

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

FORM 10-Q

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

For the quarterly period ended September 30, 2019

OR

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

Commission File Number 001-33139

HERC HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

20-3530539

(I.R.S. Employer
Identification Number)

**27500 Riverview Center Blvd.
Bonita Springs, Florida 34134
(239) 301-1000**

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

Not Applicable

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of exchange on which registered
Common Stock, par value \$0.01 per share	HRI	New York Stock Exchange

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of October 18, 2019, there were 28,822,275 shares of the registrant's common stock, \$0.01 par value, outstanding.

HERC HOLDINGS INC. AND SUBSIDIARIES

TABLE OF CONTENTS

	Page
<u>PART I. FINANCIAL INFORMATION</u>	
<u>ITEM 1.</u> <u>Financial Statements</u>	<u>3</u>
<u>Condensed Consolidated Balance Sheets as of September 30, 2019 and December 31, 2018</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2019 and 2018</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended September 30, 2019 and 2018</u>	<u>5</u>
<u>Condensed Consolidated Statements of Changes in Equity for the Three and Nine Months Ended September 30, 2019 and 2018</u>	<u>6</u>
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2019 and 2018</u>	<u>7</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>9</u>
<u>ITEM 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>27</u>
<u>ITEM 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>33</u>
<u>ITEM 4.</u> <u>Controls and Procedures</u>	<u>34</u>
<u>PART II. OTHER INFORMATION</u>	
<u>ITEM 1.</u> <u>Legal Proceedings</u>	<u>35</u>
<u>ITEM 1A.</u> <u>Risk Factors</u>	<u>35</u>
<u>ITEM 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>35</u>
<u>ITEM 5.</u> <u>Other Information</u>	<u>35</u>
<u>ITEM 6.</u> <u>Exhibits</u>	<u>36</u>
<u>SIGNATURE</u>	<u>37</u>

HERC HOLDINGS INC. AND SUBSIDIARIES
CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (this "Report") includes "forward-looking statements," as that term is defined by the federal securities laws. Forward-looking statements include statements concerning our plans, intentions, objectives, strategies, future events, future revenue, future effective tax rates, profitability, performance or cash flows, future capital expenditures, future accounting changes, financing needs, business trends and other information that is not historical information. When used in this Report, the words "estimates," "expects," "anticipates," "projects," "plans," "intends," "believes," "forecasts," and future or conditional verbs, such as "will," "should," "could" or "may," as well as variations of such words or similar expressions are intended to identify forward-looking statements, although not all forward-looking statements are so designated. All forward-looking statements are based upon our current expectations and various assumptions, and there can be no assurance that our current expectations will be achieved. There are a number of risks, uncertainties and other important factors that could cause our actual results to differ materially from those suggested by our forward-looking statements, including:

- the cyclical nature of our business and its dependence on levels of capital investment and maintenance expenditures by our customers;*
- a slowdown in economic conditions or adverse changes in the level of economic activity or other economic factors specific to our customers or their industries, in particular, contractors and industrial customers;*
- our reliance upon communications networks and centralized IT systems;*
- the misuse or theft of information we possess, including as a result of cyber security breaches or otherwise;*
- our response to changes in technology and customer demands;*
- intense competition in the industry, including from our own suppliers, that may lead to downward pricing or an inability to increase prices;*
- our ability to attract and retain key management and other key personnel, and the ability of new employees to learn their new roles;*
- any occurrence that disrupts rental activity during our peak periods, especially in the construction industry;*
- some or all of our deferred tax assets could expire if we experience an "ownership change" as defined in the Internal Revenue Code;*
- changes in the legal and regulatory environment that affect our operations, including with respect to taxes, consumer rights, privacy, data security and employment matters;*
- an impairment of our goodwill or our indefinite lived intangible assets;*
- a decline in our relations with our key national account customers or the amount of equipment they rent from us;*
- maintenance and repair costs associated with our equipment rental fleet, and the residual value risk upon disposition;*
- our inability to protect our trade secrets and other intellectual property rights;*
- our exposure to a variety of claims and losses arising from our operations, some of which may not be covered by insurance;*
- issues we face with our union employees;*
- issues we face with environmental, health and safety laws and regulations and the costs of complying with them;*
- difficulty in identifying, implementing and integrating strategic acquisitions and the disruption in our business therefrom;*
- the liabilities we have assumed and share with Hertz Global Holdings, Inc., formerly known as Hertz Rental Car Holding Company, Inc., in connection with the spin-off;*

HERC HOLDINGS INC. AND SUBSIDIARIES
CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS (CONTINUED)

- *our substantial level of indebtedness, which is secured by substantially all of our consolidated assets, exposes us or makes us more vulnerable to a number of risks;*
- *an increase in interest rates or in our borrowing margin would increase the cost of servicing our debt and could reduce our profitability and any additional debt we incur could further exacerbate these risks;*
- *the sale of a large number of our shares or the perception that a sale could occur could cause the market price of our shares to decline, and these factors could make it more difficult for us to raise funds through future stock offerings;*
- *provisions of our governing documents could discourage potential acquisition proposals and could deter or prevent a change in control;*
- *the market price of our common stock may fluctuate significantly; and*
- *other risks and uncertainties set forth in our Annual Report on Form 10-K for the year ended December 31, 2018 under Item 1A "Risk Factors," and in our other filings with the SEC.*

All forward-looking statements are expressly qualified in their entirety by such cautionary statements. We undertake no obligation to update or revise forward-looking statements that have been made to reflect events or circumstances that arise after the date made or to reflect the occurrence of unanticipated events.

PART I—FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

HERC HOLDINGS INC. AND SUBSIDIARIES **CONDENSED CONSOLIDATED BALANCE SHEETS** (In millions, except par value)

	September 30, 2019	December 31, 2018
ASSETS	(Unaudited)	
Cash and cash equivalents	\$ 34.5	\$ 27.8
Receivables, net of allowances of \$24.8 and \$21.5, respectively	316.4	332.4
Other current assets	30.9	40.2
Total current assets	381.8	400.4
Rental equipment, net	2,625.0	2,504.7
Property and equipment, net	302.7	282.5
Right-of-use lease assets	186.8	—
Intangible assets, net	292.1	293.5
Goodwill	91.0	91.0
Other long-term assets	23.7	38.1
Total assets	\$ 3,903.1	\$ 3,610.2
LIABILITIES AND EQUITY		
Current maturities of long-term debt and financing obligations	\$ 33.0	\$ 29.9
Current maturities of operating lease liabilities	30.3	—
Accounts payable	212.0	147.0
Accrued liabilities	120.9	122.3
Total current liabilities	396.2	299.2
Long-term debt, net	2,149.1	2,129.9
Financing obligations, net	118.2	116.3
Operating lease liabilities	161.5	—
Deferred tax liabilities	441.2	448.3
Other long-term liabilities	43.9	43.8
Total liabilities	3,310.1	3,037.5
Commitments and contingencies (Note 10)		
Equity:		
Preferred stock, \$0.01 par value, 13.3 shares authorized, no shares issued and outstanding	—	—
Common stock, \$0.01 par value, 133.3 shares authorized, 31.5 and 31.2 shares issued and 28.8 and 28.5 shares outstanding	0.3	0.3
Additional paid-in capital	1,789.2	1,777.9
Accumulated deficit	(386.3)	(391.1)
Accumulated other comprehensive loss	(118.2)	(122.4)
Treasury stock, at cost, 2.7 shares and 2.7 shares	(692.0)	(692.0)
Total equity	593.0	572.7
Total liabilities and equity	\$ 3,903.1	\$ 3,610.2

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

HERC HOLDINGS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
Unaudited
(In millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues:				
Equipment rental	\$ 459.6	\$ 449.0	\$ 1,244.8	\$ 1,210.6
Sales of rental equipment	35.4	50.1	171.8	175.6
Sales of new equipment, parts and supplies	10.0	14.2	34.1	36.4
Service and other revenue	3.1	2.9	8.2	10.4
Total revenues	508.1	516.2	1,458.9	1,433.0
Expenses:				
Direct operating	197.7	194.4	575.3	584.9
Depreciation of rental equipment	102.7	98.3	303.6	288.6
Cost of sales of rental equipment	36.7	51.1	170.2	168.9
Cost of sales of new equipment, parts and supplies	7.2	10.6	25.8	27.7
Selling, general and administrative	76.2	78.4	221.2	229.2
Restructuring	—	—	7.8	1.0
Interest expense, net	81.9	38.6	146.4	103.0
Other income, net	0.5	(0.4)	(1.8)	(0.8)
Total expenses	502.9	471.0	1,448.5	1,402.5
Income before income taxes	5.2	45.2	10.4	30.5
Income tax benefit	4.2	1.0	2.0	5.3
Net income	\$ 9.4	\$ 46.2	\$ 12.4	\$ 35.8
Weighted average shares outstanding:				
Basic	28.7	28.5	28.7	28.4
Diluted	29.1	28.9	29.1	28.9
Earnings per share:				
Basic	\$ 0.33	\$ 1.62	\$ 0.43	\$ 1.26
Diluted	\$ 0.32	\$ 1.60	\$ 0.43	\$ 1.24

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

HERC HOLDINGS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Unaudited

(In millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income	\$ 9.4	\$ 46.2	\$ 12.4	\$ 35.8
Other comprehensive income (loss):				
Foreign currency translation adjustments	(3.6)	8.6	5.8	(5.6)
Unrealized gains and losses on hedging instruments:				
Unrealized gains (losses) on hedging instruments	(0.4)	0.2	(3.4)	3.2
Income tax benefit (provision) related to hedging instruments	0.2	—	0.9	(0.8)
Pension and postretirement benefit liability adjustments:				
Amortization of net losses included in net periodic pension cost	0.4	0.3	1.2	0.8
Income tax provision related to defined benefit pension plans	(0.1)	(0.1)	(0.3)	(0.2)
Total other comprehensive income (loss)	(3.5)	9.0	4.2	(2.6)
Total comprehensive income	\$ 5.9	\$ 55.2	\$ 16.6	\$ 33.2

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

HERC HOLDINGS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Unaudited

(In millions)

Three Months Ended September 30, 2019								
	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Equity	
	Shares	Amount						
Balance at:								
June 30, 2019	28.7	\$ 0.3	\$ 1,785.8	\$ (395.7)	\$ (114.7)	\$ (692.0)	\$ 583.7	
Net income	—	—	—	9.4	—	—	9.4	
Other comprehensive income	—	—	—	—	(3.5)	—	(3.5)	
Net settlement on vesting of equity awards	0.1	—	(1.7)	—	—	—	(1.7)	
Stock-based compensation charges	—	—	4.3	—	—	—	4.3	
Employee stock purchase plan	—	—	0.6	—	—	—	0.6	
Exercise of stock options	—	—	0.2	—	—	—	0.2	
September 30, 2019	28.8	\$ 0.3	\$ 1,789.2	\$ (386.3)	\$ (118.2)	\$ (692.0)	\$ 593.0	
Nine Months Ended September 30, 2019								
	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Equity	
	Shares	Amount						
Balance at:								
December 31, 2018	28.5	\$ 0.3	\$ 1,777.9	\$ (391.1)	\$ (122.4)	\$ (692.0)	\$ 572.7	
Net income	—	—	—	12.4	—	—	12.4	
Adoption of new accounting pronouncement (Note 2)	—	—	—	(7.6)	—	—	(7.6)	
Other comprehensive income	—	—	—	—	4.2	—	4.2	
Net settlement on vesting of restricted stock	0.3	—	(3.7)	—	—	—	(3.7)	
Stock-based compensation charges	—	—	12.5	—	—	—	12.5	
Employee stock purchase plan	—	—	1.8	—	—	—	1.8	
Exercise of stock options	—	—	0.7	—	—	—	0.7	
September 30, 2019	28.8	\$ 0.3	\$ 1,789.2	\$ (386.3)	\$ (118.2)	\$ (692.0)	\$ 593.0	
Three Months Ended September 30, 2018								
	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Equity	
	Shares	Amount						
Balance at:								
June 30, 2018	28.5	\$ 0.3	\$ 1,770.0	\$ (472.8)	\$ (110.2)	\$ (692.0)	\$ 495.3	
Net income	—	—	—	46.2	—	—	46.2	
Other comprehensive loss	—	—	—	—	9.0	—	9.0	
Stock-based compensation charges	—	—	3.3	—	—	—	3.3	
Employee stock purchase plan	—	—	0.5	—	—	—	0.5	
September 30, 2018	28.5	\$ 0.3	\$ 1,773.8	\$ (426.6)	\$ (101.2)	\$ (692.0)	\$ 554.3	
Nine Months Ended September 30, 2018								
	Common Stock		Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Equity	
	Shares	Amount						
Balance at:								
December 31, 2017	28.3	\$ 0.3	\$ 1,763.1	\$ (462.4)	\$ (98.6)	\$ (692.0)	\$ 510.4	
Net income	—	—	—	35.8	—	—	35.8	
Other comprehensive loss	—	—	—	—	(2.6)	—	(2.6)	

