FIRSTENERGY CORP
Form S-4/A
July 16, 2010

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As filed with the Securities and Exchange Commission on July 16, 2010

Registration No. 333-165640

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

Amendment No. 4
to
Form S-4

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

FIRSTENERGY CORP.
(Exact name of registrant as specified in its charter)

Ohio	**4911**	**34-1843785**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification Number)*

76 South Main Street
Akron, Ohio 44308
(800) 631-8945
(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Leila L. Vespoli, Esq.
Executive Vice President and General Counsel
FirstEnergy Corp.
76 South Main Street
Akron, Ohio 44308
(800) 631-8945
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies To:

Rick L. Burdick, Esq. **Lucas F. Torres, Esq.** **Zachary N. Wittenberg, Esq.** **Akin Gump Strauss Hauer & Feld LLP** **1333 New Hampshire Avenue, N.W.** **Washington, D.C. 20036** **(202) 887-4000**	**David M. Feinberg, Esq.** **Vice President, General Counsel and Secretary** **Allegheny Energy, Inc.** **800 Cabin Hill Drive** **Greensburg, PA 15601** **(724) 837-3000**	**Michael P. Rogan, Esq.** **Pankaj K. Sinha, Esq.** **Skadden, Arps, Slate, Meagher & Flom LLP** **1440 New York Avenue, N.W.** **Washington, D.C. 20005-2111** **(202) 371-7000**

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effectiveness of this registration statement and the satisfaction or waiver of all other conditions to the completion of the merger described herein.

If the securities being registered on this form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. o

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o	Smaller reporting company o
		(Do not check if a smaller reporting company)	

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer)	o
Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer)	o

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment that specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this preliminary joint proxy statement/prospectus is not complete and may be changed. FirstEnergy Corp. may not sell the securities offered by this preliminary joint proxy statement/prospectus until the registration statement filed with the Securities and Exchange Commission relating to these securities is declared effective. This preliminary joint proxy statement/prospectus is not an offer to sell these securities nor should it be considered a solicitation of an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

PRELIMINARY COPY   SUBJECT TO COMPLETION, DATED JULY 16, 2010

MERGER PROPOSED   YOUR VOTE IS VERY IMPORTANT

To the Shareholders of FirstEnergy Corp.:

The boards of directors of FirstEnergy Corp., referred to as FirstEnergy, and Allegheny Energy, Inc., referred to as Allegheny Energy, have each unanimously approved an agreement and plan of merger pursuant to which Element Merger Sub, Inc., a wholly owned subsidiary of FirstEnergy, will merge with and into Allegheny Energy with Allegheny Energy becoming a wholly owned subsidiary of FirstEnergy. Upon completion of the merger, FirstEnergy will issue to Allegheny Energy stockholders 0.667 of a share of FirstEnergy common stock for each share of Allegheny Energy common stock held prior to the merger. This exchange ratio is fixed and will not be adjusted to reflect stock price changes prior to completion of the merger. Based on the closing price of FirstEnergy common stock on the New York Stock Exchange, referred to as the NYSE, on February 10, 2010, the last trading day before public announcement of the merger, the exchange ratio represented approximately $27.65 in value for each share of Allegheny Energy common stock. Based on the closing price of FirstEnergy common stock on the NYSE on , 2010, the latest practicable trading day before the date of this joint proxy statement/prospectus, the exchange ratio represented approximately $ in value for each share of Allegheny Energy common stock.

Shares of FirstEnergy common stock trade on the NYSE under the symbol FE. We estimate that based on the number of outstanding shares of Allegheny Energy common stock on July 16, 2010, immediately after the effective time of the merger, current FirstEnergy shareholders will hold shares of FirstEnergy common stock representing approximately 73% of the then outstanding shares of FirstEnergy common stock and former Allegheny Energy stockholders will hold shares of FirstEnergy common stock representing approximately 27% of the then outstanding shares of FirstEnergy common stock.

We are asking FirstEnergy shareholders to (1) authorize and approve the issuance of shares of FirstEnergy common stock to the former Allegheny Energy stockholders in the merger (which we refer to as the share issuance) and the other transactions contemplated by the merger agreement, (2) adopt an amendment to the FirstEnergy amended articles of incorporation to increase the number of authorized shares of FirstEnergy common stock, referred to as the charter amendment, and (3) approve the adjournment of the special meeting to another time or place, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to authorize and approve the share issuance and the other transactions contemplated by the merger agreement or adopt the charter amendment. The authorization and approval of the share issuance and the other transactions contemplated by the merger agreement and the adoption of the charter amendment require the affirmative vote of the holders of at least a majority of the outstanding shares of FirstEnergy common stock entitled to vote on each of the proposals. The approval of the adjournment proposal requires the affirmative vote of the holders of a majority of the shares represented in person or by proxy at the FirstEnergy special meeting.

The FirstEnergy board of directors unanimously approved the merger agreement and the transactions contemplated by the merger agreement and recommends that FirstEnergy shareholders vote FOR the proposal to authorize and approve the share issuance and the other transactions contemplated by the merger agreement, FOR the proposal to adopt the charter amendment and FOR the proposal to adjourn the FirstEnergy special meeting, if necessary or appropriate, to solicit additional proxies.

The accompanying joint proxy statement/prospectus contains important information about the merger, the merger agreement and the FirstEnergy special meeting. **We encourage FirstEnergy shareholders to read this joint proxy statement/prospectus carefully before voting, including the section entitled Risk Factors beginning on page 32.**

Your vote is very important. Whether or not you plan to attend the FirstEnergy special meeting, please take the time to submit your proxy by completing and mailing the enclosed proxy card or by granting your proxy electronically over the Internet or by telephone.

Anthony J. Alexander
President and Chief Executive Officer
FirstEnergy Corp.

Neither the Securities and Exchange Commission, nor any state securities commission has approved or disapproved of the merger or the securities to be issued under this joint proxy statement/prospectus or has passed upon the adequacy or accuracy of the disclosure in this joint proxy statement/prospectus. Any representation to the contrary is a criminal offense.

This joint proxy statement/prospectus is dated , 2010, and is first being mailed to FirstEnergy shareholders on or about , 2010 and to Allegheny Energy stockholders on or about , 2010.

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800 Cabin Hill Drive
Greensburg, Pennsylvania 15601

, 2010

MERGER PROPOSED YOUR VOTE IS VERY IMPORTANT

Dear Stockholders:

On February 11, 2010, we announced our proposed merger with FirstEnergy Corp. Our board of directors unanimously determined that the merger agreement and the merger are advisable and are fair to and in the best interests of Allegheny Energy s stockholders and has approved the merger agreement and the merger.

This merger should significantly enhance value for our stockholders. You will receive a meaningful premium for your shares based on the trading price of FirstEnergy and Allegheny Energy shares prior to the announcement of the merger and a substantial dividend increase based on FirstEnergy s current dividend policy.

We believe the merger is in the best interests of our stockholders and will create a strong combined company with substantial upside. With a more diversified generation fleet that is less dependent on coal, your investment will be less exposed to the risk of carbon legislation or onerous environmental regulations. The combined company s increased size should create opportunities for efficiencies of all kinds. Importantly, the combined company will be well positioned to benefit from a recovery in the economy and higher power prices.

Allegheny Energy will hold a special meeting of its stockholders at the New York Marriott Marquis Hotel, 1535 Broadway, New York, New York, on September 14, 2010 at 11:00 a.m., local time, to consider and vote on the proposal to approve the merger agreement and the merger. The proposal requires the affirmative vote of the holders of at least a majority of the outstanding shares of Allegheny Energy s common stock entitled to vote. If the merger is completed, Allegheny Energy stockholders will receive 0.667 of a share of FirstEnergy s common stock for each share of Allegheny Energy common stock held.

We urge you to read carefully the accompanying joint proxy statement/prospectus which includes important information about the merger agreement, the proposed merger and the Allegheny Energy special meeting. **For a discussion of risk factors that you should consider in evaluating the merger, see the section entitled Risk Factors beginning on page 32.**

Your vote is important. I invite you to attend the special meeting. Please submit your proxy or voting instructions by telephone or on the Internet promptly by following the instructions on your proxy/voting instruction card so that your shares can be voted, regardless of whether you expect to attend Allegheny Energy s special meeting. Alternatively, you may mark, date, sign and return the enclosed proxy/voting instruction card. If you attend, you may withdraw your proxy and vote in person.

We enthusiastically support this combination of our companies, and I ask that you join with Allegheny Energy s board of directors and vote **FOR** the approval of the merger agreement and the merger.

Paul J. Evanson
Chairman, President and Chief Executive Officer
Allegheny Energy, Inc.

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76 South Main Street
Akron, Ohio 44308
(800) 631-8945

NOTICE OF SPECIAL MEETING OF SHAREHOLDERS
TO BE HELD ON SEPTEMBER 14, 2010

To the Shareholders of FirstEnergy Corp.:

A special meeting of the shareholders of FirstEnergy Corp., an Ohio corporation (FirstEnergy), will be held at the John S. Knight Center, 77 E. Mill Street, Akron, Ohio on September 14, 2010, at 9:30 a.m., local time, for the following purposes:

1. to consider and vote on the proposal to authorize and approve the issuance of shares of FirstEnergy common stock pursuant to, and the other transactions contemplated by, the Agreement and Plan of Merger, dated as of February 10, 2010, as amended as of June 4, 2010, by and among FirstEnergy, Element Merger Sub, Inc., a Maryland corporation and a wholly owned subsidiary of FirstEnergy, and Allegheny Energy, Inc., a Maryland corporation, as it may be further amended from time to time (a copy of the merger agreement, as amended, is attached as Annex A to the joint proxy statement/prospectus accompanying this notice);

2. to consider and vote on the proposal to adopt the amendment to FirstEnergy s amended articles of incorporation, to increase the number of shares of authorized common stock from 375,000,000 to 490,000,000;

3. to consider and vote on the proposal to adjourn the special meeting to another time or place, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to authorize and approve the share issuance and the other transactions contemplated by the merger agreement or adopt the charter amendment; and

4. to transact any other business that may properly come before the special meeting or any adjournment or postponement of the special meeting by or at the direction of the board of directors of FirstEnergy.

Only FirstEnergy shareholders of record at the close of business on July 16, 2010, the record date for the FirstEnergy special meeting, are entitled to notice of, and to vote at, the FirstEnergy special meeting and any adjournments or postponements of the FirstEnergy special meeting.

The FirstEnergy board of directors has unanimously approved the merger agreement and the transactions contemplated by the merger agreement and recommends that you vote FOR the proposal to authorize and approve the share issuance and the other transactions contemplated by the merger agreement, FOR the proposal to adopt the charter amendment and FOR the proposal to adjourn the FirstEnergy special meeting, if necessary or appropriate, to solicit additional proxies in favor of such approvals.

YOUR VOTE IS IMPORTANT

Whether or not you plan to attend the special meeting, please submit a proxy as soon as possible. Please read the joint proxy statement/prospectus accompanying this notice and the instructions on the enclosed proxy card for more complete information regarding the merger and the FirstEnergy special meeting. Whether or not you plan to attend the special meeting in person, and no matter how many shares you own, please submit your proxy promptly by telephone or via the Internet in accordance with the instructions on the enclosed proxy card, or by completing, dating and returning your proxy card in the postage-prepaid envelope provided. Voting by proxy will not prevent you from voting in person at the special meeting. It will, however, help to ensure a quorum and to avoid added proxy solicitation costs.

If your shares are held in the name of a bank, broker or other nominee, you will receive instructions from the holder of record that you must follow for your shares to be voted. Please follow their instructions carefully. Also, please note that if the holder of record of your shares is a broker, bank or other nominee and you wish to vote in person at the FirstEnergy special meeting, you must request a legal proxy from your bank, broker or other nominee that holds your shares, and in addition to proof of identification, present that legal proxy identifying you as the beneficial owner of your shares of FirstEnergy common stock and authorizing you to vote those shares at the FirstEnergy special meeting.

You may revoke your proxy or change your vote at any time before the vote is taken by following the procedures set forth in the section entitled Information Regarding the FirstEnergy Special Meeting How to Change Your Vote beginning on page 45 of the joint proxy statement/prospectus that accompanies this notice.

By Order of the Board of Directors of
FirstEnergy Corp.

Rhonda S. Ferguson
Vice President and Corporate Secretary
Akron, Ohio
, 2010

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800 Cabin Hill Drive
Greensburg, Pennsylvania 15601

July , 2010

NOTICE OF SPECIAL MEETING OF STOCKHOLDERS
TO BE HELD ON SEPTEMBER 14, 2010

To the Stockholders of Allegheny Energy, Inc.:

A special meeting of the stockholders of Allegheny Energy, Inc., a Maryland corporation (Allegheny Energy), will be held at the New York Marriott Marquis Hotel, 1535 Broadway, New York, New York on September 14, 2010 at 11:00 a.m., local time, to consider and vote on the proposals listed below and any other matters that may properly come before the special meeting or any adjournment or postponement of the special meeting:

1. the proposal to approve the Agreement and Plan of Merger, dated as of February 10, 2010, as amended as of June 4, 2010, by and among FirstEnergy Corp., an Ohio corporation, Element Merger Sub, Inc., a Maryland corporation and a wholly-owned subsidiary of FirstEnergy Corp., and Allegheny Energy, as it may be further amended from time to time (a copy of the merger agreement, as amended, is attached as Annex A to the joint proxy statement/prospectus accompanying this notice), and the merger described therein; and

2. the proposal to adjourn the special meeting to a later date or dates, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to approve the merger agreement and the merger at the time of the special meeting.

The items of business listed above are more fully described in the joint proxy statement/prospectus that accompanies this notice.

Only Allegheny Energy stockholders of record at the close of business on July 16, 2010, the record date for the Allegheny Energy special meeting, will receive this notice of, and be entitled to vote at, the Allegheny Energy special meeting and any adjournments or postponements of the Allegheny Energy special meeting.

The Allegheny Energy board of directors has unanimously determined that the merger agreement and the transactions contemplated by the merger agreement, including the merger, are advisable, fair to and in the best interests of Allegheny Energy and its stockholders and recommends that Allegheny Energy stockholders vote FOR the proposal to approve the merger agreement and the merger and FOR the proposal to adjourn the Allegheny Energy special meeting, if necessary or appropriate, to solicit additional proxies in favor of such approval.

YOUR VOTE IS IMPORTANT

Approval of the merger agreement and the merger by Allegheny Energy stockholders is a condition to the merger and requires the affirmative vote of holders of at least a majority of the shares of Allegheny Energy common stock outstanding and entitled to vote. Therefore, your vote is very important. **Your failure to vote your shares will have the same effect as a vote AGAINST approval of the merger agreement and the merger.**

Whether or not you plan to attend the special meeting, please submit a proxy as soon as possible. Please read the joint proxy statement/prospectus accompanying this notice and the instructions on the enclosed proxy card for more complete information regarding the merger and the Allegheny Energy special meeting. Whether or not you plan to attend the special meeting in person, and no matter how many shares you own, please submit your proxy promptly by telephone or via the Internet in accordance with the instructions on the enclosed proxy card, or by completing, dating and returning your proxy card in the envelope provided. Voting by proxy will not prevent you from voting in person at the special meeting. It will, however, help to ensure a quorum and to avoid added proxy solicitation costs.

If your shares of Allegheny Energy common stock are held in street name by your broker or other nominee, only that holder can vote your shares of Allegheny Energy common stock and only upon receiving your specific instructions. Please follow the directions provided by your broker or other nominee regarding how to instruct your broker or other nominee to vote your shares of Allegheny Energy common stock. Please note that if your shares are held in street name and you wish to vote in person at the Allegheny Energy special meeting, you must provide a legal proxy from your nominee, and you should contact your nominee for directions on how to obtain such a proxy.

You may revoke your proxy or change your vote at any time before the vote is taken by following the procedures set forth in the section entitled Information Regarding the Allegheny Energy Special Meeting How to Change Your Vote beginning on page 50 of the joint proxy statement/prospectus that accompanies this notice.

By Order of the Board of Directors,

David M. Feinberg
Vice President, General Counsel and
Secretary

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ADDITIONAL INFORMATION

This joint proxy statement/prospectus incorporates by reference important business and financial information about FirstEnergy and Allegheny Energy from other documents filed with the Securities and Exchange Commission, referred to as the SEC, that are not included or delivered with this joint proxy statement/prospectus. Please see the section entitled Where You Can Find More Information; Incorporation by Reference beginning on page 184 for a more detailed description of the information incorporated by reference in this joint proxy statement/prospectus.

Documents incorporated by reference are available to you without charge upon written or oral request. You can obtain copies of any of these documents or answers to your questions about the applicable special meeting and proposals, from Innisfree M&A Incorporated, FirstEnergy s proxy solicitor, or D.F. King & Co., Inc., Allegheny Energy s proxy solicitor, at the following addresses and telephone numbers:

Innisfree M&A Incorporated	D.F. King & Co., Inc.
501 Madison Avenue, 20th floor	48 Wall Street, 22nd Floor
New York, New York 10022	New York, New York 10005
Shareholders may call toll free (877) 687-1866	Stockholders may call toll free (800) 549-6650
Banks and Brokers may call collect (212) 750-5833	Banks and Brokers may call collect (212) 269-5550

You also can obtain copies of any of these documents by requesting them in writing or by telephone from the appropriate company at the following addresses and telephone numbers:

FirstEnergy Corp.	Allegheny Energy, Inc.
Attention: Corporate Department	Attention: Investor Relations
76 South Main Street	800 Cabin Hill Drive
Akron, Ohio 44308	Greensburg, Pennsylvania 15601
(800) 631-8945	(724) 838-6196

Please note that copies of the documents provided to you will not include exhibits, unless the exhibits are specifically incorporated by reference in the documents or in this joint proxy statement/prospectus.

To receive timely delivery of the requested documents in advance of the applicable special meeting, you should make your request no later than September 7, 2010, if you are a FirstEnergy shareholder and September 7, 2010, if you are an Allegheny Energy stockholder.

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QUESTIONS AND ANSWERS ABOUT THE MERGER AND THE SPECIAL MEETINGS

Following are brief answers to certain questions that you may have regarding the proposals being considered at the FirstEnergy special meeting and the Allegheny Energy special meeting. FirstEnergy and Allegheny Energy urge you to read carefully this entire joint proxy statement/prospectus, including the annexes, and the other documents to which this joint proxy statement/prospectus refers or incorporates by reference, because this section does not provide all the information that might be important to you. Unless stated otherwise, all references in this joint proxy statement/prospectus to FirstEnergy are to FirstEnergy Corp., an Ohio corporation; all references to the combined company are to FirstEnergy after the completion of the merger; all references to Allegheny Energy or the surviving entity are to Allegheny Energy, Inc., a Maryland corporation; all references to Merger Sub are to Element Merger Sub, Inc., a Maryland corporation and a wholly owned subsidiary of FirstEnergy; and all references to the merger agreement are to the Agreement and Plan of Merger, dated as of February 10, 2010, as amended as of June 4, 2010, by and among FirstEnergy, Merger Sub and Allegheny Energy, as it may be further amended from time to time, a copy of which is attached as Annex A to this joint proxy statement/prospectus.

ABOUT THE MERGER

Q1: Why am I receiving this document?

A1: FirstEnergy and Allegheny Energy have agreed to the merger of a subsidiary of FirstEnergy into Allegheny Energy under the terms of a merger agreement that is described in this joint proxy statement/prospectus. We are delivering this document to you because it serves as both a joint proxy statement of FirstEnergy and Allegheny Energy and a prospectus of FirstEnergy that is being used by our boards of directors to solicit the proxies of FirstEnergy and Allegheny Energy shareholders and by FirstEnergy in connection with its offering of FirstEnergy common stock in the merger.

In order to complete the merger, among other conditions, FirstEnergy shareholders must vote to authorize and approve the share issuance and the other transactions contemplated by the merger agreement and to adopt the charter amendment, and Allegheny Energy stockholders must vote to approve the merger agreement and the merger. FirstEnergy and Allegheny Energy will hold separate special meetings to obtain these approvals.

This joint proxy statement/prospectus, which you should read carefully, contains important information about the merger, the merger agreement and the special meetings of shareholders of FirstEnergy and Allegheny Energy.

Q2: What will happen in the proposed merger?

A2: In the proposed merger, a wholly owned subsidiary of FirstEnergy will merge with and into Allegheny Energy, as a result of which Allegheny Energy will become a wholly owned subsidiary of FirstEnergy and will no longer be a publicly-traded company.

Q3: Why are FirstEnergy and Allegheny Energy proposing the transaction?

A3: FirstEnergy and Allegheny Energy believe that the merger will provide substantial strategic and financial benefits to each company and their respective shareholders, customers and the communities they serve, including:

- increased scale, scope and diversification;
- increased financial strength and flexibility;

combined expertise in competitive markets and complementary geography/contiguous service territories; and

cost saving and other synergies.

To review the reasons for the merger in greater detail, see the sections entitled The Merger Recommendation of the FirstEnergy Board of Directors and Its Reasons for the Merger beginning on page 62 and The Merger Recommendation of the Allegheny Energy Board of Directors and Its Reasons for the Merger beginning on page 67.

Q4: Are there risks associated with the merger that I should consider in deciding how to vote?

A4: Yes. There are a number of risks related to the merger that are discussed in this joint proxy statement/prospectus and in other documents incorporated by reference. In evaluating the merger, you should read carefully the detailed description of the risks associated with the merger described in the section entitled Risk Factors beginning on page 32 and other information included in this joint proxy statement/prospectus and the documents incorporated by reference in this joint proxy statement/prospectus.

Q5: What will Allegheny Energy stockholders receive if the merger occurs?

A5: Upon completion of the merger, Allegheny Energy stockholders will receive 0.667 of a share of FirstEnergy common stock for each share of Allegheny Energy common stock that they hold as described in the section entitled The Merger Agreement Merger Consideration beginning on page 124.

Based on the closing price of FirstEnergy common stock on the NYSE on February 10, 2010, the last trading day before the public announcement of the merger agreement, the merger consideration represented $27.65 in value for each share of Allegheny Energy common stock. Based on the closing price of FirstEnergy common stock on the NYSE on July , 2010, the most recent practicable trading day prior to the date of this joint proxy statement/prospectus, the merger consideration represented $ in value for each share of Allegheny Energy common stock.

The exchange ratio is fixed and will not be adjusted to reflect stock price changes prior to completion of the merger. The market price of FirstEnergy common stock will fluctuate prior to the merger, and the market price of FirstEnergy common stock when received by Allegheny Energy stockholders after the merger is completed could be greater or less than the current market price of FirstEnergy common stock. See the description of this and related risks in the section entitled Risk Factors beginning on page 32 of this joint proxy statement/prospectus.

As a result of the merger, we estimate that current Allegheny Energy stockholders will own approximately 27% of the FirstEnergy common stock outstanding following the completion of the merger.

Q6: How was the exchange ratio of FirstEnergy common stock for Allegheny Energy common stock determined?

A6: The exchange ratio was determined in negotiations between the two companies and reflects the relative market prices of each company s common stock during the period preceding the companies entry into the merger agreement and other factors that the boards of directors of each company considered relevant.

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Q7: What will happen to Allegheny Energy stock options, restricted stock and other equity based awards if the merger occurs?

A7: Upon completion of the merger, each outstanding option to purchase shares of Allegheny Energy common stock will be converted into an option to purchase FirstEnergy common stock on a basis intended to preserve the intrinsic value of the option and otherwise on the terms and conditions applicable under the option (including any accelerated vesting that may have occurred upon approval of the merger agreement and the merger by Allegheny Energy s stockholders). Restricted stock granted prior to the execution of the merger agreement will vest in full upon completion of the merger to the extent it did not already vest upon approval of the merger agreement and the merger by Allegheny Energy s stockholders, and any restricted stock that did not vest before or upon completion of the merger will be converted into similarly restricted FirstEnergy common stock. Performance share awards granted before execution of the merger agreement will vest at the target level of performance and be paid out upon approval of the merger agreement and the merger by Allegheny Energy s stockholders; upon completion of the merger, outstanding performance share awards granted after execution of the merger agreement will be converted, based on actual performance for any year ending before completion of the merger and at the target level of performance for any later year, into restricted stock units covering FirstEnergy common stock the vesting of which generally will be subject to continued employment with the combined company for the remainder of the original performance period. For a more detailed discussion of the treatment of Allegheny Energy equity awards, please see the section entitled The Merger Agreement Treatment of Allegheny Energy Options and Other Equity Awards beginning on page 126.

Q8: How will FirstEnergy shareholders be affected by the merger?

A8: Unless they exercise their right to dissent and receive the fair cash value of their shares, after the merger, each FirstEnergy shareholder will hold the same number of shares of FirstEnergy common stock that the shareholder held immediately prior to the merger. As a result of the merger, FirstEnergy shareholders will own shares in a larger company with more assets. However, because in connection with the merger FirstEnergy will be issuing new shares of FirstEnergy common stock to Allegheny Energy stockholders in exchange for their shares of Allegheny Energy common stock, each outstanding share of FirstEnergy common stock immediately prior to the merger will represent a smaller percentage of the aggregate number of shares of FirstEnergy common stock outstanding after the merger. As a result of the merger, we estimate that current FirstEnergy shareholders will own approximately 73% of the FirstEnergy common stock outstanding following the completion of the merger.

Q9: What are the tax consequences of the merger?

A9: FirstEnergy and Allegheny Energy each expect the merger to qualify as a reorganization pursuant to Section 368(a) of the Internal Revenue Code of 1986, as amended, referred to as the Internal Revenue Code. Assuming the merger is treated as a reorganization, Allegheny Energy stockholders generally will not recognize any gain or loss for U.S. federal income tax purposes (except with respect to cash received in lieu of a fractional share of FirstEnergy common stock) by reason of the merger, subject to the limitations described in the section entitled The Merger Material U.S. Federal Income Tax Consequences of the Merger beginning on page 114.

FirstEnergy shareholders (other than those that exercise dissenters rights) generally will not recognize gain or loss for U.S. federal income tax purposes as a result of the merger. FirstEnergy shareholders that exercise dissenters rights are urged to consult their tax advisors regarding the tax treatment of any cash received upon the exercise of dissenters rights in connection with the merger.

Please review carefully the section entitled The Merger Material U.S. Federal Income Tax Consequences of the Merger beginning on page 114 for a description of the expected material U.S. federal income tax consequences of the merger. The tax consequences to you will depend on your own situation. Please consult your tax advisor for a full understanding of the tax consequences of the merger to you.

Q10: When do FirstEnergy and Allegheny Energy expect to complete the merger?

A10: FirstEnergy and Allegheny Energy are working to complete the merger as quickly as practicable. If the shareholders of both FirstEnergy and Allegheny Energy approve their respective proposals related to the merger, we currently expect the merger to be completed during the first half of 2011. However, neither FirstEnergy nor Allegheny Energy can predict the actual date on which the merger will be completed because it is subject to conditions beyond each company s control, including a number of state and federal regulatory approvals. See the section entitled The Merger Agreement Conditions to the Completion of the Merger beginning on page 130.

Q11: Are FirstEnergy or Allegheny Energy shareholders entitled to appraisal or dissenters rights in connection with the merger?

A11: Under Maryland law, Allegheny Energy stockholders will not be entitled to exercise any appraisal or dissenters rights in connection with the merger. Under Ohio law, FirstEnergy shareholders are entitled to exercise dissenters rights provided they strictly follow all of the legal requirements. For additional information relating to dissenters rights, see the section entitled The Merger Appraisal or Dissenters Rights beginning on page 111.

Q12: What will happen to my future dividends?

A12: As permitted under the merger agreement, FirstEnergy and Allegheny Energy may continue to pay quarterly dividends prior to completion of the merger. Under the terms of the merger agreement, neither FirstEnergy nor Allegheny Energy may increase their dividends without the other s approval during that time. The FirstEnergy board will continue to review the dividend rate on a quarterly basis following the merger, taking into account the performance and prospects of the combined company.

ABOUT THE SPECIAL MEETINGS AND VOTING YOUR SHARES

Q13: When and where is the special meeting of the FirstEnergy shareholders?

A13: The FirstEnergy special meeting will be held on September 14, 2010, at 9:30 a.m., local time, at the John S. Knight Center, 77 E. Mill Street, Akron, Ohio. For additional information relating to the FirstEnergy special meeting, please see the sections entitled Information Regarding the FirstEnergy Special Meeting beginning on page 43 and The FirstEnergy Special Meeting of Shareholders beginning on page 180.

Q14: When and where is the special meeting of the Allegheny Energy stockholders?

A14: The Allegheny Energy special meeting will be held on September 14, 2010, at 11:00 a.m., local time, at the New York Marriott Marquis Hotel, 1535 Broadway, New York, New York. For additional information relating to the Allegheny Energy special meeting, please see the sections entitled Information Regarding the Allegheny Energy Special Meeting beginning on page 47 and The Allegheny Energy Special Meeting of Stockholders beginning on page 182.

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Q15: Who can vote at the special meetings?

A15: All FirstEnergy shareholders of record as of the close of business on July 16, 2010, the record date for the FirstEnergy special meeting, are entitled to receive notice of and to vote at the FirstEnergy special meeting. All Allegheny Energy stockholders of record as of the close of business on July 16, 2010, the record date for the Allegheny Energy special meeting, are entitled to receive notice of and to vote at the Allegheny Energy special meeting.

Q16: What representation by shareholders is required to conduct business at the special meetings?

A16: For both FirstEnergy and Allegheny Energy, the presence of holders of at least a majority of the total number of shares of common stock issued and outstanding and entitled to vote as of the record date for the special meeting, whether present in person or represented by proxy, is required in order to conduct business at the special meetings. This requirement is called a quorum.

Abstentions and broker non-votes (if any) will be considered in determining the presence of a quorum but will not constitute votes cast. An abstention occurs when a shareholder submits a proxy with explicit instructions to decline to vote regarding a particular matter. Broker non-votes occur when a bank, broker or other nominee returns a proxy but does not have authority to vote on a particular proposal. If your shares are held in street name through a broker or other nominee, you should provide your broker or other nominee with instructions as to how to vote your shares of FirstEnergy common stock or Allegheny Energy common stock. Because of the required vote standard for the authorization and approval of the share issuance and the other transactions contemplated by the merger agreement and the adoption of the charter amendment at the FirstEnergy special meeting and approval of the merger agreement and the merger at the Allegheny Energy special meeting, your failure to provide your broker or other nominee with instructions how to vote your shares on the applicable proposal will have the same effect as a vote cast AGAINST the applicable proposal.

Q17: How will my shares be represented at the special meeting?

