HERTZ GLOBAL HOLDINGS INC
Form 10-Q
November 09, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015

OR

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

Commission File Number 001-33139

HERTZ GLOBAL HOLDINGS, INC.
(Exact name of registrant as specified in its charter)

Delaware	20-3530539
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

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 o No x

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

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 x Accelerated filer o Non-accelerated filer o Smaller reporting company o

(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding as of the latest practicable date.

Class	Shares Outstanding at	November 2, 2015
Common Stock, par value $0.01 per share	444,358,703	

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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 nine months ended September 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 September 30, 2014.

On November 9, 2015, the Company amended its Report on Form 10-Q for the quarterly period ended June 30, 2015 (the "Form 10-Q/A"). The purpose of the amendment was to restate its previously issued condensed consolidated financial statements to correct errors related to the depreciation of vehicles sold through the Company's retail locations. As a result of this error, depreciation expense during the three and six months ended June 30, 2015 was overstated by $21 million and $18 million. The impact of this error to the three months ended March 31, 2015 was a $3 million understatement of depreciation expense which we deemed immaterial and therefore the amount has been reflected as an out of period adjustment in our restated results for the three months ended June 30, 2015. Additionally, for the quarter ended June 30, 2015, the Company corrected an error in direct operating expenses in the previously reported quarter that resulted in a $3 million overstatement of direct operating expenses for the three and six months ended June 30, 2015. Management identified errors that impacted the second quarter 2015 balance sheet classification of tax accounts. As a result, as of June 30, 2015, prepaid expenses and other assets, deferred taxes on income, net, and accrued taxes, net, were understated by $26 million, $5 million and $21 million, respectively. Refer to Note 2, "Restatement" in the Form 10-Q/A for more information.

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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)

	September 30, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	$509	$490
Restricted cash and cash equivalents	280	571
Receivables, net of allowance of $68 and $67, respectively	1,623	1,597
Inventories, net	62	67
Prepaid expenses and other assets	934	917
Revenue earning equipment:		
Vehicles	15,012	14,622
Less accumulated depreciation - vehicles	(2,862)	(3,411)
Equipment	3,582	3,613
Less accumulated depreciation - equipment	(1,106)	(1,171)
Revenue earning equipment, net	14,626	13,653
Property and other equipment:		
Land, buildings and leasehold improvements	1,302	1,268
Service equipment and other	1,058	1,148
Less accumulated depreciation	(1,083)	(1,094)
Property and other equipment, net	1,277	1,322
Other intangible assets, net	3,900	4,009
Goodwill	1,358	1,359
Total assets	$24,569	$23,985
LIABILITIES AND EQUITY		
Accounts payable	$917	$1,008
Accrued liabilities	1,216	1,148
Accrued taxes, net	136	134
Debt	16,609	15,993
Public liability and property damage	391	385
Deferred taxes on income, net	2,962	2,853
Total liabilities	22,231	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 444 and 459 shares outstanding	4	5
Additional paid-in capital	3,334	3,325
Accumulated deficit	(461)	(664)

Accumulated other comprehensive income (loss)	(190	)	(115	)
	2,687		2,551	
Treasury Stock, at cost, 19 shares and 4 shares	(349	)	(87	)
Total equity	2,338		2,464	
Total liabilities and equity	$24,569		$23,985	

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 OPERATIONS
Unaudited
(In millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues:				
Worldwide car rental	$2,426	$2,563	$6,552	$6,907
Worldwide equipment rental	401	413	1,131	1,155
All other operations	149	145	439	425
Total revenues	2,976	3,121	8,122	8,487
Expenses:				
Direct operating	1,564	1,702	4,475	4,738
Depreciation of revenue earning equipment and lease charges, net	717	746	2,102	2,180
Selling, general and administrative	259	303	821	845
Interest expense, net	158	164	467	484
Other (income) expense, net	(29)	3	(34)	(21)
Total expenses	2,669	2,918	7,831	8,226
Income (loss) before income taxes	307	203	291	261
(Provision) benefit for taxes on income (loss)	(70)	(54)	(88)	(109)
Net income (loss)	$237	$149	$203	$152
Weighted average shares outstanding:				
Basic	454	459	457	453
Diluted	457	464	460	465
Earnings (loss) per share:				
Basic	$0.52	$0.32	$0.44	$0.34
Diluted	$0.52	$0.32	$0.44	$0.33