Net settlement on vesting of equity awards	0.1	—	(1.1)	—	—	—	(1.1)
Stock-based compensation charges	—	—	9.9	—	—	—	9.9
Employee stock purchase plan	—	—	1.4	—	—	—	1.4
Exercise of stock options	0.1	—	0.5	—	—	—	0.5
September 30, 2018	<u>28.5</u>	<u>\$ 0.3</u>	<u>\$ 1,773.8</u>	<u>\$ (426.6)</u>	<u>\$ (101.2)</u>	<u>\$ (692.0)</u>	<u>\$ 554.3</u>

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

HERC HOLDINGS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited
(In millions)

	Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities:		
Net income	\$ 12.4	\$ 35.8
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of rental equipment	303.6	288.6
Depreciation of property and equipment	39.3	38.2
Amortization of intangible assets	5.2	3.6
Amortization of deferred debt and financing obligations costs	4.3	4.7
Loss on extinguishment of debt	53.6	5.4
Stock-based compensation charges	12.5	9.9
Restructuring	5.5	—
Provision for receivables allowances	40.2	41.0
Deferred taxes	(5.6)	(6.4)
Gain on sale of rental equipment	(1.6)	(6.7)
Income from joint ventures	(0.3)	(1.3)
Other	5.6	8.0
Changes in assets and liabilities:		
Receivables	(37.0)	(46.7)
Other assets	2.8	(2.2)
Accounts payable	(1.6)	(3.5)
Accrued liabilities and other long-term liabilities	2.3	6.6
Net cash provided by operating activities	441.2	375.0
Cash flows from investing activities:		
Rental equipment expenditures	(506.7)	(617.5)
Proceeds from disposal of rental equipment	156.9	189.1
Non-rental capital expenditures	(34.9)	(58.5)
Proceeds from disposal of property and equipment	5.0	3.9
Other	4.0	—
Net cash used in investing activities	(375.7)	(483.0)

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

HERC HOLDINGS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
Unaudited
(In millions)

	Nine Months Ended September 30,	
	2019	2018
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	1,200.0	—
Repayments of long-term debt	(864.5)	(123.5)
Proceeds from revolving lines of credit and securitization	1,134.3	650.8
Repayments on revolving lines of credit and securitization	(1,465.5)	(424.5)
Proceeds from financing obligations	4.7	—
Principal payments under capital lease and financing obligations	(11.9)	(13.1)
Debt redemption premium payment	(41.5)	(3.7)
Payment of debt financing costs	(13.3)	(1.0)
Proceeds from exercise of stock options	0.7	0.5
Proceeds from employee stock purchase plan	1.8	1.4
Net settlement on vesting of equity awards	(3.7)	(1.1)
Net cash used in financing activities	(58.9)	85.8
Effect of foreign exchange rate changes on cash and cash equivalents	0.1	(1.3)
Net increase in cash and cash equivalents during the period	6.7	(23.5)
Cash and cash equivalents cash at beginning of period	27.8	41.5
Cash and cash equivalents at end of period	<u>\$ 34.5</u>	<u>\$ 18.0</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest, including premium payment	\$ 121.2	\$ 90.2
Cash paid for income taxes, net	\$ 0.7	\$ 12.0
Supplemental disclosure of non-cash investing activity:		
Purchases of rental equipment in accounts payable	\$ 63.8	\$ 80.6
Non-rental capital expenditures in accounts payable	\$ 7.3	\$ 5.6
Note receivable on disposal of joint venture	\$ 19.0	\$ —

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

HERC HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Unaudited

Note 1—Background

Herc Holdings Inc. ("we," "us," "our," "Herc Holdings," "the Company" or, as the context requires, "its") is one of the leading equipment rental suppliers with approximately 270 locations at September 30, 2019, principally in North America. The Company conducts substantially all of its operations through subsidiaries, including Herc Rentals Inc. ("Herc"). Operations are conducted under the Herc Rentals brand in the United States and Canada and under the Hertz Equipment Rental brand in other international locations. With over 50 years of experience, the Company is a full-line equipment rental supplier offering a broad portfolio of equipment for rent. In addition to its principal business of equipment rental, the Company sells used equipment and contractor supplies such as construction consumables, tools, small equipment and safety supplies; provides repair, maintenance, equipment management services and safety training to certain of its customers; offers equipment re-rental services and provides on-site support to its customers; and provides ancillary services such as equipment transport, rental protection, cleaning, refueling and labor.

The Company's classic fleet includes aerial, earthmoving, material handling, trucks and trailers, air compressors, compaction and lighting. The Company's equipment rental business is supported by ProSolutions™, its industry-specific solutions-based services, which includes power generation, climate control, remediation and restoration, and studio and production equipment, and its ProContractor professional grade tools.

On June 30, 2016, the Company, in its previous form as the holding company of both the existing equipment rental operations as well as the former vehicle rental operations (in its form prior to the Spin-Off, "Hertz Holdings"), completed a spin-off (the "Spin-Off") of its global vehicle rental business through a dividend to stockholders of all of the issued and outstanding common stock of Hertz Rental Car Holding Company, Inc., which was re-named Hertz Global Holdings, Inc. ("New Hertz") in connection with the Spin-Off. New Hertz is an independent public company that trades on the New York Stock Exchange under the symbol "HTZ" and continues to operate its global vehicle rental business through its operating subsidiaries including The Hertz Corporation ("THC"). The Company changed its name to Herc Holdings Inc. on June 30, 2016, and trades on the New York Stock Exchange under the symbol "HRI."

Note 2—Basis of Presentation and Recently Issued Accounting Pronouncements

Basis of Presentation

The Company prepares its condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). In the opinion of management, the condensed consolidated financial statements reflect all adjustments of a normal recurring nature that are necessary for a fair statement of the results for the interim periods presented. Interim results are not necessarily indicative of results for a full year. The year-end condensed consolidated balance sheet data was derived from audited financial statements, however, these condensed consolidated financial statements do not include all of the disclosures required for complete annual financial statements and, accordingly, certain information, footnotes and disclosures normally included in annual financial statements, prepared in accordance with U.S. GAAP, have been condensed or omitted in accordance with Securities and Exchange Commission ("SEC") rules and regulations. The Company believes that the disclosures made are adequate to make the information not misleading. Accordingly, the condensed consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2018, filed with the SEC on February 28, 2019.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and footnotes. Actual results could differ materially from those estimates.

Significant estimates inherent in the preparation of the condensed consolidated financial statements include receivables allowances, depreciation of rental equipment, the recoverability of long-lived assets, useful lives and impairment of long-lived tangible and intangible assets including goodwill and trade name, pension and postretirement benefits, valuation of stock-based compensation, reserves for litigation and other contingencies and accounting for income taxes, among others.

HERC HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Unaudited

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Herc Holdings and its wholly owned subsidiaries. In the event that the Company is a primary beneficiary of a variable interest entity, the assets, liabilities and results of operations of the variable interest entity are included in the Company's condensed consolidated financial statements. The Company accounts for its investments in joint ventures using the equity method when it has significant influence but not control and is not the primary beneficiary. All significant intercompany transactions have been eliminated in consolidation.

Recently Issued Accounting Pronouncements**Adopted*****Leases***

In February 2016, the Financial Accounting Standards Board ("FASB") issued new leasing guidance ("Topic 842") that replaced the existing lease guidance ("Topic 840"). Topic 842 established a right-of-use ("ROU") model that requires a lessee to record a ROU asset and lease liability on the balance sheet for all leases with terms longer than 12 months. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. This guidance also expanded the requirements for lessees to record leases embedded in other arrangements and the required quantitative and qualitative disclosures surrounding leases. Accounting guidance for lessors is largely unchanged.

The Company adopted Topic 842 on its effective date of January 1, 2019 using a modified retrospective transition approach; as such, Topic 842 was not applied to periods prior and the adoption had no impact on the Company's previously reported results. The Company recognized operating lease liabilities of \$165.3 million upon adoption, with corresponding ROU assets on its balance sheet. This guidance did not have a material impact on its results of operations and cash flows.

The Company took advantage of the transition package of practical expedients permitted within Topic 842 which allowed the Company not to reassess (i) whether any expired or existing lease contracts are or contain leases, (ii) the historical lease classification for any expired or existing leases and (iii) initial direct costs for any existing leases. The Company has elected not to combine lease and non-lease components for its real estate leases and allocates the consideration in the contract based on relative stand-alone prices of each component.

Additionally, as discussed in Note 3, "Revenue Recognition," most of the Company's equipment rental revenues were accounted for under Topic 840 until the adoption of Topic 842. The Company recognized a cumulative-effect adjustment to the opening balance of retained earnings related to these items of \$7.6 million. The adoption of Topic 842 will not have a significant impact on future revenues. The Company also elected the practical expedient that allows lessors to treat the lease and non-lease components as a single lease component where the non-lease component would otherwise be accounted for under Accounting Standards Codification ("ASC") Topic 606, *Revenue from Contracts with Customers* ("Topic 606"), as timing and pattern of transfer for the lease component and non-lease components associated with that lease component are the same.

Not Yet Adopted***Compensation - Retirement Benefits***

In August 2018, the FASB issued guidance that adds, removes, and modifies disclosure requirements related to defined benefit pension and other postretirement plans in order to improve the disclosure effectiveness. The guidance is effective for fiscal years beginning after December 15, 2020 and should be applied on a retrospective basis to all periods presented, with early adoption permitted. The Company expects to adopt the new and modified disclosures requirements of this new guidance on its effective date.

Fair Value Measurement

In August 2018, the FASB issued new guidance that modifies disclosure requirements on fair value measurements, removing and modifying certain disclosures, while adding other disclosures. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. The Company expects to adopt the new

HERC HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Unaudited

guidance on its effective date and adoption is not expected to have a material impact on the Company's financial statement disclosures.

Note 3—Revenue Recognition

The Company is principally engaged in the business of renting equipment. Ancillary to the Company's principal equipment rental business, the Company also sells used rental equipment, new equipment and parts and supplies and offers certain services to support its customers. The Company's business is primarily focused in North America with revenue from the United States representing approximately 90.0% and 89.5% of total revenue for the three and nine months ended September 30, 2019, respectively, compared to 89.6% and 88.7% for the same periods in 2018.

The Company's rental transactions are principally accounted for under Topic 842. Prior to the adoption of Topic 842, the Company accounted for rental transactions under Topic 840. The Company's sale of rental and new equipment, parts and supplies along with certain services provided to customers are accounted for under Topic 606. The Company recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. The amount of revenue recognized reflects the consideration the Company expects to be entitled to in exchange for such products or services.