A17: If you are entitled to vote at the FirstEnergy or Allegheny Energy special meeting and you hold your shares in your own name, you can submit a proxy or vote in person by completing a ballot at the applicable special meeting. However, FirstEnergy and Allegheny Energy encourage you to submit a proxy before the special meeting, even if you plan to attend the special meeting. A proxy is a legal designation of another person to vote your shares of common stock on your behalf. If you properly submit your proxy by telephone, through the Internet or by signing and returning your proxy card, the persons named in your proxy card will vote your shares in the manner you requested. If you sign your proxy card and return it without indicating how you would like to vote your shares, your proxy will be voted as the FirstEnergy or Allegheny Energy board recommends, which is:

For FirstEnergy shareholders:

FOR the proposal to authorize and approve the share issuance and the other transactions contemplated by the merger agreement,

FOR the proposal to adopt the charter amendment, and

FOR the proposal to authorize adjournment of the FirstEnergy special meeting, if necessary or appropriate, to solicit additional proxies.

For Allegheny Energy stockholders:

FOR the proposal to approve the merger agreement and the merger, and

FOR the proposal to authorize adjournment of the Allegheny Energy special meeting, if necessary or appropriate, to solicit additional proxies.

Q18: What vote is required to approve the proposals at the FirstEnergy special meeting?

A18: At the FirstEnergy special meeting, the authorization and approval of the share issuance and the other transactions contemplated by the merger agreement and the adoption of the charter amendment require the affirmative vote of the holders of at least a majority of the outstanding shares of FirstEnergy common stock entitled to vote on each of the proposals. Approval of the adjournment proposal to solicit additional proxies, if necessary or appropriate, requires the affirmative vote of the holders of a majority of the shares represented in person or by proxy at the FirstEnergy special meeting. **Your vote is very important. You are encouraged to submit a proxy as soon as possible.**

Q19: What vote is required to approve the proposals at the Allegheny Energy special meeting?

A19: At the Allegheny Energy special meeting, approval of the merger agreement and the merger requires the affirmative vote of the holders of at least a majority of the outstanding shares of Allegheny Energy common stock entitled to vote on the proposal, and approval of the proposal to adjourn the Allegheny Energy special meeting, if necessary or appropriate, to solicit additional proxies requires the affirmative vote of the holders of a majority of the shares present in person or represented by proxy at the Allegheny Energy special meeting and entitled to vote on the proposal. **Your vote is very important. You are encouraged to submit a proxy as soon as possible.**

Q20: If my shares are held in street name by my broker or other nominee, will my broker or other nominee automatically vote my shares for me?

A20: No. If your shares are held in the name of a bank or broker or other nominee, you will receive separate instructions from your bank, broker or other nominee describing how to vote your shares. The availability of telephonic or Internet voting will depend on the bank s or broker s voting process. Please check with your bank or broker and follow the voting procedures your bank or broker provides.

You should instruct your bank, broker or other nominee how to vote your shares. Under the rules applicable to broker-dealers, your broker does not have discretionary authority to vote your shares on any of the proposals scheduled to be voted on at the FirstEnergy or Allegheny Energy special meetings. If your broker does not receive voting instructions from you regarding these proposals, your shares will **NOT** be voted on those proposals.

Q21: What if I do not vote?

A21: If your shares are held in your name and you do not submit your proxy by telephone or through the Internet or return your proxy card by mail or vote in person at your special meeting (or if your shares are held in the name of a bank, broker or other nominee and you do not instruct your bank, broker or other nominee how to vote your shares), your vote will not be counted, and it will be less likely that a quorum to conduct business at your special meeting will be obtained.

If you are a FirstEnergy shareholder, not submitting your proxy (or not voting in person at the FirstEnergy special meeting, if not submitting a proxy card) will have the same effect as a vote cast AGAINST the proposal to authorize and approve the share issuance and the other transactions contemplated by the merger agreement and the proposal to adopt the charter amendment because, in order to approve each of these proposals, a vote of at least the majority of the outstanding shares of FirstEnergy common stock entitled to vote on each proposal is required. A failure to vote will have no effect on the proposal to adjourn the FirstEnergy special meeting, if necessary or appropriate, to solicit additional proxies.

If you are an Allegheny Energy stockholder, not submitting your proxy (or not voting in person at the special meeting, if not submitting a proxy card) will have the same effect as a vote cast AGAINST the approval of the merger agreement and the merger because, in order to approve the merger agreement and the merger, a vote of at least the majority of the outstanding shares of Allegheny Energy common stock entitled to vote on the proposal is required. A failure to vote will have no effect on approval of the proposal to adjourn the Allegheny Energy special meeting, if necessary or appropriate, to solicit additional proxies.

Q22: Why is FirstEnergy proposing to amend its charter?

A22: FirstEnergy is proposing to amend its amended articles of incorporation to increase the number of authorized shares of its common stock in order to have a sufficient number of shares available to issue to Allegheny Energy stockholders in exchange for their shares in connection with the merger and to ensure that an adequate supply of authorized unissued shares is available for future general corporate needs. FirstEnergy has no current intention to issue any shares of common stock in addition to those issued to Allegheny Energy stockholders pursuant to the merger agreement. FirstEnergy will not be able to complete the merger if the charter amendment is not adopted. If you want the merger to be completed, you should vote for the adoption of the charter amendment to enable FirstEnergy to complete the transactions contemplated by the merger agreement. FirstEnergy does not intend to amend its amended articles of incorporation unless the merger will be completed, even if FirstEnergy shareholders approve the charter amendment proposal.

Q23: What do I need to do now?

A23: After you have carefully read and considered the information contained or incorporated by reference in this joint proxy statement/prospectus, please respond by submitting your proxy by telephone or via the Internet in accordance with the instructions set forth on the enclosed proxy card, or complete, sign, date and return the proxy card in the postage-prepaid envelope provided as soon as possible so that your shares will be represented and voted at the FirstEnergy special meeting or Allegheny Energy special meeting, as applicable.

Q24: Can I revoke my proxy or change my vote after I have submitted a proxy by telephone or via the Internet or mailed my signed proxy card?

A24: Yes. You may revoke your proxy or change your vote at any time before your proxy is voted at the FirstEnergy special meeting or the Allegheny Energy special meeting, as applicable. You can do this in any of the three following ways:

by sending a written notice to the vice president and corporate secretary of FirstEnergy or the secretary of Allegheny Energy, as applicable, in time to be received before the FirstEnergy special meeting or the Allegheny Energy special meeting, as applicable, stating that you would like to revoke your proxy;

by submitting a later dated proxy by telephone or via the Internet or by completing, signing and dating another proxy card and returning it by mail in time to be received before the FirstEnergy special meeting or Allegheny Energy special meeting, in which case your later-submitted proxy will be recorded and your earlier proxy revoked; or

if you are a holder of record, by attending the FirstEnergy special meeting or the Allegheny Energy special meeting and voting in person. Simply attending the FirstEnergy special meeting or Allegheny Energy special meeting without voting will not revoke your proxy or change your vote, if you have previously submitted a proxy or voted.

If your shares of FirstEnergy common stock or Allegheny Energy common stock are held in an account at a broker or other nominee and you desire to change your vote, you should contact your broker or other nominee for instructions on how to do so. If you are a

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participant in the Allegheny Energy Employee Stock Ownership and Savings Plan, you can revoke your proxy and/or change your vote by delivering a written notice of revocation to the secretary of Allegheny Energy or submitting a later-dated proxy by telephone, via the Internet or by mail at any time before 9:00 a.m. Eastern Time on September 10, 2010. See the sections entitled Information Regarding the FirstEnergy Special Meeting How to Change Your Vote beginning on page 45 and Information Regarding the Allegheny Energy Special Meeting How to Change Your Vote beginning on page 50.

Q25: As a participant in the FirstEnergy Corp. Savings Plan, how do I vote my shares held in my plan account?

A25: If you are a participant in the FirstEnergy Corp. Savings Plan, you can vote shares allocated to your plan account by completing, signing and dating your voting instruction form and returning it in the enclosed postage-prepaid envelope or by submitting your voting instructions by telephone or through the Internet as instructed on your voting instruction form. The plan trustee will vote the shares held in your plan account in accordance with your instructions. If you do not provide the plan trustee with instructions by 6:00 a.m. Eastern Time on September 13, 2010, the unvoted shares will be voted by the plan trustee in the same proportion as the voted shares.

Q26: As a participant in the Allegheny Energy Employee Stock Ownership and Savings Plan, how do I vote my shares held in my plan account?

A26: If you are a participant in the Allegheny Energy Employee Stock Ownership and Savings Plan, the proxy/voting instruction card sent to you includes the number of shares of Allegheny Energy common stock you own through the plan and will serve as a voting instruction card to the trustee of the plan for all shares of Allegheny Energy common stock you own through the plan. By providing your voting instructions by telephone, via the Internet or by mail as described in your proxy/voting instruction card, you instruct the trustee on how to vote your shares in the plan. To allow sufficient time for voting, you must provide your voting instructions by 9:00 a.m. Eastern Time on September 10, 2010. The trustee will vote your shares held in the plan in accordance with your instructions. If you do not provide your instructions by 9:00 a.m. Eastern Time on September 10, 2010, your plan shares will not be voted by the trustee.

Q27: If I am an Allegheny Energy stockholder, should I send in my stock certificates with my proxy card?

A27: **NO**. Please **DO NOT** send your Allegheny Energy stock certificates with your proxy card. If the merger is completed, you will be sent written instructions for exchanging your stock certificates for shares of FirstEnergy common stock shortly after the time the merger is completed.

Q28: What should I do if I receive more than one set of voting materials for the FirstEnergy special meeting or the Allegheny Energy special meeting?

A28: You may receive more than one set of voting materials for the FirstEnergy special meeting or the Allegheny Energy special meeting, including multiple copies of this joint proxy statement/prospectus and multiple proxy cards or voting instruction cards. For example, if you hold your shares of FirstEnergy common stock or Allegheny Energy common stock in more than one brokerage account, you will receive a separate voting instruction card for each brokerage account in which you hold shares. If you are a holder of record and your shares of FirstEnergy common stock or Allegheny Energy common stock are registered in more than one name, you will receive more than one proxy card. Please submit each separate proxy or voting instruction card that you receive by following the instructions set forth in each separate proxy or voting instruction card.

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Q29: What happens if I am a holder of both FirstEnergy common stock and Allegheny Energy common stock?

A29: You will receive separate mailings of this joint proxy statement/prospectus and a separate proxy or voting instruction card from each company. It is important that you vote your shares with respect to each special meeting. To vote your shares at each special meeting, you must either submit your separate proxies (or voting instruction cards if your shares are held in the name of a bank, broker or other nominee) by telephone or via the Internet, if available, in accordance with the instructions set forth in each separate proxy (or voting instruction card) or complete, sign and date each separate proxy or voting instruction card and mail them in the appropriate postage-prepaid envelopes, or attend one of the special meetings and vote in person, in which case you should submit a proxy for the other special meeting.

ADDITIONAL INFORMATION

Q30: How can I find more information about FirstEnergy and Allegheny Energy?

A30: You can find more information about FirstEnergy and Allegheny Energy from various sources described in the section entitled Where You Can Find More Information; Incorporation by Reference beginning on page 184.

Q31: Who can answer my questions?

A31: If you have any questions about the merger or how to submit your proxy, or if you need additional copies of this joint proxy statement/prospectus, the enclosed proxy card or voting instructions, you should contact:

FirstEnergy s Proxy Solicitor:	Allegheny Energy s Proxy Solicitor:
Innisfree M&A Incorporated	D.F. King & Co., Inc.
501 Madison Avenue, 20th Floor	48 Wall Street, 22nd Floor
New York, New York 10022	New York, New York 10005
Shareholders may call toll free (877) 687-1866	Stockholders may call toll free (800) 549-6650
Banks and Brokers may call collect (212) 750-5833	Banks and Brokers may call collect (212) 269-5550

SUMMARY

The following is a summary that highlights selected information contained in this joint proxy statement/prospectus. This summary may not contain all of the information that is important to you. For a more complete description of the merger agreement and the transactions contemplated by the merger agreement, FirstEnergy and Allegheny Energy encourage you to read carefully this entire joint proxy statement/prospectus, including the attached annexes. In addition, FirstEnergy and Allegheny Energy encourage you to read the information incorporated by reference in this joint proxy statement/prospectus, which includes important business and financial information about FirstEnergy and Allegheny Energy that has been filed with the SEC. You may obtain the information incorporated by reference in this joint proxy statement/prospectus without charge by following the instructions in the section entitled Where You Can Find More Information; Incorporation by Reference beginning on page 184.

The Companies

FirstEnergy Corp.

FirstEnergy, an Ohio corporation formed in 1996, is a diversified energy company headquartered in Akron, Ohio, with total revenues in 2009 of approximately $13 billion. Its subsidiaries and affiliates are involved in the generation, transmission and distribution of electricity, as well as energy management and other energy-related services. Its seven electric utility distribution companies comprise the nation s fifth largest investor-owned electric system, based on 4.5 million customers served within 36,100 square miles of Ohio, Pennsylvania, New Jersey and New York. Its generation subsidiaries control more than 14,000 megawatts of capacity. FirstEnergy s common stock is listed on the NYSE and trades under the symbol FE.

Element Merger Sub, Inc., referred to as Merger Sub, is a Maryland corporation and a wholly owned subsidiary of FirstEnergy that was formed for the sole purpose of effecting the merger. If the merger is completed, Merger Sub will cease to exist following its merger with and into Allegheny Energy.

FirstEnergy s and Merger Sub s principal executive offices are located at 76 South Main Street, Akron, Ohio 44308 and their telephone number is (800) 631-8945.

This joint proxy statement/prospectus incorporates important business and financial information about FirstEnergy from other documents that are not included in or delivered with this joint proxy statement/prospectus. For a list of the documents that are incorporated by reference, see the section entitled Where You Can Find More Information; Incorporation by Reference beginning on page 184.

Allegheny Energy, Inc.

Allegheny Energy is a Maryland corporation formed in 1925, with total revenues in 2009 of approximately $3.4 billion. Allegheny Energy, through its subsidiaries, owns and operates electric generation facilities and delivers electric services to customers in Pennsylvania, West Virginia, Maryland and Virginia. Allegheny Energy common stock is listed on the NYSE and trades under the symbol AYE.

Allegheny Energy s principal executive offices are located at 800 Cabin Hill Drive, Greensburg, Pennsylvania 15601 and its telephone number is (724) 837-3000.

This joint proxy statement/prospectus incorporates important business and financial information about Allegheny Energy from other documents that are not included in or delivered with this joint proxy statement/prospectus. For a list of the documents that are incorporated by reference, see the section entitled Where You Can Find More Information; Incorporation by Reference beginning on page 184.

The Merger

On February 10, 2010, the boards of directors of FirstEnergy and Allegheny Energy each unanimously approved the merger agreement and the merger pursuant to which Merger Sub will merge with and into Allegheny Energy with Allegheny Energy becoming a wholly owned subsidiary of FirstEnergy. Upon completion of the merger, FirstEnergy will issue to Allegheny Energy stockholders 0.667 of a share of FirstEnergy common stock for each share of Allegheny Energy common stock held prior to the merger. This exchange ratio is fixed and will not be adjusted to reflect stock price changes prior to completion of the merger.

For more information regarding the merger transaction, see the sections entitled The Merger beginning on page 52, The Merger Agreement beginning on page 124 and Annex A.

Recommendations of the Boards of Directors to Shareholders

Recommendation of FirstEnergy s Board of Directors

The FirstEnergy board of directors unanimously determined that the merger agreement and the transactions contemplated by the merger agreement, including the merger, are advisable and in the best interests of FirstEnergy and its shareholders and approved the transactions contemplated by the merger agreement, including the share issuance and the charter amendment. **The FirstEnergy board of directors recommends that FirstEnergy shareholders vote FOR the proposal to authorize and approve the share issuance and the other transactions contemplated by the merger agreement, FOR the proposal to adopt the charter amendment and FOR the proposal to adjourn the FirstEnergy special meeting, if necessary or appropriate, to solicit additional proxies in favor of such approvals.** For more information regarding the recommendation of the FirstEnergy board, see the section entitled The Merger Recommendation of the FirstEnergy Board of Directors and Its Reasons for the Merger beginning on page 62.

Recommendation of Allegheny Energy s Board of Directors

The Allegheny Energy board of directors unanimously determined that the merger agreement and the transactions contemplated by the merger agreement, including the merger, are advisable, fair to and in the best interests of Allegheny Energy and its stockholders and has approved the merger agreement and the merger. **The Allegheny Energy board of directors recommends that Allegheny Energy stockholders vote FOR the proposal to approve the merger agreement and the merger and FOR the proposal to adjourn the Allegheny Energy special meeting, if necessary or appropriate, to solicit additional proxies in favor of such approval.** For more information regarding the recommendation of the Allegheny Energy board, see the section entitled The Merger Recommendation of the Allegheny Energy Board of Directors and Its Reasons for the Merger beginning on page 67.

Opinions of Financial Advisors

Opinion of FirstEnergy s Financial Advisor

FirstEnergy retained Morgan Stanley & Co. Incorporated, referred to as Morgan Stanley, to provide it with financial advisory services and a financial opinion in connection with the merger. FirstEnergy selected Morgan Stanley as its financial advisor based on Morgan Stanley s

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qualifications, expertise and reputation and its knowledge of the business and affairs of FirstEnergy. At the meeting of the FirstEnergy board on February 10, 2010, Morgan Stanley rendered its oral opinion, subsequently confirmed in writing, that as of such date and based upon and subject to the various assumptions, considerations, qualifications and limitations set forth in its written opinion, the exchange ratio pursuant to the merger agreement was fair, from a financial point of view, to FirstEnergy.

The full text of the written opinion of Morgan Stanley, dated February 10, 2010, which discusses, among other things, the assumptions made, procedures followed, matters considered, and qualifications and limitations of the review undertaken by Morgan Stanley in rendering its opinion, is attached as Annex C to this joint proxy statement/prospectus. The summary of the Morgan Stanley fairness opinion provided in this joint proxy statement/prospectus is qualified in its entirety by reference to the full text of the opinion. FirstEnergy shareholders are urged to read the opinion carefully and in its entirety. The Morgan Stanley opinion is directed to the FirstEnergy board of directors and addresses only the fairness, from a financial point of view, of the exchange ratio pursuant to the merger agreement. The Morgan Stanley opinion does not address any other aspect of the merger and does not constitute a recommendation to any FirstEnergy or Allegheny Energy shareholder as to how any such shareholder should vote with respect to the proposed merger or any other matter. The opinion also does not address the prices at which shares of FirstEnergy common stock will trade following the completion of the merger or at any other time. Pursuant to the terms of Morgan Stanley s engagement, FirstEnergy agreed to pay Morgan Stanley a fee of $35 million, a portion of which became payable upon announcement of the execution of the merger agreement, a portion of which is contingent upon FirstEnergy shareholder and Allegheny Energy stockholder approval of the proposals described in this joint proxy statement/prospectus and a portion of which is contingent upon completion of the merger.

For more information regarding the opinion of FirstEnergy s financial advisor, see the section entitled The Merger Opinion of FirstEnergy s Financial Advisor beginning on page 78. See also Annex C to this joint proxy statement/prospectus.

Opinion of Allegheny Energy s Financial Advisor

Allegheny Energy retained Goldman, Sachs & Co., referred to as Goldman Sachs, to provide it with financial advisory services and, at Allegheny Energy s request, to render an opinion as to the fairness from a financial point of view of the consideration to be received in connection with the merger. Allegheny Energy selected Goldman Sachs as its financial advisor because it is an internationally recognized investment banking firm that has substantial experience in transactions similar to the merger. At the meeting of the Allegheny Energy board on February 10, 2010, Goldman Sachs delivered its oral opinion, subsequently confirmed in writing, that, as of February 10, 2010 and based upon and subject to the assumptions, considerations, qualifications and limitations set forth therein, the exchange ratio of 0.667 of a share of FirstEnergy common stock to be paid for each share of Allegheny Energy common stock pursuant to the merger agreement was fair from a financial point of view to the holders of Allegheny Energy common stock (other than FirstEnergy and its affiliates).

The full text of the written opinion of Goldman Sachs, dated February 10, 2010, which sets forth the assumptions made, procedures followed, matters considered, qualifications and limitations on the review undertaken in connection with the opinion, is attached as Annex D to this joint proxy statement/prospectus. The summary of the Goldman Sachs opinion provided in this joint proxy statement/prospectus is qualified in its entirety by reference to the full text of the written opinion. Allegheny Energy stockholders are urged to read the opinion carefully and in its entirety. Goldman Sachs provided its opinion for the information and assistance of the

board of directors of Allegheny Energy in connection with its consideration of the merger. The Goldman Sachs opinion is not a recommendation as to how any holder of Allegheny Energy common stock should vote with respect to the merger or any other matter. Pursuant to an engagement letter between Allegheny Energy and Goldman Sachs, Allegheny Energy agreed to pay Goldman Sachs a fee of $23 million, of which $7 million became payable upon execution of the merger agreement on February 10, 2010, $8 million is contingent upon Allegheny Energy stockholder approval of the merger and $8 million is contingent upon completion of the merger.

For more information regarding the opinion of Allegheny Energy s financial advisor, see the section entitled The Merger Opinion of Allegheny Energy s Financial Advisor beginning on page 91 and Annex D.

Ownership of FirstEnergy Common Stock After the Merger

Based upon the number of shares of FirstEnergy and Allegheny Energy common stock outstanding on July 16, 2010 (excluding shares issuable upon exercise of outstanding FirstEnergy and Allegheny Energy equity awards), we estimate that former Allegheny Energy stockholders will own approximately 27% and current FirstEnergy shareholders will own approximately 73% of the then outstanding shares of FirstEnergy common stock upon completion of the merger.

Directors and Executive Officers of FirstEnergy After the Merger

Following completion of the merger, Anthony J. Alexander will remain chief executive officer and president of FirstEnergy, and Paul J. Evanson, currently the chairman, president and chief executive officer of Allegheny Energy, will become the executive vice chairman of FirstEnergy and report to Mr. Alexander. Effective upon completion of the merger, FirstEnergy will increase the size of its board by two members to thirteen and appoint two current members of the board of Allegheny Energy to the FirstEnergy board. The headquarters of FirstEnergy will remain in Akron, Ohio after completion of the merger.

Additional Interests of the FirstEnergy Directors and Executive Officers in the Merger

In considering the recommendation of the FirstEnergy board with respect to the merger, FirstEnergy shareholders should be aware that the executive officers and directors of FirstEnergy have certain interests in the merger that may be different from, or in addition to, the interests of FirstEnergy shareholders generally. These interests include the fact that all FirstEnergy directors and executive officers are expected to continue to serve in the same or similar positions after completion of the merger.

The FirstEnergy board was aware of these interests and considered them, among other matters, in approving the merger agreement and making its recommendation that the FirstEnergy shareholders approve the share issuance and adopt the charter amendment. See the sections entitled The Merger Recommendation of the FirstEnergy Board of Directors and Its Reasons for the Merger beginning on page 62 and The Merger Additional Interests of the FirstEnergy Directors and Executive Officers in the Merger beginning on page 103.

Additional Interests of the Allegheny Energy Directors and Executive Officers in the Merger

In considering the recommendation of the Allegheny Energy board with respect to the merger, Allegheny Energy stockholders should be aware that the executive officers and directors of

Allegheny Energy have certain interests in the merger that may be different from, or in addition to, the interests of Allegheny Energy stockholders generally. These interests include the following:

The merger agreement includes an agreement that two members of the Allegheny Energy board be added to the FirstEnergy board effective upon completion of the merger. Julia L. Johnson and Ted J. Kleisner have been designated by FirstEnergy, upon consultation with, and in consideration of the views of, Allegheny Energy, to become members of the FirstEnergy board. The other members of Allegheny Energy s board will no longer serve as directors of Allegheny Energy (and will not serve as directors of FirstEnergy) upon completion of the merger.

Paul J. Evanson, currently chairman, president and chief executive officer of Allegheny Energy, will become executive vice chairman of the combined company and report to Mr. Alexander.

Equity incentive compensation awards will be subject to vesting and other special treatment in some circumstances.

The executive officers of Allegheny Energy, other than Mr. Evanson, are participants in Allegheny Energy s Executive Change in Control Severance Plan under which, if their employment is terminated with good reason or without cause within 24 months following completion of the merger (or before the merger if the circumstances of the termination are attributable to FirstEnergy), they will be entitled to (1) a cash severance payment equal to either three times or two times (depending on their level in the organization) their base salary and target annual bonus, (2) a pro-rata annual bonus at target for the year of termination, (3) a lump-sum cash payment in lieu of continued medical and dental coverage equal to $60,000 or $40,000 (depending on their level in the organization), (4) forgiveness of any obligation to repay earlier relocation benefits, (5) full vesting in Allegheny Energy s Supplemental Executive Retirement Plan and an additional three or two years of service credit under that plan (depending on their level in the organization), and (6) for all but one of such executive officers, a gross-up payment for any golden parachute excise taxes for which the executive may be liable in respect of the benefits to be received by the executive that are contingent upon the completion of the merger unless such amount does not exceed 110% of the smallest amount that would be subject to that tax.

Mr. Evanson s employment agreement with Allegheny Energy provides that if he terminates his employment following completion of the merger for good reason, or his employment is terminated involuntarily without cause, he will be entitled to (1) a cash severance payment equal to the sum of his base salary and target annual bonus, (2) a pro-rata annual bonus at target for the year of termination, (3) continued welfare benefits for one year (or cash payments to purchase such benefits for such period), and (4) a lump sum payment of the amount of supplemental pension benefit otherwise due him but determined (in the case of a termination before the end of the employment agreement term, June 15, 2011) as if he had continued to serve through the end of the term.

The merger agreement provides for the continuation of indemnification existing in favor of the current and former directors, officers and employees of Allegheny Energy and its subsidiaries, with such indemnification obligations being guaranteed by FirstEnergy. The merger agreement also contains certain obligations related to the purchase of directors and officers liability insurance and fiduciary liability insurance tail policies with respect to matters existing or occurring at or prior to the effective time of the merger for persons who are currently covered under Allegheny Energy s existing policies.

The Allegheny Energy board was aware of these interests and considered them, among other matters, in approving the merger agreement and the merger and making its recommendation that the Allegheny Energy stockholders approve the merger agreement and the merger. See the sections entitled The Merger Recommendation of the Allegheny Energy Board of Directors and Its Reasons for the Merger beginning on page 67 and The Merger Additional Interests of the Allegheny Energy Directors and Executive Officers in the Merger beginning on page 104.

Treatment of Allegheny Energy Stock Options, Restricted Stock and Other Equity Based Compensation

Under the Allegheny Energy equity incentive compensation plans, upon approval of the merger agreement and the merger by Allegheny Energy stockholders, the following treatment will apply to stock awards (other than grants of restricted or unrestricted Allegheny Energy common stock to members of Allegheny Energy s board) that were granted before the execution of the merger agreement and that remain outstanding upon stockholder approval of the merger agreement and the merger:

options to purchase Allegheny Energy common stock will become fully vested and exercisable, and any options that are not exercised before completion of the merger will be converted upon completion of the merger into fully vested and exercisable options to purchase FirstEnergy common stock on a basis intended to preserve the intrinsic value of the option and otherwise on the terms and conditions applicable under the options;

restricted Allegheny Energy common stock (other than that held by members of Allegheny Energy s board) will vest in full; and

performance awards will be deemed earned at the target performance level and will be settled in shares of Allegheny Energy common stock not more than 30 days following stockholder approval of the merger agreement and the merger.

Restricted stock granted to Allegheny Energy directors before execution of the merger agreement will vest in full upon completion of the merger.

Neither stockholder approval of the merger agreement and the merger nor completion of the merger will cause Allegheny Energy equity incentive awards granted after execution of the merger agreement to vest. However, any performance awards granted after execution of the merger agreement will be deemed earned at the target performance level for the year in which the merger is completed and all subsequent years (for example, if the closing occurs in 2011, actual performance will be applied in respect of 2010 and target performance will be assumed for 2011 and 2012), and the resulting number of performance shares will be treated as restricted stock units whose payment at the end of the three-year performance cycle is generally subject to continued employment during that period (subject to earlier vesting upon retirement, disability or death in accordance with Allegheny Energy s historical performance share grant practices). Upon completion of the merger, the performance shares will be redenominated in FirstEnergy shares in proportion to the exchange ratio of 0.667. Any options that are outstanding upon completion of the merger (including those whose vesting was accelerated as described above) will be assumed by FirstEnergy on the same terms and conditions as applied to the assumed option immediately prior to the merger except that the option will cover shares of FirstEnergy common stock in a manner that is intended to preserve, as of the closing, the intrinsic value of the Allegheny Energy option immediately before closing.

If the holder of a stock option or performance share terminates his or her employment for good reason or is terminated without cause following completion of the merger (or, for certain employees, before the merger if the circumstances of the termination are attributable to FirstEnergy), then any performance awards and any options (to the extent not yet then already fully vested) will vest in full.

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Regardless of when vested, options will remain exercisable for their full term in the case of Paul J. Evanson, the chairman, president and chief executive officer of Allegheny Energy, and generally for 90 days following termination of employment in the case of other employees (or for three years for certain employees if they are retirement eligible).

For a more complete description of the effect of the merger on Allegheny Energy stock-based awards, see the sections entitled The Merger Additional Interests of the Allegheny Energy Directors and Executive Officers in the Merger beginning on page 104 and The Merger Agreement Treatment of Allegheny Energy Options and Other Equity Awards beginning on page 126.

Listing of Shares of FirstEnergy Common Stock; Delisting of Shares of Allegheny Energy Common Stock

FirstEnergy will use its reasonable best efforts to cause the shares of FirstEnergy common stock issuable pursuant to the merger agreement to be approved for listing on the NYSE at or prior to the completion of the merger, subject to official notice of issuance. Approval of the listing on the NYSE of the shares of FirstEnergy common stock issuable pursuant to the merger agreement is a condition to each party s obligation to complete the merger. If the merger is completed, Allegheny Energy common stock will be delisted from the NYSE and deregistered under the Securities Exchange Act of 1934, as amended, referred to as the Exchange Act.

For more information regarding the listing of the shares of FirstEnergy common stock issuable pursuant to the merger agreement, see the section entitled The Merger Listing of FirstEnergy Common Stock and Delisting and Deregistration of Allegheny Energy Common Stock beginning on page 111.

Appraisal or Dissenters Rights in Connection with the Merger

Under Maryland law, Allegheny Energy stockholders will not be entitled to exercise any appraisal or dissenters rights in connection with the merger.

Under Ohio law, FirstEnergy shareholders who (1) do not vote to authorize and approve the share issuance and the other transactions contemplated by the merger agreement and (2) deliver a written demand for payment of the fair cash value of their shares of FirstEnergy common stock not later than ten days after the FirstEnergy special meeting, shall be entitled, if and when the merger is completed, to receive the fair cash value of their shares of FirstEnergy common stock. The right as a FirstEnergy shareholder to receive the fair cash value of FirstEnergy shares of common stock, however, is contingent upon strict compliance by the dissenting FirstEnergy shareholder with the procedures set forth in Ohio Revised Code Section 1701.85, a copy of which is attached to this joint proxy statement/prospectus as Annex E. If you wish to submit a written demand for payment of the fair cash value of your FirstEnergy common stock, you should deliver your demand no later than ten days after the FirstEnergy special meeting.

