

HERTZ GLOBAL HOLDINGS INC  
Form 10-Q  
August 03, 2012

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

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**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, 2012

OR

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

Commission File Number 001-33139

**HERTZ GLOBAL HOLDINGS, INC.**

(Exact name of registrant as specified in its charter)

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

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

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

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

**Not Applicable**

(Former name, former address and former fiscal year,  
if changed since last report.)

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

Indicate by check mark whether the registrant 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.

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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

There were 420,318,854 shares of the registrant's common stock, par value \$0.01 per share, issued and outstanding as of August 1, 2012.

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## HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES

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**PART I FINANCIAL INFORMATION**

**ITEM 1. Condensed Consolidated Financial Statements**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

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

We have reviewed the accompanying condensed consolidated balance sheet of Hertz Global Holdings, Inc. and its subsidiaries as of June 30, 2012, and the related consolidated statements of operations and comprehensive income (loss) for the three-month and six-month periods ended June 30, 2012 and June 30, 2011 and the consolidated statements of cash flows for the six-month periods ended June 30, 2012 and June 30, 2011. These interim financial statements are the responsibility of the Company's management.

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

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

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2011, and the related consolidated statements of operations, of changes in equity and of cash flows for the year then ended (not presented herein), and in our report dated February 27, 2012, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2011, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/ PricewaterhouseCoopers LLP  
Florham Park, New Jersey  
August 2, 2012

Table of Contents**HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(In Thousands of Dollars)****Unaudited**

	<b>June 30, 2012</b>	<b>December 31, 2011</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 586,201	\$ 931,779
Restricted cash and cash equivalents	175,449	308,039
Receivables, less allowance for doubtful accounts of \$21,899 and \$20,282	1,448,271	1,616,382
Inventories, at lower of cost or market	101,712	83,978
Prepaid expenses and other assets	419,209	421,758
Revenue earning equipment, at cost:		
Cars	12,027,004	9,678,765
Less accumulated depreciation	(1,619,009)	(1,360,012)
Other equipment	3,046,549	2,830,176
Less accumulated depreciation	(1,016,585)	(1,043,520)
Total revenue earning equipment	12,437,959	10,105,409
Property and equipment, at cost:		
Land, buildings and leasehold improvements	1,172,743	1,146,112
Service equipment and other	1,112,298	1,050,915
	2,285,041	2,197,027
Less accumulated depreciation	(1,020,772)	(945,173)
Total property and equipment	1,264,269	1,251,854
Other intangible assets, net	2,544,011	2,562,234
Goodwill	452,408	392,094
Total assets	\$ 19,429,489	\$ 17,673,527
<b>LIABILITIES AND EQUITY</b>		
Accounts payable	\$ 1,487,086	\$ 897,489
Accrued liabilities	1,064,410	1,128,458
Accrued taxes	165,576	125,803
Debt	12,467,873	11,317,090
Public liability and property damage	270,640	281,534
Deferred taxes on income	1,707,966	1,688,478
Total liabilities	17,163,551	15,438,852
Commitments and contingencies		
Equity:		
Hertz Global Holdings, Inc. and Subsidiaries stockholders' equity		
Preferred Stock, \$0.01 par value, 200,000,000 shares authorized, no shares issued and outstanding		
Common Stock, \$0.01 par value, 2,000,000,000 shares authorized, 420,302,667 and 417,022,853 shares issued and outstanding	4,203	4,170

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Additional paid-in capital	3,210,281	3,205,964
Accumulated deficit	(910,508)	(947,064)
Accumulated other comprehensive loss	(38,057)	(28,414)
Total Hertz Global Holdings, Inc. and Subsidiaries stockholders' equity	2,265,919	2,234,656
Noncontrolling interest	19	19
Total equity	2,265,938	2,234,675
Total liabilities and equity	\$ 19,429,489	\$ 17,673,527

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

Table of Contents**HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****(In Thousands of Dollars, except share and per share data)****Unaudited**