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 September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income (loss)	$237	$149	$203	$152
Other comprehensive income (loss):				
Foreign currency translation adjustments	(43)	(38)	(82)	(21)
Unrealized holding gains (losses) on securities	—	—	—	(14)
Reclassification of net unrealized gains on securities to prepaid expense and other assets	—	—	—	(7)
Reclassification from other comprehensive income (loss) to selling, general and administrative expense for amortization of actuarial losses on defined benefit pension plans	3	3	9	2
Total other comprehensive income (loss) before income taxes	(40)	(35)	(73)	(40)
Income tax (provision) benefit related to items of other comprehensive income (loss)	—	(2)	(2)	(4)
Total other comprehensive income (loss)	(40)	(37)	(75)	(44)
Total comprehensive income (loss)	$197	$112	$128	$108

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 CASH FLOWS
Unaudited
(In millions)

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities:		
Net income (loss)	$203	$152
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation of revenue earning equipment, net	2,047	2,119
Depreciation and amortization, non-fleet	265	272
Amortization and write-off of deferred financing costs	45	41
Amortization and write-off of debt discount (premium)	(2)	(6)
Stock-based compensation charges	14	14
Provision for receivables allowance	54	47
Deferred taxes on income	88	31
Impairment charges and asset write-downs	26	25
(Gain) loss on sale of shares in equity method investment	(56)	—
Other	(7)	(11)
Changes in assets and liabilities		
Receivables	(102)	(187)
Inventories, prepaid expenses and other assets	(10)	(58)
Accounts payable	(11)	34
Accrued liabilities	95	152
Accrued taxes	15	57
Public liability and property damage	19	47
Net cash provided by (used in) operating activities	2,683	2,729
Cash flows from investing activities:		
Net change in restricted cash and cash equivalents	284	107
Revenue earning equipment expenditures	(10,010)	(8,442)
Proceeds from disposal of revenue earning equipment	6,788	5,316
Capital asset expenditures, non-fleet	(250)	(232)
Proceeds from disposal of property and other equipment	69	67
Acquisitions, net of cash acquired	(95)	(69)
Sales of (investment in) shares in equity method investment	100	(30)
Net cash provided by (used in) investing activities	(3,114)	(3,283)

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 CASH FLOWS (Continued)
Unaudited
(In millions)

	Nine Months Ended September 30,	
	2015	2014
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	1,076	400
Repayments of long-term debt	(1,100)	(207)
Short-term borrowings:		
Proceeds	543	528
Payments	(434)	(537)
Proceeds under the revolving lines of credit	5,906	4,018
Payments under the revolving lines of credit	(5,243)	(3,405)
Purchase of treasury shares	(262)	—
Payment of financing costs	(11)	(12)
Other	(4)	5
Net cash provided by (used in) financing activities	471	790
Effect of foreign exchange rate changes on cash and cash equivalents	(21)	(18)
Net increase (decrease) in cash and cash equivalents during the period	19	218
Cash and cash equivalents at beginning of period	490	411
Cash and cash equivalents at end of period	$509	$629
Supplemental disclosures of cash information:		
Cash paid during the period for:		
Interest, net of amounts capitalized	$393	$388
Income taxes, net of refunds	31	47
Supplemental disclosures of non-cash information:		
Purchases of revenue earning equipment included in accounts payable and accrued liabilities	$203	$241
Sales of revenue earning equipment included in receivables	605	464
Purchases of property and other equipment included in accounts payable	60	71
Sales of property and other equipment included in receivables	28	27
Conversion of Convertible Senior Notes included in debt, common stock and additional paid-in capital	—	84
Revenue earning equipment and property and equipment acquired through capital lease	11	16

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 U.S. GAAP. 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 ("SEC") 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.

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

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.

