cash payments for U.S. federal and state income tax liabilities. In August 2010, we elected to temporarily suspend the U.S. car rental LKE Program. See "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Income Taxes" in this Annual Report.

*If we are unable to purchase adequate supplies of competitively priced cars or equipment and the cost of the cars or equipment we purchase increases, our financial condition, results of operations, liquidity and cash flows may be materially adversely affected.*

We are not a party to any long-term car supply arrangements with manufacturers. The price and other terms at which we can acquire cars thus varies based on market and other conditions. For example, certain car manufacturers have in the past, and may in the future, utilize strategies to de-emphasize sales to the car rental industry, which can negatively impact our ability to obtain cars on competitive terms and conditions. Consequently, there is no guarantee that we can purchase a sufficient number of vehicles at competitive prices and on competitive terms and conditions. Reduced or limited supplies of equipment together with increased prices are risks that we also face in our equipment rental business. If we are unable to obtain an adequate supply of cars or equipment, or if we obtain less favorable pricing and other terms when we acquire cars or equipment and are unable to pass on any increased costs to our customers, then our financial condition, results of operations, liquidity and cash flows may be materially adversely affected.

*Declines in the value of the non-program cars in our fleet and declines in the overall number of program cars in our fleet could materially adversely impact our financial condition, results of operations, liquidity and cash flows.*

Over the last few years the percentage of "program cars" in our car rental fleet (that is, cars that are subject to repurchase by car manufacturers under contractual repurchase or guaranteed depreciation programs) has decreased. For the year ended December 31, 2011, 48% of the vehicles purchased for our combined U.S. and international car rental fleets were program cars. We expect this percentage to continue to decrease in the future.

With respect to program cars, manufacturers agree to repurchase these cars at a specified price or guarantee the depreciation rate on the cars during a specified time period. Therefore, 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 at such time. Any decrease in residual values with respect to our non-program cars and equipment (prior to disposition) could also materially adversely affect our financial condition, results of operations, liquidity and cash flows.

The use of program cars enables us to determine our depreciation expense in advance and this is useful to us because depreciation is a significant cost factor in our operations. Using program cars is also useful in managing our seasonal peak demand for fleet, because in certain cases we can sell certain program cars shortly after having acquired them at a higher value than what we could for a similar non-program car at that time. With fewer program cars in our fleet, these benefits have diminished.



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**ITEM 1A. RISK FACTORS (Continued)**

Accordingly, we are now bearing increased risk relating to residual value and the related depreciation on our car rental fleet and our flexibility to reduce the size of our fleet by returning cars sooner than originally expected without the risk of loss in the event of an economic downturn or to respond to changes in rental demand has been reduced.

***The failure of a manufacturer of our program cars to fulfill its obligations under a repurchase or guaranteed depreciation program could expose us to loss on those program cars and materially adversely affect certain of our financing arrangements, which could in turn materially adversely affect our liquidity, cash flows, financial condition and results of operations.***

If any manufacturer of our program cars does not fulfill its obligations under its repurchase or guaranteed depreciation agreement with us, whether due to default, reorganization, bankruptcy or otherwise, then we would have to dispose of those program cars without receiving the benefits of the associated programs (we could be left with a substantial unpaid claim against the manufacturer with respect to program cars that were sold and returned to the manufacturer but not paid for, or that were sold for less than their agreed repurchase price or guaranteed value) and we would also be exposed to residual risk with respect to these cars.

The failure by a manufacturer to pay such amounts could cause a credit enhancement deficiency with respect to our asset-backed and asset-based financing arrangements, requiring us to either reduce the outstanding principal amount of debt or provide more collateral (in the form of cash, vehicles and/or certain other contractual rights) to the creditors under any such affected arrangement.

If one or more manufacturers were to adversely modify or eliminate repurchase or guaranteed depreciation programs in the future, our access to and the terms of asset-backed and asset-based debt financing could be adversely affected, which could in turn have a material adverse effect on our liquidity, cash flows, financial condition and results of operations.

***We may not be successful in implementing our strategy of further reducing operating costs and our cost reduction initiatives may have adverse consequences.***

We are continuing to implement initiatives to reduce our operating expenses. These initiatives may include headcount reductions, business process outsourcing, business process re-engineering, internal reorganization and other expense controls. We cannot assure you that our cost reduction initiatives will achieve any further success. Whether or not successful, our cost reduction initiatives involve significant expenses and we expect to incur further expenses associated with these initiatives, some of which may be material in the period in which they are incurred.

Even if we achieve further success with our cost reduction initiatives, we face risks associated with our initiatives, including declines in employee morale or the level of customer service we provide, the efficiency of our operations or the effectiveness of our internal controls. Any of these risks could have a material adverse impact on our results of operations, financial condition, liquidity and cash flows.

***An impairment of our goodwill or our indefinite lived intangible assets could have a material non-cash adverse impact on our results of operations.***

We review our goodwill and indefinite lived intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable and at least annually. If economic deterioration occurs, then we may be required to record charges for goodwill or indefinite lived intangible asset impairments in the future, which could have a material adverse non-cash impact on our results of operations.

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**ITEM 1A. RISK FACTORS (Continued)**

***Significant increases in fuel prices or reduced supplies of fuel could harm our business.***

Significant increases in fuel prices, reduced fuel supplies or the imposition of mandatory allocations or rationing of fuel could negatively impact our car rental business by discouraging consumers from renting cars, changing the types of cars our customers rent from us or the other services they purchase from us or disrupting air travel, on which a significant portion of our car rental business relies. In addition, significant increases in fuel prices or a reduction in fuel supplies could negatively impact our equipment rental business by increasing the cost of buying new equipment, since fuel is used in the manufacturing process and in delivering equipment to us, and by reducing the mobility of our fleet, due to higher costs of transporting equipment between facilities or regions. Accordingly, significant increases in fuel prices or reduced supplies of fuel could have a material adverse effect on our financial condition and results of operations.

***Our foreign operations expose us to risks that may materially adversely affect our results of operations, liquidity and cash flows.***

A significant portion of our annual revenues are generated outside the United States, and we intend to pursue additional international growth opportunities. Operating in many different countries exposes us to varying risks, which include: (i) multiple, and sometimes conflicting, foreign regulatory requirements and laws that are subject to change and are often much different than the domestic laws in the United States, including laws relating to taxes, automobile-related liability, insurance rates, insurance products, consumer privacy, data security, employment matters, cost and fee recovery, and the protection of our trademarks and other intellectual property; (ii) the effect of foreign currency translation risk, as well as limitations on our ability to repatriate income; (iii) varying tax regimes, including consequences from changes in applicable tax laws; (iv) local ownership or investment requirements, as well as difficulties in obtaining financing in foreign countries for local operations; and (v) political and economic instability, natural calamities, war, and terrorism. The effects of these risks may, individually or in the aggregate, materially adversely affect our results of operations, liquidity, cash flows and ability to diversify internationally.

***Manufacturer safety recalls could create risks to our business.***

Our cars may be subject to safety recalls by their manufacturers. A recall may cause us to retrieve cars from renters and decline to rent recalled cars until we can arrange for the steps described in the recall to be taken. We could also face liability claims if a recall affects cars that we have sold. If a large number of cars are the subject of a recall or if needed replacement parts are not in adequate supply, we may not be able to rent recalled cars for a significant period of time. Those types of disruptions could jeopardize our ability to fulfill existing contractual commitments or satisfy demand for our vehicles, and could also result in the loss of business to our competitors. Depending on the severity of any recall, it could materially adversely affect our revenues, create customer service problems, reduce the residual value of the recalled cars and harm our general reputation.

***Our business is heavily reliant upon communications networks and centralized information technology systems and the concentration of our systems creates risks for us.***

We rely heavily on communication networks and information technology systems to accept reservations, process rental and sales transactions, manage our fleets of cars and equipment, manage our financing arrangements, account for our activities and otherwise conduct our business. Our reliance on these networks and systems exposes us to various risks that could cause a loss of reservations, interfere with our ability to manage our fleet, slow rental and sales processes, comply with our financing arrangements and otherwise materially adversely affect our ability to manage our business effectively.

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**ITEM 1A. RISK FACTORS (Continued)**

We have centralized our reservations function for the United States in one facility in Oklahoma City, Oklahoma, and we have concentrated our accounting functions for the United States in two facilities in Oklahoma City. Our reservations and accounting functions for our European operations are similarly centralized in a single facility near Dublin, Ireland. In addition, our major information technology systems are centralized in two facilities in Oklahoma City. Any disruption, termination or substandard provision of these services, whether as the result of localized conditions (such as a fire or explosion) or as the result of events or circumstances of broader geographic impact (such as an earthquake, storm, flood, epidemic, strike, act of war, civil unrest or terrorist act), could materially adversely affect our business by disrupting normal reservations, customer service, accounting and information technology functions or by eliminating access to financing arrangements.

***The misuse or theft of information we possess could harm our brand, reputation or competitive position and give rise to material liabilities.***

Because we regularly possess, store and handle non-public information about millions of individuals and businesses, our failure to maintain the security of that data, whether as the result of our own error or the malfeasance or errors of others, could harm our reputation, result in governmental investigations and give rise to a host of civil or criminal liabilities. Any such failure could lead to lower revenues, increased costs and other material adverse effects on our results of operations.

***Maintaining favorable brand recognition is essential to our success, and failure to do so could materially adversely affect our results of operations.***

While our "Hertz" brand name is one of the most recognized in the world, factors affecting brand recognition are often outside our control, and our efforts to maintain or enhance favorable brand recognition, such as marketing and advertising campaigns, may not have their desired effects. In addition, although our licensing partners are subject to contractual requirements to protect our brands, it may be difficult to monitor or enforce such requirements, particularly in foreign jurisdictions. Any decline in perceived favorable recognition of our brands could materially adversely affect our results of operations.

***Our business operations could be significantly disrupted if we were to lose the services of members of our senior management team.***

Our senior management team has extensive industry experience, and our success significantly depends upon the continued contributions of that team. If we were to lose the services of any one or more members of our senior management team, whether due to death, disability or termination of employment, our ability to successfully implement our business strategy, financial plans, marketing and other objectives, could be significantly impaired.

***We may pursue strategic transactions which could be difficult to implement, disrupt our business or change our business profile significantly.***

Any future strategic acquisition or disposition of assets or a business could involve numerous risks, including: (i) potential disruption of our ongoing business and distraction of management; (ii) difficulty integrating the acquired business or segregating assets to be disposed of; (iii) exposure to unknown, contingent or other liabilities, including litigation arising in connection with the acquisition or disposition or against any business we may acquire; (iv) changing our business profile in ways that could have unintended negative consequences; and (v) the failure to achieve anticipated synergies.

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**ITEM 1A. RISK FACTORS (Continued)**

If we enter into significant strategic transactions, the related accounting charges may affect our financial condition and results of operations, particularly in the case of an acquisition. The financing of any significant acquisition may result in changes in our capital structure, including the incurrence of additional indebtedness. A material disposition could require the amendment or refinancing of our outstanding indebtedness or a portion thereof.

If Hertz Holdings acquires Dollar Thrifty, we will be subject to the risks and uncertainties associated with Dollar Thrifty's business and we will incur substantial amounts of additional indebtedness.

