HERTZ GLOBAL HOLDINGS INC
Form 10-Q
August 07, 2009

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2009

OR

o **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	**20-3530539**
(State or other jurisdiction of incorporation or organization)	(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)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report.)

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 ý No o

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 o No o

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 ý Accelerated filer o Smaller reporting company o

Non-accelerated filer o
(Do not check if a smaller reporting company)

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

There were 409,357,078 shares of the Registrant's common stock, par value $0.01 per share, issued and outstanding as of August 6, 2009.

HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

ITEM l. Condensed Consolidated Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and
Shareholders of Hertz Global Holdings, Inc.:

We have reviewed the accompanying condensed consolidated balance sheet of Hertz Global Holdings, Inc. and its subsidiaries as of June 30, 2009, and the related consolidated statements of operations for the three-month and six-month periods ended June 30, 2009 and June 30, 2008 and the consolidated statements of cash flows for the six month periods ended June 30, 2009 and June 30, 2008. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated balance sheet and the related consolidated interim statements of operations and of cash flows for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2008, the related consolidated statements of operations, of stockholders' equity and of cash flows for the year then ended (not presented herein), and in our report dated March 3, 2009, we expressed an unqualified opinion on those consolidated financial statements. As discussed in Note 1 to the accompanying condensed consolidated balance sheet and the related consolidated interim statements of operations and of cash flows, the Company changed its method of accounting for noncontrolling interests in accordance with the provisions of Statement of Financial Accounting Standards No. 160. The accompanying December 31, 2008 condensed consolidated balance sheet reflects this change.

/s/ PricewaterhouseCoopers LLP
New York, New York
August 7, 2009

HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands of Dollars)

Unaudited

	June 30, 2009	December 31, 2008
ASSETS		
Cash and cash equivalents	$ 570,889	$ 594,266
Restricted cash	188,507	731,373
Receivables, less allowance for doubtful accounts of $19,658 and $16,378	1,057,120	1,911,084
Inventories, at lower of cost or market	102,582	96,187
Prepaid expenses and other assets	285,073	286,712
Revenue earning equipment, at cost:		
Cars	8,614,932	7,635,402
Less accumulated depreciation	(1,251,631)	(1,133,946)
Other equipment	2,515,812	2,708,254
Less accumulated depreciation	(570,459)	(518,172)
Total revenue earning equipment	9,308,654	8,691,538
Property and equipment, at cost:		
Land, buildings and leasehold improvements	1,052,172	1,033,098
Service equipment	765,760	751,925
	1,817,932	1,785,023
Less accumulated depreciation	(602,800)	(530,463)
Total property and equipment	1,215,132	1,254,560
Other intangible assets, net	2,634,667	2,621,586
Goodwill	287,414	264,061
Total assets	$ 15,650,038	$ 16,451,367
LIABILITIES AND EQUITY		
Accounts payable	$ 1,184,588	$ 931,336
Accrued liabilities	952,467	1,137,874
Accrued taxes	90,039	128,360
Debt	9,795,798	10,972,297
Public liability and property damage	294,056	311,352
Deferred taxes on income	1,539,967	1,481,866
Total liabilities	13,856,915	14,963,085
Commitments and contingencies		
Equity:		
Hertz Global Holdings Inc. and Subsidiaries stockholders' equity		
Common Stock, $0.01 par value, 2,000,000,000 shares authorized, 376,994,003 and 322,987,299 shares issued	3,769	3,230

Preferred Stock, $0.01 par value, 200,000,000 shares authorized, no shares issued		
Additional paid-in capital	2,922,893	2,503,819
Accumulated deficit	(1,095,943)	(936,296)
Accumulated other comprehensive loss	(54,175)	(100,135)
Total Hertz Global Holdings, Inc. and Subsidiaries stockholders' equity	1,776,544	1,470,618
Noncontrolling interest	16,579	17,664
Total equity	1,793,123	1,488,282
Total liabilities and equity	$ 15,650,038	$ 16,451,367

