

HERTZ GLOBAL HOLDINGS INC  
Form 10-Q  
November 07, 2008

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

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2008**

**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)

**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  No

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

Large accelerated filer     Accelerated filer     Non-accelerated filer     Smaller reporting company   
(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  No

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There were 322,970,012 shares of the Registrant's common stock, par value \$0.01 per share, issued and outstanding as of November 6, 2008.

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**HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES****INDEX**

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**PART I FINANCIAL INFORMATION**

**ITEM 1. Condensed Consolidated Financial Statements**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have reviewed the accompanying condensed consolidated balance sheet of Hertz Global Holdings, Inc. and its subsidiaries as of September 30, 2008 and the related consolidated statements of operations for each of the three-month and nine-month periods ended September 30, 2008 and September 30, 2007 and the consolidated statements of cash flows for the nine-month periods ended September 30, 2008 and September 30, 2007. 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 financial statements 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, 2007 and 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 February 29, 2008 we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2007 is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP  
Florham Park, New Jersey  
November 7, 2008

## HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands of Dollars)

Unaudited

	September 30, 2008	December 31, 2007
<b>ASSETS</b>		
Cash and equivalents	\$ 731,539	\$ 730,203
Restricted cash	514,048	661,025
Receivables, less allowance for doubtful accounts of \$15,541 and \$11,137	1,902,541	1,690,956
Inventories, at lower of cost or market	129,658	118,997
Prepaid expenses and other assets	348,260	317,613
Revenue earning equipment, at cost:		
Cars	9,564,781	8,572,387
Less accumulated depreciation	(1,092,091)	(962,054)
Other equipment	2,938,460	3,108,799
Less accumulated depreciation	(526,893)	(411,272)
Total revenue earning equipment	10,884,257	10,307,860
Property and equipment, at cost:		
Land, buildings and leasehold improvements	1,045,649	1,022,438
Service equipment	757,345	685,579
	1,802,994	1,708,017
Less accumulated depreciation	(482,380)	(362,469)
Total property and equipment	1,320,614	1,345,548
Other intangible assets, net	3,089,387	3,123,467
Goodwill	974,655	959,993
Total assets	\$ 19,894,959	\$ 19,255,662
<b>LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY</b>		
Accounts payable	\$ 860,190	\$ 1,064,878
Accrued liabilities	1,026,519	1,028,122
Accrued taxes	177,790	127,992
Debt	12,844,178	11,960,126
Public liability and property damage	325,628	343,028
Deferred taxes on income	1,772,076	1,797,099
Total liabilities	17,006,381	16,321,245
Commitments and contingencies		
Minority interest	24,224	21,028
Stockholders' equity:		
Common Stock, \$0.01 par value, 2,000,000,000 shares authorized, 322,969,814 and 321,862,083 shares issued	3,230	3,219

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Preferred Stock, \$0.01 par value, 200,000,000 shares authorized,  
no shares issued

Additional paid-in capital	2,497,593	2,469,213
Retained earnings	281,657	270,450
Accumulated other comprehensive income	81,874	170,507
Total stockholders' equity	2,864,354	2,913,389
Total liabilities, minority interest and stockholders' equity	\$ 19,894,959	\$ 19,255,662

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		Nine Months Ended	
	September 30, 2008	September 30, 2007	September 30, 2008	September 30, 2007
<b>Revenues:</b>				
Car rental	\$ 1,946,136	\$ 1,944,499	\$ 5,339,955	\$ 5,161,230
Equipment rental	432,885	464,716	1,286,836	1,287,350
Other	42,853	40,397	109,521	98,228
<b>Total revenues</b>	<b>2,421,874</b>	<b>2,449,612</b>	<b>6,736,312</b>	<b>6,546,808</b>
<b>Expenses:</b>				
Direct operating	1,351,790	1,216,114	3,801,827	3,495,152
Depreciation of revenue earning equipment	595,016	535,039	1,658,715	1,498,893
Selling, general and administrative	234,321	203,183	595,744	586,000
Interest, net of interest income of \$5,490, \$6,707, \$20,450 and \$26,974	214,587	240,150	616,701	661,251
<b>Total expenses</b>	<b>2,395,714</b>	<b>2,194,486</b>	<b>6,672,987</b>	<b>6,241,296</b>
Income before income taxes and minority interest	26,160	255,126	63,325	305,512
Provision for taxes on income	(2,855)	(86,870)	(35,972)	(107,291)
Minority interest	(5,641)	(5,549)	(16,146)	(14,405)
<b>Net income</b>	<b>\$ 17,664</b>	<b>\$ 162,707</b>	<b>\$ 11,207</b>	<b>\$ 183,816</b>
Weighted average shares outstanding (in thousands)				
Basic	322,886	321,487	322,599	321,004
Diluted	322,886	327,507	322,599	325,256
<b>Earnings per share</b>				
Basic	\$ 0.05	\$ 0.51	\$ 0.03	\$ 0.57
Diluted	\$ 0.05	\$ 0.50	\$ 0.03	\$ 0.57

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

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 11,207	\$ 183,816
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of revenue earning equipment	1,658,715	1,498,893
Depreciation of property and equipment	131,441	134,389
Amortization of other intangible assets	49,747	46,560
Amortization of deferred financing costs	36,777	36,787
Amortization of debt discount	11,630	16,507
Debt modification costs		16,177
Stock-based employee compensation charges	20,303	24,269
Unrealized (gain) loss on derivatives	12,058	(3,006)
Loss on ineffectiveness of interest rate swaps	7,791	17,712
Provision for losses on doubtful accounts	21,693	10,375
Asset writedowns	34,113	
Minority interest	16,146	14,405
Deferred taxes on income	5,010	58,106
Gain on sale of property and equipment	(9,370)	(14,383)
Changes in assets and liabilities, net of effects of acquisition:		
Receivables	(272,085)	(102,391)
Inventories, prepaid expenses and other assets	(61,860)	(44,569)
Accounts payable	(97,931)	284,063
Accrued liabilities	(31,043)	(46,066)
Accrued taxes	37,760	69,550
Public liability and property damage	(7,307)	7,275
<b>Net cash provided by operating activities</b>	<b>\$ 1,574,795</b>	<b>\$ 2,208,469</b>

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

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2008</b>	<b>2007</b>
<b>Cash flows from investing activities:</b>		
Net change in restricted cash	\$ 146,084	\$ 124,087
Revenue earning equipment expenditures	(8,637,185)	(9,569,217)
Proceeds from disposal of revenue earning equipment	6,135,741	6,574,011
Property and equipment expenditures	(149,439)	(144,128)
Proceeds from disposal of property and equipment	36,746	53,143
Acquisitions, net of cash acquired	(68,864)	(10,571)
Other investing activities	82	(190)
<b>Net cash used in investing activities</b>	<b>(2,536,835)</b>	<b>(2,972,865)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of long-term debt	19,357	5,873
Repayment of long-term debt	(362,776)	(957,557)
<b>Short-term borrowings:</b>		
Proceeds	391,131	695,000
Repayments	(302,856)	(225,000)
Ninety day term or less, net	1,294,208	976,611
Payment of financing costs	(33,839)	(24,265)
Distributions to minority interest	(12,950)	(5,775)
Exercise of stock options	6,753	4,287
Proceeds from disgorgement of stockholder short-swing profits	135	4,745
<b>Net cash provided by financing activities</b>	<b>999,163</b>	<b>473,919</b>
Effect of foreign exchange rate changes on cash and equivalents	(35,787)	13,191
<b>Net increase (decrease) in cash and equivalents during the period</b>	<b>1,336</b>	<b>(277,286)</b>
Cash and equivalents at beginning of period	730,203	674,549
<b>Cash and equivalents at end of period</b>	<b>\$ 731,539</b>	<b>\$ 397,263</b>
<b>Supplemental disclosures of cash flow information:</b>		
<b>Cash paid during the period for:</b>		
Interest (net of amounts capitalized)	\$ 626,934	\$ 662,167
Income taxes	22,562	18,364

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 Basis of Presentation**

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.

