

John Stancavage: Hertz shares fall on accounting error disclosure

**By JOHN STANCAVAGE Business Columnist | Posted: Saturday, June 7, 2014
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Hertz Global Holdings Inc. suffered a few more dings to its image Friday when the car-rental company announced it will correct its financial reports from the past three years.

Accounting mistakes came to light during an audit, officials said.

Hertz said in a government filing it will restate financial statements from 2011 and will correct and possibly restate statements from 2012 and 2013.

“Financial statements for 2011 should no longer be relied upon,” the company said in the filing. “It will take time to complete this process, and previously reported information is likely to change.”

Last year Hertz completed its \$2.3 billion acquisition of Tulsa-based Dollar Thrifty Automotive Group Inc. and began moving some of the company’s 600 local employees to a new headquarters it is building in Florida.

Tulsa money manager Fred Russell called the report “scary.”

“The relationship between auditors and the companies they work for is tricky,” Russell said. “Company managers want a clean opinion from the auditing firm, while the auditors often say they are looking for only material errors, not every little mistake.”

A material error is one that would be significant enough to have the kind of impact on a company’s operations or outlook that the stock price would be affected substantially.

“From the way Hertz has worded this announcement, they seem to be implying that these errors are material,” said Russell, principal of Fredric E. Russell Investment Management.

Shares of Hertz closed down \$2.79 to \$27.70 at 10:45 a.m.

Hertz said the mistakes were related to the depreciation of some of its nonfleet assets and an allowance for doubtful accounts in Brazil, among other items.

Hertz already had delayed the release of its first-quarter earnings report, originally due in May, to June 9. The company said Friday it now plans to release earnings after it fixes its past full-year results.

The company's first-quarter results will be hurt by costs associated with the accounting review, officials said.

Restating earnings, especially if the changes are significant, can damage a retail brand like Hertz, Russell told me in a telephone interview.

"The announcement is serious," he said. "If there's anything that can cause investors to lose confidence in a company, this is it."

Hertz said it is beginning new procedures that are designed to strengthen its accounting and finance departments.

The news comes not long after the company appointed a new chief financial officer, former Hilton Worldwide Inc. executive Thomas Kennedy. He took the job late last year following the resignation of Elyse Douglas.

Hertz has had a rough time since it started to pursue Dollar Thrifty several years ago.

The Tulsa company rebuffed an initial offer, leading Hertz CEO Mark Frissora to say at one point he no longer was interested in DTAG.

Whether that was a ploy or not, Frissora renewed his chase of Dollar Thrifty and finally succeeded. To get antitrust approval for the DTAG deal, Hertz had to sell off its Advantage unit, which served a market similar to the one focused on by Dollar Thrifty.