For more information regarding dissenters rights, see the section entitled The Merger Appraisal or Dissenters Rights beginning on page 111.

Accounting Treatment

FirstEnergy will account for the merger under accounting principles generally accepted in the United States, which we refer to as GAAP, with FirstEnergy being deemed to have acquired Allegheny Energy. This means that the assets and liabilities of Allegheny Energy will be recorded, as of the completion of the merger, at their fair values and added to those of FirstEnergy, including

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potentially an amount for goodwill to the extent the purchase price exceeds the fair value of the identifiable net assets. Financial statements of FirstEnergy issued after the merger will reflect only the operations of Allegheny Energy s business after the merger and will not be restated retroactively to reflect the historical financial position or results of Allegheny Energy.

For more information regarding the accounting treatment of the transaction see the section entitled The Merger Accounting Treatment beginning on page 114.

Material U.S. Federal Income Tax Consequences of the Merger

Assuming the merger is completed as described in the merger agreement and in this joint proxy statement/prospectus, FirstEnergy and Allegheny Energy each expect the merger to be treated as a reorganization under Section 368(a) of the Internal Revenue Code. Assuming the merger is so treated, Allegheny Energy stockholders generally will not recognize any gain or loss for U.S. federal income tax purposes (except with respect to cash received in lieu of a fractional share of FirstEnergy common stock) by reason of the merger, subject to the limitations described in the section entitled The Merger Material U.S. Federal Income Tax Consequences of the Merger beginning on page 114.

FirstEnergy shareholders (other than those that exercise dissenters rights) generally will not recognize gain or loss for U.S. federal income tax purposes as a result of the merger. FirstEnergy shareholders that exercise dissenters rights are urged to consult their tax advisors regarding the tax treatment of any cash received upon the exercise of dissenters rights in connection with the merger.

For more information regarding the expected material U.S. federal income tax consequences of the merger, see the section entitled The Merger Material U.S. Federal Income Tax Consequences of the Merger beginning on page 114.

Litigation Relating to the Merger

In connection with the merger, purported shareholders of Allegheny Energy have filed putative shareholder class action and/or derivative lawsuits in Pennsylvania and Maryland state courts, as well as in the United States District Court for the Western District of Pennsylvania, against Allegheny Energy and its directors and certain officers, referred to as the Allegheny Energy defendants, and FirstEnergy and Merger Sub. In summary, the lawsuits allege, among other things, that the Allegheny Energy directors breached their fiduciary duties by approving the merger agreement, and that Allegheny Energy, FirstEnergy and Merger Sub aided and abetted in these alleged breaches of fiduciary duty. The complaints seek, among other things, jury trials, money damages and injunctive relief. While FirstEnergy and Allegheny Energy believe the lawsuits are without merit and have defended vigorously against the claims, in order to avoid the costs associated with the litigation, the defendants have agreed to the terms of a disclosure-based settlement of the lawsuits.

For more information regarding the litigation related to the merger see the sections entitled Risk Factors Pending litigation against FirstEnergy and Allegheny Energy could result in an injunction preventing the completion of the merger, the payment of damages in the event the merger is completed and/or may adversely affect FirstEnergy s business, financial condition or results of operations following the merger beginning on page 42 and The Merger Litigation Relating to the Merger beginning on page 118.

Regulatory Matters Relating to the Merger

To complete the merger, FirstEnergy and Allegheny Energy must make filings with and obtain authorizations, approvals or consents from a number of federal and state public utility, antitrust and other regulatory authorities. The merger is subject to requirements of the Hart-Scott-Rodino

Antitrust Improvements Act of 1976, as amended, referred to as the HSR Act, and the expiration or termination of the waiting period (and any extension of the waiting period) applicable to the merger under the HSR Act. The merger is also subject to the regulatory requirements of other state and federal domestic agencies and authorities, including the Federal Energy Regulatory Commission, referred to as the FERC, the Maryland Public Service Commission, referred to as the MDPSC, the Pennsylvania Public Utility Commission, referred to as the PAPUC, the Virginia State Corporation Commission, referred to as the VSCC, the Public Service Commission of West Virginia, referred to as the WVPSC, and the Federal Communications Commission, referred to as the FCC.

For more information regarding regulatory matters relating to the proposed merger, see the section entitled Regulatory Matters Relating to the Merger beginning on page 120.

Overview of the Merger Agreement

Conditions to Completion of the Merger

A number of conditions must be satisfied or waived, before the merger can be completed. These include, among others:

- approval by Allegheny Energy stockholders of the merger agreement and the merger;
- authorization and approval by FirstEnergy shareholders of the share issuance and the other transactions contemplated by the merger agreement and the adoption of the charter amendment;
- the absence of any order issued by any court or any other legal restraint preventing or restraining the completion of the merger;
- the effectiveness of the registration statement of which this joint proxy statement/prospectus is a part;
- the approval for listing on the NYSE of the FirstEnergy common stock to be issued in the merger;
- the accuracy of the representations and warranties made by FirstEnergy and Allegheny Energy in the merger agreement, except where the failure to be accurate does not have and would not reasonably be expected to have a material adverse effect ;
- the performance in all material respects of each party s obligations under the merger agreement;
- the absence of any change or event that has had or would reasonably be expected to have a material adverse effect on FirstEnergy or Allegheny Energy; and
- the receipt by each party of a tax opinion from such party s legal counsel.

For more information regarding the conditions to the completion of the merger and a complete list of such conditions, see the section entitled The Merger Agreement Conditions to the Completion of the Merger beginning on page 130.

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No Solicitation

Neither FirstEnergy nor Allegheny Energy, nor any of their subsidiaries or their respective officers, directors or employees will, and each will use its reasonable best efforts not to, directly or indirectly, take any of the following actions:

- solicit, initiate, seek, knowingly encourage or knowingly take any other action designed to facilitate any acquisition proposal;
- furnish any nonpublic information in connection with any acquisition proposal;
- engage or participate in any discussions or negotiations with any person with respect to any acquisition proposal;
- approve, endorse or recommend any acquisition proposal; or
- enter into any agreement for an acquisition transaction;

except, FirstEnergy or Allegheny Energy may, as applicable, prior to approval by their respective shareholders of the proposals related to the merger, and subject to certain notice and other requirements, furnish nonpublic information to, or engage in discussions or negotiations with, any person in response to an unsolicited, bona fide acquisition proposal that the board of directors of that party determines in good faith after consultation with its financial advisors is, or would be reasonably likely to lead to a superior offer, under certain circumstances.

For more information regarding the limitations on FirstEnergy and Allegheny Energy and their boards to consider other proposals, see the section entitled The Merger Agreement Additional Agreements Non-Solicitation beginning on page 141.

Termination of the Merger Agreement

The merger agreement may be terminated at any time by mutual written agreement of FirstEnergy and Allegheny Energy. It can also be terminated by either FirstEnergy or Allegheny Energy under several specific circumstances, including:

- if the merger is not completed on or prior to April 10, 2011 (subject to possible extension);
- if a final and nonappealable governmental action preventing the merger is in effect;
- if the FirstEnergy or Allegheny Energy shareholder approval is not obtained;
- if the non-terminating party has materially breached the merger agreement and such breach is not timely cured and gives rise to a failure to satisfy a closing condition;
- if the non-terminating party has materially breached its non-solicitation obligations under the merger agreement;
- under specific circumstances if the terminating party receives an unsolicited takeover proposal from a third party; or

if there has been a change of recommendation by the board of directors of the other party.

For more information regarding the rights of FirstEnergy and Allegheny Energy to terminate the merger agreement, see the section entitled The Merger Agreement Termination of the Merger Agreement beginning on page 143.

Termination Fee and Expense Reimbursement

Under specific circumstances, FirstEnergy or Allegheny Energy, as applicable, may be required, subject to certain conditions, to pay a termination fee of $350 million or $150 million, respectively, and/or reimburse the other party for its transaction expenses in an amount not to exceed $45 million.

For more information regarding termination fees and expense reimbursement obligations, see the section entitled The Merger Agreement Effect of Termination beginning on page 144.

The Shareholders Meetings

FirstEnergy Special Meeting of Shareholders

The FirstEnergy special meeting will be held on September 14, 2010, at 9:30 a.m., local time, at the John S. Knight Center, 77 E. Mill Street, Akron, Ohio. For more information regarding the FirstEnergy special meeting, see the sections entitled Information Regarding the FirstEnergy Special Meeting beginning on page 43 and The FirstEnergy Special Meeting of Shareholders beginning on page 180.

At the FirstEnergy special meeting, FirstEnergy shareholders will be asked to:

- authorize and approve the share issuance and the other transactions contemplated by the merger agreement;
- adopt the charter amendment; and
- authorize the adjournment of the FirstEnergy special meeting to a later date or dates, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to authorize and approve the share issuance and the other transactions contemplated by the merger agreement and/or adopt the charter amendment at the time of the FirstEnergy special meeting.

Only holders of record of FirstEnergy common stock at the close of business on July 16, 2010, the FirstEnergy special meeting record date, are entitled to notice of, and to vote at, the FirstEnergy special meeting and any adjournments or postponements of the FirstEnergy special meeting. At the close of business on that date, there were shares of FirstEnergy common stock outstanding and entitled to vote at the FirstEnergy special meeting.

Authorization and approval of the share issuance and the other transactions contemplated by the merger agreement and the adoption of the charter amendment are conditions to the completion of the merger. The proposals to authorize and approve the share issuance and the other transactions contemplated by the merger agreement and to adopt the charter amendment require the affirmative vote of the holders of at least a majority of the outstanding shares of FirstEnergy common stock entitled to vote on each of the proposals. FirstEnergy is proposing to amend its amended articles of incorporation to increase the number of authorized shares of its common stock in order to have a sufficient number of shares available to issue to Allegheny Energy stockholders in exchange for their shares in connection with the merger and to ensure that an adequate supply of authorized unissued shares is available for future general corporate needs. FirstEnergy has no current intention to issue any shares of common stock in addition to those issued to Allegheny Energy stockholders pursuant to the merger agreement. FirstEnergy does not intend to amend its amended articles of incorporation unless the merger is completed, even if FirstEnergy shareholders approve the charter amendment proposal. For more information regarding the charter amendment, see the section entitled The FirstEnergy Special Meeting of Shareholders Proposal #2 The Charter Amendment beginning on page 180. The proposal to authorize the adjournment of the FirstEnergy special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes to authorize and approve the share issuance and the other transactions contemplated by the merger agreement and adopt the charter amendment at the time of the FirstEnergy special meeting requires the affirmative vote of the holders of a majority of the shares represented in person or by proxy at the FirstEnergy special meeting, regardless of whether a quorum is present.

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At the close of business on the record date for the FirstEnergy special meeting, FirstEnergy s directors and executive officers collectively beneficially owned approximately shares of FirstEnergy common stock (inclusive of shares subject to stock options which may be exercised within 60 days following that date), which represents approximately % of the FirstEnergy common stock entitled to vote at the FirstEnergy special meeting. For more information regarding the voting and the share ownership of the FirstEnergy board and executive officers, see the sections entitled Information Regarding the FirstEnergy Special Meeting Voting by FirstEnergy Directors and Executive Officers beginning on page 46 and Security Ownership of Certain Beneficial Owners and Management of FirstEnergy beginning on page 174.

Allegheny Energy Special Meeting of Stockholders

The Allegheny Energy special meeting will be held on September 14, 2010, at 11:00 a.m., local time, at the New York Marriott Marquis Hotel, 1535 Broadway, New York, New York. For more information regarding the Allegheny Energy special meeting, see the sections entitled Information Regarding the Allegheny Energy Special Meeting beginning on page 47 and The Allegheny Energy Special Meeting of Stockholders beginning on page 182.

At the Allegheny Energy special meeting, Allegheny Energy stockholders will be asked to:

- approve the merger agreement and the merger; and
- authorize the adjournment of the Allegheny Energy special meeting to a later date or dates, if necessary or appropriate, to solicit additional proxies if there are insufficient votes to approve the merger agreement and the merger at the time of the Allegheny Energy special meeting.

Only holders of record of Allegheny Energy common stock at the close of business on July 16, 2010, the Allegheny Energy special meeting record date, are entitled to notice of, and to vote at, the Allegheny Energy special meeting and any adjournments or postponements of the Allegheny Energy special meeting. At the close of business on that date, there were shares of Allegheny Energy common stock outstanding and entitled to vote at the Allegheny Energy special meeting.

Approval of the merger agreement and the merger by Allegheny Energy stockholders is a condition to the completion of the merger. The proposal to approve the merger agreement and the merger requires the affirmative vote of holders of at least a majority of the shares of Allegheny Energy common stock outstanding and entitled to vote on the proposal. The proposal to authorize the adjournment of the Allegheny Energy special meeting, if necessary or appropriate, to solicit additional proxies if there are not sufficient votes to approve the merger agreement and the merger at the time of the Allegheny Energy special meeting requires the affirmative vote of the holders of a majority of the shares present in person or represented by proxy at the Allegheny Energy special meeting and entitled to vote, regardless of whether a quorum is present.

At the close of business on the record date for the Allegheny Energy special meeting, Allegheny Energy s directors and executive officers collectively beneficially owned approximately shares of Allegheny Energy common stock (inclusive of shares subject to stock options which may be exercised within 60 days following that date), which represents approximately % of the Allegheny Energy common stock entitled to vote at the Allegheny Energy special meeting. For more information regarding the voting and the share ownership of the Allegheny Energy board and executive officers, see the sections entitled Information Regarding the Allegheny Energy Special Meeting Voting by Allegheny Energy Directors and Executive Officers beginning on page 51 and Security Ownership of Certain Beneficial Owners and Management of Allegheny Energy beginning on page 176.

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Comparison of Rights of FirstEnergy Shareholders and Allegheny Energy Stockholders

The rights of FirstEnergy shareholders are governed by Ohio law and the rights of Allegheny Energy stockholders are governed by Maryland law. There are additional differences in the rights of FirstEnergy shareholders and Allegheny Energy stockholders as a result of the provisions of the charter and bylaws and other corporate documents of each company.

For more information regarding the differences in shareholder rights, see the section entitled Comparison of Rights of FirstEnergy s Shareholders and Allegheny Energy s Stockholders beginning on page 160.

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FIRSTENERGY
SELECTED HISTORICAL FINANCIAL DATA

The selected historical consolidated financial data of FirstEnergy for each of the years ended December 31, 2009, 2008 and 2007 and as of December 31, 2009 and 2008 have been derived from FirstEnergy s audited consolidated financial statements and related notes contained in its Annual Report on Form 10-K for the year ended December 31, 2009, which is incorporated by reference in this joint proxy statement/prospectus. The selected historical consolidated financial data for the years ended December 31, 2006 and 2005 and as of December 31, 2007, 2006 and 2005 have been derived from FirstEnergy s audited consolidated financial statements for such years, which have not been incorporated by reference in this joint proxy statement/prospectus. The selected historical consolidated financial data of FirstEnergy as of and for the three months ended March 31, 2010 and 2009 have been derived from FirstEnergy s unaudited consolidated financial statements and related notes contained in its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010, which is incorporated by reference in this joint proxy statement/prospectus. The information set forth below is only a summary and is not necessarily indicative of the results of future operations of FirstEnergy or the combined company, and you should read the following information together with FirstEnergy s audited consolidated financial statements, the related notes and the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations contained in FirstEnergy s Annual Report on Form 10-K for the year ended December 31, 2009, and FirstEnergy s unaudited consolidated financial statements, the related notes and the section entitled Management s Discussion and Analysis of Registrant and Subsidiaries contained in FirstEnergy s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010, which are incorporated by reference in this joint proxy statement/prospectus. For more information, see the section entitled Where You Can Find More Information; Incorporation by Reference beginning on page 184.

	As of or For the Three Months Ended March 31,		As of or For the Years Ended December 31,				
	2010	2009	2009	2008	2007	2006	2005
	(Unaudited)						
	(In millions, except per share amounts)						
Revenues	$ 3,299	$ 3,334	$ 12,967	$ 13,627	$ 12,802	$ 11,501	$ 11,358
Income From Continuing Operations	$ 155	$ 119	$ 1,006	$ 1,342	$ 1,309	$ 1,258	$ 879
Earnings Available to FirstEnergy Corp.	$ 155	$ 119	$ 1,006	$ 1,342	$ 1,309	$ 1,254	$ 861
Basic Earnings per Share of Common Stock:							
Income from continuing operations	$ 0.51	$ 0.39	$ 3.31	$ 4.41	$ 4.27	$ 3.85	$ 2.68
Earnings per basic share	$ 0.51	$ 0.39	$ 3.31	$ 4.41	$ 4.27	$ 3.84	$ 2.62
Diluted Earnings per Share of Common Stock:							
Income from continuing operations	$ 0.51	$ 0.39	$ 3.29	$ 4.38	$ 4.22	$ 3.82	$ 2.67
Earnings per diluted share	$ 0.51	$ 0.39	$ 3.29	$ 4.38	$ 4.22	$ 3.81	$ 2.61
	$ 0.55	$ 0.55	$ 2.20	$ 2.20	$ 2.05	$ 1.85	$ 1.705

Dividends Declared per Share of Common Stock							
Weighted Average Number of Basic Shares Outstanding	304	304	304	304	306	324	328
Weighted Average Number of Diluted Shares Outstanding	306	306	306	307	310	327	330
Total Assets	$ 34,078	$ 33,557	$ 34,304	$ 33,521	$ 32,311	$ 31,196	$ 31,841
Capitalization:							
Total Equity	$ 8,535	$ 8,284	$ 8,557	$ 8,315	$ 9,007	$ 9,069	$ 9,225
Preferred Stock							184
Long-Term Debt and Other Long-Term Obligations	11,847	9,697	11,908	9,100	8,869	8,535	8,155
Total Capitalization	$ 20,382	$ 17,981	$ 20,465	$ 17,415	$ 17,876	$ 17,604	$ 17,564

ALLEGHENY ENERGY
SELECTED HISTORICAL FINANCIAL DATA

The selected historical consolidated financial data of Allegheny Energy for each of the years ended December 31, 2009, 2008 and 2007 and as of December 31, 2009 and 2008 have been derived from Allegheny Energy s audited consolidated financial statements and related notes contained in its Annual Report on Form 10-K for the year ended December 31, 2009, which is incorporated by reference in this joint proxy statement/prospectus. The selected historical consolidated financial data for the years ended December 31, 2006 and 2005 and as of December 31, 2007, 2006 and 2005 have been derived from Allegheny Energy s audited consolidated financial statements for such years, which have not been incorporated by reference in this joint proxy statement/prospectus. The selected historical consolidated financial data of Allegheny Energy for and as of the three months ended March 31, 2010 and 2009 have been derived from Allegheny Energy s unaudited consolidated financial statements and related notes contained in its Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010, which is incorporated by reference in this joint proxy statement/prospectus. The information set forth below is only a summary and is not necessarily indicative of the results of future operations of Allegheny Energy or the combined company, and you should read the following information together with Allegheny Energy s audited consolidated financial statements, the related notes and the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations contained in Allegheny Energy s Annual Report on Form 10-K for the year ended December 31, 2009, and Allegheny Energy s unaudited consolidated financial statements, the related notes and the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations contained in Allegheny Energy s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010 which are incorporated by reference in this joint proxy statement/prospectus. For more information, see the section entitled Where You Can Find More Information; Incorporation by Reference beginning on page 184.

Income statement data:	Three Months Ended March 31, 2010	2009	Year Ended December 31, 2009	2008	2007	2006	2005
	(Unaudited)						
			(In millions, except per share amounts)				
Operating revenues	$ 1,048.9	$ 957.2	$ 3,426.8	$ 3,385.9	$ 3,307.0	$ 3,121.5	$ 3,037.9
Operating expenses	$ 830.4	$ 667.4	$ 2,507.0	$ 2,576.4	$ 2,489.7	$ 2,389.2	$ 2,501.1
Operating income	$ 218.5	$ 289.8	$ 919.8	$ 809.5	$ 817.3	$ 732.3	$ 536.8
Income from continuing operations attributable to Allegheny Energy, Inc.	$ 88.2	$ 133.9	$ 392.8	$ 395.4	$ 412.2	$ 318.7	$ 75.1
Income (loss) from discontinued operations, net of tax	$	$	$	$	$	$ 0.6	$ (6.1)
Net income attributable to Allegheny Energy, Inc.	$ 88.2	$ 133.9	$ 392.8	$ 395.4	$ 412.2	$ 319.3	$ 63.1
Weighted average number of diluted shares outstanding	170	170	170.0	170.0	169.5	168.7	158.6
Earnings per share attributable to Allegheny							

Energy, Inc.:														
Income from continuing operations attributable to Allegheny Energy, Inc.														
-Basic	$	0.52	$	0.79	$	2.32	$	2.35	$	2.48	$	1.94	$	0.48
-Diluted	$	0.52	$	0.79	$	2.31	$	2.33	$	2.43	$	1.89	$	0.47
Net income attributable to Allegheny Energy, Inc.														
-Basic	$	0.52	$	0.79	$	2.32	$	2.35	$	2.48	$	1.94	$	0.40
-Diluted	$	0.52	$	0.79	$	2.31	$	2.33	$	2.43	$	1.89	$	0.40
Dividends per share	$	0.15	$	0.15	$	0.60	$	0.60	$	0.15	$		$	

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Balance sheet data:	March 31, 2010 (Unaudited)	2009	2008	December 31, 2007	2006	2005
			(In millions)			
Property, plant and equipment, net	$ 9,098.2	$ 8,957.1	$ 8,002.2	$ 7,196.6	$ 6,512.9	$ 6,277.4
Total assets	$ 11,700.2	$ 11,589.1	$ 10,811.0	$ 9,906.6	$ 8,552.4	$ 8,558.8
Short-term debt	$	$	$	$ 10.0	$	$
Long-term debt due within one year	$ 167.0	$ 140.8	$ 93.9	$ 95.4	$ 201.2	$ 477.2
Long-term debt	$ 4,397.7	$ 4,417.0	$ 4,115.9	$ 3,943.9	$ 3,384.0	$ 3,624.5
Total equity	$ 3,226.0	$ 3,128.1	$ 2,855.7	$ 2,548.6	$ 2,115.1	$ 1,741.3

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SELECTED UNAUDITED PRO FORMA CONDENSED COMBINED CONSOLIDATED FINANCIAL INFORMATION

The following selected unaudited pro forma condensed combined consolidated statements of income data of FirstEnergy for the three months ended March 31, 2010 and the year ended December 31, 2009 have been prepared to give effect to the merger as if the merger was completed on January 1, 2009. The unaudited pro forma condensed combined consolidated balance sheet data of FirstEnergy as of March 31, 2010 has been prepared to give effect to the merger as if the merger was completed on March 31, 2010.

The following selected unaudited pro forma condensed combined consolidated financial information is not necessarily indicative of the results that might have occurred had the merger taken place on January 1, 2009 for income statement purposes, and on March 31, 2010 for balance sheet purposes, and is not intended to be a projection of future results. Future results may vary significantly from the results reflected because of various factors, including those discussed in the section entitled Risk Factors beginning on page 32. The following selected unaudited pro forma condensed combined consolidated financial information should be read in conjunction with the section entitled Unaudited Pro Forma Condensed Combined Consolidated Financial Information and related notes included in this joint proxy statement/prospectus beginning on page 147.

	Three Months Ended March 31, 2010	Year Ended December 31, 2009
	(In millions, except per share data)	
Pro Forma Condensed Combined Consolidated Statement of Income Data:		
Revenues	$ 4,348	$ 16,394
Income From Continuing Operations	236	1,380
Net Income	236	1,380
Earnings Available to FirstEnergy Corp.	242	1,395
Basic Earnings Per Share of Common Stock	$ 0.58	$ 3.34
Diluted Earnings Per Share of Common Stock	$ 0.58	$ 3.32

	As of March 31, 2010 (In millions)
Pro Forma Condensed Combined Consolidated Balance Sheet Data:	
Cash and Cash Equivalents	$ 496
Total Assets	47,465
Long-Term Debt and Other Long-Term Obligations	16,449
Total Liabilities	34,736
Total Equity	12,729

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UNAUDITED COMPARATIVE PER SHARE DATA

The following table summarizes unaudited per share data for (a) FirstEnergy and Allegheny Energy on a historical basis, (b) FirstEnergy on a pro forma combined basis giving effect to the merger and (c) Allegheny Energy on a pro forma equivalent basis based on the exchange ratio of 0.667 of a share of FirstEnergy common stock per share of Allegheny Energy common stock. It has been assumed for purposes of the pro forma combined financial information provided below that the merger was completed on January 1, 2009 for earnings per share purposes, and on March 31, 2010 for book value per share purposes. The following information should be read in conjunction with the section entitled Unaudited Pro Forma Condensed Combined Consolidated Financial Information and related notes included in this joint proxy statement/prospectus beginning on page 147.

	FirstEnergy		Allegheny Energy	
	Historical	Pro Forma Combined	Historical	Pro Forma Equivalent(1)
Three Months Ended March 31, 2010				
Basic Earnings Per Share of Common Stock(2)	$ 0.51	$ 0.58	$ 0.52	$ 0.39
Diluted Earnings Per Share of Common Stock(2)	0.51	0.58	0.52	0.39
Cash Dividends Declared Per Share	0.55	0.55	0.15	0.37
Book Value Per Share of Common Stock(3)	28.03	30.41	19.02	20.28
Year Ended December 31, 2009				
Basic Earnings Per Share of Common Stock(2)	$ 3.31	$ 3.34	$ 2.32	$ 2.23
Diluted Earnings Per Share of Common Stock(2)	3.29	3.32	2.31	2.21
Cash Dividends Declared Per Share	2.20	2.20	0.60	1.47

(1) The pro forma equivalent per share amounts were calculated by multiplying the pro forma combined per share amounts by the exchange ratio of 0.667 of a share of FirstEnergy common stock per share of Allegheny Energy common stock.

(2) The pro forma combined consolidated statements of income for the three months ended March 31, 2010 and the year ended December 31, 2009 were prepared by combining FirstEnergy s historical consolidated statements of income and Allegheny Energy s historical consolidated statements of income adjusted to give effect to pro forma events that are (a) directly attributable to the merger, (b) factually supportable and (c) expected to have a continuing impact on combined results.

(3) Historical book value per share is computed by dividing common stockholders equity by the number of shares of FirstEnergy or Allegheny Energy common stock outstanding, as applicable. Pro forma combined book value per share is computed by dividing pro forma common stockholders equity by the pro forma number of shares of FirstEnergy common stock that would have been outstanding as of March 31, 2010.

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COMPARATIVE FIRSTENERGY AND ALLEGHENY ENERGY MARKET PRICE AND DIVIDEND DATA

FirstEnergy s common stock is listed on the NYSE under the symbol FE. Allegheny Energy s common stock is listed on the NYSE under the symbol AYE.

The following table presents closing prices for shares of FirstEnergy common stock and Allegheny Energy common stock on February 10, 2010, the last trading day before the public announcement of the execution of the merger agreement and , 2010, the latest practicable trading day before the date of this joint proxy statement/prospectus. This table also presents the equivalent market value per share of Allegheny Energy common stock on February 10, 2010 and , 2010, as determined by multiplying the closing prices of shares of FirstEnergy common stock on those dates by the exchange ratio of 0.667.

Although the exchange ratio is fixed, the market prices of FirstEnergy common stock and Allegheny Energy common stock will fluctuate before the special meetings and before the merger is completed. The market value of the merger consideration ultimately received by Allegheny Energy stockholders will depend on the closing price of FirstEnergy common stock on the day such stockholders receive their shares of FirstEnergy common stock.

	FirstEnergy Common Stock	Allegheny Energy Common Stock	Equivalent Per Share of Allegheny Energy Common Stock
February 10, 2010	$ 41.46	$ 21.02	$ 27.65
, 2010	$	$	$

The table below sets forth, for the calendar quarters indicated, the high and low sale prices per share of FirstEnergy common stock and Allegheny Energy common stock on the NYSE. The table also shows the amount of cash dividends declared on FirstEnergy common stock and Allegheny Energy common stock for the calendar quarters indicated.

	FirstEnergy Common Stock		
	High	Low	Cash Dividends Declared[(1)]
Year Ended December 31, 2010:			
Third Quarter (through July 15, 2010)	$ 37.77	$ 34.51	$
Second Quarter	$ 39.96	$ 33.57	$
First Quarter	$ 47.09	$ 38.31	$ 0.55
Year Ended December 31, 2009:			

Fourth Quarter	$ 47.77	$ 41.57	$ 0.55
Third Quarter	$ 47.82	$ 36.73	$ 1.10
Second Quarter	$ 43.29	$ 35.26	$
First Quarter	$ 53.63	$ 35.63	$ 0.55
Year Ended December 31, 2008:			
Fourth Quarter	$ 66.69	$ 41.20	$ 0.55
Third Quarter	$ 84.00	$ 63.03	$ 1.10
Second Quarter	$ 83.49	$ 69.20	$
First Quarter	$ 78.51	$ 64.44	$ 0.55
Year Ended December 31, 2007:			
Fourth Quarter	$ 74.98	$ 63.39	$ 0.55
Third Quarter	$ 68.31	$ 58.75	$ 1.00
Second Quarter	$ 72.90	$ 62.56	$
First Quarter	$ 67.11	$ 57.77	$ 0.50

(1) Since 2008, the quarterly dividend rate of $0.55 per share has remained unchanged. The dividend declared in the first quarter of 2010 was paid in the second quarter of 2010. The dividends declared in 2009 and 2008 included three quarterly payments of $0.55 per share in 2009 and 2008, respectively, and one quarterly payment of $0.55 per share in 2010 and 2009, respectively. Dividends declared in 2007 include three quarterly payments of $0.50 per share in 2007 and one quarterly payment of $0.55 per share in 2008.

	Allegheny Energy Common Stock		
	High	**Low**	**Cash Dividends Declared**
Year Ended December 31, 2010:			
Third Quarter (through July 15, 2010)	$ 22.59	$ 20.01	$ 0.15
Second Quarter	$ 23.47	$ 18.97	$ 0.15
First Quarter	$ 23.99	$ 20.40	$ 0.15
Year Ended December 31, 2009:			
Fourth Quarter	$ 27.15	$ 21.84	$ 0.15
Third Quarter	$ 27.70	$ 23.42	$ 0.15
Second Quarter	$ 29.85	$ 22.70	$ 0.15
First Quarter	$ 35.97	$ 20.32	$ 0.15
Year Ended December 31, 2008:			
Fourth Quarter	$ 36.61	$ 23.86	$ 0.15
Third Quarter	$ 51.14	$ 33.94	$ 0.15
Second Quarter	$ 55.98	$ 49.38	$ 0.15
First Quarter	$ 64.75	$ 45.46	$ 0.15
Year Ended December 31, 2007:			
Fourth Quarter	$ 65.48	$ 52.37	$ 0.15
Third Quarter	$ 57.30	$ 48.18	$
Second Quarter	$ 56.13	$ 48.67	$
First Quarter	$ 50.25	$ 44.28	$

The information in the preceding tables is historical only. FirstEnergy and Allegheny Energy urge you to obtain current market quotations for shares of FirstEnergy and Allegheny Energy common stock before voting at your special meeting.

