

HERTZ GLOBAL HOLDINGS INC
Form 10-Q
August 10, 2015
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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 June 30, 2015

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)

999 Vanderbilt Beach Road - 3rd Floor

Naples, Florida 34108

(239) 552-5800

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

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

Large accelerated filer Accelerated filer Non-accelerated filer 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

As of August 02, 2015, 459,115,078 shares of the registrant's common stock, par value \$0.01 per share, were outstanding.

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

EXPLANATORY NOTE

As described in additional detail in the Explanatory Note to our Annual Report on Form 10-K for the year ended December 31, 2014 (the "2014 Form 10-K"), during the preparation of our Form 10-Q for the first quarter of 2014, misstatements were identified in our previous financial statements relating to the capitalization and timing of depreciation for certain non-fleet assets, allowances for doubtful accounts in Brazil, as well as other items. These misstatements, in combination with misstatements previously identified in the revision included in our 2013 10-K/A related to vehicle vendor allowances for marketing and misstatements related to the Brazil operations, resulted in the Audit Committee of our Board of Directors (the "Audit Committee" and the "Board"), in consultation with our management, concluding on June 3, 2014 that our financial statements for 2011 should no longer be relied upon, and would require restatement.

On November 10, 2014, the Audit Committee, in consultation with our management, concluded that additional proposed adjustments arising out of the review were material to our 2012 and 2013 financial statements and that, as a result, our 2012 and 2013 financial statements also would require restatement. Those restated financial statements are included in Item 8 of the 2014 Form 10-K.

Due to the length of the review of our historical financial statements, we were unable to file the 2014 Form 10-K until July 16, 2015. In the 2014 Form 10-K we restated our financial statements for the years ended December 31, 2012 and 2013, including the 2013 interim periods. In addition, we also included restated unaudited selected financial data for the year ended December 31, 2011. We also included in the 2014 Form 10-K the financial data for the three and six months ended June 30, 2014 and management's discussion and analysis for the quarterly period then ended that would typically be disclosed in a Form 10-Q. We have not, and do not intend to file our Quarterly Report on Form 10 Q for the quarterly period ended June 30, 2014.

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES
PART I—FINANCIAL INFORMATION
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

Unaudited

(In millions, except par value)

	June 30, 2015	December 31, 2014	
ASSETS			
Cash and cash equivalents	\$537	\$490	
Restricted cash and cash equivalents	421	571	
Receivables, net of allowance of \$73 and \$67, respectively	1,390	1,597	
Inventories, net	75	67	
Prepaid expenses and other assets	938	917	
Revenue earning equipment:			
Cars	16,393	14,622	
Less accumulated depreciation - cars	(3,004	) (3,411)
Equipment	3,781	3,613	
Less accumulated depreciation - equipment	(1,174	) (1,171)
Revenue earning equipment, net	15,996	13,653	
Property and other equipment:			
Land, buildings and leasehold improvements	1,364	1,268	
Service equipment and other	1,072	1,148	
Less accumulated depreciation	(1,129	) (1,094)
Property and other equipment, net	1,307	1,322	
Other intangible assets, net	3,945	4,009	
Goodwill	1,360	1,359	
Total assets	\$25,969	\$23,985	
LIABILITIES AND EQUITY			
Accounts payable	\$1,431	\$1,008	
Accrued liabilities	1,128	1,148	
Accrued taxes, net	102	134	
Debt	17,682	15,993	
Public liability and property damage	384	385	
Deferred taxes on income, net	2,855	2,853	
Total liabilities	23,582	21,521	
Commitments and contingencies			
Equity:			
Preferred Stock, \$0.01 par value, 200 shares authorized, no shares issued and outstanding	—	—	
Common Stock, \$0.01 par value, 2,000 shares authorized, 463 and 463 shares issued and 459 and 459 shares outstanding	5	5	
Additional paid-in capital	3,330	3,325	
Accumulated deficit	(711) (664)

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Accumulated other comprehensive income (loss)	(150) (115)
	2,474	2,551	
Treasury Stock, at cost, 4 shares and 4 shares	(87) (87)
Total equity	2,387	2,464	
Total liabilities and equity	\$25,969	\$23,985	

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

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Table of ContentsHERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

Unaudited

(In millions, except per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Revenues:				
Worldwide car rental	\$2,171	\$2,304	\$4,127	\$4,343
Worldwide equipment rental	375	384	730	743
All other operations	146	142	288	280
Total revenues	2,692	2,830	5,145	5,366
Expenses:				
Direct operating	1,505	1,594	2,913	3,037
Depreciation of revenue earning equipment and lease charges, net	696	708	1,403	1,434
Selling, general and administrative	295	264	560	541
Interest expense, net	156	164	310	320
Other (income) expense, net	(10)	(21)	(4)	(24)
Total expenses	2,642	2,709	5,182	5,308
Income (loss) before income taxes	50	121	(37)	58
(Provision) benefit for taxes on income (loss)	(27)	(49)	(10)	(56)
Net income (loss)	\$23	\$72	\$(47)	\$2
Weighted average shares outstanding:				
Basic	459	452	459	450
Diluted	461	465	459	457
Earnings (loss) per share:				
Basic	\$0.05	\$0.16	\$(0.10)	\$—
Diluted	\$0.05	\$0.15	\$(0.10)	\$—

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

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Unaudited

(In millions)

	Three Months Ended		Six Months Ended		
	June 30, 2015	2014	June 30, 2015	2014	
Net income (loss)	\$23	\$72	\$(47)	) \$2	
Other comprehensive income (loss):					
Foreign currency translation adjustments	9	21	(39)	) 18	
Unrealized holding gains (losses) on securities	—	—	—	(14))
Reclassification of net unrealized gains on securities to prepaid expense and other assets	—	(7)	) —	(7))
Reclassification from other comprehensive income (loss) to selling, general and administrative expense for amortization of actuarial losses on defined benefit pension plans	4	(1)	) 6	(1))
Total other comprehensive income (loss) before income taxes	13	13	(33)	) (4))
Income tax (provision) benefit related to items of other comprehensive income (loss)	(2)	) (1)	) (2)	) (2))
Total other comprehensive income (loss)	11	12	(35)	) (6))
Total comprehensive income (loss)	\$34	\$84	\$(82)	) \$(4))

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWSUnaudited
(In millions)

	Six Months Ended June 30,	
	2015	2014
Cash flows from operating activities		
Net income (loss)	\$(47	) \$2
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation of revenue earning equipment, net	1,367	1,393
Depreciation and amortization, non-fleet	169	180
Amortization and write-off of deferred financing costs	31	27
Amortization and write-off of debt discount (premium)	(2	) (2
Stock-based compensation charges	9	13
Provision for receivables allowance	35	32
Deferred taxes on income	11	21
Impairment charges and asset write-downs	20	10
Other	(4	) (4
Changes in assets and liabilities		
Receivables	(164	) (284
Inventories, prepaid expenses and other assets	(42	) (51
Accounts payable	57	32
Accrued liabilities	24	(2
Accrued taxes	(23	) 7
Public liability and property damage	10	28
Net cash provided by (used in) operating activities	1,451	1,402
Cash flows from investing activities		
Net change in restricted cash and cash equivalents	144	143
Revenue earning equipment expenditures	(7,991	) (5,996
Proceeds from disposal of revenue earning equipment	4,909	3,717
Capital asset expenditures, non-fleet	(170	) (151
Proceeds from disposal of property and other equipment	47	45
Acquisitions, net of cash acquired	(95	) (6
Net cash provided by (used in) investing activities	(3,156	) (2,248

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

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)Unaudited
(In millions)

	Six Months Ended	
	June 30,	
	2015	2014
Cash flows from financing activities		
Proceeds from issuance of long-term debt	1,069	414
Repayments of long-term debt	(1,032	) (97
Short-term borrowings:		
Proceeds	383	269
Payments	(258	) (369
Proceeds under the revolving lines of credit	5,307	2,779
Payments under the revolving lines of credit	(3,688	) (2,017
Payment of financing costs	(8	) (6
Other	(4	) 4
Net cash provided by (used in) financing activities	1,769	977
Effect of foreign exchange rate changes on cash and cash equivalents	(17	) (2
Net increase (decrease) in cash and cash equivalents during the period	47	129
Cash and cash equivalents at beginning of period	490	411
Cash and cash equivalents at end of period	\$537	\$540
Supplemental disclosures of cash information:		
Cash paid during the period for:		
Interest, net of amounts capitalized	\$291	\$272
Income taxes, net of refunds	19	33
Supplemental disclosures of non-cash information:		
Purchases of revenue earning equipment included in accounts payable and accrued liabilities	\$533	\$865
Sales of revenue earning equipment included in receivables	189	156
Purchases of property and other equipment included in accounts payable	63	52
Sales of property and other equipment included in receivables	16	8
Conversion of Convertible Senior Notes included in debt, common stock and additional paid-in capital	—	84

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

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
Unaudited

Note 1—Background

Hertz Global Holdings, Inc. ("Hertz Holdings," and together with its subsidiaries, the "Company") was incorporated in Delaware in 2005 to serve as the top-level holding company for Hertz Investors, Inc. which wholly owns The Hertz Corporation ("Hertz"), Hertz Holdings' primary operating company. The Company's common stock trades on the New York Stock Exchange under the symbol "HTZ".

In March 2014, the Company announced that its Board of Directors approved plans to separate Hertz Holdings into two independent, publicly traded companies. One of the companies will continue to operate the Hertz, Dollar, Thrifty and Firefly rental car businesses as well as Donlen; and the other will operate the Hertz Equipment Rental Corporation ("HERC"). The separation is planned to be in the form of a tax-free spin-off to Hertz Holdings' shareholders (the "HERC spin-off") and the Company expects to separate the businesses in a tax-efficient manner.

Note 2—Basis of Presentation and Recently Issued Accounting Pronouncements

Basis of Presentation

The Company prepares its unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). In the opinion of management, the unaudited condensed consolidated financial statements reflect all adjustments of a normal recurring nature that are necessary for a fair presentation of the results for the interim periods presented. Interim results are not necessarily indicative of results for a full year.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes. Actual results could differ materially from those estimates.

The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The information included in this Form 10-Q should be read in conjunction with information included in the Company's Form 10-K for the year ended December 31, 2014 filed with the U.S. Securities and Exchange Commission on July 16, 2015 (the "2014 Form 10-K").

In the 2014 Form 10-K, the Company filed its 2014 annual financial statements along with its restated annual financial statements for 2013 and 2012, as well as unaudited restated selected financial data for 2011. In lieu of filing quarterly reports on Form 10-Q for 2014, quarterly financial information and management's discussion and analysis for 2014 was included in the 2014 Form 10-K.

Principles of Consolidation

The unaudited condensed consolidated financial statements include the accounts of Hertz Holdings and its wholly and majority owned domestic and international subsidiaries. In the event that the Company is a primary beneficiary of a variable interest entity, the assets, liabilities, and results of operations of the variable interest entity are included in the Company's consolidated financial statements. The Company accounts for its investment in CAR, Inc. and other immaterial investments in joint ventures using the equity method when it has significant influence but not control and is not the primary beneficiary. All significant intercompany transactions have been eliminated in consolidation.

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

Recent Accounting Pronouncements

Adopted

Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

In April 2014, the Financial Accounting Standards Board ("FASB") issued guidance that changes the criteria for reporting discontinued operations. As a result of this guidance, only disposals of a component that represent a strategic shift that have, or will have, a major effect on the Company's operations and financial results will be reported as a discontinued operation. Expanded disclosures are required for discontinued operations and for individually significant components that do not qualify for discontinued operations reporting. The Company adopted this guidance on January 1, 2015 in accordance with the effective date. Adoption of this new guidance did not impact the Company's financial position, results of operations or cash flows.