***We face risks related to liabilities and insurance.***

Our businesses expose us to claims for personal injury, death and property damage resulting from the use of the cars and equipment rented or sold by us, and for employment-related claims by our employees. Currently, we generally self-insure up to \$10 million per occurrence in the United States and Europe for vehicle and general liability exposures, and we also maintain insurance with unaffiliated carriers in excess of such levels up to \$200 million per occurrence for the current policy year, or in the case of international operations outside of Europe, in such lower amounts as we deem adequate given the risks. We cannot assure you that we will not be exposed to uninsured liability at levels in excess of our historical levels resulting from multiple payouts or otherwise, that liabilities in respect of existing or future claims will not exceed the level of our insurance, that we will have sufficient capital available to pay any uninsured claims or that insurance with unaffiliated carriers will continue to be available to us on economically reasonable terms or at all. See "Item 1 Business Risk Management" and "Item 3 Legal Proceedings" in this Annual Report.

***We could face significant withdrawal liability if we withdraw from participation in one or more multiemployer pension plans in which we participate and at least one multiemployer plan in which we participate is reported to have significant underfunded liabilities.***

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 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. The occurrence of any of these events could have a material adverse effect on our consolidated financial position, results of operations or cash flows. See Note 5 to the Notes to the consolidated financial statements included in this Annual Report under the caption "Item 8 Financial Statements and Supplementary Data."

***Environmental laws and regulations and the costs of complying with them, or any liability or obligation imposed under them, could materially adversely affect our financial position, results of operations or cash flows.***

We are subject to federal, state, local and foreign environmental laws and regulations in connection with our operations, including with respect to the ownership and operation of tanks for the storage of petroleum products, such as gasoline, diesel fuel and motor and waste oils. We cannot assure you that our tanks will at all times remain free from leaks or that the use of these tanks will not result in significant

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**ITEM 1A. RISK FACTORS (Continued)**

spills or leakage. If leakage or a spill occurs, it is possible that the resulting costs of cleanup, investigation and remediation, as well as any resulting fines, could be significant. We cannot assure you that compliance with existing or future environmental laws and regulations will not require material expenditures by us or otherwise have a material adverse effect on our consolidated financial position, results of operations or cash flows. See "Item 1 Business Governmental Regulation and Environmental Matters" in this Annual Report.

The U.S. Congress and other legislative and regulatory authorities in the United States and internationally have considered, and will likely continue to consider, numerous measures related to climate change and greenhouse gas emissions. Should rules establishing limitations on greenhouse gas emissions or rules imposing fees on entities deemed to be responsible for greenhouse gas emissions become effective, demand for our services could be affected, our fleet and/or other costs could increase, and our business could be adversely affected.

*Changes in the U.S. legal and regulatory environment that affect our operations, including laws and regulations relating to taxes, automobile-related liability, insurance rates, insurance products, consumer privacy, data security, employment matters, cost and fee recovery, the banking and finance industry, could disrupt our business, increase our expenses or otherwise have a material adverse effect on our results of operations.*

We are subject to a wide variety of U.S. laws and regulations and changes in the level of government regulation of our business have the potential to materially alter our business practices and materially adversely affect our financial position and results of operations, including our profitability. Those changes may come about through new laws and regulations or changes in the interpretation of existing laws and regulations.

Any new, or change in existing, U.S. law and regulation with respect to optional insurance products or policies could increase our costs of compliance or make it uneconomical to offer such products, which would lead to a reduction in revenue and profitability. See "Item 1 Business Risk Management" in this Annual Report for further discussion regarding how changes in the regulation of insurance intermediaries may affect us. If customers decline to purchase supplemental liability insurance products from us as a result of any changes in these laws or otherwise, our results of operations could be materially adversely affected.

Changes in the U.S. legal and regulatory environment in the areas of customer privacy, data security and cross-border data flow could have a material adverse effect on our business, primarily through the impairment of our marketing and transaction processing activities, and the resulting costs of complying with such legal and regulatory requirements. It is also possible that we could face significant liability for failing to comply with any such requirements.

In most places where we operate, we pass through various expenses, including the recovery of vehicle licensing costs and airport concession fees, to our rental customers as separate charges. We believe that our expense pass-throughs, where imposed, are properly disclosed and are lawful. However, we may in the future be subject to potential legislative, regulatory or administrative changes or actions which could limit, restrict or prohibit our ability to separately state, charge and recover vehicle licensing costs and airport concession fees, which could result in a material adverse effect on our results of operations.

Certain new or proposed laws and regulations with respect to the banking and finance industries, including the Dodd-Frank Wall Street Reform and Consumer Protection Act and amendments to Regulation AB, could restrict our access to certain financing arrangements and increase our financing

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**ITEM 1A. RISK FACTORS (Continued)**

costs, which could have a material adverse effect on our financial position, results of operations, liquidity and cash flows.

*Investment funds associated with or designated by the Sponsors will continue to exercise significant control over our Board of Directors, management, policies and significant transactions, and may have interests that differ from our other stockholders.*

Hertz Holdings is a party to an amended and restated stockholders' agreement (the "Stockholders' Agreement") among it and investment funds associated with or designated by the Sponsors. Investment funds associated with or designated by the Sponsors currently beneficially own, in the aggregate, approximately 38% of the outstanding shares of our common stock. Pursuant to the Stockholders' Agreement, each of the funds has agreed to vote in favor of the other funds' nominees to our Board of Directors. The Sponsors currently exercise, and will continue to exercise, significant influence over our Board of Directors and matters requiring stockholder approval and our management, policies and affairs for so long as the investment funds associated with or designated by the Sponsors continue to hold a significant amount of our common stock. There can be no assurance that the interests of the Sponsors will not conflict with those of our other stockholders. The Sponsors currently have the ability to significantly influence the vote on any transaction that requires the approval of stockholders, including many possible change in control transactions, and may discourage or prevent any such transaction regardless of whether or not our other stockholders believe that such a transaction is in our or their own best interests.

Additionally, the Sponsors may from time to time acquire and hold interests in businesses that compete directly with us. One or more of the Sponsors may also pursue acquisition opportunities and other corporate opportunities that may be complementary to our business and as a result, those opportunities may not be available to us.

*If we consummate a merger with Dollar Thrifty, we may encounter unexpected difficulties or fail to realize all of the anticipated benefits of the merger.*

We continue to believe that a merger with Dollar Thrifty is in the best interests of both companies. There is no assurance that if a merger is consummated, we would be able to integrate the operations of Dollar Thrifty without encountering unexpected difficulties and that we would obtain the anticipated benefits of a merger. Under those circumstances, we may not be able to generate sufficient cash flow to make all of the principal and interest payments under any indebtedness we incurred to consummate the merger and our financial condition, liquidity and results of operations could be adversely affected.

**Risks Related to Our Substantial Indebtedness**

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

As of December 31, 2011, we had debt outstanding of \$11,317.1 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) be difficult to refinance or borrow additional funds in the future; (iii) require us to dedicate a substantial portion of our cash flows from operations and investing activities 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); including interest rate fluctuations, because a portion of our borrowings are at

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**ITEM 1A. RISK FACTORS (Continued)**

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, 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 our revolving 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; (v) obtain additional equity capital; (vi) forgo business opportunities, including acquisitions and joint ventures; or (vii) 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, liquidity, ability to obtain financing and ability to compete in our industry could be materially adversely affected.

***Our reliance on asset-backed and asset-based financing arrangements to purchase cars subjects us to a number of risks, many of which are beyond our control.***

We rely significantly on asset-backed and asset-based financing to purchase cars. If we are unable to refinance or replace our existing asset-backed and asset-based financing or continue to finance new car acquisitions through asset-backed or asset-based financing on favorable terms, on a timely basis, or at all, then our costs of financing could increase significantly and have a material adverse effect on our liquidity, interest costs, financial condition, cash flows and results of operations.

Our asset-backed and asset-based financing capacity could be decreased, our financing costs and interest rates could be increased, or our future access to the financial markets could be limited, as a result of risks and contingencies, many of which are beyond our control, including: (i) the acceptance by credit markets of the structures and structural risks associated with our asset-backed and asset-based financing arrangements; (ii) the credit ratings provided by credit rating agencies for our asset-backed indebtedness; (iii) third parties requiring changes in the terms and structure of our asset-backed or

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**ITEM 1A. RISK FACTORS (Continued)**

asset-based financing arrangements, including increased credit enhancement or required cash collateral and/or other liquid reserves; (iv) the insolvency or deterioration of the financial condition of one or more of our principal car manufacturers; or (v) changes in laws or regulations, including judicial review of issues of first impression, that negatively impact any of our asset-backed or asset-based financing arrangements.

Any reduction in the value of certain cars in our fleet could effectively increase our car fleet costs, adversely impact our profitability and potentially lead to decreased borrowing base availability in our asset-backed and certain asset-based vehicle financing facilities due to the credit enhancement requirements for such facilities, which could increase if market values for vehicles decrease below net book values for those vehicles. In addition, if disposal of vehicles in the used vehicle marketplace were to become severely limited at a time when required collateral levels were rising and as a result we failed to meet the minimum required collateral levels, the principal under our asset-backed and certain asset-based financing arrangements may be required to be repaid sooner than anticipated with vehicle disposition proceeds and lease payments we make to our special purpose financing subsidiaries. If that were to occur, the holders of our asset backed and certain asset-based debt may have the ability to exercise their right to direct the trustee to foreclose on and sell vehicles to generate proceeds sufficient to repay such debt.

The occurrence of certain events, including those described in the paragraph above, could result in the occurrence of an amortization event pursuant to which the proceeds of sales of cars that collateralize the affected asset-backed financing arrangement would be required to be applied to the payment of principal and interest on the affected facility or series, rather than being reinvested in our car rental fleet. In the case of our asset-backed financing arrangements, certain other events, including defaults by us and our affiliates in the performance of covenants set forth in the agreements governing certain fleet debt, could result in the occurrence of a liquidation event with the passing of time or immediately pursuant to which the trustee or holders of the affected asset-backed financing arrangement would be permitted to require the sale of the assets collateralizing that series. Any of these consequences could affect our liquidity and our ability to maintain sufficient fleet levels to meet customer demands and could trigger cross-defaults under certain of our other financing arrangements.

Any reduction in the value of the equipment rental fleet of HERC (which could occur due to a reduction in the size of the fleet or the value of the assets within the fleet) could not only effectively increase our equipment rental fleet costs and adversely impact our profitability, but would result in decreased borrowing base availability under certain of our asset-based financing arrangements, which would have a material adverse effect on our financial position, liquidity, cash flows and results of operations.

***Substantially all of our consolidated assets secure certain of our outstanding indebtedness, which could materially adversely affect our debt and equity holders and our business.***

Substantially all of our consolidated assets, including our car and equipment rental fleets, are subject to security interests or are otherwise encumbered for the lenders under our asset-backed and asset-based financing arrangements. As a result, the lenders under those facilities would have a prior claim on such assets in the event of our bankruptcy, insolvency, liquidation or reorganization, and we may not have sufficient funds to pay in full, or at all, all of our creditors or make any amount available to holders of our equity. The same is true with respect to structurally senior obligations: in general, all liabilities and other obligations of a subsidiary must be satisfied before the assets of such subsidiary can be made available to the creditors (or equity holders) of the parent entity.