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 was incorporated in Delaware in 1967. Ford Motor Company, or "Ford," acquired an ownership interest in Hertz in 1987. Prior to this, Hertz was a subsidiary of UAL Corporation (formerly Allegis Corporation), which acquired Hertz's outstanding capital stock from RCA Corporation in 1985. Hertz Holdings was incorporated in Delaware in 2005 and had no operations prior to the Acquisition (as defined below).

On December 21, 2005, or the "Closing Date," 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," through CCMG Acquisition Corporation, a wholly owned subsidiary of Hertz Holdings (previously known as CCMG Holdings, Inc.) 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 through CCMG Acquisition Corporation as the "Acquisition." We refer to the Acquisition, together with related transactions entered into to finance the cash consideration for the Acquisition, to refinance certain of our existing indebtedness and to pay related transaction fees and expenses, as the "Transactions."

In November 2006, we completed our initial public offering of 88,235,000 shares of our common stock at a per share price of \$15.00, with proceeds to us before underwriting discounts and offering expenses of approximately \$1.3 billion. The proceeds were used to repay borrowings that were outstanding under a \$1.0 billion loan facility entered into by Hertz Holdings, or the "Hertz Holdings Loan Facility," and to pay related transaction fees and expenses. The Hertz Holdings Loan Facility was used primarily to pay a special cash dividend of \$4.32 per share to our common stockholders on June 30, 2006. The proceeds of the offering were also used to pay special cash dividends of \$1.12 per share on November 21, 2006 to stockholders of record of Hertz Holdings immediately prior to the initial public offering.

In June 2007, the Sponsors completed a secondary public offering of 51,750,000 shares of their Hertz Holdings common stock at a per share price of \$22.25. We did not receive any of the proceeds from the sale of these shares. We paid all of the expenses of the offering, excluding underwriting discounts and commissions of the selling stockholders, pursuant to a registration rights agreement we entered into at the time of the Acquisition. These expenses aggregated to approximately \$2.0 million. Immediately following the secondary public offering, the Sponsors' ownership percentage in us decreased to approximately 55%.

The significant accounting policies summarized in Note 1 to our audited consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, filed with the United States Securities and Exchange Commission, or "SEC," on February 29, 2008, or the "Form 10-K," have been followed in preparing the accompanying condensed consolidated financial statements.

**HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Unaudited**

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.

The December 31, 2007 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."

Certain prior period amounts have been reclassified to conform with current reporting.

**Note 2 Recent Accounting Pronouncements**

In September 2006, the Financial Accounting Standards Board, or "FASB," issued Statement of Financial Accounting Standards, or "SFAS," No. 157, "Fair Value Measurements," or "SFAS No. 157." SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurements. We adopted the provisions of SFAS No. 157 on January 1, 2008, except as they relate to non-financial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), which provisions become effective for us beginning in January 2009. We are currently reviewing SFAS No. 157, as it relates to our non-financial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), to determine its impact, if any, on our financial position or results of operations. See Note 14 Fair Value Measurements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities," or "SFAS No. 159." SFAS No. 159 permits entities to choose to measure many financial assets and liabilities and certain other items at fair value. The provisions of SFAS No. 159 were effective for us beginning in January 2008. We chose not to change the measurement of the pertinent assets and liabilities as a result of SFAS No. 159; therefore, SFAS No. 159 did not have any impact on our financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations," or "SFAS No. 141(R)." The new standard requires the acquiring entity that gains control in a business combination to recognize 100% of the fair value of the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; requires that acquisition related costs be expensed; and requires the acquirer to disclose to investors and other users all of the information they need to evaluate and understand the nature and financial effect of the business combination. The provisions of SFAS No. 141(R) will be effective for us beginning in January 2009.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements—an amendment of ARB No. 51," or "SFAS No. 160." SFAS No. 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of stockholders' equity. Additionally, the amount of consolidated net income attributable to the parent and to the noncontrolling interests must be clearly identified and presented on the face of the consolidated statement of operations. Finally, changes in a parent's ownership interest while the parent retains its controlling financial interest in its subsidiary will be accounted for consistently as equity transactions. The provisions of SFAS No. 160 will be effective for us beginning in January 2009.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities" an amendment of FASB Statement No. 133," or "SFAS No. 161." SFAS No. 161 changes the

**HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Unaudited**

disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under FASB Statement 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. The provisions of SFAS No. 161 will be effective for us beginning with our quarterly report for the period ended March 31, 2009.

**Note 3 Cash and Equivalents and Restricted Cash**

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

Restricted cash includes cash and equivalents that are not readily available for our normal disbursements. Restricted cash and equivalents are restricted for the purchase of revenue earning vehicles and other specified uses under our Fleet Debt facilities (as defined in Note 7 Debt), for our like-kind exchange programs and to satisfy certain of our self insurance regulatory reserve requirements.

As of September 30, 2008 and December 31, 2007, the portion of total restricted cash that was associated with our Fleet Debt facilities was \$288.2 million and \$573.1 million, respectively. The decrease in restricted cash associated with our Fleet Debt of \$284.9 million from December 31, 2007 to September 30, 2008, primarily related to the timing of purchases and sales of revenue earning vehicles.

**Note 4 Goodwill and Other Intangible Assets**

We account for our goodwill and indefinite-lived intangible assets under SFAS No. 142, "Goodwill and Other Intangible Assets," or "SFAS No. 142." Under SFAS No. 142, goodwill and indefinite-lived intangible assets must be tested for impairment at least annually. We conducted the impairment review during the fourth quarter of 2007 and no impairment was determined to exist.

We will perform our annual impairment review for goodwill and indefinite-lived intangible assets in the fourth quarter of this year. The valuation of goodwill and intangible assets requires assumptions and estimates of many critical factors, including revenue and market growth, operating cash flows, market multiples, and discount rates. We have experienced declines in our operating results for the nine months ended September 30, 2008 as compared to the prior year, as a result of the current economic conditions. In addition, our market capitalization has declined. Adverse changes in expected operating results and/or unfavorable changes in other economic factors used to estimate fair values could result in a non-cash impairment charge in the future under SFAS No. 142.

## HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Unaudited

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

	<b>Car Rental</b>	<b>Equipment Rental</b>	<b>Total</b>
Balance as of December 31, 2007	\$ 318,134	\$ 641,859	\$ 959,993
Acquisitions	5,030	23,223	28,253
Other changes <sup>(1)</sup>	(7,362)	(6,229)	(13,591)
Balance as of September 30, 2008	\$ 315,802	\$ 658,853	\$ 974,655

(1)

Consists of changes resulting from the translation of foreign currencies at different exchange rates from the beginning of the period to the end of the period and pre-Acquisition tax adjustments.