The following tables summarizes the applicable accounting guidance for the Company's revenues for the three and nine months ended September 30, 2019 and 2018, respectively (in millions):

	Three Months Ended September 30,					
	2019			2018		
	Topic 842	Topic 606	Total	Topic 840	Topic 606	Total
Revenues:						
Equipment rental	\$ 416.0	\$ —	\$ 416.0	\$ 404.8	\$ —	\$ 404.8
Other rental revenue:						
Delivery and pick-up	—	27.6	27.6	—	25.5	25.5
Other	16.0	—	16.0	18.7	—	18.7
Total other rental revenues	16.0	27.6	43.6	18.7	25.5	44.2
Total equipment rentals	432.0	27.6	459.6	423.5	25.5	449.0
Sales of rental equipment	—	35.4	35.4	—	50.1	50.1
Sales of new equipment, parts and supplies	—	10.0	10.0	—	14.2	14.2
Service and other revenues	—	3.1	3.1	—	2.9	2.9
Total revenues	\$ 432.0	\$ 76.1	\$ 508.1	\$ 423.5	\$ 92.7	\$ 516.2

	Nine Months Ended September 30,					
	2019			2018		
	Topic 842	Topic 606	Total	Topic 840	Topic 606	Total
Revenues:						
Equipment rental	\$ 1,134.2	\$ —	\$ 1,134.2	\$ 1,101.6	\$ —	\$ 1,101.6
Other rental revenue:						
Delivery and pick-up	—	71.6	71.6	—	63.9	63.9
Other	39.0	—	39.0	45.1	—	45.1
Total other rental revenues	39.0	71.6	110.6	45.1	63.9	109.0
Total equipment rentals	1,173.2	71.6	1,244.8	1,146.7	63.9	1,210.6
Sales of rental equipment	—	171.8	171.8	—	175.6	175.6
Sales of new equipment, parts and supplies	—	34.1	34.1	—	36.4	36.4
Service and other revenues	—	8.2	8.2	—	10.4	10.4
Total revenues	\$ 1,173.2	\$ 285.7	\$ 1,458.9	\$ 1,146.7	\$ 286.3	\$ 1,433.0

HERC HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Unaudited

Topic 842 revenues*Equipment Rental Revenue*

The Company offers a broad portfolio of equipment for rent on a daily, weekly or monthly basis, with most rental agreements cancelable upon the return of the equipment. Virtually all customer contracts can be canceled by the customer with no penalty by returning the equipment within one day; therefore, the Company does not allocate the transaction price between the different contract elements.

Equipment rental revenue includes revenue generated from renting equipment to customers and is recognized on a straight-line basis over the length of the rental contract. As part of this straight-line methodology, when the equipment is returned, the Company recognizes as incremental revenue the excess, if any, between the amount the customer is contractually required to pay, which is based on the rental contract period applicable to the actual number of days the equipment was out on rent, over the cumulative amount of revenue recognized to date. In any given accounting period, the Company will have customers return equipment and be contractually required to pay more than the cumulative amount of revenue recognized to date under the straight-line methodology. Also included in equipment rental revenue is re-rent revenue in which the Company will rent specific pieces of equipment from vendors and then re-rent that equipment to its customers. Provisions for discounts, rebates to customers and other adjustments are provided for in the period the related revenue is recorded.

Other

Other equipment rental revenue is primarily comprised of fees for the Company's rental protection program and environmental charges. Fees paid for the rental protection program allow customers to limit the risk of financial loss in the event the Company's equipment is damaged or lost. Fees for the rental protection program and environmental recovery fees are recognized on a straight-line basis over the length of the rental contract.

Topic 606 revenues*Delivery and pick-up*

Delivery and pick-up revenue associated with renting equipment is recognized when the services are performed.

Sales of Rental Equipment, New Equipment, Parts and Supplies

The Company sells its used rental equipment, new equipment, parts and supplies. Revenues recorded for each category are as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Sales of rental equipment	\$ 35.4	\$ 50.1	\$ 171.8	\$ 175.6
Sales of new equipment	4.8	5.1	16.0	15.5
Sales of parts and supplies	5.2	9.1	18.1	20.9
Total	<u>\$ 45.4</u>	<u>\$ 64.3</u>	<u>\$ 205.9</u>	<u>\$ 212.0</u>

The Company recognizes revenue from the sale of rental equipment, new equipment, parts and supplies when control of the asset transfers to the customer, which is typically when the asset is picked up by or delivered to the customer and when significant risks and rewards of ownership have passed to the customer. Sales and other tax amounts collected from customers and remitted to government authorities are accounted for on a net basis and, therefore, excluded from revenue.

The Company routinely sells its used rental equipment in order to manage repair and maintenance costs, as well as the composition, age and size of its fleet. The Company disposes of used equipment through a variety of channels including retail sales to customers and other third parties, sales to wholesalers, brokered sales and auctions.

The Company also sells new equipment, parts and supplies. The types of new equipment that the Company sells vary by location and include a variety of ProContractor tools and supplies, small equipment (such as work lighting, generators, pumps, compaction equipment and power trowels), safety supplies and expendables.

HERC HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Unaudited

Under Topic 606, the accounts receivable balance, prior to allowances for doubtful accounts, for the sale of rental equipment, new equipment, parts and supplies, was approximately \$16.3 million and \$19.5 million as of September 30, 2019 and December 31, 2018, respectively.

Service and other revenues

Service and other revenues primarily include revenue earned from equipment management and similar services for rental customers which includes providing customer support functions such as dedicated in-plant operations, plant management services, training, and repair and maintenance services particularly to industrial customers who request such services.

The Company recognizes revenue for service and other revenues as the services are provided. Service and other revenues are typically invoiced together with a customer's rental amounts and, therefore, it is not practical for the Company to separate the accounts receivable amount related to services and other revenues that are accounted for under Topic 606; however, such amount is not considered material.

Receivables and contract assets and liabilities

Most of the Company's equipment rental revenue is accounted for under Topic 842. The customers that are responsible for the remaining equipment rental revenue that is accounted for under Topic 606 are generally the same customers that rent the Company's equipment. Concentration of credit risk with respect to the Company's accounts receivable is limited because a large number of geographically diverse customers makes up its customer base. No single customer makes up more than 3% of the Company's equipment rental revenue or accounts receivable balance for the last three years. The Company manages credit risk associated with its accounts receivable at the customer level through credit approvals, credit limits and other monitoring procedures. The Company maintains allowances for doubtful accounts that reflect the Company's estimate of the amount of receivables that the Company will be unable to collect based on its historical write-off experience.

The Company does not have material contract assets or contract liabilities associated with customer contracts. The Company's contracts with customers do not generally result in material amounts billed to customers in excess of recognizable revenue. The Company did not recognize material revenue during the three and nine months ended September 30, 2019 that was included in the contract liability balance as of the beginning of such period.

Performance obligations

Most of the Company's revenue recognized under Topic 606 is recognized at a point-in-time, rather than over time. Accordingly, in any particular period, the Company does not generally recognize a significant amount of revenue from performance obligations satisfied (or partially satisfied) in previous periods, and the amount of such revenue recognized during the three and nine months ended September 30, 2019 was not material. We also do not expect to recognize material revenue in the future related to performance obligations that are unsatisfied (or partially unsatisfied) as of September 30, 2019.

Contract estimates and judgments

The Company's revenues accounted for under Topic 606 generally do not require significant estimates or judgments, primarily for the following reasons:

- The transaction price is generally fixed and stated on the Company's contracts;
- As noted above, the Company's contracts generally do not include multiple performance obligations, and accordingly do not generally require estimates of the standalone selling price for each performance obligation;
- The Company's revenues do not include material amounts of variable consideration; and
- Most of the Company's revenue is recognized as of a point-in-time and the timing of the satisfaction of the applicable performance obligations is readily determinable. As noted above, the revenue recognized under Topic 606 is generally recognized at the time of delivery to, or pick-up by, the customer.

The Company monitors and reviews its estimated standalone selling prices on a regular basis.

HERC HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Unaudited

Note 4—Rental Equipment

Rental equipment consists of the following (in millions):

	September 30, 2019	December 31, 2018
Rental equipment	\$ 3,993.3	\$ 3,840.7
Less: Accumulated depreciation	(1,368.3)	(1,336.0)
Rental equipment, net	\$ 2,625.0	\$ 2,504.7

Note 5—Leases

The Company leases real estate, office equipment and service vehicles. The Company's leases have remaining lease terms of up to 15 years, some of which include options to extend the leases for up to 20 years. The Company has included the initial lease term in the case where there are options to extend as it has determined that it is not reasonably certain that the Company would exercise those options.

Leases are classified as either finance or operating at inception of the lease, with classification affecting the pattern of expense recognition in the income statement. Operating leases result in the recognition of ROU assets and lease liabilities on the balance sheet. ROU assets represent the Company's right to use the leased asset for the lease term and lease liabilities represent the obligation to make lease payments. The liability is calculated as the present value of the remaining minimum rental payments for existing operating leases using either the rate implicit in the lease or, if none exists, the Company's incremental borrowing rate. The Company's capital leases are accounted for as finance leases; no significant changes have been made for the accounting of such leases.

The Company also leases certain equipment that it rents to its customers where the payments vary based upon the amount of time the equipment is on rent. There are no fixed payments on these leases and, therefore, no lease liability or ROU assets have been recorded. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Lease expense for these leases is recognized on a straight-line basis over the lease term.

The components of lease expense consist of the following (in millions):

	Classification	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Operating lease cost ^(a)	Direct operating	\$ 25.3	\$ 70.0
Finance lease cost:			
Amortization of ROU assets	Depreciation and amortization ^(b)	1.8	5.5
Interest on lease liabilities	Interest expense, net	0.4	1.1
Sublease income	Equipment rental revenue	(17.3)	(46.4)
Net lease cost		\$ 10.2	\$ 30.2

(a) Includes short-term leases of \$13.7 million and \$36.8 million for the three and nine months ended September 30, 2019, and variable lease costs of \$0.8 million and \$3.1 million for the three and nine months ended September 30, 2019, respectively.

(b) Depreciation and amortization is included with selling, general and administrative expense.

During the second quarter of 2019, the Company entered into a plan of restructuring with respect to certain branches in Canada. As part of the plan, certain of its leased locations were closed and the Company recorded a ROU asset impairment of \$4.8 million. Additionally, the Company recorded related leasehold improvement impairments of \$0.7 million and severance charges of \$2.3 million.

HERC HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Unaudited

Balance sheet information related to leases consists of the following (in millions):

	Classification	September 30, 2019
Assets		
Operating lease ROU assets	Right-of-use assets	\$ 186.8
Finance lease ROU assets	Property and equipment, net ^(a)	52.8
Total leased assets		\$ 239.6
Liabilities		
Current		
Operating	Current maturities of operating lease liabilities	\$ 30.3
Finance	Current maturities of long-term debt and financing obligations	22.9
Non-current		
Operating	Operating lease liabilities	161.5
Finance	Long-term debt, net	30.1
Total lease liabilities		\$ 244.8
Weighted average remaining lease term		
Operating leases		7.4
Finance leases		5.4
Weighted average discount rate		
Operating leases		4.05%
Finance leases		2.97%

(a) Finance lease right-of-use assets are recorded net of accumulated amortization of \$56.3 million.

Cash flow information related to leases consists of the following (in millions):

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 9.7	\$ 29.3
Operating cash flows from finance leases	0.4	1.1
Financing cash flows from finance leases	3.0	9.3
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	26.9	48.4
Finance leases	24.9	27.3

HERC HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Unaudited

Maturities of lease liabilities are as follows (in millions):

	Operating Leases	Finance Leases
2019	\$ 7.5	\$ 13.2
2020	39.7	16.4
2021	33.5	5.5
2022	28.4	5.3
2023	24.3	4.8
After 2024	90.6	11.4
Total lease payments	224.0	56.6
Less: Interest	(32.2)	(3.6)
Present value of lease liabilities	\$ 191.8	\$ 53.0

Note 6—Debt

The Company's debt consists of the following (in millions):

	Weighted Average Effective Interest Rate at September 30, 2019	Weighted Average Stated Interest Rate at September 30, 2019	Fixed or Floating Interest Rate	Maturity	September 30, 2019	December 31, 2018
<i>Senior Notes</i>						
2027 Notes	5.61%	5.50%	Fixed	2027	\$ 1,200.0	\$ —
<i>Senior Secured Second Priority Notes</i>						
2022 Notes	N/A	N/A	N/A	N/A	—	427.0
2024 Notes	N/A	N/A	N/A	N/A	—	437.5
<i>Other Debt</i>						
New ABL Credit Facility	N/A	3.49%	Floating	2024	752.0	—
ABL Credit Facility	N/A	N/A	N/A	N/A	—	1,085.2
AR Facility	N/A	2.77%	Floating	2020	175.0	175.0
Finance lease liabilities	2.97%	N/A	Fixed	2019-2027	53.0	38.1
Other borrowings	N/A	4.79%	Floating	2020	6.8	4.6
<i>Unamortized Debt Issuance Costs^(a)</i>					(8.1)	(10.6)
Total debt					2,178.7	2,156.8
Less: Current maturities of long-term debt					(29.6)	(26.9)
Long-term debt, net					\$ 2,149.1	\$ 2,129.9

(a) Unamortized debt issuance costs totaling \$9.9 million related to the New ABL Credit Facility and AR Facility (as each is defined below) as of September 30, 2019 and \$10.4 million related to the ABL Credit Facility (as defined below) and the AR Facility as of December 31, 2018 are included in "Other long-term assets" in the condensed consolidated balance sheets.