Not yet adopted

Revenue from Contracts with Customers

In May 2014, the FASB issued guidance that will replace most existing revenue recognition guidance in U.S. GAAP. The core principle of the guidance is that an entity should recognize revenue for the transfer of goods or services equal to the amount that it expects to be entitled to receive for those goods or services. The guidance requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments. The new guidance may be adopted on either a full or modified retrospective basis. As issued, the guidance is effective for annual reporting periods beginning after December 15, 2016, including interim periods within those reporting periods. In July 2015, the FASB agreed to defer the effective date of the guidance until annual and interim reporting periods beginning after December 15, 2017. The Company is in the process of determining the method of adoption and assessing the potential impacts of adopting this guidance on its financial position, results of operations and cash flows.

Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could be Achieved after the Requisite Service Period

In June 2014, the FASB issued guidance that requires that a performance target in a share-based payment award that affects vesting and that can be achieved after the requisite service period is completed is to be accounted for as a performance condition; therefore, compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved, and the amount of compensation cost recognized should be based on the portion of the service period fulfilled. The guidance is effective either prospectively or retrospectively for annual periods beginning after December 15, 2015 and interim periods within those annual periods. The Company is in the process of determining the method of adoption and assessing the potential impacts of adopting this guidance on its financial position, results of operations and cash flows.

Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items

In January 2015, the FASB issued guidance that eliminates the concept of an event or transaction that is unusual in nature and occurs infrequently being treated as an extraordinary item. The guidance is effective for annual periods beginning after December 15, 2015 and interim periods within those annual periods. The Company has assessed the potential impacts from future adoption of this guidance and has determined that there will be no impact on its financial position, results of operations and cash flows.

Amendments to the Consolidation Analysis

In February 2015, the FASB issued guidance that changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. The new guidance may be applied using a full or modified retrospective approach. The guidance is effective for annual periods beginning after December 15, 2015 and interim periods within those annual periods. The Company is in the process of determining the method of adoption and assessing the potential impacts of adopting this guidance on its financial position, results of operations and cash flows.

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

Simplifying the Presentation of Debt Issuance Costs

In April 2015, the FASB issued guidance requiring debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. The guidance is effective retrospectively for annual periods beginning after December 15, 2015 and interim periods within those annual periods. The Company is in the process of determining the method of adoption and assessing the potential impacts of adopting this guidance on its financial condition, results of operations and cash flows.

Customer's Accounting for Fees Paid in a Cloud Computing Arrangement

In April 2015, the FASB issued guidance for customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. This new guidance is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. Adoption of this guidance is not expected to have a material impact on the Company's financial condition, results of operations or cash flows.

Note 3—Acquisitions and Divestitures

Acquisition

In February 2015, the Company acquired substantially all of the assets of certain Hertz-branded franchises, including existing fleets and contract and concession rights, for \$87 million. The franchises acquired include on airport locations in Indianapolis, South Bend and Ft. Wayne, Indiana and in Memphis, Tennessee, as well as several smaller off airport locations. The acquisition was part of a strategic decision to increase the number of Hertz-owned locations and capitalize on certain benefits of ownership not available under a franchise agreement.

The acquisition was accounted for utilizing the acquisition method of accounting where the purchase price of the reacquired franchises was allocated based on estimated fair values of the assets acquired and liabilities assumed. The excess of the purchase price over the estimated fair value of the net tangible and intangible assets acquired was recorded as goodwill. The purchase price was allocated as follows:

(In millions)	U.S. Car Rental
Revenue earning equipment	\$71
Property and other equipment	6
Other intangible assets	9
Goodwill	1
Total	\$87

Divestiture

In June 2015, the Company signed a letter of intent for the sale of its HERC France and Spain businesses. The proposed transaction includes 60 locations in France and two in Spain. The proposed transaction is subject to receipt of the requisite works council opinions, the signing of the sale agreements and obtaining required corporate and

regulatory approvals.

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
 Unaudited

Note 4—Revenue Earning Equipment

The components of revenue earning equipment, net are as follows:

(In millions)	June 30, 2015	December 31, 2014
Revenue earning equipment	\$ 19,734	\$ 17,837
Less: Accumulated depreciation	(4,060	) (4,427
	15,674	13,410
Revenue earning equipment held for sale, net	322	243
Revenue earning equipment, net	\$ 15,996	\$ 13,653

Depreciation of revenue earning equipment and lease charges, net includes the following:

(In millions)	Three Months Ended		Six Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
Depreciation of revenue earning equipment	\$ 680	\$ 685	\$ 1,355	\$ 1,353
(Gain) loss on disposal of revenue earning equipment ^(a)	(2	) 2	12	40
Rents paid for vehicles leased	18	21	36	41
Depreciation of revenue earning equipment and lease charges, net	\$ 696	\$ 708	\$ 1,403	\$ 1,434

(a) (Gain) loss on disposal of revenue earning equipment by segment is as follows:

(In millions)	Three Months Ended		Six Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
U.S. Car Rental	\$ 5	\$ 11	\$ 25	\$ 54
International Car Rental	(1	) (4	) (1	) (3
Worldwide Equipment Rental	(6	) (5	) (12	) (11
Total	\$(2	) \$ 2	\$ 12	\$ 40

Depreciation rates are reviewed on a quarterly basis based on management's ongoing assessment of present and estimated future market conditions, their effect on residual values at the time of disposal and the estimated holding periods for the fleet and equipment. Depreciation rate changes impacted the following segments:

Increase (decrease)	Three Months Ended		Six Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
U.S. Car Rental	\$ 27	\$ 37	\$ 57	\$ 76
International Car Rental	—	1	—	1
Total	\$ 27	\$ 38	\$ 57	\$ 77

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

Note 5—Debt

The Company's debt consists of the following (in millions):

Facility	Average Interest Rate at June 30, 2015	Fixed or Floating Interest Rate	Maturity	June 30, 2015	December 31, 2014
Corporate Debt					
Senior Term Facility	3.68%	Floating	3/2018	\$2,072	\$2,083
Senior ABL Facility	2.42%	Floating	3/2016 - 3/2017	547	344
Senior Notes ⁽¹⁾	6.58%	Fixed	4/2018–10/2022	3,900	3,900
Promissory Notes	7.00%	Fixed	1/2028	27	27
Other Corporate Debt	3.86%	Floating	Various	69	74
Unamortized Net (Discount) Premium (Corporate)				3	3
Total Corporate Debt				6,618	6,431
Fleet Debt					
HVF U.S. Fleet Medium Term Notes					
HVF Series 2009-2	N/A	N/A	N/A	—	404
HVF Series 2010-1 ⁽²⁾	4.23%	Fixed	2/2014–2/2018	490	490
HVF Series 2011-1 ⁽²⁾	3.51%	Fixed	3/2015–3/2017	230	414
HVF Series 2013-1 ⁽²⁾	1.68%	Fixed	8/2016–8/2018	950	950
				1,670	2,258
RCFC U.S. ABS Program					
RCFC U.S. Fleet Medium Term Notes					
RCFC Series 2011-1 Notes	N/A	N/A	N/A	—	167
RCFC Series 2011-2 Notes	N/A	N/A	N/A	—	266
				—	433
HVF II U.S. ABS Program					
HVF II U.S. Fleet Variable Funding Notes					
HVF II Series 2013-A ⁽²⁾	1.12%	Floating	10/2016	1,374	1,999
HVF II Series 2013-B ⁽²⁾	1.12%	Floating	10/2016	1,400	976
HVF II Series 2014-A ⁽²⁾	1.42%	Floating	10/2016	2,446	869
				5,220	3,844
HVF II U.S. Fleet Medium Term Notes					
HVF II Series 2015-1 ⁽²⁾	2.93%	Fixed	3/2020	780	—
				780	—
Donlen ABS Program					
HFLF Variable Funding Notes					
HFLF Series 2013-2 Notes ⁽²⁾	1.05%	Floating	9/2016	160	247
				160	247

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

Facility	Average Interest Rate at June 30, 2015	Fixed or Floating Interest Rate	Maturity	June 30, 2015	December 31, 2014
HFLF Medium Term Notes					
HFLF Series 2013-3 Notes ⁽²⁾	0.83%	Floating	9/2016–11/2016	370	500
HFLF Series 2014-1 Notes ⁽²⁾	0.71%	Floating	12/2016–3/2017	368	400
HFLF Series 2015-1 Notes ⁽²⁾	0.83%	Floating	3/2018–5/2018	289	—
				1,027	900
Other Fleet Debt					
U.S. Fleet Financing Facility	2.94%	Floating	3/2017	190	164
European Revolving Credit Facility	2.55%	Floating	10/2017	380	304
European Fleet Notes	4.375%	Fixed	1/2019	475	517
European Securitization ⁽²⁾	1.90%	Floating	10/2016	365	270
Hertz-Sponsored Canadian Securitization ⁽²⁾	1.93%	Floating	10/2016	142	105
Dollar Thrifty-Sponsored Canadian Securitization ⁽²⁾	1.95%	Floating	10/2016	61	40
Australian Securitization ⁽²⁾	3.71%	Floating	12/2016	93	112
Brazilian Fleet Financing Facility	17.55%	Floating	10/2015	9	11
Capitalized Leases	3.19%	Floating	2/2015 - 10/2017	501	364
Unamortized Net (Discount) Premium (Fleet)				(9	) (7
				2,207	1,880
Total Fleet Debt				11,064	9,562
Total Debt				\$17,682	\$15,993
N/A - Not Applicable					

(1) References to the "Senior Notes" include the series of Hertz's unsecured senior notes. Outstanding principal amounts for each such series of the Senior Notes is specified below:

(In millions)	Outstanding Principal	
Senior Notes	June 30, 2015	December 31, 2014
4.25% Senior Notes due April 2018	\$250	\$250
7.50% Senior Notes due October 2018	700	700
6.75% Senior Notes due April 2019	1,250	1,250
5.875% Senior Notes due October 2020	700	700
7.375% Senior Notes due January 2021	500	500
6.25% Senior Notes due October 2022	500	500
	\$3,900	\$3,900

Maturity reference is to the "expected final maturity date" as opposed to the subsequent "legal maturity date." The expected final maturity date is the date by which Hertz and investors in the relevant indebtedness expect the (2)relevant indebtedness to be repaid, which in the case of the HFLF Medium Term Notes was based upon various assumptions made at the time of the pricing of such notes. The legal final maturity date is the date on which the relevant indebtedness is legally due and payable.

Fleet Debt

RCFC U.S. Fleet Medium Term Notes: Rental Car Finance Corp. ("RCFC"), a bankruptcy remote, indirect, wholly-owned, special purpose subsidiary of Hertz was the issuer under the RCFC U.S. ABS Program. In 2011, RCFC issued Series 2011-1 Rental Car Asset-Backed Notes in an aggregate original principal amount of \$500 million and issued Series 2011-2 Rental Car Asset-Backed Notes in an aggregate original principal amount of \$400 million (collectively, the "RCFC U.S. Fleet Medium Term Notes"). In February 2015, the RCFC U.S. Fleet Medium Term Notes were paid in full as scheduled in accordance with their terms.