Because substantially all of our assets are encumbered under financing arrangements, our ability to incur additional secured indebtedness or to sell or dispose of assets to raise capital may be impaired,



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**ITEM 1A. RISK FACTORS (Continued)**

which could have a material adverse effect on our financial flexibility and force us to attempt to incur additional unsecured indebtedness, which may not be available to us.

***Restrictive covenants in certain of the agreements and instruments governing our indebtedness may materially adversely affect our financial flexibility or may have other material adverse effects on our business, financial condition, cash flows and results of operations.***

Certain of our credit facilities and other asset-based and asset-backed financing arrangements contain covenants that, among other things, restrict Hertz and its subsidiaries' ability to: (i) dispose of assets; (ii) incur additional indebtedness; (iii) incur guarantee obligations; (iv) prepay other indebtedness or amend other financing arrangements; (v) pay dividends; (vi) create liens on assets; (vii) sell assets; (viii) make investments, loans, advances or capital expenditures; (ix) make acquisitions; (x) engage in mergers or consolidations; (xi) change the business conducted by us; and (xii) engage in certain transactions with affiliates.

Our Senior ABL Facility (as defined below in Note 4 to the Notes to the consolidated financial statements included in this Annual Report under the caption "Item 8 Financial Statements and Supplementary Data") contains a financial covenant that obligates us to maintain a specified fixed charge coverage ratio if we fail to maintain a specified minimum level of liquidity. Our ability to comply with this covenant will depend on our ongoing financial and operating performance, which in turn are subject to, among other things, the risks identified in "Risks Related to Our Business."

The agreements governing our financing arrangements contain numerous covenants. The breach of any of these covenants or restrictions could result in a default under the relevant agreement, which could, in turn, cause cross-defaults under our other financing arrangements. In such event, we may be unable to borrow under the Senior ABL Facility and certain of our other financing arrangements and may not be able to repay the amounts due under such arrangements. Therefore, we would need to raise refinancing indebtedness, which may not be available to us on favorable terms, on a timely basis or at all. This could have serious consequences to our financial condition and results of operations and could cause us to become bankrupt or insolvent. Additionally, such defaults could require us to sell assets, if possible, and otherwise curtail our operations in order to pay our creditors. Such alternative measures could have a material adverse effect on our business, financial condition, cash flows and results of operations.

***An increase in interest rates or in our borrowing margin would increase the cost of servicing our debt and could reduce our profitability.***

A significant portion of our outstanding debt bears interest at floating rates. As a result, to the extent we have not hedged against rising interest rates, an increase in the applicable benchmark interest rates would increase our cost of servicing our debt and could materially adversely affect our liquidity and results of operations.

In addition, we regularly refinance our indebtedness. If interest rates or our borrowing margins increase between the time an existing financing arrangement was consummated and the time such financing arrangement is refinanced, the cost of servicing our debt would increase and our liquidity and results of operations could be materially adversely affected.

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**ITEM 1A. RISK FACTORS (Continued)**

**Risks Relating to Our Common Stock**

*Hertz Holdings is a holding company with no operations of its own and depends on its subsidiaries for cash.*

The operations of Hertz Holdings are conducted almost entirely through its subsidiaries and its ability to generate cash to meet its debt service obligations or to pay dividends on its common stock is dependent on the earnings and the receipt of funds from its subsidiaries via dividends or intercompany loans. However, none of the subsidiaries of Hertz Holdings are obligated to make funds available to Hertz Holdings for the payment of dividends or the service of its debt. In addition, certain states' laws and the terms of certain of our debt agreements significantly restrict, or prohibit, the ability of Hertz and its subsidiaries to pay dividends, make loans or otherwise transfer assets to Hertz Holdings, including state laws that require dividends to be paid only from surplus. If Hertz Holdings' does not receive cash from its subsidiaries, then Hertz Holdings financial condition could be materially adversely affected.

*Our share price may decline if our Sponsors sell a large number of our shares or if we issue a large number of new shares.*

Approximately 38% of our outstanding shares are held by our Sponsors. We have a significant number of authorized but unissued shares, including shares available for issuance pursuant to our various equity plans. A sale of a substantial number of our shares or other equity-related securities in the public market pursuant to new issuances (by us or upon the conversion of our Convertible Senior Notes (as defined below)) or by significant stockholders (such as by our Sponsors) could depress the market price of our stock and impair our ability to raise capital through the sale of additional equity securities. Any such sale or issuance would dilute the ownership interests of the then-existing stockholders, and could have material adverse effect on the market price of our common stock or the value of the Convertible Senior Notes. The price of our common stock could be materially adversely affected by possible sales of our common stock by investors who view the Convertible Senior Notes as a more attractive means of equity participation in our company and by hedging or arbitrage trading activity. In addition, the price of our common stock could be materially adversely affected if the existence of the Convertible Senior Notes encourages short selling by market participants.

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**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

We operate car rental locations at or near airports and in central business districts and suburban areas of major cities in the United States, including Puerto Rico and the U.S. Virgin Islands, Canada, France, Germany, Italy, the United Kingdom, Spain, The Netherlands, Switzerland, Belgium, Luxembourg, the Czech Republic, the Slovak Republic, Australia, New Zealand, China and Brazil, as well as retail used car sales locations in the United States, France and Australia. We operate equipment rental locations in the United States, Canada, France, Spain, Italy and China. We also operate headquarters, sales offices and service facilities in the foregoing countries in support of our car rental and equipment rental operations, as well as small car rental sales offices and service facilities in a select number of other countries in Europe and Asia.

We own approximately 7% of the locations from which we operate our car and equipment rental businesses. The remaining locations are leased or operated under concessions from governmental authorities and private entities. Those leases and concession agreements typically require the payment of minimum rents or minimum concession fees and often also require us to pay or reimburse operating expenses; to pay additional rent, or concession fees above guaranteed minimums, based on a percentage of revenues or sales arising at the relevant premises; or to do both. See Note 9 to the Notes to our consolidated financial statements included in this Annual Report under the caption "Item 8 Financial Statements and Supplementary Data."

In addition to the above operational locations, we own three major facilities in the vicinity of Oklahoma City, Oklahoma at which reservations for our car rental operations are processed, global information technology systems are serviced and major domestic and international accounting functions are performed. We also have a long-term lease for a reservation and financial center near Dublin, Ireland, at which we have centralized our European car rental reservation, customer relations, accounting and human resource functions. We lease a European regional office in Geneva, Switzerland which we constructed in 2010. We maintain our executive offices in an owned facility in Park Ridge, New Jersey and lease a European headquarters office in Uxbridge, England. Donlen's headquarters is in Northbrook, Illinois. Donlen also leases office space in Darien, Illinois for a portion of its fleet management services consultation call center staff and has other sales offices located throughout the United States.

**ITEM 3. LEGAL PROCEEDINGS**

From time to time we are a party to various legal proceedings. 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, during 2011 are material to us and our subsidiaries taken as a whole. While we have accrued a liability with respect to claims for public liability and property damage of \$281.5 million at December 31, 2011, management, based on the advice of legal counsel, does not believe any of the other pending matters described below are material. We have summarized below, for purposes of providing background, various legal proceedings to which we were and/or are a party during 2011 or the period after December 31, 2011 but before the filing of this Annual Report. In addition to the following, 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. In particular, on June 15, 2011 we received a subpoena from the Staff of the Securities and Exchange Commission, or "SEC," seeking production of documents related to our proposed business combination with Dollar Thrifty. We intend to cooperate fully with the SEC's investigation.

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**ITEM 3. LEGAL PROCEEDINGS (Continued)**

1.

Hertz Equipment Rental Corporation, or "HERC," Loss Damage Waiver

On August 15, 2006, Davis Landscape, Ltd., individually and on behalf of all others similarly situated, filed a complaint against HERC in the United States District Court for the District of New Jersey. In November 2006, the complaint was amended to add another plaintiff, Miguel V. Pro, and more claims. The Davis Landscape matter purports to be a nationwide class action on behalf of all persons and business entities who rented equipment from HERC and who paid a Loss Damage Waiver, or "LDW," or an Environmental Recovery Fee, or "ERF." The plaintiffs seek a declaratory judgment and injunction prohibiting HERC from engaging in acts with respect to the LDW and ERF charges that violate the New Jersey Consumer Fraud Act and claim that the charges violate the Uniform Commercial Code. The plaintiffs also seek an unspecified amount of compensatory damages with the return of all LDW and ERF charges paid, attorneys' fees and costs as well as other damages. The court has granted class certification, denied our motion for summary judgment and the case is in the discovery stages.

2.

Concession Fee Recoveries

On October 13, 2006, Janet Sobel, Daniel Dugan, PhD. and Lydia Lee, individually and on behalf of all others similarly situated v. The Hertz Corporation and Enterprise Rent-A-Car Company, or "Enterprise," was filed in the United States District Court for the District of Nevada. The plaintiffs agreed to not pursue claims against Enterprise initially and the case only proceeded against Hertz. The Sobel case purports to be a nationwide class action on behalf of all persons who rented cars from Hertz at airports in Nevada and were separately charged airport concession recovery fees by Hertz as part of their rental charges. The plaintiffs seek an unspecified amount of compensatory damages, restitution of any charges found to be improper and an injunction prohibiting Hertz from quoting or charging those airport fees that are alleged not to be allowed by Nevada law. The complaint also seeks attorneys' fees and costs. Relevant documents were produced, depositions were taken and pre-trial motions were filed. After the court rendered a mixed ruling on the parties' cross-motions for summary judgment and after the Lydia Lee case was refiled against Enterprise, the parties engaged in mediation which resulted in a proposed settlement. Although the court tentatively approved the settlement in November 2010, the court denied the plaintiffs' motion for final approval of the proposed settlement in May 2011. Since that time, the plaintiffs filed a motion for class certification which we opposed and discovery has commenced again. A separate action is proceeding against Enterprise, National and Alamo.

3.

Telephone Consumer Protection Act

On May 3, 2007, Fun Services of Kansas City, Inc., individually and as the representative of a class of similarly-situated persons, v. Hertz Equipment Rental Corporation was commenced in the District Court of Wyandotte County, Kansas. The case was subsequently transferred to the District Court of Johnson County, Kansas. The Fun Services matter purports to be a class action on behalf of all persons in Kansas and throughout the United States who, on or after four years prior to the filing of the action, were sent facsimile messages of advertising materials relating to the availability of property, goods or services by HERC and who did not provide express permission for sending such faxes. The plaintiffs seek an unspecified amount of compensatory damages, attorney's fees and costs. In August 2009, the court issued an order that stayed all activity in this litigation pending a decision by the Kansas Supreme Court in Critchfield Physical Therapy, Inc. v. Taranto Group, Inc., another Telephone Consumer Protection Act case. The Kansas Supreme Court issued its decision in September 2011. Thereafter, the District Court of Johnson County lifted the stay in the Fun Services case and issued a scheduling order that

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**ITEM 3. LEGAL PROCEEDINGS (Continued)**

addresses class certification discovery. In February 2012, HERC filed a Notice of Removal with the U.S. District Court for the District of Kansas seeking to remove the case to federal court based on federal question jurisdiction.

4.