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

HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

(In Thousands of Dollars, except per share data)

Unaudited

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Revenues:				
Car rental	$1,450,902	$1,795,762	$2,711,804	$3,393,819
Equipment rental	276,808	443,101	556,140	853,951
Other	26,774	36,414	51,426	66,668
Total revenues	1,754,484	2,275,277	3,319,370	4,314,438
Expenses:				
Direct operating	988,573	1,278,507	1,943,893	2,450,037
Depreciation of revenue earning equipment	479,350	529,846	969,178	1,063,699
Selling, general and administrative	141,510	168,026	308,234	361,423
Interest expense	163,835	210,822	328,944	417,074
Interest and other income, net	(49,511)	(4,909)	(51,532)	(14,960)
Total expenses	1,723,757	2,182,292	3,498,717	4,277,273
Income (loss) before income taxes	30,727	92,985	(179,347)	37,165
(Provision) benefit for taxes on income	(22,989)	(36,067)	26,665	(33,117)
Net income (loss)	7,738	56,918	(152,682)	4,048
Less: Net income attributable to noncontrolling interest	(3,876)	(5,671)	(6,965)	(10,505)
Net income (loss) attributable to Hertz Global Holdings, Inc. and Subsidiaries' common stockholders	$ 3,862	$ 51,247	$ (159,647)	$ (6,457)
Weighted average shares outstanding (in thousands)				
Basic	343,698	322,687	333,591	322,454
Diluted	349,153	322,687	333,591	322,454
Income (loss) per share attributable to Hertz Global Holdings, Inc. and Subsidiaries' common stockholders:				
Basic	$ 0.01	$ 0.16	$ (0.48)	$ (0.02)
Diluted	$ 0.01	$ 0.16	$ (0.48)	$ (0.02)

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

HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands of Dollars)

Unaudited

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008 (Note 17)
Cash flows from operating activities:		
Net income (loss)	$ (152,682)	$ 4,048
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation of revenue earning equipment	969,178	1,063,699
Depreciation of property and equipment	80,543	88,720
Amortization of other intangible assets	33,138	33,237
Amortization of deferred financing costs	27,922	23,609
Amortization of debt discount	14,923	7,550
Stock-based employee compensation charges	16,502	13,505
Unrealized gain on derivatives		(3,039)
Amortization and ineffectiveness of cash flow hedges	29,857	5,030
Provision for losses on doubtful accounts	16,635	13,304
Asset writedowns	13,105	10,640
Deferred taxes on income	19,724	20,828
Gain on sale of property and equipment	(1,314)	(7,550)
Changes in assets and liabilities, net of effects of acquisition:		
Receivables	(15,878)	(154,205)
Inventories, prepaid expenses and other assets	(61)	(132,141)
Accounts payable	(65,003)	74,852
Accrued liabilities	(208,362)	(46,077)
Accrued taxes	(57,838)	3,394
Public liability and property damage	(22,029)	(10,712)
Net cash provided by operating activities	$ 698,360	$ 1,008,692

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

HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(In Thousands of Dollars)