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CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This joint proxy statement/prospectus, including information included or incorporated by reference in this joint proxy statement/prospectus, may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. You can typically identify forward-looking statements by the use of forward-looking words such as expect, anticipate, target, goal, project, intend, plan, believe, budget, should, continue, cou potential, strategy, synergies, will, would, seek, estimate, variations of such words and similar expressions the absence of any such words or expressions does not mean that a particular statement is not a forward-looking statement. Any statements regarding the benefits of the merger, or FirstEnergy s or Allegheny Energy s future financial condition, results of operations and business are also forward-looking statements. Without limiting the generality of the preceding sentence, certain statements contained in the sections entitled The Merger Background of the Merger, The Merger Recommendation of the FirstEnergy Board of Directors and Its Reasons for the Merger, The Merger Recommendation of the Allegheny Energy Board of Directors and Its Reasons for the Merger, The Merger Opinion of FirstEnergy s Financial Advisor and The Merger Opinion of Allegheny Energy s Financial Advisor constitute forward-looking statements.

These forward-looking statements represent FirstEnergy s and Allegheny Energy s intentions, plans, expectations, assumptions and beliefs about future events and are subject to risks, uncertainties and other factors. Many of these factors are outside the control of FirstEnergy and Allegheny Energy and could cause actual results to differ materially from the results expressed or implied by these forward-looking statements. In addition to the risk factors described in the section entitled Risk Factors beginning on page 32 of this joint proxy statement/prospectus, these factors include:

- those identified and disclosed in public filings with the SEC made by FirstEnergy and Allegheny Energy;
- obtaining FirstEnergy and Allegheny Energy shareholder approval of the merger;
- the risk that required governmental and regulatory approvals for the merger may not be obtained, or, if obtained, may impose unfavorable terms, conditions or restrictions;
- litigation relating to the merger;
- satisfying the conditions to the closing of the merger;
- the length of the time necessary to complete the merger;
- successfully integrating the FirstEnergy and Allegheny Energy businesses, and avoiding problems which may result in the combined company not operating as effectively and efficiently as expected;
- the possibility that the estimated synergies will not be realized within the expected timeframe or at all;
- competition, whether new or existing;
- industrial, commercial and residential growth in the service territory of FirstEnergy and Allegheny Energy;
- prevailing economic, market and business conditions;
- the cost and availability of capital and any restrictions imposed by lenders or creditors;

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changes in the industry in which FirstEnergy and Allegheny Energy operate;

the weather and other natural phenomena, including the economic, operational and other effects of severe weather, such as tornadoes, hurricanes, ice, sleet, snow storms or droughts;

conditions beyond FirstEnergy s or Allegheny Energy s control such as disaster, acts of war or terrorism;

the failure to renew, or the revocation of, any licensing or other required permits;

unexpected costs or unexpected liabilities, or the effects of acquisition accounting varying from the companies expectations or changes in accounting policies;

the risk that the credit ratings of the combined company or its subsidiaries may be different from what the companies expect, which may increase borrowing costs and/or make it more difficult to pay or refinance its debts and require it to borrow or divert cash flow from operations in order to service debt payments;

the effects on the businesses of the companies resulting from uncertainty surrounding the merger, including with respect to customers, employees or suppliers or the diversion of management s time and attention;

adverse outcomes of pending or threatened litigation or governmental investigations unrelated to the merger;

the effects on the companies of future regulatory or legislative actions, including changes in environmental and other laws and regulations to which FirstEnergy, Allegheny Energy or their subsidiaries and facilities are subject;

conduct of and changing circumstances related to third-party relationships on which FirstEnergy and Allegheny Energy rely, including the level of credit worthiness of counterparties;

the volatility and unpredictability of stock market and credit market conditions;

fluctuations in interest rates;

variations between the stated assumptions on which forward-looking statements are based and FirstEnergy s and Allegheny Energy s actual experience; and

other economic, business, and/or competitive factors.

You are cautioned not to place undue reliance on forward-looking statements, which speak only as of the date of this joint proxy statement/prospectus and should be read in conjunction with the risk factors and other disclosures contained or incorporated by reference into this joint proxy statement/prospectus. The areas of risk and uncertainty described above, which are not exclusive, should be considered in connection with any written or oral forward-looking statements that may be made in this joint proxy statement/prospectus or on, before or after the date of this joint proxy statement/prospectus by FirstEnergy or Allegheny Energy or anyone acting for any or both of them. Except as required by applicable law or regulation, neither FirstEnergy nor Allegheny Energy undertakes any obligation to release publicly or otherwise make any revisions to any forward-looking statements, to report events or circumstances after the date of this joint proxy statement/prospectus or to report the occurrence of unanticipated events.

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RISK FACTORS

In addition to the other information included or incorporated by reference in this joint proxy statement/prospectus, including the matters addressed in the section entitled Cautionary Statement Concerning Forward-Looking Statements beginning on page 30 you should carefully consider the following risks before deciding how to vote.

Because the exchange ratio is fixed and the market price of shares of FirstEnergy common stock will fluctuate, Allegheny Energy stockholders cannot be sure of the value of the merger consideration they will receive.

Upon completion of the merger, each outstanding share of Allegheny Energy common stock will be converted into the right to receive 0.667 of a share of FirstEnergy common stock. The number of shares of FirstEnergy common stock to be issued pursuant to the merger agreement for each share of Allegheny Energy common stock is fixed and will not change to reflect changes in the market price of FirstEnergy or Allegheny Energy common stock. The market price of FirstEnergy common stock at the time of completion of the merger may vary significantly from the market prices of FirstEnergy common stock on the date the merger agreement was executed, the date of this joint proxy statement/prospectus and the date of the special meetings. Accordingly, at the time of the special meetings, you will not know or be able to calculate the market value of the merger consideration you will receive upon the completion of the merger.

In addition, the merger might not be completed until a significant period of time has passed after the special meetings. Because the exchange ratio will not be adjusted to reflect any changes in the market value of FirstEnergy common stock or Allegheny Energy common stock, the market value of the FirstEnergy common stock issued in the merger and the Allegheny Energy common stock surrendered in the merger may be higher or lower than the values of those shares on earlier dates.

Stock price changes may result from a variety of factors, many of which are beyond the control of FirstEnergy and Allegheny Energy, including:

- market reaction to the announcement of the merger and market assessment of the likelihood of the merger being completed;
- changes in the respective businesses, operations or prospects of FirstEnergy or Allegheny Energy, including FirstEnergy s and Allegheny Energy s ability to meet earnings estimates;
- litigation or regulatory developments affecting FirstEnergy or Allegheny Energy or the utility industry;
- general business, market, industry or economic conditions; and
- other factors beyond the control of FirstEnergy and Allegheny Energy, including those described elsewhere in this Risk Factors section and in documents incorporated by reference in this joint proxy statement/prospectus.

Neither FirstEnergy nor Allegheny Energy is permitted to terminate the merger agreement solely because of changes in the market price of either company s common stock.

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The merger agreement contains provisions that limit FirstEnergy s and Allegheny Energy s ability to pursue alternatives to the merger, which could discourage a potential competing acquirer of either Allegheny Energy or FirstEnergy from making an alternative transaction proposal and, in certain circumstances, could require FirstEnergy or Allegheny Energy to pay to the other a termination fee of $350 million or $150 million, respectively, as well as up to $45 million of transaction expenses.

Under the merger agreement, FirstEnergy and Allegheny Energy are restricted, subject to limited exceptions, from entering into alternative transactions. Unless and until the merger agreement is terminated, subject to specified exceptions (which are discussed in more detail in the section entitled The Merger Agreement beginning on page 124), both FirstEnergy and Allegheny Energy are restricted from soliciting, initiating, seeking, knowingly encouraging or facilitating, or negotiating, any inquiry, proposal or offer for a competing acquisition proposal with any person. Additionally, under the merger agreement, in the event of a potential change by either the FirstEnergy or the Allegheny Energy board of its recommendation with respect to the merger-related proposals, the company changing its recommendation must provide the other with five business days prior notice and if requested, negotiate in good faith an adjustment to the terms and conditions of the merger agreement prior to changing its recommendation. FirstEnergy and Allegheny Energy may terminate the merger agreement and enter into an agreement with respect to a superior proposal only if specified conditions have been satisfied, including, compliance with the non-solicitation provisions of the merger agreement. These provisions could discourage a third party that may have an interest in acquiring all or a significant part of FirstEnergy or Allegheny Energy from considering or proposing that acquisition, even if such third party were prepared to pay consideration with a higher per share cash or market value than that market value proposed to be received or realized in the merger, or might result in a potential competing acquirer proposing to pay a lower price than it would otherwise have proposed to pay because of the added expense of the termination fee that may become payable in certain circumstances. As a result of these restrictions, neither FirstEnergy nor Allegheny Energy may be able to enter into an agreement with respect to a more favorable alternative transaction without incurring potentially significant liability to the other.

Under the merger agreement, FirstEnergy or Allegheny Energy may be required to pay to the other a termination fee of $350 million or $150 million, respectively, if the merger agreement is terminated under certain circumstances, and/or reasonably documented transaction expenses up to $45 million. Should the merger agreement be terminated in circumstances under which such a termination fee or expense reimbursement is payable, the payment of this fee or reimbursement by FirstEnergy or Allegheny Energy (or by a third party acquiror) could have material and adverse consequences to the financial condition and operations of the company making such payment.

FirstEnergy and Allegheny Energy will be subject to various uncertainties and contractual restrictions while the merger is pending that could adversely affect their businesses and impact the combined company s operational and financial performance after the merger.

Uncertainty about the effect of the merger on employees, suppliers and customers may have an adverse effect on FirstEnergy and Allegheny Energy. Although FirstEnergy and Allegheny Energy intend to take steps designed to reduce any adverse effects, these uncertainties may impair FirstEnergy s or Allegheny Energy s ability to attract, retain and motivate key personnel until the merger is completed and for a period of time thereafter, and could cause customers, suppliers and others that deal with FirstEnergy and Allegheny Energy to seek to change existing business relationships with FirstEnergy and Allegheny Energy.

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Employee retention and recruitment may be particularly challenging prior to the completion of the merger, as employees and prospective employees may experience uncertainty about their future roles with the combined company. If, despite FirstEnergy s and Allegheny Energy s retention and recruiting efforts, key employees depart or fail to accept employment with either company because of issues relating to the uncertainty and difficulty of integration or a desire not to remain with the combined company, FirstEnergy s and Allegheny Energy s financial results could be affected. Furthermore, FirstEnergy s operational and financial performance following the merger could be adversely affected if it is unable to retain key employees and skilled workers of Allegheny Energy. The loss of the services of key employees and skilled workers and their experience and knowledge regarding Allegheny Energy s business could adversely affect FirstEnergy s future operating results and its successful ongoing operation of the business.

The pursuit of the merger and the preparation for the integration may place a significant burden on management and internal resources. The diversion of management attention away from day-to-day business concerns and any difficulties encountered in the transition and integration process could affect FirstEnergy s and Allegheny Energy s financial results.

In addition, the merger agreement restricts either company, without the other s consent, from making certain acquisitions and taking other specified actions until the merger occurs or the merger agreement terminates. These restrictions may prevent FirstEnergy or Allegheny Energy from pursuing otherwise attractive business opportunities and making other changes to FirstEnergy s or Allegheny Energy s business prior to completion of the merger or termination of the merger agreement. See the section entitled The Merger Agreement Conduct of Business Pending the Merger beginning on page 131.

Many of the anticipated benefits of combining FirstEnergy and Allegheny Energy may not be realized.

FirstEnergy and Allegheny Energy entered into the merger agreement with the expectation that the merger would result in various benefits including, among other things, synergies, cost savings and operating efficiencies. The success of the merger will depend, in part, on the combined company s ability to realize these anticipated benefits and cost savings from combining the businesses of FirstEnergy and Allegheny Energy. However, to realize these anticipated benefits and cost savings, FirstEnergy and Allegheny Energy must successfully combine their businesses. If FirstEnergy and Allegheny Energy are not able to achieve these objectives, the anticipated benefits and cost savings of the merger may not be realized fully or at all or may take longer to realize than expected. The pro forma financial statements presented elsewhere in this joint proxy statement/prospectus do not reflect potential synergies and are not necessarily indicative of results of operations and financial position that would have been achieved had the pro forma events taken place on the dates indicated, or indicative of the future consolidated results of operations or financial position of the combined company.

FirstEnergy and Allegheny Energy have operated and, until the completion of the merger, will continue to operate independently. It is possible that the integration process could take longer than anticipated and could result in the loss of valuable employees, the disruption of each company s ongoing businesses, processes and systems or inconsistencies in standards, controls, procedures, practices, policies and compensation arrangements, any of which could adversely affect the combined company s ability to achieve the anticipated benefits of the merger. The combined company s results of operations could also be adversely affected by any issues attributable to either company s operations that arise or are based on events or actions that occur prior to the closing of the merger. Further, the size of the merger may make integration difficult, expensive and disruptive, adversely affecting FirstEnergy s revenues after the merger. While the merger agreement provides for the establishment of an integration committee, FirstEnergy may have difficulty addressing possible differences in corporate cultures and management philosophies. Integration efforts between the two companies will also divert management attention and resources. These integration activities could have an adverse effect on the businesses of both FirstEnergy and Allegheny Energy during the transition period. The integration process is subject to a number of uncertainties, and no assurance can be given that the anticipated benefits will be realized or, if realized, the timing of their realization. Failure to achieve these anticipated benefits could result in increased costs or decreases in the amount of expected revenues and could adversely affect FirstEnergy s future business, financial condition, operating results and prospects. In addition, FirstEnergy may not be able to eliminate duplicative costs or realize other efficiencies from integrating the businesses to offset part or all of the transaction and merger-related costs incurred by FirstEnergy and Allegheny Energy.

FirstEnergy and Allegheny Energy may be unable to obtain in the anticipated timeframe, or at all, the regulatory approvals required to complete the merger or, in order to do so, FirstEnergy and Allegheny Energy may be required to comply with material restrictions or conditions that may negatively affect the combined company after the merger is completed or cause them to abandon the merger. Furthermore, FirstEnergy and Allegheny Energy may subsequently agree to conditions without further seeking shareholder approval, even if such conditions could have an adverse impact on FirstEnergy, Allegheny Energy or the combined company.

The merger is subject to review by the U.S. Department of Justice Antitrust Division, referred to as the Antitrust Division, and the Federal Trade Commission, referred to as the FTC, under the HSR Act, and the expiration or termination of the waiting period (and any extension of the waiting period) applicable to the merger under the HSR Act is a condition to closing the merger. The merger is also subject to the regulatory requirements of other federal and state agencies and authorities, including the FERC, the MDPSC, the PAPUC, the VSCC, the WVPSC and the FCC. FirstEnergy and Allegheny Energy can provide no assurance that all required regulatory authorizations, approvals or consents will be obtained or that these authorizations, approvals or consents will not contain terms, conditions or restrictions that would be detrimental to FirstEnergy after the completion of the merger. A substantial delay in obtaining the required authorizations, approvals or consents or the imposition of unfavorable terms, conditions or restrictions contained in such authorizations, approvals or consents could have a material adverse effect on the synergies and other anticipated benefits of the merger, thereby impacting the business, financial condition or results of operations of FirstEnergy after the merger. In addition, delays or unfavorable terms could lead FirstEnergy or Allegheny Energy to become involved in litigation with one or more governmental entities or third parties, or may cause FirstEnergy or Allegheny Energy to significantly delay and/or abandon the merger.

The special meetings of shareholders at which the merger-related proposals will be considered will likely take place before any or all of the required regulatory approvals have been obtained and before all conditions to such approvals, if any, are known. In this event, if the merger-related proposals are approved, FirstEnergy and Allegheny Energy may subsequently agree to conditions without further seeking shareholder approval, even if such conditions could have an adverse impact on FirstEnergy, Allegheny Energy or the combined company.

Even after the statutory waiting period under the HSR Act has expired, and even after completion of the merger, governmental authorities could seek to block or challenge the merger as they deem necessary or desirable in the public interest. In addition, in some jurisdictions, a competitor, customer or other third party could initiate a private action under the antitrust laws challenging or seeking to enjoin the merger, before or after it is completed. FirstEnergy or

Allegheny Energy may not prevail, or may incur significant costs, in defending or settling any action under the antitrust laws.

Any delay in completing the merger may materially adversely affect the synergies and other benefits that FirstEnergy and Allegheny Energy expect to achieve from the merger and the integration of their respective businesses.

FirstEnergy may record goodwill that could become impaired and adversely affect its operating results.

The merger will be accounted for in accordance with GAAP. Under accounting for business combinations, the assets and liabilities of Allegheny Energy will be recorded, as of completion of the merger, at their respective fair values and added to those of FirstEnergy. The reported financial condition and results of operations of FirstEnergy issued after completion of the merger will reflect Allegheny Energy balances and results after completion of the merger, but will not be restated retroactively to reflect the historical financial position or results of operations of Allegheny Energy for periods prior to the merger. Following completion of the merger, the earnings of FirstEnergy will reflect purchase accounting adjustments. See the section entitled Unaudited Pro Forma Condensed Combined Consolidated Financial Information beginning on page 147.

The total purchase price will be allocated to Allegheny Energy s tangible assets and liabilities and identifiable intangible assets based on their fair values as of the date of completion of the merger. Any excess of the purchase price over those fair values will be recorded as goodwill. To the extent the value of any goodwill or intangibles becomes impaired, FirstEnergy may be required to incur material charges relating to such impairment. Such a potential impairment charge could have a material impact on FirstEnergy s operating results.

FirstEnergy and Allegheny Energy will incur substantial transaction fees and merger-related costs in connection with the merger.

FirstEnergy and Allegheny Energy expect to incur a number of non-recurring transaction costs associated with completing the merger, as well as costs in combining the operations of the two companies and achieving desired synergies. These fees and costs will be substantial. The cumulative amount of non-recurring transaction costs expected to be incurred by FirstEnergy and Allegheny Energy to complete the merger is currently estimated to be approximately $120 million. Additional costs will be incurred in the integration of the businesses of FirstEnergy and Allegheny Energy. Although it is expected that the elimination of certain duplicative costs, as well as the realization of other efficiencies related to the integration of the two businesses, will offset the incremental transaction and other merger-related costs over time, FirstEnergy and Allegheny Energy may incur such costs in excess of their expectations, and whether or not unexpected costs arise, this net benefit may not be achieved in the near term, or at all.

The opinions obtained by FirstEnergy and Allegheny Energy from their respective financial advisors do not reflect changes in circumstances between the signing of the merger agreement and completion of the merger.

Each of the financial advisors of FirstEnergy and Allegheny Energy rendered opinions dated February 10, 2010, with respect to the fairness from a financial point of view, as of February 10, 2010, of the merger consideration to FirstEnergy and to Allegheny Energy s stockholders, respectively. Each opinion was based on the financial, economic, market and other conditions as in effect on, and the information made available to the opinion giver as of, February 10, 2010. Neither of the opinions will be updated, revised or reaffirmed as of the date of this joint proxy statement/

prospectus, the time the merger will be completed or any other date. The opinions do not reflect changes in circumstances of FirstEnergy or Allegheny Energy or in the financial, economic, market and other conditions or other factors affecting FirstEnergy or Allegheny Energy after February 10, 2010. For a description of the opinions that FirstEnergy and Allegheny Energy received from their respective financial advisors, please refer to the sections entitled The Merger Opinion of FirstEnergy s Financial Advisor beginning on page 78 and The Merger Opinion of Allegheny Energy s Financial Advisor beginning on page 91.

The market price of FirstEnergy common stock after the merger may be affected by factors different from those affecting the shares of Allegheny Energy or FirstEnergy currently.

Upon completion of the merger, holders of Allegheny Energy common stock will become holders of FirstEnergy common stock. The businesses of FirstEnergy differ from those of Allegheny Energy in important respects and, accordingly, the results of operations of the combined company and the market price of FirstEnergy s shares of common stock following the merger may be affected by factors different from those currently affecting the independent results of operations of FirstEnergy and Allegheny Energy. For a discussion of the businesses of FirstEnergy and Allegheny Energy and of certain factors to consider in connection with those businesses, see the documents incorporated by reference in this joint proxy statement/prospectus referred to in the section entitled Where You Can Find More Information; Incorporation by Reference beginning on page 184.

The merger may not be accretive to earnings and may cause dilution to FirstEnergy s earnings per share, which may negatively affect the market price of FirstEnergy s common stock.

FirstEnergy currently anticipates that the merger will be accretive to earnings per share in the first year following the completion of the merger. This expectation is based on preliminary estimates which may materially change. FirstEnergy could also encounter additional transaction and integration-related costs, may fail to realize all of the benefits anticipated in the merger or be subject to other factors that affect preliminary estimates. Any of these factors could cause dilution to FirstEnergy s earnings per share or decrease or delay the expected accretive effect of the merger and contribute to a decrease in the price of FirstEnergy s common stock.

Current FirstEnergy and Allegheny Energy shareholders will have a reduced ownership and voting interest after the merger and will exercise less influence over management.

FirstEnergy will issue approximately 115.4 million shares of FirstEnergy common stock to Allegheny Energy stockholders in the merger (including shares to be issued in connection with outstanding Allegheny Energy equity awards). As a result, current FirstEnergy shareholders and Allegheny Energy stockholders are expected to hold approximately 73% and 27% respectively, of FirstEnergy s common stock outstanding immediately following the completion of the merger.

FirstEnergy shareholders and Allegheny Energy stockholders currently have the right to vote for their respective directors and on other matters affecting the applicable company. When the merger occurs, each Allegheny Energy stockholder that receives shares of FirstEnergy common stock will become a shareholder of FirstEnergy with a percentage ownership of the combined organization that is much smaller than the stockholder s percentage ownership of Allegheny Energy. Correspondingly, unless they exercise their right to dissent and receive the fair cash value of their shares, each FirstEnergy shareholder will remain a shareholder of FirstEnergy with a percentage ownership of the combined organization that is smaller than the shareholder s percentage of FirstEnergy prior to the merger. As a result of these reduced ownership percentages, FirstEnergy shareholders will have less influence on the management and policies of FirstEnergy than they now have, and former Allegheny

Energy stockholders will have less influence on the management and policies of the combined company than they now have with respect to Allegheny Energy.

Failure to complete the merger could negatively affect the stock prices and the future businesses and financial results of FirstEnergy and Allegheny Energy.

Completion of the merger is not assured and is subject to risks, including the risks that approval of the transaction by shareholders of FirstEnergy and Allegheny Energy or by governmental agencies is not obtained or that certain other closing conditions are not satisfied. If the merger is not completed, the ongoing businesses of FirstEnergy and/or Allegheny Energy may be adversely affected and FirstEnergy and Allegheny Energy will be subject to several risks, including:

having to pay certain significant costs relating to the merger without receiving the benefits of the merger, including in certain circumstances a termination fee of $350 million in the case of FirstEnergy and $150 million in the case of Allegheny Energy and, for either FirstEnergy or Allegheny Energy in certain circumstances, the reasonably documented transaction expenses of the other party up to $45 million;

the attention of management of FirstEnergy and Allegheny Energy will have been diverted to the merger rather than each company s own operations and pursuit of other opportunities that could have been beneficial to that company;

the potential loss of key personnel, particularly for Allegheny Energy, during the pendency of the merger as employees may experience uncertainty about their future roles with the combined company;

FirstEnergy and Allegheny Energy will have been subject to certain restrictions on the conduct of their business, which may prevent them from making certain acquisitions or dispositions or pursuing certain business opportunities while the merger is pending;

resulting negative customer perception could adversely affect the ability of FirstEnergy and Allegheny Energy to compete for, or to win, new and renewal business in the marketplace;

the stock price of FirstEnergy or Allegheny Energy may decline to the extent that the current market prices reflect an assumption by the market that the merger will be completed; and

having to face the continuing general competitive pressures and risks of their businesses and the electric utility industry, which may increase if the merger is not completed.

Members of the management and boards of directors of FirstEnergy and Allegheny Energy have interests in the merger that are different from, or in addition to, those of other FirstEnergy and Allegheny Energy shareholders and that could have influenced their decision to support or approve the merger.

In considering whether to approve the proposals at the special meetings, FirstEnergy and Allegheny Energy shareholders should recognize that some of the members of management and the boards of directors of FirstEnergy and Allegheny Energy have interests in the merger that differ from, or are in addition to, their interests as shareholders of FirstEnergy and stockholders of Allegheny Energy. For a discussion of the interests of directors and executive officers in the merger, see the sections entitled The Merger Additional Interests of the FirstEnergy Directors and Executive Officers in the Merger beginning on page 103 and The Merger Additional Interests of the Allegheny Energy Directors and Executive Officers in the Merger beginning on page 104.

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FirstEnergy s indebtedness following the merger will be higher than FirstEnergy s existing indebtedness. Notwithstanding anticipated improvements in certain key credit metrics, such as debt-to-capitalization ratios, it may be more difficult for FirstEnergy to pay or refinance its debts and FirstEnergy may need to borrow or divert its cash flow from operations to service debt payments. The additional indebtedness could limit FirstEnergy s ability to pursue other strategic opportunities and increase its vulnerability to adverse economic and industry conditions and may cause FirstEnergy to take other actions that will increase the dilution of its shareholders and former Allegheny Energy stockholders or reduce earnings.

In connection with the merger, FirstEnergy will assume Allegheny Energy s outstanding debt. FirstEnergy s total indebtedness as of March 31, 2010 was approximately $14.5 billion. FirstEnergy s pro forma total indebtedness as of March 31, 2010, after giving effect to the merger, would have been approximately $19.3 billion (including approximately $2.0 billion of currently payable long-term debt, approximately $0.9 billion of short-term borrowings and approximately $16.4 billion of long-term debt and other long-term obligations). FirstEnergy s debt service obligations with respect to this increased indebtedness could have an adverse impact on its earnings and cash flows for as long as the indebtedness is outstanding.

FirstEnergy s increased indebtedness could have important consequences to holders of FirstEnergy common stock. For example, it could:

- make it more difficult for FirstEnergy to pay or refinance its debts as they become due during adverse economic and industry conditions because any related decrease in revenues could cause FirstEnergy to not have sufficient cash flows from operations to make its scheduled debt payments;

- limit FirstEnergy s flexibility to pursue other strategic opportunities or react to changes in its business and the industry in which it operates and, consequently, place FirstEnergy at a competitive disadvantage to its competitors with less debt;

- require a substantial portion of FirstEnergy s cash flows from operations to be used for debt service payments, thereby reducing the availability of its cash flow to fund working capital, capital expenditures, acquisitions, dividend payments and other general corporate purposes;

- result in a downgrade in the rating of FirstEnergy s indebtedness, which could limit FirstEnergy s ability to borrow additional funds, increase the interest rates applicable to FirstEnergy s indebtedness or increase FirstEnergy s requirements to post additional collateral to support outstanding contract guarantees (following the public announcement of the execution of the merger agreement, Standard & Poor s Ratings Service lowered its corporate credit rating on FirstEnergy to BBB- from BBB and lowered the senior unsecured ratings of FirstEnergy to BB+ from BBB- and lowered ratings by one notch on FirstEnergy s rated subsidiaries);

- reduce the amount of credit available to FirstEnergy and its subsidiaries to support its hedging activities; and

- result in higher interest expense in the event of increases in interest rates since some of FirstEnergy s borrowings are, and will continue to be, at variable rates of interest.

Based upon current levels of operations, FirstEnergy expects to be able to obtain sufficient cash on a consolidated basis to make all of the principal and interest payments when such payments are due under FirstEnergy s and its current subsidiaries existing credit facilities, indentures and other instruments governing their outstanding indebtedness, and under the indebtedness of Allegheny

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Energy and its subsidiaries that may remain outstanding after the merger, but there can be no assurance that FirstEnergy will be able to repay or refinance such borrowings and obligations.

FirstEnergy is committed to maintaining and improving its credit ratings. In order to maintain and improve these credit ratings, FirstEnergy may consider it appropriate to reduce the amount of indebtedness outstanding following the merger. This may be accomplished in several ways, including issuing additional shares of common stock or securities convertible into shares of common stock, selling assets, reducing discretionary uses of cash, or a combination of these and other measures. Issuances of additional shares of common stock or securities convertible into shares of common stock would have the effect of diluting the ownership percentage that current FirstEnergy shareholders and former Allegheny Energy stockholders hold in the combined company and might reduce the reported earnings per share. Sales of additional assets could reduce the earnings of the combined company, depending on the earnings attributable to the divested assets. The specific measures that FirstEnergy may ultimately decide to use to maintain or improve its credit ratings and their timing will depend upon a number of factors, including market conditions and forecasts at the time those decisions are made.

The merger will combine two companies that are currently affected by developments in the electric utility industry, including changes in regulation. A failure to adapt to the changing regulatory environment after the merger could adversely affect the stability of earnings and could result in the erosion of the combined company s revenues and profits.

Because FirstEnergy, Allegheny Energy and their respective subsidiaries are regulated in the United States at the federal level and in a number of states, the two companies have been and will continue to be impacted by legislative and regulatory developments in those jurisdictions, as will the combined company following the merger. After the merger, FirstEnergy and/or its subsidiaries will be subject in the United States to extensive federal regulation, including environmental regulation, as well as to state and local regulation in Ohio, Pennsylvania, West Virginia, New York, New Jersey, Maryland and Virginia. The costs and burdens associated with complying with the increased number of regulatory jurisdictions may have a material adverse effect on FirstEnergy. Moreover, the likelihood that federal and/or state legislation or regulation with respect to carbon emissions will be passed or implemented may adversely affect the market price of FirstEnergy s common stock, or its business, financial condition or results of operation.

The combined company will have a higher percentage of coal-fired generation capacity compared to FirstEnergy s current generation mix. As a result, FirstEnergy may be exposed to greater risk from regulations of coal and coal combustion by-products than it faces as a stand-alone company prior to the merger.

