TOOTSIE ROLL INDUSTRIES INC
Form DEF 14A
March 29, 2019

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ý

Filed by a Party other than the Registrant o

Check the appropriate box:

o Preliminary Proxy Statement

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

ý Definitive Proxy Statement

o Definitive Additional Materials

o Soliciting Material under §240.14a-12

Tootsie Roll Industries, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

ý No fee required.

o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
(1) Title of each class of securities to which transaction applies:

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Tootsie Roll Industries, Inc.

7401 South Cicero Avenue, Chicago, Illinois 60629

March 29, 2019

Dear Shareholders:

You are cordially invited to attend the Annual Meeting of Shareholders of your Company to be held on Monday, May 6, 2019, at 9:00 A.M., Eastern Daylight Saving Time, in Room 1200, Mutual Building, 909 East Main Street, Richmond, Virginia.

At the meeting, you will be asked to consider and vote upon the election of four directors and a proposal to ratify the appointment of Grant Thornton LLP as the independent registered public accounting firm for the Company for the 2019 fiscal year.

The formal Notice of the Annual Meeting of Shareholders and the Proxy Statement follow. It is important that your shares be represented and voted at the meeting, regardless of the size of your holdings. Accordingly, please promptly mark, sign and date the enclosed proxy and return it in the enclosed envelope, whether or not you intend to be present at the Annual Meeting of Shareholders.

Sincerely,

Ellen R. Gordon
Chairman of the Board and
Chief Executive Officer

Tootsie Roll Industries, Inc.

7401 South Cicero Avenue, Chicago, Illinois 60629
NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
TO BE HELD ON MAY 6, 2019

To the Shareholders:

Notice is hereby given that the Annual Meeting of Shareholders of **TOOTSIE ROLL INDUSTRIES, INC.** will be held in Room 1200, Mutual Building, 909 East Main Street, Richmond, Virginia, on Monday, May 6, 2019, at 9:00 A.M., Eastern Daylight Saving Time, for the following purposes:

1. To elect the full board of four directors;

2. To consider and act upon ratification of the appointment of Grant Thornton LLP as the independent registered public accounting firm for the Company for the fiscal year ending December 31, 2019; and

3. To transact such other business as may properly come before the meeting or any adjournments or postponements thereof.

Only shareholders of record at the close of business on March 5, 2019 are entitled to notice of, and to vote at, the Annual Meeting and any adjournments or postponements thereof. The relative voting rights of the Company's Common Stock and Class B Common Stock in respect of the Annual Meeting and the matters to be acted upon at such meeting are described in the accompanying Proxy Statement.

Your attention is directed to the accompanying Proxy, Proxy Statement and 2018 Annual Report of Tootsie Roll Industries, Inc.

By Order of the Board of Directors
Barry P. Bowen, *Assistant Secretary*

Chicago, Illinois
March 29, 2019

NOTE: *Please mark, date and sign the enclosed Proxy and return it promptly in the enclosed envelope whether or not you plan to attend the Annual Meeting in person. You may revoke your Proxy at any time before it is voted.*

Tootsie Roll Industries, Inc.

7401 South Cicero Avenue, Chicago, Illinois 60629

PROXY STATEMENT
Annual Meeting of Shareholders May 6, 2019

SOLICITATION OF PROXIES

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors of Tootsie Roll Industries, Inc. (referred to as the "Company," "we" or "us" below) of the accompanying proxy for the Annual Meeting of Shareholders of the Company to be held on Monday, May 6, 2019, and at any adjournments or postponements thereof. The purpose of the meeting is for the shareholders of the Company to: (1) elect four directors to terms of office expiring at the 2020 Annual Meeting of Shareholders; (2) consider and act upon a proposal to ratify the appointment of Grant Thornton LLP as the independent registered public accounting firm for the Company for the fiscal year ending December 31, 2019; and (3) transact such other business as may properly come before the meeting and any adjournments thereof.

Proxies in the accompanying form properly executed and received by the Company prior to the meeting and not revoked, will be voted as directed therein on all matters presented at the meeting. In the absence of a specific direction from the shareholder, proxies will be voted for the election of all named director nominees and for ratification of the appointment of Grant Thornton LLP as the Company's independent registered public accounting firm. The Board of Directors does not know of any other matters to be brought before the meeting; however, if other matters should properly come before the meeting it is intended that the persons named in the accompanying proxy will vote thereon at their discretion. Any shareholder may revoke his or her proxy by giving written notice of revocation to the Assistant Secretary of the Company, at any time before it is voted, by executing a later-dated proxy which is voted at the meeting or by attending the meeting and voting his or her shares in person.

The Board of Directors has fixed the close of business on March 5, 2019 as the record date for the determination of shareholders of the Company entitled to receive notice of and to vote at the Annual Meeting of Shareholders to be held on May 6, 2019, and at any adjournments or postponements thereof. As of the close of business on March 5, 2019, there were outstanding and entitled to vote 38,469,513 shares of Common Stock and 25,582,925 shares of Class B Common Stock. Each share of Common Stock is entitled to one vote and each share of Class B Common Stock is entitled to ten votes. Therefore, the Common Stock will be entitled to a total of 38,469,513 votes and the Class B Common Stock will be entitled to a total of 255,829,250 votes. The Common Stock and the Class B Common Stock will vote together as a single class with respect to the election of directors and all other matters submitted to the Company's shareholders at the meeting. This Proxy Statement and the enclosed form of proxy are being mailed to shareholders of the Company on or about March 29, 2019.

The entire cost of soliciting proxies in the accompanying form will be borne by the Company. Proxies will be solicited by mail, and may be solicited personally by directors, officers or regular employees of the Company who will not receive special compensation for such services. Upon request, the Company will reimburse brokers, dealers, banks and trustees, or their nominees, for reasonable expenses incurred by them in forwarding proxy material to beneficial owners of shares of the Company's Common Stock and Class B Common Stock.

VOTING INFORMATION

A shareholder may, with respect to the election of directors (i) vote for the election of all named director nominees, (ii) withhold authority to vote for all named director nominees or (iii) vote for the election of all named director nominees other than any nominee with respect to whom the shareholder withholds authority to vote by so indicating in the appropriate space on the proxy. A shareholder may, with respect to ratification of the appointment of Grant Thornton LLP as the Company's independent registered public accounting firm (i) vote "FOR" the proposal, (ii) vote "AGAINST" the proposal or (iii) "ABSTAIN" from voting on the proposal. Proxies properly executed and received by the Company prior to the meeting and not revoked will be voted as directed therein on all matters presented at the meeting. In the absence of a specific direction from the shareholder, proxies will be voted for the election of all named director nominees and for ratification of the appointment of Grant Thornton LLP as the Company's independent registered public accounting firm. If a proxy indicates that all or a portion of the votes represented by such proxy are not being voted with respect to a particular matter, such non-votes will not be counted in connection with the vote on such matter, although such votes will count for purposes of determining the presence of a quorum.

The affirmative vote of a plurality of the votes present in person or by proxy at the meeting and entitled to vote in the election of directors is required to elect directors. Thus, assuming a quorum is present, the four persons receiving the greatest number of votes will be elected to serve as directors. Withholding authority to vote for a director(s) and non-votes with respect to the election of directors will not affect the outcome of the election of directors. With respect to the ratification of the appointment of Grant Thornton LLP as the independent registered public accounting firm for the Company for 2019, the number of votes cast for the proposal must exceed the number of votes cast against for it to be approved. If a quorum is present, non-votes and abstentions will not affect the outcome of each matter at the meeting.

PROPOSAL 1
ELECTION OF DIRECTORS

It is the intention of the persons named in the accompanying proxy to vote for the election of each of the four persons named in the table below as a director of the Company to serve until the 2020 Annual Meeting of Shareholders and until his or her successor is duly elected and qualified. All of such nominees are now directors of the Company, having been previously elected as directors by the shareholders of the Company. In the event any of the nominees, all of whom have expressed an intention to serve if elected, fail to stand for election, the persons named in the proxy presently intend to vote for a substitute nominee designated by the Board of Directors. The information concerning the nominees and their shareholdings has been furnished by them to the Company.

The following table sets forth information with respect to the four nominees for election as directors:

Name, Age and Other Positions, if any, with Company	Period Served As Director and Business Experience During Past 5 Years
Ellen R. Gordon, 87, Chairman of the Board and Chief Executive Officer	Director since 1969; Chairman and Chief Executive Officer since January, 2015; President and Chief Operating Officer since 1978; Director and Vice-President of HDI Investment Corp., a family investment company. Mrs. Gordon brings to the Board an in-depth knowledge of all aspects of the Company and comprehensive industry knowledge from her many years of experience in the confectionery industry. Mrs. Gordon has also served extensively on the boards of several nationally recognized graduate business and medical schools and on the board of a large public company where she also chaired its audit committee.
Barre A. Seibert, 77(1)(2)	Director since 2005; retired; First Vice-President of Washington Mutual Bank 2003-2007; Vice-President from 2001 to 2003; Chief Financial Officer of TransAlliance LP and predecessors from 1995 to 2001. Mr. Seibert is a seasoned financial executive and brings executive management expertise to the Board along with in-depth knowledge and insight in the areas of corporate finance, banking, accounting and audit related issues and financial reporting.
Lana Jane Lewis-Brent, 72(1)(2)	Director since 1988; President of Paul Brent Designer, Inc. since 1992; former President of Sunshine-Jr. Stores, Inc. Mrs. Lewis-Brent possesses knowledge of the Company's history and brings to the Board in depth operational skills as well as a retailer's perspective of the confectionery industry by virtue of her executive management experience in the convenience store industry, which represents an important outlet for the Company's products.
Paula M. Wardynski, 61(1)(2)	Director since 2015; Senior Vice-President-Finance of Twenty-First Century Fox, Inc. since 2007. Ms. Wardynski is a seasoned financial executive and brings to the Board a broad range of financial and managerial skills as well as corporate governance experience in a public company environment, having served for many years in a senior executive capacity at one of the premier international media and entertainment companies in the world.

(1) Member of the Audit Committee.

(2) Member of the Compensation Committee.

Director Independence and Corporate Governance. The Board of Directors has determined that the non-management directors are independent under the New York Stock Exchange ("NYSE") listing standards because they have no direct or indirect relationship with the Company other than through their service on the Board of Directors and as shareholders. Shareholders and other interested parties who wish to communicate with the non-management members of the Board of Directors may do so by writing to

Tootsie Roll Industries, Inc., 7401 South Cicero Avenue, Chicago, Illinois 60629, Attention: Audit Committee Chairman, c/o Assistant Corporate Secretary. The Company's Corporate Governance Guidelines, which are posted on its website, www.tootsie.com, provide that the Chair of the Audit Committee shall preside over executive sessions of the non-management directors. The Company has also adopted a Code of Business Conduct and Ethics, which applies to all directors and employees, and which meets the SEC's criteria for a "code of ethics." The Code of Business Conduct and Ethics is posted on the Company's website www.tootsie.com. The Board of Directors periodically reviews succession planning for the Company's senior management including planning for the succession of Mrs. Gordon in the event of an emergency.
Mrs. Gordon is vigorously engaged in the day to day operation of the Company's business and strategic planning. In addition, Mrs. Gordon has advised the Board that she has no present intention of retiring from her current positions as an officer and a director. The information contained on the Company's website is not a part of this proxy statement.

Meeting Attendance. The Board of Directors held five meetings in 2018. The Board of Directors has two standing committees, the Audit Committee and the Compensation Committee. During 2018, all directors attended at least 75 percent of the meetings of the Board of Directors and the Committees of which they were members. Mrs. Gordon, the Company's Chairman and Chief Executive Officer, attended the 2018 Annual Meeting of Shareholders.

Audit Committee. The Audit Committee, which was established in accordance with section 3(a)(58) of the Securities Exchange Act of 1934, operates under a written charter approved by the Board of Directors, a copy of which is posted on www.tootsie.com. The Audit Committee held six meetings during 2018. The Audit Committee is composed of three directors who qualify as "independent" under the NYSE listing standards and rules of the Securities and Exchange Commission. The Board of Directors has not identified any member of the Audit Committee to be qualified as an "audit committee financial expert" as such term is defined by rules of the Securities and Exchange Commission ("SEC") and the Board does not believe that given the capabilities of the members of the Audit Committee it has been necessary to have or recruit a member who would qualify as an audit committee financial expert as defined by the SEC.

Compensation Committee. The Compensation Committee administers and makes awards under the Tootsie Roll Industries, Inc. Management Incentive Plan. This committee is composed of three directors who qualify as "independent" under the NYSE listing standards and "outside directors" under Section 162(m) of the Code. Otherwise, the entire Board of Directors is responsible for determining the compensation structure and amounts for the executive officers, including the Chief Executive Officer, except that the Chief Executive Officer recuses herself from votes regarding her own compensation or in circumstances where her participation, as an executive officer of the Company, would affect compliance with federal securities law. Since the Company is a "controlled company" under the NYSE listing standards (see "Controlled Company Status" below), this committee does not maintain a written charter and the entire Board of Directors makes compensation decisions with regard to the Chief Executive Officer or other executive officers as described above. Given the Company's status as a controlled company, the Board believes that this allocation of responsibilities between the Compensation Committee and the full Board for compensation decisions is appropriate. The Compensation Committee held one meeting during 2018. This committee has not delegated any of its duties to others.

The Company has engaged Compensation Strategies, Inc., an executive compensation consulting firm selected by management and approved by the Board, to provide advice and assistance to both management and the Board regarding the Company's executive compensation practices. Compensation Strategies, Inc. is referred to below as the "consultant." The consultant conducts periodic reviews of total compensation of the Company's executive officers, based on the process described in the Compensation Discussion and Analysis section below, for review by management and the Board of Directors in determining the appropriate levels of compensation for each executive officer. The consultant only provides executive compensation consulting services. The consultant does not attend meetings of the Board of Directors or of

the Compensation Committee but is available to answer questions. Work performed by Compensation Strategies, Inc. did not raise any conflict of interest.

Director Nominations. As a controlled company under NYSE listing standards, the Company is permitted to have the entire Board of Directors discuss and determine the nominees for election to the Board and oversee the Company's corporate governance. The Board does not believe that given the current size and composition of the Board that it needs to have a separately-designated nominating committee to perform this function. The Board will consider director candidates recommended by shareholders, but the Board does not otherwise have a policy with regard to the consideration of director candidates recommended by shareholders, nor has it established any specific minimum qualifications that it believes must be met by a nominee for director, whether recommended by it or by a shareholder, or any specific qualities or skills that it believes are necessary for one or more of its directors to possess, as it believes that it can adequately consider the suitability and qualifications of any such candidates on a case by case basis. The Board does not currently have a policy for identifying or evaluating nominees for director, including nominees recommended by shareholders. If a candidate for nomination is recommended by a shareholder the Board would evaluate that candidate in the same manner as all other candidates to be nominees for director. As set forth in its Corporate Governance Guidelines, the Board is committed to a diversified membership, in terms of both the individuals involved and their various experiences and areas of expertise. The Board does not have a formal policy with respect to diversity in identifying or selecting nominees for the Board, but in evaluating nominees, the Board assesses the background of each candidate in a number of different ways including how the individual's qualifications complement, strengthen and enhance those of existing Board members as well as the future needs of the Board. Any shareholder wishing to recommend a candidate for nomination as a director should do so in writing addressed to Tootsie Roll Industries, Inc., 7401 South Cicero Avenue, Chicago, Illinois 60629, Attention: Ellen R. Gordon, Chairman. See "Shareholder Proposals for 2019 and 2020 Annual Meetings" below in this proxy statement for information regarding procedures that must be followed by shareholders in order to nominate directors at the 2020 Annual Meeting.

Board Leadership Structure and Role in Risk Oversight. The Company's Corporate Governance Guidelines provide that the Board shall be free to choose its chair in any way it deems best for the Company at any time. The Board believes that it is desirable to have the flexibility to decide whether the roles of Chairman of the Board and Chief Executive Officer should be combined or separate in light of the Company's circumstances from time to time. The Board currently combines the role of Chairman of the Board with the role of Chief Executive Officer. The Board believes this currently provides an efficient and effective leadership model for the Company, especially given the relatively small size of the Company's Board. The Company's independent directors bring experience, oversight and expertise from outside the Company and industry, while the Chief Executive Officer brings Company-specific experience and expertise. The Board believes that the combined role of Chairman and Chief Executive Officer promotes strategy development and execution, and facilitates information flow between management and the Board, which are essential to effective governance.

The Audit Committee has been designated by the Board to take the lead in overseeing risk management at the Board level. The charter for the Audit Committee requires that it discuss policies and guidelines to govern the process by which risk assessment and risk management are handled and that it meet periodically with management to review and assess the Company's major financial risk exposures and the manner in which such risks are being monitored and controlled. Accordingly, in addition to its other duties, the Audit Committee periodically reviews the Company's risk assessment and management, including the areas of legal compliance, internal auditing and financial controls, litigation, environment, health and safety. In this role, the Audit Committee considers the nature of the material risks the Company faces, and the adequacy of the Company's policies and procedures designed to respond to and mitigate these risks. It also receives reports from management and other advisors, including periodic risk assessments covering a broad range of business, market environment, and operating risks. Although the

Board's primary risk oversight has been assigned to the Audit Committee, the full Board also periodically receives information about the Company's risk management and the most significant risks that the Company faces. In addition to an ongoing compliance program, the Board encourages management to promote a corporate culture that understands risk management and incorporates it into the overall corporate strategy and day-to-day business operations.