Unaudited

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008 (Note 17)
Cash flows from investing activities:		
Net change in restricted cash	$ 543,774	$ 501,551
Revenue earning equipment expenditures	(3,540,501)	(6,077,503)
Proceeds from disposal of revenue earning equipment	3,197,561	4,188,373
Property and equipment expenditures	(48,344)	(96,017)
Proceeds from disposal of property and equipment	5,106	48,103
Acquisitions, net of cash acquired	(71,280)	(57,104)
Purchase of short-term investments, net	(4,169)	
Other investing activities	835	(249)
Net cash provided by (used in) investing activities	82,982	(1,492,846)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	4,219	15,583
Proceeds from convertible debt offering	459,655	
Repayment of long-term debt	(682,389)	(192,714)
Short-term borrowings:		
Proceeds	221,921	320,389
Repayments	(181,442)	(229,981)
Ninety day term or less, net	(971,469)	654,500
Distributions to noncontrolling interest	(8,050)	(5,950)
Proceeds from sale of stock	328,739	
Proceeds from exercise of stock options	2,702	5,586
Proceeds from employee stock purchase plan	1,363	
Proceeds from disgorgement of stockholder short-swing profits	14	133
Payment of financing costs	(6,772)	(10,523)
Net cash provided by (used in) financing activities	(831,509)	557,023
Effect of foreign exchange rate changes on cash and cash equivalents	26,790	8,322
Net increase (decrease) in cash and cash equivalents during the period	(23,377)	81,191
Cash and cash equivalents at beginning of period	594,266	730,203
Cash and cash equivalents at end of period	$ 570,889	$ 811,394
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest (net of amounts capitalized)	$ 298,711	$ 381,693
Income taxes	13,998	14,855
Supplemental disclosures of non-cash flow information:		
Purchases of revenue earning equipment included in accounts payable	$ 616,745	$ 1,001,089
Sales of revenue earning equipment included in receivables	145,640	421,623
Purchases of property and equipment included in accounts payable	14,309	41,274

Sales of property and equipment included in receivables	680	11,674

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

HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

Note 1 Background, Basis of Presentation and Liquidity

Background

Hertz Global Holdings, Inc., or "Hertz Holdings," is our top-level holding company. The Hertz Corporation, or "Hertz," is our primary operating company and a direct wholly-owned subsidiary of Hertz Investors, Inc., which is wholly-owned by Hertz Holdings. "We," "us" and "our" mean Hertz Holdings and its consolidated subsidiaries, including Hertz. Capitalized terms used in this Form 10-Q without definition have the meanings given in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008, filed with the United States Securities and Exchange Commission, or "SEC," on March 3, 2009, or the "Form 10-K."

We are 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. Hertz Holdings was incorporated in Delaware in 2005 and had no operations prior to the Acquisition (as defined below).

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

- Clayton, Dubilier & Rice, Inc., or "CD&R,"
- The Carlyle Group, or "Carlyle," and
- Merrill Lynch Global Private Equity, or "MLGPE,"

or collectively the "Sponsors," acquired all of Hertz's common stock from Ford Holdings LLC for aggregate consideration of $4,379 million in cash, debt refinanced or assumed of $10,116 million and transaction fees and expenses of $447 million. We refer to the acquisition of all of Hertz's common stock by the Sponsors as the "Acquisition."

In November 2006, we completed our initial public offering of 88,235,000 shares of our common stock. In June 2007, the Sponsors completed a secondary public offering of 51,750,000 shares of their Hertz Holdings common stock.

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

2009 Offerings

In May and June 2009, we completed a follow-on public offering of 52,900,000 shares of our common stock at a price of $6.50 per share with proceeds before underwriting discounts and offering expenses of approximately $343.9 million, or the "Common Stock Public Offering."

In addition, in May 2009 we entered into subscription agreements with investment funds affiliated with CD&R and Carlyle to purchase an additional 32,101,182 shares of our common stock at a price of $6.23 per share (the same price per share paid to us by the underwriters in the Common Stock Public Offering) with proceeds to us of approximately $200.0 million, or the "Private Offering." The Private Offering closed on July 7, 2009 and the 32,101,182 shares of our common stock were issued to CD&R and Carlyle affiliated investment funds on the same date. Giving effect to the Common Stock Public Offering and the Private Offering, the Sponsors' ownership percentage in us is approximately 51%.

HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

In May and June 2009, we also completed a public offering of an aggregate principal amount $474,755,000 of 5.25% convertible senior notes due 2014, or the "Convertible Debt Public Offering."

We used the net proceeds from the Common Stock Public Offering, the Private Offering and the Convertible Debt Public Offering, collectively the "2009 Offerings," to increase our liquidity and for general corporate purposes, including the repayment of principal amounts with respect to maturing debt under the fleet financing facilities of certain of our consolidated subsidiaries.

