HERC HOLDINGS INC
Form 10-Q
August 08, 2018

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

FORM 10-Q
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2018
OR
o 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	20-3530539
(State or other jurisdiction of incorporation or organization)	(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)

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 x No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o
		Emerging growth company	o

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. o

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

As of August 3, 2018, there were 28,479,173 shares of the registrant's common stock, $0.01 par value, outstanding.

HERC HOLDINGS INC. AND SUBSIDIARIES
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PART I—FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	June 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Cash and cash equivalents	$ 44.0	$ 41.5
Receivables, net of allowances of $26.0 and $26.9, respectively	350.3	386.3
Inventory	20.7	23.7
Prepaid and other current assets	20.6	23.0
Total current assets	435.6	474.5
Revenue earning equipment, net	2,585.4	2,374.6
Property and equipment, net	286.2	286.3
Intangible assets, net	289.3	283.9
Goodwill	91.0	91.0
Other long-term assets	42.1	39.4
Total assets	$ 3,729.6	$ 3,549.7
LIABILITIES AND EQUITY		
Current maturities of long-term debt and financing obligations	$ 26.9	$ 25.4
Accounts payable	387.8	152.0
Accrued liabilities	103.8	113.3
Total current liabilities	518.5	290.7
Long-term debt, net	2,109.6	2,137.1
Financing obligations, net	111.5	112.9
Deferred tax liabilities	458.2	462.8
Other long-term liabilities	36.5	35.8
Total liabilities	3,234.3	3,039.3
Commitments and contingencies (Note 9)		
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, 31.1 and 31.1 shares issued and 28.5 and 28.3 shares outstanding	0.3	0.3
Additional paid-in capital	1,770.0	1,763.1
Accumulated deficit	(472.8)	(462.4)
Accumulated other comprehensive loss	(110.2)	(98.6)
Treasury stock, at cost, 2.7 shares and 2.7 shares	(692.0)	(692.0)
Total equity	495.3	510.4
Total liabilities and equity	$ 3,729.6	$ 3,549.7

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues:				
Equipment rental	$392.5	$350.8	$761.6	$671.4
Sales of revenue earning equipment	78.2	46.4	125.5	100.8
Sales of new equipment, parts and supplies	10.8	14.9	22.2	26.4
Service and other revenue	4.0	3.7	7.5	6.6
Total revenues	485.5	415.8	916.8	805.2
Expenses:				
Direct operating	194.5	168.6	390.5	337.5
Depreciation of revenue earning equipment	97.0	94.3	190.3	187.2
Cost of sales of revenue earning equipment	75.8	51.4	117.8	106.3
Cost of sales of new equipment, parts and supplies	8.1	11.1	17.1	19.5
Selling, general and administrative	77.3	78.8	151.8	159.9
Impairment	0.1	29.3	0.1	29.3
Interest expense, net	32.4	31.6	64.4	69.4
Other income, net	(0.2)	0.5	(0.5)	0.2
Total expenses	485.0	465.6	931.5	909.3
Income (loss) before income taxes	0.5	(49.8)	(14.7)	(104.1)
Income tax benefit (provision)	(0.8)	22.2	4.3	37.3
Net loss	$(0.3)	$(27.6)	$(10.4)	$(66.8)
Weighted average shares outstanding:				
Basic and diluted	28.4	28.3	28.4	28.3
Loss per share:				
Basic and diluted	$(0.01)	$(0.98)	$(0.37)	$(2.36)

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net loss	$(0.3)	$(27.6)	$(10.4)	$(66.8)
Other comprehensive income (loss):				
Foreign currency translation adjustments	(8.8)	7.0	(14.2)	8.7
Unrealized gains and losses on hedging instruments:				
Unrealized gains (losses) on hedging instruments	0.7	(0.5)	3.0	(0.9)
Income tax (provision) benefit related to hedging instruments	(0.2)	0.2	(0.8)	0.4
Pension and postretirement benefit liability adjustments:				
Amortization of net losses included in net periodic pension cost	0.2	0.5	0.5	0.9
Pension and postretirement benefit liability adjustments arising during the period	—	(2.7)	—	(2.7)
Income tax provision (benefit) related to defined benefit pension plans	—	0.9	(0.1)	0.7
Total other comprehensive income (loss)	(8.1)	5.4	(11.6)	7.1
Total comprehensive loss	$(8.4)	$(22.2)	$(22.0)	$(59.7)

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

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HERC HOLDINGS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
Unaudited
(In millions)