Controlled Company Status. The Company is a "controlled company" under the NYSE listing standards since the Gordon family collectively holds more than 50% of the total voting power of the outstanding capital stock of the Company.

DIRECTOR COMPENSATION

As described more fully below, this chart summarizes the annual compensation of the Company's non-management directors during 2018.

Name	Fees Earned or Paid in Cash	All Other Compensation	Total
Barre A. Seibert	$ 126,300	$ 3,325	$ 129,625
Lana Jane Lewis-Brent	118,800		118,800
Paula M. Wardynski	118,800		118,800

Mrs. Gordon did not receive fees for her service on the Board of Directors or its committees. Non-management directors received the following cash compensation for 2018:

- An annual retainer of $99,000;
- $1,800 for Board meetings attended;
- An annual retainer of $9,000 for serving on the Audit Committee and $16,500 for serving as its Chair; and
- $1,800 for attending each meeting of the Compensation Committee.

The Board of Directors recommends a vote FOR the election of all named director nominees.

OWNERSHIP OF COMMON STOCK AND CLASS B COMMON STOCK BY CERTAIN BENEFICIAL OWNERS

The following table sets forth, as of March 5, 2019, information with respect to the beneficial ownership of the Company's Common Stock and Class B Common Stock by each person known by the Company to be the beneficial owner of more than five percent of such Common Stock or Class B Common Stock. The information has been furnished by these persons or derived from filings with the SEC. Each share of Common Stock is entitled to one vote and each share of Class B Common Stock is entitled to ten votes.

		Number of Shares of Common Stock and Class B Common Stock Owned Beneficially and Nature of Beneficial Ownership(1)		Percentage of Outstanding Shares of Class
Name		**Direct**	**Indirect**	
Ellen R. Gordon	Common	11,285,389	87,666(2)	29.6%
	Class B	12,477,644		48.8%
Ellen R. Gordon, as a fiduciary	Common		9,535,045(3)	24.8%
	Class B		8,751,198(3)	34.2%
Leigh R. Weiner	Common	1,476,940	105,431(4)	4.1%
	Class B	3,098,755	329,573(4)	13.4%

The address of Mrs. Gordon is c/o Tootsie Roll Industries, Inc., 7401 South Cicero Avenue, Chicago, Illinois 60629. The address of Mr. Weiner is c/o T. R. Shiffman, Sydney, Amster, Green & Horowitz PLC, 122 East 42nd Street, Suite 720, New York, New York 10168.

(1) Except as set forth below, the persons named in the above table have sole investment and voting power over the shares indicated therein as being owned directly and share investment and voting power over the shares indicated therein as being owned indirectly. Shares of Class B Common Stock are at all times convertible into shares of Common Stock on a share-for-share basis. Shares and percent of class indicated for Common Stock do not reflect the shares of Common Stock that could be acquired upon the conversion of the shares of Class B Common Stock.

(2) Held as trustee of a trust which holds such shares for one of the Company's nonqualified deferred compensation plans.

(3) Includes 8,225,791 shares of Common Stock and 8,751,198 shares of Class B Common Stock held by Mrs. Gordon as a fiduciary for family members and 1,309,254 shares of Common Stock owned by a charitable foundation of which Mrs. Gordon is a director.

(4) Includes 104,409 shares of Common Stock and 65,807 shares of Class B Common Stock held by Mr. Weiner's spouse (as to which he disclaims beneficial ownership) and 1,022 shares of Common Stock and 263,766 shares of Class B Common Stock held by a charitable foundation of which Mr. Weiner and members of his family are directors.

OWNERSHIP OF COMMON STOCK AND CLASS B COMMON STOCK BY MANAGEMENT

The following table sets forth, as of March 5, 2019, the beneficial ownership of Common Stock and Class B Common Stock by each nominee for director, by each executive officer who is named in the summary compensation table included in this proxy statement, and by all directors and executive officers of the Company as a group. The Company has adopted an Anti-Hedging Policy which prohibits directors and executive officers from directly or indirectly engaging in hedging against future declines in the market value of any of the Company's equity-based securities. Each share of Common Stock is entitled to one vote and each share of Class B Common Stock is entitled to ten votes.

Name		Number of Shares of Common Stock and Class B Common Stock Owned Beneficially and Nature of Beneficial Ownership(1) Direct	Indirect	Percentage of Outstanding Shares of Class
Ellen R. Gordon, Individually and as trustee and fiduciary	Common	(2)	(2)	(2)
	Class B	(2)	(2)	(2)
Barre A. Seibert	Common	3,316		(5)
	Class B			(5)
Paula M. Wardynski	Common			(5)
	Class B			(5)
Lana Jane Lewis-Brent	Common	26,328	3,626(3)	(5)
	Class B			(5)
G. Howard Ember, Jr.	Common	16,015	6,566(4)	(5)
	Class B			(5)
Thomas E. Corr	Common			(5)
	Class B			(5)
Barry P. Bowen.	Common			(5)
	Class B			(5)
Stephen P. Green	Common	2,150		(5)
	Class B			(5)
All directors and executive officers as a group (10 persons)	Common	11,333,198	9,632,903	54.5%
	Class B	12,477,644	8,751,198	83.0%

(1) The persons named in the above table have sole investment and voting power over the shares indicated therein as being owned directly and share investment and voting power over the shares indicated therein as being owned indirectly. Shares of Class B Common Stock are at all times convertible into shares of Common Stock on a share-for-share basis. Shares and percent of class indicated for Common Stock do not reflect the shares of Common Stock that could be acquired upon the conversion of the shares of Class B Common Stock.

(2) See the table under the caption "Ownership of Common Stock and Class B Common Stock by Certain Beneficial Owners" above for shares beneficially owned by Mrs. Gordon.

(3) Shares held by Ms. Lewis-Brent's spouse as to which she disclaims beneficial ownership.

(4) Shares held by Mr. Ember's children as to which he disclaims beneficial ownership.

(5) Less than 1% of the outstanding shares.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires directors, executive officers and persons who own more than ten percent of the Company's Common Stock or Class B Common Stock to file reports of ownership and changes in ownership with the SEC and NYSE. Such persons are also required to furnish the Company with copies of all such reports.

Based solely on a review of the copies of such reports, and written representations from certain reporting persons, we are pleased to note that the Company's directors, executive officers and greater than ten percent shareholders filed all required reports during or with respect to fiscal year 2018 on a timely basis.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The following Compensation Discussion and Analysis describes the material elements of the compensation program for the Company's executive officers identified in the Summary Compensation Table below, who are referred to in this discussion as the "named executive officers."

Corporate Principles

We believe that the differences among companies are attributable to the caliber of their people, and therefore strive to attract and retain superior executives. The Company maintains a conservative financial posture in deploying and managing assets and does not jeopardize long-term growth for immediate, short-term results.

Objectives of Compensation Program

The objectives of the Company's compensation program for named executive officers consistent with these corporate principles are to:

- Encourage and reward individual effort and teamwork in order to improve the Company's financial performance, and

- Attain the Company's principal long-term objective of profitably building the Company's well-known brands.

All compensation and benefits for named executive officers described below have as a primary purpose meeting the need to attract, retain and motivate the types of individuals who will be able to execute the Company's business strategy while upholding its values in an ever changing competitive environment. The Company's current compensation program includes salary, annual cash incentives, annual awards under the Company's Career Achievement Plan, which is referred to as the "CAP" below, participation in the Excess Benefit Plan, which is referred to as the "EBP" below, and a Supplemental Savings Plan, which is referred to as the "SSP" below.

None of the Company's employees receive stock options, restricted stock or other forms of equity compensation. The Board did not grant equity compensation to the Chief Executive Officer because of her significant equity stake in the Company. Other named executive officers also do not receive equity compensation, as the Board has decided to motivate executive behavior based on financial and management objectives consistent with the Company's corporate principles.

Design of Executive Compensation Program to Mitigate Excessive Risk Taking

As discussed above, the Board of Directors is responsible for determining the compensation structure and amounts for the named executive officers, except that the Compensation Committee (which is referred to in this Compensation Discussion and Analysis as the "committee"), is responsible for administering and

determining the annual cash incentives for the named executive officers. The named executive officers' compensation program is balanced between short-term and long-term compensation and incentives. The Board of Directors believes that too much emphasis on incentive compensation can lead to behaviors that are not necessarily in the long-term best interests of shareholders and has balanced the Company's compensation program accordingly. While this compensation program carries a heavier weighting on base salary than is typical in the competitive marketplace, the Company's primary focus is on providing total compensation as a whole that is competitive with that of its direct competitors for executive talent. In addition, the Board of Directors considers the performance of the Company and the named executive officers on an individual basis during the fiscal year when exercising discretion to adjust annual compensation. The Board of Directors believes that this program will lead to increased shareholder value on a long-term basis and serves to mitigate risk taking activities that are inconsistent with the Company's long-term shareholder interests.

Competitiveness Assessment

The Board periodically reviews compensation levels for similarly situated executives of a group of industry peers. With the assistance of Compensation Strategies, Inc., a compensation consulting firm, statistical analysis is used to adjust all market compensation data to reflect the current annual revenues and market capitalization of the Company given the variation in size of the companies from which compensation data is collected. Each element of compensation as well as total compensation is quantified and reviewed to determine the Company's competitiveness compared to the market. In late 2018, Compensation Strategies, Inc. determined that the total compensation (base salary, annual bonus and long-term incentives) for the Company's executive officers was 8.2% above the median for its peer group companies (as discussed below) after adjusting for market capitalization. The Company does not target any specific level of compensation with respect to the market such as the 50% percentile of peer companies. In determining appropriate individual compensation levels for the named executive officers, the Board considers this competitive market compensation data, as well as the individual's experience, internal equity among the executive officers, as well as individual and Company performance. Compensation levels for all named executive officers, except the Chief Executive Officer, were approved by the Board (and in the case of the Management Incentive Plan, by the Compensation Committee) based on the recommendation of, and performance evaluation by the Chief Executive Officer. In the case of the Chief Executive Officer, the independent members of the Board reviewed and approved compensation levels (and in the case of the Management Incentive Plan, the Compensation Committee) after conducting an evaluation of the prior-year performance. The results of the most recent Compensation Strategies, Inc. report were taken into account by the Board and the Compensation Committee in determining annual incentive payments for 2018 (that are disclosed in the Summary Compensation Table) and salary levels for 2019.

Peer Group

The group of peer companies used in the review of total compensation levels consists of 18 publicly traded companies in the snack, confectionary and specialty food and beverage industries with annual revenues ranging from $342 million to $15.7 billion and market capitalizations ranging from $156 million

to $23.1 billion. The Board reviews the make-up of the group on an ongoing basis. Each company included in the group is shown below.

Peer Group	Annual Revenues (in Millions)	Market Capitalization, as of 12/31/2018 (in Millions)
B&G Foods, Inc.	$ 1,701	$ 1,912
Campbell Soup Company	8,685	9,827
Dean Foods Company	7,755	348
Farmer Bros. Co.	607	396
Flowers Foods, Inc	3,952	3,897
General Mills, Inc.	15,740	23,062
The Hain Celestial Group, Inc.	2,458	1,650
The Hershey Company	7,791	16,010
J&J Snack Foods Corp	1,138	2,713
The J. M. Smucker Company	7,357	10,583
John B. Sanfilippo & Son, Inc.	889	636
Kellogg Company	13,547	19,782
Lancaster Colony Corporation	1,223	4,852
McCormick & Company, Inc.	5,409	18,310
Nature's Sunshine Products, Inc.(1)	342	156
Post Holdings, Inc.	6,257	5,945
Seneca Foods Corporation	1,315	272
TreeHouse Foods, Inc(1).	5,812	2,840

Inventure Foods, Inc., Omega Protein Corporation and Snyder's-Lance, Inc. were acquired and have been removed from the group. John B. Sanfilippo & Son, Inc. was added to the peer group in 2018.

(1) Most recent revenue data available is from 2017.

Elements of Compensation

Base Salary

The Board annually reviews each named executive officer's base salary. The Board does not establish base salary based on individual or corporate performance factors fixed in advance. The factors considered by the Board include the following:

- Individual performance and contribution to the Company;
- Comparative compensation levels of other companies, including the periodic compensation studies performed by an independent compensation consultant;
- Overall competitive environment for executives and the level of compensation considered necessary to attract and retain executive talent;
- Historical compensation and performance levels for the Company; and
- Length of service, which can be a significant factor for some executives.

Any changes to base salary levels typically become effective as of January 1st. Effective January 1 of 2018 and 2019, base salary increases of 3.3% and 1.8%, respectively, were approved by the Board for the Chief Financial Officer, base salary increases of 3.2% and 3.3%, respectively, were approved by the Board for the Treasurer, and base salary increases of 4.4% and 3.0%, respectively, were approved by the Board for the Vice President/Manufacturing. These adjustments reflect the Board's assessment of the factors

described above and were consistent with the Company's overall budget for salary increases. No salary increases were approved for either the Chief Executive Officer or for the Vice President/Marketing and Sales in either 2018 or 2019.

Annual Incentives

All of the named executive officers are eligible to participate in the Management Incentive Plan, which is referred to as the "MIP" below and which was approved by shareholders. The MIP is designed to recognize and reward the named executive officers for their contribution to the Company's overall financial performance as well as the attainment of individual and Company goals. Under the terms of the MIP, if the Company has net earnings (as defined in the MIP) of greater than $35 million during the applicable performance period, each named executive officer is deemed to have earned an award equal to the MIP's maximum award of $3.5 million. The committee then uses its discretion rather than predetermined targets to determine the level of performance achieved and to reduce the awards, even to zero, for each named executive officer based on its consideration and assessment of the following factors:

- Net earnings and earnings per share;
- Increase in sales of core brands and total sales;
- Net earnings as a percentage of sales;
- Performance in accomplishing cost savings and operational improvements;
- Performance in accomplishing and integrating successful acquisitions, and
- Other strategic objectives that may be determined from time to time.

To date, the Company has not paid the $3.5 million maximum award available under the MIP, as approved by the stockholders, to any named executive officer. The $3.5 million maximum payment figure funds an individual bonus pool for each named executive officer from which the Compensation Committee awards an appropriate bonus payment in its sole discretion given the facts and circumstances.

For fiscal years 2018, 2017 and 2016, the Committee used its discretion to reduce the maximum payments to the levels set forth in the Summary Compensation Table. The Company's 2018 net earnings were $56,893,000 and earnings per share were $0.89. Net product sales were $515,251,000. Net earnings as a percent of net product sales were 11.0%. Of the foregoing, net earnings and earnings per share, as compared to the prior year, were the predominant factors considered by the committee in determining bonus awards for each named executive officer. As salaries for all named executive officers have been limited to $999,000 as noted above, greater amounts of the compensation package have been allocated the MIP, CAP or both.

Career Achievement Plan (CAP) and Excess Benefit Plan (EBP)

All of the named executive officers were eligible to receive annual CAP awards in 2018. The CAP is designed to provide executive officers an incentive to achieve both short-term and long-term financial and other strategic goals of the Company and is also intended to provide an incentive for the named executive officers to remain with the Company on a long-term basis. Similar to MIP, the Board uses its discretion to determine the level of performance achieved and therefore make awards to executive officers in a fixed dollar amount based on its assessment of performance, rather than predetermined targets. Awarded amounts are credited to an unfunded bookkeeping account established on behalf of each executive officer. Participants vest in each annual award under the CAP ratably in annual 20% installments over five years, provided that they are continuously employed by the Company. All distributions (other than distributions made by reason of the participant's death), are subject to the participant entering into a non-competition and non-solicitation agreement. Payments of amounts accrued under the CAP prior to 2018 are currently intended to be exempt from the $1 million deduction limitation because they are deferred to a period later

than the executive's employment termination. A fuller description of the CAP follows the Nonqualified Deferred Compensation as of and for the Fiscal Year Ended December 31, 2018 table included below in this proxy statement.

The Board determines the CAP awards to the named executive officers based on its assessment of the Company's performance and each named executive officer's contribution to the Company's long-term growth and success. In making this determination for the awards made with respect to 2018, the Board generally relied on the same factors outlined above with respect to the MIP with some adjustment for prior periods to take into account the long-term growth and success of the Company and the named executive officer's contribution thereto. For fiscal year 2018, the amounts of the CAP awards ranged from $93,000 to $1,027,000 for the named executive officers because the Board determined that net profits as well as strong efforts by these executives on behalf of the Company merited such awards as did the ongoing need to continue to motivate and retain these executives. In addition, on March 28, 2018 the Company credited $149,000, $227,000 and $77,000 to Mr. Ember, Mr. Corr and Mr. Bowen, respectively, to compensate for the future inability under §409A to receive their CAP balance as of December 31, 2017 in annual installments.

All of the named executive officers participate in the EBP, which is designed to restore retirement benefits that cannot be accrued under the Company's tax qualified plans due to limitations on contributions and compensation under applicable tax laws, and our SSP, which is designed to provide a pre-tax savings opportunity for a select group of management and key employees. A fuller description of the EBP and SSP follows the Nonqualified Deferred Compensation table included below in this proxy statement.

Other Benefits and Arrangements

The named executive officers are provided with the same benefits, such as group insurance coverage and participation in the Company's tax-qualified retirement plans, as other salaried employees.