The effective interest rate for the fixed rate 2027 Notes (as defined below) includes the stated interest on the notes and the amortization of any debt issuance costs.

Senior Notes

On July 9, 2019, the Company issued \$1.2 billion aggregate principal amount of its 5.50% Senior Notes due 2027 (the "2027 Notes"). The net proceeds were used to redeem the remaining 2022 Notes and 2024 Notes (as defined below) and repay a portion of the indebtedness outstanding under the then existing ABL Credit Facility. Interest on the 2027 Notes accrues at the rate of 5.50%

HERC HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Unaudited

per annum and will be payable semi-annually in arrears on January 15 and July 15, commencing on January 15, 2020. The 2027 Notes will mature on July 15, 2027.

Ranking; Guarantees

The 2027 Notes are the Company's senior unsecured obligations, ranking equally in right of payment with all of the Company's existing and future senior indebtedness, effectively junior to any of the Company's existing and future secured indebtedness, including the New ABL Credit Facility (as defined below), to the extent of the value of the assets securing such indebtedness, and senior in right of payment to any of the Company's existing and future subordinated indebtedness. The 2027 Notes will be guaranteed on a senior unsecured basis, subject to limited exceptions including special purpose securitization subsidiaries, by the Company's current and future domestic subsidiaries.

Redemption

The Company may redeem the 2027 Notes, in whole or in part, at any time prior to July 15, 2022, at a price equal to 100% of the aggregate principal amount thereof, plus the applicable make-whole premium and accrued and unpaid interest, if any, to, but excluding, the redemption date. The Company may redeem the 2027 Notes, in whole or in part, at any time (i) on or after July 15, 2022 and prior to July 15, 2023, at a price equal to 102.750% of the principal amount of the 2027 Notes, (ii) on or after July 15, 2023 and prior to July 15, 2024, at a price equal to 101.833% of the principal amount of the 2027 Notes, (iii) on or after July 15, 2024 and prior to July 15, 2025, at a price equal to 100.917% of the principal amount of the 2027 Notes and (iv) on or after July 15, 2025, at a price equal to 100.000% of the principal amount of the 2027 Notes, in each case, plus accrued and unpaid interest, if any, to, but not including, the applicable redemption date. In addition, at any time on or prior to July 15, 2022, the Company may, at its option, redeem up to 40% of the original aggregate principal amount of the 2027 Notes with the proceeds of one or more equity offerings at a redemption price of 105.500% of the principal amount of the 2027 Notes, plus accrued and unpaid interest, if any, to, but excluding, the date of redemption.

Covenants

The indenture governing the 2027 Notes contains certain covenants applicable to the Company and its restricted subsidiaries, including limitations on liens, indebtedness, mergers, consolidations and acquisitions, sales, transfers and other dispositions of assets, loans and other investments, dividends and other distributions, stock repurchases and redemptions and other restricted payments, restrictions affecting subsidiaries, transactions with affiliates and designations of unrestricted subsidiaries. Upon the occurrence of certain events constituting a change of control triggering event, the Company is required to make an offer to repurchase all of the 2027 Notes (unless otherwise redeemed) at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any to (but excluding) the repurchase date. If the Company sells assets under certain circumstances, it must use the proceeds to make an offer to purchase the 2027 Notes at a price equal to 100% of their principal amount, plus accrued and unpaid interest, if any, to, but excluding, the repurchase date.

Events of Default

The indenture also provides for customary events of default, including the following (subject to any applicable cure period): nonpayment, breach of covenants in the indenture, payment defaults under or acceleration of certain other indebtedness, failure to discharge certain judgments and certain events of bankruptcy, insolvency and reorganization. If an event of default occurs or is continuing, the trustee or the holders of at least 30% in aggregate principal amount of the 2027 Notes then outstanding may declare the principal of, premium, if any, and accrued and unpaid interest, if any, to be due and payable immediately.

Senior Secured Second Priority Notes

In June 2016, Herc issued \$610.0 million aggregate principal amount of 7.50% senior secured second priority notes due 2022 (the "2022 Notes") and \$625.0 million aggregate principal amount of 7.75% senior secured second priority notes due 2024 (the "2024 Notes" and, together with the 2022 Notes, the "Notes"). In March 2017, October 2017 and July 2018, Herc drew down on its ABL Credit Facility (as defined below) and cumulatively redeemed \$183.0 million in aggregate principal amount of the 2022 Notes and \$187.5 million in aggregate principal amount of the 2024 Notes.

HERC HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Unaudited

On July 9, 2019, Herc redeemed the remaining \$427.0 million outstanding principal amount of its 2022 Notes and the remaining \$437.5 million outstanding principal amount of its 2024 Notes. The Notes were redeemed at a redemption price of 103.750% in the case of the 2022 Notes and 105.813% in the case of the 2024 Notes, plus interest accrued to, but excluding, July 9, 2019. The Company used a portion of the net proceeds from its offering of the 2027 Notes to redeem the Notes and to pay related fees and expenses. The Company recorded a loss on early extinguishment of debt of \$51.0 million comprised of the cash premiums paid of \$41.5 million and unamortized debt issuance costs of \$9.5 million.

New ABL Credit Facility

On July 31, 2019, Herc Holdings, Herc and certain other subsidiaries of Herc Holdings entered into a credit agreement with respect to a new senior secured asset-based revolving credit facility (the "New ABL Credit Facility"), which refinances in full and replaces the then existing asset-based credit facility ("ABL Credit Facility") and related guarantee and collateral/security agreements. On July 31, 2019, Herc Holdings borrowed \$722.0 million under the New ABL Credit Facility and repaid all amounts outstanding under the ABL Credit Facility.

The New ABL Credit Facility provides (subject to availability under a borrowing base) for aggregate maximum borrowings of up to \$1,750 million under a revolving loan facility. Up to \$250 million of the revolving loan facility is available for the issuance of letters of credit, subject to certain conditions including issuing lender participation. Subject to the satisfaction of certain conditions and limitations, the New ABL Credit Facility allows for the addition of incremental revolving commitments and/or incremental term loans.

Maturity

The New ABL Credit Facility matures on July 31, 2024.

Guarantees; Collateral/Security

The obligations of each of the borrowers under the New ABL Credit Facility are guaranteed by each of Herc Holdings' direct and indirect U.S. and Canadian subsidiaries, with certain exceptions, including special purpose securitization subsidiaries. The obligations of the borrowers under the New ABL Credit Facility and the guarantees thereof are secured by security interests in substantially all of the assets of each borrower and guarantor, including pledges of all the capital stock of all of their direct subsidiaries, with certain exceptions. The liens securing the New ABL Credit Facility are subject to certain exceptions. Also, subject to certain limitations and conditions, the New ABL Credit Facility permits the incurrence of future secured debt on a basis either pari passu with, or subordinated to, the liens securing the New ABL Credit Facility.

Interest

The interest rates applicable to any loans under the New ABL Credit Facility are based, at the option of the borrowers, on (i) a floating rate based on LIBOR (for loans denominated in U.S. dollars) or CDOR (for loans denominated in Canadian dollars) plus an initial margin of 1.50% per annum or (ii) a base rate plus an initial margin of 0.50%, in each case, where margin is adjusted under the New ABL Credit Facility based on the quarterly average excess availability under the New ABL Credit Facility.

Covenants

The New ABL Credit Facility contains a number of covenants that, among other things, limit or restrict the ability of the borrowers and their subsidiaries to incur additional indebtedness, prepay other indebtedness, make dividends and other restricted payments, create or incur liens, make acquisitions and other investments, engage in mergers, consolidations or sales of assets, engage in certain transactions with affiliates, and enter into certain restrictive agreements limiting the ability to create or incur liens. In addition, under the New ABL Credit Facility, upon excess availability falling below certain levels, the borrowers will be required to comply with a minimum fixed charge coverage ratio of no less than 1.00:1.00.

HERC HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Unaudited

Events of Default

The New ABL Credit Facility provides that the occurrence of any of the following events will constitute an event of default: payment default, breach of representation or warranty, covenant breach, cross default to other material indebtedness, certain bankruptcy events, dissolution, invalidity of the credit agreement or any intercreditor agreement (if any), judgment in excess of a certain monetary threshold, any security or guarantee documents cease to be in effect, an ERISA event, pension event or a change of control. Upon the occurrence and during the continuation of an event of default, the agent may exercise remedies on behalf of the lenders, including accelerating the repayment of outstanding loans under the New ABL Credit Facility.

ABL Credit Facility

The Company's ABL Credit Facility, executed by its Herc subsidiary, provided for senior secured revolving loans up to a maximum aggregate principal amount of \$1,750 million (subject to availability under a borrowing base), including revolving loans in an aggregate principal amount of \$350 million available to Canadian borrowers and U.S. borrowers, that had a maturity date of June 30, 2021. Up to \$250 million of the revolving loan facility was available for the issuance of letters of credit, subject to certain conditions including issuing lender participation. On July 31, 2019, Herc Holdings borrowed \$722.0 million under the New ABL Credit Facility and repaid all amounts outstanding under the ABL Credit Facility. The Company recorded a loss on early extinguishment of debt of \$2.6 million comprised of unamortized debt issuance costs.

Accounts Receivable Securitization Facility

In September 2018, the Company entered into an accounts receivable securitization facility (the "AR Facility") with aggregate commitments of \$175 million that matures on September 16, 2020. In connection with the AR Facility, Herc and one of its wholly-owned subsidiaries sell their accounts receivables on an ongoing basis to Herc Receivables U.S. LLC, a wholly-owned special-purpose entity (the "SPE"). The SPE's sole business consists of the purchase by the SPE of accounts receivable from Herc and the Herc subsidiary seller and borrowing by the SPE against the eligible accounts receivable from the lenders under the facility. The borrowings are secured by liens on the accounts receivable and other assets of the SPE. Collections on the accounts receivable are used to service the borrowings. The SPE is a separate legal entity that is consolidated in the Company's financial statements. The SPE assets are owned by the SPE and are not available to settle the obligations of the Company or any of its other subsidiaries. Herc is the servicer of the accounts receivable under the AR Facility. All of the obligations of the Herc subsidiary seller and the servicer and certain indemnification obligations of the SPE under the agreements governing the AR Facility are guaranteed by Herc pursuant to a performance guarantee. The AR Facility is excluded from current maturities of long-term debt as the Company has the intent and ability to consummate refinancing and extend the term of the agreement.

Other Borrowings

The Company's subsidiary in China has uncommitted credit agreements for up to an aggregate principal amount of \$10.0 million. Interest accrues on the loans drawn under these facilities at a rate of 110% of the prevailing base lending rates published by People's Bank of China and is payable quarterly. As of September 30, 2019, the Company had short-term borrowings under these facilities totaling \$6.8 million.

Borrowing Capacity and Availability

After outstanding borrowings, the following was available to the Company under the New ABL Credit Facility and AR Facility as of September 30, 2019 (in millions):

	Remaining Capacity	Availability Under Borrowing Base Limitation
New ABL Credit Facility	\$ 976.5	\$ 976.5
AR Facility	—	—
Total	\$ 976.5	\$ 976.5

In addition, as of September 30, 2019, the Company's subsidiary in China had uncommitted credit facilities of which \$3.2 million was available for borrowing.

HERC HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Unaudited

Letters of Credit

As of September 30, 2019, \$21.5 million of standby letters of credit were issued and outstanding, none of which have been drawn upon. The New ABL Credit Facility had \$228.5 million available under the letter of credit facility sublimit, subject to borrowing base restrictions.