See Note 7 Debt and Note 11 Total Equity.

Basis of Presentation

The significant accounting policies summarized in Note 1 to our audited consolidated financial statements contained in our Form 10-K, have been followed in preparing the accompanying condensed consolidated financial statements, except for the adoption of Statement of Financial Accounting Standards, or "SFAS" No. 160, "Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51," or "SFAS No. 160," SFAS No. 141(R), "Business Combinations," or "SFAS No. 141(R)," and SFAS No. 157, "Fair Value Measurements," or "SFAS No. 157."

The December 31, 2008 condensed consolidated balance sheet data was derived from our audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America, or "GAAP."

In our opinion, all adjustments (which include only normal recurring adjustments) necessary for a fair statement of the results of operations for the interim periods have been made. Results for interim periods are not necessarily indicative of results for a full year.

Certain prior period amounts have been reclassified to conform with current reporting, including those relating to noncontrolling interests which conform with the provisions of SFAS No. 160, which became effective for us in January 2009.

We have revised our consolidated statements of cash flows to exclude the impact of non-cash purchases and sales of revenue earning equipment and property and equipment which were included in "accounts payable" or "receivables" at the end of the period. See Note 17 Revision of Statement of Cash Flows Presentation Related to Purchases and Sales of Revenue Earning Equipment and Property and Equipment.

Liquidity

The car and equipment rental industries are significantly influenced by general economic conditions. In the final three months of 2008 and continuing in the six months ended June 30, 2009, both the car and equipment rental markets experienced unprecedented declines due to the precipitous slowdown in consumer spending as well as significantly reduced demand for industrial and construction equipment. The car rental industry is also significantly influenced by developments in the travel industry, and, particularly, in airline passenger traffic while the equipment rental segment is being impacted by the difficult economic and business environment as investment in commercial construction and the industrial markets slow. The United States and international markets are currently experiencing a significant decline in economic activities, including a tightening of the credit markets, reduced airline passenger traffic, reduced consumer spending and volatile fuel prices. These conditions are expected to continue through the remainder of 2009. During 2008 and the six months ended June 30, 2009, this

HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

resulted in a rapid decline in the volume of car rental and equipment rental transactions, an increase in depreciation and fleet related costs as a percentage of revenues, lower industry pricing and lower residual values for the non-program cars and equipment that we sold. "Non-program cars" mean cars not purchased under repurchase or guaranteed depreciation programs for which the car rental company is exposed to residual risk.

We are highly leveraged and a substantial portion of our liquidity needs arise from debt service on indebtedness incurred in connection with the Acquisition and from the funding of our costs of operations, working capital and capital expenditures. Based on June 30, 2009 availability and our 2009 business plan, we believe we have sufficient liquidity in our existing fleet facilities to meet our 2009 debt maturities. We have begun discussions with banks and lenders to review refinancing options for the indebtedness maturing mainly in the second half of 2010. The agreements governing our indebtedness require us to comply with two key covenants based on a consolidated leverage ratio and a consolidated interest expense coverage ratio. Our failure to comply with the obligations contained in any agreements governing our indebtedness could result in an event of default under the applicable instrument, which could result in the related debt becoming immediately due and payable and could further result in a cross default or cross acceleration of our debt issued under other instruments.

In response to the economic downturn, in 2008 we implemented aggressive strategic actions to reduce costs and improve liquidity. These actions included reducing wage and benefit costs through significant headcount reductions, accelerating fleet deletions and delaying additions to right-size the fleet to current demand levels and rationalizing our location footprint by closing a number of locations. We have developed additional plans for 2009 in an effort to mitigate the impact of continued revenue declines on our results of operations, including reducing costs further through the additional headcount reductions that we announced in January 2009, continuing to right-size our car and equipment rental fleet in response to the economic conditions, continued re-engineering of our processes, increasing pricing and continuing to reduce the cost of acquiring our car and equipment rental fleet, among other actions. In addition, we received approximately $990 million of net proceeds, after deducting underwriting discounts and commissions and before offering expenses payable by Hertz Holdings, from the 2009 Offerings which will provide cash to support 2010 debt refinancing while maintaining liquidity to fund future growth initiatives.