Perquisites

The Chief Executive Officer has used Company aircraft to visit the Company's manufacturing plants, attend trade association meetings, visit potential acquisition candidates, participate in advertising, media and public relations activities, interview potential executive candidates, attend board meetings of the Company and other entities and travel between corporate headquarters and other locations where other executive offices and personal housing are maintained. The Board believes that the ability of the Chief Executive Officer to safely and efficiently conduct Company business while traveling and while at different locations provided substantial benefits to the Company that justify the cost of such aircraft usage. The use of Company aircraft, and the housing and automobile benefits described below, enabled the Chief Executive Officer to visit Company facilities more frequently and to effectively devote additional time to operational and strategic aspects of the Company's business, including the development of new product innovations and cost reduction programs that have significantly contributed to the Company's success, while traveling and while working at locations other than corporate headquarters. In 2018, the Chief Executive Officer also used Company aircraft for a minimal amount of personal travel with an aggregate incremental cost to the Company of $29,542, which usage has also been approved by the Board of Directors for security and other reasons. All named executive officers, except the Chief Executive Officer, have the use of a Company provided automobile. The Chief Executive Officer is provided with the use of a Company apartment and, for efficiency and security reasons, was provided with a car and driver when in Chicago.

Change in Control Agreements

In 1997, the Company entered into change in control agreements with Mr. Ember, Mr. Corr and Mr. Bowen. The Board of Directors at that time determined amounts payable under its change in control program based in part on its review at such time of available information of such programs maintained by similarly situated companies with the assistance of a compensation consultant. The purpose of these agreements is to avoid the distraction and loss of key management personnel that may occur in connection with rumored or actual fundamental corporate changes. A change in control program protects shareholder interests by enhancing employee focus during rumored or actual change in control activity. The Board of Directors adopted these agreements under the belief that such arrangements are frequently part of executive compensation practices at major public corporations. These agreements were not extended to the Chief Executive Officer due to her significant equity stake in the Company. A detailed summary of these agreements is set forth in section entitled "Potential Payments on Termination or Change in Control" below in this proxy statement.

There are no employment agreements with the named executive officers.

Tax Considerations

In general, under Section 162(m) of the Code, income tax deductions of publicly-held corporations may be limited to the extent total compensation (including base salary, annual bonus and non-qualified deferred compensation benefits) for certain executive officers exceeds $1 million in any taxable year of the corporation. The exception for qualified "performance-based" compensation was eliminated by the Tax Cuts and Jobs Act for tax years beginning on or after January 1, 2018. As a result, any bonuses under MIP will be subject to the $1 million deduction limitation. Under the Tax Cuts and Jobs Act, the term "covered employee" now includes any individual who served as the chief executive officer or chief financial officer at any time during the taxable year and the three other most highly compensated officers for the taxable year. Once an individual becomes a covered employee, that individual will remain a covered employee for all future years, including after termination or death. Certain amounts payable after termination of employment that were accrued under CAP, EBP and SSP may be grandfathered from these changes, and consequently tax deductible regardless of the amount of payment. However, there can be no assurance that this compensation will be fully deductible under all circumstances. The Board reserves the right to pay non-deductible compensation when it determines that doing so is appropriate.

Advisory Vote on Executive Compensation

The Board considered the result of the 2017 advisory vote to approve the compensation of the Company's named executive officers in connection with the discharge of its responsibilities. Because shareholders overwhelmingly approved the compensation of the Company's named executive officers, with approximately 97% of the total votes cast voted in favor of the 2017 "say-on-pay" resolution, the Board has not made significant changes to the Company's compensation programs as a result of such shareholder advisory vote.

Report of the Board of Directors on Executive Compensation

To Our Fellow Shareholders at Tootsie Roll Industries, Inc.:

The undersigned, the entire Board of Directors of Tootsie Roll Industries, Inc., have reviewed and discussed the Compensation Discussion and Analysis set forth above with management and, based on such review and discussion, have recommended inclusion of the Compensation Discussion and Analysis in this Proxy Statement.

The entire Board of Directors:
Ellen R. Gordon
Barre A. Seibert
Lana Jane Lewis-Brent
Paula M. Wardynski

Summary Compensation Table for Fiscal Years Ended December 31, 2018, 2017 and 2016

The following table sets forth the information required by SEC Regulation S-K Item 402 as to the compensation paid or accrued for the years ended December 31, 2018, 2017 and 2016 for services rendered in all capacities, by the Company's Chairman and Chief Executive Officer, Vice President/Finance (the principal financial officer) and three other most highly compensated executive officers (the "named executive officers").

Name and Principal Position	Year	Salary	Bonus(1)	Stock or Option Awards	Non-Equity Incentive Plan Compensation	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation(2)	Total($)
Ellen R. Gordon,	2018	$ 999,000	$ 1,782,000				$ 2,365,692	$ 5,146,692
Chairman and Chief	2017	999,000	1,981,000				2,520,160	5,500,160
Executive Officer	2016	999,000	1,981,000				2,372,718	5,352,718
G. Howard Ember, Jr.,	2018	981,000	318,600				526,760	1,826,360
Vice President/Finance	2017	950,000	354,000				393,816	1,697,816
	2016	920,000	354,000				387,090	1,661,090
Thomas E. Corr.,	2018	999,000	433,000				926,012	2,358,012
Vice President/Marketing	2017	999,000	481,000				694,498	2,174,498
and Sales	2016	999,000	481,000				664,363	2,144,363
Barry P. Bowen,	2018	612,000	167,000				307,675	1,086,675
Treasurer	2017	593,000	185,500				240,064	1,018,564
	2016	574,000	185,500				236,444	995,944
Stephen P. Green	2018	566,000	153,000				204,386	923,386
Vice President/	2017	542,375	170,000				206,820	919,195
Manufacturing	2016	455,250	70,000				65,040	590,290

(1) Reflects amounts earned under the Management Incentive Plan (MIP). The MIP is discussed in the Compensation Discussion and Analysis.

(2) The All Other Compensation column reflects the following benefits for 2018:

The following amounts contributed by the Company for the benefit of the named executive officers: $30,631 for each of the named executive officers with respect to the Company's tax qualified defined contribution plans; $345,828, $146,335, $159,666, $72,105 and $63,618 for Mrs. Gordon, Mr. Ember, Mr. Corr, Mr. Bowen and Mr. Green respectively, with respect to the EBP; and $1,027,000, $333,500, $717,200, $188,000, and $93,000 for Mrs. Gordon, Mr. Ember, Mr. Corr, Mr. Bowen and Mr. Green, respectively, with respect to the Career Achievement Plan (CAP). The CAP is discussed in the Compensation Discussion and Analysis.

The use of a Company owned apartment by Mrs. Gordon when working at the Company's headquarters in the amount of $138,765. The amounts included in the table with regard to this item include the costs related to the apartment including real estate taxes, maintenance expenses, utilities, building association fees and depreciation.

The use of Company aircraft by Mrs. Gordon to travel between corporate headquarters and other locations where both executive offices and personal housing are maintained in the amount of $720,229 for Mrs. Gordon. See "Compensation Discussion and Analysis-Perquisites" above for a discussion of the reasons why the Company provides these benefits. Although the Board of Directors has approved these expenditures as reasonable business expenses because of the benefits to the Company, such expenditures are considered compensatory perquisites to Mrs. Gordon under an SEC interpretation. These amounts reflect the aggregate incremental cost to the Company of travel between these locations, based on the

proportion of hours flown for this travel relative to all

hours flown. This calculation of aggregate incremental cost includes the proportionate amount of all operating costs and fixed charges (other than depreciation) such as monthly management fees, pilot charges, fuel, maintenance, insurance and other fees. In 2018, Mrs. Gordon also used Company aircraft for a minimal amount of personal travel, the aggregate incremental cost of which was $29,542, which usage has also been approved by the Board of Directors for security and other reasons.

With respect to Messrs. Ember, Corr, Bowen and Green, the cost of providing Company automobiles. With respect to Mrs. Gordon, the cost of an automobile and driver based on all direct costs of maintaining and operating the automobile and the proportionate cost of the portion of an employee's time used for driving.

Nonqualified Deferred Compensation as of and for the Fiscal Year Ended December 31, 2018

Executive/Plan Name	Executive Contributions in last FY(1)	Company Contributions in last FY(2)	Aggregate Earnings in last FY	Aggregate Withdrawals/ Distributions	Balance at Last FYE(3)
Ellen R. Gordon					
EBP	$	$ 345,828	$ (418,084)	$	$ 13,696,071
CAP		1,027,000	(606,537)		9,660,317
SSP			(47,239)		1,622,485
G. Howard Ember, Jr.					
EBP		146,335	(320,743)	5,600	4,357,477
CAP		333,500	128,273	8,000	6,559,705
SSP			(79,084)	350,000	1,112,983
Thomas E. Corr					
EBP		159,666	119,543	6,600	4,508,109
CAP		717,200	250,394	17,600	10,460,953
SSP			11,845		404,497
Barry P. Bowen					
EBP		72,105	(96,226)	2,700	1,982,465
CAP		188,000	88,489	4,800	3,443,924
Stephen P. Green					
EBP		63,618	(67,375)	1,900	795,620
CAP		93,000	3,586	3,900	192,686
SSP			(28,815)		369,147

(1) Included as a component of "Salary" and "Bonus" in the Summary Compensation Table.

(2) Included as a component of "All Other Compensation" in the Summary Compensation Table.

(3) Reflects total contributions and earnings thereon over the named executive's career with the Company during which they participated in the EBP, CAP and the SSP, less any prior withdrawals or distributions. As of December 31, 2018, cumulative cash distributions under the EBP and the CAP had been less than $200,000 for each of the named executive officers.

Summary of Nonqualified Deferred Compensation Plans

Excess Benefit Plan

In general, the EBP provides for Company contributions that are unavailable under tax qualified retirement plans due to federal tax law limitations. Participation in the EBP is automatic for all employees for whom contributions to the qualified plans are so limited. EBP account balances are increased or decreased over time based on the returns of a diversified set of publicly traded mutual funds as selected by

the participants. All of the named executive officers have earned fully vested benefits under the EBP. Distribution of amounts under the EBP for amounts accrued and vested before 2005 are at the discretion of the administrator of the Company's Profit Sharing Plan, but must occur either in lump sum or in up to three annual installments beginning within 60 days after the year in which the participant terminates employment or the year in which the participant turns 65, whichever is later. Distributions under a participant's post 2004 calendar year amounts are generally payable in connection with a separation from service.

Supplemental Savings Plan

The named executive officers and certain other management employees are eligible to participate in the SSP, which is an unfunded, nonqualified deferred compensation plan. Each year, participants can elect to defer up to 16% of their compensation (base salary and annual bonus or MIP) under the SSP. The deferral is effective as of the time that the participant is precluded from making deferrals under the tax-qualified Profit Sharing Plan because of certain limits imposed under the Internal Revenue Code. Participant balances in the SSP are increased or decreased over time based on the returns of a diversified set of publicly traded mutual funds as selected by participants. All benefits under the SSP are fully vested. Distributions from a participant's pre-2005 calendar year accounts are made on the earlier of the date selected by the participant when making a deferral election or the 60th day after the participant terminates employment, if the Company's debt rating falls below investment grade, or in the event of a financial hardship. Distributions from a participant's post-2004 calendar year accounts are generally made on the date selected by the participant when making a deferral election, subject to certain restrictions as required under Section 409A of the Internal Revenue Code.

Career Achievement Plan

All named executive officers and certain other executives participated in the CAP, which is an unfunded, nonqualified deferred compensation plan. The CAP allows the Board to annually grant deferred cash awards to participants based on performance as determined by the Board. Amounts deferred under the CAP are increased or decreased over time based on the returns of a diversified set of publicly traded mutual funds, the Moody's bond index or up to 10,000 shares of Company common stock (adjusted for stock dividends) as selected by the participants. Each annual CAP award is subject to a separate five year vesting schedule with annual vesting at a rate of twenty percent with accelerated vesting in the event of death, disability or retirement after age 65. CAP benefits are payable only upon an eligible termination of employment or in connection with a change in control of the Company. A participant will forfeit any unvested amounts upon termination of employment. Payment of vested benefits generally commences on the later of the first anniversary of the date of employment termination or the 60th day after the participant's 65th birthday (or, if earlier, sixty days after death or disability or six months and a day after separation from service after age sixty-five). All amounts accrued under the CAP as of December 31, 2018 are payable in a single lump sum. Future awards and the earnings thereon will be payable in a single lump sum or in up to 10 annual installments as may be elected by participants as may be permitted under §409A. A participant whose employment is terminated for cause will forfeit all CAP benefits. A participant who is employed by the Company at the time of a change in control will receive an immediate lump sum payment of all accumulated CAP benefits. All distributions (other than distributions made by reason of the participant's death), will be subject to the participant entering into a non-competition and non-solicitation agreement that will be effective beginning on the date of the event triggering the right to payment and ending one year after employment termination. Participants will forfeit amounts accrued after January 2, 1999 if they violate the non-competition and non-solicitation agreement.

Payments to the named executive officers under the EBP, SSP and the CAP on account of separation from service must be delayed by six months and a day after separation.

Potential Payments on Termination or Change in Control

The section below describes the payments that may be made to the named executive officers upon employment termination or in connection with a change in control. For payments made to a participant upon employment termination under nonqualified deferred compensation plans, see Nonqualified Deferred Compensation as of and for the Fiscal Year Ended December 31, 2018.

Change in Control

The Company has entered into change in control agreements with Mr. Ember, Mr. Corr and Mr. Bowen. These agreements generally provide severance benefits in the event the named executive officer's employment is terminated by the Company without cause or by the named executive officer for good reason within two years after a change in control. These benefits include a single lump sum payment equal to:

A pro-rata bonus for the year of employment termination (based on the higher of the earned bonus for the last fiscal year or the average bonus earned during the three fiscal years before the change in control)

Three times the officer's annual base salary, and

Three times the higher of the officer's earned bonus for the last fiscal year or, if higher, the officer's average bonus over the prior three fiscal years.

The officer is also eligible for three years of continued coverage under the Company's health, life and disability benefit plans at the Company's cost. The officer would also become vested in, and be paid, any unvested accrued benefits under the Company's pension, profit sharing and excess benefit plans and the maximum award under the CAP Plan.

The officer is also entitled to a tax gross-up payment to reimburse any federal excise taxes (and related income taxes owed due to the gross-up payment) under Section 4999 of the Internal Revenue Code. Under Section 4999 of the Internal Revenue Code, a 20% excise tax is payable by a named executive officer if post termination amounts that are considered to be contingent on a change in control for tax purposes equal or exceed three times the officer's average taxable income from the Company for the five years prior to the year of the change in control. This tax equals 20% of all contingent payments that exceed his average taxable income during this period. Amounts that are subject to the 20% excise tax are not deductible under any circumstances by a buyer. If a change in control were to occur, the Company believes that the tax gross-up payments could be reduced because certain amounts may be considered reasonable compensation (such as payments attributable to a non-compete obligation) and taxable income paid prior to the year of the change in control will increase the trigger amount for the 20% tax.

An officer is required to enter into a non-competition and non-solicitation covenant applicable for one year following the termination of his employment in order to receive these benefits. The Company generally may terminate these agreements prior to a change in control.

A "change in control" for the purposes of these agreements generally consists of any of the following:

Acquisition by a person(s) or other entity(s) of 35% or more of the combined voting power of all the then outstanding voting securities of the Company (other than certain related party acquisitions); provided that such voting power is equal to or greater than the combined voting power of the voting securities held by the Gordon family

The current members of the board (and their successors nominated by either the board or the Gordon family) ceasing to constitute a majority of the board

- Approval by the Company's shareholders of a reorganization, merger, consolidation, or a sale of substantially all of the Company's assets unless:

  - The shareholders of the Company immediately prior to the transaction hold more than 50% of the voting power of the successor,

  - No person (other than certain related parties) acquires combined voting power of the successor's voting securities equal to or greater than the combined voting power of the voting securities held by the Gordon family or 35% of the combined voting power of all the then outstanding voting securities of the successor and

  - The members of the board prior to the transaction constitute at least a majority of the board of the successor

- The liquidation or sale of the Company

"Good reason" generally includes any of the following Company actions following a change in control without the named executive officer's written consent:

- Assigning duties that materially reduce the executive's position, duties, responsibilities or status with the Company, failure to terminate the executive's employment in compliance with the terms of the agreement or failing to re-elect the executive to any position held immediately before a change in control

- Reducing the executive's annual base salary

- Changing the office location where the executive is based by more than 50 miles

- Failing to continue any employee benefit plan or compensation plan in which the executive participates, including but not limited to the MIP, the EBP and the CAP (or successors to those plans), or failing to continue the executive's level of participation in those plans

- Failing to continue to provide the executive with substantially similar welfare benefits or materially reducing any of those benefits or any fringe benefit (including vacation pay)

- Failing to obtain an agreement from any successor to the Company to assume and agree to perform the obligations under a change in control agreement

Any good faith determination of good reason made by the executive shall be conclusive except that an isolated, insubstantial and inadvertent action taken in good faith and which the Company remedies promptly after receiving notice shall not constitute good reason.