After the completion of the merger, the combined company s generation fleet will have a higher percentage of coal-fired generation capacity compared to FirstEnergy s current generation mix. As a result, FirstEnergy s exposure to new or changing legislation, regulation or other legal requirements related to greenhouse gas or other emissions may be increased compared to its current exposure. Approximately 52% of FirstEnergy s current generation fleet capacity is coal-fired, with the remainder being low-emitting natural gas, oil fired or non-emitting nuclear and pumped storage. Approximately 78% of Allegheny Energy s current generation fleet capacity is coal-fired. After the completion of the merger, approximately 62% of FirstEnergy s fleet capacity would be coal-fired. Historically, coal-fired generating plants face greater exposure to the costs of complying with federal, state and local environmental statutes, rules and regulations relating to emissions of substances such as sulfur dioxide, nitrogen oxide and mercury. In addition, there are currently a number of federal, state and international initiatives under consideration to, among other things, require reductions in greenhouse gas emissions from power generation or other facilities, and to regulate coal combustion by-products, such as coal ash, as hazardous waste. These legal requirements and initiatives could require substantial additional costs, extensive mitigation efforts and, in the case of greenhouse gas legislation, would raise uncertainty about the future viability of fossil fuels as an energy source for new and existing electric generation facilities. Failure to comply with any such existing or future legal requirements may also result in the assessment of fines and penalties. Significant resources also may be expended to defend against allegations of violations of any such requirements. FirstEnergy expects approximately 78% of its generation fleet to be non-emitting or low-emitting by the end of 2010. All of Allegheny s supercritical coal-fired generation assets are scrubbed, and its generation portfolio also includes pumped storage and natural gas generation capacity. The combined company s generation fleet nevertheless could face greater exposure to risks relating to the foregoing legal requirements than FirstEnergy s current fleet due to the combined company s increased percentage of coal-fired generation facilities.

Following the merger, Allegheny Energy stockholders will own equity interests in a company that owns and operates nuclear generating facilities, which can present unique risks.

FirstEnergy s ownership interest in and operation of nuclear facilities subjects it to various risks to which Allegheny Energy is not currently subject, including the potential harmful effects on the environment and human health resulting from the operation of nuclear facilities and the storage, handling and disposal of radioactive materials; limitations on the amounts and types of insurance commercially available to cover losses that might arise in connection with nuclear operations; uncertainties with respect to the technological and financial aspects of decommissioning nuclear plants at the end of their licensed lives; and costs associated with regulatory oversight by the Nuclear Regulatory Commission, referred to as the NRC, including NRC imposed fines, lost revenues as a result of any NRC ordered shutdown of FirstEnergy nuclear facilities, or increased capital costs as a result of increased NRC safety and security regulations. As shareholders of FirstEnergy following the merger, Allegheny Energy stockholders may be adversely affected by these risks.

Upon receipt of shares of FirstEnergy common stock upon completion of the merger, Allegheny Energy stockholders will become shareholders in FirstEnergy, an Ohio corporation, which may change certain rights and privileges they hold as stockholders of Allegheny Energy, a Maryland corporation.

FirstEnergy is an Ohio corporation and is governed by the laws of the State of Ohio and by its amended articles of incorporation and amended code of regulations. Ohio corporation law extends to shareholders certain rights and privileges that may not exist under Maryland law and, conversely, does not extend certain rights and privileges that a stockholder of a company, such as Allegheny Energy, governed by Maryland law, may have. For a detailed discussion of the rights of FirstEnergy shareholders versus the rights of Allegheny Energy stockholders, see the section entitled Comparison of Rights of FirstEnergy s Shareholders and Allegheny Energy s Stockholders beginning on page 160.

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Pending litigation against FirstEnergy and Allegheny Energy could result in an injunction preventing the completion of the merger, the payment of damages in the event the merger is completed, and/or may adversely affect FirstEnergy s business, financial condition or results of operations following the merger.

In connection with the merger, purported shareholders of Allegheny Energy have filed putative shareholder class action and/or derivative lawsuits in Pennsylvania and Maryland state courts, as well as in the United States District Court for the Western District of Pennsylvania, against the Allegheny Energy defendants, FirstEnergy and Merger Sub. In summary, the lawsuits allege, among other things, that the Allegheny Energy directors breached their fiduciary duties by approving the merger agreement, and that Allegheny Energy, FirstEnergy and Merger Sub aided and abetted in these alleged breaches of fiduciary duty. The complaints seek, among other things, jury trials, money damages and injunctive relief. The Maryland lawsuits were consolidated and an amended complaint filed. The court also has entered a stipulated order certifying a class with no opt-out rights. All defendants moved to dismiss the amended complaint. The Pennsylvania state court also consolidated the lawsuits filed in that court and the defendants moved to stay the proceeding. No response is currently due to the complaint filed in federal court. While FirstEnergy and Allegheny Energy believe the lawsuits are without merit and have defended vigorously against the claims, in order to avoid the costs associated with the litigation, the defendants have agreed to the terms of a disclosure-based settlement of the lawsuits. As of the date of this joint proxy statement/prospectus, however, the defendants had yet to reach an agreement with counsel for all of the plaintiffs concerning fee applications, and a formal stipulation of settlement has not yet been filed with any court. If the parties are unable to obtain final approval of the settlement, then litigation will proceed, and the outcome of any such litigation is inherently uncertain. If a dismissal is not granted or a settlement is not reached, these lawsuits could prevent or delay the completion of the merger and result in substantial costs to FirstEnergy and Allegheny Energy. In accordance with its bylaws, Allegheny Energy will advance expenses to and, as necessary, indemnify all of its directors in connection with the foregoing proceedings. All applicable insurance policies may not provide sufficient coverage for the claims under these lawsuits, and rights of indemnification with respect to these lawsuits will continue whether or not the merger is completed. The defense or settlement of any lawsuit or claim that remains unresolved at the time the merger closes may adversely affect FirstEnergy s business, financial condition or results of operations.

Risks relating to FirstEnergy and Allegheny Energy

FirstEnergy and Allegheny Energy are, and will continue to be, subject to the risks described in Part I, Item 1A Risk Factors in FirstEnergy s Annual Report on Form 10-K for the year ended December 31, 2009, which was filed by FirstEnergy on February 19, 2010 with the SEC and Part I, Item 1A, Risk Factors of Allegheny Energy s Annual Report on Form 10-K for the year ended December 31, 2009, which was filed by Allegheny Energy on March 1, 2010 with the SEC, and in each case incorporated by reference in this joint proxy statement/prospectus. Please see the section entitled Where You Can Find More Information; Incorporation by Reference beginning on page 184 for how you can obtain information incorporated by reference in this joint proxy statement/prospectus.

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INFORMATION REGARDING THE FIRSTENERGY SPECIAL MEETING

Date, Time, Place and Purpose of the FirstEnergy Special Meeting

The special meeting of the shareholders of FirstEnergy will be held at the John S. Knight Center, 77 E. Mill Street, Akron, Ohio on September 14, 2010, at 9:30 a.m., local time. The purpose of the FirstEnergy special meeting is:

1. to consider and vote on the proposal to authorize and approve the share issuance and the other transactions contemplated by the merger agreement;

2. to consider and vote on the proposal to adopt the charter amendment;

3. to consider and vote on the proposal to adjourn the special meeting to another time or place, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to authorize and approve the share issuance and the other transactions contemplated by the merger agreement or adopt the charter amendment; and

4. to transact any other business that may properly come before the special meeting or any adjournment or postponement of the special meeting by or at the direction of the board of directors of FirstEnergy.

Recommendation of the FirstEnergy Board of Directors

The FirstEnergy board of directors unanimously approved the merger agreement and the transactions contemplated by the merger agreement and recommends that you vote FOR the proposal to authorize and approve the share issuance and the other transactions contemplated by the merger agreement, FOR the proposal to adopt the charter amendment and FOR the proposal to adjourn the FirstEnergy special meeting, if necessary or appropriate, to solicit additional proxies in favor of yle="font-family:inherit;font-size:10pt;">
Direct operating expenses increased $69.1 million, or 9.6%, during the year ended December 31, 2018 when compared with 2017 primarily due to the following:

- Fleet and related expenses increased $26.8 million primarily as a result of higher delivery and freight expense of $9.2 million mainly due to an increase in deliveries associated with higher rental volume, partially offset by better management of transportation costs through the roll-out of a third-party logistics program during 2018. Equipment re-rent expense increased $6.3 million to supplement our fleet to accommodate additional customer demand. Fuel expense increased by $5.8 million driven by higher fuel prices and sales volume and insurance expense increased $3.3 million due to certain claims during 2018.

- Personnel-related expenses increased $31.0 million as a result of continued investment in branch management to drive operational improvements and investments in branch operating personnel to support continued revenue growth.
- Other direct operating costs increased $11.3 million primarily due to increased depreciation and amortization of $5.0 million primarily related to an increase in service vehicles and an increase in facilities expense of $3.5 million. Additionally, restructuring expense increased by $2.9 million due to the closure of several branches during 2018, primarily in Canada.

Depreciation of rental equipment increased $8.6 million, or 2.3%, during the year ended December 31, 2018 when compared with 2017. The increase was due to a larger fleet size during the year ended December 31, 2018 when compared with 2017. The increase was partially offset by additional depreciation recognized during the year ended December 31, 2017, based on the reduction in residual values and the planned holding period of certain classes of assets, that did not recur during 2018.

Selling, general and administrative expenses decreased $7.6 million, or 2.4%, during the year ended December 31, 2018 when compared with 2017. The decrease was primarily due to a decrease in Spin-Off related costs and professional fees of $27.7 million partially offset by a $17.3 million increase in variable compensation related to commissions and incentives to drive revenue growth.

Impairment charges of $29.7 million were recorded during the year ended December 31, 2017. The impairments related to the write-off of intangible assets previously capitalized as part of the development of new financial and point of sale systems of $25.3 million and the impairment of certain rental equipment of $4.4 million that was deemed held for sale at December 31, 2017.

Interest expense, net decreased $3.0 million, or 2.1%, during the year ended December 31, 2018 when compared with 2017 primarily due to a reduction in interest expense on the Notes of $14.0 million resulting from lower average outstanding balances from the redemptions made in March and October 2017 and July 2018. Additionally, the loss on early extinguishment of debt on the redemption of the Notes was $5.4 million in 2018 compared to $11.4 million in 2017. Offsetting these decreases was an increase in interest expense on the ABL Credit Facility of $12.8 million based on higher average outstanding borrowings and a higher average interest rate during the year ended December 31, 2018 compared to 2017 and an increase of $5.5 million related to interest expense on our financing obligations that were established in the fourth quarter of 2017.

Income tax benefit was $0.3 million during the year ended December 31, 2018 compared to $224.7 million in the prior-year period. The reduction in income tax benefit in 2018 was primarily driven by the increase in pre-tax income to $68.8 million, which was offset by an overall net benefit related to the Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act") of $20.8 million. The income tax benefit during the year ended December 31, 2017 was primarily driven by an estimated $207.1 million net benefit related to the 2017 Tax Act and a pre-tax loss of $64.4 million.

Year Ended December 31, 2017 Compared with Year Ended December 31, 2016

Equipment rental revenue increased $146.3 million, or 10.8%, during the year ended December 31, 2017 when compared with 2016. The increase was attributable to a higher level of rental equipment on rent resulting from higher demand from existing customers as well as diversifying and growing our customer base, including through increases in our ProSolutions™ and ProContractor product offerings. Additionally, pricing increased by 1.9% during the year ended December 31, 2017 as compared to 2016.

Sales of rental equipment increased $68.3 million, or 55.8%, during the year ended December 31, 2017 when compared to 2016. During 2017, the level of rental equipment sold increased as part of our strategy to shift the mix of our fleet as well as higher sales due to the rotation of rental equipment based on normal holding periods. The corresponding cost of sales of rental equipment as a percentage of the related revenue was 100.6% in 2017 compared to 117.6% in 2016. Losses on the sale of rental equipment decreased in 2017 as the volume of sales made through the lower-margin auction channel was reduced and shifted toward the wholesale channel. The loss on sale of rental equipment in 2016 was primarily due to the higher level of sales through the auction channel of equipment used in the upstream oil and gas markets and equipment manufactured by certain suppliers as we reduced the number of brands of equipment we carry in our fleet.

Sales of new equipment, parts and supplies decreased $15.9 million, or 23.3%, during the year ended December 31, 2017 when compared with 2016. This decrease was driven by our implementation of changes to de-emphasize new equipment sales programs.

The cost of sales of new equipment, parts and supplies as a percentage of the related revenue was 75.5% for the year ended December 31, 2017 compared to 77.7% for 2016. The decrease was due to the mix of the new equipment sold.

Direct operating expenses increased $63.9 million, or 9.7%, during the year ended December 31, 2017 when compared to 2016 primarily due to the following:

- Fleet and related expenses increased $38.3 million primarily as a result of higher delivery and freight expense of $17.6 million mainly due to an increase in deliveries associated with higher equipment rental revenue. Equipment re-rent expense increased $7.3 million to supplement our fleet due to additional customer demand. Fuel expense increased by $6.2 million driven by higher gas prices and sales volume during the year ended December 31, 2017 as compared to 2016. Additionally, maintenance expense increased by $5.9 million in an effort to reduce our fleet unavailable for rent.

- Personnel-related expenses increased $21.9 million as a result of an increase in salary expense of $17.6 million primarily associated with continued investment in branch management to drive operational improvements and investments in branch operating personnel to support revenue growth. Additionally, there was an increase in benefits expense of $4.6 million primarily due to higher healthcare insurance costs as a stand-alone company.

- Other direct operating costs increased $3.7 million primarily due to increased depreciation of $7.0 million related to the increase in service vehicles. These increases were partially offset by a decrease in restructuring expense of $5.7 million resulting from charges taken for several location closures during 2016 and 2015.

Depreciation of rental equipment increased $28.4 million, or 8.1%, during the year ended December 31, 2017 when compared with 2016. The increase was due to a larger fleet size during the year ended December 31, 2017 as compared to the same period in 2016 and an increase of $18.0 million due to the impact of the 2016 reduction in residual values and the planned holding period of certain classes of equipment.

Selling, general and administrative expenses increased $44.9 million, or 16.3%, during the year ended December 31, 2017 compared to 2016. The increase is primarily due to higher stand-alone public company costs and information technology costs related to the Spin-Off of $19.8 million, a $14.8 million increase for additional sales personnel and related commissions to drive revenue growth, and an $8.5 million increase in provision for bad debt attributable to higher revenue and levels of receivables.

Impairment charges of $29.7 million were recorded during the year ended December 31, 2017. The impairments related to the write-off of intangible assets previously capitalized as part of the development of new financial and point of sale systems of $25.3 million and the impairment of certain rental equipment of $4.4 million that was deemed held for sale at December 31, 2017. See Note 7, "Impairment" to the notes to our consolidated financial statements for further information.

Interest expense, net increased $55.8 million, or 66.3%, during the year ended December 31, 2017 compared to the prior-year period due to interest incurred on the Notes issued in June 2016, an $11.4 million loss on the early extinguishment of a portion of the Notes, and borrowings under the ABL Credit Facility. The increases were partially offset by decreases in interest on the predecessor asset-based revolving credit facility (the "Predecessor ABL Facility") and loans from THC and its affiliates, which were settled as part of the Spin-Off in June 2016.

Other income was $2.0 million during the year ended December 31, 2017, primarily comprised of earnings from our joint ventures and proceeds received from insurance. Other income was $3.2 million during the year ended December 31, 2016, primarily comprised of earnings from our joint ventures.

Income tax benefit was $224.7 million during the year ended December 31, 2017 compared to an income tax provision of $14.8 million in 2016. The income tax benefit during the year ended December 31, 2017 was primarily driven by an estimated $207.1 million net benefit related to the enactment of the 2017 Tax Act and pre-tax losses. Income tax expense in 2016 included $11.2 million of state taxes, primarily due to the Spin-Off, and $3.2 million of non-deductible items and transaction costs related to the Spin-Off.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

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 December 31, 2018, 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 December 31, 2018 consisted of cash and cash equivalents and unused commitments under our ABL Credit Facility. See "Borrowing Capacity and Availability" below. Our practice is to maintain sufficient liquidity through cash from operations, our 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 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.

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

	Years Ended December 31,			2018 vs. 2017	2017 vs. 2016
	2018	2017	2016	$ Change	$ Change
Cash provided by (used in):					
Operating activities	$559.1	$349.1	$433.4	$210.0	$(84.3)
Investing activities	(567.0)	(410.0)	(395.0)	(157.0)	(15.0)
Financing activities	(4.2)	70.1	(38.7)	(74.3)	108.8
Effect of exchange rate changes	(1.6)	1.3	(0.4)	(2.9)	1.7
Net change in cash and cash equivalents	$(13.7)	$10.5	$(0.7)	$(24.2)	$11.2

Year Ended December 31, 2018 Compared with Year Ended December 31, 2017

Operating Activities

During the year ended December 31, 2018, we generated $210.0 million more cash from operating activities compared with 2017. The increase was related to higher pre-tax income during the year ended December 31, 2018 as compared 2017, primarily resulting from higher revenues and lower professional fees and other Spin-Off related costs and the timing of collections of accounts receivable based on increased collection efforts, during the year ended December 31, 2018 as compared to 2017.

Investing Activities

Cash used in investing activities increased $157.0 million for the year ended December 31, 2018 as compared to 2017. 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.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Financing Activities

Cash used in financing activities was $4.2 million for the year ended December 31, 2018 as compared to cash provided of $70.1 million for 2017. Cash flows used in financing activities during the year ended December 31, 2018 primarily represents our changes in debt, which included the net proceeds of $133.5 million on our revolving lines of credit and securitization, offset by the redemption of $123.5 million of our Notes and $17.0 million of payments on capital leases and financing obligations. Cash provided by financing activities for the year ended December 31, 2017 included the net draw down of $222.7 million on our ABL Credit Facility and AR Facility and proceeds of $119.5 million received from financing obligations, partially offset by the redemption of $247.0 million of our Notes.

Year Ended December 31, 2017 Compared with Year Ended December 31, 2016

Operating Activities

During the year ended December 31, 2017, cash provided by operating activities decreased $84.3 million compared to 2016. The decrease was primarily related to a $61.0 million increase in interest payments as well as lower operating income resulting from higher information technology and other stand-alone public company costs, as well as the timing of collections of accounts receivable and payments of liabilities during the year ended December 31, 2017 as compared to 2016.

Investing Activities

Cash used in investing activities increased $15.0 million during the year ended December 31, 2017 as compared to 2016. Our primary use of cash in investing activities is for the acquisition of rental equipment and non-rental capital expenditures, which increased primarily due to investments in our information technology, service vehicles and facilities, and was partially offset by a decrease in our investments in rental equipment. We renew our equipment and manage our fleet of rental equipment in line with customer demand. Changes in our net capital expenditures are described in more detail in the "Capital Expenditures" section below.

Financing Activities

Cash flows from financing activities increased $108.8 million during the year ended December 31, 2017 as compared to 2016. Cash flows from financing activities during the year ended December 31, 2017 primarily represents our changes in debt, which included the net draw down of $222.7 million on our revolving lines of credit and proceeds of $119.5 million received from financing obligations, partially offset by the redemption of $247.0 million of our Notes. Cash used in financing activities in 2016 mainly related to $2.1 billion of financing and transfer activities with Hertz Holdings, which primarily funded our operations prior to the Spin-Off and was settled using total proceeds of $2.1 billion, net of issuance costs, from our Notes and ABL Credit Facility.

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).

	Years Ended December 31,		
	2018	2017	2016
Rental equipment expenditures	$771.4	$501.4	$468.3
Disposals of rental equipment	(272.3)	(160.1)	(115.4)
Net rental equipment expenditures	$499.1	$341.3	$352.9

Net capital expenditures for rental equipment increased $157.8 million during the year ended December 31, 2018 compared to 2017. During 2018, we purchased more rental equipment to increase the amount of equipment available for rent based on higher demand from our customers, with increased purchases in our ProSolutions™ and ProContractor equipment. We also sold more rental equipment to improve the equipment mix and reduce fleet age.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

Net capital expenditures for rental equipment decreased $11.6 million during the year ended December 31, 2017 compared to 2016. During 2017, we purchased more rental equipment as part of our fleet mix transformation out of large earthmoving equipment and into more compact earthmoving, ProSolutions™ and ProContractor equipment. Our disposals also increased in 2017 due to a shift in the mix and rotation of our fleet.

In 2019, we expect our net rental equipment capital expenditures to be in the range of $370.0 million to $410.0 million.

Borrowing Capacity and Availability

Our 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."

In connection with the AR Facility, we sell accounts receivable on an ongoing basis to a wholly-owned special-purpose entity (the "SPE"). 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 ABL Credit Facility and the Notes and, as such, are generally not 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 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 Facilities. 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 Facilities (i.e., the amount of debt we could borrow given the collateral we possess at such time).

As of December 31, 2018, the following was available to us (in millions):

	Remaining Capacity	Availability Under Borrowing Base Limitation
ABL Credit Facility	$ 640.2	$ 640.2
AR Facility	—	—
Total	$ 640.2	$ 640.2

At December 31, 2018, the Company's borrowing base was capped at $175.0 million by the aggregate commitments under the AR Facility. Subsequent to December 31, 2018, the borrowing base under the AR Facility declined to $159.1 million.

In addition, as of December 31, 2018, the Company's subsidiary in China had uncommitted credit facilities of which $5.4 million was available for borrowing.

As of December 31, 2018, $24.6 million of standby letters of credit were issued and outstanding under the ABL Credit Facility, none of which had been drawn upon. The ABL Credit Facility had $225.4 million available under the letter of credit facility sublimit, subject to borrowing base restrictions.

Covenants

Our ABL Credit Facility, AR Facility and our 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 ABL Credit Facility, our AR Facility and our Notes, we are not subject to ongoing financial maintenance covenants; however, under the 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 December 31, 2018, the appropriate levels of liquidity have been maintained, therefore this financial maintenance covenant is not applicable.

At December 31, 2018, Herc Holdings' balance sheet was substantially identical to that of Herc, the borrower, with the exception of the components of shareholders equity. For the years ended December 31, 2018 and 2017, the statements of operations of Herc Holdings and Herc were identical.

For further information on the terms of our Notes, ABL Credit Facility and AR Facility see Note 9, "Debt" included in Part I, Item 1 "Financial Statements and Supplementary Data" of this Report. For a discussion of the risks associated with our significant indebtedness, see Part I, Item 1A "Risk Factors" contained in this Report.

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

The following table details the contractual cash obligations for debt and related interest payable, capital and operating leases, and other purchase obligations as of December 31, 2018 (in millions):

		Payments Due by Period			
	Total	2019	2020-2021	2022-2023	After 2023
Debt principal, including current maturities	$2,129.3	$4.6	$ 1,260.2	427.0	$437.5
Interest on debt [a]	425.4	120.8	209.3	81.2	14.1
Financing obligations [b]	159.6	8.5	17.0	17.0	117.1
Capital lease obligations [c]	40.3	23.6	14.5	2.2	—
Operating lease obligations [d]	202.2	34.6	53.0	38.8	75.8
Purchase obligations[e]	18.3	8.3	8.2	1.8	—
Total	$2,975.1	$200.4	$ 1,562.2	$ 568.0	$644.5

(a) Estimated interest payments have been calculated based on the applicable interest rates as of December 31, 2018.
(b) Includes obligations under financing agreements primarily for the lease of 44 properties. See Note 10, "Financing Obligations" to the notes to our consolidated financial statements included in Part II, Item 8 of this Report.
(c) Includes obligations under lease agreements primarily for service vehicles. See Note 14, "Leases " to the notes to our consolidated financial statements included in Part II, Item 8 of this Report.

(d) Includes obligations under lease agreements for real estate and office and computer equipment. Such obligations are reflected to the extent of their minimum non-cancelable terms. See Note 14, "Leases " to the notes to our consolidated financial statements included in Part II, Item 8 of this Report.

(e) Purchase obligations represent agreements to purchase goods or services that are legally binding on us and that specify all significant terms, including fixed or minimum quantities; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Only the minimum non-cancelable portion of purchase agreements and related cancellation penalties are included as obligations. In the case of contracts that state minimum quantities of goods or services, amounts reflect only the stipulated minimums; all other contracts reflect estimated amounts.

The table excludes our pension and other postretirement benefit obligations. See Note 11, "Employee Retirement Benefits" to the notes to our consolidated financial statements included in Part II, Item 8 of this Report.

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HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Continued)

OFF-BALANCE SHEET COMMITMENTS AND ARRANGEMENTS

As of December 31, 2018 and 2017, the following guarantees (including indemnification commitments) were issued and outstanding.

Indemnification Obligations

In the ordinary course of business, we execute contracts involving indemnification obligations customary in the relevant industry and indemnifications related to a specific transaction such as the sale of a business. These indemnification obligations might include claims relating to the following: environmental matters; condition of property; intellectual property rights; governmental regulations and employment-related matters; customer, supplier and other commercial contractual relationships; 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. We regularly evaluate the probability of having to incur costs associated with these indemnification obligations and accrue for expected losses that are probable and estimable. Also see Note 21, "Arrangements with New Hertz" to the notes to our consolidated financial statements included in Part II, Item 8 of this Report. For discussion of the risks associated with indemnification obligations in the context of divestitures see "Other Operational Risks" in Part I, Item 1A "Risk Factors" contained in this Report.

Contingencies, Environmental Matters and Guarantee

The information concerning the ongoing securities litigation and governmental investigation contained in Part I, Item 3 "Legal Proceedings" of this Report and the information concerning other contingencies, including environmental contingencies and the amount currently held in reserve for environmental matters and our guarantee is contained in Note 16, "Commitments and Contingencies" to the notes to our consolidated financial statements included in Part II, Item 8 of this Report is incorporated herein by reference. The additional information concerning environmental matters included in Part I, Item 1 "Business—Environmental, Health and Safety Matters and Governmental Regulation" of this Report is also incorporated herein by reference.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of the consolidated financial statements requires management to make estimates and judgments that affect the reported amounts in our consolidated financial statements and accompanying notes.

Certain of our accounting policies, as discussed below, involve a higher degree of judgment and complexity in their application and, therefore, represent the critical accounting policies used in the preparation of our financial statements. If different assumptions or conditions were to prevail, the results could be materially different from our reported results. For additional discussion of our critical accounting policies, as well as our significant accounting policies, see Note 2, "Basis of Presentation and Recently Issued Accounting Pronouncements" to the notes to our consolidated financial statements included in Part II, Item 8 of this Report.

Revenue Recognition

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. Also included in equipment rental revenue are fees for equipment delivery and pick-up and fees for our rental protection program, which allows customers to limit risk of financial loss in the event our equipment is damaged or lost. Delivery and pick-up fees are recognized as revenue when the services are performed and fees related to our rental protection program are recognized over the length of the contract term.

We recognize 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.
Service and other revenue is recognized as the services are performed.

Rental Equipment

Our principal assets are rental equipment, which represented 69.4% and 66.9% of our total assets as of December 31, 2018 and 2017, respectively. Rental equipment consists of equipment utilized in our equipment rental operations. When rental equipment is acquired, we use historical experience, industry residual value guidebooks and the monitoring of market conditions to set depreciation rates. Generally, we estimate the period that we will hold the asset, primarily based on historical measures of the amount of equipment usage and the targeted age of equipment at the time of disposal. We also estimate the residual value of the applicable rental equipment at the expected time of disposal. The residual value for rental equipment is affected by factors which include equipment age and amount of usage. Depreciation is recorded over the estimated holding period. Depreciation rates are reviewed regularly based on management's ongoing assessment of present and estimated future market conditions, their effect on residual values at the time of disposal and the estimated holding periods. Market conditions for used equipment sales also can be affected by external factors such as the economy, natural disasters, fuel prices, supply of similar used equipment, the market price for similar new equipment and incentives offered by manufacturers. As a result of this ongoing assessment, we make periodic adjustments to depreciation rates of rental equipment in response to changing market conditions.

Defined Benefit Pension Obligations

Prior to the Spin-Off, we participated in certain THC-sponsored U.S. defined benefit plans covering substantially all U.S. employees, as well as certain non-U.S. defined benefit plans covering eligible non-U.S. employees. For each of these plans, we recorded our portion of the expense and the related obligations which were actuarially determined and the assets were allocated proportionally. In July 2016, we established the Herc Holdings Retirement Plan (the "Plan"). All assets and liabilities under the THC-sponsored plans attributable to current and former employees of the equipment rental business were transferred to the Plan following the Spin-Off. Additionally, pursuant to various collective bargaining agreements, certain union-represented employees participate in multiemployer pension plans. Employee pension costs and obligations are dependent on assumptions used by actuaries in calculating such amounts. These assumptions include discount rates, salary growth, long-term return on plan assets, retirement rates, mortality rates and other factors. Actual results that differ from our assumptions are accumulated and amortized over future periods and, therefore, generally affect our recognized expense in such future periods. While we believe that the assumptions used are appropriate, significant differences in actual experience or significant changes in assumptions would affect our pension costs and obligations. The various employee-related actuarial assumptions (e.g., retirement rates, mortality rates and salary growth) used in determining pension costs and plan liabilities are reviewed periodically by management, assisted by the enrolled actuary, and updated as warranted. The discount rate used to value the pension liabilities and related expenses and the expected rate of return on plan assets are the two most significant assumptions impacting pension expense. The discount rate used is a market-based rate as of the valuation date. For the expected return on assets assumption, we use a forward-looking rate that is based on the expected return for each asset class (including the value added by active investment management), weighted by the target asset allocation. The past annualized long-term performance of the Plan's assets has generally been in line with the long-term rate of return assumption.

See Note 11, "Employee Retirement Benefits" to the notes to our consolidated financial statements included in Part II, Item 8 of this Report.

Goodwill and Indefinite-Lived Intangible Assets

On an annual basis and at interim periods when circumstances require, we test the recoverability of our goodwill. Goodwill impairment is deemed to exist if the carrying value of goodwill of a reporting unit exceeds its fair value. A reporting unit is an operating segment or a business one level below that operating segment (the component level) if discrete financial information is prepared and regularly reviewed by segment management. However, components are aggregated as a single reporting unit if they have similar economic characteristics. We have assessed the guidance and performed our analysis using our one reporting unit, worldwide equipment rental.

Pursuant to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 350 ("Topic 350"), Intangibles-Goodwill and Other, an entity may first assess qualitative factors to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the quantitative goodwill impairment test. Various factors are considered in performing the qualitative test, including macroeconomic conditions, industry and market considerations, the overall financial performance of our reporting unit, our stock price and the excess amount between our reporting unit’s fair value and carrying value as indicated on our most recent quantitative assessment.

When assessing the fair value of our reporting units using a quantitative approach, we estimate the fair value using a combination of an income approach on the present value of estimated future cash flows and a market approach based on published earnings multiples of comparable entities with similar operations and economic characteristics as well as acquisition multiples paid in recent transactions. The key assumptions used in the discounted cash flow valuation model for impairment testing include discount rates, growth rates, cash flow projections and terminal value rates. Discount rates are set by using the weighted average cost of capital, or "WACC," methodology. The WACC methodology considers market and industry data as well as company specific risk factors for each reporting unit in determining the appropriate discount rates to be used. The discount rate utilized for each reporting unit is indicative of the return an investor would expect to receive for investing in such a business. The cash flows represent management's most recent planning assumptions. These assumptions are based on a combination of industry outlooks, views on general economic conditions and our expected pricing plans. Terminal value rate determination follows common methodology of capturing the present value of perpetual cash flow estimates beyond the last projected period assuming a constant WACC and low long-term growth rates. If the carrying value of the reporting unit is greater than its fair value, we recognize an impairment charge for the amount equal to that excess. A significant decline in the projected cash flows or a change in the WACC used to determine fair value could result in a future goodwill impairment charge.