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

	<b>September 30, 2008</b>			<b>December 31, 2007</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Value</b>	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Value</b>
<b>Amortizable intangible assets:</b>						
Customer-related	\$ 620,014	\$ (172,082)	\$ 447,932	\$ 617,012	\$ (124,647)	\$ 492,365
Other	12,241	(3,817)	8,424	5,898	(1,505)	4,393
Total	632,255	(175,899)	456,356	622,910	(126,152)	496,758
<b>Indefinite-lived intangible assets:</b>						
Trade name	2,624,000		2,624,000	2,624,000		2,624,000
Other	9,031		9,031	2,709		2,709
Total	2,633,031		2,633,031	2,626,709		2,626,709
Total other intangible assets, net	\$ 3,265,286	\$ (175,899)	\$ 3,089,387	\$ 3,249,619	\$ (126,152)	\$ 3,123,467

Amortization of other intangible assets for the three months ended September 30, 2008 and 2007 was approximately \$16.5 million and \$15.8 million, respectively, and for the nine months ended September 30, 2008 and 2007 was approximately \$49.7 million and \$46.6 million, respectively. Based on our amortizable intangible assets as of September 30, 2008, we expect amortization expense to be approximately \$16.6 million for the remainder of 2008 and range from \$62.3 million to \$66.7 million for each of the next five fiscal years.

During the nine months ended September 30, 2008, we added 66 locations by acquiring former franchisees in our domestic and international car rental operations, as well as four locations related to external acquisitions done within our domestic and international equipment rental operations. Total intangible assets acquired during the nine months ended September 30, 2008 were \$17.4 million. We recognized \$11.1 million in amortizable intangible assets and \$6.3 million in indefinite-lived intangible assets during the nine months ended September 30, 2008. Each of

these transactions has been accounted for using the purchase method of accounting in accordance with SFAS No. 142, and

**HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Unaudited**

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 nine months ended September 30, 2008.

**Note 5 Taxes on Income**

The effective tax rate for the three and nine months ended September 30, 2008 was 10.9% and 56.8%, respectively. The effective tax rate for the three and nine months ended September 30, 2007 was 34.0% and 35.1%, respectively. The provision for taxes on income of \$2.9 million in the three months ended September 30, 2008 decreased by 96.7% from \$86.9 million in the three months ended September 30, 2007, primarily due to the decline in 2008 annual projections based upon third quarter operating results, partly offset by the recording of a valuation allowance on certain deferred tax assets that we believe are no longer realizable. The provision for taxes on income of \$36.0 million in the nine months ended September 30, 2008 decreased by 66.5% from \$107.3 million in the nine months ended September 30, 2007, primarily due to the decline in 2008 annual projections based upon third quarter operating results, partly offset by the non-recognition of benefits for certain non-U.S. jurisdictions in loss positions and the recording of a valuation allowance on certain deferred tax assets that we believe are no longer realizable.

We adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" an Interpretation of FASB Statement No. 109, " or "FIN 48," on January 1, 2007. As of December 31, 2007, we had total unrecognized tax benefits of \$35.5 million, of which \$8.2 million, if recognized, would favorably impact the effective tax rate in future periods. The \$27.3 million remaining balance of our unrecognized tax benefits relates to pre-Acquisition items of \$19.0 million and temporary difference items of \$8.3 million. To the extent that these items reverse in the future, the pre-Acquisition items will affect goodwill and the temporary items will affect current and deferred income tax provision but will not have any effective rate impact.

We conduct business globally and, as a result, file one or more income tax returns in the U.S. federal jurisdiction and various state and non-U.S. jurisdictions. In the normal course of business we are subject to examination by taxing authorities throughout the world, including such major jurisdictions as Australia, Brazil, Canada, France, Germany, Ireland, Italy, the Netherlands, Spain, the United Kingdom and the United States. The open tax years for these jurisdictions span from 1997 to 2007. A tax indemnification agreement entered into with Ford on the Closing Date indemnifies Hertz from U.S. federal and unitary state, and certain combined non-U.S. income tax liabilities for all periods prior to December 21, 2005.

In many cases, our uncertain tax positions are related to tax years that remain subject to examination by the relevant taxing authorities. We are not currently under audit by the Internal Revenue Service but are under audit in several non-U.S. jurisdictions. It is reasonably possible that approximately \$19.0 million of unrecognized tax benefits may reverse within the next twelve months due to their settlement with the relevant taxing authorities and/or the filing of amended income tax returns.

Net after-tax interest and penalties related to the liabilities for unrecognized tax benefits are classified as a component of "Provision for taxes on income" in our consolidated statement of operations. During the three and nine months ended September 30, 2008, we recognized approximately \$0.3 million and \$1.3 million, respectively, in net after-tax interest and penalties. We had approximately \$13.3 million of net after-tax interest and penalties accrued in our condensed consolidated balance sheet at September 30, 2008.

## HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Unaudited

The results of operations for the nine months ended September 30, 2008 included \$5.6 million, net, of out-of-period adjustments. The most significant adjustment primarily related to the three months ended December 31, 2007 in the amount of \$6.5 million, which would have had a negative impact on our results of operations of \$0.02 per share on a diluted basis. These adjustments had a negative impact on our results of operations for the nine months ended September 30, 2008 of \$0.02 per share on a diluted basis.

**Note 6 Depreciation of Revenue Earning Equipment**

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

	<b>Three Months Ended September 30, 2008      2007</b>	
Depreciation of revenue earning equipment	\$553,777	\$509,971
Adjustment of depreciation upon disposal of the equipment	20,758	3,810
Rents paid for vehicles leased	20,481	21,258
 Total	 \$595,016	 \$535,039

	<b>Nine Months Ended September 30, 2008      2007</b>	
Depreciation of revenue earning equipment	\$1,534,430	\$1,437,306
Adjustment of depreciation upon disposal of the equipment	53,774	8,906
Rents paid for vehicles leased	70,511	52,681
 Total	 \$1,658,715	 \$1,498,893

The adjustment of depreciation upon disposal of revenue earning equipment for the three months ended September 30, 2008 and 2007 included net losses of \$9.5 million and \$4.9 million, respectively, on the disposal of vehicles used in our car rental operations and a net loss of \$11.3 million and a net gain of \$1.1 million, respectively, on the disposal of industrial and construction equipment used in our equipment rental operations. The adjustment of depreciation upon disposal of revenue earning equipment for the nine months ended September 30, 2008 and 2007 included net losses of \$39.7 million and \$16.9 million, respectively, on the disposal of vehicles used in our car rental operations and a net loss of \$14.1 million and a net gain of \$8.0 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 projected future market conditions and their effect on residual values at the time of disposal. During the nine months ended September 30, 2008, 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 \$12.2 million and \$22.4 million in depreciation expense for the three and nine months ended September 30, 2008, respectively. During the three and nine months ended September 30, 2008, depreciation rates in certain of our equipment rental operations were decreased and resulted in net decreases of \$0.1 million and \$3.9 million, respectively, in depreciation expense.



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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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For the three months ended September 30, 2008 and 2007, our worldwide car rental operations sold approximately 53,600 and 51,300 non-program cars, respectively, a 4.5% increase. For the nine months ended September 30, 2008 and 2007, our worldwide car rental operations sold approximately 171,300 and 139,500 non-program cars, respectively, a 22.8% increase.

**Note 7 Debt**

Our "Senior Term Facility" is a secured term loan facility entered into by Hertz in connection with the Acquisition consisting of (a) a maximum borrowing capacity of \$2,000.0 million (which was decreased in February 2007 to \$1,400.0 million), which included a delayed draw facility of \$293.0 million (which was utilized during 2006) and (b) a prefunded synthetic letter of credit facility in an aggregate principal amount of \$250.0 million. This term loan facility and the synthetic letter of credit facility mature in December 2012.

Our "Senior ABL Facility" is a senior asset-based revolving loan facility entered into by Hertz and certain of its U.S. and of its Canadian subsidiaries in connection with the Acquisition with a maximum borrowing capacity of \$1,600.0 million (which was increased in February 2007 to \$1,800.0 million and was decreased in September 2008 to \$1,785.0 million). Up to \$200.0 million of the revolving loan facility is available for the issuance of letters of credit. The Senior ABL Facility matures in February 2012. We refer to the Senior Term Facility and the Senior ABL Facility together as the "Senior Credit Facilities."