California Tourism Assessments

We are currently a defendant in a proceeding that purports to be a class action brought by Michael Shames and Gary Gramkow against The Hertz Corporation, Dollar Thrifty Automotive Group, Inc., Avis Budget Group, Inc., Vanguard Car Rental USA, Inc., Enterprise Rent-A-Car Company, Fox Rent A Car, Inc., Coast Leasing Corp., The California Travel and Tourism Commission, and Caroline Beteta.

Originally filed in November of 2007, the action is pending in the United States District Court for the Southern District of California, and plaintiffs claim to represent a class of individuals or entities that purchased rental car services from a defendant at airports located in California after January 1, 2007. Plaintiffs allege that the defendants agreed to charge consumers a 2.5% tourism assessment and not to compete with respect to this assessment, while misrepresenting that this assessment is owed by consumers, rather than the rental car defendants, to the California Travel and Tourism Commission, or the "CTTC." Plaintiffs also allege that defendants agreed to pass through to consumers a fee known as the Airport Concession Fee, which fee had previously been required to be included in the rental car defendants' individual base rates, without reducing their base rates. Based on these allegations, the amended complaint seeks treble damages, disgorgement, injunctive relief, interest, attorneys' fees and costs. Plaintiffs dropped their claims against Caroline Beteta. Plaintiffs' claims against the rental car defendants have been dismissed, except for the federal antitrust claim. In June 2010, the United States Court of Appeals for the Ninth Circuit affirmed the dismissal of the plaintiffs' antitrust case against the CTTC as a state agency immune from antitrust complaint because the California Legislature foresaw the alleged price-fixing conspiracy that was the subject of the complaint. The plaintiffs subsequently filed a petition with the Ninth Circuit seeking a rehearing and that petition was granted. In November 2010, the Ninth Circuit withdrew its June opinion and instead held that state action immunity was improperly invoked. The Ninth Circuit reinstated the plaintiffs' antitrust claims and remanded the case to the district court for further proceedings. All proceedings in the case are currently stayed while the parties engage in settlement discussions.

5.

Public Liability and Property Damage

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. 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 December 31, 2011 and December 31, 2010 our liability recorded for public liability and property damage matters was \$281.5 million and \$278.7 million, respectively. We believe that our analysis is 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

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**ITEM 3. LEGAL PROCEEDINGS (Continued)**

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.

We intend to assert that we have meritorious defenses in the foregoing matters and we intend to defend ourselves vigorously.

We have established reserves for matters where we believe that the losses are probable and reasonably estimated, including for various of the matters set forth above. Other than with respect to the aggregate reserves established for claims for public liability and property damage, none of those reserves are material. For matters, including those described above, 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 above, 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.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

Table of Contents**EXECUTIVE OFFICERS OF THE REGISTRANT**

Set forth below are the names, ages, number of years employed by our Company as of February 27, 2012 and positions of our executive officers.

<b>Name</b>	<b>Age</b>	<b>Number of Years Employed by Us</b>	<b>Position</b>
Mark P. Frissora	56	5	Chief Executive Officer and Chairman of the Board
Elyse Douglas	55	5	Executive Vice President and Chief Financial Officer
Scott Sider	51	29	Executive Vice President & President, Vehicle Rental and Leasing, The Americas
Michel Taride	55	26	Executive Vice President and President, Hertz International, Ltd.
Lois I. Boyd	58	4	Executive Vice President and President, Hertz Equipment Rental Corporation
LeighAnne G. Baker	53	4	Senior Vice President, Chief Human Resources Officer
Richard D. Broome	53	11	Senior Vice President, Corporate Affairs and Communications
Joseph F. Eckroth, Jr.	53	4	Senior Vice President, Customer Care and Chief Information Officer
Jatindar S. Kapur	53	23	Senior Vice President, Finance and Corporate Controller
Robert J. Stuart	50	4	Senior Vice President, Global Sales and Marketing
J. Jeffrey Zimmerman	52	4	Senior Vice President, General Counsel & Secretary
Gary Rappeport	54	26	Chief Executive Officer, Donlen
R. Scott Massengill	49	3	Vice President and Treasurer
Todd Poste	49	1	Vice President, Global Procurement

*Mr. Frissora* has served as the Chief Executive Officer and Chairman of the Board of the Corporation and Hertz since January 1, 2007, and as Chief Executive Officer and a director of the Corporation and Hertz since July 2006. Prior to joining the Corporation and Hertz, Mr. Frissora served as Chief Executive Officer of Tenneco Inc. from November 1999 to July 2006 and as President of the automotive operations of Tenneco Inc. from April 1999 to July 2006. He also served as the Chairman of Tenneco from March 2000 to July 2006. From 1996 to April 1999, he held various positions within Tenneco Inc.'s automotive operations, including Senior Vice President and General Manager of the worldwide original equipment business. Previously Mr. Frissora served as a Vice President of Aeroquip Vickers Corporation from 1991 to 1996. In the 15 years prior to joining Aeroquip Vickers, he served for 10 years with General Electric and five years with Philips Lighting Company in management roles focusing on product development and marketing. He is a director of Walgreen Co., where he serves as the Chairman of the finance committee and is a member of the nominating and governance committee. Mr. Frissora is also a director of Delphi Automotive PLC, where he is a member of their finance committee and a member of their nominating and governance committee.

*Ms. Douglas* has served as the Executive Vice President and Chief Financial Officer of Hertz Holdings and Hertz since October 2007 and served as the Treasurer of Hertz Holdings and Hertz from July 2006 until July 2008. Ms. Douglas served as Interim Chief Financial Officer of Hertz and Hertz Holdings from August 2007 until October 2007. Prior to joining Hertz Holdings and Hertz, Ms. Douglas served as

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**EXECUTIVE OFFICERS OF THE REGISTRANT (Continued)**

Treasurer of Coty Inc. from December 1999 until July 2006. Previously, Ms. Douglas served as an Assistant Treasurer of Nabisco from June 1995 until December 1999. She also served in various financial services capacities for 12 years at Chase Manhattan Bank (now JPMorgan Chase). Ms. Douglas is a CPA and spent three years early in her career in public accounting. Ms. Douglas is a director of Assurant Inc.

*Mr. Sider* has served as the Executive Vice President & President, Vehicle Rental and Leasing The Americas of Hertz and Hertz Holdings since January 2010. Mr. Sider also oversees the fleet planning and re-marketing functions for the Americas since December 2010. Mr. Sider has held several senior management positions in the U.S. car rental business since 1983, including Manhattan Area Manager, Vice President of the New England, West Central and Western Regions and, since 2008, Vice President and President, Off-Airport Operations for North America.

*Mr. Taride* has served as the Executive Vice President and President, Hertz International, Ltd. since January 2010. Mr. Taride also oversees the fleet planning and re-marketing functions of Hertz International since December 2010. Mr. Taride has served as the Executive Vice President and President, Hertz Europe Limited, of Hertz since January 2004 and as Executive Vice President and President, Hertz Europe Limited, of Hertz Holdings since June 2006 until December 2009. From January 2003 until December 2003, he served as Vice President and President, Hertz Europe Limited. From April 2000 until December 2002, he served as Vice President and General Manager, Rent A Car, Hertz Europe Limited. From July 1998 to March 2000, he was General Manager, Rent A Car France and HERC Europe. Previously, he served in various other operating positions in Europe from 1980 to 1983 and from 1985 to 1998.

*Ms. Boyd* has served as the Executive Vice President and President, Hertz Equipment Rental Corporation since April 2011. From March 2010 until April 2011, she served as the Senior Vice President, Advantage Rent A Car. From November of 2007 until February of 2010, she served as Senior Vice President of Process Improvement and Project Management of Hertz Holdings and Hertz. Prior to joining Hertz Holdings and Hertz, Ms. Boyd served in a variety of senior leadership roles at Tenneco Inc. from April 1997 to November 2007, including Vice President and General Manager of Global Commercial Vehicle Systems and Specialty Markets, and Vice President, Global Program Management.

*Ms. Baker* has served as the Senior Vice President, Chief Human Resources Officer of Hertz Holdings and Hertz since April 2007. Prior to joining Hertz Holdings and Hertz, Ms. Baker served as Senior Vice President, Global Human Resources for The Reynolds & Reynolds Company from September 2005 through March 2007. Prior to joining Reynolds & Reynolds, she served as Director of Human Resources, Global Automotive Business, and in various strategic human resources and operational roles for The Timken Company from June 1981 through August 2005.

*Mr. Broome* has served as the Senior Vice President, Corporate Affairs and Communications of Hertz Holdings and Hertz since March 2008. Previously, Mr. Broome served as Vice President, Corporate Affairs and Communications of Hertz Holdings and Hertz from August 2000 to March 2008. From March 1996 to August 2000, Mr. Broome served as Vice President, Government Affairs and Communications for Selective Insurance Company, Inc. and from January 1987 to March 1996 as Counsel, Legal Affairs, of Aetna Life and Casualty. Prior to that, Mr. Broome served in government affairs roles for The Travelers Insurance Group and the Connecticut Business and Industry Association.

*Mr. Eckroth* has served as Senior Vice President, Customer Care and Chief Information Officer of Hertz Holdings and Hertz since June 2007 and Global Customer Care since April 2009. Mr. Eckroth also oversees the Global Document Management function and Navigations Solutions business since December 2010 and serves as a member of the Board of Navigation Solutions L.L.C., which is the exclusive provider of the Hertz Neverlost units and related services. Prior to joining Hertz Holdings and



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**EXECUTIVE OFFICERS OF THE REGISTRANT (Continued)**

Hertz, Mr. Eckroth served as Executive Vice President and Chief Operating Officer of New Century Financial Corporation from January 2006 through June 2007. He joined New Century Financial Corporation as Chief Information Officer in August 2005. Previously, Mr. Eckroth served as the Chief Information Officer for Mattel, Inc. and two of General Electric's business units, GE Medical Systems and GE Industrial Systems.

*Mr. Kapur* has served as the Senior Vice President, Finance and Corporate Controller of Hertz Holdings and Hertz since April 2008. Mr. Kapur has held several senior level Finance, Controller and Business Planning positions during his 20 year career at Hertz Holdings and Hertz and, most recently, he has served as Staff Vice President, Business and Strategic Planning. Mr. Kapur joined Hertz in 1988 and, prior to his most recent position, he served for seven years as Vice President and Chief Financial Officer for Hertz Europe Limited, responsible for both car and equipment rental. He also served two years as Corporate Controller in Europe. Prior to his service in Europe, Mr. Kapur held various financial management positions in the North American vehicle rental business. Prior to joining Hertz, he spent eight years in the financial sector, most recently with Coopers & Lybrand.

*Mr. Stuart* has served as the Senior Vice President, Global Sales, of Hertz Holdings and Hertz since December 2007 and of Global Sales and Marketing since December 2011. Prior to joining Hertz Holdings and Hertz, Mr. Stuart held various senior level sales and marketing positions with General Electric Company from July 2000 through December 2007, including General Manager, Consumer Lighting and Electrical Distribution; General Manager of Consumer Marketing for the Lighting business; and General Manager, Business Development, Sales and Marketing for the lighting business.