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HVF II U.S. Fleet Medium Term Notes: In April 2015, HVF II issued the Series 2015-1 Rental Car Asset-Backed Notes, Class A, Class B, and Class C, or the “HVF II Series 2015-1 Notes”, collectively, in an aggregate principal amount of \$780 million. The expected maturity of the HVF II Series 2015-1 Notes is March 2020. The HVF II Series 2015-1 Notes are comprised of \$622 million aggregate principal amount of 2.73% Rental Car Asset-Backed Notes, Class A, \$119 million aggregate principal amount of 3.52% Rental Car Asset-Backed Notes, Class B, and \$39 million aggregate principal amount of 4.35% Rental Car Asset-Backed Notes, Class C. The net proceeds from the sale of the HVF II Series 2015-1 Notes were used (i) to repay a portion of the outstanding principal amount of HVF II's Series 2013-A Notes and HVF II's Series 2014-A Notes and (ii) to make loans to HVF for HVF to acquire or refinance vehicles to be leased to the Company or DTG Operations, Inc. for use in their daily rental operations.

Capitalized Leases: In May 2015, the U.K. Leveraged Financing was amended to provide for aggregate maximum leasing capacity (subject to asset availability) of up to £300 million during the peak season and at the same time amended and increased the ongoing core facility to £250 million.

European Revolving Credit Facility: In May 2015, HHN BV amended the European Revolving Credit Facility to provide for aggregate maximum borrowings of up to €340 million during the peak season, subject to borrowing base availability, for a seasonal commitment period through December 2015.

HFLF Medium Term Notes: In June 2015, HFLF issued \$300 million in aggregate principal amount of Series 2015-1 Floating Rate Asset-Backed Notes, Class A, Class B, Class C, Class D, and Class E, or the “HFLF Series 2015-1 Notes,” collectively. The net proceeds from the issuance of the HFLF Series 2015-1 Notes were used (i) to repay a portion of amounts then-outstanding under the HFLF Series 2014-1 Notes and the HFLF Series 2013-2 Notes and (ii) to make loans to DNRS II. The HFLF Series 2015-1 Notes are floating rate and carry an interest rate based upon a spread to one-month LIBOR. An affiliate of HFLF purchased the Class E Notes, therefore, \$11 million of the obligation is eliminated in consolidation.

Borrowing Capacity and Availability

The following facilities were available to the Company as of June 30, 2015:

(In millions)	Remaining Capacity	Availability Under Borrowing Base Limitation
Corporate Debt		
Senior ABL Facility	\$1,093	\$ 1,027
Total Corporate Debt	1,093	1,027
Fleet Debt		
HVF II U.S. Fleet Variable Funding Notes	1,355	—
HFLF Variable Funding Notes	240	—
European Revolving Credit Facility	—	—
European Securitization	82	—
Hertz-Sponsored Canadian Securitization	12	—
Dollar Thrifty-Sponsored Canadian Securitization	61	—
Australian Securitization	99	—
Capitalized Leases	12	5
Total Fleet Debt	1,861	5
Total	\$2,954	\$ 1,032

As of June 30, 2015, the Senior ABL Facility had \$984 million available under the letter of credit facility sublimit, subject to borrowing base restrictions.

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Letters of Credit

As of June 30, 2015, there were outstanding standby letters of credit totaling \$676 million. Of this amount, \$662 million was issued under the Senior Term Facility and the Senior ABL Facility (together, the "Senior Credit Facilities"). As of June 30, 2015, none of these letters of credit have been drawn upon.

Cash Restrictions

Certain amounts of cash and cash equivalents are restricted for the purchase of revenue earning vehicles and other specified uses under the Fleet Debt facilities and the Like-Kind Exchange Program ("LKE Program"). As of June 30, 2015 and December 31, 2014, the portion of total restricted cash and cash equivalents that was associated with the Fleet Debt facilities was \$378 million and \$515 million, respectively. Restricted cash balances fluctuate based on the timing of purchases and sales of revenue earning vehicles and could also be impacted by the occurrence of an amortization event.

Special Purpose Entities

Substantially all of the revenue earning equipment and certain related assets are owned by special purpose entities, or are encumbered in favor of the lenders under the various credit facilities, other secured financings and asset-backed securities programs. None of such assets (including the assets owned by Hertz Vehicle Financing II LP, Hertz Vehicle Financing LLC, Rental Car Finance Corp., DNRS II LLC, HFLF, Donlen Trust and various international subsidiaries that facilitate the Company's international securitizations) are available to satisfy the claims of general creditors.

Some of these special purpose entities are consolidated variable interest entities, of which the Company is the primary beneficiary, whose sole purpose is to provide commitments to lend in various currencies subject to borrowing bases comprised of rental vehicles and related assets of certain of Hertz International, Ltd.'s subsidiaries. As of June 30, 2015 and December 31, 2014, the Company's International Fleet Financing No. 1 B.V., International Fleet Financing No. 2 B.V. and HA Funding Pty, Ltd. variable interest entities had total assets of \$549 million and \$427 million, respectively, primarily comprised of loans receivable and revenue earning equipment, and total liabilities of \$549 million and \$426 million, respectively, primarily comprised of debt.

Financial Covenant Compliance

Under the terms of the Senior Term Facility and Senior ABL Facility, the Company is not subject to ongoing financial maintenance covenants; however, under the Senior ABL Facility, failure to maintain certain levels of liquidity will subject the Company to a contractually specified fixed charge coverage ratio of not less than 1:1 for the four quarters most recently ended. As of June 30, 2015, the Company was not subject to the fixed charge coverage ratio test.

Waivers

Due to the Company's accounting restatement, investigation and remediation activities, the Company failed to file certain quarterly and annual reports and certain of its subsidiaries failed to file statutory financial statements within certain time periods set forth in the documentation of various of its (and/or its special purpose subsidiaries') financing facilities which resulted in the occurrence of various potential and/or actual defaults and potential amortization events under certain of such financing facilities.

In connection with certain refinancings consummated in October and November 2014, the Company and/or certain of its subsidiaries obtained waivers, or extensions of waivers, under certain facilities and the Australian Securitization and various counterparties in respect of derivative transactions, in each case, through June 30, 2015.

In December 2014, Hertz entered into an Amendment and Waiver (the "Amendment and Waiver") relating to the Senior Term Facility. The waiver set forth in the Amendment and Waiver defers Hertz's requirement to furnish certain financial statements within certain time periods set forth in the documentation of the Senior Term Facility, as well as waives defaults arising directly or indirectly from (1) the delay in providing such financial statements and (2) the restatement of Hertz's 2012 and 2013 financial statements. The waiver is effective with respect to the non-delivery of the subject

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financial statements through December 31, 2015, provided that after June 30, 2015 such waiver will terminate if Hertz's failure to furnish such financial statements results in Hertz being prohibited from drawing funds under the Senior ABL Facility, after giving effect to all amendments and waivers with respect to the Senior ABL Facility in effect as of such date.

The Amendment and Waiver increases the interest rates payable on the term loans and credit linked deposits during the period from December 15, 2014 through but excluding the date on which Hertz has furnished all financial statements then due to be delivered under the terms of the Senior Term Facility. During such period, (A) the Tranche B Term Loans and the Tranche B-1 Term Loans will bear interest at a floating rate measured by reference to, at Hertz's option, either (i) an adjusted LIBOR not less than 1.00% plus a borrowing margin of 3.00% per annum or (ii) an alternate base rate plus a borrowing margin of 2.00% per annum, and (B) the Tranche B-2 Term Loans will bear interest at a floating rate measured by reference to, at Hertz's option, either (i) an adjusted LIBOR not less than 0.75% plus a borrowing margin of 2.75% per annum or (ii) an alternate base rate plus a borrowing margin of 1.75% per annum. From and after the date on which Hertz has furnished all financial statements then due to be delivered under the terms of the Senior Term Facility, (A) the Tranche B Term Loans and the Tranche B-1 Term Loans will bear interest at a floating rate measured by reference to, at Hertz's option, either (i) an adjusted LIBOR not less than 1.00% plus a borrowing margin of 2.75% per annum or (ii) an alternate base rate plus a borrowing margin of 1.75% per annum, and (B) the Tranche B-2 Term Loans will bear interest at a floating rate measured by reference to, at Hertz's option, either (i) an adjusted LIBOR not less than 0.75% plus a borrowing margin of 2.25% per annum or (ii) an alternate base rate plus a borrowing margin of 1.25% per annum.

In May 2015, the Company obtained waivers from the requisite noteholders of its Senior Notes to amend and waive (the "Senior Notes Amendments and Waiver") certain provisions of the indentures pursuant to which the Senior Notes were issued (the "Senior Notes Indentures"). The Senior Notes Amendments and Waiver amend, effective as of March 30, 2014, the reporting covenant in each of the Senior Notes Indentures to eliminate any obligation for the Company (or HHN BV as applicable) to deliver to the trustee or the noteholders or file with the SEC (i) its annual report on Form 10-K for the period ended December 31, 2014 and its quarterly reports on Form 10-Q for the periods ended March 31, 2015 and June 30, 2015, in each case prior to September 30, 2015 and (ii) its quarterly reports on Form 10-Q for the periods ended March 31, 2014, June 30, 2014 and September 30, 2014. Pursuant to the Senior Notes Amendments and Waiver, holders also waived any default or event of default under the relevant Senior Notes Indenture that may occur or exist as a result of or in connection with the Company not filing any amendments to previously filed SEC reports or the failure to timely deliver to the trustee or the noteholders, or file with the SEC, the delayed SEC reports.

In May 2015, the Company and HVF obtained waivers from the requisite noteholders of the U.S. Fleet Medium Term Notes to amend and waive (the "HVF Amendments and Waiver") certain provisions of the operating lease between the Company and HVF that secures the U.S. Fleet Medium Term Notes (the "HVF Legacy Lease"). The HVF Amendments and Waiver amend the HVF Legacy Lease, effective as of March 30, 2014, to eliminate the requirement to furnish (or cause to be furnished) the quarterly reports on Form 10-Q for the periods ended March 31, 2014, June 30, 2014 and September 30, 2014 under the HVF Legacy Lease and in connection with the foregoing the noteholders waived any potential event of default or event of default under the HVF Legacy Lease that may occur or exist as a result, directly or indirectly arising out of or in connection with the failure to furnish (or cause to be furnished) such quarterly reports.

In June 2015, HHN BV obtained waivers from the requisite noteholders of its European Fleet Notes to amend and waive (the "European Fleet Notes Amendments and Waivers") certain provisions of the indenture pursuant to which the European Fleet Notes were issued (the "European Fleet Notes Indenture"). The European Fleet Notes Amendments and

Waiver amend, effective as of March 30, 2014, the reporting covenant in the European Fleet Notes Indenture to eliminate any obligation for the Company (or HHN BV as applicable) to deliver to the trustee or the noteholders or file with the SEC (i) its annual report on Form 10-K for the period ended December 31, 2014 and its quarterly reports on Form 10-Q for the periods ended March 31, 2015 and June 30, 2015, in each case prior to September 30, 2015 and (ii) its quarterly reports on Form 10-Q for the periods ended March 31, 2014, June 30, 2014 and September 30, 2014. Pursuant to the Senior Notes Amendments and Waiver, holders also waived any default or event of default under the European Fleet Notes Indenture that may occur or exist as a result of or in connection with the Company not filing any amendments to previously filed SEC reports or the failure to timely deliver to the trustee or the noteholders, or file with the SEC, the delayed SEC reports.

