

[Securities Regulation Daily Wrap Up, ENFORCEMENT—Corporate pressure drove accounting errors at Hertz, \(Jan. 2, 2019\)](#)

Securities Regulation Daily Wrap Up

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In a settled administrative order, Hertz Global Holdings, Inc. and a subsidiary agreed to pay a \$16 million civil penalty for materially misstating pretax income between 2012 and 2014. Hertz restated its financial results in 2015 to reduce previously reported GAAP pretax income by \$235 million, acknowledging that material weaknesses existed in internal controls and that an inappropriate tone at the top may have contributed to errors, misstatements and omissions (*In the Matter of Hertz Global Holdings, Inc. and The Hertz Corporation*, [Release No. 33-10601](#), December 31, 2018).

Corporate pressure. According to the SEC, Hertz had a "pressured corporate environment" with, in certain instances, an inappropriate emphasis on meeting internal budgets, business plans, and earnings estimates. Hertz's July 2015 restatement reduced previously reported GAAP pretax income by \$235 million and identified 17 areas with material accounting errors across the company's business units and 11 separate material weaknesses in Hertz's internal controls over financial reporting. The restatement acknowledged that "an inconsistent and sometimes inappropriate tone at the top" had existed and may have contributed to a number of errors, misstatements and omissions.

Errors and omissions included inappropriate estimation methodologies that resulted in inadequate allowances and write-offs, which understated expenses and inflated income. Hertz also inadequately disclosed to investors various decisions and their impact, including a decision in 2013 to extend the holding periods of a significant portion of its U.S. car rental fleet, which affected the formula Hertz used to depreciate its car rental assets, and also could have impacted other aspects of Hertz's business, such as maintenance costs. In addition, Hertz publicly reaffirmed a revised guidance in November 2013, despite certain internal analysis indicating that the revised guidance had been based in part on inaccurate information and that certain recent internal estimates fell below the low end of that guidance range.

Penalty. Without admitting or denying the SEC's findings, Hertz agreed to cease and desist from violations of the Securities Act and Exchange Act and pay a civil monetary penalty of \$16 million.

This is [Release No. 33-10601](#).

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