*Mr. Zimmerman* has served as the Senior Vice President, General Counsel & Secretary of Hertz Holdings and Hertz since December 2007. Mr. Zimmerman also oversees the Real Estate and Concessions function since December 2010. Prior to joining Hertz Holdings and Hertz, Mr. Zimmerman served Tenneco Inc. in various positions from January 2000 through November 2007, most recently as Vice President, Law. Prior to joining Tenneco, Mr. Zimmerman was engaged in the private practice of law from August 1984 to December 1999, most recently as a partner in the law firm of Jenner & Block.

*Mr. Rappeport* has served as the Chief Executive Officer, Donlen Corporation since 1996. Donlen Corporation was acquired by Hertz in September 2011. Mr. Rappeport has held a variety of roles at Donlen since 1986. Prior to joining Donlen, Mr. Rappeport held sales and management positions at NCR Corporation and Hewlett-Packard Company. Mr. Rappeport is also the President of the American Automotive Leasing Association (AALA).

*Mr. Massengill* has served as Vice President and Treasurer of Hertz Holdings and Hertz since July 2008. Prior to joining Hertz Holdings and Hertz, Mr. Massengill served as Chief Financial Officer for the \$2 billion domestic residential heating and air conditioning business division of Trane Inc. (formerly American Standard Companies Inc.) from 2005 to 2008. Prior to that, he was Vice President and Treasurer at American Standard from 2001 to 2005. Mr. Massengill has also held management-level financial positions at Bristol-Myers Squibb, AlliedSignal and Exxon.

*Mr. Poste* has served as Vice President Global Procurement of Hertz Holdings and Hertz since March 2010. Prior to joining Hertz Holdings and Hertz, Mr. Poste served as Vice President, Integrated Supply Chain for Ingersoll Rand, Inc., Compressor Manufacturing from November 2008 through January 2010 and Vice President of Supply Chain from April 2006 through November 2008. Prior to Ingersoll Rand's acquisition of Trane Inc., Mr. Poste held a number of increasing responsibilities at Trane Inc. from October 2000 through 2006. Mr. Poste has also worked for Honeywell for seven years through 1993 to 2000, Englehard Corp. from 1991 through 1993 and Chrysler Canada Ltd. from 1986 through 2001.

Table of Contents**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES****MARKET PRICE OF COMMON STOCK**

Our common stock began trading on the NYSE on November 16, 2006. On February 22, 2012, there were 2,046 registered holders of our common stock. The following table sets forth, for the periods indicated, the high and low sales price per share of our common stock as reported by the NYSE:

<b>2010</b>	<b>High</b>	<b>Low</b>
1 <sup>st</sup> Quarter	\$ 12.25	\$ 9.06
2 <sup>nd</sup> Quarter	15.60	9.13
3 <sup>rd</sup> Quarter	12.20	8.36
4 <sup>th</sup> Quarter	14.93	9.59
<b>2011</b>		
1 <sup>st</sup> Quarter	16.63	13.58
2 <sup>nd</sup> Quarter	17.64	13.77
3 <sup>rd</sup> Quarter	16.87	8.65
4 <sup>th</sup> Quarter	12.37	7.80

**PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

None.

**CURRENT DIVIDEND POLICY**

We paid no cash dividends on our common stock in 2010 or 2011, and we do not expect to pay dividends on our common stock for the foreseeable future. The agreements governing our indebtedness restrict our ability to pay dividends. See "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Financing," in this Annual Report.

**USE OF PROCEEDS FROM SALE OF REGISTERED SECURITIES**

None.

**RECENT SALES OF UNREGISTERED SECURITIES**

None.

**RECENT PERFORMANCE**

The following graph compares the cumulative total stockholder return on Hertz Global Holdings, Inc. common stock with the Russell 1000 Index and the Morningstar Rental & Leasing Services Industry Group. The Russell 1000 Index is included because it is comprised of the 1,000 largest publicly traded issuers and has a median total market capitalization of approximately \$5.9 billion, which is similar to our total market capitalization. The Morningstar Rental & Leasing Services Industry Group is a published, market capitalization-weighted index representing 25 stocks of companies that rent or lease various durable goods to the commercial and consumer market including cars and trucks, medical and industrial equipment, appliances, tools and other miscellaneous goods, including Hertz Holdings, ABG, Dollar Thrifty, RSC and URI.

Table of Contents**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES (Continued)**

The results are based on an assumed \$100 invested on November 15, 2006, at the market close, through December 31, 2011. Trading in our common stock began on the NYSE on November 16, 2006.

**COMPARISON OF CUMULATIVE TOTAL RETURN AMONG HERTZ GLOBAL HOLDINGS, INC.,  
RUSSELL 1000 INDEX AND MORNINGSTAR RENTAL & LEASING SERVICES  
INDUSTRY GROUP**

**ASSUMES DIVIDEND REINVESTMENT**

**Equity Compensation Plan Information**

The following table summarizes the securities authorized for issuance pursuant to our equity compensation plans as of December 31, 2011:

<b>Plan Category</b>	<b>Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)</b>	<b>Weighted-average exercise price of outstanding options, warrants and rights (b)</b>	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)</b>
Equity compensation plans approved by security holders	20,171,536	\$ 10.60*	18,124,984
Equity compensation plans not approved by security holders		N/A	

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Total	20,171,536	\$	10.60*	18,124,984
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\*

Applies to stock options only.

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA**

The following table presents selected consolidated financial information and other data for our business. The selected consolidated statement of operations data for the years ended December 31, 2011, 2010 and 2009, and the selected consolidated balance sheet data as of December 31, 2011 and 2010 presented below were derived from our consolidated financial statements and the related notes thereto included in this Annual Report under the caption "Item 8 Financial Statements and Supplementary Data."

You should read the following information in conjunction with the section of this Annual Report entitled "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes thereto included in this Annual Report under the caption "Item 8 Financial Statements and Supplementary Data."

(In millions of dollars, except per share data)	Years ended December 31,				
	2011	2010(a)	2009(a)	2008(a)	2007(a)
<b>Statement of Operations Data</b>					
Revenues:					
Car rental	\$ 6,929.6	\$ 6,355.2	\$ 5,872.9	\$ 6,730.4	\$ 6,800.7
Equipment rental	1,208.8	1,069.8	1,110.2	1,657.3	1,755.3
Other <sup>(b)</sup>	160.0	137.5	118.4	137.4	129.6
Total revenues	8,298.4	7,562.5	7,101.5	8,525.1	8,685.6
Expenses:					
Direct operating	4,566.4	4,283.4	4,086.8	4,935.3	4,644.4
Depreciation of revenue earning equipment and lease charges <sup>(c)</sup>	1,905.7	1,868.1	1,933.8	2,196.9	2,007.4
Selling, general and administrative	745.3	664.5	642.0	768.8	775.9
Interest expense	699.7	773.4	680.3	870.0	916.7
Interest income	(5.5)	(12.3)	(16.0)	(24.8)	(41.3)
Other (income) expense, net	62.5		(48.5)		
Impairment charges <sup>(d)</sup>				1,195.0	
Total expenses	7,974.1	7,577.1	7,278.4	9,941.2	8,303.1
Income (loss) before income taxes	324.3	(14.6)	(176.9)	(1,416.1)	382.5
(Provision) benefit for taxes on income <sup>(e)</sup>	(128.5)	(16.7)	62.1	248.3	(106.5)
Net income (loss)	195.8	(31.3)	(114.8)	(1,167.8)	276.0
Noncontrolling interest	(19.6)	(17.4)	(14.7)	(20.8)	(19.7)
Net income (loss) attributable to Hertz Global Holdings, Inc. and Subsidiaries' common stockholders	\$ 176.2	\$ (48.7)	\$ (129.5)	\$ (1,188.6)	\$ 256.3
Weighted average shares outstanding (in millions)					
Basic	415.9	411.9	371.5	322.7	321.2
Diluted	444.8	411.9	371.5	322.7	325.5
Earnings (loss) per share					
Basic	\$ 0.42	\$ (0.12)	\$ (0.35)	\$ (3.68)	\$ 0.80
Diluted	\$ 0.40	\$ (0.12)	\$ (0.35)	\$ (3.68)	\$ 0.79

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA (Continued)**

	<b>December 31,</b>				
	<b>2011</b>	<b>2010(a)</b>	<b>2009(a)</b>	<b>2008(a)</b>	<b>2007(a)</b>
<b>Balance Sheet Data</b>					
Cash and cash equivalents	\$ 931.8	\$ 2,374.2	\$ 985.6	\$ 594.3	\$ 730.2
Total assets <sup>(d)</sup>	17,673.5	17,344.9	16,015.1	16,464.2	19,299.6
Total debt	11,317.1	11,306.4	10,364.4	10,972.3	11,960.1
Total equity	2,234.7	2,118.5	2,085.2	1,479.6	2,907.5

- (a) During the third quarter of 2011, we identified certain errors in our previously issued consolidated financial statements. As such, Net income (loss) attributable to Hertz Global Holdings, Inc. and Subsidiaries' common stockholders for the years ended December 31, 2010, 2009, 2008 and 2007 was revised from the previously reported \$(48.0) million to \$(48.7) million, \$(126.0) million to \$(129.5) million, \$(1,206.7) million to \$(1,188.6) million and \$264.5 million to \$256.3 million, respectively. Total assets as of December 31, 2010, 2009, 2008 and 2007 were revised from the previously reported \$17,332.2 million to \$17,344.9 million, \$16,002.4 million to \$16,015.1 million, \$16,451.4 million to \$16,464.2 million and \$19,255.7 million to \$19,299.6 million, respectively. Total equity as of December 31, 2010, 2009, 2008 and 2007 were revised from the previously reported \$2,131.3 million to \$2,118.5 million, \$2,097.4 million to \$2,085.2 million, \$1,488.3 million to \$1,479.6 million and \$2,934.4 million to \$2,907.5 million, respectively. See Note 2 to the Notes to our Consolidated Financial Statements included in this Report.
- (b) Includes fees and certain cost reimbursements from our licensees and revenues from our car leasing operations and third-party claim management services.
- (c) For the years ended December 31, 2011, 2010, 2009, 2008 and 2007, depreciation of revenue earning equipment decreased by \$18.2 million and increased by \$22.7 million, \$19.3 million, \$32.7 million and \$0.6 million, respectively, resulting from the net effects of changing depreciation rates to reflect changes in the estimated residual value of revenue earning equipment. For the years ended December 31, 2011, 2010, 2009, 2008 and 2007, depreciation of revenue earning equipment and lease charges includes a net gain of \$112.2 million and net losses of \$42.9 million, \$72.0 million, \$74.3 million and \$13.3 million, respectively, from the disposal of revenue earning equipment.
- (d) For the year ended December 31, 2008, we recorded non-cash impairment charges related to our goodwill, other intangible assets and property and equipment.
- (e) For the years ended December 31, 2011, 2010, 2009 and 2008, tax valuation allowances decreased by \$2.5 million and increased by \$27.5 million, \$39.7 million and \$58.5 million, respectively, (excluding the effects of foreign currency translation) relating to the realization of deferred tax assets attributable to net operating losses, credits and other temporary differences in various jurisdictions. In 2011, we reversed a valuation allowance of \$12.0 million relating to realization of deferred tax assets attributable to net operating losses and other temporary differences in Australia and China. Additionally, certain tax reserves were

recorded and certain tax reserves were released due to settlement for various uncertain tax positions in Federal, state and foreign jurisdictions. For the year ended December 31, 2007, we reversed a valuation allowance of \$9.1 million relating to the realization of deferred tax assets attributable to net operating losses and other temporary differences in certain European countries. Additionally, certain tax reserves were recorded for various uncertain tax positions in Federal, state and foreign jurisdictions.