Out Of Period Adjustments

The Company has identified various misstatements relating to prior period financial statements that it has corrected in the third quarter of 2015. The cumulative impact of the adjustments was a decrease to pre-tax income of approximately $18 million (of which $13 million relates to years prior to 2015) and a decrease to net earnings of approximately $13 million and is comprised of $4 million related to the accounting for the post-acquisition sale of land that was revalued as part of the December 2005 acquisition, $4 million of additional accruals for the periods 2009 through 2014 resulting from concession audits at certain airport locations, a $4 million obligation to a jurisdiction for customer transaction fees, $3 million of additional write-offs of assets that were incorrectly capitalized and $3 million of other miscellaneous adjustments. The Company considered both quantitative and qualitative factors in assessing the materiality of the items individually, and in the aggregate, and determined that the misstatements were not material to any prior period and not material to the three and nine months ended September 30, 2015.

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.

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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.

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. In August 2015, the FASB issued guidance clarifying that debt issuance costs related to line-of-credit arrangements may be deferred and presented as an asset. 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 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.

Simplifying the Subsequent Measurement of Inventory

In July 2015, the FASB issued guidance that requires inventory to be measured at the lower of cost and net realizable value, excluding inventory measured using the last-in, first-out method or the retail inventory method. Net realizable value is defined as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. Current guidance requires inventory to be measured at the lower of cost or market. This guidance is effective prospectively for annual periods beginning after December 15, 2016 and interim periods within those annual periods. The Company is in the process of assessing the potential impacts of adopting this guidance on its financial position, results of operations and cash flows.

Simplifying the Accounting for Measurement Period Adjustments for Business Combinations

In September 2015, the FASB issued guidance that requires adjustments to provisional amounts during the measurement period of a business combination to be recognized in the reporting period in which the adjustments are determined, rather than retrospectively. The guidance is effective prospectively for annual periods beginning after December 15, 2015 and interim periods within those annual periods. 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 Fort 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

Divestitures

CAR Inc. Investment

In September 2015, the Company sold approximately 60 million shares of CAR Inc. common stock, a publicly traded company on the Hong Kong Stock Exchange, for net proceeds of $100 million which resulted in a pre-tax gain of $56 million. The investment in CAR Inc. is accounted for under the equity method of accounting. The sale of the shares reduced the Company's ownership interest from 16.1%, as of the date of the sale, to 13.6%. See Note 12, "Fair Value Measurements" for the fair value of the Company's ownership interest at September 30, 2015.

HERC Businesses

During the third quarter 2015, the Company signed an agreement and received certain regulatory approval for the sale of its HERC France and Spain businesses comprised of 60 locations in France and two in Spain.

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

Based on the pending sale, the assets and liabilities of the HERC France and Spain businesses were deemed held for sale. The carrying value of the major components are as follows:

(In millions)	September 30, 2015
ASSETS	
Receivables, net of allowance	$21
Inventories, net	4
Prepaid expenses and other assets	3
Revenue earning equipment, net	97
Property and other equipment, net	12
Goodwill	2
Total assets held for sale	$139
LIABILITIES	
Accounts payable	$11
Accrued liabilities	10
Accrued taxes, net	2
Deferred taxes on income, net	2
Total liabilities held for sale	$25

The assets and liabilities held for sale are included in prepaid expenses and other assets and accrued liabilities, respectively, in the condensed consolidated balance sheets.

The sale of the HERC France and Spain businesses closed on October 30, 2015. See Note 16, Subsequent Events.

Note 4—Revenue Earning Equipment

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

(In millions)	September 30, 2015	December 31, 2014
Revenue earning equipment	$18,279	$17,837
Less: Accumulated depreciation	(3,877)	(4,427)
	14,402	13,410
Revenue earning equipment held for sale, net	224	243
Revenue earning equipment, net	$14,626	$13,653

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2015	2014	2015	2014
Depreciation of revenue earning equipment	$669	$701	$2,005	$2,054
(Gain) loss on disposal of revenue earning equipment[(a)]	30	25	42	65
Rents paid for vehicles leased	18	20	55	61
Depreciation of revenue earning equipment and lease charges, net	$717	$746	$2,102	$2,180

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2015	2014	2015	2014
U.S. Car Rental	$34	$30	$59	$84
International Car Rental	(2)	1	(3)	(2)
Worldwide Equipment Rental	(2)	(6)	(14)	(17)
Total	$30	$25	$42	$65

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. The cumulative impact on the periods of depreciation rate changes during 2015 is as follows:

Increase (decrease)	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2015	2014	2015	2014
U.S. Car Rental[(a)]	$26	$36	$83	$112
International Car Rental	—	(2)	—	(1)
Worldwide Equipment Rental	1	—	1	—
Total	$27	$34	$84	$111

(a) The depreciation rate changes in the U.S. car rental operations for the three and nine months ended September 30, 2015 include a net increase in depreciation expense of $11 million based on the review completed during the third quarter of 2015. The depreciation rate changes in the U.S. car rental operations for the three and nine months ended September 30, 2014 include a net increase in depreciation expense of $17 million based on the review completed during the third quarter of 2014.

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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 September 30, 2015	Fixed or Floating Interest Rate	Maturity	September 30, 2015	December 31, 2014
Corporate Debt					
Senior Term Facility	3.26%	Floating	3/2018	$2,067	$2,083
Senior ABL Facility	2.73%	Floating	3/2016–3/2017	253	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	3.94%	Floating	Various	68	74
Unamortized Net (Discount) Premium (Corporate)				3	3
Total Corporate Debt				6,318	6,431
Fleet Debt					
HVF U.S. Fleet Medium Term Notes					
HVF Series 2009-2(2)	N/A	N/A	N/A	—	404
HVF Series 2010-1(2)	4.26%	Fixed	2/2014–2/2018	428	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
				1,608	2,258
RCFC U.S. ABS Program					
RCFC U.S. Fleet Medium Term Notes					
RCFC Series 2011-1 Notes(2)(3)	N/A	N/A	N/A	—	167
RCFC Series 2011-2 Notes(2)(3)	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)	1.16%	Floating	10/2016	1,129	1,999
HVF II Series 2013-B(2)	1.16%	Floating	10/2016	1,345	976
HVF II Series 2014-A(2)	1.70%	Floating	10/2016	2,011	869
				4,485	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)	1.22%	Floating	9/2017	244	247
				244	247

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Facility	Average Interest Rate at September 30, 2015	Fixed or Floating Interest Rate	Maturity	September 30, 2015	December 31, 2014
HFLF Medium Term Notes					
HFLF Series 2013-3 Notes[2]	0.87%	Floating	9/2016–11/2016	321	500
HFLF Series 2014-1 Notes[2]	0.74%	Floating	12/2016–3/2017	330	400
HFLF Series 2015-1 Notes[2]	0.87%	Floating	3/2018–5/2018	295	—
				946	900
Other Fleet Debt					
U.S. Fleet Financing Facility	2.95%	Floating	3/2017	190	164
European Revolving Credit Facility	2.38%	Floating	10/2017	382	304
European Fleet Notes	4.375%	Fixed	1/2019	478	517
European Securitization[2]	1.88%	Floating	10/2016	396	270
Canadian Securitization[2]	1.78%	Floating	1/2018	224	—
Hertz-Sponsored Canadian Securitization[2]	N/A	N/A	N/A	—	105
Dollar Thrifty-Sponsored Canadian Securitization[2][3]	N/A	N/A	N/A	—	40
Australian Securitization[2]	3.68%	Floating	12/2016	87	112
Brazilian Fleet Financing Facility	18.04%	Floating	10/2015	7	11
Capitalized Leases	3.03%	Floating	2/2015–10/2017	472	364
Unamortized Net (Discount) Premium (Fleet)				(8)	(7)
				2,228	1,880
Total Fleet Debt				10,291	9,562
Total Debt				$16,609	$15,993

N/A - Not Applicable

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

(In millions)	Outstanding Principal	
Senior Notes	September 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

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

(3) RCFC U.S. ABS Program and the Dollar Thrifty-Sponsored Canadian Securitization represent fleet debt assumed in connection with the Dollar Thrifty acquisition on November 19, 2012.

The Company’s practice is to maintain sufficient liquidity through cash from operations, credit facilities and other financing arrangements, so that its operations are unaffected by adverse financial market conditions. As of the third quarter 2015 financial statements, the Company reviewed the credit facilities that will mature within the next twelve months and determined that it is probable that the Company will be able, and has the intent, to refinance the credit facilities before the expiration of such facilities.

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.