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>Revenues:</b>				
Car rental	\$ 1,849,327	\$ 1,731,200	\$ 3,472,558	\$ 3,210,138
Equipment rental	334,199	301,641	635,525	569,727
Other	41,622	39,452	77,990	72,431
<b>Total revenues</b>	<b>2,225,148</b>	<b>2,072,293</b>	<b>4,186,073</b>	<b>3,852,296</b>
<b>Expenses:</b>				
Direct operating	1,188,933	1,187,306	2,304,080	2,260,971
Depreciation of revenue earning equipment and lease charges	519,750	419,669	1,033,867	855,758
Selling, general and administrative	206,569	195,591	414,321	377,812
Interest expense	152,184	165,826	314,451	362,715
Interest income	(468)	(1,546)	(1,560)	(3,401)
Other (income) expense, net	(554)	10,801	(1,011)	62,677
<b>Total expenses</b>	<b>2,066,414</b>	<b>1,977,647</b>	<b>4,064,148</b>	<b>3,916,532</b>
Income (loss) before income taxes	158,734	94,646	121,925	(64,236)
Provision for taxes on income	(65,847)	(34,561)	(85,370)	(4,621)
Net income (loss)	92,887	60,085	36,555	(68,857)
Less: Net income attributable to noncontrolling interest		(5,087)		(8,760)
Net income (loss) attributable to Hertz Global Holdings, Inc. and Subsidiaries' common stockholders	\$ 92,887	\$ 54,998	\$ 36,555	\$ (77,617)
<b>Weighted average shares outstanding (in thousands):</b>				
Basic	420,036	415,947	419,056	415,011
Diluted	447,448	451,818	447,881	415,011
<b>Earnings (loss) per share attributable to Hertz Global Holdings, Inc. and Subsidiaries' common stockholders:</b>				
Basic	\$ 0.22	\$ 0.13	\$ 0.09	\$ (0.19)
Diluted	\$ 0.21	\$ 0.12	\$ 0.08	\$ (0.19)

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

Table of Contents**HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(In Thousands of Dollars)****Unaudited**

	<b>Three Months Ended June 30, 2012</b>	<b>Three Months Ended June 30, 2011</b>
Net income	\$ 92,887	\$ 60,085
Other comprehensive income (loss), net of tax:		
Translation adjustment changes, (net of tax of 2012: \$1,756 and 2011: \$324)	\$ (46,090)	\$ 16,259
Unrealized holding gains on securities, (net of tax of 2012: \$9 and 2011: \$765)	11	1,202
Other, (net of tax of 2012: \$0 and 2011: \$0)	196	(18)
Unrealized loss on Euro-denominated debt, (net of tax of 2012: \$0 and 2011: \$(2,150))		(3,357)
Defined benefit pension plans		
Net gains arising during the period, (net of tax of 2012: \$1,251 and 2011: \$888)	2,196	15,699
Defined benefit pension plans	2,196	15,699
Other comprehensive income (loss)	(43,687)	29,785
Comprehensive income	49,200	89,870
Less: Comprehensive income attributable to noncontrolling interest		(5,087)
Comprehensive income attributable to Hertz Global Holdings, Inc. and Subsidiaries' common stockholders	\$ 49,200	\$ 84,783

	<b>Six Months Ended June 30, 2012</b>	<b>Six Months Ended June 30, 2011</b>
Net income (loss)	\$ 36,555	\$ (68,857)
Other comprehensive income (loss), net of tax:		
Translation adjustment changes, (net of tax of 2012: \$382 and 2011: \$(1,650))	\$ (16,520)	\$ 58,730
Unrealized holding gains on securities, (net of tax of 2012: \$1,968 and 2011: \$765)	3,097	1,235
Other, (net of tax of 2012: \$0 and 2011: \$0)	108	(60)
Unrealized loss on Euro-denominated debt, (net of tax of 2012: \$0 and 2011: \$(9,548))		(14,915)
Defined benefit pension plans		
Net gains arising during the period, (net of tax of 2012: \$2,338 and 2011: \$1,675)	3,672	17,082
Defined benefit pension plans	3,672	17,082
Other comprehensive income (loss)	(9,643)	62,072



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Comprehensive income (loss)	26,912	(6,785)
Less: Comprehensive income attributable to noncontrolling interest		(8,760)
Comprehensive income (loss) attributable to Hertz Global Holdings, Inc. and Subsidiaries' common stockholders	\$ 26,912	\$ (15,545)

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

Table of Contents**HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(In Thousands of Dollars)****Unaudited**

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 36,555	\$ (68,857)
<b>Adjustments to reconcile net income (loss) to net cash provided by operating activities:</b>		
Depreciation of revenue earning equipment	989,300	809,433
Depreciation of property and equipment	83,756	77,140
Amortization of other intangible assets	39,029	33,679
Amortization and write-off of deferred financing costs	30,560	64,251
Amortization and write-off of debt discount	14,888	22,677
Stock-based compensation charges	14,977	16,630
Gain on derivatives	(856)	(2,203)
Loss on revaluation of foreign denominated debt	2,498	
Provision for losses on doubtful accounts	13,582	14,313
Asset writedowns	3,181	23,311
Deferred taxes on income	31,329	(29,184)
Gain on sale of property and equipment	(716)	(4,748)
<b>Changes in assets and liabilities, net of effects of acquisition:</b>		
Receivables	(226,556)	(187,818)
Inventories, prepaid expenses and other assets	(33,056)	(57,878)
Accounts payable	142,051	138,214
Accrued liabilities	7,926	(179,327)
Accrued taxes	16,806	21,667
Public liability and property damage	(6,842)	(4,393)
<b>Net cash provided by operating activities</b>	<b>1,158,412</b>	<b>686,907</b>
<b>Cash flows from investing activities:</b>		
Net change in restricted cash and cash equivalents	130,137	(60,233)
Revenue earning equipment expenditures	(5,698,892)	(5,466,856)
Proceeds from disposal of revenue earning equipment	3,608,323	3,488,890
Property and equipment expenditures	(137,168)	(125,370)
Proceeds from disposal of property and equipment	56,421	28,388
Acquisitions, net of cash acquired	(161,844)	(10,976)
Purchase of short-term investments, net		(32,891)
Other investing activities	(625)	1,303
<b>Net cash used in investing activities</b>	<b>\$ (2,203,648)</b>	<b>\$ (2,177,745)</b>