(f)

Substantially all of our revenue earning equipment, as well as certain related assets, are owned by special purpose entities, or are subject to liens in favor of our lenders under our various credit facilities, other secured financings and asset-backed securities programs. None of such assets are available to satisfy the claims of our general creditors. For a description of those facilities, see "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources" in this Annual Report.

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

*The statements in this discussion and analysis regarding industry outlook, our expectations regarding the performance of our business and the other non-historical statements are forward-looking statements. These forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, the risks and uncertainties described in "Item 1A Risk Factors." 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. Our actual results may differ materially from those contained in or implied by any forward-looking statements. You should read the following discussion and analysis together with the sections entitled "Cautionary Note Regarding Forward-Looking Statements," "Item 1A Risk Factors," "Item 6 Selected Financial Data" and our consolidated financial statements and related notes included in this Annual Report under the caption "Item 8 Financial Statements and Supplementary Data."*

**Overview**

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





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**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

equipment, and consequently we require substantial liquidity to finance such expenditures. See "Liquidity and Capital Resources" below.

**Car Rental**

In the U.S., as of December 31, 2011, the percentage of non-program cars was 79% as compared to 72% as of December 31, 2010. Internationally, as of December 31, 2011, the percentage of non-program cars was 75%, compared to 70% as of December 31, 2010. 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 year ended December 31, 2011, our monthly per 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 leveled off as these events worked their way through the vehicle supply chain.

For the year ended December 31, 2011, we experienced an 8.5% increase in transaction days versus the prior period in the United States while rental rate revenue per transaction day, or "RPD," declined by 4.4%. During the year ended December 31, 2011, in our European operations, we experienced a 5.7% improvement in transaction days while RPD declined by 3.0% compared to the year ended December 31, 2010.

Since January 1, 2009, we increased the number of our off-airport rental locations in the United States by 32% to 2,175 locations. Revenues from our U.S. off-airport operations represented \$1,197.4 million, \$1,079.7 million and \$953.4 million of our total car rental revenues in the years ended December 31, 2011, 2010 and 2009, respectively. 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.

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**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

On September 1, 2011, Hertz acquired 100% of the equity interest in Donlen, a leading provider of fleet leasing and management services for corporate fleets and for the four months ended December 31, 2011 (period it was owned by Hertz), had an average of approximately 137,000 vehicles under lease and management. Donlen provides Hertz an immediate leadership position in long-term car, truck and equipment leasing and fleet management. Donlen's fleet management programs provide outsource solutions to reduce fleet operating costs and improve driver productivity. These programs include administration of preventive maintenance, advisory services, and fuel and accident management along with other complementary services. 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 will enable us to model, measure and manage fleet performance more effectively and efficiently.

While Hertz Holdings withdrew its exchange offer for Dollar Thrifty's common stock in October 2011, we continue to believe that a merger with Dollar Thrifty is in the best interests of both companies. Hertz Holdings remains engaged with the Federal Trade Commission to secure antitrust clearance with respect to an acquisition of Dollar Thrifty, which would require (among other things) the disposition of Advantage. If and when we are in a position to obtain antitrust clearance, we will reassess the appropriate price and other terms and conditions of an offer for Dollar Thrifty. We can offer no assurance that any transaction with Dollar Thrifty will be commenced or consummated.

**Equipment Rental**

HERC experienced higher rental volumes and pricing worldwide for year ended December 31, 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 specialty services such as Pump & Power, Industrial Plant Services and Hertz Entertainment Services capitalizing on the opportunities in these strategic market niches. Additionally, there were increased opportunities in 2011 as rental solutions became a more viable alternative to contractors especially with the fluctuating uncertainty in the economy enabling HERC and other large rental companies to gain market share.

**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. Revenues related to our fleet management services are generally not seasonal.

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**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

**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 2011, 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 8,960 employees.

For the years ended December 31, 2011, 2010 and 2009, our consolidated statement of operations includes restructuring charges relating to various initiatives of \$56.4 million, \$54.7 million and \$106.8 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 of the Notes to our consolidated financial statements included in this Annual Report under caption "Item 8 Financial Statements and Supplementary Data."

**Critical Accounting Policies and Estimates**

Our discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America, or "GAAP." The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts in our financial statements and accompanying notes.

We believe the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our financial statements and changes in these judgments and estimates may impact our future results of operations and financial condition. For additional discussion of our accounting policies, see Note 2 to the Notes to our consolidated financial statements included in this Annual Report under the caption "Item 8 Financial Statements and Supplementary Data."

***Revenue Earning Equipment***

Our principal assets are revenue earning equipment, which represented approximately 57% of our total assets as of December 31, 2011. Revenue earning equipment consists of vehicles utilized in our car rental operations and equipment utilized in our equipment rental operations. For the year ended December 31, 2011, 48% of the vehicles purchased for our combined U.S. and international car rental fleets were subject to repurchase by automobile manufacturers under contractual repurchase and

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**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

guaranteed depreciation programs, subject to certain manufacturers' car condition and mileage requirements, at a specific price during a specified time period. These programs limit our residual risk with respect to vehicles purchased under these programs. For all other vehicles, as well as equipment acquired by our equipment rental business, we use historical experience and monitor market conditions to set depreciation rates. Generally, when revenue earning equipment is acquired, we estimate the period that we will hold the asset, primarily based on historical measures of the amount of rental activity (e.g., automobile mileage and equipment usage) and the targeted age of equipment at the time of disposal. We also estimate the residual value of the applicable revenue earning equipment at the expected time of disposal. The residual values for rental vehicles are affected by many factors, including make, model and options, age, physical condition, mileage, sale location, time of the year and channel of disposition (e.g., auction, retail, dealer direct). The residual value for rental equipment is affected by factors which include equipment age and amount of usage. Depreciation is recorded on a straight-line basis over the estimated holding period. Depreciation rates are reviewed on a quarterly basis based on management's ongoing assessment of present and estimated future market conditions, their effect on residual values at the time of disposal and the estimated holding periods. Market conditions for used vehicle and equipment sales can also be affected by external factors such as the economy, natural disasters, fuel prices and incentives offered by manufacturers of new cars. These key factors are considered when estimating future residual values and assessing depreciation rates. As a result of this ongoing assessment, we make periodic adjustments to depreciation rates of revenue earning equipment in response to changing market conditions. Upon disposal of revenue earning equipment, depreciation expense is adjusted for the difference between the net proceeds received and the remaining net book value.

Within our Donlen subsidiary, revenue earning equipment is under longer term lease agreements with our customers. These leases contain provisions whereby we have a contracted residual value guaranteed to us by the lessee, such that we do not experience any gains or losses on the disposal of these vehicles. Therefore depreciation rates on these vehicles are not adjusted at any point in time per the associated lease contract.

See Note 7 to the Notes to our consolidated financial statements included in this Annual Report under the caption "Item 8 Financial Statements and Supplementary Data."

***Public Liability and Property Damage***

The obligation for public liability and property damage on self-insured U.S. and international vehicles and equipment 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. The adequacy of the liability 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. Our actual results as compared to our estimates have historically resulted in relatively minor adjustments to our recorded liability.

***Pensions***

Our employee pension costs and obligations are dependent on our assumptions used by actuaries in calculating such amounts. These assumptions include discount rates, salary growth, long-term return

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on plan assets, retirement rates, mortality rates and other factors. Actual results that differ from our assumptions are accumulated and amortized over future periods and, therefore, generally affect our recognized expense in such future periods. While we believe that the assumptions used are appropriate, significant differences in actual experience or significant changes in assumptions would affect our pension costs and obligations. The various employee-related actuarial assumptions (e.g., retirement rates, mortality rates, salary growth) used in determining pension costs and plan liabilities are reviewed periodically by management, assisted by the enrolled actuary, and updated as warranted. The discount rate used to value the pension liabilities and related expenses and the expected rate of return on plan assets are the two most significant assumptions impacting pension expense. The discount rate used is a market-based spot rate as of the valuation date. For the expected return on assets assumption, we use a forward-looking rate that is based on the expected return for each asset class (including the value added by active investment management), weighted by the target asset allocation. The past annualized long-term performance of the Plans' assets has generally been in line with the long-term rate of return assumption. See Note 5 to the Notes to our consolidated financial statements included in this Annual Report under the caption "Item 8 Financial Statements and Supplementary Data." For a discussion of the risks associated with our pension plans, see "Item 1A Risk Factors" in this Annual Report.

***Goodwill and Other Intangible Assets***

We review goodwill for impairment whenever events or changes in circumstances indicate that the carrying amount of the goodwill may not be recoverable, and also review goodwill annually. Goodwill impairment is deemed to exist if the carrying value of goodwill exceeds its fair value. Goodwill must be tested at least annually using a two-step process. The first step is to identify any potential impairment by comparing the carrying value of the reporting unit to its fair value. A reporting unit is an operating segment or a business one level below that operating segment (the component level) if discrete financial information is prepared and regularly reviewed by segment management. However, components are aggregated as a single reporting unit if they have similar economic characteristics. We estimate the fair value of our reporting units using a discounted cash flow methodology. The key assumptions used in the discounted cash flow valuation model for impairment testing include discount rates, growth rates, cash flow projections and terminal value rates. Discount rates are set by using the Weighted Average Cost of Capital, or "WACC," methodology. The WACC methodology considers market and industry data as well as Company-specific risk factors for each reporting unit in determining the appropriate discount rates to be used. The discount rate utilized for each reporting unit is indicative of the return an investor would expect to receive for investing in such a business. The cash flows represent management's most recent planning assumptions. These assumptions are based on a combination of industry outlooks, views on general economic conditions, our expected pricing plans and expected future savings generated by our past restructuring activities. Terminal value rate determination follows common methodology of capturing the present value of perpetual cash flow estimates beyond the last projected period assuming a constant WACC and low long-term growth rates. If a potential impairment is identified, the second step is to compare the implied fair value of goodwill with its carrying amount to measure the impairment loss. A significant decline in the projected cash flows or a change in the WACC used to determine fair value could result in a future goodwill impairment charge.

In the fourth quarter 2011, we performed our annual impairment analysis based upon market data as of October 1, 2011 and concluded that there was no impairment related to our goodwill and our other indefinite-lived intangible assets. At October 1, 2011, we had five reporting units, which were the same as our operating segments: U.S. Car Rental, Europe Car Rental, Other International Car Rental, Donlen and Worldwide Equipment Rental.

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**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

We performed the impairment analyses for our reporting units, using our business and long-term strategic plans, revised to reflect the current economic conditions. Our weighted-average cost of capital used in the discounted cash flow model was calculated based upon the fair value of our debt and our stock price with a debt to equity ratio comparable to our industry. The total fair value of our reporting units was then compared to our market capitalization to ensure their reasonableness.