Balance at:	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Equity
December 31, 2017	28.3	$ 0.3	$ 1,763.1	$ (462.4)	$ (98.6)	$ (692.0)	$ 510.4
Net loss	—	—	—	(10.4)	—	—	(10.4)
Other comprehensive loss	—	—	—	—	(11.6)	—	(11.6)
Net settlement on vesting of equity awards	0.1	—	(1.1)	—	—	—	(1.1)
Stock-based compensation charges	—	—	6.6	—	—	—	6.6
Employee stock purchase plan	—	—	0.9	—	—	—	0.9
Exercise of stock options	0.1	—	0.5	—	—	—	0.5
June 30, 2018	28.5	$ 0.3	$ 1,770.0	$ (472.8)	$ (110.2)	$ (692.0)	$ 495.3

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

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

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net loss	$(10.4)	$(66.8)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation of revenue earning equipment	190.3	187.2
Depreciation of property and equipment	25.4	22.1
Amortization of intangible assets	2.1	2.2
Amortization of deferred debt and financing obligations costs	3.1	3.2
Stock-based compensation charges	6.6	4.5
Impairment	0.1	29.3
Provision for receivables allowance	24.1	21.9
Deferred taxes	(4.3)	(37.3)
(Gain) loss on sale of revenue earning equipment	(7.7)	5.5
Income from joint ventures	(0.9)	(0.7)
Other	5.8	0.7
Changes in assets and liabilities:		
Receivables	(1.4)	(31.7)
Inventory, prepaid and other assets	(0.8)	(2.3)
Accounts payable	10.6	(15.6)
Accrued liabilities and other long-term liabilities	(9.7)	4.1
Net cash provided by operating activities	232.9	126.3
Cash flows from investing activities:		
Revenue earning equipment expenditures	(300.5)	(160.8)
Proceeds from disposal of revenue earning equipment	130.1	88.6
Non-rental capital expenditures	(33.2)	(26.0)
Proceeds from disposal of property and equipment	2.4	1.7
Net cash used in investing activities	(201.2)	(96.5)

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

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

	Six Months Ended June 30,	
	2018	2017
Cash flows from financing activities:		
Repayments of long-term debt	—	(123.5)
Proceeds from revolving lines of credit	186.0	279.4
Repayments on revolving lines of credit	(204.7)	(183.7)
Principal payments under capital lease and financing obligations	(8.9)	(7.8)
Debt extinguishment costs	—	(3.7)
Proceeds from exercise of stock options and other	0.5	—
Proceeds from employee stock purchase plan	0.9	0.3
Net settlement on vesting of equity awards	(1.1)	—
Net cash used in financing activities	(27.3)	(39.0)
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	(1.9)	0.5
Net increase (decrease) in cash, cash equivalents and restricted cash during the period	2.5	(8.7)
Cash, cash equivalents and restricted cash at beginning of period	41.5	31.0
Cash, cash equivalents and restricted cash at end of period	$44.0	$22.3
Supplemental disclosure of cash flow information:		
Cash paid for interest	$61.5	$64.9
Cash paid for income taxes, net	$10.7	$1.8
Supplemental disclosure of non-cash investing activity:		
Purchases of revenue earning equipment in accounts payable	$223.7	$176.9
Disposals of revenue earning equipment in accounts receivable	$—	$4.4
Non-rental capital expenditures in accounts payable	$3.6	$13.2
Supplemental disclosure of non-cash financing activity:		
Non-cash settlement of transactions with THC through equity	$—	$4.0

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

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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 275 locations at June 30, 2018, 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, we are a full-line equipment rental supplier offering a broad portfolio of equipment for rent. In addition to our principal business of equipment rental, we sell used equipment and contractor supplies such as construction consumables, tools, small equipment and safety supplies; provide repair, maintenance, equipment management services and safety training to certain of our customers; offer equipment re-rental services and provide on-site support to our customers; and provide ancillary services such as equipment transport, rental protection, cleaning, refueling and labor.

Our classic fleet includes aerial, earthmoving, material handling, trucks and trailers, air compressors, compaction and lighting. Our equipment rental business is supported by ProSolutions™, our industry-specific solutions-based services which includes power generation, climate control, remediation and restoration, and studio and production equipment, and our 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, 2017, filed with the SEC on February 28, 2018.

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 allowance for accounts receivable, depreciation of revenue earning 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, among others.