As a result of these past and planned actions, we believe that we will remain in compliance with our debt covenants and that cash generated from operations, together with amounts available under various liquidity facilities will be adequate to permit us to meet our debt service obligations, ongoing costs of operations, working capital needs and capital expenditure requirements for 2009 and the first half of 2010. Our future financial and operating performance, ability to service or refinance our debt and ability to comply with covenants and restrictions contained in our debt agreements will be subject to future economic conditions and to financial, business and other factors, many of which are beyond our control.

Chrysler LLC and General Motors Bankruptcies / Financial Status of Monoline Insurance Companies

Immediately prior to Chrysler LLC's bankruptcy, less than 1% of our fleet was comprised of Chrysler LLC vehicles, so its recent bankruptcy filing has not had a material impact on our business, financial condition or results of operations.

HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

General Motors filed for bankruptcy in June 2009, which we will refer to as "Old General Motors," however we do not believe that this will have a material long-term impact on our business, financial condition or results of operations, because:

Old General Motors paid us, and New General Motors, as defined below, continues to pay us, all of the amounts owed under our repurchase programs;

With the approval of the bankruptcy court, Old General Motors assumed the vehicle repurchase programs it has with us and assigned the repurchase programs to a newly formed company referred to as "New General Motors";

New General Motors emerged from bankruptcy quickly; and

The resale value of vehicles manufactured by Old General Motors has not declined following its filing.

However, in the short-term, we have agreed with MBIA Insurance Corporation, or "MBIA," and Ambac Assurance Corporation, or "Ambac," to not access the $825.0 million of availability under our Series 2008-1 variable funding notes, or the "Series 2008-1 Notes," until either; (1) the necessary administrative actions are taken to have New General Motors confirmed as an "eligible manufacturer" and an "eligible program manufacturer" as defined in the indentures governing our U.S. Fleet Debt, or the "ABS Base Indenture," (2) we renegotiate the agreements with MBIA and Ambac, now that New General Motors has emerged from bankruptcy, (3) we amend the Series 2008-1 Notes which may require the consent of the holders of notes of other series, or (4) certain other conditions of the agreements with Ambac and MBIA are satisfied.

MBIA and Ambac provide credit enhancements in the form of financial guaranties for our U.S. Fleet Debt, with each providing guaranties for approximately half of the $3,370.2 million in principal amount of the notes that was outstanding as of June 30, 2009 under our ABS Program, all of which matures in 2010. Since MBIA and Ambac are facing financial instability, have been downgraded one or more times and are on review for further credit downgrade or under developing outlook by one or more credit agencies, we expect that any amendments to our current U.S. fleet debt and any new U.S. fleet debt we obtain will not be guaranteed by either MBIA or Ambac. Ambac recently reported a significant statutory loss and loss expenses for the quarter ended June 30, 2009, which reduced Ambac's statutory capital and surplus. Ambac requested approval of the Office of the Commissioner of Insurance of the State of Wisconsin, or the "OCI," to release a substantial portion of its contingency reserves to avoid negative statutory capital and surplus. On August 7, 2009, Ambac announced that the OCI permitted Ambac to release approximately $1.8 billion of contingency reserves, thereby, increasing its capital and surplus by that amount. There can be no assurance that any future requests for similar assistance will be granted.