A termination by the Company for cause generally means any of the following:

- The commission of a felony

- A material breach of duty by the executive (other than any failure that results from incapacity due to physical or mental illness) which is demonstrably willful and deliberate on the executive's part, which is committed in bad faith and which is not remedied within a reasonable period of time after notice

The following table estimates these change in control benefits as though the named executive officer's employment was terminated without cause immediately after a change in control on December 31, 2018 (the last day of fiscal year 2018). Use of these assumptions is required by the Securities and Exchange Commission. With those assumptions taken as a given, the Company believes that the remaining assumptions listed below, which are necessary to produce these estimates, are reasonable in the aggregate. However, the executive's employment was not terminated on December 31, 2018 and a change in control did not occur on that date. There can be no assurance that a termination of employment, a change in control or both would produce the same or similar results as those described if either or both of them

occur on any other date or at any other price, or if any assumption is not correct in fact. With respect to the calculation of excise taxes, no amounts attributable to entering into non-compete agreements have been considered exempt as may be permitted under applicable tax rules at the time of a qualifying employment termination.

Change in Control Payment and Benefit Estimates as of December 31, 2018

Executive	Aggregate Severance Pay(1)	Present Value of Accelerated Vesting of Deferred Compensation(2)	Welfare Benefit Continuation(3)	Tax Gross Up Payment(4)
Ellen R. Gordon,	$	$	$	$
G. Howard Ember, Jr.,	4,005,000		51,000	
Thomas E. Corr	4,440,000		47,000	1,740,500
Barry P. Bowen	2,392,500	74,600	51,000	1,027,300
Stephen P. Green				

(1) Assumes that any bonus paid for 2019 is earned and otherwise payable under the Management Incentive Plan.

(2) Reflects the present value of the accelerated vesting of CAP under applicable tax rules.

(3) Based on Company's current cost to provide these welfare benefits.

(4) Based on a net combined tax rate equal to 64.3% using applicable 2018 tax rates. The total tax gross-up figure does not reflect any reductions that may be taken into account due to the value of the non-competition and non-solicitation agreement under applicable tax rules.

Split Dollar Life Insurance Agreements

Certain life insurance benefits payable with respect to the Chief Executive Officer were provided by the Company in lieu of substantial non-qualified deferred compensation benefits that would have otherwise accrued during her employment with the Company over a period of approximately 25 years through 2008. This benefit was intended to minimize the necessity for the estate of the Chief Executive Officer to sell large blocks of the Company's Common Stock to pay estate taxes that might otherwise disrupt the market for the Company's shares. Under whole life insurance policies subject to split dollar life insurance agreements, Mrs. Gordon's beneficiaries would have received $30,955,000 if she had died on December 31, 2018. Premium payments towards these life insurance policies were discontinued in 2008 and all premiums paid by the Company to fund these benefits are fully recoverable upon payment of death proceeds from the life insurance policies subject to the split dollar life insurance agreements.

CEO Pay Ratio

As required by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and Item 402(u) of Regulation S-K, the Company is providing information about the relationship of the annual total compensation of its employees and the annual total compensation of the Chief Executive Officer during 2018. The total annual compensation of the median employee on a worldwide basis was $50,671. The annual total compensation of the Chief Executive Officer was $5,151,973. The ratio of these two amounts is 102 to 1 for 2018.

As permitted by the SEC rules, the median employee utilized for 2018 is the same employee identified in 2017 because there have been no changes in the employee population or employee compensation arrangements that the Company reasonably believes would result in a significant change to this pay ratio disclosure. In 2017, employees, excluding the Chief Executive Officer, who were employed on December 9,

2017 were ranked using their taxable cash earnings, which includes: salary, wages (regular, hourly, overtime, shift differentials), commissions, bonuses, and other miscellaneous cash earnings, and the median employee was identified. All employees were included, whether employed on a full-time, temporary or part-time basis, other than approximately 90 employees in Spain who represented less than 5% of total employees and were excluded under the de minimis exception permitted under the SEC rules. As of December 9, 2017, the Company had a total of 1,822 employees, and the employee population that was used for purposes of determining the compensation of the median employee was 1,168 U.S. employees and 654 non-U.S. employees after excluding the employees in Spain pursuant to the de minimis exception, and in each case excluding the Chief Executive Officer. After identifying the median employee, total annual compensation for such employee was calculated using the same methodology used for the Company's named executive officers as required to be set forth in the Summary Compensation Table, except that the annual total compensation of the median employee and the Chief Executive Officer includes the value of non-discriminatory employee benefits in the amount of $4,924, and $5,281, respectively, that are not counted in the Chief Executive Officer's total compensation in the Summary Compensation Table.

The Board did not take into account the CEO pay ratio in setting the compensation of the named executive officers.

Compensation Committee Interlocks and Insider Participation

During 2018, the Board of Directors of the Company was responsible for determining the compensation of the executive officers of the Company. Mrs. Gordon was the Chairman of the Board and Chief Executive Officer of the Company. Mrs. Gordon recused herself from votes regarding her own compensation or in circumstances where her participation, as an executive officer of the Company, would have affected compliance with federal securities law or Section 162(m) of the Internal Revenue Code.

RELATED PERSON TRANSACTIONS

The Company directs the majority of its charitable giving through a foundation of which Mrs. Gordon is the sole director. The foundation supports a number of medical research, educational and other charitable organizations principally located in cities where the Company has operations, as well as a matching gifts program for directors and employees. The Company believes, due to the well-known and long-standing affiliation of Mrs. Gordon with the Company, that any private or public recognition, which donee institutions sometimes give, provides a benefit to the Company. In 2018, the Board of Directors approved a donation of $475,000 to the foundation.

Policy Regarding Related Person Transactions

The Board has adopted a written policy that all direct or indirect transactions between the Company and its executive officers, directors or shareholders holding 5% or more of its voting securities, and any other transactions required to be disclosed as related person transactions by Item 404 of the SEC's Regulation S-K, shall be in the best interests of the Company and, unless different terms are specifically approved or ratified by disinterested members of the Board, must be on terms that are no less favorable to the Company than would be obtained in a similar transaction with an unaffiliated third party under the same or similar circumstances, or generally available to substantially all employees. All related person transactions or series of similar transactions required to be disclosed pursuant to Regulation S-K Item 404 must be presented to the Board for pre-approval or ratification.

Each of the Company's directors and executive officers is required by the policy to promptly notify the Chairman of any related person transaction in which such director or executive officer may be directly or indirectly involved as soon as he or she becomes aware of a possible transaction. The Chairman is responsible for reviewing all related person transactions and taking all reasonable steps to ensure that all

(999,248

)

Net cash provided by financing activities

102,957

174,072

Effect of foreign exchange rate changes on cash and equivalents

(453

)

59,992

Net decrease in cash and equivalents during the period

(272,919

)

(331,533

)

Cash and equivalents at beginning of period

674,549

843,908

Cash and equivalents at end of period

$

401,630

$

512,375

Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest (net of amounts capitalized)	$ 387,033	$ 255,162
Income taxes	7,833	11,952

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

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES
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Note 1 Basis of Presentation

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

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

On December 21, 2005, or the Closing Date, investment funds associated with or designated by Clayton, Dubilier & Rice, Inc., or CD&R, The Carlyle Group, or Carlyle, and Merrill Lynch Global Private Equity, or MLGPE, or collectively the Sponsors, through CCMG Acquisition Corporation, a wholly owned subsidiary of Hertz Holdings (previously known as CCMG Holdings, Inc.) acquired all of Hertz s common stock from Ford Holdings LLC for aggregate consideration of $4,379 million in cash, debt refinanced or assumed of $10,116 million and transaction fees and expenses of $447 million.

We refer to the acquisition of all of Hertz s common stock through a wholly owned subsidiary of Hertz Holdings as the Acquisition. We refer to the Acquisition, together with related transactions entered into to finance the cash consideration for the Acquisition, to refinance certain of our existing indebtedness and to pay related transaction fees and expenses, as the Transactions.

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

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

The significant accounting policies summarized in Note 1 to our audited consolidated financial statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006, filed with the United States Securities and Exchange Commission on March 30, 2007, or the Form 10-K, have been followed in preparing the accompanying condensed consolidated financial statements.

HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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In our opinion, all adjustments (which include only normal recurring adjustments) necessary for a fair statement of the results of operations for the interim periods have been made. Results for interim periods are not necessarily indicative of results for a full year.

The December 31, 2006 condensed consolidated balance sheet data was derived from our audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America, or GAAP.

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

Note 2 Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements, or SFAS No. 157. This pronouncement defines fair value, establishes a framework for measuring fair value in accordance with GAAP and expands disclosures about fair value measurements. The provisions of SFAS No. 157 are effective for the fiscal year beginning after November 15, 2007. We are currently reviewing SFAS No. 157 to determine its impact, if any, on our financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The provisions of SFAS No. 159 are effective for the fiscal year beginning after November 15, 2007. We are currently reviewing SFAS No. 159 to determine its impact, if any, on our financial position or results of operations.

Note 3 Cash and Equivalents and Restricted Cash

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

Restricted cash includes cash and equivalents that are not readily available for our normal disbursements. Restricted cash and equivalents are restricted for the acquisition of vehicles and other specified uses under our fleet debt programs, our like-kind exchange programs and to satisfy certain of our self-insurance regulatory reserve requirements. As of June 30, 2007 and December 31, 2006, the portion of total restricted cash that was associated with our fleet debt was $148.3 million and $487.0 million, respectively.

Note 4 Goodwill and Other Intangible Assets

We account for goodwill under SFAS No. 142, Goodwill and Other Intangible Assets. Under SFAS No. 142, goodwill must be tested for impairment at least annually. For 2007, we conducted the required annual goodwill and indefinite-lived intangible asset impairment test in the second quarter and determined that there was no impairment.

HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES
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The following summarizes the changes in our goodwill, by segment, for the periods presented (in thousands of dollars):

	Car Rental	Equipment Rental	Total
Balance as of December 31, 2006	$ 336,579	$ 628,114	$ 964,693
Changes(1)	18,497	2,157	20,654
Balance as of June 30, 2007	$ 355,076	$ 630,271	$ 985,347

(1) Consists of changes primarily resulting from the adoption of FIN 48 (see Note 5 Taxes on Income) and the translation of foreign currencies at different exchange rates from the beginning of the period to the end of the period.

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

	June 30, 2007			December 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Amortized intangible assets:						
Customer-related	$ 612,297	$ (93,674)	$ 518,623	$ 611,783	$ (63,046)	$ 548,737
Other	1,290	(650)	640	1,270	(512)	758
Total	613,587	(94,324)	519,263	613,053	(63,558)	549,495
Indefinite-lived intangible assets:						
Trade name	2,624,000		2,624,000	2,624,000		2,624,000
Total other intangible assets, net	$ 3,237,587	$ (94,324)	$ 3,143,263	$ 3,237,053	$ (63,558)	$ 3,173,495

Amortization of other intangible assets for the three months ended June 30, 2007 and 2006 was approximately $15.4 million and $15.3 million, respectively, and for the six months ended June 30, 2007 and 2006 was approximately $30.8 million and $30.8 million, respectively. Future amortization expense of other intangible assets is expected to be approximately $61.2 million per year for each of the next five years.

Note 5 Taxes on Income

The provision for taxes on income is determined using the estimated effective tax rate applicable for the full year. The effective tax rate for the three and six months ended June 30, 2007 is 37.3% and 40.5%, respectively, which reflects the impact of not providing a benefit for losses in certain countries.

We adopted the provisions of FASB Interpretation No. 48, or FIN 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109, on January 1, 2007. Upon adoption, we recorded an $18.9 million increase to our liabilities for unrecognized tax benefits. The increase in liabilities was recorded as a charge of $3.6 million and an increase of $15.3 million to the January 1, 2007 retained earnings and goodwill balances, respectively. As of the adoption date, we had gross tax

HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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effected unrecognized tax benefits of $20.3 million, of which $5.1 million, if recognized, would favorably impact the effective tax rate in future periods.

We conduct business globally and, as a result, file one or more income tax returns in the U.S. federal jurisdiction and various state and non-U.S. jurisdictions. In the normal course of business we are subject to examination by taxing authorities throughout the world, including such major jurisdictions as Australia, the Netherlands, Brazil, Canada, France, Germany, Italy, Spain, Ireland, the United Kingdom and the United States. The open tax years for these jurisdictions span from 1991 to 2006. The tax indemnification agreement entered into with Ford on the Closing Date indemnifies Hertz from U.S. federal and unitary state, and certain combined non-U.S. income tax liabilities for all periods prior to December 21, 2005.

In many cases our uncertain tax positions are related to tax years that remain subject to examination by the relevant taxing authorities. We are not currently under audit by the Internal Revenue Service but are under audit in several non-U.S. jurisdictions. It is reasonably possible that a $3.3 million tax liability, attributable to an uncertain tax position, may reverse within the next twelve months.

Interest and penalties related to the liabilities for unrecognized tax benefits are classified as a component of Provision for taxes on income in our consolidated statement of operations. Accrued interest (net of benefit) and penalties recorded at January 1, 2007 in our condensed consolidated balance sheet was $12.5 million.

Note 6 Depreciation of Revenue Earning Equipment

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

	Three Months Ended June 30,	
	2007	**2006**
Depreciation of revenue earning equipment	$ 480,537	$ 439,211
Adjustment of depreciation upon disposal of the equipment	41	(9,334)
Rents paid for vehicles leased	15,459	6,343
Total	$ 496,037	$ 436,220

	Six Months Ended June 30,	
	2007	**2006**
Depreciation of revenue earning equipment	$ 931,902	$ 857,851
Adjustment of depreciation upon disposal of the equipment	5,097	(26,345)
Rents paid for vehicles leased	26,855	11,968
Total	$ 963,854	$ 843,474

The adjustment of depreciation upon disposal of revenue earning equipment for the three months ended June 30, 2007 and 2006 included a net loss of $3.5 million and a net gain of $3.2 million, respectively, on the disposal of vehicles in our car rental operations and net gains of $3.5 million and $6.1 million, respectively, on the disposal of industrial and construction equipment used in our equipment rental operations. The adjustment of depreciation upon disposal of revenue earning equipment for the six months ended June 30, 2007 and 2006 included a net loss of $12.0 million and a net gain of $14.3 million, respectively, on the disposal of vehicles in our car rental operations and

HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES
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net gains of $6.9 million and $12.0 million, respectively, on the disposal of industrial and construction equipment in our equipment rental operations.

Depreciation rates are reviewed on an ongoing basis based on management s routine review of present and estimated future market conditions and their effect on residual values at the time of disposal. Effective January 1, 2007 and April 1, 2007, depreciation rates being used to compute the provision for depreciation of revenue earning equipment were increased on certain vehicles in our U.S. and Canadian car rental operations and were decreased effective January 1, 2007 and increased effective April 1, 2007, in our other international car rental operations, in each case, to reflect changes in the estimated residual values to be realized when revenue earning equipment is sold. These depreciation rate changes resulted in net increases of $3.7 million, $0.6 million and $2.0 million, respectively, in depreciation expense for the three months ended June 30, 2007 and net increases of $9.0 million, $0.8 million and $1.6 million, respectively, in depreciation expense for the six months ended June 30, 2007. Effective April 1, 2007, depreciation rates in our U.S. equipment rental operations were decreased and resulted in a net decrease of $3.0 million in depreciation expense for the three and six months ended June 30, 2007. Effective April 1, 2006 and January 1, 2007, depreciation rates in our French equipment rental operations were decreased and resulted in a net reduction of $0.3 million and $2.2 million in depreciation expense for the three and six months ended June 30, 2007, respectively.

Note 7 Debt

Our Senior Term Facility is a facility entered into by Hertz in connection with the Acquisition consisting of (a) a maximum borrowing capacity of $2,000 million (which was decreased in February 2007 to $1,400 million), which included a delayed draw facility of $293 million (which was utilized during 2006) and (b) a synthetic letter of credit facility in an aggregate principal amount of $250 million.

Our Senior ABL Facility is a senior asset-based revolving loan facility entered into by Hertz and certain of its U.S. and of its Canadian subsidiaries in connection with the Acquisition with a maximum borrowing capacity of $1,600 million (which was increased in February to $1,800 million). Up to $200.0 million of the revolving loan facility is available for the issuance of letters of credit. We refer to the Senior Term Facility and the Senior ABL Facility together as the Senior Credit Facilities.

Our Senior Dollar Notes are the $1,800 million aggregate principal amount of 8.875% Senior Notes due 2014 issued by Hertz in connection with the Acquisition. Our Senior Subordinated Notes refer to the $600 million aggregate principal amount of 10.5% Senior Subordinated Notes due 2016 issued by Hertz in connection with the Acquisition. Our Senior Euro Notes are the 225 million aggregate principal amount of 7.875% Senior Notes due 2014 issued by Hertz in connection with the Acquisition. We refer to the Senior Dollar Notes and the Senior Euro Notes together as the Senior Notes.

Our Promissory Notes consist of the outstanding untendered senior notes issued under three separate indentures existing prior to the Acquisition. These senior notes have maturities ranging from 2007 to 2028.

Our U.S. Fleet Debt consists of approximately $4,300 million of asset-backed securities issued on the Closing Date by a special purpose entity wholly owned by us, backed by our U.S. car rental fleet, all of which we issued under our existing asset-backed notes program, or the ABS Program. An additional $600 million of previously issued asset-backed medium term notes, or Pre-Acquisition ABS

HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Notes, having maturities from 2007 to 2009 remained outstanding under the ABS Program following the closing of the Transactions ($265 million of which have subsequently matured). We have also issued approximately $1,500 million of variable funding notes on the Closing Date in two series under these facilities, none of which were funded on the Closing Date.