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

Table of Contents**HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)****(In Thousands of Dollars)****Unaudited**

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash flows from financing activities:</b>		
Proceeds from issuance of long-term debt	\$ 270,529	\$ 3,028,591
Payment of long-term debt	(643,083)	(3,631,480)
<b>Short-term borrowings:</b>		
Proceeds	246,664	285,803
Payments	(656,231)	(489,217)
Proceeds (payments) under the revolving lines of credit, net	1,543,770	728,855
Distributions to noncontrolling interest		(10,500)
Purchase of noncontrolling interest	(38,000)	
Proceeds from employee stock purchase plan	1,988	1,716
Proceeds from exercise of stock options	5,742	11,581
Proceeds from disgorgement of stockholder short-swing profits	17	72
Net settlement on vesting of restricted stock	(19,976)	(11,381)
Payment of financing costs	(6,949)	(81,392)
<b>Net cash provided by (used in) financing activities</b>	<b>704,471</b>	<b>(167,352)</b>
Effect of foreign exchange rate changes on cash and cash equivalents	(4,813)	31,602
<b>Net decrease in cash and cash equivalents during the period</b>	<b>(345,578)</b>	<b>(1,626,588)</b>
Cash and cash equivalents at beginning of period	931,779	2,374,170
<b>Cash and cash equivalents at end of period</b>	<b>\$ 586,201</b>	<b>\$ 747,582</b>
<b>Supplemental disclosures of cash flow information:</b>		
<b>Cash paid during the period for:</b>		
Interest (net of amounts capitalized)	\$ 281,864	\$ 343,383
Income taxes	37,655	25,338
<b>Supplemental disclosures of non-cash flow information:</b>		
Purchases of revenue earning equipment included in accounts payable and accrued liabilities	\$ 598,620	\$ 628,695
Sales of revenue earning equipment included in receivables	178,409	263,954
Purchases of property and equipment included in accounts payable	42,060	59,633
Sales of property and equipment included in receivables	9,163	14,356

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., or "Hertz Holdings," is our top-level holding company. The Hertz Corporation, or "Hertz," is our primary operating company and a direct wholly-owned subsidiary of Hertz Investors, Inc., which is wholly-owned by Hertz Holdings. "We," "us" and "our" mean Hertz Holdings and its consolidated subsidiaries, including Hertz.

We are a successor to corporations that have been engaged in the car and truck rental and leasing business since 1918 and the equipment rental business since 1965. Hertz was incorporated in Delaware in 1967. Ford Motor Company acquired an ownership interest in Hertz in 1987. Prior to this, Hertz was a subsidiary of United Continental Holdings, Inc. (formerly Allegis Corporation), which acquired Hertz's outstanding capital stock from RCA Corporation in 1985. Hertz Holdings was incorporated in Delaware in 2005 and had no operations prior to the Acquisition (as defined below).

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

Clayton, Dubilier & Rice, Inc., which was succeeded by Clayton, Dubilier & Rice, LLC, or "CD&R,"

The Carlyle Group, or "Carlyle," and

Merrill Lynch Global Private Equity, Inc., or "MLGPE,"

acquired all of Hertz's common stock from Ford Holdings LLC. In January 2009, Bank of America Corporation, or "Bank of America," acquired Merrill Lynch & Co., Inc., the former parent company of MLGPE. Accordingly, Bank of America is now an indirect beneficial owner of our common stock held by the investment funds associated with MLGPE. We refer to CD&R, Carlyle and MLGPE collectively as the "Sponsors." We refer to the acquisition of all of Hertz's common stock by the Sponsors as the "Acquisition."

After giving effect to our initial public offering in November 2006 and subsequent offerings, the Sponsors' holdings represent approximately 38% of the outstanding shares of common stock of Hertz Holdings as of June 30, 2012.