Our "Senior Dollar Notes" are the \$1,800.0 million aggregate principal amount of 8.875% Senior Notes due January 2014 issued by Hertz in connection with the Acquisition. Our "Senior Euro Notes" are the €225 million aggregate principal amount of 7.875% Senior Notes due January 2014 issued by Hertz in connection with the Acquisition. We refer to the Senior Dollar Notes and the Senior Euro Notes together as the "Senior Notes." Our "Senior Subordinated Notes" refer to the \$600.0 million aggregate principal amount of 10.5% Senior Subordinated Notes due January 2016 issued by Hertz in connection with the Acquisition.

Our "Promissory Notes" consist of the outstanding untendered senior notes issued under three separate indentures existing prior to the Acquisition. These senior notes have remaining maturities ranging from March 2009 to January 2028.

Our "U.S. Fleet Debt" consists of approximately \$4,300.0 million of asset-backed securities issued on the Closing Date by Hertz Vehicle Financing LLC, or "HVF," a special purpose entity wholly-owned by us, backed by our U.S. car rental fleet, all of which we issued under our existing asset-backed notes program, or the "ABS Program." An additional \$600.0 million of issued asset-backed medium term notes that were issued prior to the Closing Date, or "Pre-Acquisition ABS Notes," having maturities from May 2007 to May 2009 remained outstanding under the ABS Program following the Closing Date (\$430.0 million of which have subsequently matured). We have also issued approximately \$1,500 million of variable funding notes on the Closing Date in two series under these facilities, none of which were funded on the Closing Date. The current capacity is \$1,450.0 million. We also issued \$825.0 million of 2008-1 Variable Funding Rental Car Asset-Backed Notes, or the "Series 2008-1 Notes," on September 12, 2008, which as of September 30, 2008 had not been funded. The U.S. Fleet Debt facilities have maturities ranging from February 2009 to November 2010.

Our "International Fleet Debt" consists of the aggregate borrowings of our foreign subsidiaries under asset-based revolving loan facilities entered into by Hertz International Ltd, or "HIL," a Delaware corporation organized as a foreign subsidiary holding company and a direct subsidiary of Hertz, and certain of its subsidiaries (all of which are organized outside the United States), together with certain

**HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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bankruptcy-remote special purpose entities, subject to borrowing bases comprised of rental vehicles, rental equipment, and related assets of certain of our foreign subsidiaries (substantially all of which are organized outside of the United States) or one or more special purpose entities, as the case may be. The subsidiaries conducting the car rental business in certain European jurisdictions may, at their option, continue to engage in capital lease financings relating to revenue earning equipment outside the International Fleet Debt facilities. In 2007 and 2008, additional borrowers consented to the senior bridge facility agreement under the International Fleet Debt facilities in connection with the expected take-out of the interim facilities entered into at the time of the Acquisition. The International Fleet Debt matures in December 2010.

Our "Fleet Financing Facility" is a credit agreement entered into by Hertz and its subsidiary, Puerto Ricancars, Inc., or "PR Cars," in September 2006, which provides for a commitment of up to \$275.0 million to finance the acquisition of Hertz's and/or PR Cars fleet in Hawaii, Kansas, Puerto Rico and St. Thomas, the U.S. Virgin Islands. The Fleet Financing Facility matures in December 2011, but Hertz and PR Cars may terminate or reduce the commitments of the lenders thereunder at any time.

Our "Brazilian Fleet Financing Facility" refers to the agreement dated April 4, 2007 amending and restating our Brazilian subsidiary's credit facility (which was originally included under the International Fleet Debt facilities) to, among other things, increase the facility to R\$130 million (or \$67.8 million, calculated using exchange rates in effect on September 30, 2008) consisting of a R\$70 million (or \$36.5 million) term loan facility and a R\$60 million (or \$31.3 million) revolving credit facility. This facility matures in December 2010.

Our "Canadian Fleet Financing Facility" refers to a Note Purchase Agreement entered into by our indirect subsidiary, Hertz Canada Limited, and certain of its subsidiaries, on May 30, 2007, with CARE Trust, a third-party special purpose commercial paper conduit administered by Bank of Montreal, or "CARE Trust," which acts as conduit for the asset-backed borrowing facility, and certain related agreements and transactions, in order to establish an asset-backed borrowing facility to provide financing for our Canadian car rental fleet. The new facility refinanced the Canadian portion of the International Fleet Debt facilities. The maximum amount which may be borrowed under the new facility is CAN\$400 million (or \$382.0 million). The Canadian Fleet Facility matures in May 2012.

Our "Belgian Fleet Financing Facility" consists of a secured revolving credit facility entered into by our Belgian subsidiary, Hertz Belgium BVBA on June 21, 2007, with varying facility limits of up to €25.4 million (or \$36.2 million). This facility refinanced the Belgian portion of our International Fleet Debt facilities. The facility is scheduled to mature in December 2010.

Our "U.K. Leveraged Financing" consists of an agreement for a sale and leaseback facility entered into with a financial institution in the United Kingdom, or the "U.K.," by our subsidiary in the U.K., Hertz (U.K.) Limited, on December 21, 2007, under which we may sell and lease back fleet up to the value of £175.0 million (or \$316.5 million). The amount available under this facility increases over the term of the facility. This facility refinanced the U.K. portion of the International Fleet Debt facilities. The facility is scheduled to mature in December 2013.

Our "International ABS Fleet Financing Facility" consists of a multi jurisdictional fleet financing initially covering Australia, France and the Netherlands. The maximum commitment under (i) the Euro denominated financing is €632.0 million (or \$901.0 million) and (ii) the Australian dollar denominated financing is A\$325.0 million (or \$262.0 million). The expected maturity date is in December 2010.

## HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	September 30, 2008	December 31, 2007
<i>Corporate Debt</i>		
Senior Term Facility, average interest rate: 2008, 4.2%; 2007, 6.9% (effective average interest rate: 2008, 4.2%; 2007, 7.0%); net of unamortized discount: 2008, \$19,819; 2007, \$23,350	\$ 1,355,864	\$ 1,362,702
Senior ABL Facility, average interest rate: 2008, 4.8%; 2007, 6.0% (effective average interest rate: 2008, 4.9%; 2007, 6.6%); net of unamortized discount: 2008, \$15,226; 2007, \$19,086	575,352	191,803
Senior Notes, average interest rate: 2008, 8.7%; 2007, 8.7%	2,120,695	2,131,370
Senior Subordinated Notes, average interest rate: 2008, 10.5%; 2007, 10.5%	600,000	600,000
Promissory Notes, average interest rate: 2008, 7.2%; 2007, 7.1% (effective average interest rate: 2008, 7.3%; 2007, 7.2%); net of unamortized discount: 2008, \$4,226; 2007, \$5,102	461,112	509,443
Notes payable, average interest rate: 2008, 5.6%; 2007, 5.5%	9,709	1,942
Foreign subsidiaries' debt denominated in foreign currencies:		
Short-term bank borrowings, average interest rate: 2008, 3.8%; 2007, 13.2%	75,467	1,082
Other borrowings, average interest rate: 2008, 4.9%; 2007, 6.0%	6,552	4,516
<b>Total Corporate Debt</b>	<b>5,204,751</b>	<b>4,802,858</b>
<i>Fleet Debt</i>		
U.S. Fleet Debt and pre-Acquisition ABS Notes, average interest rate: 2008, 4.4%; 2007, 4.5% (effective average interest rate: 2008, 4.4%; 2007, 4.5%); net of unamortized discount: 2008, \$9,214; 2007, \$3,991	4,745,786	4,603,509
International Fleet Debt, average interest rate: 2008, 6.7%; 2007, 6.1% (effective average interest rate: 2008, 6.7%; 2007, 6.1%); net of unamortized discount: 2008, \$184; 2007, \$279	1,377,664	1,912,386
Fleet Financing Facility, average interest rate: 2008, 4.1%; 2007, 6.3% (effective average interest rate: 2008, 4.2%; 2007, 6.3%); net of unamortized discount: 2008, \$1,313; 2007, \$1,641	154,187	170,359
Brazilian Fleet Financing Facility, average interest rate: 2008, 11.7%; 2007, 13.2%	66,169	62,907
Canadian Fleet Financing Facility, average interest rate: 2008, 3.8%; 2007, 5.8%	268,724	155,391
Belgian Fleet Financing Facility, average interest rate: 2008, 5.8%; 2007, 6.2%	36,203	30,044
U.K. Leveraged Financing, average interest rate: 2008, 5.9%; 2007, 4.0%	278,826	222,672
International ABS Fleet Financing Facility, average interest rate: 2008, 7.1%; 2007, N/A (effective average interest rate: 2008, 7.2%; 2007, N/A); net of unamortized discount: 2008, \$3,788; 2007, N/A	711,868	
<b>Total Fleet Debt</b>	<b>7,639,427</b>	<b>7,157,268</b>
<b>Total Debt</b>	<b>\$ 12,844,178</b>	<b>\$ 11,960,126</b>