Indefinite-lived intangible assets, primarily trademarks, are not amortized but are evaluated annually for impairment and whenever events or changes in circumstances indicate that the carrying amount of this asset may exceed its fair value. If the carrying value of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess.

In connection with our impairment analysis for goodwill and indefinite-lived intangible assets conducted as of October 1, 2018, we assessed qualitative factors as described above to determine if it is more likely than not that goodwill and indefinite-lived assets may be impaired and concluded that there was no impairment related to such assets.

See Note 6, "Goodwill and Intangible Assets" to the notes to our consolidated financial statements included in Part II, Item 8 of this Report.

Finite-Lived Intangible and Long-Lived Assets

Intangible assets include technology, customer relationships, trade names and other intangibles. Intangible assets with finite lives are amortized using the straight-line method over the estimated economic lives of the assets, which range from three to 10 years. Long-lived assets, including intangible assets with finite lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets that management expects to hold and use is based on the estimated fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or estimated fair value less costs to sell.

Income Taxes

For the first half of 2016, we were included in the consolidated income tax returns of Hertz Holdings. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rates is recognized in the statement of operations in the period that includes the enactment date. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. Subsequent changes to enacted tax rates will result in changes to deferred taxes and any related valuation allowances. We have recorded a deferred tax asset for unutilized net operating loss carryforwards in various tax jurisdictions. The taxing authorities may examine the positions that led to the generation of those net operating losses. If the utilization of any of those losses are disallowed, a deferred tax asset may have to be reduced.

See Note 13, "Income Taxes" to the notes to our consolidated financial statements included in Part II, Item 8 of this Report.

Financial Instruments

We are exposed to a variety of market risks, including the effects of changes in interest rates and foreign currency exchange rates. We manage exposure to these market risks through regular operating and financing activities and, when deemed appropriate, through the use of financial instruments. Financial instruments are viewed as risk management tools and have not been used for speculative or trading purposes. In addition, 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. We account for all financial instruments in accordance with U.S. GAAP, which requires that they be recorded on the balance sheet as either assets or liabilities measured at their fair value. For financial instruments that are designated and qualify as hedging instruments, we designate the hedging instrument, based upon the exposure being hedged, as either a fair value hedge or a cash flow hedge. The effective portion of changes in fair value of financial instruments designated as cash flow hedging instruments is recorded as a component of other comprehensive income (loss). Amounts included in accumulated other comprehensive income (loss) for cash flow hedges are reclassified into earnings in the same period that the hedged item is recognized in earnings. The ineffective portion of changes in the fair value of financial instruments designated as cash flow hedges is recognized currently in earnings within the same line item as the hedged item, based upon the nature of the hedged item. For financial instruments that are not part of a qualified hedging relationship, the changes in their fair value are recognized currently in earnings.

Stock Based Compensation

For all periods presented prior to the Spin-Off, all stock-based compensation awards held by our employees were granted by Hertz Holdings, under various Hertz Holdings' sponsored plans, based on the common stock of Hertz Holdings. In connection with the Spin-Off, outstanding equity awards were adjusted and converted in accordance with a formula designed to preserve the intrinsic economic value of the original equity awards after taking into account the Spin-Off and the reverse stock split. All stock-based compensation award disclosures are measured in terms of common stock of Herc Holdings. The cost of employee services received in exchange for an award of equity instruments is based on the grant date fair value of the award. That cost is recognized over the period during which the employee is required to provide service in exchange for the award, referred to as the vesting period. In addition to the service vesting condition, the performance stock units had an additional vesting condition, which called for the number of units that will be awarded based on achievement of a certain level of corporate EBITDA, or other performance measures as defined in the applicable award agreements, over the applicable measurement period.

We estimated the fair value of options issued at the date of grant using a Black-Scholes option-pricing model, which includes assumptions related to volatility, expected term, dividend yield and risk-free interest rate. These factors combined with the stock price on the date of grant result in a fixed expense which is recorded on a straight-line basis over the vesting period. The assumed volatility was calculated based on a blend of peer group volatility and implied volatility as we do not have sufficient stock price data to calculate historical volatility. The assumed dividend yield is zero. The risk-free interest rate is the implied zero-coupon yield for U.S. Treasury securities having a maturity approximately equal to the expected term of the options, as of the grant dates.

See Note 12, "Stock-Based Compensation" to the notes to our consolidated financial statements included in Part II, Item 8 of this Report.

RECENT ACCOUNTING PRONOUNCEMENTS

For a discussion of recent accounting pronouncements, see Note 2, "Basis of Presentation and Recently Issued Accounting Pronouncements" to the notes to our consolidated financial statements included in Part II, Item 8 of this Report.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

RISK MANAGEMENT

For a discussion of additional risks arising from our operations, see Part I, Item 1A "Risk Factors" included in this Report.

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.

Interest Rate Risk

We have assessed our exposure to changes in interest rates by analyzing the sensitivity to our earnings assuming various changes in market interest rates. Assuming a hypothetical increase of one percentage point in interest rates on our ABL Credit Facility, AR Facility and cash and cash equivalents as of December 31, 2018, our pre-tax earnings would decrease by an estimated $12.3 million over a 12-month period.

From time to time, we may enter into interest rate swap agreements to manage interest rate risk on our mix of fixed and floating rate debt. See Note 17, "Financial Instruments" to the notes to our consolidated financial statements included in Part II, Item 8 of this Report.

Consistent with the terms of certain agreements governing our debt obligations, we may decide to hedge a portion of the floating rate interest exposure under the ABL Credit Facility to provide protection in respect of such exposure.

Foreign Currency Risk

We have foreign currency exposure to exchange rate fluctuations, primarily with respect to the Canadian dollar, Euro, Chinese yuan and British pound.

We manage our foreign currency risk primarily by incurring, to the extent practicable, operating and financing expenses in the local currency in the countries in which we operate, including making fleet and equipment purchases and borrowing locally.

We also manage exposure to fluctuations in currency risk on cross currency intercompany loans we make to certain of our subsidiaries by entering into foreign currency forward contracts, when possible, which are intended to offset the impact of foreign currency movements on the underlying intercompany loan obligations.

We do not hedge our operating results against currency movement as they are primarily translational in nature. Using foreign currency forward rates as of December 31, 2018, each hypothetical one percentage point change in foreign currency movements would not have a significant impact on our revenue or earnings.

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HERC HOLDINGS INC. AND SUBSIDIARIES

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Board of Directors
and Stockholders of
Herc Holdings Inc.

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Herc Holdings Inc. and its subsidiaries (the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income (loss), changes in equity and cash flows for each of the three years in the period ended December 31, 2018, including the related notes and schedule of valuation and qualifying accounts for each of the three years in the period ended December 31, 2018 appearing on page 91 (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the COSO.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Tampa, Florida
February 28, 2019

We have served as the Company's auditor since 2013.

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

	December 31, 2018	December 31, 2017
ASSETS		
Cash and cash equivalents	$ 27.8	$41.5
Receivables, net of allowances of $21.5 and $26.9, respectively	332.4	386.3
Inventory	17.9	23.7
Prepaid and other current assets	22.3	23.0
Total current assets	400.4	474.5
Rental equipment, net	2,504.7	2,374.6
Property and equipment, net	282.5	286.3
Intangible assets, net	293.5	283.9
Goodwill	91.0	91.0
Other long-term assets	38.1	39.4
Total assets	$ 3,610.2	$3,549.7
LIABILITIES AND EQUITY		
Current maturities of long-term debt and financing obligations	$ 29.9	$25.4
Accounts payable	147.0	152.0
Accrued liabilities	122.3	113.3
Total current liabilities	299.2	290.7
Long-term debt, net	2,129.9	2,137.1
Financing obligations, net	116.3	112.9
Deferred tax liabilities	448.3	462.8
Other long-term liabilities	43.8	35.8
Total liabilities	3,037.5	3,039.3
Commitments and contingencies (Note 16)		
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, 31.2 and 31.1 shares issued and 28.5 and 28.3 shares outstanding	0.3	0.3
Additional paid-in capital	1,777.9	1,763.1
Accumulated deficit	(391.1)	(462.4)
Accumulated other comprehensive loss	(122.4)	(98.6)
Treasury stock, at cost, 2.7 shares and 2.7 shares	(692.0)	(692.0)
Total equity	572.7	510.4
Total liabilities and equity	$ 3,610.2	$3,549.7

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

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

	Years Ended December 31,		
	2018	2017	2016
Revenues:			
Equipment rental	$1,658.3	$1,499.0	$1,352.7
Sales of rental equipment	256.2	190.8	122.5
Sales of new equipment, parts and supplies	49.3	52.3	68.2
Service and other revenue	12.9	12.4	11.4
Total revenues	1,976.7	1,754.5	1,554.8
Expenses:			
Direct operating	788.9	719.8	655.9
Depreciation of rental equipment	387.5	378.9	350.5
Cost of sales of rental equipment	244.3	192.0	144.0
Cost of sales of new equipment, parts and supplies	37.7	39.5	53.0
Selling, general and administrative	312.6	320.2	275.3
Impairment	0.1	29.7	—
Interest expense, net	137.0	140.0	84.2
Other income, net	(0.2)	(1.2)	(3.2)
Total expenses	1,907.9	1,818.9	1,559.7
Income (loss) before income taxes	68.8	(64.4)	(4.9)
Income tax benefit (provision)	0.3	224.7	(14.8)
Net income (loss)	$69.1	$160.3	$(19.7)
Weighted average shares outstanding:			
Basic	28.4	28.3	28.3
Diluted	28.9	28.6	28.3
Earnings (loss) per share:			
Basic	$2.43	$5.66	$(0.70)
Diluted	$2.39	$5.60	$(0.70)

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

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

	Years Ended December 31,		
	2018	2017	2016
Net income (loss)	$69.1	$160.3	$(19.7)
Other comprehensive income (loss):			
Foreign currency translation adjustments	(20.0)	17.7	15.8
Unrealized gains and (losses) on hedging instruments:			
Unrealized gains on hedging instruments	1.5	2.1	—
Income tax provision related to hedging instruments	(0.4)	(0.8)	—
Pension and postretirement benefit liability adjustments:			
Amortization of net losses and settlement losses included in net periodic pension cost	1.9	2.3	1.4
Pension and postretirement benefit liability adjustments arising during the period	(5.6)	—	0.1
Income tax benefit (provision) related to pension and postretirement plans	1.0	(1.2)	(0.6)
Total other comprehensive income (loss)	(21.6)	20.1	16.7
Total comprehensive income (loss)	$47.5	$180.4	$(3.0)

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

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HERC HOLDINGS INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In millions)

Balance at:	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Equity
December 31, 2015	28.2	$ 0.3	$ 3,734.6	$ (605.5)	$ (135.4)	$ (692.0)	$ 2,302.0
Net loss	—	—	—	(19.7)	—	—	(19.7)
Other comprehensive income	—	—	—	—	16.7	—	16.7
Net settlement on vesting of equity awards	—	—	(0.5)	—	—	—	(0.5)
Stock-based compensation charges	—	—	5.5	—	—	—	5.5
Exercise of stock options and other	0.1	—	10.0	—	—	—	10.0
Distribution and net transfers to THC	—	—	(1,996.3)	—	—	—	(1,996.3)
December 31, 2016	28.3	0.3	1,753.3	(625.2)	(118.7)	(692.0)	317.7
Net income	—	—	—	160.3	—	—	160.3
Other comprehensive income	—	—	—	—	20.1	—	20.1
Cumulative effect of a change in accounting for stock-based payments				2.5			2.5
Net settlement on vesting of equity awards	—	—	(0.1)	—	—	—	(0.1)
Stock-based compensation charges	—	—	10.1	—	—	—	10.1
Employee stock purchase plan	—	—	1.1	—	—	—	1.1
Exercise of stock options	—	—	0.7	—	—	—	0.7
Net transfers with THC	—	—	(2.0)	—	—	—	(2.0)
December 31, 2017	28.3	0.3	1,763.1	(462.4)	(98.6)	(692.0)	510.4
Net income	—	—	—	69.1	—	—	69.1
Cumulative effect of accounting change (Note 13)	—	—	—	2.2	(2.2)	—	—
Other comprehensive income	—	—	—	—	(21.6)	—	(21.6)
Net settlement on vesting of equity awards	0.1	—	(1.1)	—	—	—	(1.1)
Stock-based compensation charges	—	—	13.4	—	—	—	13.4
Employee stock purchase plan	—	—	2.0	—	—	—	2.0
Exercise of stock options	0.1	—	0.5	—	—	—	0.5
December 31, 2018	28.5	$ 0.3	$ 1,777.9	$ (391.1)	$ (122.4)	$ (692.0)	$ 572.7

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

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

	Years Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net income (loss)	$69.1	$160.3	$(19.7)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation of rental equipment	387.5	378.9	350.5
Depreciation of property and equipment	51.9	46.8	39.7
Amortization of intangible assets	5.4	4.7	5.1
Amortization of deferred debt and financing obligations costs	6.3	6.4	5.6
Stock-based compensation charges	13.4	10.1	5.5
Impairment	0.1	29.7	—
Provision for receivables allowance	57.8	52.4	44.4
Deferred taxes	(10.5)	(228.4)	12.3
Loss (gain) on sale of rental equipment	(11.9)	1.2	21.5
Income from joint ventures	(1.6)	(1.9)	(2.3)
Other	3.8	5.8	8.6
Changes in assets and liabilities:			
Receivables	(29.9)	(131.6)	(59.2)
Inventory, prepaid and other assets	1.8	(2.1)	(19.0)
Accounts payable	(1.7)	(10.0)	9.2
Accrued liabilities and other long-term liabilities	17.6	26.8	31.2
Net cash provided by operating activities	559.1	349.1	433.4
Cash flows from investing activities:			
Rental equipment expenditures	(771.4)	(501.4)	(468.3)
Proceeds from disposal of rental equipment	272.3	160.1	115.4
Non-rental capital expenditures	(77.6)	(74.6)	(47.8)
Proceeds from disposal of property and equipment	9.7	5.9	5.7
Net cash used in investing activities	(567.0)	(410.0)	(395.0)

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

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

	Years Ended December 31,		
	2018	2017	2016
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	—	—	1,235.0
Repayments of long-term debt	(123.5)	(247.0)	—
Proceeds from revolving lines of credit and securitization	737.5	561.9	1,791.0
Repayments on revolving lines of credit and securitization	(604.0)	(339.2)	(881.0)
Proceeds from financing obligations	6.4	119.5	—
Principal payments under capital lease and financing obligations	(17.0)	(16.7)	(12.4)
Debt extinguishment costs	(3.7)	(7.4)	—
Payment of financing obligation and debt financing costs	(1.3)	(2.7)	(41.5)
Proceeds from exercise of stock options and other	0.5	0.7	10.0
Proceeds from employee stock purchase plan	2.0	1.1	—
Net settlement on vesting of equity awards	(1.1)	(0.1)	(0.5)
Distributions and net transfers to THC	—	—	(2,071.9)
Net financing activities with affiliates	—	—	(67.4)
Net cash provided by (used in) financing activities	(4.2)	70.1	(38.7)
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	(1.6)	1.3	(0.4)
Net increase (decrease) in cash, cash equivalents and restricted cash during the period	(13.7)	10.5	(0.7)
Cash, cash equivalents and restricted cash at beginning of period	41.5	31.0	31.7
Cash, cash equivalents and restricted cash at end of period	$27.8	$41.5	$ 31.0
Supplemental disclosures of cash flow information:			
Cash paid for interest	$129.3	$131.7	$ 70.7
Cash paid (refunded) for income taxes, net	$13.4	$(5.5)	$ 2.9
Supplemental disclosures of non-cash investing activity:			
Purchases of rental equipment in accounts payable	$—	$22.8	$ 15.1
Disposals of rental equipment in accounts receivable	$—	$12.6	$ —
Non-rental capital expenditures in accounts payable	$—	$—	$ 7.8
Supplemental disclosures of non-cash financing activity:			
Non-cash settlement of transactions with THC through equity	$—	$2.0	$ 75.6
Supplemental disclosures of non-cash investing and financing activity:			
Equipment acquired through capital lease	$2.6	$0.4	$ 20.3

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

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HERC HOLDINGS INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1—Background

Herc Holdings Inc. ("Herc Holdings" or the "Company") is one of the leading equipment rental suppliers with approximately 270 locations as of December 31, 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, 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.”

For accounting purposes, due to the relative significance of New Hertz to Hertz Holdings, New Hertz was considered the spinnor or divesting entity in the Spin-Off and Herc Holdings was considered the spinnee or divested entity. As a result, despite the legal form of the transaction, New Hertz was the “accounting successor” to Hertz Holdings. Under the accounting rules, the historical financial information of New Hertz is required to reflect the financial information of Hertz Holdings, as if New Hertz spun off Herc Holdings in the Spin-Off. In contrast, the historical financial information of Herc Holdings, including certain information presented in this Report, reflects the financial information of the equipment rental business and certain parent legal entities of Herc as historically operated as part of Hertz Holdings, as if Herc Holdings was a stand-alone company for all periods presented. The historical financial information of the Company presented in these consolidated financial statements is not necessarily indicative of what the Company's results of operations actually would have been had it operated as a separate, independent company for the year ended December 31, 2016.

Note 2—Basis of Presentation and Recently Issued Accounting Pronouncements

Basis of Presentation

The Company prepares its consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). 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 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, accounting for income taxes, and prior to the Spin-off allocated general corporate expenses from THC, among others.

Principles of Consolidation

The 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 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.

Stock Split

On June 30, 2016, the Company effected a 1-for-15 reverse stock split. The reverse stock split reduced the number of authorized shares of common stock and preferred stock to 133.3 million and 13.3 million, respectively. All share data and per share amounts have been retroactively adjusted for the reverse stock split in the accompanying consolidated financial statements and notes thereto for the year ended December 31, 2016.

Reclassifications

Certain amounts in prior years have been reclassified to conform with the presentation in the current year.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and highly liquid investments with an original maturity of three months or less.

Concentration of Credit Risk

The Company's cash and cash equivalents are held in checking accounts, various investment grade institutional money market accounts or bank term deposits. Deposits held at banks may exceed the amount of insurance provided on such deposits. Generally, these deposits may be redeemed upon demand and are maintained with financial institutions with reputable credit and therefore bear minimal credit risk. The Company seeks to mitigate such risks by spreading the risk across multiple counterparties and monitoring the risk profiles of these counterparties. In addition, the Company has credit risk from financial instruments used in hedging activities. The Company limits its exposure relating to financial instruments by diversifying the financial instruments among various counterparties, which consist of major financial institutions.

No single customer accounted for more than 3% of the Company’s equipment rental revenue during the years ended December 31, 2018, 2017 and 2016. As of December 31, 2018 and 2017, no single customer accounted for more than 3% of accounts receivable.

Receivables

Receivables are stated net of allowances and represent credit extended to customers and manufacturers that satisfy defined credit criteria. The estimate of the allowance for doubtful accounts is based on the Company's historical experience and its judgment as to the likelihood of ultimate collection. Actual receivables are written-off against the allowance for doubtful accounts when the Company determines the balance will not be collected. Estimates for future credit memos are based on historical experience and are reflected as reductions to revenue, while the provision for bad debt is reflected as a component of "Selling, general and administrative expenses" in the Company's consolidated statements of operations.

Inventory

Inventory is comprised of finished goods and consists of new equipment, supplies, tools, parts, fuel and related supply items. Inventory is stated at the lower of cost and net realizable value. Cost is determined by inventory type on the average cost method.

Rental Equipment

Rental equipment is stated at cost, net of related discounts, with holding periods ranging from two to 15 years. Generally, when rental equipment is acquired, the Company estimates the period that it will hold the asset, primarily based on historical measures of the amount of rental activity (e.g. equipment usage) and the targeted age of equipment at the time of disposal. The Company also estimates the residual value of the applicable rental equipment at the expected time of disposal. The residual value for rental equipment is affected by factors which include equipment age and amount of usage. Depreciation is recorded over the estimated holding period. Depreciation rates are reviewed on a quarterly basis based on management's ongoing assessment of present and estimated future market conditions, their effect on residual values at the time of disposal and the estimated holding periods. Market conditions for used equipment sales can also be affected by external factors such as the economy, natural disasters, fuel prices, supply of similar used equipment, the market price for similar new equipment and incentives offered by manufacturers of new equipment. These key factors are considered when estimating future residual values and assessing depreciation rates. As a result of this ongoing assessment, the Company makes periodic adjustments to depreciation rates of rental equipment in response to changed market conditions.

Property and Equipment

Property and equipment are stated at cost and are depreciated utilizing the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized over the estimated useful lives of the related assets or leases, whichever is shorter.

Useful lives are as follows:

Buildings	8 to 33 years
Service vehicles	3 to 13 years
Machinery and equipment	1 to 15 years
Computer equipment	1 to 5 years
Furniture and fixtures	2 to 10 years
Leasehold improvements	The lesser of the economic life or the lease term

The Company follows the practice of charging routine maintenance and repairs, including the cost of minor replacements, to maintenance expense. Costs of major replacements are capitalized and depreciated.

Leases

The Company leases certain property and equipment used in operations.

If the lease is considered an operating lease, it is not recorded on the balance sheet and rent expense is recognized on a straight-line basis over the expected lease term.

Certain property and equipment are held under capital leases. These assets are included in property and equipment and depreciated over the term of the lease. Rent expense is not recognized for a capital lease. Rather, rental payments under the lease are recognized as a reduction of the capital lease obligation and interest expense.

In certain instances, the Company may sell property and enter into an arrangement to lease the property back from the landlord. In these instances, the Company performs a sale-leaseback analysis to determine if the assets can be removed from the balance sheet. If certain criteria are met, the Company recognizes the transaction as a sale, removes the assets from its balance sheet and reflects the future rental payments as rent expense. If the criteria for sale is not met, such as available repurchase options or continuing involvement with the property, the Company is considered the owner for accounting purposes. In these instances, the Company is precluded from derecognizing the assets from its balance sheet and will continue to depreciate the assets over the expected lease term. In conjunction with these arrangements, the Company records a financing obligation equal to the cash proceeds or fair market value of the assets received from the landlord. Rent payments for these properties are recognized as interest expense and a reduction of the financing obligation using the effective interest method. At the end of the lease term, including exercise of any renewal options, the net remaining financing obligation over the net carrying value of the fixed asset will be recognized as a non-cash gain on sale of the property.

Public Liability and Property Damage

The obligation for public liability and property damage on self-insured U.S. and international equipment represents an estimate for both reported accident claims not yet paid, and claims incurred but not yet reported. The related liabilities are recorded on a non-discounted basis. Reserve requirements are based on actuarial evaluations of historical accident claim experience and trends, as well as future projections of ultimate losses, expenses, premiums and administrative costs. The adequacy of the liability is regularly monitored based on evolving accident claim history and insurance-related state legislation changes. If the Company's estimates change or if actual results differ from these assumptions, the amount of the recorded liability is adjusted to reflect these results.

Defined Benefit Pension Plans and Other Employee Benefits

The Company's employee pension costs and obligations are developed from actuarial valuations. Inherent in these valuations are key assumptions, including discount rates, salary growth, long-term return on plan assets, retirement rates, mortality rates and other factors. The selection of assumptions is based on historical trends and known economic and market conditions at the time of valuation, as well as independent studies of trends performed by actuaries. However, actual results may differ substantially from the estimates that were based on the critical assumptions. The Company uses a December 31 measurement date for all of the plans.

Actual results that differ from the Company's assumptions are accumulated and amortized over future periods and, therefore, generally affect its recognized expense in such future periods. While management believes that the assumptions used are appropriate, significant differences in actual experience or significant changes in assumptions would affect the Company's pension costs and obligations.

The Company maintains reserves for employee medical claims, up to its insurance stop-loss limit, and workers' compensation claims. These are regularly evaluated and revised, as needed, based on a variety of information, including historical experience, actuarial estimates and current employee statistics.

Foreign Currency Translation and Transactions

Assets and liabilities of international subsidiaries whose functional currency is the local currency are translated at the rate of exchange in effect on the balance sheet date; income and expenses are translated at the average exchange rates throughout the year. The related translation adjustments are reflected in “Accumulated other comprehensive income (loss)” in the equity section of the Company's consolidated balance sheets. Foreign currency gains and losses resulting from transactions are included in earnings.

Financial Instruments

The Company is exposed to a variety of market risks, including the effects of changes in interest rates and foreign currency exchange rates. The Company manages exposure to these market risks through ongoing processes to monitor the impact of market changes and, when deemed appropriate, through the use of financial instruments. Financial instruments are viewed as risk management tools and have not been used for speculative or trading purposes. The Company accounts for all derivatives in accordance with U.S. GAAP, which requires that they be recorded on the balance sheet as either assets or liabilities measured at their fair value. For financial instruments that are designated and qualify as hedging instruments, the Company designates the hedging instrument, based upon the exposure being hedged, as either a fair value hedge or a cash flow hedge. The effective portion of changes in fair value of financial instruments designated as cash flow hedging instruments is recorded as a component of other comprehensive income (loss). Amounts included in accumulated other comprehensive income (loss) for cash flow hedges are reclassified into earnings in the same period that the hedged item is recognized in earnings. The ineffective portion of changes in the fair value of financial instruments designated as cash flow hedges is recognized currently in earnings within the same line item as the hedged item, based upon the nature of the hedged item. For financial instruments that are not part of a qualified hedging relationship, the changes in their fair value are recognized currently in earnings.

Goodwill and Indefinite-Lived Intangible Assets

On an annual basis and at interim periods when circumstances require, the Company tests the recoverability of its goodwill. The Company has one reporting unit and compares the carrying value of its reporting unit to its fair value. If the carrying value of the reporting unit is greater than its fair value, the Company recognizes an impairment charge for the amount equal to that excess.

The Company may first assess qualitative factors to determine whether it is more-likely-than-not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the quantitative goodwill impairment test. If a quantitative impairment test is performed, the fair value of the reporting unit is estimated using a combination of an income approach on the present value of estimated future cash flows and a market approach based on published earnings multiples of comparable entities with similar operations and economic characteristics as well as acquisition multiples paid in recent transactions. The Company's discounted cash flows are based upon reasonable and appropriate assumptions, which are weighted for their likely probability of occurrence, about the underlying business activities of the Company.

Indefinite-lived intangible assets, primarily our trade name, are not amortized but are evaluated annually for impairment and whenever events or changes in circumstances indicate that the carrying amount of this asset may exceed its fair value. If the carrying value of an indefinite-lived intangible asset exceeds its fair value, an impairment charge is recognized in an amount equal to that excess.

Finite-Lived Intangible and Long-Lived Assets

Intangible assets include customer relationships and technology. Intangible assets with finite lives are amortized using the straight-line method over the estimated economic lives of the assets, which range from three to 10 years. Long-lived assets, including intangible assets with finite lives, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. Measurement of an impairment loss for long-lived assets that management expects to hold and use is based on the estimated fair value of the asset. Long-lived assets to be disposed of are reported at the lower of carrying amount or estimated fair value less costs to sell.

Revenue Recognition

Equipment rental revenue is recognized under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 840, Leases, ("Topic 840"). The Company's sale of rental and new equipment, parts and supplies along with certain services provided to customers are recognized under ASC Topic 606, Revenue from Contracts with Customers, ("Topic 606") which was adopted on January 1, 2018. Prior to adoption of Topic 606, the Company recognized these transactions under ASC Topic 605, Revenue Recognition, ("Topic 605"). The following addresses our primary revenue types based on the accounting standard used to determine the accounting.

Topic 840

Equipment rental - 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. 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 and are recognized on a straight-line basis over the length of the rental contract.

Topic 606

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

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Advertising

Advertising and sales promotion costs are expensed the first time the advertising or sales promotion takes place. Advertising costs are reflected as a component of "Selling, general and administrative" expense in the Company's consolidated statements of operations. For the years ended December 31, 2018, 2017 and 2016, advertising costs were $1.0 million, $2.7 million and $3.6 million, respectively.

Stock Based Compensation

Under the Company's stock based compensation plans, certain employees and members of the Company's board of directors have received grants of restricted stock units, performance stock units and stock options for Herc Holdings common stock.

The Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. That cost is recognized over the period during which the employee is required to provide service in exchange for the award. The Company estimates the fair value of stock options issued at the date of grant using a Black-Scholes option-pricing model, which includes assumptions related to volatility, expected term, dividend yield and risk-free interest rate.

The Company accounts for restricted stock unit and performance stock unit awards as equity classified awards. For restricted stock units, the expense is based on the grant date fair value of the stock and the number of shares that vest, recognized over the service period. For performance stock units, the expense is based on the grant date fair value of the stock, recognized over a service period depending upon the applicable performance condition. For performance stock units, the Company re-assesses the probability of achieving the applicable performance condition each reporting period and adjusts the recognition of expense accordingly.

Income Taxes

The Company’s operations are subject to U.S. federal, state and local, and foreign income taxes, portions of which have historically been included in the Hertz Holdings consolidated U.S. federal income tax return, along with certain state and local and foreign income tax returns. In preparing its combined financial statements for periods prior to the Spin-Off, the Company has determined the tax provision for those operations that are included in the Hertz Holdings consolidated tax return on a separate company return basis, assuming that the Company had filed on a stand-alone basis separate from Hertz Holdings (“Separate Return Basis”).

The current and deferred tax related balances and related tax carryforwards reflected in the Company’s combined financial statements for periods prior to the Spin-Off have been determined on a Separate Return Basis. As a result, the tax balances and carryforwards on the Company’s tax returns post Spin-Off, including net operating losses and tax credits, will be different from those reflected in the combined financial statements. In addition, as a consequence of the Company’s inclusion in the Hertz Holdings' consolidated income tax returns, the Company is severally liable, with other members of the consolidated group, for any additional taxes that may be assessed. There are no unrecognized tax benefits based on the Herc operations prior to the Spin-Off reflected in these combined financial statements.

The Company's Like-Kind Exchange Program ("LKE Program") was in place for several years. Pursuant to the program, the Company disposed of equipment and acquired replacement equipment in a form intended to allow such dispositions and replacements to qualify as tax-deferred "like-kind exchanges" pursuant to Section 1031 of the Internal Revenue Code ("Section 1031"). The program had resulted in deferral of federal and state income taxes in prior years. The Tax Cuts and Jobs Act of 2017 (the "2017 Tax Act") eliminated the eligibility of personal property for Section 1031 treatment. The 2017 Tax Act also enacted an election to immediately expense all purchases of new and used personal property placed in service after September 27, 2017. As a result of the 2017 Tax Act, the Company ceased its LKE Program and therefore reflects zero restricted cash as of December 31, 2017.