Note 7—Financing Obligations

In October 2017, Herc consummated a sale-leaseback transaction pursuant to which it sold 42 of its properties located in the U.S. for gross proceeds of approximately \$119.5 million, and during the fourth quarter of 2018, entered into sale-leaseback transactions with respect to two additional properties for gross proceeds of \$6.4 million. Herc entered into a master lease agreement pursuant to which it has continued operations at those properties as a tenant. The triple net lease agreement has an initial term of 20 years, subject to extension, at Herc's option, for up to five additional periods of five years each. The sale of the properties did not qualify for sale-leaseback accounting due to continuing involvement with the properties. Therefore, the book value of the buildings and land remains on the Company's consolidated balance sheet.

During March 2019, Herc entered into a sale-leaseback transaction for certain service vehicles that did not qualify for sale-leaseback accounting, therefore the book value of the vehicles remains on the Company's consolidated balance sheet. Gross proceeds from the sale-leaseback transaction were \$4.7 million.

The Company's financing obligations consist of the following (in millions):

	Weighted Average Effective Interest Rate at September 30, 2019	Maturities	September 30, 2019	December 31, 2018
Financing obligations	4.89%	2026-2038	\$ 124.2	\$ 122.1
Unamortized financing issuance costs			(2.6)	(2.8)
Total financing obligations			121.6	119.3
Less: Current maturities of financing obligations			(3.4)	(3.0)
Financing obligations, net			\$ 118.2	\$ 116.3

Note 8—Income Taxes

Income tax benefit was \$4.2 million and \$2.0 million for the three and nine months ended September 30, 2019, respectively, which were primarily driven by an income tax benefit of approximately \$6.3 million related to the debt transactions described in Note 6, "Debt", partially offset by the level of pre-tax income, non-deductible expenses, foreign taxes and taxes related to foreign sourced income.

Income tax benefit was \$1.0 million and \$5.3 million for the three and nine months ended September 30, 2018, respectively, as a result of the reduction in the Company's estimate of its one-time transition tax determined in accordance with the Tax Cuts and Jobs Act of 2017 by \$24.5 million, resulting in a net \$14.8 million benefit after consideration of the Company's net operating loss carryforwards. The Company's estimate was finalized at December 31, 2018. The tax benefit was partially offset by the level of pre-tax income, non-deductible expenses, foreign taxes and taxes related to foreign sourced income.

HERC HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Unaudited

Note 9—Accumulated Other Comprehensive Income (Loss)

The changes in the accumulated other comprehensive income (loss) balance by component (net of tax) for the nine months ended September 30, 2019 are presented in the table below (in millions).

	Pension and Other Post-Employment Benefits	Unrealized Gains (Loss) on Hedging Instruments	Foreign Currency Items	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2018	\$ (18.7)	\$ 2.7	\$ (106.4)	\$ (122.4)
Other comprehensive income (loss) before reclassification	—	(2.5)	5.8	3.3
Amounts reclassified from accumulated other comprehensive loss	0.9	—	—	0.9
Net current period other comprehensive income (loss)	0.9	(2.5)	5.8	4.2
Balance at September 30, 2019	<u>\$ (17.8)</u>	<u>\$ 0.2</u>	<u>\$ (100.6)</u>	<u>\$ (118.2)</u>

Amounts reclassified from accumulated other comprehensive income (loss) to net loss were as follows (in millions):

Pension and other postretirement benefit plans	Statement of Operations Caption	Three Months Ended September 30,		Nine Months Ended September 30,	
		2019	2018	2019	2018
Amortization of actuarial losses	Selling, general and administrative	\$ 0.4	\$ 0.3	\$ 1.2	\$ 0.8
Tax benefit	Income tax benefit	(0.1)	(0.1)	(0.3)	(0.2)
Total reclassifications for the period		<u>\$ 0.3</u>	<u>\$ 0.2</u>	<u>\$ 0.9</u>	<u>\$ 0.6</u>

Note 10—Commitments and Contingencies

Legal Proceedings

In re Hertz Global Holdings, Inc. Securities Litigation - In November 2013, a putative shareholder class action, Pedro Ramirez, Jr. v. Hertz Global Holdings, Inc., et al., was commenced in the U.S. District Court for the District of New Jersey naming Hertz Holdings and certain of its officers as defendants and alleging violations of the federal securities laws. The complaint alleged that Hertz Holdings made material misrepresentations and/or omission of material fact in its public disclosures during the period from February 25, 2013 through November 4, 2013, in violation of Section 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and Rule 10b-5 promulgated thereunder. The complaint sought unspecified monetary damages on behalf of the purported class and an award of costs and expenses, including counsel fees and expert fees. In June 2014, Hertz Holdings moved to dismiss the amended complaint. In October 2014, the court granted Hertz Holdings' motion to dismiss without prejudice, allowing the plaintiff to amend the complaint a second time. In November 2014, plaintiff filed a second amended complaint which shortened the putative class period and made allegations that were not substantively very different than the allegations in the prior complaint. In early 2015, Hertz Holdings moved to dismiss the second amended complaint. In July 2015, the court granted Hertz Holdings' motion to dismiss without prejudice, allowing plaintiff to file a third amended complaint. In August 2015, plaintiff filed a third amended complaint which included additional allegations, named additional then-current and former officers as defendants and expanded the putative class period to extend from February 14, 2013 to July 16, 2015. In November 2015, Hertz Holdings moved to dismiss the third amended complaint. The plaintiff then sought leave to add a new plaintiff because of challenges to the standing of the first plaintiff. The court granted plaintiff leave to file a fourth amended complaint to add the new plaintiff, and the new complaint was filed on March 1, 2016. Hertz Holdings and the individual defendants moved to dismiss the fourth amended complaint with prejudice on March 24, 2016. In April 2017, the court granted Hertz Holdings' and the individual defendants' motions to dismiss and dismissed the action with prejudice. In May 2017, plaintiff filed a notice of appeal and, in June 2018, oral argument was conducted before the U.S. Court of Appeals for the Third Circuit. In September 2018, the court affirmed the dismissal of the action with prejudice. On February 5, 2019, plaintiff filed a motion to set aside the judgment against it, and for leave to file a fifth amended complaint. The proposed amended complaint would add allegations related to New Hertz's December 31, 2018 settlement with the SEC that, among other things, ordered New Hertz to cease and desist from violating certain of the federal securities laws and imposed a civil penalty of \$16.0 million. On February 26, 2019, New Hertz filed an opposition to plaintiff's motion for relief from judgment and leave to file a fifth amended complaint. On March 8, 2019, plaintiff

HERC HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Unaudited

filed a reply in support of that motion. On September 30, 2019, the court denied plaintiff's motion for relief from judgment and leave to file a fifth amended complaint.

In addition, the Company is subject to a number of claims and proceedings that generally arise in the ordinary conduct of its business. These matters include, but are not limited to, claims arising from the operation of rented equipment and workers' compensation claims. The Company does not believe that the liabilities arising from such ordinary course claims and proceedings will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

The Company has established reserves for matters where the Company believes the losses are probable and can be reasonably estimated. For matters where a reserve has not been established, the ultimate outcome or resolution cannot be predicted at this time, or the amount of ultimate loss, if any, cannot be reasonably estimated. Litigation is subject to many uncertainties and there can be no assurance as to the outcome of the individual litigated matters. It is possible that certain of the actions, claims, inquiries or proceedings could be decided unfavorably to the Company or any of its subsidiaries involved. Accordingly, it is possible that an adverse outcome from such a proceeding could exceed the amount accrued in an amount that could be material to the Company's consolidated financial condition, results of operations or cash flows in any particular reporting period.

Off-Balance Sheet Commitments

Indemnification Obligations

In the ordinary course of business, the Company executes contracts involving indemnification obligations customary in the relevant industry and indemnifications specific to a transaction such as the sale of a business or assets or a financial transaction. These indemnification obligations might include claims relating to the following: accuracy of representations; compliance with covenants and agreements by the Company or third parties; environmental matters; intellectual property rights; governmental regulations; employment-related matters; customer, supplier and other commercial contractual relationships; condition of assets; and financial or other matters. Performance under these indemnification obligations would generally be triggered by a breach of terms of the contract or by a third-party claim. The Company regularly evaluates the probability of having to incur costs associated with these indemnification obligations and has accrued for expected losses that are probable and estimable. The types of indemnification obligations for which payments are possible include the following:

The Spin-Off

In connection with the Spin-Off, pursuant to the separation and distribution agreement (as discussed in Note 15, "Arrangements with New Hertz"), the Company has assumed the liability for, and control of, all pending and threatened legal matters related to its equipment rental business and related assets, as well as assumed or retained liabilities, and will indemnify New Hertz for any liability arising out of or resulting from such assumed legal matters. The separation and distribution agreement also provides for certain liabilities to be shared by the parties. The Company is responsible for a portion of these shared liabilities (typically 15%), as set forth in that agreement. New Hertz is responsible for managing the settlement or other disposition of such shared liabilities. Pursuant to the tax matters agreement, the Company has agreed to indemnify New Hertz for any resulting taxes and related losses if the Company takes or fails to take any action (or permits any of its affiliates to take or fail to take any action) that causes the Spin-Off and related transactions to be taxable, or if there is an acquisition of the equity securities or assets of the Company or of any member of the Company's group that causes the Spin-Off and related transactions to be taxable.

Environmental

The Company has 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 the Company may be held responsible could be substantial. The probable expenses that the Company expects to incur for such matters have been accrued, and those expenses are reflected in the Company's consolidated financial statements. As of September 30, 2019 and December 31, 2018, the aggregate amounts accrued for environmental liabilities, including liability for environmental indemnities, reflected in the Company's consolidated balance sheets in "Accrued liabilities" were \$0.2 million and \$0.1 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-

HERC HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Unaudited

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 the Company ultimately may be responsible cannot be reasonably estimated because of uncertainties with respect to factors such as the Company's 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).

Guarantee

The Company has guaranteed an outstanding bank loan in connection with a previous joint venture. The Company has determined the maximum potential payment amount under the guarantee is approximately \$7.7 million; however, the probability of any payment is remote and therefore the Company has not recorded a liability on its balance sheet as of September 30, 2019. The bank loan is collateralized by the rental equipment and other assets of the joint venture entity and has maturities through 2023.

Note 11—Financial Instruments

The Company established risk management policies and procedures, which seek to reduce the Company's risk exposure to fluctuations in foreign currency exchange rates and interest rates. However, there can be no assurance that these policies and procedures will be successful. Although the instruments utilized involve varying degrees of credit, market and interest risk, the counterparties to the agreements are expected to perform fully under the terms of the agreements. The Company monitors counterparty credit risk, including lenders, on a regular basis, but cannot be certain that all risks will be discerned or that its risk management policies and procedures will always be effective. Additionally, in the event of default under the Company's master derivative agreements, the non-defaulting party has the option to set-off any amounts owed with regard to open derivative positions.

Foreign Currency Exchange Rate Risk

The Company's objective in managing exposure to foreign currency fluctuations is to limit the exposure of certain cash flows and earnings to foreign currency exchange rate changes through the use of various derivative contracts. The Company experiences foreign currency risks in its global operations as a result of various factors, including intercompany local currency denominated loans, rental operations in various currencies and purchasing fleet in various currencies.

Interest Rate Swap Arrangement

In March 2017, the Company entered into a three-year LIBOR-based interest rate swap arrangement on a portion of its outstanding ABL Credit Facility and, subsequent to the debt transactions discussed in Note 6, "Debt", the New ABL Credit Facility. The aggregate amount of the swap is equal to a portion of the U.S. dollar principal amount of the New ABL Credit Facility and the payment dates of the swap coincide with the interest payment dates of the New ABL Credit Facility. The swap contract provides for the Company to pay a fixed interest rate and receive a floating rate. The variable interest rate resets monthly. The swap has been accounted for as a cash flow hedge of a portion of the New ABL Credit Facility.