Our International Fleet Debt consists of the aggregate borrowings of our foreign subsidiaries under asset-based revolving loan facilities, subject to borrowing bases comprised of rental vehicles, rental equipment, and related assets of certain of our foreign subsidiaries (substantially all of which are organized outside of the United States) or one or more special purpose entities, as the case may be, and rental equipment and related assets of certain of our subsidiaries organized outside North America or one or more special purpose entities, as the case may be. The subsidiaries conducting the car rental business in certain European jurisdictions may, at their option, continue to engage in capital lease financings relating to revenue earning equipment outside the International Fleet Debt facilities.

Our Fleet Financing Facility is a credit agreement entered into by Hertz and its subsidiary, Puerto Ricancars, Inc., or PR Cars, in September 2006, which provides for a commitment of up to $275 million to finance the acquisition of Hertz s and/or PR Cars fleet in Hawaii, Kansas, Puerto Rico and St. Thomas, the U.S. Virgin Islands.

Our Brazilian Credit Facility consists of revolving and term credit facilities entered into by our Brazilian subsidiary in April 2007. The maximum amount that may be borrowed under this facility is R$130 million (or $67.6 million, calculated using exchange rates in effect on June 30, 2007) maturing in December 2010.

Our Canadian Fleet Financing Facility consists of an asset-backed borrowing facility to provide financing for our Canadian rental car fleet entered into in May 2007. The maximum amount which may be borrowed under this facility is CAN$400 million (or $376.3 million) maturing in May 2012.

Our Belgian Revolving Credit Facility consists of a revolving credit facility entered into by Hertz Belgium BVBA of up to 23.4 million (or $31.6 million) maturing in December 2010.

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HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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Our debt consists of the following (in thousands of dollars):

	June 30, 2007	December 31, 2006
Corporate Debt		
Senior Term Facility, average interest rate: 2007, 7.1%; 2006, 7.4% (effective average interest rate: 2007, 7.2%; 2006, 7.5%); net of unamortized discount: 2007, $25,705; 2006, $38,378	$ 1,370,795	$ 1,947,907
Senior ABL Facility, average interest rate: 2007, 6.5%; 2006, N/A (effective average interest rate: 2007, 7.8%; 2006, N/A); net of unamortized discount: 2007, $20,746; 2006, $22,188	108,058	(22,188)
Senior Notes, average interest rate: 2007, 8.7%; 2006, 8.7%	2,103,849	2,097,030
Senior Subordinated Notes, average interest rate: 2007, 10.5%; 2006, 10.5%	600,000	600,000
Promissory Notes, average interest rate: 2007, 7.2%; 2006, 7.2% (effective average interest rate: 2007, 7.3%; 2006, 7.3%); net of unamortized discount: 2007, $5,550; 2006, $5,545	633,458	633,463
Notes payable, average interest rate: 2007, 5.2%; 2006, 4.1%	2,110	6,175
Foreign subsidiaries debt in foreign currencies:		
Short-term bank borrowings, average interest rate: 2007, 13.9%; 2006, 13.4%	968	2,340
Other borrowings, average interest rate: 2007, 5.5%; 2006, 5.1%	14,518	12,546
Total Corporate Debt	4,833,756	5,277,273
Fleet Debt		
U.S. Fleet Debt and Pre-Acquisition ABS Notes, average interest rate: 2007, 4.6%; 2006, 4.4% (effective average interest rate: 2007, 4.6%; 2006, 4.5%); net of unamortized discount: 2007, $6,811; 2006, $10,631	5,198,189	4,845,202
International Fleet Debt in foreign currencies, average interest rate: 2007, 5.6%; 2006, 5.4% (effective average interest rate: 2007, 5.6%; 2006, 5.4%); net of unamortized discount: 2007, $1,721; 2006, $4,443	1,937,425	1,987,787
Fleet Financing Facility, average interest rate: 2007, 6.6%; 2006, 6.6% (effective average interest rate: 2007, 6.6%; 2006, 6.7%); net of unamortized discount: 2007, $1,859; 2006, $2,078	178,141	165,922
Brazilian Credit Facility, average interest rate: 2007, 13.9%; 2006, N/A	57,291	
Canadian Fleet Financing Facility, average interest rate: 2007, 4.7%; 2006, N/A	223,416	
Belgian Revolving Credit Facility, average interest rate: 2007, 5.4%; 2006, N/A	24,308	
Total Fleet Debt	7,618,770	6,998,911
Total Debt	$ 12,452,526	$ 12,276,184

The aggregate amounts of maturities of debt for each of the twelve-month periods ending June 30 (in millions of dollars) are as follows: 2008, $3,417.4 (including $3,123.9 of other short-term borrowings); 2009, $1,155.5; 2010, $1,258.7; 2011, $2,236.7; 2012, $121; after 2012, $4,325.6.

HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES
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As of June 30, 2007, there were outstanding standby letters of credit totaling $468.4 million. Of this amount, $234.0 million has been issued for the benefit of the ABS Program ($200.0 million of which was issued by Ford and $34.0 million of which was issued under the Senior Credit Facilities) and the remainder is primarily issued to support self-insurance programs (including insurance policies with respect to which we have indemnified the issuers for any losses) in the United States, Canada and in Europe and to support airport concession obligations in the United States and Canada. As of June 30, 2007, the full amount of these letters of credit was undrawn.

As of June 30, 2007, there were $35.9 million of capital lease financings outstanding. These capital lease financings are included in the International Fleet Debt total.

On January 12, 2007, Hertz completed exchange offers for its outstanding Senior Notes and Senior Subordinated Notes whereby over 99% of the outstanding notes were exchanged for a like principal amount of new notes with identical terms that were registered under the Securities Act of 1933 pursuant to a registration statement on Form S-4.

On February 9, 2007, Hertz entered into an amendment to its Senior Term Facility. The amendment was entered into for the purpose of (i) lowering the interest rates payable on the Senior Term Facility by up to 50 basis points from the interest rates previously payable thereunder, and revising financial ratio requirements for specific interest rate levels; (ii) eliminating certain mandatory prepayment requirements; (iii) increasing the amounts of certain other types of indebtedness that Hertz and its subsidiaries may incur outside of the Senior Term Facility; (iv) permitting certain additional asset dispositions and sale and leaseback transactions; and (v) effecting certain technical and administrative changes to the Senior Term Facility. During the three months ended March 31, 2007, we recorded an expense of $13.9 million, in our consolidated statement of operations, in Interest, net of interest income, associated with the write off of debt costs in connection with the amendment of the Senior Term Facility. Additionally, in February 2007, we repaid a portion of the Senior Term Facility, bringing the maximum borrowing capacity down from $2,000 million to $1,400 million.

On February 15, 2007, Hertz, Hertz Equipment Rental Corporation and certain other subsidiaries entered into an amendment to its Senior ABL Facility. The amendment was entered into for the purpose of (i) lowering the interest rates payable on the Senior ABL Facility by up to 25 basis points from the interest rates previously payable thereunder, and revising financial ratio requirements for specific interest rate levels; (ii) increasing the availability under the Senior ABL Facility from $1,600 million to $1,800 million; (iii) extending the term of the commitments under the Senior ABL Facility to February 15, 2012; (iv) increasing the amounts of certain other types of indebtedness that the borrowers and their subsidiaries may incur outside of the Senior ABL Facility; (iv) permitting certain additional asset dispositions and sale and leaseback transactions; and (v) effecting certain technical and administrative changes to the Senior ABL Facility. During the three months ended March 31, 2007, we recorded an expense of $2.2 million, in our consolidated statement of operations, in Interest, net of interest income, associated with the write off of debt costs in connection with the amendment of the Senior ABL Facility.

On March 21, 2007, certain of the agreements relating to the International Fleet Debt facilities were amended and restated for the purpose of, among other things, (i) extending the dates when margins on the facilities are scheduled to step up, subject to satisfaction of interim goals pertaining to the execution of agreements with automobile manufacturers and dealers that are required in connection with the planned securitization of the international car rental fleet and the take-out of the Tranche A1 and Tranche A2 loans; (ii) subject to certain conditions, permitting the financing of value-added tax

HERTZ GLOBAL HOLDINGS, INC. AND SUBSIDIARIES
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receivables under the facilities; and (iii) effecting certain technical and administrative changes to the terms of the facilities. Additionally, the Intercreditor deed pertaining to the International Fleet Debt facilities was amended, to among other things, remove the Brazilian facility.

On April 4, 2007, our Brazilian subsidiary entered into the Brazilian Credit Facility, an agreement amending and restating its credit facility (which was originally under the International Fleet Debt facility) to, among other things, increase the facility to R$130 million (or $67.6 million) consisting of an R$70 million (or $36.4 million) term loan facility and an R$60 million (or $31.2 million) revolving credit facility. This facility will mature on December 21, 2010.

On May 30, 2007, a Canadian subsidiary, Hertz Canada Limited, and certain of its subsidiaries, entered into a Note Purchase Agreement with CARE Trust, a special purpose commercial paper conduit administered by Bank of Montreal, and certain related agreements and transactions, in order to establish the Canadian Fleet Financing Facility, an asset-backed borrowing facility to provide financing for our Canadian rental car fleet. The new facility refinanced the Canadian portion of the International Fleet Debt facilities. The maximum amount which may be borrowed under the new facility is CAN$400 million (or $376.3 million). The new facility has a term of five years.

On June 21, 2007, our Belgian subsidiary, Hertz Belgium BVBA, entered into the Belgian Revolving Credit Facility, a secured revolving credit facility for up to 23.4 million (or $31.6 million) maturing in December 2010. The new facility refinanced the Belgian portion of the International Fleet Debt facilities.

Guarantees and Security

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

The obligations of the borrowers under the International Fleet Debt facilities are guaranteed by Hertz International, Ltd., or HIL, and by the other borrowers and certain related entities under the applicable tranche, in each case subject to certain legal, tax, cost and other structuring considerations. The obligations and the guarantees of the obligations of the Tranche A borrowers under the Tranche A2 loans are subordinated to the obligations and the guarantees of the obligations of such borrowers under the Tranche A1 loans. Subject to legal, tax, cost and other structuring considerations and to certain exceptions, the International Fleet Debt facilities are secured by a material part of the assets of each borrower, certain related entities and each guarantor, including pledges of the capital stock of each borrower and certain related entities. The obligations of the Tranche A borrowers under the Tranche A2 loans and the guarantees thereof are secured on a junior

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second priority basis by any assets securing the obligations of the Tranche A borrowers under the Tranche A1 loans and the guarantees thereof. The assets that collateralize the International Fleet Debt facilities will not be available to satisfy the claims of Hertz s general creditors.

The obligations of each of the borrowers under the Fleet Financing Facility are guaranteed by each of Hertz s direct and indirect domestic subsidiaries (other than subsidiaries whose only material assets consist of securities and debt of foreign subsidiaries and related assets, subsidiaries involved in the ABS Program or other similar special purpose financings, subsidiaries with minority ownership positions, certain subsidiaries of foreign subsidiaries and certain immaterial subsidiaries). In addition, the obligations of PR Cars are guaranteed by Hertz. The obligations of Hertz under the Fleet Financing Facility and the other loan documents, including, without limitation, its guarantee of PR Cars obligations under the Fleet Financing Facility, are secured by security interests in Hertz s rental car fleet in Hawaii and by certain assets related to Hertz s rental car fleet in Hawaii and Kansas, including, without limitation, manufacturer repurchase program agreements. PR Cars obligations under the Fleet Financing Facility and the other loan documents are secured by security interests in PR Cars rental car fleet in Puerto Rico and St. Thomas, the U.S. Virgin Islands and by certain assets related thereto.

In addition, Hertz has guaranteed the obligations of its Brazilian subsidiary under its loan agreement, as amended and restated as of April 4, 2007, up to an aggregate principal amount of $63.5 million. That guarantee is secured equally and ratably with borrowings under the Senior Term Facility.

The obligations of Hertz Belgium BVBA under the Belgian Revolving Credit Facility are guaranteed by HIL.

Covenants

Certain of our debt instruments and credit facilities contain a number of covenants that, among other things, limit or restrict the ability of the borrowers and the guarantors to dispose of assets, incur additional indebtedness, incur guarantee obligations, prepay other indebtedness, make dividends and other restricted payments, create liens, make investments, make acquisitions, engage in mergers, change the nature of their business, make capital expenditures, or engage in certain transactions with affiliates. Some of these agreements also require the maintenance of certain financial covenants. As of June 30, 2007, we were in compliance with all of these financial covenants.

Derivatives

In connection with the Acquisition and the issuance of $3,550.0 million of floating rate U.S. Fleet Debt, Hertz Vehicle Financing LLC, or HVF, entered into certain interest rate swap agreements, or the HVF Swaps, effective December 21, 2005, which qualify as cash flow hedging instruments in accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities. These agreements mature at various terms, in connection with the scheduled maturity of the associated debt obligations, through November 25, 2011. Under these agreements, HVF pays monthly interest at a fixed rate of 4.5% per annum in exchange for monthly amounts at one-month LIBOR, effectively transforming the floating rate U.S. Fleet Debt to fixed rate obligations. HVF paid $44.8 million to reduce the fixed interest rate on the swap from the prevailing market rates to 4.5%. Ultimately, this amount will be recognized as additional interest expense over the remaining terms of the swaps, which range from 2 to 4 years. For the three months ended March 31, 2007, we recorded an expense of $12.8 million in our consolidated statement of operations, in Interest, net of interest income,

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associated with the ineffectiveness of the HVF Swaps. The ineffectiveness resulted from a decline in the value of the swaps due to the decreasing forward interest rates along with a decrease in the time value component as we continue to approach the maturity dates of the swaps. However, during the three months ended June 30, 2007, forward interest rates increased steadily, resulting in a higher fair value of the swaps, which more than offset the decline related to the diminishing time value component, resulting in the reversal of the $12.8 million of expense previously recognized. As of June 30, 2007, the fair value of the HVF Swaps was $68.9 million, which is reflected in the condensed consolidated balance sheet in Prepaid expenses and other assets.

In May 2006, in connection with the forecasted issuance of the permanent take-out international asset-based facilities, HIL purchased two swaptions for 3.3 million, to protect itself from interest rate increases. These swaptions gave HIL the right, but not the obligation, to enter into three year interest rate swaps, based on a total notional amount of 600 million at an interest rate of 4.155%. The swaptions were renewed in 2007 prior to their scheduled expiration date of March 15, 2007, at a cost of 1.8 million, and now expire on September 5, 2007. As of June 30, 2007, the fair value of the swaptions was 10.5 million (or $14.1 million), which is reflected in our condensed consolidated balance sheet in Prepaid expenses and other assets. During the three and six months ended June 30, 2007, the fair value adjustment related to these swaptions was a gain of $10.2 million and $9.9 million, respectively, which was recorded in our consolidated statement of operations in Selling, general and administrative expenses.

Credit Facilities

As of June 30, 2007, the following credit facilities were available for the use of Hertz and its subsidiaries:

- The Senior Term Facility had approximately $3.5 million available under the letter of credit facility.

- The Senior ABL Facility had the foreign currency equivalent of approximately $1,649.8 million of remaining capacity, all of which was available under the borrowing base limitation and $181.9 million of which was available under the letter of credit facility sublimit.

- The U.S. Fleet Debt had approximately $930.0 million of remaining capacity and $38.0 million available under the borrowing base limitation. No additional amounts were available under the letter of credit facility.

- The International Fleet Debt facilities had the foreign currency equivalent of approximately $981.6 million of remaining capacity and $193.5 million available under the borrowing base limitation.

- The Fleet Financing Facility had approximately $95.0 million of remaining capacity and $7.5 million available under the borrowing base limitation.

- The Brazilian Credit Facility had the foreign currency equivalent of approximately $10.3 million of remaining capacity and $0.5 million available under the borrowing base limitation.

- The Canadian Fleet Financing Facility had the foreign currency equivalent of approximately $152.9 million of remaining capacity and no amounts available under the borrowing base limitation.

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- The Belgian Revolving Credit Facility had the foreign currency equivalent of approximately $7.3 million of remaining capacity, all of which was available under the borrowing base limitation.

As of June 30, 2007, substantially all of our assets are pledged under one or more of the facilities noted above.

Note 8 Employee Retirement Benefits

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

	Three Months Ended June 30, Pension Benefits				Postretirement Benefits (U.S.)	
	U.S.		Non-U.S.			
	2007	2006	2007	2006	2007	2006
Components of Net Periodic Benefit Cost:						
Service cost	$ 6.6	$ 6.8	$ 2.8	$ 2.3	$ 0.1	$ 0.1
Interest cost	6.2	5.2	2.6	1.9	0.3	0.3
Expected return on plan assets	(6.4)	(5.9)	(2.6)	(2.0)		
Amortization: Losses and other	0.1			0.2		
Settlement/curtailment gain	(4.9)				(0.1)	
Net pension/postretirement expense	$ 1.6	$ 6.1	$ 2.8	$ 2.4	$ 0.3	$ 0.4

	Six Months Ended June 30, Pension Benefits				Postretirement Benefits (U.S.)	
	U.S.		Non-U.S.			
	2007	2006	2007	2006	2007	2006
Components of Net Periodic Benefit Cost:						
Service cost	$ 13.6	$ 14.0	$ 5.3	$ 4.5	$ 0.2	$ 0.2
Interest cost	12.3	10.8	4.9	3.9	0.5	0.5
Expected return on plan assets	(12.7)	(12.1)	(5.3)	(3.7)		
Amortization: Losses and other	0.1			0.2	(0.1)	
Settlement/curtailment (gain) loss	(0.3)		(0.1)		0.2	
Net pension/postretirement expense	$ 13.0	$ 12.7	$ 4.8	$ 4.9	$ 0.8	$ 0.7

Our policy for funded plans is to contribute annually, at a minimum, amounts required by applicable laws, regulations and union agreements. From time to time, we make contributions beyond those legally required. For the three and six months ended June 30, 2007, we contributed $3.8 million and $16.0 million, respectively, to our funded worldwide pension plans and benefit payments made through unfunded plans.