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In June 2015, the Company and/or certain of its subsidiaries obtained extensions of previously obtained waivers under the Senior ABL Facility, HVF II U.S. Fleet Variable Funding Notes, European Revolving Credit Facility, European Securitization, Hertz-Sponsored Canadian Securitization, Dollar Thrifty-Sponsored Canadian Securitization, Australian Securitization, U.K. Leveraged Financing, our U.S. Fleet Financing Facility, and various derivative transactions, in each case through August 31, 2015. Such lenders permanently waived any of the aforementioned events arising from the failure to file such financial information within the required time periods. The waivers also facilitated the Company filing a comprehensive annual report on Form 10-K for the period ended December 31, 2014, including audited financial statements of the Company for the year ended December 31, 2014 and unaudited financial statements of Hertz for the fiscal quarters ending March 31, 2014, June 30, 2014 and September 30, 2014, to satisfy its 2014 financial statement delivery obligations under such facilities. In addition, the lenders under such facilities have waived any of the aforementioned events that could arise from any restatement of annual and quarterly financial statements previously delivered by the Company and/or certain of its subsidiaries under such facilities.

For so long as the waivers remain effective, any potential and/or actual defaults and potential amortization events ceased to exist and were deemed to have been cured for all purposes of the related transaction documents. On July 16, 2015, the Company filed its 2014 Form 10-K and its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2015.

Note 6—Employee Retirement Benefits

Effective December 31, 2014, the Company amended the The Hertz Corporation Account Balance Defined Benefit Pension Plan to permanently discontinue future benefit accruals and participation under the plan for non-union employees. The Company also increased employer contributions under the Company's qualified 401(k) savings plan (the "401(k) Plan"). Effective January 1, 2015, eligible participants under the 401(k) Plan receive a matching employer contribution to their 401(k) Plan account equal to (i) 100% of the first 3% of employee contributions made by such participant and (ii) 50% of the next 2% of employee contributions, with the total amount of such matching employer contribution to be completely vested, subject to applicable limits under the United States Internal Revenue Code. Certain eligible participants under the 401(k) Plan also receive additional employer contribution amounts to their 401(k) Plan account depending on their years of service and age.

The following table sets forth the net periodic pension expense:

(In millions)	Pension Benefits			
	U.S.		Non-U.S.	
	Three Months Ended June 30,			
	2015	2014	2015	2014
Components of Net Periodic Benefit Cost:				
Service cost	\$1	\$6	\$—	\$1
Interest cost	7	8	2	2
Expected return on plan assets	(10)	(10)	(4)	(4)
Net amortizations	1	—	1	—
Settlement loss	1	4	—	—
Net periodic pension expense (benefit)	\$—	\$8	\$(1)	\$(1)

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(In millions)	Pension Benefits			
	U.S.		Non-U.S.	
	Six Months Ended June 30,			
	2015	2014	2015	2014
Components of Net Periodic Benefit Cost:				
Service cost	\$2	\$14	\$1	\$2
Interest cost	14	16	4	4
Expected return on plan assets	(20)	(20)	(8)	(8)
Net amortizations	2	1	1	—
Settlement loss	2	4	—	—
Net periodic pension expense (benefit)	\$—	\$15	\$(2)	\$(2)

The Company's policy for funded plans is to contribute annually, at a minimum, amounts required by applicable laws, regulations and union agreements. From time to time, the Company makes contributions beyond those legally required. The Company made no contributions to its worldwide pension plans during the three months ended June 30, 2015, and contributed \$3 million during the six months ended June 30, 2015, all of which was a discretionary contribution to the United Kingdom defined benefit pension plan (the "U.K. Plan"). For the three and six months ended June 30, 2014, the Company contributed \$8 million and \$17 million, respectively, to its worldwide pension plans. Amounts contributed during the six months ended June 30, 2014 included \$3 million of discretionary contributions to the U.K. Plan. The Company does not anticipate contributing to the worldwide pension plans during the remainder of 2015.

Note 7—Stock-Based Compensation

During the six months ended June 30, 2015, the Company granted 3,223,889 non-qualified stock options to certain executives and employees at a weighted average grant date fair value of \$7.43; 814,907 restricted stock units ("RSUs") at a weighted average grant date fair value of \$21.07 and 998,870 performance stock units ("PSUs") at a weighted average grant date fair value of \$21.34 under the Hertz Global Holdings, Inc. 2008 Omnibus Incentive Plan with vesting terms of three to five years. The stock options are subject to time-based vesting based on the participant's continued employment.

A summary of the total compensation expense and associated income tax benefits recognized under all plans, including the cost of stock options, RSUs and PSUs, is as follows:

(In millions)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Compensation expense	\$5	\$5	\$9	\$13
Income tax benefit	(2)	(2)	(3)	(5)
Total	\$3	\$3	\$6	\$8

As of June 30, 2015, there was \$58 million of total unrecognized compensation cost related to non-vested stock options, RSUs and PSUs granted by Hertz Holdings under all plans. The total unrecognized compensation cost is expected to be recognized over the remaining 2.1 years, on a weighted average basis, of the requisite service period that began on the grant dates.

Note 8—Restructuring

As part of its ongoing effort to implement a strategy of reducing operating costs, as well as the integration of Dollar Thrifty, the Company has evaluated its workforce and operations and made adjustments, including headcount reductions and business process re-engineering.

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Restructuring charges in the condensed consolidated statements of operations are as follows:

(In millions)	Three Months Ended		Six Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
By Type:				
Termination benefits	\$6	\$9	\$12	\$18
Asset write-downs	—	10	1	10
Facility closure and lease obligation costs	14	11	15	17
Other non-cash charges	(1	) —	(2) —
Total	\$19	\$30	\$26	\$45

(In millions)	Three Months Ended		Six Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
By Caption:				
Direct operating	\$14	\$20	\$16	\$26
Selling, general and administrative	5	10	10	19
Total	\$19	\$30	\$26	\$45

(In millions)	Three Months Ended		Six Months Ended	
	June 30, 2015	2014	June 30, 2015	2014
By Segment:				
U.S. Car Rental	\$14	\$13	\$16	\$18
International Car Rental	5	11	7	15
Worldwide Equipment Rental	—	—	1	3
Corporate	—	6	2	9
Total	\$19	\$30	\$26	\$45

The following table sets forth the activity affecting the restructuring accrual during the six months ended June 30, 2015. The remainder of the restructuring accrual relates to future lease obligations which will be paid over the remaining term of the applicable leases.

(In millions)	Termination Benefits	Other	Total
Balance as of January 1, 2015	\$21	\$22	\$43
Charges incurred	12	14	26
Cash payments	(15	) (10	) (25
Other non-cash changes	(1	) (3	) (4
Balance as of June 30, 2015	\$17	\$23	\$40

Note 9—Tangible Asset Impairments

In the first quarter of 2015, the Company recorded a \$3 million impairment charge to reduce the carrying value of a held for sale corporate asset to its fair market value, which is included in other (income) expense in the Company's statement of operations. The asset was sold in April 2015.

In the first quarter of 2015, the Company performed an impairment assessment of the Dollar Thrifty headquarters campus in Tulsa, Oklahoma, which the Company is currently marketing for sale, using market and income approaches to value the long-lived assets, including inputs such as expected cash flows and recent comparable transactions.

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Based on the impairment assessment, the Company recorded a charge of \$6 million which is included in selling, general and administrative expense in the Company's statement of operations.

In the first quarter of 2015, the Company recorded \$11 million in charges associated with U.S. Car Rental service equipment and assets deemed to have no future use, of which \$4 million is included in direct operating and \$7 million is included in other (income) expense in the Company's statement of operations.

During the second quarter of 2014, the Company terminated a business relationship. As a result, the Company performed an analysis of the assets associated with the terminated business relationship and wrote off the assets in the amount of \$10 million which is included in direct operating expense in the Company's statement of operations.

Note 10—Taxes on Income (Loss)

The effective tax rate for the three months ended June 30, 2015 and 2014 was 54% and 40%, respectively. The effective tax rate for the six months ended June 30, 2015 and 2014 was (27)% and 97%, respectively. The effective tax rate for the full fiscal year 2015 is expected to be approximately 37%.

The Company recorded a tax provision of \$27 million for the three months ended June 30, 2015 compared to \$49 million for the three months ended June 30, 2014. The change was the result of lower pre-tax income, offset by discrete items in the quarter, composition of earnings by jurisdiction and a comparatively larger effect of the suspension of the favorable Subpart F provision of the U.S. Federal Tax Law in the first quarter 2014.

The Company recorded a tax provision of \$10 million for the six months ended June 30, 2015 compared to \$56 million for the six months ended June 30, 2014. The provision for taxes on income decreased primarily due to the pre-tax loss in 2015, composition of earnings by jurisdiction and a comparatively larger effect of the suspension of the favorable Subpart F provision of the U.S. Federal Tax Law in the first quarter 2014.

Note 11—Financial Instruments

The Company has the following risk exposures that it has historically used financial instruments to manage. None of the instruments have been designated in a hedging relationship as of June 30, 2015.

Interest Rate Risk

The Company's objective in managing exposure to interest rate changes is to minimize the impact of interest rate changes on earnings and cash flows and to lower overall borrowing costs. To achieve these objectives, the Company uses interest rate caps and other instruments to manage the mix of floating and fixed-rate debt.

Currency Exchange Rate Risk

The Company's objective in managing exposure to currency fluctuations is to limit the exposure of certain cash flows and earnings from changes associated with currency exchange rate changes through the use of various derivative contracts. The Company experiences currency risks in its global operations as a result of various factors including intercompany local currency denominated loans, rental operations in various currencies and purchasing fleet in various currencies.

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The following table summarizes the estimated fair value of financial instruments:

(In millions)	Fair Value of Financial Instruments			
	Asset Derivatives ⁽¹⁾		Liability Derivatives ⁽¹⁾	
	June 30, 2015	December 31, 2014	June 30, 2015	December 31, 2014
Interest rate caps	\$8	\$25	\$8	\$25
Foreign currency forward contracts	4	6	2	2
Total	\$12	\$31	\$10	\$27

(1) All asset derivatives are recorded in "Prepaid expenses and other assets" and all liability derivatives are recorded in (1) "Accrued liabilities" in the condensed consolidated balance sheets.

While foreign currency forward contracts and certain interest rate caps are subject to enforceable master netting agreements with their counterparties, the offsetting amounts are not significant and the Company does not offset the derivative assets and liabilities in its condensed consolidated balance sheets.

The following table summarizes the gains or (losses) on derivative instruments for the period indicated.

(In millions)	Location of Gain or (Loss) Recognized on Derivatives	Amount of Gain or (Loss) Recognized on Derivatives	
		Three Months Ended	
		June 30, 2015	2014
Foreign currency forward contracts	Selling, general and administrative	\$(3	) \$5

(In millions)	Location of Gain or (Loss) Recognized on Derivatives	Amount of Gain or (Loss) Recognized on Derivatives	
		Six Months Ended	
		June 30, 2015	2014
Foreign currency forward contracts	Selling, general and administrative	\$(4) \$—

Note 12—Fair Value Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The fair value of accounts receivable, accounts payable and accrued expenses, to the extent the underlying liability will be settled in cash, approximates the carrying values because of the short-term nature of these instruments.

Cash Equivalents and Investments

The Company's cash equivalents primarily consist of money market accounts which the Company measures at fair value on a recurring basis. The Company determines the fair value of cash equivalents using a market approach based on quoted prices in active markets.

Investments in equity and other securities that are measured at fair value on a recurring basis consist of various mutual funds. The valuation of these securities is based on pricing models whereby all significant inputs are observable or can be derived from or corroborated by observable market data.

The following table summarizes the ending balances of the Company's cash equivalents and investments.

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

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Unaudited

(in millions)	June 30, 2015				December 31, 2014			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Money market funds	\$132	\$—	\$—	\$132	\$146	\$—	\$—	\$146
Equity and other securities	—	64	—	64	—	96	—	96
Total	\$132	\$64	\$—	\$196	\$146	\$96	\$—	\$242

CAR, Inc.