On September 1, 2011, Hertz completed the acquisition of Donlen Corporation, or "Donlen," a leading provider of fleet leasing and management services.

On December 31, 2011, Hertz purchased the noncontrolling interest of Navigation Solutions, L.L.C., thereby increasing its ownership interest from 65% to 100%.

**Note 2 Basis of Presentation and Recently Issued Accounting Pronouncements**

***Basis of Presentation***

The significant accounting policies summarized in Note 2 to our audited consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, filed with the United States Securities and Exchange Commission, or "SEC," on February 27, 2012, or the "Form 10-K," have been followed in preparing the accompanying condensed consolidated financial statements.

The December 31, 2011 condensed consolidated balance sheet data was derived from our audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America, or "GAAP."



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

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

**Unaudited**

The preparation of financial statements in conformity with 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.

In our opinion, all adjustments necessary for a fair presentation of the results of operations for the interim periods have been made. Results for interim periods are not necessarily indicative of results for a full year.

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

***Recently Issued Accounting Pronouncements***

In June 2011, the Financial Accounting Standards Board, or "FASB," issued Accounting Standards Update No. 2011-05, "Presentation of Comprehensive Income," requiring companies to present items of net income and other comprehensive income either in one continuous statement, referred to as the statement of comprehensive income, or in two separate, but consecutive statements of net income and other comprehensive income. The amendments in this update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. These provisions became effective for us beginning with the quarterly report for the period ended March 31, 2012. In December 2011, the FASB issued Accounting Standards Update No. 2011-12, "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05," which defers the timing of implementing only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments.

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

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

In our Consolidated Statements of Cash Flows, we net cash flows from revolving borrowings in the line item "Proceeds (payments) under the revolving lines of credit, net." The contractual maturities of such borrowings may exceed 90 days in certain cases.

Restricted cash and cash equivalents includes cash and cash equivalents that are not readily available for our normal disbursements. Restricted cash and cash equivalents are restricted for the purchase of revenue earning vehicles and other specified uses under our Fleet Debt facilities, for our Like-Kind Exchange Program, or "LKE Program," and to satisfy certain of our self-insurance regulatory reserve requirements. As of June 30, 2012 and December 31, 2011, the portion of total restricted cash and cash equivalents that was associated with our Fleet Debt facilities was \$104.0 million and \$213.6 million, respectively. The decrease in restricted cash and cash equivalents associated with our fleet debt of \$109.6 million from December 31, 2011 to June 30, 2012 was primarily related to the timing of purchases and sales of revenue earning vehicles.

Table of Contents**HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Unaudited****Note 4 Goodwill and Other Intangible Assets**

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

	<b>Car Rental</b>	<b>Equipment Rental</b>	<b>Total</b>
<b>Balance as of January 1, 2012</b>			
Goodwill	\$ 419.3	\$ 693.8	\$ 1,113.1
Accumulated impairment losses	(46.1)	(674.9)	(721.0)
	373.2	18.9	392.1
<b>Goodwill acquired during the period</b>			
Adjustments to previously recorded purchase price allocation	(15.1)	76.8	(15.1)
Other changes during the period <sup>(1)</sup>	(0.9)	(0.5)	(1.4)
	(16.0)	76.3	60.3
<b>Balance as of June 30, 2012</b>			
Goodwill	403.3	770.1	1,173.4
Accumulated impairment losses	(46.1)	(674.9)	(721.0)
	\$ 357.2	\$ 95.2	\$ 452.4

	<b>Car Rental</b>	<b>Equipment Rental</b>	<b>Total</b>
<b>Balance as of January 1, 2011</b>			
Goodwill	\$ 367.9	\$ 681.7	\$ 1,049.6
Accumulated impairment losses	(46.1)	(674.9)	(721.0)
	321.8	6.8	328.6
<b>Goodwill acquired during the year</b>			
Adjustments to previously recorded purchase price allocation	53.1	12.3	65.4
Other changes during the year <sup>(1)</sup>	(0.9)	(0.1)	(1.0)
	(0.8)	(0.1)	(0.9)
	51.4	12.1	63.5
<b>Balance as of December 31, 2011</b>			
Goodwill	419.3	693.8	1,113.1
Accumulated impairment losses	(46.1)	(674.9)	(721.0)
	\$ 373.2	\$ 18.9	\$ 392.1

(1)

Primarily consists of changes resulting from the translation of foreign currencies at different exchange rates from the beginning of the period to the end of the period.



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

	<b>June 30, 2012</b>		
	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Carrying Value</b>
Amortizable intangible assets:			
Customer-related	\$ 689.7	\$ (399.4)	\$ 290.3
Other <sup>(1)</sup>	78.4	(32.9)	45.5