An event of bankruptcy with respect to MBIA or Ambac between now and November 2010 would result in an amortization event under the portion of the debt guaranteed by the affected insurer. In addition, if an amortization event continues for 30 days or longer, the noteholders of the affected series of notes would have the right to require liquidation of a portion of the fleet sufficient to repay such notes, provided that the exercise of the right was exercised by a majority of the affected noteholders. Accordingly, if a bankruptcy of MBIA or Ambac were to occur prior to the earlier of (1) us refinancing our current U.S. fleet debt or (2) November 2010, we would use this 30-day period to negotiate a solution with a majority of the affected noteholders. If we were unsuccessful in these negotiations and a majority of the affected noteholders voted to liquidate that portion of our fleet insured by the affected monoline insurer, we would expect to repay the affected series of notes through a combination of (1) our corporate liquidity and

HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

excess fleet debt liquidity (including negotiating access to our Series 2008-1 Notes), and (2) securing the amendment and extension of the Series 2008-1 Notes and the variable funding notes issued in 2005. A bankruptcy of MBIA or Ambac or a continuing deterioration in the economic environment could lead to deterioration in our financial condition and liquidity position.

In addition, if our available cash and other funding sources were not sufficient to satisfy the consequences as described above, we would be required to renegotiate with our lenders or raise additional funds and there is no assurance that we would be successful in such renegotiation or the raising of such funds.

Note 2 Recently Issued and/or Adopted Accounting Pronouncements

In May 2008, the Financial Accounting Standards Board, or "FASB," issued FASB Staff Position, or "FSP," No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlements)," or "FSP APB 14-1," which changed the accounting treatment for net share settled convertible securities. Under FSP APB 14-1, cash settled convertible securities are separated into their debt and equity components. The value assigned to the debt component is the estimated fair value, as of the issuance date, of a similar debt instrument without the conversion feature, and the difference between the proceeds for the convertible debt and the amount reflected as a debt liability is recorded as additional paid-in capital. As a result, the debt is recorded at a discount reflecting its below market coupon interest rate. The debt is subsequently accreted to its par value over its expected life, with the rate of interest that reflects the market rate at issuance being reflected on the consolidated statements of operations. We applied the provisions of FSP APB 14-1 to the Convertible Debt Public Offering.

In January 2009, the FASB issued FSP No. FAS 132(R)-1, "Employers' Disclosures about Postretirement Benefit Plan Assets." The FSP contains amendments to FASB Statement No. 132(R), "Employers' Disclosures about Pensions and Other Postretirement Benefits," that are intended to enhance the transparency surrounding the types of assets and associated risks in an employer's defined benefit pension or other postretirement plan. The provisions of this FSP will become effective for us beginning with our annual report for the period ended December 31, 2009. We will provide the required disclosure requirements of FSP No. FAS 132(R)-1 beginning December 31, 2009, as required, and we don't believe it will have a material impact on our financial position or results of operations.

In May 2009, the FASB issued SFAS No. 165, "Subsequent Events," or "SFAS No. 165." The objective of this statement is to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The provisions of SFAS No. 165 became effective for us beginning with the interim period ended June 30, 2009, and did not have a material impact on our financial position or results of operations. We evaluated subsequent events through the time of filing these financial statements with the SEC on August 7, 2009.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No 46(R)," or "SFAS No. 167." SFAS No. 167 is a revision to FASB Interpretation No. 46(R), "Consolidation of Variable Interest Entities," and changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. The provisions of SFAS No. 167 become

HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

effective for us on January 1, 2010, and will not have a material impact on our financial position or results of operations.

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162," or "SFAS No. 168." The FASB Accounting Standards Codification, or "Codification," will become the source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of SFAS No. 168, the Codification superseded all then-existing non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. The provisions of SFAS No. 168 became effective for us with the interim period beginning July 1, 2009, and did not have a material impact on our financial position or results of operations.

Note 3 Cash and Cash Equivalents and Restricted Cash

We consider all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Restricted cash includes cash and cash equivalents that are not readily available for our normal disbursements. Restricted cash and cash equivalents are restricted for the purchase of revenue earning vehicles and other specified uses under our Fleet Debt facilities, for our like-kind exchange programs and to satisfy certain of our self-insurance regulatory reserve requirements. As of June 30, 2009 and December 31, 2008, the portion of total restricted cash that was associated with our Fleet Debt facilities was $95.3 million and $557.2 million, respectively. The decrease in restricted cash associated with our Fleet Debt of $461.9 million from December 31, 2008 to June 30, 2009, primarily related to payments to reduce fleet debt and the timing of purchases and sales of revenue earning vehicles.