We re-evaluate the estimated useful lives of our intangible assets annually or as circumstances change. Those intangible assets considered to have indefinite useful lives, including our trade name, are evaluated for impairment on an annual basis, by comparing the fair value of the intangible assets to their carrying value. Intangible assets with finite useful lives are amortized over their respective estimated useful lives. In addition, whenever events or changes in circumstances indicate that the carrying value of intangible assets might not be recoverable, we will perform an impairment review.

The valuation of our indefinite-lived assets utilized the relief from royalty method, which incorporates cash flows and discount rates comparable to those discussed above. We also considered the excess earnings as a percentage of revenues to ensure their reasonableness. Our analysis supported our conclusion that an impairment did not exist.

See Note 3 to the Notes to our consolidated financial statements included in this Annual Report under the caption "Item 8 Financial Statements and Supplementary Data."

***Derivatives***

We periodically enter into cash flow and other hedging transactions to specifically hedge exposure to various risks related to interest rates, fuel prices and foreign currency rates. Derivative financial instruments are viewed as risk management tools and have not been used for speculative or trading purposes. All derivatives are recorded on the balance sheet as either assets or liabilities measured at their fair value. The effective portion of changes in fair value of derivatives designated as cash flow hedging instruments is recorded as a component of other comprehensive income. The ineffective portion is recognized currently in earnings within the same line item as the hedged item, based upon the nature of the hedged item. For derivative instruments that are not part of a qualified hedging relationship, the changes in their fair value are recognized currently in earnings. The valuation methods used to mark these to market are either market quotes (for fuel swaps and foreign exchange instruments) or a discounted cash flow method (for interest rate swaps and interest rate caps). The key inputs for the discounted cash flow method are the current yield curve and the credit default swap spread. These valuations are subject to change based on movements in items such as the London inter-bank offered rate, or "LIBOR," our credit worthiness and unleaded gasoline and diesel fuel prices.

***Income Taxes***

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates is recognized in the statement of operations in the period that includes the enactment date. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. Subsequent changes to enacted tax rates and changes to the global mix of earnings will result in changes to the tax rates used to calculate deferred taxes and any related valuation allowances. Provisions are not made for income taxes on undistributed earnings of international subsidiaries that are intended to be indefinitely reinvested

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**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

outside the United States or are expected to be remitted free of taxes. Future distributions, if any, from these international subsidiaries to the United States or changes in U.S. tax rules may require recording a tax on these amounts. We have recorded a deferred tax asset for unutilized net operating loss carryforwards in various tax jurisdictions. Upon utilization, the taxing authorities may examine the positions that led to the generations of those net operating losses. If the utilization of any of those losses are disallowed a deferred tax liability may have to be recorded.

See Note 8 to the Notes to our consolidated financial statements included in this Annual Report under the caption "Item 8 Financial Statements and Supplementary Data."

***Stock-Based Compensation***

The cost of employee services received in exchange for an award of equity instruments is based on the grant-date fair value of the award. That cost is recognized over the period during which the employee is required to provide service in exchange for the award. We estimated the fair value of options issued at the date of grant using a Black-Scholes option-pricing model, which includes assumptions related to volatility, expected term, dividend yield, risk-free interest rate and forfeiture rate. These factors combined with the stock price on the date of grant result in a fixed expense which is recorded on a straight-line basis over the vesting period. The key factors used in the valuation process, other than the forfeiture rate, remained unchanged from the date of grant. Because the stock of Hertz Holdings became publicly traded in November 2006 and has a short trading history, it is not practicable for us to estimate the expected volatility of our share price, or a peer company share price, because there is not sufficient historical information about past volatility. Therefore, we use the calculated value method to estimate the expected volatility, based on the Dow Jones Specialized Consumer Services sub-sector within the consumer services industry, and we use the U.S. large capitalization component, which includes the top 70% of the index universe (by market value). We use the simplified method for estimating the expected term. We believe it is appropriate to continue to use this simplified method because we do not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term due to the limited period of time our common stock has been publicly traded. The assumed dividend yield is zero. The risk-free interest rate is the implied zero-coupon yield for U.S. Treasury securities having a maturity approximately equal to the expected term of the options, as of the grant dates. The non-cash stock-based compensation expense associated with the Hertz Global Holdings, Inc. Stock Incentive Plan, or the "Stock Incentive Plan," the Hertz Global Holdings, Inc. Director Stock Incentive Plan, or the "Director Plan," and the Hertz Global Holdings, Inc. 2008 Omnibus Incentive Plan, or the "Omnibus Plan," are pushed down from Hertz Holdings and recorded on the books at the Hertz level. See Note 6 to the Notes to our consolidated financial statements included in this Annual Report under the caption "Item 8 Financial Statements and Supplementary Data."

**Recent Accounting Pronouncements**

For a discussion of recent accounting pronouncements, see Note 2 to the Notes to our consolidated financial statements included in this Annual Report under the caption "Item 8 Financial Statements and Supplementary Data."

**Results of Operations**

We have revised our consolidated statements of operations as a result of adjustments relating to additional telecommunication charges (direct operating expenses) and depreciation of revenue earning



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equipment and lease charges. See Note 2 to the Notes to our Consolidated Financial Statements included in this Report.

In the following discussion, comparisons are made between the years ended December 31, 2011, 2010 and 2009. The following table sets forth for each of the periods indicated, the percentage of total revenues represented by the various line items in our consolidated statements of operations (in millions of dollars):

	Years Ended December 31,			Percentage of Revenues Years Ended December 31,		
	2011	2010	2009	2011	2010	2009
<b>Revenues:</b>						
Car rental	\$ 6,929.6	\$ 6,355.2	\$ 5,872.9	83.5%	84.0%	82.7%
Equipment rental	1,208.8	1,069.8	1,110.2	14.6	14.2	15.6
Other	160.0	137.5	118.4	1.9	1.8	1.7
<b>Total revenues</b>	<b>8,298.4</b>	<b>7,562.5</b>	<b>7,101.5</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Expenses:</b>						
Direct operating	4,566.4	4,283.4	4,086.8	55.0	56.7	57.6
Depreciation of revenue earning equipment and lease charges	1,905.7	1,868.1	1,933.8	23.0	24.7	27.2
Selling, general and administrative	745.3	664.5	642.0	9.0	8.8	9.0
Interest expense	699.7	773.4	680.3	8.4	10.2	9.6
Interest income	(5.5)	(12.3)	(16.0)	(0.1)	(0.2)	(0.2)
Other (income) expense, net	62.5		(48.5)	0.8		(0.7)
<b>Total expenses</b>	<b>7,974.1</b>	<b>7,577.1</b>	<b>7,278.4</b>	<b>96.1</b>	<b>100.2</b>	<b>102.5</b>
Income (loss) before income taxes	324.3	(14.6)	(176.9)	3.9	(0.2)	(2.5)
(Provision) benefit for taxes on income	(128.5)	(16.7)	62.1	(1.6)	(0.2)	0.9
<b>Net income (loss)</b>	<b>195.8</b>	<b>(31.3)</b>	<b>(114.8)</b>	<b>2.3</b>	<b>(0.4)</b>	<b>(1.6)</b>
Noncontrolling interest	(19.6)	(17.4)	(14.7)	(0.2)	(0.2)	(0.2)
<b>Net income (loss) attributable to Hertz Global Holdings, Inc. and Subsidiaries' common stockholders</b>	<b>\$ 176.2</b>	<b>\$ (48.7)</b>	<b>\$ (129.5)</b>	<b>2.1%</b>	<b>(0.6)%</b>	<b>(1.8)%</b>

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The following table sets forth certain of our selected car rental, equipment rental and other operating data for each of the periods indicated:

	<b>Years Ended, or as of December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
<b>Selected Car Rental Operating Data:</b>			
Worldwide number of transactions (in thousands)	27,095	25,970	24,549
Domestic (Hertz)	19,903	19,101	17,791
International (Hertz)	7,192	6,869	6,758
Worldwide transaction days (in thousands) <sup>(a)</sup>	137,301	127,159	118,459
Domestic (Hertz)	93,741	86,422	79,644
International (Hertz)	43,560	40,737	38,815
Worldwide rental rate revenue per transaction day <sup>(b)</sup>	\$ 41.62	\$ 43.24	\$ 43.14
Domestic (Hertz)	\$ 40.30	\$ 42.16	\$ 42.20
International (Hertz)	\$ 44.47	\$ 45.52	\$ 45.07
Worldwide average number of cars during the period	615,600	445,200	413,500
Domestic (Hertz company-operated)	321,700	297,900	274,000
International (Hertz company-operated)	156,900	147,300	139,500
Donlen (under lease and maintenance)	137,000	N/A	N/A
Adjusted pre-tax income (in millions of dollars) <sup>(c)</sup>	\$ 850.2	\$ 641.9	\$ 459.2
Worldwide revenue earning equipment, net (in millions of dollars)	\$ 8,318.7	\$ 7,220.1	\$ 7,003.6
<b>Selected Worldwide Equipment Rental Operating Data:</b>			
Rental and rental related revenue (in millions of dollars) <sup>(d)</sup>	\$ 1,094.4	\$ 975.9	\$ 1,020.6
Same store revenue growth (decline), including growth initiatives <sup>(e)</sup>	9.1%	(5.4)%	(29.1)%
Average acquisition cost of rental equipment operated during the period (in millions of dollars)	\$ 2,804.8	\$ 2,732.6	\$ 2,874.7
Adjusted pre-tax income (in millions of dollars) <sup>(c)</sup>	\$ 161.6	\$ 78.0	\$ 76.4
Revenue earning equipment, net (in millions of dollars)	\$ 1,786.7	\$ 1,703.7	\$ 1,832.3

(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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revenue to our rental rate revenue and rental rate revenue per transaction day (based on December 31, 2010 foreign exchange rates) for the years ended December 31, 2011, 2010 and 2009 (in millions of dollars, except as noted):

	<b>Years Ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Car rental segment revenues	\$ 7,083.5	\$ 6,486.2	\$ 5,979.0
Non-rental rate revenue	(1,265.5)	(1,029.6)	(903.1)
Foreign currency adjustment	(103.0)	41.3	34.3
Rental rate revenue	\$ 5,715.0	\$ 5,497.9	\$ 5,110.2
Transaction days (in thousands)	137,301	127,159	118,459
Rental rate revenue per transaction day (in whole dollars)	\$ 41.62	\$ 43.24	\$ 43.14

(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 following table reconciles income (loss) before income taxes by segment to adjusted pre-tax income by segment for the years ended December 31, 2011, 2010 and 2009 (in millions of dollars):

	<b>Years ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Adjusted pre-tax income			
Car rental	\$ 850.2	\$ 641.9	\$ 459.2
Equipment rental	161.6	78.0	76.4
Total reportable segments	1,011.8	719.9	535.6
Adjustments:			
Other reconciling items(1)	(331.3)	(372.8)	(342.6)
Purchase accounting(2)	(87.6)	(90.3)	(90.3)
Non-cash debt charges(3)	(130.4)	(182.6)	(171.9)
Restructuring charges	(56.4)	(54.7)	(106.8)
Restructuring related charges(4)	(9.8)	(13.2)	(46.5)
Management transition costs	(4.0)		(1.0)
Derivative gains (losses)	0.1	(3.2)	2.4
Gain on debt buyback(5)			48.5
Third-party bankruptcy accrual(6)			(4.3)
Acquisition related costs	(18.8)	(17.7)	
Pension adjustment(7)	13.1		
Premiums paid on debt(8)	(62.4)		
Income (loss) before income taxes	\$ 324.3	\$ (14.6)	\$(176.9)

- (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 depreciation and 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 years ended December 31, 2010 and 2009, also includes \$68.9 million and \$74.6 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

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incurred to facilitate business process re-engineering initiatives that involve significant organization redesign and extensive operational process changes.