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We participate in various multiemployer pension plans administrated by labor unions representing some of our employees. We make periodic contributions to these plans to allow them to meet their pension benefit obligations to their participants. In the event that we withdrew from participation in one of these plans, then applicable law could require us to make an additional lump-sum contribution to the plan, and we would have to reflect that as an expense in our consolidated statement of operations and as a liability on our condensed consolidated balance sheet. Our withdrawal liability for any multiemployer plan would depend on the extent of the plan s funding of vested benefits. We currently do not expect to incur any material withdrawal liability in the near future. However, in the ordinary course of our renegotiation of collective bargaining agreements with labor unions that maintain these plans, we could decide to discontinue participation in a plan, and in that event we could face a withdrawal liability. Some multiemployer plans, including one in which we participate, are reported to have significant underfunded liabilities. Such underfunding could increase the size of our potential withdrawal liability.

Note 9 Hertz Holdings Stock Incentive Plan

In May 2007, Hertz Holdings granted options to acquire 1,030,007 shares of Hertz Holdings common stock to key executives, employees, and non-management directors at exercise prices ranging from $20.55 to $21.87. These options are subject to and governed by the terms of the Hertz Global Holdings, Inc. Stock Incentive Plan, or the Stock Incentive Plan, and the Hertz Global Holdings, Inc. Director Stock Incentive Plan, or the Director Plan. We have accounted for our employee stock-based compensation awards in accordance with SFAS No. 123R, Share-Based Payment. The options are being accounted for as equity-classified awards.

For the three and six months ended June 30, 2007, we recognized compensation cost of approximately $8.3 million ($5.1 million, net of tax) and $15.3 million ($9.4 million, net of tax) respectively. As of June 30, 2007, there was approximately $101.3 million of total unrecognized compensation cost related to non-vested stock options granted by Hertz Holdings under the Stock Incentive Plan, including costs related to modifying the exercise prices of certain option grants in order to preserve the intrinsic value of the options, consistent with applicable tax law, to reflect special cash dividends of $4.32 per share paid on June 30, 2006 and $1.12 per share paid on November 21, 2006. These remaining costs are expected to be recognized over the remaining 2.3 years of the five-year requisite service period that began on the grant dates.

Note 10 Segment Information

In accordance with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, we disclose segment data based on how management makes decisions about allocating resources to segments and measuring their performance.

Our operating segments are aggregated into reportable business segments based primarily upon similar economic characteristics, products, services, customers and delivery methods. We have identified two segments: rental of cars and light trucks, or car rental, and rental of industrial, construction and material handling equipment, or equipment rental. Corporate and other includes general corporate expenses, certain interest expense (including net interest on corporate debt), as well as other business activities such as our third-party claim management services.

On January 1, 2007, we changed our measure of segment profitability from income (loss) before income taxes and minority interest to adjusted pre-tax income (loss) as this measure is now being

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utilized by management in making decisions about allocating resources to segments and measuring their performance. We believe this measure better reflects the financial results from ongoing operations. Adjusted pre-tax income (loss) is calculated as income (loss) before income taxes and minority interest plus non-cash purchase accounting charges, non-cash debt charges relating to the amortization of debt financing costs and debt discounts and mark to market of the HVF swaps, unrealized transaction gains (losses) on Euro-denominated debt and certain one-time charges and non-operational items. The contribution of our segments to revenues and adjusted pre-tax income (loss) for the three and six months ended June 30, 2007 and 2006 are summarized below (in millions of dollars).

	Three Months Ended June 30,			
	Revenues		**Adjusted Pre-Tax Income (Loss)**	
	2007	**2006**	**2007**	**2006**
Car rental	$ 1,740.3	$ 1,618.2	$ 153.1	$ 112.9
Equipment rental	433.0	420.5	96.7	87.9
Corporate and other	2.4	1.9	(92.6)	(84.1)
Total	$ 2,175.7	$ 2,040.6	$ 157.2	$ 116.7

	Six Months Ended June 30,			
	Revenues		**Adjusted Pre-Tax Income (Loss)**	
	2007	**2006**	**2007**	**2006**
Car rental	$ 3,270.0	$ 3,039.8	$ 190.0	$ 130.4
Equipment rental	822.9	783.6	162.3	141.2
Corporate and other	4.3	3.8	(179.0)	(166.5)
Total	$ 4,097.2	$ 3,827.2	$ 173.3	$ 105.1

The following table reconciles the income (loss) before income taxes and minority interest to adjusted pre-tax income for the three and six months ended June 30, 2007 and 2006 (in millions of dollars):

	Three Months Ended June 30,	
	2007	**2006**
Income before income taxes and minority interest	$ 141.0	$ 57.3
Adjustments:		
Purchase accounting(a)	22.6	20.1
Non-cash debt charges(b)	4.1	23.5
Restructuring charges	16.7	
Chief Executive Officer transition costs	0.6	0.6
Mark-to-market Euro-denominated debt(c)		15.0
Unrealized gain on derivative(d)	(10.2)	
Interest on Hertz Holdings debt		0.2
Vacation accrual adjustment(f)	(19.6)	
Secondary offering costs	2.0	
Adjusted pre-tax income	$ 157.2	$ 116.7

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	Six Months Ended June 30,	
	2007	2006
Income (loss) before income taxes and minority interest	$ 50.4	$ (6.0)
Adjustments:		
Purchase accounting(a)	45.7	42.1
Non-cash debt charges(b)	52.5	52.7
Restructuring charges	49.3	
Chief Executive Officer transition costs	3.2	1.2
Mark-to-market Euro-denominated debt(c)		21.5
Gain on sale of swap derivative(e)		(6.6)
Unrealized gain on derivative(d)	(10.2)	
Interest on Hertz Holdings debt		0.2
Vacation accrual adjustment(f)	(19.6)	
Secondary offering costs	2.0	
Adjusted pre-tax income	$ 173.3	$ 105.1

(a) Includes the purchase accounting effects of the Acquisition on our results of operations relating to increased depreciation and amortization of tangible and intangible assets and accretion of revalued workers compensation and public liability and property damages liabilities.

(b) Non-cash debt charges represent the amortization of deferred financing costs and debt discount. In the three months ended June 30, 2007, also includes $12.8 million associated with the reversal of the ineffectiveness of the HVF swaps originally recorded in the three months ended March 31, 2007. Additionally, in the three months ended March 31, 2007 and six months ended June 30, 2007, includes the write off of $16.1 million of unamortized debt costs associated with a debt modification.

(c) Represents unrealized losses on currency translation of Euro-denominated debt. On October 1, 2006, we designated this Euro-denominated debt as an effective net investment hedge of our Euro-denominated net investment in our foreign operations and as such we will no longer incur unrealized exchange transaction gains or losses in our consolidated statement of operations.

(d) During the three months and six months ended June 30, 2007, includes unrealized gains on interest rate swaptions.

(e) During the three months ended December 31, 2006, an adjustment of $5.6 million was recorded to reduce the $6.6 million gain on the assignment of certain interest rate swaps to $1.0 million. See Note 12 to the Notes to our audited annual consolidated financial statements included in our Form 10-K.

(f) Represents a decrease in employee vacation accrual during the three and six months ended June 30, 2007, relating to a change in our U.S. vacation policy which provides for vacation entitlement to now be earned ratably throughout the year versus the previous policy which provided for full vesting on January 1 of each year.

The increase in total assets from December 31, 2006 to June 30, 2007 in our condensed consolidated balance sheet was primarily due to an increase in revenue earning vehicles in our car rental segment, partly offset by decreases in restricted cash, cash and equivalents and receivables.

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Note 11 Comprehensive Income

Accumulated other comprehensive income as of June 30, 2007 and December 31, 2006 primarily includes (in thousands of dollars) accumulated translation gains of $129,116 and $91,629, respectively, a change in unrecognized net periodic pension and postretirement costs of $22,190 and $6,452, respectively, unrealized gains on cash flow hedges of $14,589 and $3,543, respectively, and unrealized losses on our Euro-denominated debt of $11,179 and $7,066, respectively. Comprehensive income for the three and six months ended June 30, 2007 and 2006 was as follows (in thousands of dollars):

	Three Months Ended June 30, 2007	2006
Net income	$ 83,675	$ 17,818
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	25,021	48,771
Unrealized loss on available-for-sale securities	(66)	(23)
Unrealized loss on Euro-denominated debt	(1,983)	
Change in unrecognized net periodic pension and postretirement cost	15,772	
Change in fair value of cash flow hedges	13,969	13,506
Total other comprehensive income	52,713	62,254
Comprehensive income	$ 136,388	$ 80,072

	Six Months Ended June 30, 2007	2006
Net income (loss)	$ 21,109	$ (31,418)
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	37,487	62,854
Unrealized loss on available-for-sale securities	(73)	(49)
Unrealized loss on Euro-denominated debt	(4,113)	
Change in unrecognized net periodic pension and postretirement cost	15,738	
Change in fair value of cash flow hedges	11,046	48,808
Total other comprehensive income	60,085	111,613
Comprehensive income	$ 81,194	$ 80,195

As of December 31, 2006, we adopted SFAS No. 158, or SFAS No. 158, Employer s Accounting for Defined Benefit Pensions and Other Postretirement Benefits. We recorded the impact of adopting this standard in Accumulated other comprehensive income, resulting in an increase of $6.4 million, net of tax. Subsequent to the filing of our 2006 Form 10-K, we identified that, although the impact of adopting SFAS No. 158 was properly included as an increase in Accumulated other comprehensive income on our consolidated statements of stockholders equity, it should not have been recorded as a component of Total comprehensive income. The impact of appropriately excluding the SFAS No. 158 adjustment decreases Total comprehensive income from $217.9 million, as originally reported, to $211.5 million, as adjusted.

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Note 12 Earnings (Loss) Per Share

As a result of the Acquisition, our capital structure initially consisted of 229,500,000 shares of common stock outstanding. See Note 1 Basis of Presentation in this Report and also Notes 1 and 6 to the Notes to our audited annual consolidated financial statements included in our Form 10-K for a discussion of the initial and subsequent capital structure changes. Basic earnings (loss) per share has been computed based upon the weighted average number of common shares outstanding during the applicable period. Diluted earnings (loss) per share has been computed based upon the weighted average number of common shares outstanding during the applicable period plus the effect of all potentially dilutive common stock equivalents.

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

	Three Months Ended June 30, 2007	2006
Basic and diluted earnings per share:		
Numerator (in thousands of dollars):		
Net income	$ 83,675	$ 17,818
Denominator (in thousands):		
Weighted average shares used in basic computation	320,891	230,611
Add: Stock options	6,737	
Weighted average shares used in diluted computation	327,628	230,611
Earnings per share, basic	$ 0.26	$ 0.08
Earnings per share, diluted	$ 0.26	$ 0.08

	Six Months Ended June 30, 2007	2006
Basic and diluted earnings (loss) per share:		
Numerator (in thousands of dollars):		
Net income (loss)	$ 21,109	$ (31,418)
Denominator (in thousands):		
Weighted average shares used in basic computation	320,759	230,059
Add: Stock options	3,368	
Weighted average shares used in diluted computation	324,127	230,059
Earnings (loss) per share, basic	$ 0.07	$ (0.14)
Earnings (loss) per share, diluted	$ 0.07	$ (0.14)

The diluted earnings (loss) per share computation for the three and six months ended June 30, 2007 excludes the weighted-average impact of approximately 21,000 stock options, because such impact would be antidilutive.

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Note 13 Restructuring

As part of our effort to implement our strategy of reducing operating costs, we are evaluating our workforce and operations and making adjustments, including headcount reductions and process improvements to optimize work flow at rental locations and maintenance facilities as well as streamlining our back-office operations, initiating business process reengineering and evaluating outsourcing opportunities. When we make adjustments to our workforce and operations, we may incur incremental expenses that delay the benefit of a more efficient workforce and operating structure, but we believe that increasing our operating efficiency and reducing the costs associated with the operation of our business are important to our long-term competitiveness.

On January 5, 2007, we announced the first in a series of initiatives to further improve our competitiveness through targeted job reductions affecting approximately 200 employees primarily at our corporate headquarters in Park Ridge, New Jersey and our U.S. service center in Oklahoma City, Oklahoma.

On February 28, 2007, we announced the second initiative to further improve our competitiveness and industry leadership through targeted job reductions affecting approximately 1,350 employees primarily in our U.S. car rental operations, with much smaller reductions occurring in our U.S. equipment rental operations, the corporate headquarters in Park Ridge, New Jersey, and the U.S. service center in Oklahoma City, Oklahoma, as well as in Canada, Puerto Rico, Brazil, Australia and New Zealand.

On June 1, 2007, we announced the third initiative to further improve our operational efficiency through targeted reductions affecting approximately 480 positions in our U.S. car and equipment rental operations, as well as financial and reservations-related jobs in our U.S. service center in Oklahoma City, Oklahoma.

Further cost reduction initiatives are in process. We currently anticipate incurring future charges to earnings in connection with those initiatives; however, we have not yet developed detailed estimates of these expenses.

For the three months ended June 30, 2007, our consolidated statement of operations includes restructuring charges relating to the initiatives discussed above of $16.7 million, which is composed of $13.4 million of involuntary termination benefits, $6.4 million in consulting costs, a net gain of $5.2 million related to pension and post employment benefits and other charges of $2.1 million. The after-tax effect of the restructuring charges reduced diluted earnings per share by $0.04 for the three months ended June 30, 2007.

For the six months ended June 30, 2007, our consolidated statement of operations includes restructuring charges relating to the initiatives discussed above of $49.3 million, which is composed of $37.8 million of involuntary termination benefits, $10.6 million in consulting costs, a net gain of $2.2 million related to pension and post employment benefits and other charges of $3.1 million. The after-tax effect of the restructuring charges reduced diluted earnings per share by $0.10 for the six months ended June 30, 2007.

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Restructuring charges in the consolidated statement of operations can be summarized as follows (in thousands of dollars):

	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
By Caption:		
Direct operating	$ 11,922	$ 24,867
Selling, general and administrative	4,713	24,417
Total	$ 16,635	$ 49,284

	Three Months Ended June 30, 2007	Six Months Ended June 30, 2007
By Segment:		
Car rental	$ 14,661	$ 34,411
Equipment rental	1,150	2,934
Corporate and other	824	11,939
Total	$ 16,635	$ 49,284

Our condensed consolidated balance sheet included accruals relating to the restructuring program of $21.4 million. We expect to pay substantially all of the remaining restructuring obligations during 2007. The following table sets forth the activity affecting the accrual during the six months ended June 30, 2007 (in thousands of dollars):

	Involuntary Termination Benefits	Pension and Post Retirement Expense	Consultant Costs	Other	Total
Balance as of beginning of year	$	$	$	$	$
Charges incurred	37,765	(2,170)	10,586	3,103	49,284
Cash payments	(21,717)	(7)	(5,635)	(1,518)	(28,877)
Other(1)	(1,104)	2,277	98	(298)	973
Balance as of June 30, 2007	$ 14,944	$ 100	$ 5,049	$ 1,287	$ 21,380

(1) Includes $1.5 million of stock-based employee compensation expense relating to the acceleration of vesting for certain stock options which has been classified as Additional paid-in capital on our condensed consolidated balance sheet, a reduction of $2.2 million in pension and post retirement liabilities which have been included within Accrued liabilities on our condensed consolidated balance sheet and $0.4 million in translation gains, which have been included with Accumulated other comprehensive income on our condensed consolidated balance sheet.

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Note 14 Related Party Transactions

Relationship with Ford

Prior to the Acquisition, we were an indirect, wholly owned subsidiary of Ford. We and certain of our subsidiaries had entered into contracts, or other transactions or relationships, with Ford or subsidiaries of Ford, the most significant of which are described below.

Car purchases/repurchases and advertising arrangements

On July 5, 2005, Hertz, one of its wholly owned subsidiaries and Ford signed a Master Supply and Advertising Agreement, effective July 5, 2005 and expiring August 31, 2010, that covers the 2005 through 2010 vehicle model years. This agreement replaces and supersedes previously existing joint advertising and vehicle supply agreements that would have expired August 31, 2007.

During the six months ended June 30, 2007, we purchased cars from Ford and its subsidiaries at a cost of approximately $1,909.0 million and sold cars to Ford and its subsidiaries under various repurchase programs for approximately $1,013.8 million.

Stock option plan

Certain employees of ours participate in the stock option plan of Ford under Ford s 1998 Long-Term Incentive Plan. As a result of the Acquisition, all outstanding options issued under this plan became vested.

Taxes

Prior to the Acquisition, Hertz and its domestic subsidiaries filed a consolidated federal income tax return with Ford. Pursuant to a tax sharing agreement, or the Agreement, with Ford, current and deferred taxes were reported, and paid to Ford, as if Hertz had filed its own consolidated tax returns with its domestic subsidiaries. The Agreement provided that Hertz was reimbursed for foreign tax credits in accordance with the utilization of those credits by the Ford consolidated tax group.