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

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance that replaced existing revenue recognition guidance in U.S. GAAP. The new guidance requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.
On January 1, 2018, the Company adopted the guidance using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. The Company did not record any amount to the opening balance of retained earnings as of January 1, 2018 as the cumulative impact of adopting the guidance was not material. The comparative financial statement information has not been restated and continues to be reported under the accounting standards in effect for those periods. The adoption of the guidance had no material impact on the Company’s consolidated balance sheet as of January 1, 2018. The Company's accounting for equipment rental revenue is primarily outside the scope of this new revenue guidance and will be evaluated under the new lease guidance which is described further under the subheading "Leases" below.
Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued guidance to eliminate the diversity in practice related to the classification of certain cash receipts and payments in the statement of cash flows, by adding or clarifying guidance on eight specific cash flow issues. The Company adopted this guidance on January 1, 2018 in accordance with the effective date and has amended its statement of cash flows for the six months ended June 30, 2017 by reclassifying $3.7 million of debt extinguishment costs from cash used in operating activities to cash used in financing activities.

Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory

In October 2016, the FASB issued guidance requiring an entity to recognize upon transfer the income tax consequences of an intra-entity transfer of an asset other than inventory, eliminating the current recognition exception. Two common examples of assets included in the scope of this standard are intellectual property and property, plant and equipment. The Company adopted this guidance on January 1, 2018 in accordance with the effective date. Adoption of this guidance did not have a significant impact on the Company's financial position, results of operations or cash flows.

Statement of Cash Flows: Restricted Cash

In November 2016, the FASB issued guidance requiring restricted cash and cash equivalents to be included with cash and cash equivalents on the statement of cash flows. The Company adopted this guidance on January 1, 2018 in accordance with the effective date and has amended its statement of cash flows for the six months ended June 30, 2017 accordingly.

Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Costs

In March 2017, the FASB issued guidance on the presentation of net periodic pension and postretirement benefit costs in the income statement and on the components eligible for capitalization. The guidance requires the reporting of the service cost component of the net periodic benefit costs in the same income statement line item as other components of net periodic costs arising from services rendered by an employee during the period, and that non-service-cost components be presented in the income statement separately from the service cost components and outside a subtotal of income from operations. The guidance also allows for the capitalization of the service cost components, when applicable. The Company adopted this guidance on January 1, 2018 in accordance with the effective date. Adoption of this guidance resulted in an immaterial reclassification of costs from "Direct operating" and "Selling, general and administrative" expense into "Other income, net" in the Company's statement of operations.

Compensation - Stock Compensation

In May 2017, the FASB issued guidance pursuant to which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. Under the updated guidance, a modification is defined as a change in the terms or conditions of a share-based payment award, and an entity should account for the effects of a modification unless all of the following are met:

1. The fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation techniques that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification.
2. The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified.
3. The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified.

The guidance requires prospective application to an award modified on or after the adoption date. The Company adopted the new guidance on January 1, 2018 in accordance with the effective date and will apply the guidance to any future changes to the term or conditions of its share-based payment awards.

Not Yet Adopted

Leases

In February 2016, the FASB issued guidance that replaces the existing lease guidance. The new guidance establishes 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 will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. This guidance also expands 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. This guidance is effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods using a modified retrospective transition approach.

The Company expects to adopt this guidance on its effective date of January 1, 2019 and is currently in the process of assessing the potential impact this guidance may have on its financial position, results of operations and cash flows, including which of its existing lease arrangements will be impacted by the new guidance and whether other arrangements not currently classified as leases may become subject to the guidance. The Company plans to take advantage of the transition package of practical expedients permitted within the new standard which, among other things, allows the historical lease classification to be carried forward. Additionally, the Company is implementing a lease management system to assist in the accounting and is evaluating additional changes to its processes and internal controls to ensure the new reporting and disclosure requirements are met upon adoption.

Additionally, as discussed in Note 3, "Revenue Recognition," most of the Company's equipment rental revenues will be accounted for under the current lease accounting standard, Accounting Standards Codification (“ASC”) Topic 840, Leases, ("Topic 840") until the adoption of the new lease accounting standard ("Topic 842"). While the Company's review of the equipment rental revenue under Topic 842 is ongoing, the Company has preliminarily concluded that no significant changes are expected to the accounting for most of its equipment rental revenues upon adoption of Topic 842.

Income Statement - Reporting Comprehensive Income

In February 2018, the FASB issued guidance that allows reclassification from accumulated other comprehensive income to retained earnings for certain tax effects resulting from the Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act") that would otherwise be stranded in accumulated other comprehensive income. This guidance is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. The Company is in the process of assessing the potential impacts of adopting this guidance on its financial position, results of operations and cash flows.