- (5) Represents a gain (net of transaction costs) recorded in connection with the buyback of portions of certain of our Senior Notes and Senior Subordinated Notes.
- (6) Represents an allowance for uncollectible program car receivables related to a bankrupt European dealer affiliated with a U.S. car manufacturer.
- (7) 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.
- (8) Represents premiums paid to redeem our 10.5% Senior Subordinated Notes and a portion of our 8.875% Senior Notes.
- (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 revenue to our equipment rental and rental related revenue (based on December 31, 2010 foreign exchange rates) for the years ended December 31, 2011, 2010 and 2009 (in millions of dollars):

	<b>Years ended December 31,</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>
Equipment rental segment revenues	\$1,209.5	\$1,070.1	\$1,110.9
Equipment sales and other revenue	(106.2)	(100.1)	(109.8)
Foreign currency adjustment	(8.9)	5.9	19.5
Rental and rental related revenue	\$1,094.4	\$ 975.9	\$1,020.6

- (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.

**Year Ended December 31, 2011 Compared with Year Ended December 31, 2010**

**REVENUES**

<b>(in millions of dollars)</b>	<b>Years Ended December 31,</b>		<b>\$</b>	<b>%</b>
	<b>2011</b>	<b>2010</b>	<b>Change</b>	<b>Change</b>
Revenues by Segment:				
Car rental	\$ 7,083.5	\$ 6,486.2	\$ 597.3	9.2%
Equipment rental	1,209.5	1,070.1	139.4	13.0%
Other reconciling items	5.4	6.2	(0.8)	(12.5)%
<b>Total revenues</b>	<b>\$ 8,298.4</b>	<b>\$ 7,562.5</b>	<b>\$ 735.9</b>	<b>9.7%</b>

*Car Rental Segment*

Revenues from our car rental segment increased 9.2%, primarily as a result of increases in car rental transaction days worldwide of 8.0%, refueling fees of \$40.3 million and airport concession recovery fees

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of \$30.8 million, as well as the effects of foreign currency translation of approximately \$157.9 million. The year ended December 31, 2011 also includes \$142.7 million of revenues related to Donlen which was acquired on September 1, 2011. These increases were partly offset by a decrease in worldwide RPD.

RPD for worldwide car rental for the year ended December 31, 2011 decreased 3.7% from 2010, due to decreases in U.S. and International RPD of 4.4% and 2.3%, respectively. U.S. off-airport RPD declined by 2.7% and U.S. airport RPD decreased 4.7%. 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, 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 13.0%, primarily due to increases of 10.5% and 2.4% in equipment rental volumes and pricing, respectively, as well as the effects of foreign currency translation of approximately \$17.3 million. The increase in volume was primarily due to strong industrial performance.

*Other*

Revenues from all other sources decreased 12.5%, primarily due to a decrease in revenues from our third-party claim management services.

**EXPENSES**

(in millions of dollars)	Years Ended			
	December 31,		\$ Change	% Change
	2011	2010		
<b>Expenses:</b>				
Fleet related expenses	\$ 1,120.6	\$ 1,003.2	\$ 117.4	11.7%
Personnel related expenses	1,478.0	1,411.2	66.8	4.7%
Other direct operating expenses	1,967.8	1,869.0	98.8	5.3%
Direct operating	4,566.4	4,283.4	283.0	6.6%
Depreciation of revenue earning equipment and lease charges	1,905.7	1,868.1	37.6	2.0%
Selling, general and administrative	745.3	664.5	80.8	12.2%
Interest expense	699.7	773.4	(73.7)	(9.5)%
Interest income	(5.5)	(12.3)	6.8	(54.9)%
Other (income) expense, net	62.5		62.5	N/M
<b>Total expenses</b>	<b>\$ 7,974.1</b>	<b>\$ 7,577.1</b>	<b>\$ 397.0</b>	<b>5.2%</b>

Total expenses increased 5.2%, but total expenses as a percentage of revenues decreased from 100.2% for the year ended December 31, 2010 to 96.1% for the year ended December 31, 2011.



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**ITEM 7. 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 \$3,840.3 million for 2011 increased \$235.6 million, or 6.5%, from 2010 as a result of increases in fleet related expenses, other direct operating expenses and personnel related expenses.

Fleet related expenses for our car rental segment of \$926.8 million for 2011 increased \$104.7 million, or 12.7% from 2010. The increase was primarily related to worldwide rental volume demand which resulted in increases in gasoline costs of \$58.4 million, self insurance expenses of \$10.1 million, vehicle license taxes of \$7.4 million, vehicle maintenance costs of \$6.2 million and vehicle registration fees of \$5.4 million, as well as the effects of foreign currency translation of approximately \$29.4 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 \$11.5 million.

Other direct operating expenses for our car rental segment of \$1,695.5 million for 2011 increased \$74.9 million, or 4.6% from 2010. The increase was primarily related to increases in field administrative expenses of \$23.0 million, customer service costs of \$13.8 million, third-party claim management expenses of \$12.9 million, concession fees of \$12.8 million, computer costs of \$10.1 million, charge card fees of \$4.7 million and reservation costs of \$4.3 million, as well as the effects of foreign currency translation of approximately \$36.8 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 2010. The increases in other direct operating expenses were partly offset by decreases in facilities expenses of \$34.8 million, field systems of \$4.7 million and restructuring and restructuring related charges of \$2.8 million. The decrease in facilities expenses primarily related to gains recognized on the sale of certain properties in 2011.

Personnel related expenses for our car rental segment of \$1,218.0 million for 2011 increased \$56.0 million, or 4.8% from 2010. The increase was related to increases in salaries and related expenses of \$34.0 million and outside services, including transporter wages of \$14.8 million, as well as the effects of foreign currency translation of approximately \$20.6 million, partly offset by a decrease in benefits of \$14.2 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 \$730.6 million for 2011 increased \$53.3 million, or 7.9% from \$677.3 million for 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 \$314.6 million for 2011 increased \$27.8 million, or 9.7% from 2010. The increase was primarily related to increases in restructuring and restructuring related charges of \$5.3 million, legal expenses of \$3.6 million, re-rent expense of \$3.5 million, amortization expense of \$2.4 million, cost of sales of \$2.2 million, field systems and administrative expenses of \$1.9 million and credit and collections expense of \$1.1 million, as well as the effects of foreign currency translation of approximately \$4.2 million. The increases in re-rent expense, costs of sales, field systems and administrative expenses and credit and collections expense primarily related to improved worldwide rental volume demand.

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**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

Fleet related expenses for our equipment rental segment of \$193.8 million for 2011 increased \$13.1 million, or 7.2% from 2010. The increase was primarily related to continued aging of the fleet which resulted in an increase in maintenance costs of \$11.2 million and increased worldwide rental volume resulting in increased freight and delivery costs of \$6.5 million, as well as the effects of foreign currency translation of approximately \$2.6 million. These increases were partly offset by decreases in insurance and licenses of \$3.8 million and personal property taxes of \$2.6 million.

Personnel related expenses for our equipment rental segment of \$222.2 million for 2011 increased \$12.4 million, or 5.9% from 2010. The increase was related to increases in salaries and related expenses of \$9.0 million primarily related to improved results, as well as the effects of foreign currency translation of approximately \$3.3 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 \$1,651.4 million for 2011 increased 3.6% from \$1,594.6 million for 2010. The increase was primarily due the effects of foreign currency translation of approximately \$34.8 million, a 7.5% increase in average fleet and an increase due to the acquisition of Donlen and its related depreciation expense of \$117.0 million. The increase was partly offset by an improvement in certain vehicle residual values and a change in mix of vehicles.

*Equipment Rental Segment*

Depreciation of revenue earning equipment and lease charges in our equipment rental segment of \$254.3 million for 2011 decreased 7.0% from \$273.5 million for 2010. The decrease was primarily due to higher residual values on the disposal of used equipment, partly offset by a 2.6% increase in the average acquisition cost of rental equipment operated during the period and the effects of foreign currency translation of approximately \$3.1 million.

***Selling, General and Administrative Expenses***

Selling, general and administrative expenses increased 12.2%, due to increases in administrative, sales promotion and advertising expenses.

Administrative expenses increased \$54.5 million, or 13.6%, primarily due to increases in salaries and related expenses of \$34.0 million, consulting expenses of \$8.8 million, travel and entertainment expenses of \$3.5 million and legal expense of \$2.5 million, as well as the effects of foreign currency translation of approximately \$8.4 million, partly offset by a decrease in unrealized loss on derivatives of \$3.4 million.

Sales promotion expenses increased \$14.3 million, or 11.1%, primarily related to increases in sales salaries and commissions due to improved results, as well as the effects of foreign currency translation of approximately \$2.7 million.

Advertising expenses increased \$12.0 million, or 9.0%, 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 \$4.3 million.

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**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

***Interest Expense***

*Car Rental Segment*

Interest expense for our car rental segment of \$333.1 million for 2011 decreased 17.0% from \$401.3 million for 2010. The decrease was primarily due to lower interest rates in 2011, partly offset by an increase in the weighted average debt outstanding as a result of an increased fleet size.

*Equipment Rental Segment*

Interest expense for our equipment rental segment of \$45.3 million for 2011 increased 15.0% from \$39.4 million for 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 \$321.3 million for 2011 decreased 3.5% from \$332.7 million for 2010. The decrease was primarily due to lower rates in 2011, partly offset by increases 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 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 \$6.8 million primarily due to interest on a value added tax reclaim received in 2010.

***Other (Income) Expense, Net***

Other (income) expense, net increased \$62.5 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 \$850.2 million increased 32.5% from \$641.9 million for 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 2011 totaled \$94.5 million (which consists of non-cash debt charges of \$43.9 million, purchase accounting of \$39.5 million, restructuring and restructuring related charges of \$23.6 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 2010 totaled \$200.1 million (which consists of non-cash debt charges of \$133.3 million, purchase accounting of \$37.0 million, restructuring and restructuring related charges of \$30.0 million and gain on derivatives of \$(0.2) million). See footnote (c) to the table under "Results of Operations" for a summary and description of these adjustments.

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**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)**

*Equipment Rental Segment*

Adjusted pre-tax income for our equipment rental segment of \$161.6 million increased 107.2% from \$78.0 million for 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 2011 totaled \$92.3 million (which consists of purchase accounting of \$44.4 million, restructuring and restructuring related charges of \$42.4 million and non-cash debt charges of \$5.5 million). Adjustments to our equipment rental loss before income taxes for 2010 totaled \$92.6 million (which consists of purchase accounting of \$50.1 million, restructuring and restructuring related charges of \$35.0 million and non-cash debt charges of \$7.5 million). See footnote (c) to the table under "Results of Operations" for a summary and description of these adjustments.

***PROVISION FOR TAXES ON INCOME, NET INCOME ATTRIBUTABLE TO NONC***