On December 21, 2005, in connection with the Acquisition, the Agreement with Ford was terminated. Upon termination, all tax payables and receivables with Ford were cancelled and neither Hertz nor Ford has any future rights or obligations under the Agreement. Hertz may be exposed to tax liabilities attributable to periods it was a consolidated subsidiary of Ford. While Ford has agreed to indemnify Hertz for certain tax liabilities pursuant to the arrangements relating to our separation from Ford, we cannot offer assurance that payments in respect of the indemnification agreement will be available.

Other relationships and transactions

We and Ford also engage in other transactions in the ordinary course of our respective businesses. These transactions include providing car and equipment rental services to Ford and providing insurance and insurance claim management services to Ford. In addition, Ford subsidiaries are our car rental licensees in Scandinavia and Finland.

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Relationship with Hertz Investors, Inc. and the Sponsors

Stockholders Agreement

In connection with the Acquisition, we entered into a stockholders agreement, or, as amended, the Stockholders Agreement, with investment funds associated with or designated by the Sponsors. The Stockholders Agreement contains agreements that entitle investment funds associated with or designated by the Sponsors to nominate all of our directors. The director nominees are to include three nominees of an investment fund associated with CD&R, two nominees of investment funds associated with Carlyle, two nominees of an investment fund associated with MLGPE (collectively, the Sponsor Designees) and up to six independent directors (subject to unanimous consent of the Sponsor Designees), subject to adjustment in the case that the applicable investment fund sells more than a specified amount of its shareholdings in us. The Stockholders Agreement also provides that our chief executive officer shall be designated as a director, unless otherwise approved by a majority of the Sponsor Designees. In addition, the Stockholders Agreement provides that one of the nominees of an investment fund associated with CD&R shall serve as the chairman of the executive and governance committee and, unless otherwise agreed by this fund, as Chairman of the Board. On October 12, 2006, our Board elected four independent directors, effective from the date of the completion of the initial public offering of our common stock.

The Stockholders Agreement also grants to the investment funds associated with CD&R or to the majority of the Sponsor Designees the right to remove our chief executive officer. Any replacement chief executive officer requires the consent of investment funds associated with CD&R as well as investment funds associated with at least one other Sponsor. It also contains restrictions on the transfer of our shares, as well as tag-along and drag-along rights. The rights described above apply only for so long as the investment funds associated with the applicable Sponsor maintain certain specified minimum levels of shareholdings in us. In addition, the Stockholders Agreement limits the rights of the investment funds associated with or designated by the Sponsors that have invested in our common stock and our affiliates, subject to several exceptions, to own, manage, operate or control any of our competitors (as defined in the Stockholders Agreement). The Stockholders Agreement may be amended from time to time in the future to eliminate or modify these restrictions without our consent.

Registration Rights Agreement

On the Closing Date, we entered into a registration rights agreement, or, as amended, the Registration Rights Agreement, with investment funds associated with or designated by the Sponsors. The Registration Rights Agreement grants to certain of these investment funds the right, following the earlier of the initial public offering of our common stock and the eighth anniversary of the Closing Date, to cause us, at our own expense, to use our best efforts to register such securities held by the investment funds for public resale, subject to certain limitations. The exercise of this right is limited to three requests by the group of investment funds associated with each Sponsor, except for registrations effected pursuant to Form S-3, which are unlimited, subject to certain limitations, if we are eligible to use Form S-3. In the event we register any of our common stock following our initial public offering, these investment funds also have the right to require us to use our best efforts to include shares of our common stock held by them, subject to certain limitations, including as determined by the underwriters. The Registration Rights Agreement also provides for us to indemnify

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the investment funds party to that agreement and their affiliates in connection with the registration of our securities.

Guarantees

Hertz s obligations under the Senior Term Facility and Senior ABL Facility are guaranteed by Hertz s immediate parent, Hertz Investors, Inc. (previously known as CCMG Corporation). Hertz Holdings is not a guarantor of these facilities. See Note 7 Debt.

Indemnification Agreements

On the Closing Date, Hertz entered into customary indemnification agreements with Hertz Holdings, the Sponsors and Hertz Holdings stockholders affiliated with the Sponsors, pursuant to which Hertz Holdings and Hertz will indemnify the Sponsors, the Hertz Holdings stockholders affiliated with the Sponsors and their respective affiliates, directors, officers, partners, members, employees, agents, representatives and controlling persons, against certain liabilities arising out of the performance of a consulting agreement with Hertz Holdings and each of the Sponsors and certain other claims and liabilities, including liabilities arising out of financing arrangements or securities offerings. We also entered into indemnification agreements with each of our directors in connection with the initial public offering of our common stock in November 2006. We have not recorded any liability because these liabilities are considered to be de minimis.

Hertz Holdings has entered into indemnification agreements with each of its directors. The indemnification agreements provide the directors with contractual rights to the indemnification and expense advancement rights provided under our by-laws, as well as contractual rights to additional indemnification as provided in the indemnification agreements.

Director Stock Incentive Plan

On October 12, 2006, the Board of Directors of Hertz Holdings approved the Director Plan. The stockholders of Hertz Holdings approved the Director Plan on October 20, 2006. The Director Plan provides for the grant of shares of common stock of Hertz Holdings, options to purchase shares of common stock of Hertz Holdings and phantom shares, which are the right to receive shares of common stock of Hertz Holdings at a specified point in the future. A maximum of 3,500,000 shares are reserved for issuance under the Director Plan.

Options granted under the Director Plan must be granted at an exercise price no less than fair market value of such shares on the date of grant. Options granted as part of a director s annual retainer fee will be fully vested at the time of grant and will generally have a 10-year term.

A director may generally elect to receive all or a portion of fees that would otherwise be payable in cash in the form of shares of common stock of Hertz Holdings having a fair market value at such time equal to the amount of such fees. Any such shares will be paid to the director when cash fees would otherwise be payable, although, if a director so chooses, these shares may be payable on a tax-deferred basis in phantom shares, in which case the actual shares of the common stock of Hertz Holdings will be paid to the director promptly following the date on which he or she ceases to serve as a director (or, if earlier, upon a change in control).

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A director will recognize ordinary income upon exercising options granted under the Director Plan in an amount equal to the fair market value of the shares acquired on the date of exercise, less the exercise price, and Hertz Holdings will have a corresponding tax deduction at that time. In the case of shares issued in lieu of cash fees, a director who is an individual will generally recognize ordinary income equal to the fair market value of such shares on the date such shares are paid to the director and Hertz Holdings will have a corresponding tax deduction at that time. For the three and six months ended June 30, 2007, we recognized $0.4 million and $0.9 million, respectively, of expense relating to the Director Plan in our consolidated statement of operations in Selling, general and administrative expenses.

Financing Arrangements with Related Parties

Affiliates of ML Global Private Equity, L.P. and its related funds, which are stockholders of Hertz Holdings, and of Merrill Lynch & Co., one of the underwriters in the initial public offering of our common stock and the secondary offering by the Sponsors, were lenders under the Hertz Holdings Loan Facility (which was repaid with the proceeds of our initial public offering), are lenders under the original and amended Senior Term Facility, the original and amended Senior ABL Facility and the Fleet Financing Facility; acted as initial purchasers with respect to the offerings of the Senior Notes and the Senior Subordinated Notes; acted as structuring advisors and agents under Hertz s asset-backed facilities; and acted as dealer managers and solicitation agents for Hertz s tender offers for its existing debt securities in connection with the Acquisition.

Other Sponsor Relationships

In connection with our car and equipment rental businesses, we enter into millions of rental transactions every year involving millions of customers. In order to conduct those businesses, we also procure goods and services from thousands of vendors. Some of those customers and vendors may be affiliated with the Sponsors or members of our Board of Directors. We believe that all such rental and procurement transactions have been conducted on an arms-length basis and involved terms no less favorable to us than those that we believe we would have obtained in the absence of such affiliation. It is our management s practice to bring to the attention of our Board of Directors any transaction, even if it arises in the ordinary course of business, in which our management believes that the terms being sought by transaction participants affiliated with the Sponsors or our Directors would be less favorable to us than those to which we would agree absent such affiliation.

We have been advised by Merrill Lynch & Co., an affiliate of one of our Sponsors, that between November 17, 2006, and April 19, 2007, Merrill Lynch & Co., or ML , engaged in principal trading activity in our common stock. Some of those purchases and sales should have been reported to the Securities and Exchange Commission on Form 4, but were not so reported. On May 11, 2007, June 21, 2007 and August 6, 2007, ML and certain of its affiliates filed amended reports on Form 4 disclosing the current number of shares of our common stock held by ML and its affiliates. On June 21, 2007, ML tendered to us the sum of $4.7 million for its short-swing profit liability resulting from its principal trading activity that is subject to recovery by us under Section 16 of the Securities Exchange Act of 1934, as amended. We recorded $2.8 million, which is net of tax of $1.9 million, in our condensed consolidated balance sheet in Additional paid-in capital. In addition, because ML may be deemed to be an affiliate of Hertz Holdings and there was no registration statement in effect with respect to its sale of shares during this period, certain of these sales may have been made in violation of Section 5 of the Securities Act of 1933, as amended.

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Note 15 Commitments and Contingencies

Off-Balance Sheet Commitments

As of June 30, 2007 and December 31, 2006, the following guarantees (including indemnification commitments) were issued and outstanding:

Indemnifications

In the ordinary course of business, we execute contracts involving indemnifications standard in the relevant industry and indemnifications specific to a transaction such as the sale of a business. These indemnifications might include claims relating to the following: environmental matters; intellectual property rights; governmental regulations and employment-related matters; customer, supplier and other commercial contractual relationships; and financial matters. Performance under these indemnities would generally be triggered by a breach of terms of the contract or by a third party claim. We regularly evaluate the probability of having to incur costs associated with these indemnifications and have accrued for expected losses that are probable and estimable. The types of indemnifications for which payments are possible include the following:

Sponsors; Directors

See Note 14 Related Party Transactions Indemnification Agreements.

Environmental

We have indemnified various parties for the costs associated with remediating numerous hazardous substance storage, recycling or disposal sites in many states and, in some instances, for natural resource damages. The amount of any such expenses or related natural resource damages for which we may be held responsible could be substantial. The probable losses that we expect to incur for such matters have been accrued, and those losses are reflected in our condensed consolidated financial statements. As of June 30, 2007 and December 31, 2006, the aggregate amounts accrued for environmental liabilities, including liability for environmental indemnities, reflected in our condensed consolidated balance sheet in Accrued liabilities were $3.4 million and $3.7 million, respectively. The accrual generally represents the estimated cost to study potential environmental issues at sites deemed to require investigation or clean-up activities, and the estimated cost to implement remediation actions, including on-going maintenance, as required. Cost estimates are developed by site. Initial cost estimates are based on historical experience at similar sites and are refined over time on the basis of in-depth studies of the sites. For many sites, the remediation costs and other damages for which we ultimately may be responsible cannot be reasonably estimated because of uncertainties with respect to factors such as our connection to the site, the materials there, the involvement of other potentially responsible parties, the application of laws and other standards or regulations, site conditions, and the nature and scope of investigations, studies, and remediation to be undertaken (including the technologies to be required and the extent, duration, and success of remediation).

Legal Proceedings

On March 15, 2004, *Jose M. Gomez, individually and on behalf of all other similarly situated persons, v. The Hertz Corporation* was commenced in the 214th Judicial District Court of Nueces County, Texas. Gomez purports to be a class action filed alternatively on behalf of all persons who were charged a

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Fuel and Service Charge, or FSC, by us or all Texas residents who were charged a FSC by us. The petition alleged that the FSC is an unlawful penalty and that, therefore, it is void and unenforceable. The plaintiff seeks an unspecified amount of compensatory damages, with the return of all FSC paid or the difference between the FSC and our actual costs, disgorgement of unearned profits, attorneys fees and costs. In response to various motions by us, the plaintiff filed two amended petitions which scaled back the putative class from a nationwide class to a class of all Texas residents who were charged a FSC by us or by our Corpus Christi licensee. A new cause of action was also added for conversion for which the plaintiff is seeking punitive damages. After some limited discovery, we filed a motion for summary judgment in December 2004. That motion was denied in January 2005. The parties then engaged in more extensive discovery. In April 2006, the plaintiff further amended his petition by adding a cause of action for fraudulent misrepresentation and, at the plaintiff s request, a hearing on the plaintiff s motion for class certification was scheduled for August 2006. In May 2006, the plaintiff filed a fourth amended petition which deleted the cause of action for conversion and the plaintiff also filed a first amended motion for class certification in anticipation of the August 2006 hearing on class certification. After the hearing, the plaintiff filed a fifth amended petition seeking to further refine the putative class as including all Texas residents who were charged a FSC in Texas after February 6, 2000. In October 2006, the judge entered a class certification order which certified a class of all Texas residents who were charged an FSC in Texas after February 6, 2000. We are appealing the order.

On November 18, 2004, *Keith Kochner, individually and on behalf of all similarly situated persons, v. The Hertz Corporation* was commenced in the District Court in and for Tulsa County, State of Oklahoma. As with the Gomez case, Kochner purports to be a class action, this time on behalf of Oklahoma residents who rented from us and incurred our FSC. The petition alleged that the imposition of the FSC is a breach of contract and amounts to an unconscionable penalty or liquidated damages in violation of Article 2A of the Oklahoma Uniform Commercial Code. The plaintiff seeks an unspecified amount of compensatory damages, with the return of all FSC paid or the difference between the FSC and our actual costs, disgorgement of unearned profits, attorneys fees and costs. In March 2005, the trial court granted our motion to dismiss the action but also granted the plaintiff the right to replead. In April 2005, the plaintiff filed an amended class action petition, newly alleging that our FSC violates the Oklahoma Consumer Protection Act and that we have been unjustly enriched, and again alleging that our FSC is unconscionable under Article 2A of the Oklahoma Uniform Commercial Code. In May 2005, we filed a motion to dismiss the amended class action petition. In October 2005, the court granted our motion to dismiss, but allowed the plaintiff to file a second amended complaint and we then answered the complaint. Discovery has now commenced.

On January 10, 2007, *Marlena Guerra, individually and on behalf of all other similarly situated persons, v. The Hertz Corporation* was filed in the United States District Court for the District of Nevada. As with the Gomez and Kochner cases, Guerra purports to be a class action on behalf of all individuals and business entities who rented vehicles at Las Vegas McCarran International Airport and were charged a FSC. The complaint alleged that those customers who paid the FSC were fraudulently charged a surcharge required for fuel in violation of Nevada s Deceptive Trade Practices Act. The plaintiff also alleged the FSC violates the Nevada Uniform Commercial Code, or UCC, since it is unconscionable and operates as an unlawful liquidated damages provision. Finally, the plaintiff claimed that we breached our own rental agreement which the plaintiff claims to have been modified so as not to violate Nevada law by charging the FSC, since such charges violate the UCC and/or the prohibition against fuel surcharges. The plaintiff seeks compensatory damages, including the return of all FSC

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paid or the difference between the FSC and its actual costs, plus prejudgment interest, attorneys fees and costs. In March 2007, we filed a motion to dismiss. In July 2007, the court granted our motion to dismiss and ordered the plaintiff s complaint be dismissed with prejudice.

On August 15, 2006, *Davis Landscape, Ltd., individually and on behalf of all others similarly situated, v. Hertz Equipment Rental Corporation*, was filed in the United States District Court for the District of New Jersey. Davis Landscape, Ltd., purports to be a nationwide class action on behalf of all persons and business entities who rented equipment from HERC and who paid a Loss Damage Waiver, or LDW, charge. The complaint alleges that the LDW is deceptive and unconscionable as a matter of law under pertinent sections of New Jersey law, including the New Jersey Consumer Fraud Act and the New Jersey Uniform Commercial Code. The plaintiff seeks an unspecified amount of statutory damages under the New Jersey Consumer Fraud Act, an unspecified amount of compensatory damages with the return of all LDW charges paid, declaratory relief and an injunction prohibiting HERC from engaging in acts with respect to the LDW charge that violate the New Jersey Consumer Fraud Act. The complaint also asks for attorneys fees and costs. In October 2006, we filed an answer to the complaint. In November 2006, the plaintiff filed an amended complaint adding an additional plaintiff, Miguel V. Pro, an individual residing in Texas, and new claims relating to HERC s charging of an Environmental Recovery Fee. Causes of action for breach of contract and breach of implied covenant of good faith and fair dealing were also added. In January 2007, we filed an answer to the amended complaint. Discovery has now commenced.

On October 13, 2006, *Janet Sobel, Daniel Dugan, and Lydia Lee, individually and on behalf of all others similarly situated v. The Hertz Corporation and Enterprise Rent-A-Car Company* was filed in the United States District Court for the District of Nevada. Sobel purports to be a nationwide class action on behalf of all persons who rented cars from Hertz or Enterprise at airports in Nevada and whom Hertz or Enterprise charged airport concession recovery fees. The complaint alleged that the airport concession recovery fees violate certain provisions of Nevada law, including Nevada s Deceptive Trade Practices Act. The plaintiffs seek an unspecified amount of compensatory damages, restitution of any charges found to be improper and an injunction prohibiting Hertz and Enterprise from quoting or charging any of the fees prohibited by Nevada law. The complaint also asks for attorneys fees and costs. In November 2006, the plaintiffs and Enterprise stipulated and agreed that claims against Enterprise would be dismissed without prejudice. In January 2007, we filed a motion to dismiss.