Note 4 Goodwill and Other Intangible Assets

The following summarizes the changes in our goodwill, by segment, for the period presented (in millions of dollars):

	Car Rental	Equipment Rental	Total
Balance as of December 31, 2008	$ 264.1	$	$ 264.1
Acquisitions	16.4	2.1	18.5
Other changes[1]	4.7	0.1	4.8
Balance as of June 30, 2009	$ 285.2	$ 2.2	$ 287.4

(1) Consists of changes resulting from the translation of foreign currency denominated balances at different exchange rates from the beginning of the period to the end of the period.

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

	June 30, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Amortizable intangible assets:			
Customer-related	$ 600.3	$ (217.9)	$ 382.4
Other	54.6	(7.7)	46.9
Total	654.9	(225.6)	429.3
Indefinite-lived intangible assets:			
Trade name	2,190.0		2,190.0
Other	15.4		15.4
Total	2,205.4		2,205.4
Total other intangible assets, net	$ 2,860.3	$ (225.6)	$ 2,634.7

	December 31, 2008			
	Gross Carrying Amount	Accumulated Amortization	Impairment Charge	Net Carrying Value
Amortizable intangible assets:				
Customer-related	$ 620.2	$ (187.9)	$ (17.0)	$ 415.3
Other	10.9	(4.5)		6.4
Total	631.1	(192.4)	(17.0)	421.7
Indefinite-lived intangible assets:				
Trade name	2,624.0		(434.0)	2,190.0
Other	9.9			9.9
Total	2,633.9		(434.0)	2,199.9
Total other intangible assets, net	$ 3,265.0	$ (192.4)	$ (451.0)	$ 2,621.6

Amortization of other intangible assets for the three months ended June 30, 2009 and 2008, was approximately $17.6 million and $16.8 million, respectively, and for the six months ended June 30, 2009 and 2008 was approximately $33.2 million and $33.2 million, respectively. Based on our amortizable intangible assets as of June 30, 2009, we expect amortization expense to be approximately $34.4 million for the remainder of 2009 and range from $59.3 million to $67.2 million for each of the next five fiscal years.

In April 2009, we acquired certain assets of Advantage Rent A Car, or "Advantage," a popular brand for price-oriented customers at key U.S. leisure travel destinations and we also acquired Eileo SAS, or "Eileo," a France-based developer of car sharing technology.

During the six months ended June 30, 2009, we added 16 locations by acquiring former franchisees in our domestic and international car rental operations, as well as approximately 20 locations associated with our acquisition of Advantage and one location related to an external acquisition done within our equipment rental operations. Total cash paid for intangible assets during the six months ended June 30, 2009 was $48.9 million, of this amount, $43.5 million was allocated to amortizable intangible assets and $5.4 million was allocated to indefinite-lived intangible assets. Each of these transactions has been accounted for using the acquisition method of accounting in accordance with SFAS No. 141(R) and operating results of the acquired entities from the dates of acquisition are included in our consolidated statements of operations. The allocation of the purchase price to the tangible and intangible net assets acquired is preliminary and subject to finalization. These acquisitions are not material, individually or collectively, to the consolidated amounts presented within our statement of operations for the six months ended June 30, 2009.