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

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 88.7% and 88.1% of total revenue for the three and six months ended June 30, 2018, respectively, compared to 87.9% and 88.0% for the same periods in 2017.
The Company's rental transactions are principally accounted for under Topic 840. The Company's sale of revenue earning and new equipment, parts and supplies along with certain services provided to customers are accounted for under ASC Topic 606, Revenue from Contracts with Customers ("Topic 606"). Prior to the adoption of Topic 606, the Company accounted for these non-rental transactions under ASC Topic 605, Revenue Recognition ("Topic 605").
The following tables summarize the applicable accounting guidance for the Company's revenues for the three and six months ended June 30, 2018 and 2017, respectively (in millions):

	Three Months Ended June 30,					
	2018			2017		
	Topic 840	Topic 606	Total	Topic 840	Topic 605	Total
Revenues:						
Equipment rental	$356.1	$—	$356.1	$321.6	$—	$321.6
Other rental revenue:						
Delivery and pick-up	—	21.2	21.2	—	18.0	18.0
Other	15.2	—	15.2	11.2	—	11.2
Total other rental revenues	15.2	21.2	36.4	11.2	18.0	29.2
Total equipment rentals	371.3	21.2	392.5	332.8	18.0	350.8
Sales of revenue earning equipment	—	78.2	78.2	—	46.4	46.4
Sales of new equipment, parts and supplies	—	10.8	10.8	—	14.9	14.9
Service and other revenues	—	4.0	4.0	—	3.7	3.7
Total revenues	$371.3	$114.2	$485.5	$332.8	$83.0	$415.8

	Six Months Ended June 30,					
	2018			2017		
	Topic 840	Topic 606	Total	Topic 840	Topic 605	Total
Revenues:						
Equipment rental	$696.8	$—	$696.8	$618.6	$—	$618.6
Other rental revenue:						
Delivery and pick-up	—	38.4	38.4	—	32.9	32.9
Other	26.4	—	26.4	19.9	—	19.9
Total other rental revenues	26.4	38.4	64.8	19.9	32.9	52.8
Total equipment rentals	723.2	38.4	761.6	638.5	32.9	671.4
Sales of revenue earning equipment	—	125.5	125.5	—	100.8	100.8
Sales of new equipment, parts and supplies	—	22.2	22.2	—	26.4	26.4
Service and other revenues	—	7.5	7.5	—	6.6	6.6
Total revenues	$723.2	$193.6	$916.8	$638.5	$166.7	$805.2

Topic 840 revenues

Equipment Rental Revenue

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. 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 with no penalty by the customer by returning the equipment within one day, therefore, the Company does not allocate the transaction price between the different contract elements. 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 Revenue Earning Equipment, New Equipment, Parts and Supplies

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Sales of revenue earning equipment	$78.2	$46.4	$125.5	$100.8
Sales of new equipment	4.6	8.2	10.4	13.4
Sales of parts and supplies	6.2	6.7	11.8	13.0
Total	$89.0	$61.3	$147.7	$127.2

The Company recognizes revenue from the sale of revenue earning 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.

Under Topic 606, the accounts receivable balance, prior to allowances for doubtful accounts, for the sale of revenue earning equipment, new equipment, parts and supplies, was approximately $31.0 million as of June 30, 2018.

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 840. The customers that are responsible for the remaining 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 our 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 contract assets or material 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 six months ended June 30, 2018 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 six months ended June 30, 2018 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 June 30, 2018.

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.

Note 4—Revenue Earning Equipment

Revenue earning equipment consists of the following (in millions):

	June 30, 2018	December 31, 2017
Revenue earning equipment	$3,955.8	$3,757.2
Less: Accumulated depreciation	(1,370.4)	(1,382.6)
Revenue earning equipment, net	$2,585.4	$2,374.6

Note 5—Debt

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

	Weighted Average Effective Interest Rate at June 30, 2018	Weighted Average Stated Interest Rate at June 30, 2018	Fixed or Floating Interest Rate	Maturity	June 30, 2018	December 31, 2017
Senior Secured Second Priority Notes						
2022 Notes	7.88%	7.50%	Fixed	2022	$488.0	$ 488.0
2024 Notes	8.06%	7.75%	Fixed	2024	500.0	500.0
Other Debt						
ABL Credit Facility	N/A	3.77%	Floating	2021	1,110.0	1,130.0
Capital leases	4.05%	N/A	Fixed	2018-2022	45.3	53.7
Other borrowings	N/A	4.79%	Floating	2018	3.9	2.6
Unamortized Debt Issuance Costs[(a)]					(13.4)	(14.5)
Total debt					2,133.8	2,159.8
Less: Current maturities of long-term debt					(24.2)	(22.7)
Long-term debt, net					$2,109.6	$ 2,137.1

(a) Unamortized debt issuance costs totaling $11.4 million and $13.3 million related to the ABL Credit Facility (as defined below) are included in "Other long-term assets" in the condensed consolidated balance sheets as of June 30, 2018 and December 31, 2017, respectively.