The following table summarizes the outstanding interest rate swap arrangement as of September 30, 2019 (dollars in millions):

	Aggregate Notional Amount	Receive Rate	Receive Rate	Pay Rate
New ABL Credit Facility	\$ 350.0	1-month LIBOR + 1.50%	3.5%	3.2%

The following table summarizes the estimated fair value of the Company's financial instruments (in millions):

	Fair Value of Financial Instruments			
	September 30, 2019		December 31, 2018	
	Other Current Assets	Accrued Liabilities	Other Long-Term Assets	Accrued Liabilities
Derivatives Designated as Hedging Instruments				
Interest rate swap	\$ 0.2	\$ —	\$ 3.6	\$ —

HERC HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Unaudited

The following table summarizes the gains and losses on derivative instruments for the periods indicated. Gains and losses recognized on foreign currency forward contracts and the effective portion of interest rate swaps are included in the condensed consolidated statements of operations together with the corresponding offsetting gains and losses on the underlying hedged transactions. All gains and losses recognized are included in "Selling, general and administrative" in the condensed consolidated statements of operations (in millions).

	Gain Recognized			
	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Derivatives Not Designated as Hedging Instruments				
Foreign currency forward contracts	\$ —	\$ —	\$ —	\$ 0.2

Note 12—Fair Value Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The fair value of accounts receivable, accounts payable and accrued liabilities, to the extent the underlying liability will be settled in cash, approximates the carrying values because of the short-term nature of these instruments.

Cash Equivalents

Cash equivalents, when held, primarily consist of money market accounts which are classified as Level 1 assets which the Company measures at fair value on a recurring basis. The Company determines the fair value of cash equivalents using a market approach based on quoted prices in active markets. The Company had no cash equivalents at September 30, 2019 or December 31, 2018.

Financial Instruments

The fair value of the Company's financial instruments as of September 30, 2019 and December 31, 2018 is shown in Note 11, "Financial Instruments." The Company's financial instruments are classified as Level 2 assets and liabilities and are priced using quoted market prices for similar assets or liabilities in active markets.

Debt Obligations

The fair values of the Company's New ABL Credit Facility, ABL Credit Facility, AR Facility, finance lease liabilities and other borrowings approximated their book values as of September 30, 2019 and December 31, 2018. The fair value of the Company's 2027 Notes, 2022 Notes and 2024 Notes are estimated based on quoted market rates as well as borrowing rates currently available to the Company for loans with similar terms and average maturities (Level 2 inputs) (in millions).

	September 30, 2019		December 31, 2018	
	Nominal Unpaid Principal Balance	Aggregate Fair Value	Nominal Unpaid Principal Balance	Aggregate Fair Value
2027 Notes	\$ 1,200.0	\$ 1,248.0	\$ —	\$ —
2022 Notes and 2024 Notes	—	—	864.5	901.2

Note 13—Earnings Per Share

Basic earnings per share has been computed based upon the weighted average number of common shares outstanding. Diluted loss per share has been computed based upon the weighted average number of common shares outstanding plus the effect of all potentially dilutive common stock equivalents, except when the effect would be anti-dilutive.

HERC HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Unaudited

The following table sets forth the computation of basic and diluted earnings per share (in millions, except per share data).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Basic and diluted earnings per share:				
Numerator:				
Net income, basic and diluted	\$ 9.4	\$ 46.2	\$ 12.4	\$ 35.8
Denominator:				
Basic weighted average common shares	28.7	28.5	28.7	28.4
Stock options, RSUs and PSUs	0.4	0.4	0.4	0.5
Weighted average shares used to calculate diluted earnings (loss) per share	29.1	28.9	29.1	28.9
Earnings per share:				
Basic	\$ 0.33	\$ 1.62	\$ 0.43	\$ 1.26
Diluted	\$ 0.32	\$ 1.60	\$ 0.43	\$ 1.24
Antidilutive stock options, RSUs and PSUs	0.2	0.2	0.3	0.2

Note 14—Related Party Transactions

Agreements with Carl C. Icahn

The Company is subject to the Nomination and Standstill Agreement, dated September 15, 2014 (the "Nomination and Standstill Agreement"), with Carl C. Icahn, High River Limited Partnership, Hopper Investments LLC, Barberry Corp., Icahn Partners LP, Icahn Partners Master Fund LP, Icahn Enterprises G.P. Inc., Icahn Enterprises Holdings L.P., IPH GP LLC, Icahn Capital LP, Icahn Onshore LP, Icahn Offshore LP, Beckton Corp., Vincent J. Intrieri, Samuel Merksamer and Daniel A. Ninivaggi (collectively, the "Original Icahn Group"). In connection with their appointments or nomination, as applicable, to the Company's board of directors (the "Board"), each of Courtney Mather, Louis J. Pastor, Stephen A. Mongillo, Nicholas F. Graziano and Jonathan Frates (collectively, the "Icahn Designees," and, together with the Original Icahn Group, the "Icahn Group") executed a Joinder Agreement agreeing to become bound as a party to the terms and conditions of the Nomination and Standstill Agreement (such Joinder Agreements, together with the Nomination and Standstill Agreement, are collectively referred to herein as the "Icahn Agreements").

Pursuant to the Icahn Agreements, Messrs. Mather, Pastor and Mongillo were appointed to the Company's Board effective June 30, 2016, Mr. Graziano was elected to the Board at the Company's 2018 annual meeting of stockholders in place of Mr. Mongillo and Mr. Frates was appointed to the Board on August 16, 2019 to replace Mr. Mather, who resigned from the Board effective August 15, 2019. Pursuant to the Icahn Agreements, so long as an Icahn Designee is a member of the Board, the Board will not be expanded beyond its current size of 11 members without approval from the Icahn Designees then on the Board. In addition, pursuant to the Icahn Agreements, subject to certain restrictions and requirements, the Icahn Group will have certain replacement rights in the event an Icahn Designee resigns or is otherwise unable to serve as a director (other than as a result of not being nominated by the Company for an annual meeting).

In addition, until the date that no Icahn Designee is a member of the Board (or otherwise deemed to be on the Board pursuant to the terms of the Icahn Agreements), the Icahn Group agrees to vote all of its shares of the Company's common stock in favor of the election of all of the Company's director nominees at each annual or special meeting of the Company's stockholders, and, subject to limited exceptions, the Icahn Group further agrees to (i) adhere to certain standstill obligations, including the obligation to not solicit proxies or consents or influence others with respect to the same, and (ii) not acquire or otherwise beneficially own more than 20% of the Company's outstanding voting securities. Under the Icahn Agreements, if the Icahn Group ceases to hold a "net long position," as defined in the Nomination and Standstill Agreement, in at least 1,900,000 shares of the Company's common stock, the Icahn Group will cause one Icahn Designee to resign from the Board; if the Icahn Group's holdings are further reduced to specified levels, additional Icahn Designees are required to resign.

In addition, pursuant to the Icahn Agreements, the Company entered into a registration rights agreement, effective June 30, 2016 (the "Registration Rights Agreement"), with High River Limited Partnership, Icahn Partners LP and Icahn Partners Master Fund

HERC HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
Unaudited

LP, on behalf of any person who is a member of the "Icahn group" (as such term is defined therein) who owns applicable securities at the relevant time and is or has become a party to the Registration Rights Agreement. The Registration Rights Agreement provides for customary demand and piggyback registration rights and obligations.

Note 15—Arrangements with New Hertz

In connection with the Spin-Off, the Company entered into a separation and distribution agreement (the "Separation Agreement") with New Hertz. In connection therewith, the Company also entered into various other ancillary agreements with New Hertz to effect the Spin-Off and provide a framework for its relationship with New Hertz. The following summarizes some of the most significant agreements and relationships that Herc Holdings continues to have with New Hertz.

Separation and Distribution Agreement

The Separation Agreement sets forth the Company's agreements with New Hertz regarding the principal actions taken in connection with the Spin-Off. It also sets forth other agreements that govern aspects of the Company's relationship with New Hertz following the Spin-Off including (i) the manner in which legal matters and claims are allocated and certain liabilities are shared between the Company and New Hertz; (ii) other matters including transfers of assets and liabilities, treatment or termination of intercompany arrangements and releases of certain claims between the parties and their affiliates; (iii) mutual indemnification clauses; and (iv) allocation of Spin-Off expenses between the parties.

Transition Services Agreement

The Company entered into a transition services agreement ("TSA"), pursuant to which New Hertz or its affiliates provided, during the three and nine months ended September 30, 2018, specified services, primarily consisting of IT support, to the Company on a transitional basis to help ensure an orderly transition following the Spin-Off. During the three and nine months ended September 30, 2018, the Company incurred expenses of \$0.6 million and \$6.3 million, respectively, under the TSA which are included in "Direct operating" and "Selling, general and administrative" expenses in the Company's condensed consolidated statements of operations. Effective upon the migration of the Company's financial systems from the New Hertz system to a stand-alone system in July 2018, the Company receives no further services from New Hertz under the TSA.

Tax Matters Agreement

The Company entered into a tax matters agreement with New Hertz that governs the parties' rights, responsibilities and obligations after the Spin-Off with respect to tax liabilities and benefits, tax attributes, tax contests and other tax matters regarding income taxes, other taxes and related tax returns.

Employee Matters Agreement

The Company and New Hertz entered into an employee matters agreement to allocate liabilities and responsibilities relating to employment matters, employee compensation, benefit plans and programs and other related matters for current and former employees of the vehicle rental business and the equipment rental business.

Intellectual Property Agreement

The Company and New Hertz entered into an intellectual property agreement (the "Intellectual Property Agreement") that provides for ownership, licensing and other arrangements regarding the trademarks and related intellectual property that New Hertz and the Company use in conducting their businesses. The Intellectual Property Agreement allocates ownership between New Hertz and the Company of all trademarks, domain names and certain copyrights that Hertz Holdings or its subsidiaries owned immediately prior to the Spin-Off.

HERC HOLDINGS INC. AND SUBSIDIARIES**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Management's discussion and analysis of financial condition and results of operations ("MD&A") should be read in conjunction with the unaudited condensed consolidated financial statements and accompanying notes included in Part I, Item 1 of this Quarterly Report, which include additional information about our accounting policies, practices and the transactions underlying our financial results. The preparation of our unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") requires us to make estimates and assumptions that affect the reported amounts in our unaudited condensed consolidated financial statements and the accompanying notes including allowance for accounts receivable, depreciation of rental equipment, the recoverability of long-lived assets, useful lives and impairment of long-lived tangible and intangible assets including goodwill and trade name, pension and postretirement benefits, valuation of stock-based compensation, reserves for litigation and other contingencies, accounting for income taxes and other matters arising during the normal course of business. We apply our best judgment, our knowledge of existing facts and circumstances and our knowledge of actions that we may undertake in the future in determining the estimates that will affect our condensed consolidated financial statements. We evaluate our estimates on an ongoing basis using our historical experience, as well as other factors we believe appropriate under the circumstances, such as current economic conditions, and adjust or revise our estimates as circumstances change. As future events and their effects cannot be determined with precision, actual results may differ from these estimates.

OVERVIEW OF OUR BUSINESS AND OPERATING ENVIRONMENT

We are engaged principally in the business of renting equipment. Ancillary to our principal business of equipment rental, we also sell used rental equipment, sell new equipment and consumables and offer certain services and support to our customers. Our profitability is dependent upon a number of factors including the volume, mix and pricing of rental transactions and the utilization of equipment. Significant changes in the purchase price or residual values of equipment or interest rates can have a significant effect on our profitability depending on our ability to adjust pricing for these changes. Our business requires significant expenditures for equipment, and consequently we require substantial liquidity to finance such expenditures. See "Liquidity and Capital Resources" below.

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

- Equipment rental (includes all revenue associated with the rental of equipment including ancillary revenue from delivery, rental protection programs and fueling charges);
- Sales of rental equipment and sales of new equipment, parts and supplies; and
- Service and other revenue (primarily relating to training and labor provided to customers).

Our expenses primarily consist of:

- Direct operating expenses (primarily wages and related benefits, facility costs and other costs relating to the operation and rental of rental equipment, such as delivery, maintenance and fuel costs);
- Cost of sales of rental equipment, new equipment, parts and supplies;
- Depreciation expense relating to rental equipment;
- Selling, general and administrative expenses; and
- Interest expense.