As of June 30, 2015, the Company held a 16.2% equity investment in CAR, Inc., a publicly held company trading on the Hong Kong Stock Exchange, which is accounted for under the equity method. The Company's net investment balance was approximately \$272 million and \$264 million as of June 30, 2015 and December 31, 2014, respectively, and is included in "Prepaid expenses and other assets" in the accompanying condensed consolidated balance sheets. The fair value of the investment using quoted market prices (Level 1) was approximately \$814 million and \$514 million as of June 30, 2015 and December 31, 2014, respectively.

As of December 31, 2013 the Company held convertible debt securities of CAR, Inc. which were classified as available-for-sale and which were carried at fair value within "Prepaid expenses and other assets." Unrealized gains and losses, net of related income taxes, associated with its investment were included in "Accumulated other comprehensive income." In April 2014, the Company converted all of its debt securities into additional equity of CAR, Inc.

The following table summarizes the changes in fair value of CAR, Inc. convertible debt securities prior to conversion in April 2014, using Level 3 inputs (binomial valuation model) for the six months ended June 30, 2014 (in millions):

	Six Months Ended June 30, 2014	
Balance at the beginning of period	\$151	
Reclassification of net unrealized gain on securities to prepaid expenses and other assets	(7)
Unrealized losses related to investments	(14)
Settlements	(130)
Balance at the end of period	\$—	

Financial Instruments

The fair value of the Company's financial instruments as of June 30, 2015 and December 31, 2014 are shown in Note 11, "Financial Instruments." The Company's financial instruments are classified as Level 2 assets and liabilities and are priced using quoted market prices for similar assets or liabilities in active markets.

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Debt Obligations

The fair value of debt is estimated based on quoted market rates as well as borrowing rates currently available to the Company for loans with similar terms and average maturities (Level 2 inputs).

(in millions)	As of June 30, 2015		As of December 31, 2014	
	Nominal Unpaid Principal Balance	Aggregate Fair Value	Nominal Unpaid Principal Balance	Aggregate Fair Value
Corporate Debt	\$6,615	\$6,712	\$6,428	\$6,468
Fleet Debt	11,073	11,091	9,569	9,595
Total	\$17,688	\$17,803	\$15,997	\$16,063

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

Assets and liabilities measured at fair value during the six months ended June 30, 2015 are as follows:

(In millions)	Balance	Level 1	Level 2	Level 3	Total Loss Adjustments
Long-lived assets held for sale	\$5	\$—	\$—	\$5	\$6

Refer to the impairment disclosures in Note 9, "Tangible Asset Impairments" for further information regarding the assets measured at fair value included in the table above.

Note 13—Contingencies and Off-Balance Sheet Commitments

Legal Proceedings

Public Liability and Property Damage

The Company is currently a defendant in numerous actions and has received numerous claims on which actions have not yet been commenced for public liability and property damage arising from the operation of motor vehicles and equipment rented from the Company. The obligation for public liability and property damage on self-insured U.S. and international vehicles and equipment, as stated on the Company's balance sheet, represents an estimate for both reported accident claims not yet paid and claims incurred but not yet reported. The related liabilities are recorded on a non-discounted basis. Reserve requirements are based on actuarial evaluations of historical accident claim experience and trends, as well as future projections of ultimate losses, expenses, premiums and administrative costs. At June 30, 2015 and December 31, 2014 the liability recorded for public liability and property damage matters was \$384 million and \$385 million, respectively. The Company believes that its analysis is based on the most relevant information available, combined with reasonable assumptions, and that the Company may prudently rely on this information to determine the estimated liability. The Company notes that the liability is subject to significant uncertainties. The adequacy of the liability reserve is regularly monitored based on evolving accident claim history and insurance related state legislation changes. If the Company's estimates change or if actual results differ from these assumptions, the amount of the recorded liability is adjusted to reflect these results.

Other Matters

From time to time the Company is a party to various legal proceedings. The Company has summarized below the most significant legal proceedings to which the Company was and/or is a party to during the three and six months

ended June 30, 2015 or the period after June 30, 2015 but before the filing of this Report on Form 10-Q.

Concession Fee Recoveries - In October 2006, Janet Sobel, Daniel Dugan, PhD. and Lydia Lee, individually and on behalf of all others similarly situated v. The Hertz Corporation and Enterprise Rent-A-Car Company, or “Enterprise,” was filed in the U.S. District Court for the District of Nevada (Enterprise became a defendant in a separate action which they have now settled.) The Sobel case is a nationwide class action on behalf of all persons who rented cars from Hertz at airports in Nevada and were separately charged airport concession

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

recovery fees by Hertz as part of their rental charges. The plaintiffs seek an unspecified amount of compensatory damages, restitution of any charges found to be improper and an injunction prohibiting Hertz from quoting or charging those airport fees that are alleged not to be allowed by Nevada law. The plaintiffs also seek attorneys' fees and costs. In 2010, the parties engaged in mediation which resulted in a proposed settlement. Although the court tentatively approved the settlement in November 2010, the court denied the plaintiffs' motion for final approval of the proposed settlement in May 2011. Following additional activity in the case, in March 2013, the court granted, in part, the plaintiffs' motion for partial summary judgment with respect to restitution and granted the plaintiffs' motion for class certification while denying the Company's motion for partial summary judgment. In October 2014, the court entered final judgment, merging all of its prior rulings and directed Hertz to pay the class approximately \$42 million in restitution and \$11 million in prejudgment interest, and to pay attorney's fees of \$3.1 million with an additional \$3.1 million to be paid from the restitution fund. In December 2014, Hertz timely filed an appeal of that final judgment with the U.S. Court of Appeals for the Ninth Circuit and the plaintiffs cross appealed the court's judgment seeking to challenge the lower court's ruling that Hertz did not deceive or mislead the class members. In April 2015, Hertz filed its opening brief. In June 2015, the plaintiffs filed their answering brief and opening brief on their cross-appeal. The Company continues to believe the outcome of this case will not be material to its financial condition, results of operations or cash flows.

In re Hertz Global Holdings, Inc. Securities Litigation - In November 2013, a purported shareholder class action, Pedro Ramirez, Jr. v. Hertz Global Holdings, Inc., et al., was commenced in the U.S. District Court for the District of New Jersey naming Hertz Holdings and certain of its officers as defendants and alleging violations of the federal securities laws. The complaint alleges that Hertz Holdings made material misrepresentations and/or omissions of material fact in its public disclosures during the period from February 25, 2013 through November 4, 2013, in violation of Section 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, and Rule 10b-5 promulgated thereunder. Plaintiffs seek an unspecified amount of monetary damages on behalf of the purported class and an award of costs and expenses, including counsel fees and expert fees. In June 2014, Hertz Holdings responded to the amended complaint by filing a motion to dismiss. After a hearing in October 2014, the court granted Hertz Holdings' motion to dismiss the complaint. The dismissal was without prejudice and plaintiffs were granted leave to file a second amended complaint within 30 days of the order. In November 2014, plaintiffs filed a second amended complaint which shortened the putative class period such that it is not alleged to have commenced until May 18, 2013 and makes allegations that are not substantively very different than the allegations in the prior complaint. In early 2015, this case was assigned to a new federal judge in the District of New Jersey and Hertz Holdings responded to the second amended complaint by filing another motion to dismiss. On July 22, 2015, the court granted Hertz Holdings' motion to dismiss without prejudice and ordered that plaintiff may file a third amended complaint on or before August 22, 2015. The court further ordered that failure to file a third amended complaint will result in dismissal of the case with prejudice. Hertz Holdings believes that it has valid and meritorious defenses and it intends to vigorously defend against any further amendment of the complaint, but litigation is subject to many uncertainties and the outcome of this matter is not predictable with assurance. It is possible that this matter could be decided unfavorably to Hertz Holdings. However, Hertz Holdings is currently unable to estimate the range of these possible losses, but they could be material.

The Company intends to assert that it has meritorious defenses in the foregoing matters and the Company intends to defend itself vigorously.

Governmental Investigations - In June 2014 the Company was advised by the staff of the New York Regional Office of the Securities and Exchange Commission (the "SEC") that it is investigating the events disclosed in certain of the Company's filings with the SEC. In addition, in December 2014 a state securities regulator requested information regarding the same events. The investigations generally involve the restatements included in the Company's 2014

Form 10-K and related accounting for prior periods. The Company has and intends to continue to cooperate with both the SEC and state requests. Due to the stage at which the proceedings are, Hertz is currently unable to predict the likely outcome of the proceedings or estimate the range of reasonably possible losses, which may be material.

French Antitrust - In February 2015, the French Competition Authority issued a Statement of Objections claiming that several car rental companies, including Hertz and certain of its subsidiaries, violated French competition

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

law by receiving historic market information from twelve French airports relating to the car rental companies operating at those airports and by engaging in a concerted practice relating to train station surcharges. Hertz believes that it has valid defenses and intends to vigorously defend against the allegations, but, due to the early stage at which the proceedings are, Hertz is currently unable to predict the likely outcome of the proceedings or range of reasonably possible losses, which may be material.

The Company has established reserves for matters where the Company believes that losses are probable and can be reasonably estimated. Other than the aggregate reserve established for claims for public liability and property damage, none of those reserves are material. For matters, including certain of those described above, where the Company has not established a reserve, the ultimate outcome or resolution cannot be predicted at this time, or the amount of ultimate loss, if any, cannot be reasonably estimated. Litigation is subject to many uncertainties and the outcome of the individual litigated matters is not predictable with assurance. It is possible that certain of the actions, claims, inquiries or proceedings, including those discussed above, could be decided unfavorably to the Company or any of its subsidiaries involved. Accordingly, it is possible that an adverse outcome from such a proceeding could exceed the amount accrued in an amount that could be material to the Company's consolidated financial condition, results of operations or cash flows in any particular reporting period.

Indemnification Obligations

There have been no significant changes to the Company's indemnification obligations as compared to those disclosed in Note 14, "Contingencies and Off-Balance Sheet Commitments" of the Notes to consolidated financial statements included in the 2014 Form 10-K under the caption Item 8, "Financial Statements and Supplementary Data."

Note 14—Segment Information

The Company has identified four reportable segments, which are organized based on the products and services provided by its operating segments and the geographic areas in which its operating segments conduct business, as follows:

• U.S. Car Rental - rental of cars, crossovers and light trucks, as well as ancillary products and services, in the United States and consists of the Company's United States operating segment;

• International Car Rental - rental of cars, crossovers and light trucks, as well as ancillary products and services, internationally and consists of the Company's Europe and Other International operating segments, which are aggregated into a reportable segment based primarily upon similar economic characteristics, products and services, customers, delivery methods and general regulatory environments;

• Worldwide Equipment Rental - rental of industrial, construction, material handling and other equipment and consists of the Company's worldwide equipment rental operating segment; and

• All Other Operations - includes the Company's Donlen operating segment which provides fleet leasing and management services and is not considered a separate reportable segment in accordance with applicable accounting standards, together with other business activities, such as its claim management services.

In addition to the above reportable segments, the Company has corporate operations ("Corporate") which includes general corporate assets and expenses and certain interest expense (including net interest on corporate debt).

Adjusted pre-tax income (loss) is calculated as income before income taxes plus non-cash purchase accounting charges, debt-related charges relating to the amortization and write-off of debt financing costs and debt discounts and certain one-time charges and non-operational items. Adjusted pre-tax income (loss) is important because it allows management to assess operational performance of its business, exclusive of the items mentioned above. Management believes that it is important to investors for the same reasons it is important to management and because it allows them to assess the Company's operational performance on the same basis that management uses internally.