The Company applies the provisions of ASC Topic 740, Income Taxes ("Topic 740"), and computes the provision for income taxes on a Separate Return Basis. Under Topic 740, deferred tax assets and liabilities are determined based on differences between the financial statement carrying amounts and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect of a change in tax rates is recognized in the statement of operations in the period that includes the enactment date. The Company records a valuation allowance to reduce its deferred tax assets to the amount that is more likely than not to be realized. Subsequent changes to enacted tax rates and changes in the interpretations thereof will result in deferred taxes and any related valuation allowances. Provisions are not made for income taxes on undistributed earnings of international subsidiaries that are intended to be indefinitely reinvested outside of the United States or are expected to be remitted free of taxes. Future distributions, if any, from these international subsidiaries to the United States or changes in U.S. tax rules may require a charge to reflect tax on these amounts.

In accordance with Topic 740, the Company recognizes, in its consolidated financial statements, the impact of the Company's tax positions that are more likely than not to be sustained upon examination based on the technical merits of the positions. The Company recognizes interest and penalties for uncertain tax positions in income tax expense.

The 2017 Tax Act, which was enacted in December 2017, had a substantial impact on the income tax benefit for the years ended December 31, 2018 and 2017. See Note 13, "Income Taxes" for further detail.

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 year ended December 31, 2017 by reclassifying $7.4 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 years ended December 31, 2017 and 2016 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 terms or conditions of its share-based payment awards.

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 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 has elected to early adopt this guidance and as a result has recorded an adjustment of $2.2 million to retained earnings as of December 31, 2018.

Not Yet Adopted

Leases

In February 2016, the FASB issued new leasing guidance ("Topic 842") that replaces the existing lease guidance. Topic 842 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. Topic 842 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 will adopt Topic 842 on its effective date of January 1, 2019 and expects to recognize additional lease liabilities of approximately $166.0 million, with corresponding ROU assets on its balance sheet. The Company does not expect this guidance to have a material impact on its results of operations and cash flows. 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 existing capital leases will be accounted for as finance leases upon adoption and the Company does not expect any significant changes to the accounting for such leases upon adoption.

The Company plans to use the transition method that allows it to apply the guidance as of January 1, 2019 and recognize a cumulative-effect adjustment to the opening balance of retained earnings, which the Company does not expect to be material. Additionally, Topic 842 will not be applied to periods prior to adoption and the adoption will have no impact on our previously reported results. The Company also plans to take advantage of the transition package of practical expedients permitted within Topic 842 which allows 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 also expects to use the practical expedient that allows lessees to treat the lease and non-lease components of leases as a single lease component.

The Company has implemented 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, Topic 840, until the adoption of Topic 842. The Company is still evaluating the impact of adoption of Topic 842 on certain of its equipment rental revenues and expects to recognize a cumulative-effect adjustment to the opening balance of retained earnings related to these items. The Company expects Topic 842 to have an immaterial impact on future revenues.

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 88.9%, 88.2% and 87.6% of total revenue for the years ended December 31, 2018, 2017 and 2016, respectively.

The Company's rental transactions are principally accounted for 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 ASC Topic 606. Prior to the adoption of Topic 606, the Company accounted for these non-rental transactions under ASC Topic 605.

The following table summarizes the applicable accounting guidance for the Company's revenues (in millions):

	Year Ended December 31,								
	2018			2017			2016		
	Topic 840	Topic 606	Total	Topic 840	Topic 605	Total	Topic 840	Topic 605	Total
Revenues:									
Equipment rental	$1,509.7	$—	$1,509.7	$1,372.3	$—	$1,372.3	$1,247.1	$—	$1,247.1
Other rental revenue:									
Delivery and pick-up	—	88.4	88.4	—	75.2	75.2	—	66.9	66.9
Other	60.2	—	60.2	51.5	—	51.5	38.7	—	38.7
Total other rental revenues	60.2	88.4	148.6	51.5	75.2	126.7	38.7	66.9	105.6
Total equipment rentals	1,569.9	88.4	1,658.3	1,423.8	75.2	1,499.0	1,285.8	66.9	1,352.7
Sales of rental equipment	—	256.2	256.2	—	190.8	190.8	—	122.5	122.5
Sales of new equipment, parts and supplies	—	49.3	49.3	—	52.3	52.3	—	68.2	68.2

Service and other revenues	—	12.9	12.9	—	12.4	12.4	—	11.4	11.4
Total revenues	$1,569.9	$406.8	$1,976.7	$1,423.8	$330.7	$1,754.5	$1,285.8	$269.0	$1,554.8

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 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):

	Year Ended December 31,		
	2018	2017	2016
Sales of rental equipment	$256.2	$190.8	$122.5
Sales of new equipment	21.3	26.9	38.4
Sales of parts and supplies	28.0	25.4	29.8
Total	$305.5	$243.1	$190.7

The Company recognizes revenue from 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.

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 $19.5 million as of December 31, 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 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 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 year ended December 31, 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 year ended December 31, 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 December 31, 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—Rental Equipment

Rental equipment consists of the following (in millions):

	December 31, 2018	December 31, 2017
Rental equipment	$ 3,840.7	$3,757.2
Less: Accumulated depreciation	(1,336.0)	(1,382.6)
Rental equipment, net	$ 2,504.7	$2,374.6

Depreciation rates on the Company's rental equipment are reviewed regularly based on management's ongoing assessment of present and estimated future market conditions, their effect on residual values at the time of disposal and estimated holding periods. The impact of depreciation rate changes increased expense $0.7 million, $18.0 million and $9.4 million for the years ended December 31, 2018, 2017 and 2016, respectively.

During 2017, the Company deemed certain rental equipment, with a net book value of approximately $4.3 million, to be held for sale and reclassified such equipment to "Prepaid and other current assets" in the consolidated balance sheet as of December 31, 2017. The Company also performed an impairment assessment of rental equipment and recorded an impairment charge during the year ended December 31, 2017, as discussed further in Note 7, "Impairment." These assets were sold in April 2018.

Note 5—Property and Equipment

Property and equipment consists of the following (in millions):

	December 31, 2018	December 31, 2017
Land and buildings	$ 120.2	$ 123.5
Service vehicles	258.6	260.4
Leasehold improvements	89.1	74.4
Machinery and equipment	27.3	25.7
Computer equipment and software	64.8	58.4
Furniture and fixtures	14.6	11.8
Construction in progress	6.2	20.2
Property and equipment, gross	580.8	574.4
Less: accumulated depreciation	(298.3)	(288.1)
Property and equipment, net	$ 282.5	$ 286.3

Depreciation expense for the years ended December 31, 2018, 2017 and 2016 was $51.9 million, $46.8 million and $39.7 million, respectively. Depreciation expense for property and equipment is included in "Direct operating" and "Selling, general and administrative" expenses in the Company's consolidated statements of operations.

The Company leases certain of its service vehicles under capital leases. Depreciation of assets held under capital leases is included in depreciation expense. The gross amounts of property and equipment and related depreciation recorded under capital leases, included in service vehicles in the table above, were as follows (in millions):

	December 31, 2018	December 31, 2017
Service vehicles	$ 87.7	$ 107.4
Less: accumulated depreciation	(50.3)	(55.2)
	$ 37.4	$ 52.2

The Company has entered into financing obligations to lease certain of its properties as discussed further in Note 10, "Financing Obligations." Depreciation of assets held under financing obligations is included in depreciation expense. The gross amounts of land, building and leasehold improvements and related depreciation recorded under financing obligations, included in the table above, were as follows (in millions):

	December 31, 2018	December 31, 2017
Land, building and leasehold improvements	$ 76.6	$ 70.1
Less: accumulated depreciation	(32.7)	(25.7)
	$ 43.9	$ 44.4

Note 6—Goodwill and Intangible Assets

Goodwill

The Company performed its annual goodwill impairment test and determined that no impairment existed for the years ended December 31, 2018 and 2017.

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The following summarizes the Company's goodwill (in millions):

	Year Ended December 31, 2018	2017
Balance at the beginning and end of the period:		
Goodwill	$765.9	$765.9
Accumulated impairment losses	(674.9)	(674.9)
	$91.0	$91.0

Intangible Assets

The Company performed its annual impairment test of indefinite-lived intangible assets and determined that no impairment existed for the years ended December 31, 2018 and 2017. The Company also reviewed its finite-lived intangible assets for impairment and determined that certain assets were impaired during the year ended December 31, 2017 as further discussed in Note 7, "Impairment." There was no impairment of finite-lived intangible assets in 2018.

Intangible assets, net, consisted of the following major classes (in millions):

	December 31, 2018 Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Finite-lived intangible assets:			
Customer-related	$11.4	$ (7.8)	$ 3.6
Internally developed software[(a)]	30.4	(10.5)	19.9
Total	41.8	(18.3)	23.5
Indefinite-lived intangible assets:			
Trade name	270.0	—	270.0
Total intangible assets, net	$311.8	$ (18.3)	$ 293.5

(a) Includes capitalized costs of $0.9 million yet to be placed into service.

	December 31, 2017 Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Finite-lived intangible assets:			
Customer-related	$14.8	$ (9.4)	$ 5.4
Internally developed software[(a)]	19.3	(6.8)	12.5
Total	34.1	(16.2)	17.9
Indefinite-lived intangible assets:			
Trade name	266.0	—	266.0
Total intangible assets, net	$300.1	$ (16.2)	$ 283.9

(a) Includes capitalized costs of $5.4 million yet to be placed into service.

Amortization of intangible assets for the years ended December 31, 2018, 2017 and 2016 was approximately $5.4 million, $4.7 million and $5.1 million, respectively. Based on the amortizable assets in-service as of December 31, 2018, the Company expects amortization expense to be approximately $6.5 million in 2019, $6.1 million in 2020, $5.2 million in 2021, $3.1 million in 2022 and $1.7 million in 2023.

Note 7—Impairment

The Company had been in the process of developing a new financial system and point of sale system as part of the separation from New Hertz that was initiated prior to the Spin-Off. During June 2017, the Company made the decision to discontinue developing these new systems based on the inability to provide the anticipated substantive service potential and significantly higher costs than were originally expected to develop the systems. As a result, the Company recorded an impairment charge of $25.3 million during the year ended December 31, 2017.

The Company performed an impairment assessment of certain rental equipment and recorded an impairment charge of $4.4 million during the year ended December 31, 2017. This rental equipment had a remaining net book value of $4.3 million and was reclassified to held for sale and included in "Prepaid and other current assets" in the consolidated balance sheet as of December 31, 2017. These assets were sold in April 2018 and no additional impairment was recorded.

Note 8—Accrued Liabilities

Accrued liabilities consists of the following (in millions):

	December 31, 2018	December 31, 2017
Accrued compensation and benefit costs	$ 32.1	$ 27.5
National accounts accrual	30.3	29.7
Accrued property, sales, use and other related taxes	15.7	14.8
Accrued interest	7.2	7.5
Customer related deferrals	9.6	7.7
Self-insurance reserves	8.0	6.2
Income taxes payable	5.5	7.1
Other	13.9	12.8
Total accrued liabilities	$ 122.3	$ 113.3

Note 9—Debt

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

	Weighted Average Effective Interest Rate at December 31, 2018	Weighted Average Stated Interest Rate at December 31, 2018	Fixed or Floating Interest Rate	Maturity	December 31, 2018	December 31, 2017
Senior Secured Second Priority Notes						
2022 Notes	7.88%	7.50%	Fixed	2022	$ 427.0	$ 488.0
2024 Notes	8.06%	7.75%	Fixed	2024	437.5	500.0
Other Debt						
ABL Credit Facility	N/A	4.46%	Floating	2021	1,085.2	1,130.0
AR Facility	N/A	3.29%	Floating	2020	175.0	—
Capital leases	4.15%	N/A	Fixed	2019-2023	38.1	53.7
Other borrowings	N/A	4.79%	Floating	2019	4.6	2.6
Unamortized Debt Issuance Costs[a]					(10.6)	(14.5)
Total debt					2,156.8	2,159.8
					(26.9)	(22.7)

Less: Current maturities of long-term debt		
Long-term debt, net	$ 2,129.9	$ 2,137.1

(a) Unamortized debt issuance costs totaling $10.4 million and $13.3 million related to the ABL Credit Facility and, as of December 31, 2018, the AR Facility (as each is defined below) are included in "Other long-term assets" in the consolidated balance sheet as of December 31, 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.

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Maturities

The nominal principal amounts of maturities of debt for each of the periods ending December 31 are as follows (in millions):

2019	$26.9
2020	187.4
2021	1,086.5
2022	428.4
2023	0.7
After 2023	437.5
Total	$2,167.4

The Company is highly leveraged and its liquidity needs arise from the funding of its costs of operations and capital expenditures and from debt service on its indebtedness. The Company believes that cash generated from operations and cash received from the disposal of rental and other equipment, together with amounts available under its asset-based revolving credit facility (the "ABL Credit Facility") will be adequate to permit the Company to meet its obligations over the next 12 months.

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 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"). The funds were used to: (i) finance the Spin-Off and make a cash transfer to New Hertz and its affiliates in connection therewith and (ii) pay fees and other transaction expenses in connection therewith.

The following summarizes other significant terms and conditions of the Notes:

Interest

Interest on the 2022 Notes accrues at the rate of 7.50% per annum and is payable semi-annually in arrears on June 1 and December 1. The 2022 Notes mature on June 1, 2022. Interest on the 2024 Notes accrues at the rate of 7.75% per annum and is payable semi-annually in arrears on June 1 and December 1. The 2024 Notes mature on June 1, 2024.

Guarantees

The Notes are guaranteed, on a senior secured basis, by each wholly-owned domestic subsidiary of Herc, subject to certain exceptions. The guarantee of each subsidiary is a senior secured obligation of that subsidiary.

Collateral

Substantially all of the assets of Herc and certain of its U.S. and Canadian subsidiaries are encumbered in favor of Herc's lenders under the terms of the indenture dated as of June 9, 2016 (the "Indenture"), among Herc, as issuer, and

Wilmington Trust National Association, as trustee and note collateral agent, and the related collateral documents. The security interests in the collateral may be released without the consent of the holders of the Notes if collateral is disposed of in a transaction that complies with the terms of the Indenture and the related collateral documents, and will be released, so long as any obligations under the ABL Credit Facility are outstanding, upon the release of all liens on such collateral securing the obligations under the ABL Credit Facility obligations.

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Redemption

Herc may redeem the 2022 Notes, in whole or in part, at any time prior to June 1, 2019, at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but excluding, the redemption date, plus the applicable make-whole premium. Herc may redeem the 2022 Notes, in whole or in part, at any time (i) on or after June 1, 2019 and prior to June 1, 2020, at a price equal to 103.750% of the principal amount of the 2022 Notes, (ii) on or after June 1, 2020 and prior to June 1, 2021, at a price equal to 101.875% of the principal amount of the 2022 Notes, and (iii) on or after June 1, 2021, at a price equal to 100% of the principal amount of the 2022 Notes, in each case, plus accrued and unpaid interest, if any, to, but not including, the applicable redemption date. In addition, at any time prior to June 1, 2019, Herc at its option may redeem up to 40% of the original aggregate principal amount of the 2022 Notes with the proceeds of one or more equity offerings at a redemption price of 107.500%, plus accrued and unpaid interest, if any, to, but excluding, the date of redemption.

Herc may redeem the 2024 Notes, in whole or in part, at any time prior to June 1, 2019, at a price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but excluding, the redemption date, plus the applicable make-whole premium. Herc may redeem the 2024 Notes, in whole or in part, at any time (i) on or after June 1, 2019 and prior to June 1, 2020, at a price equal to 105.813% of the principal amount of the 2024 Notes, (ii) on or after June 1, 2020 and prior to June 1, 2021, at a price equal to 103.875% of the principal amount of the 2024 Notes, (iii) on or after June 1, 2021 and prior to June 1, 2022, at a price equal to 101.938% of the principal amount of the 2024 Notes and (iv) on or after June 1, 2022, at a price equal to 100% of the principal amount of the 2024 Notes, in each case, plus accrued and unpaid interest, if any, to, but not including, the applicable redemption date. In addition, at any time prior to June 1, 2019, Herc at its option may redeem up to 40% of the original aggregate principal amount of the 2024 Notes with the proceeds of one or more equity offerings at a redemption price of 107.750%, plus accrued and unpaid interest, if any, to, but excluding, the date of redemption.

On July 12, 2018, for the redemption period from June 1, 2018 to May 31, 2019, Herc drew down on its ABL Credit Facility and redeemed $61.0 million in aggregate principal amount of the 2022 Notes and $62.5 million in aggregate principal amount of the 2024 Notes and recorded a $5.4 million loss on the early extinguishment of debt, comprised of a 3% cash premium totaling $3.7 million and a non-cash charge of $1.7 million for the write-off of unamortized debt issuance costs. The loss on early extinguishment of debt is included in "Interest expense, net" in the Company's consolidated statement of operations.

In March and October 2017, Herc drew down on its ABL Credit Facility 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 and recorded an $11.4 million loss on the early extinguishment of debt, comprised of a 3% cash premium totaling $7.4 million and a non-cash charge of $4.0 million for the write-off of unamortized debt issuance costs. The losses on early extinguishment of debt are included in "Interest expense, net" in the Company's consolidated statement of operations.

Covenants

The Indenture contains covenants that, among other things, limit the ability of Herc to incur additional indebtedness, guarantee indebtedness or issue certain preferred shares; pay dividends on, redeem or repurchase stock or make other distributions in respect of its capital stock; repurchase, prepay or redeem subordinated indebtedness; make loans and investments; create liens; transfer or sell assets; consolidate, merge or sell or otherwise dispose of all or substantially all of its assets; enter into certain transactions with affiliates; and designate subsidiaries as unrestricted subsidiaries. Upon the occurrence of certain events constituting a change of control triggering event, Herc is required to make an offer to repurchase all or any part of the 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 Herc sells assets under certain circumstances, it must use the proceeds to make an offer to purchase the 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 following are events of default under the Indenture (subject to customary exceptions, thresholds and grace periods): the nonpayment of principal when due; the nonpayment of interest when due continued for 30 days; the failure to comply for 60 days after receipt of requisite notice with specified obligations, covenants or agreements contained in the Notes or the Indenture; the failure of any subsidiary guarantor to comply for 45 days with its obligations under its guarantee or a failure of any guarantee of a significant subsidiary to be in full force and effect; the failure to pay any indebtedness for borrowed money after final maturity or cross acceleration of material debt if the total amount of such indebtedness exceeds $150.0 million; certain events of bankruptcy, insolvency or reorganization; the failure to discharge any judgment in excess of $100.0 million; and the failure of any security document securing the Notes to be in full force and effect with respect to any collateral having a fair market value in excess of $150.0 million.

ABL Credit Facility

The Company's ABL Credit Facility held 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. 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.

The following summarizes the significant terms and conditions of the ABL Credit Facility:

Interest and Fees

The interest rates applicable to the loans under the ABL Credit Facility are based on a fluctuating rate of interest measured by reference to either, at the borrowers' option, (i) an adjusted London inter-bank offered rate, plus a borrowing margin or (ii) an alternate base rate, plus a borrowing margin (or, in the case of the Canadian borrowers, a rate equal to the rate on bankers' acceptances with the same maturity, plus a borrowing margin). The borrowing margin on the ABL Credit Facility is determined based on a pricing grid that is bifurcated based on corporate credit ratings, with levels within the grid based on available commitments. Customary fees are also payable in respect of the ABL Credit Facility, including a commitment fee on the unutilized portion thereof.

Maturity and Prepayments

The ABL Credit Facility matures on June 30, 2021. The ABL Credit Facility may be prepaid at the borrowers' option at any time without premium or penalty and will be subject to mandatory prepayment (i) if the outstanding U.S. dollar or Canadian dollar denominated revolving loans under the ABL Credit Facility exceed either the aggregate commitments with respect thereto or the current applicable borrowing base, in an amount equal to such excess or (ii) if, following the occurrence of asset dispositions or any settlement of or payment in respect of any property or casualty insurance claim or any condemnation proceeding relating to the collateral, less than 100% of the net cash proceeds have been reinvested in Herc's business within 365 days and the available loan commitments are less than $250 million.

Guarantees and Security

Herc and certain of its subsidiaries, including Canadian subsidiaries, are the borrowers under the ABL Credit Facility. Herc Intermediate Holdings LLC, Herc and each direct and indirect domestic subsidiary of Herc (and, in the case of Canadian obligations, each direct and indirect Canadian subsidiary of Herc) guarantees the borrowers’ payment obligations under the ABL Credit Facility, subject to certain exceptions.

The ABL Credit Facility and the guarantees thereof are secured by (i) a first priority pledge of (A) all of the capital stock of Herc and each domestic borrower, (B) all of the capital stock of all domestic subsidiaries owned by Herc, each domestic borrower and each domestic subsidiary guarantor and (C) 65% of the capital stock of any foreign subsidiary held directly by Herc, any domestic borrower or any domestic subsidiary guarantor and (ii) a first priority security interest in substantially all other tangible and intangible assets owned by Herc, each domestic borrower and each domestic subsidiary guarantor, in each case to the extent permitted by applicable law and subject to certain exceptions.

The Canadian obligations under the ABL Credit Facility are also secured, pursuant to a Canadian guarantee and collateral agreement made by the Canadian borrowers and certain Canadian subsidiaries of Herc in favor of the Canadian agent and Canadian ABL collateral agent, by a first priority security interest in substantially all assets of the Canadian borrowers and the Canadian guarantors, subject to certain exceptions.

The liens securing the ABL Credit Facility are first in priority (as between the ABL Credit Facility and the Notes) with respect to the collateral.

Covenants

The ABL Credit Facility contains a number of negative covenants that, among other things, limit or restrict the ability of the borrowers and, in certain cases, their restricted subsidiaries to dispose of assets, incur additional indebtedness, incur guarantee obligations, prepay certain indebtedness, make certain dividends, create liens, make investments, make acquisitions, engage in mergers, change the nature of their business, engage in certain transactions with affiliates and enter into certain restrictive agreements.

Failure to maintain certain levels of liquidity will subject the Herc credit group to a contractually specified fixed charge coverage ratio of not less than 1:1 for the four quarters most recently ended. As of December 31, 2018, the appropriate levels of liquidity have been maintained, therefore this financial maintenance covenant is not applicable.

Covenants in the ABL Credit Facility restrict payment of cash dividends to any parent of Herc, including Herc Holdings, except in an aggregate amount, taken together with certain investments, acquisitions and optional prepayments, not to exceed $200.0 million. Herc may also pay additional cash dividends under the ABL Credit Facility under certain circumstances.

The ABL Credit Facility also contains certain affirmative covenants, including financial and other reporting requirements.

Events of Default

The ABL Credit Facility provides for customary events of default (subject to customary exceptions, thresholds and grace periods), including, without limitation, non-payment of principal, interest or fees, violation of covenants, material inaccuracy of representations or warranties, specified cross default and cross acceleration to other material indebtedness, certain bankruptcy events, certain ERISA events, material invalidity of guarantees or security interest, material judgments and change of control.

Accounts Receivable Securitization Facility

In September 2018, the Company entered into an accounts receivable securitization facility (the "AR Facility") with aggregate commitments of $175.0 million that matures on September 16, 2020. In connection with the AR Facility, Herc and one of its wholly-owned subsidiaries sell their accounts receivable 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.

The agreements governing the AR Facility contain restrictions and covenants which include limitations applicable to Herc, the Herc subsidiary seller and the SPE on the creation of certain liens, and restrictions and covenants which include limitations applicable to the SPE on the making of certain restricted payments, and limitations applicable to Herc and the SPE with respect to certain corporate acts such as mergers, consolidations and the sale of substantially all assets, with certain exceptions. The Company was in compliance with all such covenants as of December 31, 2018.

The financing agreement with the lenders provides for customary events of default (subject to customary exceptions, thresholds and grace periods) including, without limitation, failure to perform covenants, ineffectiveness of transaction documents, invalidity of security interests or failure to cooperate in the administrative agent's assumption of control of accounts, material inaccuracy of representations or warranties, failure of certain ratios related to the accounts receivables, specified cross default and cross acceleration to other material indebtedness, certain bankruptcy events, certain ERISA events, material judgments, material adverse effect and change in control.

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.

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Other Borrowings

In June 2017, the Company's subsidiary in China entered into 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 December 31, 2018, the Company had short-term borrowings under these facilities totaling $4.6 million.

Borrowing Capacity and Availability

After outstanding borrowings, the following was available to the Company as of December 31, 2018 (in millions):

	Remaining Capacity	Availability Under Borrowing Base Limitation
ABL Credit Facility	$ 640.2	$ 640.2
AR Facility	—	—
Total	$ 640.2	$ 640.2

At December 31, 2018, the Company's borrowing base was capped at $175.0 million by the aggregate commitments under the AR Facility. Subsequent to December 31, 2018, the borrowing base under the AR Facility declined to $159.1 million.

In addition, as of December 31, 2018, the Company's subsidiary in China had uncommitted credit facilities of which $5.4 million was available for borrowing.

Letters of Credit

As of December 31, 2018, $24.6 million of standby letters of credit were issued and outstanding under the ABL Credit Facility, none of which had been drawn upon. The ABL Credit Facility had $225.4 million available under the letter of credit facility sublimit, subject to borrowing base restrictions.

Debt Issuance Costs

In connection with the issuance of the Notes and entry into the ABL Credit Facility in 2016, the Company capitalized $41.5 million in deferred debt issuance costs, of which $22.5 million were recorded to "Long-term debt" and $19.0 million were recorded to "Other long-term assets" in the consolidated balance sheet as of December 31, 2018. In addition, in connection with the issuance of the AR Facility in September 2018, the Company capitalized $1.1 million in deferred debt issuance costs, which were recorded to "Other long-term assets" in the consolidated balance sheet as of December 31, 2018. The debt issuance costs are being amortized to interest expense using the effective interest method for costs related to the Notes and on a straight-line basis for costs related to the ABL Credit Facility over the respective contractual terms of the applicable debt. Non-cash interest expense related to the amortization of these debt issuance costs for the years ended December 31, 2018, 2017 and 2016 were $6.1 million, $6.3 million and $3.4 million, respectively. The Company wrote off $1.7 million of unamortized deferred financing costs during the year ended December 31, 2018 related to the July partial redemption of its Notes. The Company wrote off $1.7 million and

$4.0 million of unamortized deferred financing costs during the years ended December 31, 2018 and 2017, respectively, related to the partial redemptions of its Notes.

Note 10—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 buildings and land remains on the Company's consolidated balance sheet. Additionally, during 2018, the Company entered into sale-leaseback transactions with respect to two additional properties for gross proceeds of $6.4 million.

In connection with the sale-leaseback, the Company capitalized $2.7 million in deferred financing obligations issuance costs. The costs are being amortized to interest expense using the effective interest method. Interest expense related to the amortization of these costs for the year ended December 31, 2018 and 2017 was $0.2 million and $0.1 million, respectively.

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

	Weighted Average Effective Interest Rate at December 31, 2018	Maturity	December 31, 2018	December 31, 2017
Financing obligations	4.73%	2038	$ 122.1	$ 118.2
Unamortized financing issuance costs			(2.8)	(2.6)
Total financing obligations			119.3	115.6
Less: Current maturities of financing obligations			(3.0)	(2.7)
Financing obligations, net			$ 116.3	$ 112.9

As of December 31, 2018, future minimum financing payments for the agreement referred to above are as follows (in millions):

2019	$8.5
2020	8.5
2021	8.5
2022	8.5
2023	8.5
Thereafter	117.1
Total minimum financing obligations payments	159.6
Obligations subject to non-cash gain on future sale of property	33.2
Less amount representing interest (at a weighted-average interest rate of 4.73%)	(70.7)
Total financing obligations	$122.1

Note 11—Employee Retirement Benefits

401(k) Savings Plan and Other Defined Contribution Plans

Prior to the Spin-Off, the Company participated in a THC-sponsored U.S. defined contribution plan covering substantially all U.S. employees (the "Hertz Savings Plan"), as well as certain non-U.S. defined contribution plans covering eligible non-U.S. employees, primarily in Canada.

On July 1, 2016, the Company established the Herc Holdings Savings Plan covering all of its U.S. employees. Following the Spin-Off, the accounts (including loans) of the Company's current and former employees were transferred from the Hertz Savings Plan to the new Herc Holdings Savings Plan.

Contributions to the plans are made by both the employee and the Company. Company contributions to these plans are based on the level of employee contributions and formulas determined by the Company. Expenses for the defined contribution plans for the years ended December 31, 2018, 2017 and 2016 were approximately $10.5 million, $9.4 million and $7.5 million, respectively.

Defined Benefit Pension and Postretirement Plans

Prior to the Spin-Off, the Company participated in certain THC-sponsored U.S. defined benefit pension and postretirement plans covering substantially all U.S. employees, as well as certain non-U.S. defined benefit plans covering eligible non-U.S. employees. Qualified U.S. employees of the Company, after completion of specified periods of service, were eligible to participate in The Hertz Corporation Account Balance Defined Benefit Pension Plan (the "Hertz Plan"), a cash balance plan that was frozen effective December 31, 2014.

In July 2016, the Company established the Herc Holdings Retirement Plan (the "Plan"), a U.S. qualified pension plan. The majority of assets and liabilities of the Hertz Plan attributable to current and former employees of the equipment rental business were transferred to the Plan following the Spin-Off based on a preliminary allocation. The final allocations and transfers were completed in 2017 and were lower than the preliminary allocation, resulting in a $3.6 million increase to the pension liability funded status and a corresponding offset of $2.0 million, net of taxes, to additional paid-in capital.

Postretirement benefits, other than pensions, provide healthcare benefits, and in some instances, life insurance benefits for certain eligible retired employees in the U.S.

The Company reflects the funded status of defined benefit pension and other postretirement benefit plans as an asset or liability. This amount is defined as the difference between the fair value of plan assets and the benefit obligation. The Company is required to recognize as a component of other comprehensive income (loss), net of tax, the actuarial gains/losses and prior service credits that arise but were not previously required to be recognized as components of net periodic benefit cost. Other comprehensive income (loss) is adjusted as these amounts are later recognized in the statement of operations as components of net periodic benefit cost.

The Company’s policy for funded plans is to contribute, at a minimum, amounts required by applicable laws, regulations and union agreements. The Plan represents approximately 98% of the Company's defined benefit plan obligations and 100% of its plan assets. The Company did not make any cash contributions to the Plan or the predecessor Hertz Plan in 2018, 2017 or 2016 and does not anticipate making any contributions during 2019. The level of future contributions will vary, and is dependent on a number of factors including investment returns, interest rate fluctuations, plan demographics, funding regulations and the results of the final actuarial valuation.

Additionally, pursuant to various collective bargaining agreements, certain union-represented employees participate in multiemployer pension plans.