Note 5 Taxes on Income

The effective tax rate for the three and six months ended June 30, 2009 was 74.8% and 14.9%, respectively. In accordance with inter-period accounting rules for income taxes, the rates for the three and six months ended June 30, 2009 reflect a limitation on the tax benefits which may be currently recognized as compared with an estimated annual effective tax rate of 16.7%. The effective tax rate for the three and six months ended June 30, 2008 was 38.8% and 89.1%, respectively. The provision for taxes on income of $23.0 million in the three months ended June 30, 2009 decreased from $36.1 million in the three months ended June 30, 2008, primarily due to the decrease in income before income taxes and discrete charges, partially offset by an increase in the losses in certain non-U.S. jurisdictions for which a tax benefit cannot be recognized. We had a benefit for taxes on income of $26.7 million in the six months ended June 30, 2009 as compared to a provision for taxes on income of $33.1 million in the six months ended June 30, 2008, primarily due to the decrease in income before income taxes and discrete charges, partially offset by an increase in the losses in certain non-U.S. jurisdictions for which a tax benefit cannot be recognized.

Note 6 Depreciation of Revenue Earning Equipment

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

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008
Depreciation of revenue earning equipment	$ 439.7	$ 505.2
Adjustment of depreciation upon disposal of the equipment	19.9	0.5
Rents paid for vehicles leased	19.8	24.1
Total	$ 479.4	$ 529.8

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Depreciation of revenue earning equipment	$ 867.1	$ 980.7
Adjustment of depreciation upon disposal of the equipment	66.9	33.0
Rents paid for vehicles leased	35.2	50.0
Total	$ 969.2	$1,063.7

The adjustment of depreciation upon disposal of revenue earning equipment for the three months ended June 30, 2009, reflects net losses of $12.9 million on the disposal of vehicles used in our car rental

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operations and for the three months ended June 30, 2009 and 2008 reflects net losses of $7.0 million and $0.5 million, respectively, on the disposal of industrial and construction equipment used in our equipment rental operations. The adjustment of depreciation upon disposal of revenue earning equipment for the six months ended June 30, 2009 and 2008, reflects net losses of $29.3 million and $30.2 million, respectively, on the disposal of vehicles used in our car rental operations and for the six months ended June 30, 2009 and 2008 reflects net losses of $37.6 million and $2.8 million, respectively, on the disposal of industrial and construction equipment used in our equipment rental operations.

Depreciation rates are reviewed on an ongoing basis based on management's routine review of present and estimated future market conditions and their effect on residual values at the time of disposal. During the six months ended June 30, 2009, depreciation rates being used to compute the provision for depreciation of revenue earning equipment were adjusted on certain vehicles in our car rental operations to reflect changes in the estimated residual values to be realized when revenue earning equipment is sold. These depreciation rate changes resulted in net increases of $5.4 million and $12.0 million in depreciation expense for the three and six months ended June 30, 2009, respectively. During the three and six months ended June 30, 2009, depreciation rate changes in our equipment rental operations resulted in increases in depreciation expense of $1.6 million and $1.6 million, respectively.

For the three months ended June 30, 2009 and 2008, our worldwide car rental operations sold approximately 35,700 and 64,000 non-program cars, respectively, a 44.2% year over year decrease primarily due to a lower average fleet size. For the six months ended June 30, 2009 and 2008, our worldwide car rental operations sold approximately 64,000 and 106,400 non-program cars, respectively, a 39.8% year over year decrease primarily due to a lower average fleet size.

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Note 7 Debt

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

	June 30, 2009	December 31, 2008
Corporate Debt		
Senior Term Facility, average interest rate: 2009, 2.1%; 2008, 3.3% (effective average interest rate: 2009, 2.1%; 2008, 3.4%); net of unamortized discount: 2009, $16.3; 2008, $18.6	$ 1,349.1	$ 1,353.6
Senior ABL Facility; net of unamortized discount: 2009, $11.4; 2008, $13.3	(11.4)	(13.3)
Senior Notes, average interest rate: 2009, 8.7%; 2008, 8.7%	2,047.6	2,113.6
Senior Subordinated Notes, average interest rate: 2009, 10.5%; 2008, 10.5%	518.5	600.0
Promissory Notes, average interest rate: 2009, 7.3%; 2008, 7.2% (effective average interest rate: 2009, 7.4%; 2008, 7.3%); net of unamortized discount: 2009, $3.6; 2008, $4.0	394.8	461.4