Seasonality

Our business is seasonal, with demand for our rental equipment tending to be lower in the winter months, particularly in the northern United States and Canada. Our equipment rental business, especially in the construction industry, has historically experienced decreased levels of business from December until late spring and heightened activity during our third and fourth quarters until December. We have the ability to manage certain costs to meet market demand, such as fleet capacity, the most significant portion of our cost structure. For instance, to accommodate increased demand, we increase our available fleet and staff during the second and third quarters of the year. A number of our other major operating costs vary directly with revenues or transaction volumes; however, certain operating expenses, including rent, insurance and administrative overhead, remain fixed

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

and cannot be adjusted for seasonal demand, typically resulting in higher profitability in periods when our revenues are higher, and lower profitability in periods when our revenues are lower. To reduce the impact of seasonality, we are focused on expanding our customer base through specialty products that serve different industries with less seasonality and different business cycles.

RESULTS OF OPERATIONS

(\$ in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2019	2018	\$ Change	% Change	2019	2018	\$ Change	% Change
Equipment rental	\$ 459.6	\$ 449.0	\$ 10.6	2.4 %	\$ 1,244.8	\$ 1,210.6	\$ 34.2	2.8 %
Sales of rental equipment	35.4	50.1	(14.7)	(29.3)	171.8	175.6	(3.8)	(2.2)
Sales of new equipment, parts and supplies	10.0	14.2	(4.2)	(29.6)	34.1	36.4	(2.3)	(6.3)
Service and other revenue	3.1	2.9	0.2	6.9	8.2	10.4	(2.2)	(21.2)
Total revenues	508.1	516.2	(8.1)	(1.6)	1,458.9	1,433.0	25.9	1.8
Direct operating	197.7	194.4	3.3	1.7	575.3	584.9	(9.6)	(1.6)
Depreciation of rental equipment	102.7	98.3	4.4	4.5	303.6	288.6	15.0	5.2
Cost of sales of rental equipment	36.7	51.1	(14.4)	(28.2)	170.2	168.9	1.3	0.8
Cost of sales of new equipment, parts and supplies	7.2	10.6	(3.4)	(32.1)	25.8	27.7	(1.9)	(6.9)
Selling, general and administrative	76.2	78.4	(2.2)	(2.8)	221.2	229.2	(8.0)	(3.5)
Restructuring	—	—	—	—	7.8	1.0	6.8	NM
Interest expense, net	81.9	38.6	43.3	112.2	146.4	103.0	43.4	42.1
Other income, net	0.5	(0.4)	0.9	NM	(1.8)	(0.8)	(1.0)	NM
Income before income taxes	5.2	45.2	(40.0)	(88.5)	10.4	30.5	(20.1)	(65.9)
Income tax benefit	4.2	1.0	3.2	NM	2.0	5.3	(3.3)	(62.3)
Net income	\$ 9.4	\$ 46.2	\$ (36.8)	(79.7)%	\$ 12.4	\$ 35.8	\$ (23.4)	(65.4)%

NM - Not Meaningful

Three Months Ended September 30, 2019 Compared with Three Months Ended September 30, 2018

Equipment rental revenue increased \$10.6 million, or 2.4%, during the third quarter of 2019 when compared to the third quarter of 2018. The increase was attributable to pricing increases of 4.5% during the third quarter of 2019. The increase was partially offset by a strategic reduction in re-rent revenue.

Sales of rental equipment decreased \$14.7 million, or 29.3%, during the third quarter of 2019 when compared to the third quarter of 2018. The volume of sales during the third quarter of 2019 declined in response to improvements over the past year in the mix and age of equipment and timing of sales related to the strength of the used equipment rental market in the third quarter of 2018. The corresponding cost of sales of rental equipment as a percentage of the related revenue was 103.7% in the third quarter of 2019 compared to 102.0% in the third quarter of 2018. The reduction in margin on sale of rental equipment in the third quarter of 2019 was primarily due to a higher proportion of sales through the lower-margin auction channel.

Direct operating expenses increased \$3.3 million, or 1.7%, in the third quarter of 2019 when compared to the third quarter of 2018 primarily due to the following:

- Fleet and related expenses decreased \$4.2 million primarily as a result of a decrease in re-rent expense of \$3.5 million directly related to the decrease in re-rent revenue. Additionally, delivery and freight expenses decreased \$2.2 million due to an increase in internal delivery personnel and better management of transportation costs.
- Personnel-related expenses increased \$2.3 million primarily due to an increase in wages of \$4.3 million related to personnel and related costs including overtime. The increase was partially offset by a decrease in benefits of \$1.6 million due to improved claims experience.
- Other direct operating costs increased \$5.2 million primarily due to increased field facilities expenses of \$3.1 million

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

related to new branches that were opened during the second half of 2018 and increases due to recurring renewals on existing locations.

Depreciation of rental equipment increased \$4.4 million, or 4.5%, in the third quarter of 2019 when compared with the same period in 2018. The increase was primarily due to depreciation recognized on rental equipment with higher cost due to capital expenditures and the sale of older equipment with lower depreciation.

Selling, general and administrative expenses decreased \$2.2 million, or 2.8%, in the third quarter of 2019 when compared to the third quarter of 2018. The decline was primarily due to a decrease in professional fees of \$3.5 million and Spin-Off related costs of \$1.3 million, partially offset by a \$2.3 million increase for increased sales compensation and related commissions and incentives to drive revenue growth.

Interest expense, net increased \$43.3 million, or 112.2%, in the third quarter of 2019 when compared to the third quarter of 2018. The increase was primarily due to a loss on extinguishment of debt of \$53.6 million related to the extinguishment of the 2022 Notes, 2024 Notes and the refinancing of the ABL Credit Facility in July 2019 as compared to a loss on extinguishment of debt of \$5.4 million in the third quarter of 2018 related to the partial redemption of the 2022 Notes and 2024 Notes. This increase was partially offset by a decrease in interest expense on the ABL Credit Facility of \$3.5 million.

Income tax benefit was \$4.2 million for the third quarter of 2019 compared to \$1.0 million for the same period in 2018. The income tax benefit in 2019 was primarily driven by a benefit of approximately \$6.3 million related to the debt transactions described in Note 6, "Debt", partially offset by the level of pre-tax income, non-deductible expenses, foreign taxes and foreign sourced income. The income tax benefit in 2018 was primarily driven by the level of pre-tax income, which was offset by discrete items due to a revision in the one-time estimated transition tax on earnings of certain foreign subsidiaries.

Nine Months Ended September 30, 2019 Compared with Nine Months Ended September 30, 2018

Equipment rental revenue increased \$34.2 million, or 2.8%, during the nine months ended September 30, 2019 when compared with the prior-year period. The increase was primarily attributable to pricing increases of 4.3%. The increase was partially offset by a strategic reduction in re-rent revenue.

Sales of rental equipment decreased \$3.8 million, or 2.2%, during the nine months ended September 30, 2019 when compared with the prior-year period. The volume of sales during the nine months ended September 30, 2019 declined in response to improvements over the past year in the mix and age of equipment and timing of sales related to the strength of the used equipment rental market in 2018. The corresponding cost of sales of rental equipment as a percentage of the related revenue was 99.1% during the nine months ended September 30, 2019 compared to 96.2% in the prior-year period. The reduction in margin on sale of rental equipment in 2019 was primarily due to a higher proportion of sales through the lower-margin auction channel.

Direct operating expenses decreased \$9.6 million, or 1.6%, during the nine months ended September 30, 2019 when compared with the prior-year period primarily due to the following:

- Fleet and related expenses decreased \$23.0 million primarily due to the decline in re-rent expense of \$11.7 million mainly due to the decrease in re-rent revenue. Maintenance expenses decreased \$9.1 million due to a reduction in fleet age and increased maintenance efficiency and delivery and freight expense decreased \$2.1 million due to an increase in internal delivery personnel and better management of transportation costs.
- Personnel-related expenses increased \$2.9 million primarily due to an increase in wages of \$6.9 million related to personnel and related costs including overtime. The increase was partially offset by a decrease in benefits of \$2.9 million due to improved claims experience.
- Other direct operating costs increased \$10.5 million primarily due to increased field facilities expenses of \$7.0 million primarily related to new branches that were opened during 2018 and increases due to recurring renewals on existing locations.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Depreciation of rental equipment increased \$15.0 million, or 5.2%, during the nine months ended September 30, 2019 when compared with the prior-year period. The increase was primarily due to depreciation recognized on rental equipment with higher cost due to capital expenditures and the sale of older equipment with lower depreciation.

Selling, general and administrative expenses decreased \$8.0 million, or 3.5%, during the nine months ended September 30, 2019 when compared with the prior-year period. The decline was primarily due to a decrease in Spin-Off related costs of \$9.9 million and professional fees of \$9.3 million, partially offset by a \$5.6 million increase for increased sales compensation and related commissions and incentives to drive revenue growth and an increase of \$2.9 million in advertising and travel expenses.

Restructuring expense was \$7.8 million during the nine months ended September 30, 2019 as a result of our plan of restructuring in Canada which included right-of-use assets and related leasehold improvement impairment of \$5.5 million and severance expense of \$2.3 million.

Interest expense, net increased \$43.4 million, or 42.1%, during the nine months ended September 30, 2019 when compared with the same period in 2018. The increase was primarily due to a loss on extinguishment of debt of \$53.6 million related to the extinguishment of the 2022 Notes, 2024 Notes and the refinancing of the ABL Credit Facility in July 2019 as compared to a loss on extinguishment of debt of \$5.4 million in the third quarter of 2018 related to the partial redemption of the 2022 Notes and 2024 Notes. This increase was partially offset by a decrease in interest expense due to a reduction in interest rates related to the debt transactions described in Note 6, "Debt".

Income tax benefit was \$2.0 million during the nine months ended September 30, 2019 when compared with \$5.3 million for the same period in 2018. The income tax benefit in 2019 was primarily driven by a benefit of approximately \$6.3 million related to the debt transactions described in Note 6, "Debt", partially offset by the level of pre-tax income, non-deductible expenses, foreign taxes and taxes on foreign sourced income. The income tax benefit in 2018 was primarily driven by the level of pre-tax income, which was offset by discrete items due to a revision in the one-time estimated transition tax on earnings of certain foreign subsidiaries.

LIQUIDITY AND CAPITAL RESOURCES

Our primary liquidity needs include the payment of operating expenses, purchases of rental equipment to be used in our operations and servicing of debt. Our primary sources of funding are operating cash flows, cash received from the disposal of equipment and borrowings under our debt arrangements. As of September 30, 2019, we had approximately \$2.2 billion of total nominal indebtedness outstanding. We are highly leveraged and a substantial portion of our liquidity needs arise from debt service on our indebtedness and from the funding of our costs of operations and capital expenditures.

Our liquidity as of September 30, 2019 consisted of cash and cash equivalents and unused commitments under our New ABL Credit Facility. See "Borrowing Capacity and Availability" below. Our practice is to maintain sufficient liquidity through cash from operations, our New ABL Credit Facility and our AR Facility to mitigate the impacts of any adverse financial market conditions on our operations. We believe that cash generated from operations and cash received from the disposal of equipment, together with amounts available under the New ABL Credit Facility and the AR Facility, will be adequate to permit us to meet our obligations over the next twelve months.

Cash Flows

Significant factors driving our liquidity position include cash flows generated from operating activities and capital expenditures. Historically, we have generated and expect to continue to generate positive cash flow from operations. Our ability to fund our capital needs will be affected by our ongoing ability to generate cash from operations and access to capital markets.

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

The following table summarizes the change in cash and cash equivalents for the periods shown (in millions):

	Nine Months Ended September 30,		
	2019	2018	\$ Change
Cash provided by (used in):			
Operating activities	\$ 441.2	\$ 375.0	\$ 66.2
Investing activities	(375.7)	(483.0)	107.3
Financing activities	(58.9)	85.8	(144.7)
Effect of exchange rate changes	0.1	(1.3)	1.4
Net change in cash and cash equivalents	\$ 6.7	\$ (23.5)	\$ 30.2

Operating Activities

During the nine months ended September 30, 2019, we generated \$66.2 million more cash from operating activities compared with the same period in 2018. The increase was related to improved operating results primarily resulting from higher revenues, lower professional fees, lower maintenance and delivery costs and timing on collection of receivables and other working capital improvements during the nine months ended September 30, 2019 as compared to the same period in 2018.