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The aggregate amounts of maturities of debt for each of the twelve-month periods ending September 30 (in millions of dollars) are as follows:  
2009, \$5,109.4 (including \$3,967.6 of other short-term borrowings,

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of which \$3,892.1 were under long-term committed credit facilities); 2010, \$2,431.3; 2011, \$1,035.3; 2012, \$176.4; 2013, \$1,375.8; after 2013, \$2,769.8.

Our short-term borrowings as of September 30, 2008 includes, among other items, the amounts outstanding under our Senior ABL Facility, International Fleet Debt facility, International ABS Fleet Financing Facility, Fleet Financing Facility, Brazilian Fleet Financing Facility, Canadian Fleet Financing Facility, Belgian Fleet Financing Facility and our U.K. Leveraged Financing facility. These amounts are considered short term in nature since they have maturity dates of three months or less; however these facilities are revolving in nature and do not permanently expire at the time of the short term debt maturity. In addition, we include certain scheduled payments of principal under our ABS Program as short-term borrowings.

As of September 30, 2008, there were outstanding standby letters of credit totaling \$548.9 million. Of this amount, \$334.0 million has been issued for the benefit of the ABS Program (\$200.0 million of which was issued by Ford and \$134.0 million of which was used under the Senior Credit Facilities) and the remainder is primarily to support self-insurance programs (including insurance policies with respect to which we have indemnified the issuers for any losses) in the United States, Canada and Europe and to support airport concession obligations in the United States and Canada. As of September 30, 2008, none of these letters of credit have been drawn upon.

As of September 30, 2008, the aggregate principal amount of \$168.7 million (net of \$1.3 million discount) of pre-Acquisition ABS Notes was outstanding and the average interest rate was 3.2%.

As of September 30, 2008, there were \$30.5 million of capital lease financings outstanding. These capital lease financings are included in the International Fleet Debt total and mature in August 2010.

*International ABS Fleet Financing Facility*

On July 24, 2008, HIL and certain of its subsidiaries entered into the "Amendment Agreement" to amend the International Fleet Debt facility. The Amendment Agreement, effective on July 24, 2008, reduced the borrowing margins on the Tranche A1 and Tranche A2 bridge loans of certain borrowers under the facility participating in the International ABS Fleet Financing Facility and provided an August 12, 2008 final maturity date for loans to HIL's Swiss subsidiary borrower. In August, we paid off the loan to HIL's Swiss subsidiary borrower and closed out the loan.

Also on July 24, 2008, HA Fleet Pty Ltd, RAC Finance SAS and Stuurgroep Fleet (Netherlands) B.V., special-purpose indirect subsidiaries of HIL, each a "FleetCo," closed on the International ABS Fleet Financing Facility, initially covering Australia, France and the Netherlands, respectively, or the "Relevant Jurisdictions."

The funds under the new fleet financing will be used to (i) initially repay in whole the FleetCos' portion of indebtedness under the International Fleet Debt facility and the FleetCos' existing inter-company borrowings related to the acquisition of vehicles and (ii) finance the acquisition of vehicles from time to time in the Relevant Jurisdictions.

International Fleet Financing No. 1 B.V, the issuer of the fleet financing, or the "Issuer," is a special purpose entity incorporated as a Dutch B.V. under the laws of the Netherlands. Of the shares of the

**HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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Issuer, 75% are held by a charitable trust and 25% are owned by Hertz Holdings Netherlands B.V., an indirect wholly-owned subsidiary of HIL.

The expected maturity date is in December 2010 (when the FleetCos' obligations to the Issuer are scheduled to come due). The maximum commitment under (i) the Euro denominated financing is €632.0 million (or \$901.0 million) and (ii) the Australian dollar denominated financing is A\$325 million (or \$262 million). On July 24, 2008, actual issuance to the French FleetCo, the Dutch FleetCo and the Australian FleetCo was €230.4 million (or \$328.4 million), €35.9 million (or \$51.2 million) and A\$151.9 million (or \$122.4 million), respectively.

*Series 2008-1 Notes*

On September 12, 2008, HVF completed the closing of a new variable funding note facility referred to as the Series 2008-1 Notes. This series is not subject to a financial guaranty, including from either MBIA or Ambac. The aggregate principal amount of such facility is not to exceed \$825.0 million and such facility is available to HVF on a revolving basis. The Series 2008-1 Notes were not funded on the closing date.

The Series 2008-1 Notes are secured primarily by, among other things, a pledge in (i) collateral owned by HVF, including substantially all of the U.S. car rental fleet that Hertz uses in its daily rental operations, a portion of which is subject to repurchase programs with vehicle manufacturers, (ii) the related manufacturer receivables, (iii) all rights of HVF under a lease agreement between Hertz and HVF relating to such U.S. car rental fleet, and (iv) all monies on deposit from time to time in certain collection and cash collateral accounts and all proceeds thereof. The assets of HVF, including the U.S. car rental fleet owned by HVF, will not be available to satisfy the claims of our general creditors.

The expected final maturity date of the Series 2008-1 Notes is August 2010. The Series 2008-1 Notes bear interest at variable rates partially based upon their rating. The Series 2008-1 Notes are currently rated "A" by Standard & Poor's Ratings Services and "A2" by Moody's Investors Service and based on these ratings the borrowing spread is approximately 150 basis points higher than HVF's existing variable funding notes.

Pursuant to a note purchase agreement, HVF sold the Series 2008-1 Notes to each of Deutsche Bank AG, New York Branch, Nantucket Funding Corp. LLC, (an affiliate of Deutsche Bank AG, New York Branch), Sheffield Receivables Corporation (an affiliate of Barclays Bank PLC), and Merrill Lynch Mortgage Capital Inc. The Series 2008-1 Notes were issued pursuant to a series supplement to HVF's indenture, or the "Indenture," with The Bank of New York Mellon Trust Company, N.A., as trustee.

The Series 2008-1 Notes are subject to events of default and amortization events that are customary in nature for U.S. rental car asset-backed securitizations of this type, including non-payment of principal or interest, violation of covenants, material inaccuracy of representations or warranties, failure to maintain certain enhancement levels and insolvency or certain bankruptcy events. The occurrence of an amortization event or event of default could result in the acceleration of principal of the Series 2008-1 Notes and the liquidation of vehicles in the U.S. car rental fleet.