The effective interest rates for the fixed rate 2022 Notes and 2024 Notes (as defined below) include the stated interest on the notes and the amortization of any debt issuance costs.

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 and October 2017, Herc drew down on its ABL Credit Facility (as defined below) and cumulatively redeemed $122.0 million in aggregate principal amount of the 2022 Notes and $125.0 million in aggregate principal amount of the 2024 Notes. See Note 15, "Subsequent Event" regarding an additional partial redemption of the Notes.

ABL Credit Facility

The Company's asset-based revolving credit agreement, executed by its Herc subsidiary, provides 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 (the "ABL Credit 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. Extensions of credit under the ABL Credit Facility are limited by a borrowing base calculated periodically based on specified percentages of the value of eligible rental equipment, eligible service vehicles, eligible spare parts and merchandise, eligible accounts receivable, and eligible unbilled accounts subject to certain reserves and other adjustments. Subject to the satisfaction of certain conditions and limitations, the ABL Credit Facility allows for the addition of incremental revolving and/or term loan commitments. In addition, the ABL Credit Facility permits Herc to increase the amount of commitments under the ABL Credit Facility with the consent of each lender providing an additional commitment, subject to satisfaction of certain conditions.

Other Borrowings

The Company's subsidiary in China has uncommitted credit agreements with a bank for up to the 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 June 30, 2018, the Company had short-term borrowings under these facilities totaling $3.9 million.

Borrowing Capacity and Availability

After outstanding borrowings, the following was available to the Company under the ABL Credit Facility as of June 30, 2018 (in millions):

	Remaining Capacity	Availability Under Borrowing Base Limitation
ABL Credit Facility	$ 617.2	$ 617.2

In addition, as of June 30, 2018, the Company's subsidiary in China had uncommitted credit facilities of which $6.1 million was available for borrowing.

Letters of Credit

As of June 30, 2018, $22.8 million of standby letters of credit were issued and outstanding, none of which have been drawn upon. The ABL Credit Facility had $227.2 million available under the letter of credit facility sublimit, subject to borrowing base restrictions.

Note 6—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 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 building and land remains on the Company's condensed consolidated balance sheet.

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

	Weighted Average Effective Interest Rate at June 30, 2018	Maturity	June 30, 2018	December 31, 2017
Financing obligations	4.62%	2037	$116.7	$ 118.2
Unamortized financing issuance costs			(2.5)	(2.6)
Total financing obligations			114.2	115.6
Less: Current maturities of financing obligations			(2.7)	(2.7)
Financing obligations, net			$111.5	$ 112.9

Note 7—Income Taxes

Income tax provision was $0.8 million and income tax benefit was $4.3 million for the three and six months ended June 30, 2018, respectively, which were primarily driven by the level of pre-tax income (loss), partially offset by non-deductible expenses, foreign taxes and valuation allowances recorded on losses generated by certain foreign loss jurisdictions. The effective tax rate for the 2018 fiscal year is expected to be approximately 28.0%.

Tax Cuts and Jobs Act

The 2017 Tax Act was enacted in December 2017 which reduced the U.S. federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. As of December 31, 2017, the Company determined a reasonable estimate of (i) the effects on existing deferred tax balances and (ii) the one-time transition tax. The Company recognized a provisional income tax benefit of $207.1 million in the year ended December 31, 2017 associated with these items that it reasonably estimated. As of June 30, 2018, the Company has not changed the provisional estimates recognized in 2017. Given the complexity of the 2017 Tax Act, the Company is still evaluating the tax impact and the date the Company expects to complete the accounting is not currently determinable while it continues to obtain the information required to complete the accounting. Given the provisional amounts recognized in 2017, and the fact that the Company has not changed its provisional estimates, the impact of measurement period adjustments was not material during the six months ended June 30, 2018.