Investing Activities

Cash used in investing activities decreased \$107.3 million during the nine months ended September 30, 2019 when compared with the prior-year period. Our primary use of cash in investing activities is for the acquisition of rental equipment and non-rental capital expenditures. We rotate our equipment and manage our fleet of rental equipment in line with customer demand and continue to invest in our information technology, service vehicles and facilities. Changes in our net capital expenditures are described in more detail in the "Capital Expenditures" section below.

Financing Activities

Cash used in financing activities increased \$144.7 million during the nine months ended September 30, 2019 when compared with the prior-year period. Cash used in financing activities during the nine months ended September 30, 2019 primarily represents our changes in debt, which included net repayments of \$331.2 million on our revolving lines of credit and securitization during the nine months of 2019 compared to \$226.3 million when compared with the prior-year period.

Capital Expenditures

Our capital expenditures relate largely to purchases of rental equipment, with the remaining portion representing purchases of property, equipment and information technology. The table below sets forth the capital expenditures related to our rental equipment and related disposals for the periods noted (in millions).

	Nine Months Ended September 30,	
	2019	2018
Rental equipment expenditures	\$ 506.7	\$ 617.5
Disposals of rental equipment	(156.9)	(189.1)
Net rental equipment expenditures	\$ 349.8	\$ 428.4

Net capital expenditures for rental equipment decreased \$78.6 million during the nine months ended September 30, 2019 compared to the same period in 2018. During 2019, we reduced rental equipment expenditures to improve utilization and also reduced the volume of rental equipment sales based on the improvements seen in the mix and age of equipment and timing related to the strength of the used equipment rental market.

In 2019, we expect our net rental equipment capital expenditures to be in the range of \$400.0 million to \$410.0 million.

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

Borrowing Capacity and Availability

In July 2019, the Company issued \$1.2 billion aggregate principal amount of 2027 Notes. The funds were used to redeem the remaining 2022 Notes and 2024 Notes and repay a portion of the indebtedness outstanding under the then existing ABL Credit Facility. Additionally, Herc Holdings, Herc and certain other subsidiaries of Herc Holdings entered into the New ABL Credit Facility, which refinances in full and replaces the ABL Credit Facility. See Note 6, "Debt" included in Part I, Item 1 "Financial Statements" of this Report for more information.

Our New ABL Credit Facility and AR Facility (together, the "Facilities") provide our borrowing capacity and availability. Creditors under the Facilities have a claim on specific pools of assets as collateral as identified in each credit agreement. Our ability to borrow under the Facilities is a function of, among other things, the value of the assets in the relevant collateral pool. We refer to the amount of debt we can borrow given a certain pool of assets as the "Borrowing Base."

The accounts receivable and other assets of the SPE are encumbered in favor of the lenders under our AR Facility. The SPE assets are owned by the SPE and are not available to settle the obligations of the Company or any of its other subsidiaries. Substantially all of the remaining assets of Herc and certain of its U.S. and Canadian subsidiaries are encumbered in favor of our lenders under our New ABL Credit Facility. None of such assets are available to satisfy the claims of our general creditors. See Note 9, "Debt" to the notes to our consolidated financial statements included in Part II, Item 8 "Financial Statements" included in our Annual Report on Form 10-K for the year ended December 31, 2018, and Note 6, "Debt" included in Part I, Item 1 "Financial Statements" of this Report for more information.

With respect to the Facilities, we refer to "Remaining Capacity" as the maximum principal amount of debt permitted to be outstanding under the Facilities (i.e., the amount of debt we could borrow assuming we possessed sufficient assets as collateral) less the principal amount of debt then-outstanding under the Facility. We refer to "Availability Under Borrowing Base Limitation" as the lower of Remaining Capacity or the Borrowing Base less the principal amount of debt then-outstanding under the Facility (i.e., the amount of debt we could borrow given the collateral we possess at such time).

As of September 30, 2019, the following was available to us (in millions):

	Remaining Capacity	Availability Under Borrowing Base Limitation
New ABL Credit Facility	\$ 976.5	\$ 976.5
AR Facility	—	—
Total	\$ 976.5	\$ 976.5

In addition, as of September 30, 2019, the Company's subsidiary in China had uncommitted credit facilities of which \$3.2 million was available for borrowing.

As of September 30, 2019, \$21.5 million of standby letters of credit were issued and outstanding under the New ABL Credit Facility, none of which have been drawn upon. The New ABL Credit Facility had \$228.5 million available under the letter of credit facility sublimit, subject to borrowing base restrictions.

Covenants

Our New ABL Credit Facility, our AR Facility and our 2027 Notes contain a number of covenants that, among other things, limit or restrict our ability to dispose of assets, incur additional indebtedness, incur guarantee obligations, prepay certain indebtedness, make certain restricted payments (including paying dividends, redeeming stock or making other distributions), create liens, make investments, make acquisitions, engage in mergers, fundamentally change the nature of our business, make capital expenditures, or engage in certain transactions with certain affiliates.

Under the terms of our New ABL Credit Facility, our AR Facility and our 2027 Notes, we are not subject to ongoing financial maintenance covenants; however, under the New ABL Credit Facility, failure to maintain certain levels of liquidity will subject us to a contractually specified fixed charge coverage ratio of not less than 1:1 for the four quarters most recently ended. As of

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONTINUED)

September 30, 2019, the appropriate levels of liquidity have been maintained, therefore this financial maintenance covenant is not applicable.

Additional information on the terms of our Notes, ABL Credit Facility and AR Facility is included in Note 9, "Debt" to the notes to our consolidated financial statements included in Part II, Item 8 "Financial Statements" included in our Annual Report on Form 10-K for the year ended December 31, 2018. Additional information on the terms of our 2027 Notes and New ABL Credit Facility are included in Note 6, "Debt" included in Part I, Item 1 "Financial Statements" of this Report. For a discussion of the risks associated with our significant indebtedness, see Part I, Item 1A "Risk Factors" contained in our Annual Report on Form 10-K for the year ended December 31, 2018.

Dividends

Our payment of dividends on our common stock will be determined by our board of directors in its sole discretion and will depend on our business conditions, financial condition, earnings, liquidity and capital requirements, contractual restrictions and other factors. The amounts available to pay cash dividends are restricted by our debt agreements. As of the date of this Report, we have no plans to pay dividends on our common stock.

CONTRACTUAL OBLIGATIONS

Changes to our aggregate indebtedness, including related interest and terms for new issuances are described in Note 6, "Debt" in Part I, Item 1 "Financial Statements" of this Report. As of September 30, 2019, there have been no other material changes outside the ordinary course of business to our known contractual obligations as set forth in the Contractual Obligations table included in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Annual Report on Form 10-K for the year ended December 31, 2018.

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of September 30, 2019, there have been no material changes to our indemnification obligations as disclosed in Note 16, "Commitments and Contingencies" in our Annual Report on Form 10-K for the year ended December 31, 2018. For further information, see the discussion on indemnification obligations included in Note 10, "Commitments and Contingencies" in Part I, Item 1 "Financial Statements" of this Report.

For information concerning the ongoing securities litigation and other contingencies, including environmental contingencies and the amount currently held in reserve for environmental matters, see Note 10, "Commitments and Contingencies" in Part I, Item 1 "Financial Statements" of this Report.

RECENT ACCOUNTING PRONOUNCEMENTS

For a discussion of recent accounting pronouncements, see Note 2, "Basis of Presentation and Recently Issued Accounting Pronouncements" in Part I, Item 1 "Financial Statements" of this Report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to a variety of market risks, including the effects of changes in interest rates (including credit spreads), foreign currency exchange rates and fluctuations in fuel prices. We manage our exposure to these market risks through our regular operating and financing activities and, when deemed appropriate, through the use of derivative financial instruments. Derivative financial instruments are viewed as risk management tools and have not been used for speculative or trading purposes. In addition, derivative financial instruments are entered into with a diversified group of major financial institutions in order to manage our exposure to counterparty nonperformance on such instruments.

As of September 30, 2019, there has been no material change in the information reported under Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," in our Annual Report on Form 10-K for the period ended December 31, 2018.

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our senior management has evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined under Exchange Act Rules 13a-15(e) and 15d-15(e), as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of September 30, 2019, our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended September 30, 2019, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

HERC HOLDINGS INC. AND SUBSIDIARIES

PART II—OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

For a description of certain pending legal proceedings see Note 10, "Commitments and Contingencies" to the notes to our condensed consolidated financial statements in Part I, Item 1 "Financial Statements" of this Report.

ITEM 1A. RISK FACTORS

There have been no material changes to the Company's risk factors from those previously disclosed under Part I, Item 1A, "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2018.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Share Repurchase Program

In March 2014, the Board approved a \$1 billion share repurchase program (the "share repurchase program"). There were no share repurchases in the nine months ended September 30, 2019. As of September 30, 2019, the approximate dollar value that remains available for purchases under the 2014 share repurchase program is \$395.9 million. The program does not obligate us to make any repurchases at any specific time or in any specific situation. Share repurchases may be commenced or suspended at any time or from time to time, subject to legal and contractual requirements, without prior notice. For more information on the share repurchase program, see Note 19, "Equity and Earnings (Loss) Per Share" to our consolidated financial statements in Part II, Item 8 "Financial Statements and Supplementary Data" in our Annual Report on Form 10-K for the year ended December 31, 2018.

ITEM 5. OTHER INFORMATION

None.

HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM 6. EXHIBITS

Exhibit Number	Description
3.1.1	Amended and Restated Certificate of Incorporation of Herc Holdings (Incorporated by reference to Exhibit 3.1 to the Annual Report on Form 10-K of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on March 30, 2007).
3.1.2	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Herc Holdings, effective as of May 14, 2014 (Incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on May 14, 2014).
3.1.3	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Herc Holdings, dated June 30, 2016 (reflecting the registrant's name change to "Herc Holdings Inc.") (Incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on July 6, 2016).
3.1.4	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of Herc Holdings, dated June 30, 2016 (Incorporated by reference to Exhibit 3.2 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on July 6, 2016).
3.2	Amended and Restated By-Laws of Herc Holdings Inc., effective May 17, 2018 (Incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of Herc Holdings Inc. (File No. 001-33139), as filed on May 23, 2018).
31.1*	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of the Principal Financial Officer pursuant to Rule 13a-14(a)/15d-14(a) under the Securities and Exchange Act of 1934, as adopted pursuant to §302 of the Sarbanes-Oxley Act of 2002
32.1**	18 U.S.C. Section 1350 Certifications of Principal Executive Officer and the Principal Financial Officer
101.INS*	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

*Filed herewith

**Furnished herewith

HERC HOLDINGS INC. AND SUBSIDIARIES

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: October 23, 2019

HERC HOLDINGS INC.

(Registrant)

By: /s/ MARK IRION

Mark Irion

Senior Vice President and Chief Financial Officer

CERTIFICATIONS

CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER

I, Lawrence H. Silber, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended September 30, 2019 (this "report") of Herc Holdings Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 23, 2019

By: /s/ LAWRENCE H. SILBER

Lawrence H. Silber
Chief Executive Officer, President and Director (Principal
Executive Officer)

CERTIFICATIONS

CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER

I, Mark Irion, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarter ended September 30, 2019 (this "report") of Herc Holdings Inc. (the "registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 23, 2019

By: /s/ MARK IRION

Mark Irion
Senior Vice President and Chief Financial Officer (Principal Financial Officer)

18 U.S.C. SECTION 1350 CERTIFICATIONS OF PRINCIPAL EXECUTIVE AND THE PRINCIPAL FINANCIAL OFFICER

In connection with the filing of this quarterly report on Form 10-Q of Herc Holdings Inc. (the "Company") for the period ended September 30, 2019 with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to such officer's knowledge:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 23, 2019

By: /s/ LAWRENCE H. SILBER

Lawrence H. Silber
Chief Executive Officer, President and Director (Principal
Executive Officer)

Date: October 23, 2019

By: /s/ MARK IRION

Mark Irion
Senior Vice President and Chief Financial Officer (Principal Financial
Officer)