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

Revenues and adjusted pre-tax income (loss) by segment and the reconciliation to consolidated amounts are summarized below.

(In millions)	Three Months Ended June 30,		Adjusted Pre-Tax Income	
	Revenues		(Loss)	
	2015	2014	2015	2014
U.S. Car Rental	\$1,615	\$1,663	\$174	\$184
International Car Rental	556	641	45	57
Worldwide Equipment Rental	375	384	42	67
All Other Operations	146	142	17	15
Total reportable segments	\$2,692	\$2,830	278	323
Corporate ⁽¹⁾			(125)	(107)
Consolidated adjusted pre-tax income (loss)			153	216
Adjustments:				
Acquisition accounting ⁽²⁾			(32)	(33)
Debt-related charges ⁽³⁾			(16)	(13)
Restructuring and restructuring related charges ⁽⁴⁾			(47)	(31)
Acquisition related costs and charges ⁽⁵⁾			(1)	(2)
Equipment rental spin-off costs ⁽⁶⁾			(8)	(12)
Impairment charges and asset write-downs ⁽⁷⁾			—	(10)
Integration expenses ⁽⁸⁾			(3)	(3)
Relocation costs ⁽⁹⁾			(1)	(3)
Other ⁽¹⁰⁾			5	12
Income (loss) before income taxes			\$50	\$121
	Six Months Ended June 30,		Adjusted Pre-Tax Income	
	Revenues		(Loss)	
	2015	2014	2015	2014
U.S. Car Rental	\$3,135	\$3,220	\$244	\$306
International Car Rental	992	1,123	52	16
Worldwide Equipment Rental	730	743	76	121
All Other Operations	288	280	31	29
Total reportable segments	\$5,145	\$5,366	403	472
Corporate ⁽¹⁾			(247)	(233)
Consolidated adjusted pre-tax income (loss)			156	239
Adjustments:				
Acquisition accounting ⁽²⁾			(63)	(65)
Debt-related charges ⁽³⁾			(32)	(25)
Restructuring and restructuring related charges ⁽⁴⁾			(67)	(72)
Acquisition related costs and charges ⁽⁵⁾			—	(8)
Equipment rental spin-off costs ⁽⁶⁾			(17)	(12)
Impairment charges and asset write-downs ⁽⁷⁾			(9)	(10)
Integration expenses ⁽⁸⁾			(3)	(6)
Relocation costs ⁽⁹⁾			(4)	(5)
Other ⁽¹⁰⁾			2	22

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Unaudited

- (1) Represents general corporate expenses, certain interest expense (including net interest on corporate debt), as well as other business activities.
- (2) Represents the increase in amortization of other intangible assets, depreciation of property and other equipment and accretion of revalued liabilities relating to acquisition accounting.
- (3) Represents debt-related charges relating to the amortization of deferred debt financing costs and debt discounts and premiums.
Represents expenses incurred under restructuring actions as defined in U.S. GAAP - for further information on restructuring costs, see Note 8, "Restructuring." Also represents incremental costs incurred directly supporting business transformation initiatives. Such costs include transition costs incurred in connection with 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 and consulting costs and legal fees related to the accounting review and investigation. The three and six months ended June 30, 2015 also include costs associated with the separation of certain executives.
- (4) Represents costs related to acquisitions and strategic initiatives.
- (5) Represents expenses associated with the anticipated HERC spin-off transaction announced in March 2014.
For six months ended June 30, 2015, represents impairment of the former Dollar Thrifty headquarters and the impairment of a corporate asset recognized in the first quarter 2015. For the three and six months ended June 30, 2014, represents the write-off of assets associated with a terminated business relationship.
- (6) Primarily represents Dollar Thrifty integration related expenses.
Represents non-recurring costs incurred in connection with the relocation of the Company's corporate headquarters to Estero, Florida that were not included in restructuring expenses. Such expenses primarily include duplicate facility rent, certain moving expenses, and other costs that are direct and incremental due to the relocation.
Includes miscellaneous non-recurring or non-cash items. In the three and six months ended June 30, 2014,
- (7) primarily represents a \$19 million litigation settlement received in relation to a class action lawsuit filed against an original equipment manufacturer stemming from recalls of their vehicles in previous years.

Depreciation of revenue earning equipment and lease charges, net

(In millions)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
U.S. car rental	\$398	\$391	\$819	\$815
International car rental	101	124	196	238
Worldwide equipment rental	81	79	157	157
All other operations	116	114	\$231	224
Total	\$696	\$708	\$1,403	\$1,434

Total assets

(In millions)	June 30, 2015	December 31, 2014
U.S. Car Rental	\$14,916	\$13,712
International Car Rental	4,201	3,358
Worldwide Equipment Rental	3,939	3,836
All Other Operations	1,534	1,458
Corporate	1,379	1,621
Total	\$25,969	\$23,985

The increase in total assets for the U.S. and International Car Rental segments was the result of additional fleet acquired to meet seasonal leisure demand during the summer period.

Note 15—Earnings (Loss) Per Share

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

The following table sets forth the computation of basic and diluted earnings (loss) per share:

(In millions, except per share data)	Three Months Ended		Six Months Ended	
	June 30,	2014	June 30,	2014
Basic and diluted earnings (loss) per share:				
Numerator:				
Net income (loss), basic	\$23	\$72	\$(47)	) \$2
Denominator:				
Basic weighted average common shares	459	452	459	450
Stock options, RSUs and PSUs	2	7	—	7
Issuance of common stock upon conversion of Convertible Senior Notes	—	6	—	—
Weighted average shares used to calculate diluted earnings per share	461	465	459	457
Earnings (loss) per share:				
Basic	\$0.05	\$0.16	\$(0.10)) \$—
Diluted	\$0.05	\$0.15	\$(0.10)) \$—
Antidilutive shares:				
Antidilutive stock options, RSUs and PSUs	4	—	6	—
Antidilutive conversion shares	—	—	—	8
Total antidilutive shares excluded from calculation of diluted EPS	4	—	6	8

Note 16—Subsequent Events

Contingencies

In July 2015, Ryanair Ltd. ("Ryanair") filed a complaint against Hertz Europe Limited, a subsidiary of the Company, in the High Court of Justice, Queen's Bench Division, Commercial Court, Royal Courts of Justice of the United Kingdom alleging breach of contract in connection with Hertz Europe Limited's termination of its car hire agreement with Ryanair following a contractual dispute with respect to Ryanair's agreement to begin using third party ticket distributors. The complaint seeks damages, interest and costs, together with attorney fees. The Company believes that it has valid and meritorious defenses and it intends to vigorously defend against these allegations, but litigation is subject to many uncertainties and the outcome of this matter is not predictable with assurance. The Company has established a reserve for this matter which is not material. However, it is possible that this matter could be decided unfavorably to the Company, accordingly, it is possible that an adverse outcome could exceed the amount accrued in an amount that could be material to the Company's consolidated financial condition, results of operations or cash flows in any particular reporting period.

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis ("MD&A") should be read in conjunction with the MD&A presented in the 2014 Form 10-K filed on July 16, 2015 and the unaudited condensed consolidated financial statements and accompanying notes included in Item 1 of this Report on Form 10-Q, which include additional information about our accounting policies, practices and the transactions underlying our financial results. The preparation of our unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts in our unaudited condensed consolidated financial statements and the accompanying notes including various claims and contingencies related to lawsuits, taxes, environmental and other matters arising during the normal course of business. We apply our best judgment, our knowledge of existing facts and circumstances and our knowledge of actions that we may undertake in the future in determining the estimates that will affect our unaudited condensed consolidated financial statements. We evaluate our estimates on an ongoing basis using our historical experience, as well as other factors we believe appropriate under the circumstances, such as current economic conditions, and adjust or revise our estimates as circumstances change. As future events and their effects cannot be determined with precision, actual results may differ from these estimates.

In this MD&A we refer to certain Non-GAAP measures, including the following:

Adjusted Pre-Tax Income - important to management because it allows management to assess the operational performance of our business, exclusive of certain items and allows management to assess the performance of the entire business on the same basis as the segment measure of profitability. Management believes that it is important to investors for the same reasons it is important to management and because it allows them to assess our operational performance on the same basis that management uses internally.

Total Revenue Per Day ("Total RPD") - important to management and investors as it represents the best measurement of the changes in underlying pricing in the car rental business and encompasses the elements in car rental pricing that management has the ability to control.

Transaction Days - important to management and investors as it represents the number of revenue generating days. It is used as a component to measure Total RPD and fleet efficiency.

Fleet Efficiency - important to management and investors because it is the measurement of the proportion of our car rental fleet that is being used to generate revenues relative to the total amount of available fleet capacity. Higher fleet efficiency means more of the fleet is being utilized to generate revenue.

Net Depreciation Per Unit Per Month - important to management and investors as depreciation of revenue earning equipment and lease charges, is one of our largest expenses for the car rental business and is driven by the number of vehicles, expected residual values at the time of disposal and expected hold period of the vehicles. Net depreciation per unit per month is reflective of how we are managing the costs of our fleet and facilitates comparison with other participants in the car rental industry.

Dollar Utilization - important to management and investors because it is the measurement of the proportion of our equipment rental revenue earning equipment, including additional capitalized refurbishment costs (with the basis for refurbished assets reset at the refurbishment date), that is being used to generate revenues relative to the total amount of available equipment fleet capacity.

Time Utilization - important to management and investors as it measures the extent to which the equipment rental fleet is on rent compared to total operated fleet and is an efficiency measurement utilized by participants in the equipment rental industry.

Non-GAAP measures should not be considered in isolation and should not be considered superior to, or a substitute for, financial measures calculated in accordance with U.S.GAAP. The above Non-GAAP measures are defined and reconciled to their most comparable U.S.GAAP measure in the "Footnotes to the Results of Operations and Selected Operating Data by Segment Tables" section of this MD&A.

OUR COMPANY

Hertz and its predecessors have been in the car rental business since 1918 and in the equipment rental business since 1965. We operate our car rental business through the Hertz, Dollar, Thrifty and Firefly brands from approximately 10,355 corporate and franchisee locations in North America and Europe, as well as Africa, Asia, Australia, Latin America,

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

the Middle East and New Zealand. We are one of the largest worldwide airport general use car rental companies and our Hertz brand has approximately 8,875 corporate and franchisee locations in approximately 150 countries. Our Dollar and Thrifty brands have approximately 1,350 corporate and franchisee locations in 74 countries and our Firefly brand has approximately 130 corporate and franchisee locations in 21 countries. Our Hertz brand name is one of the most recognized in the world, signifying leadership in quality rental services and products. We have an extensive network of rental locations in the United States, or "U.S.," and in all major European markets. We believe that we maintain one of the leading airport car rental brand market shares, by overall reported revenues, in the U.S. and at approximately 130 major airports in Europe where we have company-operated locations and where data regarding car rental concessionaire activity is available. Our equipment rental business is operated through the Hertz Equipment Rental brand from more than 350 branches in the U.S., Canada, China, France, Qatar, Saudi Arabia, Spain and the United Kingdom, as well as through our international franchises. In addition to car rental and equipment rental businesses, we provide fleet leasing and management services through our Donlen subsidiary.