HVF is subject to numerous restrictive covenants under the Indenture and related agreements, including restrictive covenants with respect to liens, indebtedness, benefit plans, mergers, disposition of assets, acquisition of assets, dividends, officers compensation, investments, agreements, the types of business it may conduct and other customary covenants for a bankruptcy-remote special purpose entity.

**HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Unaudited**

Certain of the purchasers of the Series 2008-1 Notes, the administrative agent and the trustee, and their respective affiliates, have performed, and may in the future perform, various investment banking, commercial banking, and other financial advisory services for us for which they have received and will receive, customary fees and expenses, and such parties are also participants in other of our credit facilities.

***Guarantees and Security***

Hertz's obligations under the Senior Term Facility and the Senior ABL Facility are guaranteed by Hertz Investors, Inc., its immediate parent and most of its direct and indirect domestic subsidiaries (subject to certain exceptions, including for subsidiaries involved in the U.S. Fleet Debt facility and similar special purpose financings), though Hertz Equipment Rental Corporation, or "HERC," does not guarantee Hertz's obligations under the Senior ABL Facility because it is a borrower under that facility. In addition, the obligations of the Canadian borrowers under the Senior ABL Facility are guaranteed by their respective subsidiaries, if any, subject to limited exceptions. The lenders under each of the Senior Term Facility and the Senior ABL Facility have received a security interest in substantially all of the tangible and intangible assets of the borrowers and guarantors under those facilities, including pledges of the stock of certain of their respective subsidiaries, subject in each case to certain exceptions (including in respect of the U.S. Fleet Debt, the International Fleet Debt and, in the case of the Senior ABL Facility, other secured fleet financing). Consequently, these assets will not be available to satisfy the claims of Hertz's general creditors.

Hertz's obligations under the Senior Notes and Senior Subordinated Notes are guaranteed by each of its direct and indirect domestic subsidiaries that is a guarantor under the Senior Term Facility.

The U.S. Fleet Debt issued on the Closing Date has the benefit of financial guaranty insurance policies under which either MBIA Insurance Corporation or Ambac Assurance Corporation guarantee the timely payment of interest on and ultimate payment of principal of such notes. See Note 14 Fair Value Measurements.

The obligations of the borrowers under the International Fleet Debt facilities are guaranteed by HIL, and by the other borrowers and certain related entities under the applicable tranche, in each case subject to certain legal, tax, cost and other structuring considerations. The obligations and the guarantees of the obligations of the Tranche A borrowers under the Tranche A2 loans are subordinated to the obligations and the guarantees of the obligations of such borrowers under the Tranche A1 loans. Subject to legal, tax, cost and other structuring considerations and to certain exceptions, the International Fleet Debt facilities are secured by a material part of the assets of each borrower, certain related entities and each guarantor, including pledges of the capital stock of each borrower and certain related entities. The obligations of the Tranche A borrowers under the Tranche A2 loans and the guarantees thereof are secured on a junior second priority basis by any assets securing the obligations of the Tranche A borrowers under the Tranche A1 loans and the guarantees thereof. The assets that collateralize the International Fleet Debt facilities will not be available to satisfy the claims of Hertz's general creditors.

The obligations of each of the borrowers under the Fleet Financing Facility are guaranteed by each of Hertz's direct and indirect domestic subsidiaries (other than subsidiaries whose only material assets consist of securities and debt of foreign subsidiaries and related assets, subsidiaries involved in the U.S. ABS Program or other similar special purpose financings, subsidiaries with minority ownership

**HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES**

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positions, certain subsidiaries of foreign subsidiaries and certain immaterial subsidiaries). In addition, the obligations of PR Cars are guaranteed by Hertz. The obligations of Hertz under the Fleet Financing Facility and the other loan documents, including, without limitation, its guarantee of PR Cars' obligations under the Fleet Financing Facility, are secured by security interests in Hertz's rental car fleet in Hawaii and by certain assets related to Hertz's rental car fleet in Hawaii and Kansas, including, without limitation, manufacturer repurchase program agreements. PR Cars' obligations under the Fleet Financing Facility and the other loan documents are secured by security interests in PR Cars' rental car fleet in Puerto Rico and St. Thomas, the U.S. Virgin Islands and by certain assets related thereto.

The Brazilian Fleet Financing Facility is secured by our Brazilian subsidiary's fleet of vehicles and backed by a \$63.5 million Hertz guarantee.

The Canadian Fleet Financing Facility is secured by the fleet vehicles used in the Canadian operations.

The Belgian Fleet Financing Facility is guaranteed by HIL and the fleet assets used in the Belgian operations are pledged as collateral.

The U.K. Leveraged Financing facility is guaranteed by HIL.

The International ABS Fleet Financing Facility is secured by our fleet in each of the Relevant Jurisdictions. Each of the Fleetcos' portion of the facility is guaranteed by its respective Hertz vehicle rental company in each of the Relevant Jurisdictions. In certain cases, the International ABS Fleet Financing Facility is guaranteed by HIL or its subsidiary Hertz Europe Limited.

Also, substantially all of our revenue earning equipment and certain related assets are owned by special purpose entities, or are subject to liens in favor of our lenders under the Senior ABL Facility, the ABS Program, the International Fleet Debt facilities, the Fleet Financing Facility, the Brazilian Fleet Financing Facility, the Canadian Fleet Financing Facility, the Belgian Fleet Financing Facility, the U.K. Leveraged Financing and the International ABS Fleet Financing Facility. Substantially all our other assets in the United States are also subject to liens in favor of our lenders under the Senior Credit Facilities, and substantially all of our other assets outside the United States are (with certain limited exceptions) subject to liens in favor of our lenders under the International Fleet Debt facilities or (in the case of our Canadian HERC business) the Senior ABL Facility. None of such assets will be available to satisfy the claims of our general creditors.

***Covenants***

Certain of our debt instruments and credit facilities contain a number of covenants that, among other things, limit or restrict the ability of the borrowers and the guarantors to dispose of assets, incur additional indebtedness, incur guarantee obligations, prepay other indebtedness, make dividends and other restricted payments, create liens, make investments, make acquisitions, engage in mergers, change the nature of their business, make capital expenditures, or engage in certain transactions with affiliates. Some of these agreements also require the maintenance of certain financial covenants. As of September 30, 2008, we were in compliance with all of these financial covenants.



**HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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***Derivatives***

We utilize certain derivative instruments to enhance our ability to manage risk relating to cash flow and interest rate exposure. See Note 14 Fair Value Measurements.

***Credit Facilities***

As of September 30, 2008, the following credit facilities were available for the use of Hertz and its subsidiaries:

The Senior Term Facility had approximately \$25.4 million available under the letter of credit facility.

The Senior ABL Facility had the foreign currency equivalent of approximately \$1,076.9 million of remaining capacity, all of which was available under the borrowing base limitation and \$82.4 million of which was available under the letter of credit facility sublimit.

The U.S. Fleet Debt had approximately \$1,843.7 million of remaining capacity, of which \$28.8 million was available under the borrowing base limitation. No additional amounts were available under the letter of credit facility.

The International Fleet Debt facilities had the foreign currency equivalent of approximately \$515.2 million of remaining capacity, of which \$115.1 million was available under the borrowing base limitation.

The Fleet Financing Facility had approximately \$120.8 million of remaining capacity, of which none was available under the borrowing base limitation.

The Brazilian Fleet Financing Facility had the foreign currency equivalent of approximately \$1.0 million of remaining capacity, of which none was available under the borrowing base limitation.

The Canadian Fleet Financing Facility had the foreign currency equivalent of approximately \$113.3 million of remaining capacity, of which none was available under the borrowing base limitation.

The Belgian Fleet Financing Facility had no remaining capacity.