The 2017 Tax Act subjects U.S. shareholders to a tax on global intangible low-taxed income ("GILTI") earned by certain foreign subsidiaries. Entities can make an accounting policy election to either recognize deferred taxes for temporary basis differences expected to reverse as GILTI in future years or provide for the tax expense related to GILTI in the year the tax is incurred. Given the complexity of the GILTI provisions, the Company is still evaluating the tax impact and has not yet made the accounting policy election.

Note 8—Accumulated Other Comprehensive Income (Loss)

The changes in the accumulated other comprehensive income (loss) balance by component (net of tax) for the six months ended June 30, 2018 are presented in the table below (in millions).

	Pension and Other	Unrealized Losses on	Foreign Currency	Accumulated Other

	Post-Employment Benefits	Hedging Instruments	Items	Comprehensive Income (Loss)
Balance at December 31, 2017	$ (13.5)	$ 1.3	$ (86.4)	$ (98.6)
Other comprehensive income (loss) before reclassification	—	2.2	(14.2)	(12.0)
Amounts reclassified from accumulated other comprehensive loss	0.4	—	—	0.4
Net current period other comprehensive income (loss)	0.4	2.2	(14.2)	(11.6)
Balance at June 30, 2018	$ (13.1)	$ 3.5	$ (100.6)	$ (110.2)

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

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

		Three Months Ended June 30,		Six Months Ended June 30,	
Pension and other postretirement benefit plans	Statement of Operations Caption	2018	2017	2018	2017
Amortization of actuarial losses	Selling, general and administrative	$0.2	$0.5	$0.5	$0.9
Tax benefit	Income tax benefit	—	(0.2)	(0.1)	(0.4)
Total reclassifications for the period		$0.2	$0.3	$0.4	$0.5

Note 9—Commitments and Contingencies

Legal Proceedings

From time to time the Company is a party to various legal proceedings. Summarized below are the most significant legal proceedings to which the Company is a party.

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 October 2017, the U.S. Court of Appeals for the Third Circuit issued a briefing schedule. Briefing was completed in February 2018, and oral argument before the court was conducted on June 12, 2018.

Governmental Investigations - In June 2014, Hertz Holdings was advised by the staff of the New York Regional Office of the SEC that it is investigating the events disclosed in certain of Hertz Holdings' filings with the SEC. In addition, starting in June 2016, Hertz Holdings and New Hertz have had communications with the United States Attorney's Office for the District of New Jersey regarding the same or similar events. New Hertz is responsible for managing these matters. The investigations and communications generally involve the restatements included in Hertz Holdings' 2014 Form 10-K and related accounting for prior periods. The Company has and intends to continue to cooperate with all governmental requests related to the foregoing. New Hertz is engaged in discussions with the enforcement staff of the New York office of the SEC ("Staff") to resolve certain matters under investigation. Any proposed settlement that might result from discussions with Staff would be subject to additional reviews and approvals, including acceptance and authorization by the SEC. The Company cannot predict the ultimate timing or the final terms of a possible settlement, including any settlement amount. Given the uncertainties associated with the matters under discussion and the immateriality to the Company of the Company's share of the minimum amount of probable loss based on current circumstances, the Company has not accrued a loss contingency at this time. However, it is possible that an adverse outcome with respect to the restatement investigations could result in losses that could be material to the Company’s consolidated financial condition, results of operations or cash flows in any particular reporting period.

Additionally, Hertz Holdings previously identified certain activities by THC's former vehicle rental operations in Brazil that raised issues under the Foreign Corrupt Practices Act (the “FCPA”) and other federal and local laws. THC self-reported these issues to appropriate government entities. The matters associated with the FCPA and other federal matters have been resolved without further action by the applicable government entities. Any ongoing matters under local Brazilian laws are not expected to have any impact on the Company.

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, including certain of those described above, 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, including those discussed above, 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. These indemnification obligations might include claims relating to the following: 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 14, "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 June 30, 2018 and December 31, 2017, the aggregate amounts accrued for environmental liabilities, including liability for environmental indemnities, reflected in the Company's consolidated balance sheets in "Accrued liabilities" were $0.1 million. The accrual generally represents the estimated cost to study potential environmental issues at sites deemed to require investigation or clean-up activities, and the estimated cost to implement remediation actions, including on-going maintenance, as required. Cost estimates are developed by site. Initial cost estimates are based on historical experience at similar sites and are refined over time on the basis of in-depth studies of the sites. For many sites, the remediation costs and other damages for which 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).

Note 10—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 p