OVERVIEW OF OUR BUSINESS AND OPERATING ENVIRONMENT

We are engaged principally in the business of renting and leasing of cars through our Hertz, Dollar, Thrifty and Firefly brands and equipment through our Hertz Equipment Rental brand. In addition to car rental and equipment rental businesses, we provide fleet leasing and management services through our Donlen subsidiary. We have a diversified revenue base and a highly variable cost structure and are able to dynamically manage fleet capacity, the most significant determinant of our costs. Our profitability is primarily a function of the volume, mix and pricing of rental transactions and the utilization of cars and equipment, the related ownership cost of equipment and other operating costs. Significant changes in the purchase price or residual values of cars and equipment or interest rates can have a significant effect on our profitability depending on our ability to adjust pricing for these changes. We continue to balance our mix of non-program and program vehicles based on market conditions. Our business requires significant expenditures for cars and equipment, and consequently we require substantial liquidity to finance such expenditures. See "Liquidity and Capital Resources" below.

Our strategy includes optimization of our on airport operations, selected openings of new off airport locations, the disciplined evaluation of existing locations and the pursuit of same-store sales growth.

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

Car rental revenues - revenues from all company-operated car rental operations, including charges to customers for the reimbursement of costs incurred relating to airport concession fees and vehicle license fees, the fueling of vehicles and revenues associated with ancillary products associated with car rentals, including the sale of loss or collision damage waivers, liability insurance coverage, parking and other products and fees, ancillary products associated with the retail car sales channel and certain royalty fees from our franchisees;

- Equipment rental revenues - revenues from all company-operated equipment rental operations, including amounts charged to customers for the fueling and delivery of equipment and sale of loss damage waivers, as well as revenues from the sale of new equipment and consumables; and

• All other operations revenues - revenues from fleet leasing and management services and other business activities.

Our expenses primarily consist of:

Direct operating expenses (primarily wages and related benefits; commissions and concession fees paid to airport authorities, travel agents and others; facility, self-insurance and reservation costs; the cost of new equipment and consumables purchased for resale; and other costs relating to the operation and rental of revenue earning equipment, such as damage, maintenance and fuel costs);

- Depreciation expense and lease charges, net relating to revenue earning equipment (including net gains or losses on the disposal of such equipment). Revenue earning equipment includes cars and rental equipment;

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Selling, general and administrative expenses; and

Interest expense, net.

Our Business Segments

We have identified four reportable segments, which are organized based on the products and services provided by our operating segments and the geographic areas in which our operating segments conduct business, as follows:

• U.S. Car Rental - Rental of cars, crossovers and light trucks, as well as sales of ancillary products and services, in the U.S.;

• International Car Rental - Rental of cars, crossovers and light trucks, as well as sales of ancillary products and services, internationally;

• Worldwide Equipment Rental - Rental of industrial, construction, material handling and other equipment; and

• All Other Operations - Comprised of our Donlen business, which provides fleet leasing and management services, and other business activities, such as our claim management services.

In addition to the above reportable segments, the Company has corporate operations ("Corporate") which includes general corporate assets and expenses and certain interest expense (including net interest on corporate debt). We assess performance and allocate resources based upon the financial information for our operating segments.

Seasonality

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

2015 Operating Highlights

Highlights of our business and financial performance in 2015 and key factors influencing our results include:

Continued implementation of our previously announced fleet strategy - approximately 320,000 model year 2015 vehicles added to the U.S. car rental fleet through June 30, 2015, approximately 125,000 of which were added during the second quarter of 2015. The U.S. fleet has been significantly renewed since late September 2014 with a 73% improvement in the number of vehicles at or below 30,000 miles at June 30, 2015;

We sold 126% and 51% more non-program cars in our U.S. Car Rental segment in the second quarter and first half of 2015, respectively, compared with the second quarter and first half of 2014;

Total revenue for the U.S. Car Rental segment for the second quarter of 2015 decreased by 3%. This decline was driven primarily by a 2% reduction in transaction days and a 1% reduction in Total RPD due to the impact of lower fuel prices on ancillary revenue;

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Total revenue for the U.S. Car Rental segment for the first half of 2015 decreased by 3%. This decline was driven primarily by a 2% reduction in transaction days and a 1% reduction in Total RPD due to the impact of lower fuel prices on ancillary revenue;

Excluding the impact of foreign currency, Worldwide Equipment Rental segment revenues were higher during the second quarter and first half of 2015 as compared to 2014, despite decreased volumes in the oil and gas customer base, due in part to new customer wins and an increase in volume in commercial construction and infrastructure; Higher maintenance costs in the Worldwide Equipment Rental segment due to the investment made to improve the fleet available to rent and sales costs due to an increase in sales force personnel to focus on winning new accounts and diversifying the customer base;

Incurred approximately \$8 million and \$17 million during the second quarter and first half of 2015, respectively, in costs associated with the anticipated separation of the Worldwide Equipment Rental business, as compared to \$12 million and \$12 million during the second quarter and first half of 2014, respectively; and

Incurred approximately \$13 million and \$23 million during the second quarter and first half of 2015, respectively, in consulting, audit and legal costs associated with the restatement and investigation activities, as compared to \$2 million and \$9 million during the second quarter and first half of 2014, respectively.

CONSOLIDATED RESULTS OF OPERATIONS

(\$ in millions)	Three Months Ended		Percent Increase/(Decrease)	Six Months Ended		Percent Increase/(Decrease)
	June 30, 2015	June 30, 2014		June 30, 2015	June 30, 2014	
Total revenues	\$2,692	\$2,830	(5)%	\$5,145	\$5,366	(4)%
Direct operating expenses	1,505	1,594	(6)	2,913	3,037	(4)
Depreciation of revenue earning equipment and lease charges, net	696	708	(2)	1,403	1,434	(2)
Selling, general and administrative expenses	295	264	12	560	541	4
Interest expense, net	156	164	(5)	310	320	(3)
Other (income) expense, net	(10)	(21)	(52)	(4)	(24)	(83)
Income (loss) before income taxes	50	121	(59)	(37)	58	NM
(Provision) benefit for taxes on income (loss)	(27)	(49)	(45)	(10)	(56)	(82)
Net income (loss)	\$23	\$72	(68)	\$(47)	\$2	NM
Adjusted pre-tax income (loss) ^(a)	\$153	\$216	(29)	\$156	\$239	(35)

Footnotes to the table above are shown in the "Footnotes to the Results of Operations and Selected Operating Data by Segment Tables" section of this MD&A.

NM - Not meaningful

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Three Months Ended June 30, 2015 Compared with Three Months Ended June 30, 2014

Total revenues decreased \$138 million, or 5%, due to decreases in our U.S. and International Car Rental segments and our Worldwide Equipment Rental segment. Lower revenue in our U.S. Car Rental segment was largely driven by a decline in transactions days, which were impacted by a decrease in airport rental volume, as well as a decrease in off airport rental volume due in part to the closure of approximately 200 stores in the second quarter of 2015, based on the results of a location-by-location assessment of our U.S. off airport retail store profitability. Revenue for the U.S. Car Rental segment was also impacted by lower fuel-related ancillary revenue. Lower revenue in our International Car Rental and our Worldwide Equipment rental segments was primarily due to the impact of foreign currency of \$105 million and \$12 million, respectively.

The decrease in direct operating expenses of \$89 million, or 6%, was primarily comprised of a decrease in our U.S. Car Rental segment of \$45 million due to a decline in fuel costs, reductions in personnel costs due to the off airport store closures, the discontinuation of future benefit accruals and participation under certain of our pension plans, a decline in net field administration and other direct operating costs of our rental locations, as well as \$10 million of asset write-downs occurring in the second quarter of 2014 with no comparable charges in the second quarter of 2015, partially offset by an increase in vehicle damage expenses and other vehicle operating costs. Additionally, direct operating expenses for our International Car Rental segment decreased \$62 million due to the impact of foreign currency. Also, in connection with the termination of a contract in the second quarter of 2015, we had approximately \$2 million of accruals, expenses, charges, and write-offs in our International Car Rental segment.

Depreciation of revenue earning equipment and lease charges, net in the second quarter 2015 decreased \$12 million, or 2%, as compared to the second quarter of 2014 primarily due to a decrease of \$23 million in our International Car Rental segment driven by the impact of foreign currency of \$18 million, improved fleet procurement and higher residual values on certain vehicles, partially offset by an increase in our U.S. Car Rental segment of \$7 million.

Selling, general and administrative expenses ("SG&A") increased \$31 million, or 12%, primarily due to a \$12 million increase in SG&A expenses in our Worldwide Equipment Rental segment resulting from \$8 million in costs associated with the separation of a senior executive during the second quarter of 2015, as well as increased costs associated with a larger sales force year over year. In connection with the termination of a contract in the second quarter of 2015, we had approximately \$9 million of accruals, expenses, charges, and write-offs in our International Car Rental segment. Additionally, Corporate administrative expenses rose due to an approximately \$11 million increase in costs associated with the previously disclosed accounting restatement, investigation and remediation activities. These increases were partially offset by the \$16 million favorable impact of foreign currency in our International Car Rental and Worldwide Equipment Rental segments.

Interest expense, net decreased \$8 million, or 5%, primarily due to lower interest rates and the favorable impact of foreign currency, partially offset by higher average fleet debt driven by increased levels of revenue earning equipment, as well as increased amortization of deferred debt costs including waiver fees.

Other income of \$10 million in the second quarter of 2015 was primarily comprised of earnings associated with our equity method investments. Other income of \$21 million in the second quarter 2014 was primarily comprised of a \$19 million economic loss settlement related to a class action lawsuit filed against a vehicle manufacturer stemming from recalls of their vehicles in previous years.

The effective tax rate for the second quarter of 2015 was 54% as compared to 40% in the second quarter of 2014. The effective tax rate for the full fiscal year 2015 is expected to be approximately 37%. There was a tax provision of \$27 million in the second quarter 2015 as compared to a provision of \$49 million in the second quarter 2014. The change was the result of lower taxable income in 2015, discrete items, composition of earnings by jurisdiction and a comparatively larger effect of the suspension of the favorable Subpart F provision of the U.S. Federal Tax Law in the second quarter 2014.

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

We had adjusted pre-tax income of \$153 million in the second quarter 2015 compared with \$216 million in the second quarter 2014. See footnote (a) in the "Footnotes to the Results of Operations and Selected Operating Data by Segment Tables" for a summary and description of adjustments on a consolidated basis.

Six Months Ended June 30, 2015 Compared with Six Months Ended June 30, 2014

Total revenues decreased \$221 million, or 4%, due primarily to decreases in our U.S. Car Rental and International Car Rental segments of \$85 million and \$131 million, respectively. Lower revenue in our U.S. Car Rental segment was driven by a 2% decline in transaction days, which were impacted by a decrease in airport rental volume and the impact of off airport store closures in the second quarter of 2015. Revenue for the U.S. Car Rental segment was also impacted by lower fuel-related ancillary revenue. Lower revenues for our International Car Rental segment were driven by the \$172 million impact of foreign currency. Excluding the impact of foreign currency, revenues for our International Car Rental segment increased \$41 million, or 4% during the first half of 2015, driven by a 4% increase in transaction days resulting from improved business mix from U.S. source rentals.

The decrease in direct operating expenses of \$124 million, or 4%, was primarily comprised of decreases in our International Car Rental segment of \$124 million, of which \$109 million was the favorable impact of foreign currency and \$14 million of which was attributable to reduced self-insurance expenses due to a loss recorded in the first half of 2014 with no comparable charge in the first half of 2015. There was a decrease in our U.S. Car Rental segment of \$27 million comprised of a decline in fuel costs and a decline in net field administration and other direct operating costs of our rental locations, partially offset by increases in personnel expenses, maintenance expense, vehicle damage expense and other vehicle operating costs. The above decreases were partially offset by increases in our Worldwide Equipment Rental segment of \$12 million primarily due to increases in salary related expenses and other maintenance expense. Also, in connection with the termination of a contract in the second quarter of 2015, we had approximately \$2 million of accruals, expenses, charges, and write-offs in our International Car Rental segment.