The U.K. Leveraged Financing facility had the foreign currency equivalent of approximately \$1.5 million of remaining capacity, of which none was available under the borrowing base limitation.

The International ABS Fleet Financing Facility had the foreign currency equivalent of approximately \$183.7 million of remaining capacity, of which \$132.9 million was available under the borrowing base limitation.

As noted above, subject to borrowing base limitations, we had \$2,779.2 million available under our various fleet financing facilities and \$1,076.9 million available under our various corporate debt facilities.

As of September 30, 2008, substantially all of our assets were pledged under one or more of the facilities noted above. As of September 30, 2008 and December 31, 2007, accrued interest was \$84.2 million and



## HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

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\$138.3 million, respectively, which is reflected in our condensed consolidated balance sheet in "Accrued liabilities."

**Note 8 Employee Retirement Benefits**

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

**Three Months Ended September 30,**

	<b>Pension Benefits</b>				<b>Post-retirement Benefits (U.S.)</b>	
	<b>U.S.</b>		<b>Non-U.S.</b>		<b>2008</b>	<b>2007</b>
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>		
<b>Components of Net Periodic Benefit Cost:</b>						
Service cost	\$ 5.0	\$ 5.8	\$ 1.6	\$ 2.9	\$	\$ 0.1
Interest cost	6.6	6.5	2.1	2.7	0.1	0.2
Expected return on plan assets	(6.2)	(6.5)	(2.3)	(2.9)		
Net amortizations	(0.3)	0.1	(0.1)		(2.6)	
Settlement/curtailment (gain) loss	0.2	1.5				(0.1)
<b>Net pension/postretirement expense</b>	<b>\$ 5.3</b>	<b>\$ 7.4</b>	<b>\$ 1.3</b>	<b>\$ 2.7</b>	<b>\$ (2.5)</b>	<b>\$ 0.2</b>

**Nine Months Ended September 30,**

	<b>Pension Benefits</b>				<b>Post-retirement Benefits (U.S.)</b>	
	<b>U.S.</b>		<b>Non-U.S.</b>		<b>2008</b>	<b>2007</b>
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>		
<b>Components of Net Periodic Benefit Cost:</b>						
Service cost	\$ 18.0	\$ 19.4	\$ 5.9	\$ 8.2	\$ 0.1	\$ 0.3
Interest cost	20.3	18.9	7.5	7.7	0.5	0.7
Expected return on plan assets	(18.5)	(19.3)	(8.3)	(8.2)		
Net amortizations	0.2	0.2	(0.5)		(2.8)	(0.1)
Settlement/curtailment (gain) loss	2.5	1.2		(0.1)		0.1
<b>Net pension/postretirement expense</b>	<b>\$ 22.5</b>	<b>\$ 20.4</b>	<b>\$ 4.6</b>	<b>\$ 7.6</b>	<b>\$ (2.2)</b>	<b>\$ 1.0</b>

Our policy for funded plans is to contribute annually, at a minimum, amounts required by applicable laws, regulations and union agreements. From time to time, we make contributions beyond those legally required. In the three months ended September 30, 2008, a contribution of \$1.5 million was made to the Cash Balance Plan for the 2007 plan year. For the three and nine months ended September 30, 2008, we contributed \$9.7 million and \$29.6 million, respectively, to our funded worldwide pension plans, including discretionary contributions of \$4.9 million and \$7.2 million, respectively, to our U.K. defined benefit pension plan and benefit payments made through unfunded plans.

We participate in various "multiemployer" pension plans administered by labor unions representing some of our employees. We make periodic contributions to these plans to allow them to meet their pension benefit obligations to their participants. In the event that we withdraw from participation in one of these plans, applicable law could require us to make an additional lump-sum contribution to the plan, and we would have to reflect that as an expense in our consolidated statement of operations and as a liability on our condensed consolidated balance sheet. Our withdrawal liability for any multiemployer



**HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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plan would depend on the extent of the plan's funding of vested benefits. In the ordinary course of our renegotiation of collective bargaining agreements with labor unions that maintain these plans, we could decide to discontinue participation in a plan, and in that event we could face a withdrawal liability. Some multiemployer plans, including one in which we participate, are reported to have significant underfunded liabilities. Such underfunding could increase the size of our potential withdrawal liability.

**Note 9 Stock-based Compensation**

In February 2008, we granted options to acquire 2,481,440 shares of our common stock to key executives, employees and non-management directors at exercise prices ranging from \$12.74 to \$12.97 under the Hertz Global Holdings Inc. Stock Incentive Plan, or the "Stock Incentive Plan," and the Hertz Global Holdings Inc. Director Stock Incentive Plan, or the "Director Plan." These options are subject to and governed by the terms of the Stock Incentive Plan and the Director Plan.

On February 28, 2008, our Board of Directors adopted the Hertz Global Holdings, Inc. 2008 Omnibus Incentive Plan, or the "Omnibus Plan", which was approved by our stockholders at the annual meeting of stockholders held on May 15, 2008. The Omnibus Plan provides for grants of both equity and cash awards, including non-qualified stock options, incentive stock options, stock appreciation rights, performance awards (shares and units), restricted stock, restricted stock units and deferred stock units to key executives, employees and non-management directors.

The Omnibus Plan provides that no further awards will be granted pursuant to the Stock Incentive Plan and the Director Plan, or the "Prior Plans." However, awards that had been previously granted pursuant to the Prior Plans will continue to be subject to and governed by the terms of the Prior Plans. As of September 30, 2008, there were 15.2 million shares of our common stock underlying such outstanding awards.

In addition to the 15.2 million shares underlying outstanding awards as of September 30, 2008, we had 16.6 million shares of our common stock available for issuance under the Omnibus Plan. The shares of common stock to be delivered under the Omnibus Plan may consist, in whole or in part, of common stock held in treasury or authorized but unissued shares of common stock, not reserved for any other purpose.

Shares subject to any award granted under the Omnibus Plan that for any reason are canceled, terminated, forfeited, settled in cash or otherwise settled without the issuance of common stock after the effective date of the Omnibus Plan will generally be available for grant under the Omnibus Plan.

All stock options and stock appreciation rights granted under the Omnibus Plan will have a per-share exercise price no less than fair market value of one share of Hertz Holdings common stock on the grant date. Stock options and stock appreciation rights will vest based on a minimum period of service or the occurrence of events (such as a change in control, as defined in the Omnibus Plan) specified by the compensation committee. No stock options or stock appreciation rights will be exercisable after ten years from the grant date. The compensation committee may accelerate the vesting of an option or stock appreciation right at any time. In addition, vesting of options and stock appreciation rights will be accelerated if Hertz Holdings experiences a change in control (as defined in the Omnibus Plan) unless options or stock appreciation rights with substantially equivalent terms and economic value are substituted for existing options and stock appreciation rights in place of accelerated vesting. Vesting of options and stock appreciation rights will also be accelerated in the event of an employee's death or disability (as defined in the Omnibus Plan). Upon a termination for cause (as defined in the Omnibus

**HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES**

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Plan), all options and stock appreciation rights held by the employee are immediately cancelled. Following a termination without cause, vested options and stock appreciation rights will generally remain exercisable through the earliest of the expiration of their term or 30 days following termination of employment (one year in the case of death or disability).

Performance stock, performance stock units and performance units granted under the Omnibus Plan will vest based on the achievement of pre-determined performance goals over performance periods determined by the compensation committee. In the event of an employee's death or disability, a pro rata portion of the employee's performance stock, performance stock units and performance units will vest to the extent performance goals are achieved at the end of the performance period. Upon a termination of employment or for any other reason, all outstanding performance stock, performance stock units and performance units held by the employee are immediately canceled.