HVF II U.S. Fleet Medium Term Notes

In April 2015, Hertz Vehicle Financing II LP ("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 Dollar Thrifty 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, Hertz Holdings Netherlands, B.V. ("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, Hertz Fleet Lease Funding LP ("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 LLC. 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 owns a portion of the obligation related to the Class E Notes as of September 30, 2015, therefore, $5 million of the obligation is eliminated in consolidation.

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Canadian Securitizations

In September 2015, Hertz established a new securitization platform, the “Canadian Securitization”, designed to facilitate its financing activities relating to the vehicle fleet used by Hertz in the Canadian daily car rental operations of its Hertz, Dollar, Thrifty and Firefly brands. The lenders under the Canadian Securitization have been granted a security interest primarily in the owned rental car fleet used in the Company's car rental operations in Canada and certain contractual rights related to such vehicles as well as certain other assets owned by the Hertz entities connected to the financing. TCL Funding Limited Partnership, a bankruptcy remote, indirect, wholly-owned, special purpose subsidiary of Hertz, or “Funding LP,” is the issuer under the Canadian Securitization. In connection with the establishment of the Canadian Securitization, in September 2015, Funding LP issued the Series 2015-A Variable Funding Rental Car Asset Backed Notes (the “Funding LP Series 2015-A Notes”) that provide for aggregate maximum borrowings of C$350 million (subject to borrowing base availability) on a revolving basis and a maturity date of January 2018. The net proceeds from the sale of the Funding LP Series 2015-A Notes were used to pay in full the then-outstanding Hertz-Sponsored Canadian Securitization and the Dollar Thrifty-Sponsored Canadian Securitization and there are no longer any amounts outstanding under the Hertz-Sponsored Canadian Securitization and the Dollar Thrifty-Sponsored Canadian Securitization.

HFLF Variable Funding Notes

In September 2015, the HFLF Series 2013-2 Notes were upsized by $100 million providing for an aggregate maximum principal amount of the HFLF Series 2013-2 Notes of $500 million (subject to borrowing base availability). In connection therewith, the maturity date of the HFLF Series 2013-2 Notes was extended to September 2017.

See also Note 16, "Subsequent Events" regarding financing transactions occurring subsequent to the September 30, 2015 balance sheet date.

Borrowing Capacity and Availability

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

(In millions)	Remaining Capacity	Availability Under Borrowing Base Limitation
Corporate Debt		
Senior ABL Facility	$1,373	$ 1,334
Total Corporate Debt	1,373	1,334
Fleet Debt		
HVF II U.S. Fleet Variable Funding Notes	2,090	—
HFLF Variable Funding Notes	256	—
European Revolving Credit Facility	—	—
European Securitization	54	7
Canadian Securitization	37	—
Australian Securitization	88	—
Capitalized Leases	35	5
Total Fleet Debt	2,560	12
Total	$3,933	$ 1,346

As of September 30, 2015, the Senior ABL Facility had $970 million available under the letter of credit facility sublimit, subject to borrowing base restrictions.

Letters of Credit

As of September 30, 2015, there were outstanding standby letters of credit totaling $688 million. Of this amount, $675 million was issued under the Senior Term Facility and the Senior ABL Facility (together, the “Senior Credit Facilities”). As of September 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 September 30, 2015 and December 31, 2014, the portion of total restricted cash and cash equivalents that was associated with the Fleet Debt facilities was $223 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 (an event that results in the amortization of indebtedness prior to its expected maturity).

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 September 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 $605 million and $427 million, respectively, primarily comprised of loans receivable and revenue earning equipment, and total liabilities of $604 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 September 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 deferred 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 Amendment and Waiver increased 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 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 bore 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. 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.

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. As a result, 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.

Note 6—Employee Retirement Benefits

Effective December 31, 2014, the Company amended 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 anticipates that, while compensation credits will no longer be provided under the plan after 2014 for affected participants, interest credits will continue to be credited on existing participant account balances under the plan until benefits are distributed and service will continue to be recognized for vesting and retirement eligibility requirements.

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 Company reserves the right to change its benefit offerings, at any time, in its discretion.