Depreciation of revenue earning equipment and lease charges, net decreased \$31 million, or 2%, due primarily to a decrease of \$42 million in our International Car Rental segment driven by the impact of foreign currency of \$33 million, improved fleet procurement and higher residual values on certain vehicles. Partially offsetting the above were slight increases in our U.S. Car Rental and All Other Operations segments.

Selling, general and administrative expenses ("SG&A") increased \$19 million, or 4%, in the first half 2015 compared with 2014, primarily due to increased Corporate administrative expenses of approximately \$14 million resulting from the previously disclosed accounting restatement, investigation and remediation activities and \$9 million of accruals, expenses, charges, and write offs in our International Car Rental segment in connection with the termination of a contract in the second quarter of 2015. Also, in our Worldwide Equipment Rental segment there was \$8 million in costs associated with the separation of a senior executive during the first half of 2015, a \$5 million increase in transaction costs for the anticipated separation of our Worldwide Equipment Rental business as well as increased costs associated with a larger sales force year over year. Additionally, there was an impairment charge of \$6 million in the first half of 2015 related to the former Dollar Thrifty headquarters campus. These increases were partially offset by the \$27 million impact of foreign currency in our International Car Rental and Worldwide Equipment Rental segments.

Interest expense, net decreased \$10 million, or 3%, primarily due to lower interest rates and the impact of foreign currency, partially offset by higher average fleet debt driven by increased levels of revenue earning equipment, as well as increased amortization of deferred debt costs including waiver fees.

Other income of \$4 million in the first half of 2015 was primarily comprised of earnings associated with our equity method investments, partially offset by \$10 million of impairment charges and asset write-downs, see Note 9, "Tangible Asset Impairments." Other income of \$24 million in the first half of 2014 was primarily comprised of the \$19 million economic loss settlement recorded in the second quarter of 2014.

The effective tax rate for the first half of 2015 was (27)% as compared to 97% in the first half of 2014. The effective tax rate for the full fiscal year 2015 is expected to be approximately 37%. There was a tax provision of \$10 million in the first half of 2015 as compared to a provision of \$56 million in the first half of 2014. The decrease was due to the

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

pre-tax loss in 2015, discrete items, composition of earnings by jurisdiction and a comparatively larger effect of the suspension of the favorable Subpart F provision of the U.S. Federal Tax Law in the first half of 2014.

We had adjusted pre-tax income of \$156 million in the first half 2015 compared with \$239 million in the first half 2014. See footnote (a) in the "Footnotes to the Results of Operations and Selected Operating Data by Segment Tables" for a summary and description of adjustments on a consolidated basis.

RESULTS OF OPERATIONS AND SELECTED OPERATING DATA BY SEGMENT

U.S. Car Rental

During 2015, we continued to increase the percentage of program cars in our car rental fleet. Our strategy remains flexible as we continue to periodically review the efficiencies of an optimal mix between program and non-program cars in our fleet. Non-program cars disposed of through our retail outlets allow us the opportunity for ancillary revenue, such as warranty and financing, during disposition. Program cars generally provide us with flexibility to reduce the size of our fleet by returning cars sooner than originally expected without risk of loss in the event of an economic downturn or to respond to changes in rental demand. As we increase the percentage of program cars the average age of our fleet decreases since the average holding period for program vehicles is shorter than for non-program vehicles.

Depreciation rates are reviewed on a quarterly basis based on management's routine review of present and estimated future market conditions and their effect on residual values at the time of disposal. During the three and six months ended 2015 and 2014, 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 in our U.S. car rental operations resulted in a net increase in depreciation expense of \$27 million and \$37 million based on the reviews completed during the second quarter of 2015 and 2014, respectively. Based on the review completed during the first half of 2015 and 2014, depreciation rate changes in our U.S. car rental operations resulted in a net increase in depreciation expense of \$57 million and \$76 million, respectively. The rate changes in the second quarter and first half of 2015 reflect declining residual values and a reduction in the planned hold period of the vehicles as compared to our year end 2014 estimate.

U.S. Car Rental operations sold approximately 95,000, and 162,000 non-program cars in the second quarter and first half of 2015, respectively, as compared with 42,000 and 107,000 in the second quarter and first half of 2014. The increases were primarily due to the impact of fleet rotation as we refresh our U.S. Car Rental fleet and from holding life reductions of non-program cars.

As of June 30, 2015, our U.S. car rental operations had a total of approximately 4,875 corporate and franchisee locations, comprised of 1,660 airport and 3,215 off airport locations.

(\$ in millions, except for Total RPD and net depreciation per unit per month)	Three Months Ended June 30,		Percent Increase/(Decrease)	Six Months Ended June 30,		Percent Increase/(Decrease)
	2015	2014		2015	2014	

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Total revenues	\$1,615	\$1,663	(3))%	\$3,135	\$3,220	(3))%
Direct operating expenses	\$945	\$990	(5))	\$1,871	\$1,898	(1))
Depreciation of revenue earning equipment and lease charges, net	\$398	\$391	2	)	\$819	\$815	—)
Income (loss) before income taxes	\$132	\$167	(21)	)	\$167	\$262	(36))
Adjusted pre-tax income (loss) ^(a)	\$174	\$184	(5)	)	\$244	\$306	(20))
Transaction days (in thousands) ^(b)	34,977	35,850	(2)	)	67,014	68,210	(2))
Total RPD ^(c)	\$45.80	\$46.19	(1)	)	\$46.41	\$47.00	(1))
Average fleet ^(d)	511,700	502,500	2	)	500,500	497,000	1)
Fleet efficiency ^(d)	75	% 79	%	N/A	74	% 77	%	N/A
Net depreciation per unit per month ^(e)	\$259	\$259	—	)	\$273	\$273	—)
Program cars as a percentage of average fleet at period end	29	% 16	%	N/A	29	% 16	%	N/A

Footnotes to the table above are shown in the "Footnotes to the Results of Operations and Selected Operating Data by Segment Tables" section of this MD&A.

N/A - Not applicable

Three Months Ended June 30, 2015 Compared with Three Months Ended June 30, 2014

Total U.S. car rental revenues were \$1.6 billion in the second quarter of 2015, down 3% from the second quarter of 2014 as a result of a 2% overall decline in transaction days which were impacted by a decrease in airport rental volume, as well as a decrease in off airport rental volume due in part to the closure of approximately 200 stores based on the results of a location-by-location assessment of our U.S. off airport retail store profitability. Total RPD declined 1% driven predominantly by lower fuel-related ancillary revenue. Off airport revenues comprised 24% of total revenues for the segment in the second quarter of 2015 as compared to 25% in the second quarter of 2014.

Direct operating expenses for our U.S. car rental segment decreased \$45 million, or 5%, primarily comprised of the following:

Fleet related expenses decreased \$23 million year over year primarily due to a \$22 million decline in fuel costs, partially offset by increased vehicle damage expenses and other vehicle operating costs.

Personnel related expenses decreased \$10 million from the second quarter of 2014 due primarily to the closure of certain off airport locations as well as the discontinuation of future benefit accruals and participation under certain of our pension plans.

Other direct operating expenses decreased \$12 million from second quarter of 2014 due in part to a decline in net field administration and other direct operating costs of our rental locations as well as \$10 million of asset write-downs occurring in the second quarter of 2014 with no comparable charges in 2015.

Depreciation of revenue earning equipment and lease charges, net increased \$7 million, or 2%, when compared with the second quarter of 2014 primarily due to a larger fleet. Net depreciation per unit per month remained consistent at \$259 in the second quarters of 2015 and 2014.

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Income before income taxes decreased \$35 million, or 21%, from the second quarter of 2014 due primarily to the impact of lower revenues and higher depreciation of revenue earning equipment and lease charges, net, partially offset by lower direct operating expenses as discussed above. Additionally, in the second quarter of 2014 we recorded other income of \$19 million resulting from an economic loss settlement we received related to a class action lawsuit filed against a vehicle manufacturer stemming from recalls of their vehicles in previous years, with no comparable amounts in the second quarter of 2015.

Adjusted pre-tax income decreased \$10 million, or 5%, in the second quarter of 2015 as compared to the second quarter of 2014. See footnote (a) in the "Footnotes to the Results of Operations and Selected Operating Data by Segment Tables" for a summary and description of these adjustments on a consolidated basis.

Six Months Ended June 30, 2015 Compared with Six Months Ended June 30, 2014

Total U.S. car rental revenue was \$3.1 billion in the first half of 2015, down 3% from the first half of 2014 as a result of a 2% overall decline in transaction days which were impacted by a decrease in airport rental volume in the first quarter of 2015, driven largely by lower discretionary leisure rentals, disruptions from winter storms and lower international inbound tour business, as well as the second quarter 2015 off airport store closures. Total RPD declined 1% driven predominantly by lower fuel-related ancillary revenue, a higher mix of off airport business and a lower mix of higher-rate international inbound business. Off airport revenues comprised 25% of total revenues for the segment in the first half of 2015 as compared to 24% in the first half of 2014.

Direct operating expenses for our U.S. car rental segment decreased \$27 million, or 1%, primarily comprised of the following:

• Fleet related expenses decreased \$17 million year over year primarily due to a \$40 million decline in fuel costs, partially offset by increases in maintenance expense, vehicle damage expense and other vehicle operating costs.

• Personnel related expenses increased \$8 million from the first half of 2014 due primarily to first quarter 2015 increases in salaries and benefits for incremental headcount for our off airport locations, net of the impact of the closures in the second quarter of 2015, incremental headcount in maintenance personnel to reduce vehicle downtime and incremental headcount in customer facing service personnel. These increases were partially offset by the discontinuation of future benefit accruals and participation under certain of our pension plans.

• Other direct operating expenses decreased \$19 million from the first half of 2014 due to a decline in net field administration and other direct operating costs of our rental locations. Additionally, during the first half of 2015, we wrote off certain service equipment and assets in the amount of \$4 million as compared to \$10 million of assets written off in the first half of 2014 associated with a terminated business relationship.

Depreciation of revenue earning equipment and lease charges, net increased by \$4 million when compared with the first half of 2014 and net depreciation per unit per month remained constant at \$273.

Income before income taxes decreased \$95 million, or 36%, from the first half 2014 due primarily to the impact of lower revenues and higher depreciation of revenue earning equipment and lease charges, net, partially offset by lower direct operating expenses as discussed above. Additionally, in the first half of 2014 we recorded other income of \$19

million resulting from an economic loss settlement we received related to a class action lawsuit filed against a vehicle manufacturer stemming from recalls of their vehicles in previous years, with no comparable amounts in the first half of 2015.

Adjusted pre-tax income decreased \$62 million, or 20%, in the first half of 2015 as compared to the first half of 2014. See footnote (a) in the "Footnotes to the Results of Operations and Selected Operating Data by Segment Tables" for a summary and description of these adjustments on a consolidated basis.

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

International Car Rental

As of June 30, 2015, our international car rental operations had a total of approximately 5,480 corporate and franchisee locations in approximately 149 countries including Canada, Australia, New Zealand and in the regions of Europe, Latin and South America, Caribbean, Asia, Africa and the Middle East.

(\$ in millions, except for Total RPD and net depreciation per unit per month)	Three Months Ended June 30,		Percent Increase/(Decrease)	Six Months Ended June 30,		Percent Increase/(Decrease)
	2015	2014		2015	2014	
Total revenues	\$556	\$641	(13)%	\$992	\$1,123	(12)%
Direct operating expenses	\$					