On May 3, 2007, *Fun Services of Kansas City, Inc., individually and as the representative of a class of similarly-situated persons, v. Hertz Equipment Rental Corporation* was commenced in the District Court of Wyandotte County, Kansas. Fun Services purports to be a class action on behalf of all persons in Kansas and throughout the United States who on or after four years prior to the filing of the action were sent facsimile messages of advertising materials relating to the availability of property, goods or services by HERC and who did not provide express permission for sending such faxes. The plaintiff asserts violations of the Telephone Consumer Protection Act, 47 U.S.C. Section 227, and common law conversion and the plaintiff is seeking damages and costs of suit. On June 6, 2007, we removed this action to the United States District Court for the District of Kansas.

We believe that we have meritorious defenses in the foregoing matters and will defend ourselves vigorously.

In addition, we are currently a defendant in numerous actions and have received numerous claims on which actions have not yet been commenced for public liability and property damage arising from the operation of motor vehicles and equipment rented from us and our licensees. In the aggregate, we

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can be expected to expend material sums to defend and settle public liability and property damage actions and claims or to pay judgments resulting from them.

On February 19, 2007, *The Hertz Corporation and TSD Rental LLC v. Enterprise Rent-A-Car Company and The Crawford Group, Inc.* was filed in the United States District Court for the District of Massachusetts. In this action, we and our co-plaintiff seek damages and injunctive relief based upon allegations that Enterprise and its corporate parent, The Crawford Group, Inc., unlawfully engaged in anticompetitive and unfair and deceptive business practices by claiming to customers of Hertz that once Enterprise obtains a patent that it has applied for relating to its insurance replacement reservation system, Hertz will be prevented from using the co-plaintiff s EDiCAR system, which Hertz currently uses in its insurance replacement business. The complaint alleges, among other things, that Enterprise s threats are improper because the Enterprise patent, once issued, should be invalid and unenforceable. In April 2007, Enterprise and Crawford filed a motion to dismiss and Hertz and TSD filed opposition papers in May 2007. See Item 1A Risk Factors in our Form 10-K. Enterprise and Crawford filed a motion to dismiss in April 2007 and Hertz and TSD filed opposition papers in May 2007.

In addition to the foregoing, various legal actions, claims and governmental inquiries and proceedings are pending or may be instituted or asserted in the future against us and our subsidiaries. Litigation is subject to many uncertainties, and the outcome of the individual litigated matters is not predictable with assurance. It is possible that certain of the actions, claims, inquiries or proceedings, including those discussed above, could be decided unfavorably to us or any of our subsidiaries involved. Although the amount of liability with respect to these matters cannot be ascertained, potential liability in excess of related accruals is not expected to materially affect our consolidated financial position, results of operations or cash flows, but it could be material in the period in which it is recorded.

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ITEM 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis provides information that management believes to be relevant to understanding our consolidated financial condition and results of operations. This discussion should be read in conjunction with the financial statements and the related notes thereto contained in our condensed consolidated financial statements included in this Form 10-Q for the three and six months ended June 30, 2007, or this Report.

Cautionary Note Regarding Forward-Looking Statements

Certain statements contained or incorporated by reference in this Report including, without limitation, those concerning our liquidity and capital resources, contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 concerning our results of operations; economic performance; financial condition; management forecasts; efficiencies, cost savings and opportunities to increase productivity and profitability; income and margins; liquidity; anticipated growth; economies of scale; the economy; future economic performance; our ability to maintain profitability during adverse economic cycles and unfavorable external events; future acquisitions and dispositions; litigation; potential and contingent liabilities; management s plans; taxes; and refinancing of existing debt. Because such statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by such forward-looking statements. These statements often include words such as believes, expects, projects, anticipates, intends, plans, estimates, seeks, should, forecasts or similar expressions.

Forward-looking statements are not guarantees of performance or results and by their nature are subject to inherent risks and uncertainties. We caution you therefore that you should not rely on these forward-looking statements. You should understand that the risks and uncertainties discussed in Item 1A Risk Factors and elsewhere in Hertz Global Holdings, Inc. s Annual Report on Form 10-K for the fiscal year ended December 31, 2006, filed with the United States Securities and Exchange Commission, or the SEC, on March 30, 2007, or our Form 10-K, could affect our future results and could cause those results or other outcomes to differ materially from those expressed or implied in our forward-looking statements.

Any forward-looking information contained in this Report speaks only as of the date of this Report. We undertake no obligation to update or revise any forward-looking statements to reflect new information, changed circumstances or unanticipated events.

Unless the context otherwise requires, in this Report, (i) we, us, our, the registrant and the Company mean Hertz Global Holdings, Inc. (previously known as CCMG Holdings, Inc.), or Hertz Holdings, and its consolidated subsidiaries, (ii) Hertz means The Hertz Corporation, (iii) HERC means Hertz Equipment Rental Corporation, our wholly owned subsidiary, and our various other wholly owned international subsidiaries that conduct our industrial, construction and material handling equipment rental business, (iv) cars means cars and light trucks (including sport utility vehicles and, outside North America, light commercial vehicles), (v) program cars means cars purchased by car rental companies under repurchase or guaranteed depreciation programs, (vi) risk cars mean cars not purchased under repurchase or guaranteed depreciation programs for which the car rental company is exposed to residual risk and (vii) equipment means industrial, construction and material handling equipment.

We are a successor to corporations that have been engaged in the car and truck rental and leasing business since 1918 and the equipment rental business since 1965. Hertz Holdings was incorporated in Delaware in 2005 and had no operations prior to the Acquisition (as defined below). Hertz was incorporated in Delaware in 1967. Ford Motor Company, or Ford, acquired an ownership interest in

ITEM 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Hertz in 1987. Prior to this, Hertz was a subsidiary of UAL Corporation (formerly Allegis Corporation), which acquired Hertz s outstanding capital stock from RCA Corporation in 1985.

On December 21, 2005, or the Closing Date, investment funds associated with or designated by Clayton, Dubilier & Rice, Inc., or CD&R, The Carlyle Group, or Carlyle, and Merrill Lynch Global Private Equity, or MLGPE, or collectively the Sponsors, through CCMG Acquisition Corporation, a wholly owned subsidiary of Hertz Holdings (previously known as CCMG Holdings, Inc.) acquired all of Hertz s common stock from Ford Holdings LLC for aggregate consideration of $4,379 million in cash, debt refinanced or assumed of $10,116 million and transaction fees and expenses of $447 million.

We refer to the acquisition of all of Hertz s common stock through a wholly owned subsidiary of Hertz Holdings as the Acquisition. We refer to the Acquisition, together with related transactions entered into to finance the cash consideration for the Acquisition, to refinance certain of our existing indebtedness and to pay related transaction fees and expenses, as the Transactions.

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

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

We have been advised by Merrill Lynch & Co., an affiliate of one of our Sponsors, that between November 17, 2006, and April 19, 2007, Merrill Lynch & Co., or ML , engaged in principal trading activity in our common stock. Some of those purchases and sales should have been reported to the Securities and Exchange Commission on Form 4, but were not so reported. On May 11, 2007, June 21, 2007 and August 6, 2007, ML and certain of its affiliates filed amended reports on Form 4 disclosing the current number of shares of our common stock held by ML and its affiliates. On June 21, 2007, ML tendered to us the sum of $4.7 million for its short-swing profit liability resulting from its principal trading activity that is subject to recovery by us under Section 16 of the Securities Exchange Act of 1934, as amended. We recorded $2.8 million, which is net of tax of $1.9 million, in our condensed consolidated balance sheet in Additional paid-in capital. In addition, because ML may be deemed to be an affiliate of Hertz Holdings and there was no registration statement in effect with respect to its sale of shares during this period, certain of these sales may have been made in violation of Section 5 of the Securities Act of 1933, as amended.

Overview of Our Business

We are engaged principally in the business of renting cars and renting equipment.

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

- Car rental revenues (revenues from all company-operated car rental operations, including charges to customers for the reimbursement of costs incurred relating to airport concession

ITEM 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

fees and vehicle license fees, the fueling of vehicles and the sale of loss or collision damage waivers, liability insurance coverage and other products);

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

- Other revenues (fees and certain cost reimbursements from our licensees and revenues from our car leasing operations and our third-party claim management services).

Our equipment rental business also derives revenues from the sale of new equipment and consumables.

Our expenses primarily consist of:

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

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

- Selling, general and administrative expenses (including advertising); and

- Interest expense, net of interest income.

The car and equipment rental industries are significantly influenced by general economic conditions. The car rental industry is also significantly influenced by developments in the travel industry, and, particularly, in airline passenger traffic. Our profitability is primarily a function of the volume, mix and pricing of rental transactions and the utilization of cars and equipment. Significant changes in the purchase price of cars and equipment or interest rates can also have a significant effect on our profitability depending on our ability to adjust pricing for these changes. In the United States, increases of approximately 17% in monthly per-car depreciation costs for 2006 model year program cars began to adversely affect our results of operations in the fourth quarter of 2005, as those cars began to enter our fleet. On a comparable basis, we expect 2007 model year program vehicle depreciation costs to rise approximately 20% and per-car depreciation costs for 2007 model year U.S. risk cars to decline slightly. As a consequence of those changes in per-car costs, as well as the larger proportion of our U.S. fleet we expect to purchase as risk cars and other actions we expect to take to mitigate program car cost increases, we expect our net per-car depreciation costs for 2007 model year cars in the United States will increase by less than 4% from our net per-car depreciation costs for 2006 model year U.S. cars. We began to experience the impact of those cost changes and mitigation actions in the fourth quarter of 2006, as substantial numbers of 2007 model year cars began to enter our U.S. rental fleet. Our business requires significant expenditures for cars and equipment, and consequently we require substantial liquidity to finance such expenditures.

Our car rental and equipment rental operations are seasonal businesses, with decreased levels of business in the winter months and heightened activity during the spring and summer. We have the ability to dynamically manage fleet capacity, the most significant portion of our cost structure, to meet market demand. For instance, to accommodate increased demand, we increase our available fleet and staff during the second and third quarters of the year. As business demand declines, fleet and staff are decreased accordingly. A number of our other major operating costs, including airport concession fees, commissions and vehicle liability expenses, are directly related to revenues or

ITEM 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

transaction volumes. In addition, our management expects to utilize enhanced process improvements, including efficiency initiatives and use of our information systems, to help manage our variable costs. Approximately two-thirds of our typical annual operating costs represent variable costs, while the remaining one-third are fixed or semi-fixed. We also maintain a flexible workforce, with a significant number of part time and seasonal workers. However, certain operating expenses, including minimum concession fees, rent, insurance, and administrative overhead, remain fixed and cannot be adjusted for seasonal demand.

As part of our effort to implement our strategy of reducing operating costs, we are evaluating our workforce and operations and making adjustments, including headcount reductions and process improvements to optimize work flow at rental locations and maintenance facilities as well as streamlining our back-office operations, initiating business process reengineering and evaluating outsourcing opportunities. When we make adjustments to our workforce and operations, we may incur incremental expenses that delay the benefit of a more efficient workforce and operating structure, but we believe that increasing our operating efficiency and reducing the costs associated with the operation of our business are important to our long-term competitiveness.

On January 5, 2007, we announced the first in a series of initiatives to further improve our competitiveness through targeted job reductions affecting approximately 200 employees primarily at our corporate headquarters in Park Ridge, New Jersey and our U.S. service center in Oklahoma City, Oklahoma. These reductions are expected to result in annualized savings of up to $15.8 million.

On February 28, 2007, we announced the second initiative to further improve our competitiveness and industry leadership through targeted job reductions affecting approximately 1,350 employees primarily in our U.S. car rental operations, with much smaller reductions occurring in our U.S. equipment rental operations, the corporate headquarters in Park Ridge, New Jersey, and the U.S. service center in Oklahoma City, Oklahoma, as well as in Canada, Puerto Rico, Brazil, Australia and New Zealand. These reductions are expected to result in annualized savings of up to $125.0 million.

On June 1, 2007, we announced the third initiative to further improve our operational efficiency through targeted reductions affecting approximately 480 positions in our U.S. car and equipment rental operations, as well as financial and reservations-related jobs in our U.S. service center in Oklahoma City, Oklahoma. These reductions are expected to result in approximately $24.0 million of annualized savings.

We recognized $16.7 million and $49.3 million in the three and six months ended June 30, 2007, respectively, relating to our restructuring initiatives discussed above. Beginning in the fourth quarter of 2007 and continuing into 2008, we expect to implement cost initiatives in our European operations that are expected to result in additional annualized savings of approximately $50.0 million. We plan to announce, as plans are finalized, other efficiency initiatives during 2007 and 2008. We currently anticipate incurring future charges to earnings in connection with those initiatives; however, we have not yet developed detailed estimates of these expenses.

For the year ended December 31, 2006, based on publicly available information, we believe some U.S. car rental companies experienced transaction day growth and pricing increases compared to comparable prior periods. For the year ended December 31, 2006, we experienced a less than one percentage point volume decline versus the prior period in the U.S., while pricing was up over three percentage points. The volume decline was the result of a reduction in fleet volume given significant fleet cost increases, higher leisure pricing for the period from March through May 2006 and the difficult comparison in the quarter ending December 31, 2006 due to the extraordinarily high volumes of post-hurricane rentals in the Gulf Coast and Florida areas in 2005. During the year ended December 31, 2006, we experienced low to mid single digit transaction day growth in our European

ITEM 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

operations and our car rental pricing was above the level of our pricing during the year ended December 31, 2005.

For the six months ended June 30, 2007, based on publicly available information, we believe most major US car rental brands experienced positive transaction day increases with varying rental rate revenue per transaction day, or RPD, changes compared to comparable prior periods. For the six months ended June 30, 2007, we experienced higher worldwide car rental volumes, while RPD for worldwide car rental declined, as a decline in U.S. RPD was partly offset by a slight improvement in international RPD.

In the three years ended December 31, 2006, we increased the number of our off-airport rental locations in the United States by approximately 32% to approximately 1,380 locations, and as of June 30, 2007, we had approximately 1,465 off-airport locations. Revenues from our U.S. off-airport operations grew during the same period, representing $890.1 million, $845.8 million and $697.4 million of our total car rental revenues in the years ended December 31, 2006, 2005 and 2004, respectively. Our expanding U.S. off-airport operations represented $455.4 million and $427.9 million of our total car rental revenues in the six months ended June 30, 2007 and 2006, respectively. In 2007 and subsequent years our strategy will include selected openings of new off-airport locations, the disciplined evaluation of existing locations and the pursuit of same-store sales growth. Our strategy includes increasing penetration in the off-airport market and growing the online leisure market, particularly in the longer length weekly sector, which is characterized by lower vehicle cost and lower transaction cost at lower RPD. Increasing our penetration in these sectors is consistent with our long term strategy to generate profitable growth. When we open a new off-airport location, we incur a number of costs, including those relating to site selection, lease negotiation, recruitment of employees, selection and development of managers, initial sales activities and integration of our systems with those of the companies who will reimburse the location s replacement renters for their rentals. A new off-airport location, once opened, takes time to generate its full potential revenues, and as a result revenues at new locations do not initially cover their start-up costs and often do not, for some time, cover the costs of their ongoing operation.

HERC experienced higher equipment rental pricing and volumes worldwide for the year ended December 31, 2006 and the first half of 2007. In 2006, HERC added twelve new locations and closed two locations in the United States, added two new locations in Canada and added eight new locations and closed one location in Europe. During the six months ended June 30, 2007, HERC added eight new locations and closed six locations in the United States and Canada and added two new locations in Europe. HERC expects to add approximately 4 to 6 additional new locations in the United States, one additional location in Canada and 5 to 10 additional new locations in Europe during the remainder of the year. In its U.S. expansion, we expect HERC will incur non-fleet start-up costs of approximately $0.9 million per location and additional fleet acquisition costs over an initial twelve-month period of approximately $4.6 million per location. In its European expansion, we expect HERC will incur lower start-up costs per location as compared with the United States.

ITEM 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Three months ended June 30, 2007 compared with Three months ended June 30, 2006

Summary

The following table sets forth the percentage of total revenues represented by the various line items set forth in our consolidated statements of operations for the three months ended June 30, 2007 and 2006 (in millions of dollars):

	Three Months Ended June 30,		Percentage of Revenues Three Months Ended June 30,	
	2007	2006	2007	2006
Revenues:				
Car rental	$ 1,711.7	$ 1,592.7	78.7 %	78.0 %
Equipment rental	432.8	420.2	19.9	20.6
Other	31.2	27.7	1.4	1.4
Total revenues	2,175.7	2,040.6	100.0	100.0
Expenses:				
Direct operating	1,164.7	1,137.3	53.5	55.7
Depreciation of revenue earning equipment	496.1	436.2	22.8	21.4
Selling, general and administrative	182.4	197.2	8.4	9.7
Interest, net of interest income	191.5	212.6	8.8	10.4
Total expenses	2,034.7	1,983.3	93.5	97.2
Income before income taxes and minority interest	141.0	57.3	6.5	2.8
Provision for taxes on income	(52.5)	(35.4)	(2.4)	(1.7)
Minority interest	(4.8)	(4.1)	(0.2)	(0.2)
Net income	$ 83.7	$ 17.8	3.9	