The following table sets forth the net periodic pension expense:

	Pension Benefits			
	U.S.		Non-U.S.	
	Three Months Ended September 30,			
(In millions)	2015	2014	2015	2014
Components of Net Periodic Benefit Cost:				
Service cost	$1	$7	$—	$1
Interest cost	6	8	3	3
Expected return on plan assets	(11)	(10)	(3)	(4)
Net amortizations	—	—	—	—
Settlement loss	1	2	2	—

Special termination cost	—	4	—	—
Net periodic pension expense (benefit)	$(3)	$11	$2	$—

	Pension Benefits			
	U.S.		Non-U.S.	
	Nine Months Ended September 30,			
(In millions)	2015	2014	2015	2014
Components of Net Periodic Benefit Cost:				
Service cost	$3	$21	$1	$3
Interest cost	20	24	7	7
Expected return on plan assets	(31)	(30)	(11)	(12)
Net amortizations	2	1	1	—
Settlement loss	3	2	2	—
Special termination cost	—	4	—	—
Net periodic pension expense (benefit)	$(3)	$22	$—	$(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 cash contributions to its U.S. qualified pension plan during the three and nine months ended September 30, 2015. During the three and nine months ended September 30, 2014, the Company made cash contributions of $8 million and $22 million, respectively. The Company does not anticipate making cash contributions to its U.S. qualified pension plan during the remainder of 2015.

During the three and nine months ended September 30, 2015, the Company made benefit payments to its U.S. non-qualified pension plans of $1 million and $17 million, respectively. During the three and nine months ended September 30, 2014, the Company made benefit payments to its U.S. non-qualified pension plans of $3 million and $7 million, respectively. The Company made a $3 million discretionary contribution to its United Kingdom defined benefit pension plan (the "U.K. Plan") during each of the nine months ended September 30, 2015 and 2014.

On October 22, 2014, the Company amended two non-qualified, unfunded pension plans. These two plans are The Hertz Corporation Benefit Equalization Plan, or “BEP,” and The Hertz Corporation Supplemental Executive Retirement Plan, or “SERP II.” Effective as of December 31, 2014, the Company permanently discontinued future benefit accruals and participation under the BEP and the SERP II. Service will continue to be recognized for vesting and retirement eligibility requirements under the BEP and SERP II.

Note 7—Stock-Based Compensation

During the nine months ended September 30, 2015, the Company granted 3,263,654 non-qualified stock options to certain executives and employees at a weighted average grant date fair value of $7.34; 855,305 restricted stock units ("RSUs") at a weighted average grant date fair value of $20.95 and 1,375,885 performance stock units ("PSUs") at a weighted average grant date fair value of $21.22 under the Hertz Global Holdings, Inc. 2008 Omnibus Incentive Plan with vesting terms of three to five years.

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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2015	2014	2015	2014
Compensation expense	$5	$—	$14	$14
Income tax benefit	(2)	—	(5)	(5)
Total	$3	$—	$9	$9

As of September 30, 2015, there was $61 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 2.0 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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2015	2014	2015	2014
By Type:				
Termination benefits	$6	$3	$18	$21
Impairments and asset write-downs	1	13	2	23
Facility closure and lease obligation costs	1	4	16	13
Other	(2)	3	(4)	11
Total	$6	$23	$32	$68

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2015	2014	2015	2014
By Caption:				
Direct operating	$1	$5	$17	$31
Selling, general and administrative	5	18	15	37
Total	$6	$23	$32	$68

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2015	2014	2015	2014
By Segment:				
U.S. Car Rental	$2	$4	$18	$22
International Car Rental	4	1	11	16
Worldwide Equipment Rental	2	1	3	4
Corporate	(2)	17	—	26
Total	$6	$23	$32	$68

The following table sets forth the activity affecting the restructuring accrual during the nine months ended September 30, 2015. The remainder of the restructuring accrual primarily 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	14	18	32
Cash payments	(12)	(12)	(24)
Other non-cash changes	(9)	(7)	(16)

Balance as of September 30, 2015	$14	$21	$35

Note 9—Tangible Asset Impairments and Asset Write-downs

Impairments

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Measurement of an impairment loss for long lived assets that management expects to hold and use is based on the estimated fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or estimated fair value less costs to sell. The Company uses market and income approaches to value the long-lived assets, including inputs such as expected cash flows and recent comparable transactions.