Restricted stock and restricted stock units granted under the Omnibus Plan will vest based on a minimum period of service or the occurrence of events (such as a change in control, as defined in the Omnibus Plan) specified by the compensation committee. Upon a termination of employment for any reason, any unvested restricted stock or restricted stock units of the employee will be canceled.

Each deferred stock unit granted under the Omnibus Plan represents the right to receive one share of Hertz Holdings' common stock on a specified future date. Generally, upon a participant's termination of employment other than for cause, Hertz Holdings will issue one share of common stock to the participant for each deferred stock unit the participant then holds.

In May 2008, we granted options to acquire 209,748 shares of our common stock to non-management directors or their assignees at an exercise price of \$14.21. These options are subject to and governed by the terms of the Omnibus Plan.

In August 2008, we granted options to acquire 861,300 shares of our common stock to key executives, employees and non-management directors at an exercise price of \$8.61 under the Omnibus Plan.

We have accounted for our employee stock-based compensation awards in accordance with SFAS No. 123R, "Share-Based Payment." The options are being accounted for as equity-classified awards.

For the three and nine months ended September 30, 2008, we recognized compensation cost of approximately \$6.8 million (\$4.2 million, net of tax) and \$20.3 million (\$12.5 million, net of tax), respectively for options granted pursuant to our Prior Plans and the Omnibus Plan. As of September 30, 2008, there was approximately \$72.0 million of total unrecognized compensation cost related to non-vested stock options granted by Hertz Holdings under the Prior Plans and Omnibus Plan, including costs related to modifying the exercise prices of certain option grants in order to preserve the intrinsic value of the options, consistent with applicable tax law, to reflect special cash dividends of \$4.32 per share paid on June 30, 2006 and \$1.12 per share paid on November 21, 2006. These remaining costs are expected to be recognized over the remaining 1.8 years, on a weighted average basis, of the requisite service period that began on the grant dates.

**Note 10 Segment Information**

We follow SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," which requires companies to disclose segment data based on how management makes decisions about allocating resources to segments and measuring their performance.

Our operating segments are aggregated into reportable business segments based primarily upon similar economic characteristics, products, services, customers, and delivery methods. We have identified two reportable segments: rental of cars and light trucks, or "car rental," and rental of industrial, construction and material handling equipment, or "equipment rental."

## HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Unaudited

Adjusted pre-tax income (loss) is the measure utilized by management in making decisions about allocating resources to segments and measuring their performance. We believe this measure best reflects the financial results from ongoing operations. Adjusted pre-tax income (loss) is calculated as income (loss) before income taxes and minority interest plus other reconciling items, non-cash purchase accounting charges, non-cash debt charges relating to the amortization of deferred debt financing costs and debt discounts and certain one-time charges and non-operational items. The contribution of our reportable segments to revenues and adjusted pre-tax income and the reconciliation to consolidated amounts for the three and nine months ended September 30, 2008 and 2007 are summarized below (in millions of dollars).

	<b>Three Months Ended September 30,</b>			
	<b>Revenues</b>		<b>Adjusted Pre-Tax</b>	
	<b>2008</b>	<b>2007</b>	<b>Income</b>	<b>2007</b>
	2008	2007	2008	2007
Car rental	\$ 1,986.5	\$ 1,982.2	\$ 167.1	\$ 301.1
Equipment rental	433.1	464.9	81.1	109.2
<b>Total reportable segments</b>	<b>2,419.6</b>	<b>2,447.1</b>	<b>248.2</b>	<b>410.3</b>
Other	2.3	2.5		
<b>Total</b>	<b>\$ 2,421.9</b>	<b>\$ 2,449.6</b>		
Adjustments:				
Other reconciling items <sup>(a)</sup>			(79.1)	(75.4)
Purchase accounting <sup>(b)</sup>			(25.2)	(23.3)
Non-cash debt charges <sup>(c)</sup>			(20.2)	(34.8)
Restructuring charges			(74.9)	(16.1)
Restructuring related charges <sup>(d)</sup>			(10.1)	
Management transition costs				(7.8)
Unrealized loss on derivatives <sup>(e)</sup>			(15.0)	(7.0)
Vacation accrual adjustment <sup>(f)</sup>			2.5	9.2
<b>Income before income taxes and minority interest</b>			<b>\$ 26.2</b>	<b>\$ 255.1</b>

## HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Unaudited

	Nine Months Ended September 30,			
	Revenues		Adjusted Pre-Tax Income	
	2008	2007	2008	2007
Car rental	\$5,442.8	\$5,252.2	\$ 355.8	\$ 480.9
Equipment rental	1,287.4	1,287.8	225.9	271.5
Total reportable segments	6,730.2	6,540.0	581.7	752.4
Other	6.1	6.8		
Total	\$6,736.3	\$6,546.8		
Adjustments:				
Other reconciling items <sup>(a)</sup>			(240.9)	(244.2)
Purchase accounting <sup>(b)</sup>			(74.4)	(69.0)
Non-cash debt charges <sup>(c)</sup>			(56.4)	(87.3)
Restructuring charges			(127.2)	(65.4)
Restructuring related charges <sup>(d)</sup>			(21.0)	
Management transition costs			(1.3)	(11.0)
Unrealized gain (loss) on derivatives <sup>(e)</sup>			(12.0)	3.2
Realized gain on derivatives <sup>(e)</sup>			14.8	
Vacation accrual adjustment <sup>(f)</sup>				28.8
Secondary offering costs				(2.0)
Income before income taxes and minority interest			\$ 63.3	\$ 305.5

(a) 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.

(b) Represents the purchase accounting effects of the Acquisition and any subsequent acquisitions 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.

(c) Represents non-cash debt charges relating to the amortization of deferred debt financing costs and debt discounts. For the three and nine months ended September 30, 2008, also includes \$2.8 million and \$7.8 million, respectively, associated with the ineffectiveness of the HVF swaps. For the three and nine months ended September 30, 2007, also includes \$17.7 million associated with the ineffectiveness of the HVF swaps. Additionally, in the nine months ended September 30, 2007, includes the write off of \$16.2 million of unamortized debt costs associated with a debt modification.



- (d) Represents incremental, one-time costs incurred directly supporting our business transformation initiatives. Such costs include transition costs incurred in connection with our business process outsourcing arrangements and incremental costs incurred to facilitate business process re-engineering initiatives that involve significant organization redesign and extensive operational process changes.
- (e) Represents unrealized gains and losses and a realized gain on interest rate swaptions.
- (f) Represents increases and decreases in the employee vacation accrual relating to a change in our U.S. vacation policy in 2007 which provides for vacation entitlement to be earned ratably throughout the year versus the previous policy which provided for full vesting on January 1 of each year.

The increase in total assets from December 31, 2007 to September 30, 2008 in our condensed consolidated balance sheet was primarily due to increases in revenue earning vehicles in our car rental segment and receivables, partly offset by decreases in revenue earning equipment in our equipment rental segment and restricted cash.

**HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Unaudited**

**Note 11 Comprehensive Income (Loss)**

Accumulated other comprehensive income as of September 30, 2008 and December 31, 2007 primarily includes accumulated translation gains of \$147.8 million and \$217.9 million, respectively, changes in unrecognized net periodic pension and postretirement costs of \$6.8 million and \$26.1 million, respectively, partly offset by unrealized losses on cash flow hedges of \$51.4 million and \$45.6 million, respectively, and unrealized losses on our Euro-denominated debt of \$21.3 million and \$27.8 million, respectively.

Comprehensive income (loss) for the three and nine months ended September 30, 2008 and 2007 was as follows (in thousands of dollars):

<b>Three Months Ended September 30, 2008      2007</b>	
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