In the third quarter of 2015, the Company deemed a building in its U.S. Car Rental segment to be held for sale. The Company performed an impairment assessment and recorded a charge of $5 million which is included in other (income) expense, net in the Company's statement of operations.

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. The charge is included in other (income) expense, net in the Company's statement of operations. The asset was sold in April 2015.

In the first quarter of 2015, the Company deemed its former Dollar Thrifty headquarters in Tulsa, Oklahoma, which is part of the U.S. Car Rental segment, as held for sale. The Company performed an impairment assessment and recorded a charge of $6 million which is included in selling, general and administrative expense in the Company's statement of operations.

During the third quarter of 2014, the Company deemed its previous corporate headquarters building to be held for sale. Based on the impairment assessment, the Company recorded an impairment charge of $13 million which is included in selling, general and administrative expense in the Company's statement of operations.

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Asset Write-downs

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 expense and $7 million is included in other (income) expense, net 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 assets in the amount of $10 million which are 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 September 30, 2015 and 2014 was 23% and 27%, respectively. The effective tax rate for the nine months ended September 30, 2015 and 2014 was 30% and 42%, respectively. The effective tax rate for the full fiscal year 2015 is expected to be approximately 28%.

The Company recorded a tax provision of $70 million for the three months ended September 30, 2015 compared to $54 million for the three months ended September 30, 2014. The change was the result of higher pre-tax income and composition of earnings by jurisdiction in the third quarter of 2015. The third quarter of 2015 also includes a $23 million net benefit due to a release of a foreign valuation allowance and a transfer pricing adjustment.

The Company recorded a tax provision of $88 million for the nine months ended September 30, 2015 compared to $109 million for the nine months ended September 30, 2014. The change was the result of the composition of earnings by jurisdiction in the period. The nine months of 2015 also includes a $23 million net benefit due to a release of a foreign valuation allowance and a transfer pricing adjustment.

Note 11—Financial Instruments

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

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

	Fair Value of Financial Instruments			
	Asset Derivatives[1]		Liability Derivatives[1]	
(In millions)	September 30, 2015	December 31, 2014	September 30, 2015	December 31, 2014
Interest rate caps	$3	$25	$3	$25
Foreign currency forward contracts	6	6	2	2
Total	$9	$31	$5	$27

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

(1) All asset derivatives are recorded in "Prepaid expenses and other assets" and all liability derivatives are recorded in "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 the 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 September 30, 2015	2014
Foreign currency forward contracts	Selling, general and administrative	$(18)	$(2)

(In millions)	Location of Gain or (Loss) Recognized on Derivatives	Amount of Gain or (Loss) Recognized on Derivatives Nine Months Ended September 30, 2015	2014
Foreign currency forward contracts	Selling, general and administrative	$(22)	$(2)

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.

	September 30, 2015				December 31, 2014			
(in millions)	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Money market funds	$109	$—	$—	$109	$146	$—	$—	$146
Equity and other securities	—	130	—	130	—	96	—	96
Total	$109	$130	$—	$239	$146	$96	$—	$242

CAR Inc.

As further described in Note 3, "Acquisitions and Divestitures", the Company held an equity investment in CAR Inc. of 13.6% and 16.2% as of September 30, 2015 and December 31, 2014, respectively. The Company's net investment balance was approximately $234 million and $264 million as of September 30, 2015 and December 31, 2014, respectively, and is included in "Prepaid expenses and other assets" in the accompanying condensed consolidated

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balance sheets. The fair value of the investment using quoted market prices (Level 1) was approximately $465 million and $514 million as of September 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 nine months ended September 30, 2014 (in millions):

	Nine Months Ended September 30, 2014	
Balance at the beginning of period, January 1, 2014	$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, September 30, 2014	$—	

Financial Instruments

The fair value of the Company's financial instruments as of September 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.

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).

	As of September 30, 2015		As of December 31, 2014	
(in millions)	Nominal Unpaid Principal Balance	Aggregate Fair Value	Nominal Unpaid Principal Balance	Aggregate Fair Value
Corporate Debt	$6,315	$6,329	$6,428	$6,468
Fleet Debt	10,299	10,317	9,569	9,595
Total	$16,614			