The following table provides a reconciliation of benefit obligations and plan assets of the Company's pension plans and postretirement benefit plans (in millions):

	Pension		Postretirement	
	2018	2017	2018	2017
Change in Projected Benefit Obligations				
Benefit obligations at beginning of year	$160.0	$149.4	$1.1	$1.0
Interest cost	5.7	6.1	—	—
Plan settlements	(7.9)	(6.8)	—	—
Benefits paid	(0.2)	(0.3)	—	—
Adjustment [(1)]	1.1	—	—	—
Actuarial (gain) loss	(10.2)	11.6	(0.1)	0.1
Benefit obligations at end of year	$148.5	$160.0	$1.0	$1.1
Change in Fair Value of Plan Assets				
Fair value of plan assets at beginning of year	$140.4	$133.2	$—	$—
Actual return on plan assets	(10.2)	17.9	—	—
Plan settlements	(7.9)	(6.8)	—	—
Benefits paid	(0.2)	(0.3)	—	—
Adjustment [(1)]	1.5	(3.6)	—	—
Fair value of plan assets at end of year	$123.6	$140.4	$—	$—
Funded Status	$(24.9)	$(19.6)	$(1.0)	$(1.1)
Accumulated benefit obligations	$148.5	$160.0		

(1) In connection with the Spin-Off, assets were allocated between THC and the Company in proportion to the associated liability. The adjustment for 2018 represented the final allocation and settlement with the Hertz Plan.

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	Pension		Postretirement	
	2018	2017	2018	2017
Amounts Recognized in Balance Sheet				
Accrued liabilities	$(0.1)	$(0.1)	$(0.1)	$(0.1)
Other long-term liabilities	(24.8)	(19.5)	(0.9)	(1.0)
Net amount recognized	$(24.9)	$(19.6)	$(1.0)	$(1.1)
Amounts Recognized in Accumulated Other Comprehensive Loss				
Net actuarial gain (loss)	$(25.6)	$(21.8)	$0.2	$0.1
Prior service credits	0.1	0.2	—	—
Net amount recognized	$(25.5)	$(21.6)	$0.2	$0.1
Weighted Average Assumptions Used to Determine Projected Benefit Obligations				
Discount rate	4.3 %	3.6 %	4.2 %	3.5 %
Average rate of increase in compensation	— %	— %	— %	— %
Initial healthcare cost trend rate			6.1 %	6.4 %
Ultimate healthcare cost trend rate			4.5 %	4.5 %

The benefit obligations and fair value of plan assets for the Company's qualified and non-qualified pension and postretirement plans with projected benefit obligations or accumulated benefit obligations in excess of plan assets are as follows (in millions):

	Pension		Postretirement	
	2018	2017	2018	2017
Plans with Benefit Obligations in Excess of Plan Assets				
Projected benefit obligations	$148.5	$160.0	$ 1.0	$ 1.1
Accumulated benefit obligations	148.5	160.0	—	—
Fair value of plan assets	123.6	140.4	—	—

The following table sets forth the net periodic pension cost (benefit) (in millions):

	Years Ended December 31,		
	2018	2017	2016
Components of Net Periodic Pension Cost (Benefit):			
Service cost	$—	$—	$0.1
Interest cost	5.7	6.1	5.8
Expected return on plan assets	(6.0)	(6.2)	(8.0)
Net amortization of actuarial net loss	0.7	1.4	1.4
Settlement loss	1.2	0.9	—
Net periodic pension cost (benefit)	$1.6	$2.2	$(0.7)
Weighted Average Assumptions Used to Determine Net Periodic Pension Cost (Benefit)			
Discount rate	3.6 %	4.1 %	4.3 %
Expected return on assets	5.6 %	6.5 %	7.2 %
Average rate of increase in compensation	— %	— %	4.3 %

The net periodic postretirement cost was insignificant in 2018, 2017 and 2016.

The discount rate reflects the rate the Company would have to pay to purchase high-quality investments that would provide cash sufficient to settle its current pension obligations. The discount rate is determined based on a range of factors, including the rates of return on high-quality, fixed-income corporate bonds and the related expected duration of the obligations. The discount rate for the Plan is based on the rate from the Mercer Pension Discount Curve-Above Mean Yield that is appropriate for the duration of the obligations. The discount rate used to measure the pension obligation at the end of the year is also used to measure pension cost in the following year.

The expected return on plan assets for the U.S. qualified plan is based on expected future investment returns considering the target investment mix of plan assets. It reflects the average rate of earnings expected on the funds invested, or to be invested, to provide for the benefits included in the projected benefit obligations. In determining the expected long-term rate of return on plan assets, the Company considers the relative weighting of plan assets, the historical performance of total plan assets and individual asset classes and economic and other indicators of future performance.

There was no average rate of increase in compensation for 2018 or 2017 as there are no longer any employees in the Plan accruing benefits. Rates in 2016 reflected expected long-term average rate of salary increases and were based on historic salary increase experience and management’s expectations of future salary increases.

The ultimate healthcare cost trend rates for the postretirement benefit plans are expected to be reached in 2038. Changing the assumed health care cost trend rates by one percentage point is estimated to have an insignificant (less than $0.1 million) impact on the accumulated postretirement benefit obligation as of December 31, 2018 and the 2018 aggregate of service and interest costs.

The Company expects to amortize $1.2 million of net actuarial losses from accumulated other comprehensive loss into net periodic pension cost (benefit) in 2019.

Plan Assets

The Company has a long-term investment outlook for its Plan assets, which is consistent with the long-term nature of the Plan's respective liabilities.

The Plan currently has a target asset allocation of 35% equity and 65% fixed income. The equity portion of the assets is actively managed in U.S. small/mid cap and international funds and a small allocation to a passively managed U.S. large cap index fund. The fixed income portion of the assets is actively managed in long/intermediate duration government/credit funds and small allocations to an actively managed high yield fund, a bank loan fund and an emerging market debt fund. A modest amount of cash is maintained to facilitate payment of benefits and plan expenses.

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The fair value measurements of all plan assets are based upon significant other observable inputs (Level 2), except for cash which is based upon quoted market prices in active markets for identical assets (Level 1). The following represents the Company's pension plan assets (in millions):

Asset Category	December 31, 2018	December 31, 2017
Cash	$ 1.9	$ 2.2
Short Term Investments	0.1	0.1
Equity Securities:		
U.S. Large Cap	14.7	16.3
U.S. Mid Cap	3.2	7.3
U.S. Small Cap	1.2	1.6
International Developed	14.3	17.8
International Emerging Markets	6.8	6.8
Fixed Income Securities:		
U.S. Treasuries	21.0	20.8
Corporate Bonds	37.2	43.7
Government Bonds	7.1	9.3
Municipal Bonds	2.7	2.3
Mortgage-Backed Securities	1.2	2.8
Asset-Backed Securities	3.6	2.7
Bank Loans	6.6	6.4
Other	2.0	0.3
Total fair value of pension plan assets	$ 123.6	$ 140.4

Estimated Future Benefit Payments

The following table presents estimated future benefit payments (in millions):

	Pension	Postretirement
2019	$ 6.1	$ 0.1
2020	6.7	0.1
2021	7.2	0.1
2022	8.2	0.1
2023	9.0	0.1
2024-2028	60.2	0.4
	$ 97.4	$ 0.9

Multiemployer Pension Plans

The Company contributes to several multiemployer defined benefit pension plans under collective bargaining agreements that cover certain union represented employees. The risks of participating in such plans are different from the risks of single-employer plans, in the following respects:

(a) Assets contributed to a multiemployer plan by one employer may be used to provide benefits to employees of other participating employers;

(b) If a participating employer ceases to contribute to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and

(c) If the Company ceases to have an obligation to contribute to the multiemployer plan in which the Company had been a contributing employer, the Company may be required to pay to the plan an amount based on the underfunded status of the plan and on the history of the Company's participation in the plan prior to the cessation of its obligation to contribute. The amount that an employer that has ceased to have an obligation to contribute to a multiemployer plan is required to pay to the plan is referred to as a withdrawal liability.

The Company's participation in multiemployer plans for the annual period ended December 31, 2018 is outlined in the table below. For each plan that is individually significant to the Company, the following information is provided:

- The "EIN / Pension Plan Number" column provides the Employer Identification Number assigned to a plan by the Internal Revenue Service.

- The "Pension Protection Act Zone Status" available is for plan years that ended in 2018 and 2017. The zone status is based on information provided to the Company and other participating employers by each plan and is certified by the plan's actuary. A plan in the "red" zone has been determined to be in "critical status," based on criteria established under the Internal Revenue Code, or the "Code," and is generally less than 65% funded. A plan in the "yellow" zone has been determined to be in "endangered status," based on criteria established under the Code, and is generally less than 80% funded. A plan in the "green" zone has been determined to be neither in "critical status" nor in "endangered status," and is generally at least 80% funded.

- The "FIP/RP Status Pending/Implemented" column indicates whether a Funding Improvement Plan, as required under the Code to be adopted by plans in the "yellow" zone, or a Rehabilitation Plan, as required under the Code to be adopted by plans in the “red” zone, is pending or has been implemented as of the end of the plan year that ended in 2018.

- The "Surcharge Imposed" column indicates whether a surcharge was paid during the most recent annual period presented for the Company's contributions to any plan in the red zone in accordance with the requirements of the Code. The last column lists the expiration dates of the collective bargaining agreements pursuant to which the Company contributed to the plans.

There are no plans where the amount contributed by the Company represents more than 5% of the total contributions to the plan for the years ended December 31, 2018, 2017 and 2016.

(In millions)	EIN / Pension Plan Number	Pension Protection Act Zone Status		FIP / RP Status Pending / Implemented	Contributions			Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
Pension Fund		2018	2017		2018	2017	2016		
Midwest Operating Engineers	36-6140097	Green	Green	N/A	$0.9	$0.8	$0.7	N/A	5/31/2021
Other Plans [a]					1.1	0.9	0.8		
Total Contributions					$2.0	$1.7	$1.5		

(a) Consists of six plans, none of which are individually significant to the Company.

Note 12—Stock-Based Compensation

Prior to the Spin-Off, certain of the Company's employees participated in stock-based compensation plans sponsored by Hertz Holdings. In connection with the Spin-Off, Herc Holdings inherited the Hertz Global Holdings, Inc. 2008 Omnibus Incentive Plan, which was renamed the Herc Holdings Inc. 2008 Omnibus Incentive Plan (the "2008 Omnibus Plan"). Outstanding equity awards at the time of the Spin-Off were adjusted and converted in accordance with a formula designed to preserve the intrinsic economic value of the original equity awards after taking into account the Spin-Off and the reverse stock split. Adjusted awards for active and former Herc employees were denominated in the common stock of Herc Holdings after the Spin-Off. Generally, the adjusted awards were subject to the same terms and vesting conditions as the original Hertz Holdings awards. The adjusted awards for performance stock units included adjusted performance metrics to reflect the separation of the vehicle rental and equipment rental businesses, and the adjusted awards contained such additional or adjusted provisions as were required. The share data presented in this note has been retroactively adjusted to reflect the impact of the separation and conversion, including the reverse stock split.

On May 17, 2018, the Herc Holdings Inc. 2018 Omnibus Incentive Plan (the "2018 Omnibus Plan") was approved and replaced the 2008 Omnibus Plan. The 2018 Omnibus Plan provides for grants of both equity and cash awards, including non-qualified stock options, incentive stock options, stock appreciation rights, performance awards (shares and units), restricted awards (shares and units) and deferred stock units to key executives, employees, non-management directors and non-employee consultants. The total number of common shares authorized for issuance under the 2018 Omnibus Plan is 2,200,000, of which approximately 2,186,000 remains available as of December 31, 2018 for future incentive awards. The shares that remained available for awards under the 2008 Omnibus Plan are no longer be available for any future awards granted under either the 2008 Omnibus Plan or the 2018 Omnibus Plan.

Stock-based compensation awards are measured on their grant date using a fair value method and are recognized in the statement of operations over the requisite service period. The Company's stock-based compensation expense is included in “Selling, general and administrative” expense in the Company's consolidated statements of operations. The following table summarizes the expenses and associated income tax benefits recognized (in millions):

	Year Ended December 31,		
	2018	2017	2016
Compensation expense	$13.4	$10.1	$5.5
Income tax benefit	(3.5)	(2.5)	(2.1)
Total	$9.9	$7.6	$3.4

During the year ended December 31, 2016, stock-based compensation expense includes an allocation of THC's corporate and shared functional employee expenses of $2.0 million, on a pre-tax basis. The expenses are for the employees of THC and its non-Herc Holdings subsidiaries whose costs of services were allocated to the Company for the applicable period presented. For additional information related to costs allocated to the Company by THC, see Note 20, "Related Party Transactions."

As of December 31, 2018, there was $17.4 million of total unrecognized compensation cost related to non-vested stock options, restricted stock units ("RSUs") and performance stock units ("PSUs"). The total unrecognized compensation cost is expected to be recognized over the remaining 1.5 years, on a weighted average basis, of the requisite service period that began on the grant dates.

Stock Options

All stock options granted had a per-share exercise price of not less than the fair market value of one share of common stock on the grant date. Stock options vest based on a minimum period of service or the occurrence of events (such as a change in control, as defined in the 2018 Omnibus Plan). No stock options are exercisable after ten years from the grant date.

The Company’s practice is to grant stock options at fair market value. Options vest over four years with terms of five to 10 years, assuming continued employment with certain exceptions. Vesting of the option awards is contingent upon meeting certain service conditions. The fair value of option grants is estimated using the Black-Scholes option pricing model. The fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period. Use of a valuation model requires management to make certain assumptions with respect to selected model inputs. For stock option grants during 2016, expected volatility was calculated based on a blended volatility of peer group volatility and implied volatility as the Company does not have sufficient stock price data to calculate historical volatility. The Company used the simplified method under Staff Accounting Bulletin Topic 14, Share-Based Payment as the basis for estimating the expected life of an option because the exercise data for participants who held options as employees of a subsidiary of our former parent is not necessarily indicative of future exercise patterns. The risk-free interest rate was based on U.S. Treasury zero-coupon issues with a remaining term which approximates the expected life assumed at the date of grant. The compensation expense recognized for all stock-based awards is net of estimated forfeitures. Forfeitures were estimated based on an analysis of actual option forfeitures.

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The weighted average assumptions used in the Black-Scholes option pricing model are presented below. There were no stock options granted during 2018 or 2017.

	Year Ended December 31, 2016
Expected volatility	50.0%
Expected dividend yield	—%
Expected term (years)	4.8
Risk-free interest rate	1.09%

The weighted average per share grant date fair values of options granted during 2016 was $14.28.

A summary of option activity is presented below.

	Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in millions of dollars) (a)
Outstanding at December 31, 2017	440,642	$ 37.25		
Granted	—	—		
Exercised	(15,416)	34.40		
Forfeited or expired	(54,953)	35.71		
Outstanding at December 31, 2018	370,273	$ 37.56		
Vested and Unvested Expected to Vest at December 31, 2018	161,502	$ 35.74	4.3	—
Exercisable at December 31, 2018	203,954	$ 39.10	3.9	—

(a) Market price per share on December 31, 2018 was $25.99. The intrinsic value is zero for options with exercise prices above market value.

Stock options as of December 31, 2018:

	Options Outstanding			Options Exercisable		
Range of Exercise Prices	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)
$20.00-30.00	2,892	$ 29.83	1.2	2,892	$ 29.83	1.2
30.01-40.00	302,529	33.19	4.6	153,193	33.19	4.6
40.01-50.00	3,968	42.15	4.5	2,210	42.37	4.1
50.01-60.00	46,820	56.12	1.5	35,113	56.12	1.5
60.01-70.00	—	—	—	—	—	—
70.01-80.00	14,064	70.14	1.1	10,546	70.14	1.1
	370,273	$ 37.56		203,954	$ 39.10	

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Additional information pertaining to stock option activity under the Omnibus Plan is as follows (in millions):

	Year Ended December 31,		
	2018	2017	2016
Aggregate intrinsic value of stock options exercised [(a)]	$0.5	$0.3	$0.1
Cash received from the exercise of stock options [(b)]	0.5	0.7	0.4
Tax benefit realized on exercise of stock options	0.1	0.1	—

(a) The intrinsic value is the difference between the market value of the shares on the exercise date and the exercise price of the option.

(b) In addition to the cash received in the table above, cash received from exercise of stock options by Hertz Holdings employees prior to the Spin-Off for 2016 was $9.6 million, as reflected in the accompanying consolidated statements of cash flows.

Performance Stock Units

PSUs will vest based on the achievement of pre-determined performance goals over performance periods determined by the Company's Compensation Committee. Each of the units granted represent the right to receive one share of the Company's common stock on a specified future date. Compensation expense for PSUs is based on the grant date fair value, and is recognized ratably over the three-year vesting period. In addition to the service vesting condition, the PSUs have an additional vesting condition which calls for the number of units to be awarded being based on the achievement of certain performance measures over the applicable measurement period. In the event of an employee's death or disability, a pro rata portion of the employee's PSUs will vest to the extent performance goals are achieved at the end of the performance period.

A summary of the PSU activity is presented below.

	Units	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2017	247,177	$ 41.67
Granted	107,990	64.51
Vested	(65,987)	48.98
Forfeited	(22,073)	47.73
Nonvested at December 31, 2018	267,107	$ 48.60

The weighted average per share grant-date fair values of PSUs granted during 2018, 2017 and 2016 were $64.51, $47.88 and $29.77, respectively. The total fair value of PSUs that vested during 2018 were $3.2 million. There were no PSUs that vested in 2017 or 2016.

PSUs granted in 2018 and 2017 include vesting conditions based on the achievement of the Company's return on invested capital performance measured over a three-year period starting from the year of grant. PSUs granted in 2016 include vesting conditions based on the achievement of the Company's corporate EBITDA performance measure over a three-year period from 2016 to 2018.

Restricted Stock Units

RSUs granted under the Omnibus Plan will vest based on a minimum period of service or the occurrence of events (such as a change in control, as defined in the Omnibus Plan) specified by the Compensation Committee. Compensation expense for RSUs is based on the grant date fair value, and is recognized ratably over the vesting period which generally ranges from one to three years.

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A summary of the RSU activity under the Omnibus Plan is presented below.

	Units	Weighted Average Grant Date Fair Value
Nonvested at December 31, 2017	403,177	$ 38.33
Granted	166,925	62.89
Vested	(81,533)	37.31
Forfeited	(31,915)	44.28
Nonvested at December 31, 2018	456,654	$ 46.57

The weighted average per share grant date fair values of RSUs granted during 2018, 2017 and 2016 were $62.89, $45.61 and $32.63, respectively. The total fair value of RSUs that vested during 2018, 2017 and 2016 was $3.0 million, $1.6 million and $0.3 million, respectively.

Note 13—Income Taxes

For the first half of 2016, Herc was included in the consolidated income tax return of Hertz Holdings. With respect to this time period, the income tax provision included in these financial statements has been calculated using a separate return basis, as if the Company filed separate consolidated group income tax returns, and was not part of the consolidated income tax returns of Hertz Holdings.

In December 2017, the 2017 Tax Act was enacted. This legislation had significant impact on the current tax environment in the U.S. Subsequent to the enactment of the 2017 Tax Act, the Securities and Exchange Commission ("SEC") provided guidance issued in Staff Accounting Bulletin No. 118 ("SAB 118") on how public companies should report the effects of the 2017 Tax Act in future SEC filings. The Company performed an initial analysis of the 2017 Tax Act in accordance with this guidance. The Company recognized, as an estimate, an income tax net benefit of $207.1 million for the year ended December 31, 2017 associated with the items that were reasonably estimable. This net benefit reflected (i) a $245.2 million revaluation of the Company's net deferred tax liability based on a U.S. federal tax rate of 21%, partially offset by (ii) a one-time transition tax of $38.1 million on unremitted foreign earnings and profits (the $38.1 million did not represent cash taxes paid due to the utilization of net operating loss ("NOL") carryforwards.)

During the fourth quarter of 2018, the Company completed the analysis of the 2017 Tax Act in accordance with SAB 118. Below is a summary of the key provisions of the 2017 Tax Act as finalized (in millions):

	Years ended December 31,	
	2018	2017
Tax Rate Reduction	$14.3	$(245.2)
Deemed Repatriation	(35.1)	38.1
Total benefit related to the 2017 Tax Act	$(20.8)	$(207.1)

Tax Rate Reduction

The 2017 Tax Act reduced the federal income tax rate from 35% to 21% beginning in 2018. Accordingly, the Company recorded an estimated tax benefit of $245.2 million for the year ended December 31, 2017 associated with the reduction in net deferred tax liabilities. The tax impact of this rate change was finalized in 2018 as part of the completion of the 2017 income tax returns. Based on the completion of this analysis, the Company recorded an adjustment of $14.3 million to the 2017 estimate resulting in a final tax benefit of $230.9 million.

Deemed Repatriation

Under the 2017 Tax Act, companies were required, as part of the December 31, 2017 income tax reporting, to calculate the amount of previously unrepatriated earnings from foreign operations and remit a one-time tax ("Toll Charge") on these previously untaxed earnings. The Company recognized an estimated tax expense of $38.1 million associated with this deemed repatriation for the year ended December 31, 2017. Based on the finalization of the analysis in 2018, the Company recorded a benefit of approximately $35.1 million with respect to the Toll Charge. This benefit was partially offset by a rate reduction on federal NOL carryforwards previously utilized at 35% and reduced to 21%. The Company elected to utilize current NOL carryforwards to offset the remaining deemed repatriation income balance and therefore recorded no income tax payable for U.S. federal tax purposes.

Interest Expense Limitation

Beginning in 2018, interest expense deductions are limited to 30% of adjusted taxable income, subject to certain provisions. The Company completed the analysis with respect to the interest expense limitation. The Company was not subject to this limitation in 2018.

Territorial Taxation

The 2017 Tax Act generally allows for the receipt of foreign dividends on a tax-free basis beginning in 2018. However, the 2017 Tax Act also enacts various new taxes with respect to transactions with, and operations of, foreign related parties. The Company has completed the analysis with respect to these new taxes and concluded as follows:

- Global Intangible Low-Taxed Income ("GILTI") - The Company, in accordance with the GILTI regulations with respect to foreign subsidiaries, was in a tested loss position for 2018 and therefore recorded no GILTI. Additionally, since the Company was not subject to the GILTI, no election has currently been made with respect to GILTI and deferred taxes or valuation allowances with respect to GILTI.

- Base Erosion Anti-Abuse Tax ("BEAT") - The Company made no payment to foreign subsidiaries subject to BEAT in 2018. Therefore, no BEAT has been recorded.

- Foreign Derived Intangible Income ("FDII") - The Company received no amounts from foreign subsidiaries subject to FDII in 2018. Therefore, no FDII has been recorded.

Fixed Assets

The 2017 Tax Act allows for a special 100% bonus depreciation deduction to be claimed on many fixed assets purchased subsequent to September 27, 2017 through December 2022. Additionally, the 2017 Tax Act terminated the availability of Section 1031 LKE treatment with respect to personal property items. As a result, the Company elected to cease matching asset sales with newly acquired assets effective October 1, 2017 and began utilizing the 100% expensing provision effective as of October 1, 2017.

Reclassifications

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 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 has elected to early adopt this guidance and as a result has recorded an adjustment of $2.2 million to retained earnings as of January 1, 2018.

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The components of income (loss) before income taxes for the periods were as follows (in millions):

	Years Ended December 31,		
	2018	2017	2016
Domestic	$60.5	$(59.2)	$2.5
Foreign	8.3	(5.2)	(7.4)
Income (loss) before income taxes	$68.8	$(64.4)	$(4.9)

The provision for income taxes consists of the following (in millions):

	Years Ended December 31,		
	2018	2017	2016
Current:			
Federal	$2.2	$2.0	$—
Foreign	1.9	5.0	2.4
State and local	5.5	(3.3)	0.1
Total current	9.6	3.7	2.5
Deferred:			
Federal	(7.0)	(214.9)	3.5
Foreign	(1.9)	(4.6)	(2.3)
State and local	(1.0)	(8.9)	11.1
Total deferred	(9.9)	(228.4)	12.3
Total income tax (benefit) provision	$(0.3)	$(224.7)	$14.8

The principal items of the U.S. and foreign net deferred tax assets and liabilities are as follows (in millions):

	December 31, 2018	December 31, 2017
Deferred tax assets:		
Employee benefit plans	$6.8	$5.4
Tax credit carryforwards	4.2	4.2
Accrued expenses	34.9	33.6
Net operating loss carryforwards	101.8	46.5
Total deferred tax assets	147.7	89.7
Less: valuation allowance	(5.8)	(7.6)
Total net deferred tax assets	141.9	82.1
Deferred tax liabilities:		
Deferred state gain	(6.3)	(5.8)
Outside basis difference in foreign subsidiaries and other	(3.4)	(1.9)
Depreciation on tangible assets	(512.5)	(469.7)
Intangible assets	(67.8)	(66.2)
Total deferred tax liabilities	(590.0)	(543.6)
Net deferred tax liability	$(448.1)	$(461.5)

In connection with the Spin-Off in 2016, NOL carryforwards were split between the Company and New Hertz pursuant to the Code and regulations. The split of net operating loss carryforwards was adjusted in 2017 after the 2016 income tax returns were finalized and the Company recorded an adjustment to the federal and state net operating losses of $0.9 million and $4.0 million, respectively. As of December 31, 2018, a deferred tax asset of $86.5 million was recorded for unutilized federal NOL carryforwards.

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The total federal NOL carryforwards are $412.1 million and the federal NOL carryforwards begin to expire in 2031. State NOL carryforwards have generated a deferred tax asset of $10.1 million and expire over various years beginning in 2019.

As of December 31, 2018, deferred tax assets of $4.2 million were recorded for federal Alternative Minimum Tax and various non-U.S. Tax Credits. As of December 31, 2018, deferred tax assets of $5.1 million were recorded for foreign NOL carryforwards of $22.6 million, of which $22.4 million have an indefinite carryforward period.

In determining the valuation allowance, an assessment of positive and negative evidence was performed regarding realization of the net deferred tax assets in accordance with Topic 740. This assessment included the evaluation of scheduled reversals of deferred tax liabilities, the availability of carryforwards and estimates of projected future taxable income. Based on the assessment, as of December 31, 2018, total valuation allowances of $5.8 million were recorded against deferred tax assets. Although realization is not assured, the Company has concluded that it is more likely than not the remaining deferred tax assets of $141.9 million will be realized and as such no valuation allowance has been provided on these assets.

The income tax in the accompanying consolidated statements of operations differs from the income tax calculated by applying the statutory federal income tax rate to income (loss) before income taxes due to the following (in millions):

	Years Ended December 31,		
	2018	2017	2016
Income tax (benefit) provision at statutory rate	$14.4	$(22.5)	$(1.7)
Increases (decreases) resulting from:			
Foreign taxes	0.9	1.9	0.8
State and local income taxes, net of federal income tax	3.6	2.6	11.2
Federal and foreign	1.1	0.5	3.2
Enactment of the 2017 Tax Act	(20.8)	(207.1)	—
Finalization of estimates from Spin-Off	—	(0.9)	—
Change in valuation allowance	(1.5)	1.1	1.3
Outside basis difference in foreign subsidiaries	0.9	—	—
All other items, net	1.1	(0.3)	—
Income tax (benefit) provision	$(0.3)	$(224.7)	$14.8

As a result of the 2017 Tax Act, previously undistributed earnings from foreign subsidiaries are deemed to have been repatriated as of December 31, 2017 for federal income tax purposes. Beginning in 2018, companies are generally able to repatriate earnings from foreign subsidiaries with no U.S. federal income tax impact. As of December 31, 2018, and as part of the finalization of the tax impacts of the 2017 Tax Act under SAB 118, the Company has determined not to assert that earnings from foreign operations are permanently reinvested. The Company therefore recorded a deferred tax liability of $1.8 million with respect to the expected future tax liability associated with the repatriation of these earnings in the future.

As of December 31, 2018, the Company is maintaining the assertion that future earnings associated with the potential stock sale or liquidation of foreign subsidiaries is permanently reinvested. Accordingly, the Company has not recorded any deferred tax liabilities associated with these book-to-tax differences. The Company has analyzed the potential tax liability associated with these differences to be approximately $26.5 million.

As a consequence of the Company’s inclusion in the Hertz Global Holdings, Inc. consolidated income tax returns, it is joint and severally liable, with other members of the consolidated group, for any additional taxes that may be assessed against Hertz Global Holdings, Inc. for the periods prior to June 30, 2016. The Company classifies interest and penalties associated with income tax liabilities as a component of income tax expense.

The Company conducts business globally and, as a result, files one or more income tax returns in the U.S. and non-U.S. jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities throughout the world. The open tax years for these jurisdictions span from 2005 to 2017. The IRS completed its audit of the Company's 2007 to 2011 consolidated income tax returns, in which Herc was included, and had no changes to the previously filed tax returns. The Company is currently under audit for the 2014 and 2015 income tax years. The Company was also recently notified that the IRS will be auditing the 2016 income tax return. Several U.S. state and non-U.S. jurisdictions are under audit. The Company does not expect any material assessments resulting from these audits.

Note 14—Leases

The Company has various operating leases under which the following amounts were expensed (in millions):

	Years Ended December 31,		
	2018	2017	2016
Real estate	$35.4	$32.2	$31.8
Office and other equipment	1.5	2.8	1.2
	36.9	35.0	33.0
Sublease income	(0.4)	(0.4)	(0.5)
Total	$36.5	$34.6	$32.5

As of December 31, 2018, minimum obligations under existing agreements referred to above are as follows (in millions):

2019	$34.6
2020	29.0
2021	24.0
2022	20.5
2023	18.3
After 2023	75.8
Total	$202.2

The future minimum rent payments in the above table have been reduced by minimum future sublease rental inflows in the aggregate amount of $0.6 million as of December 31, 2018.

Many of the Company's real estate leases require the Company to pay or reimburse operating expenses, such as real estate taxes, insurance and maintenance expenses. Such obligations are not reflected in the table of minimum future obligations appearing immediately above. The Company operates from various leased premises under operating leases with terms of up to 15 years. A number of the Company's operating leases contain renewal options. These renewal options vary, but the majority include clauses for renewal for various term lengths at various rates, both fixed and market.

Capital Leases

As of December 31, 2018 and 2017, the Company has gross assets under capital leases of $87.7 million and $107.4 million, respectively. Capital lease obligations consist primarily of service vehicle leases with periods expiring at various dates through 2023.

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As of December 31, 2018, future minimum capital lease payments for existing agreements referred to above are as follows (in millions):

2019	$23.6
2020	13.0
2021	1.5
2022	1.5
2023	0.7
Total minimum lease payments	40.3
Less amount representing interest (at a weighted-average interest rate of 4.02%)	(2.2)
Total capital lease obligations	$38.1

Note 15—Accumulated Other Comprehensive Income (Loss)

The changes in the accumulated other comprehensive income (loss) balance by component (net of tax) are presented in the tables below (in millions):

	Pension and Other Post-Employment Benefits	Unrealized Gains on Hedging Instruments	Foreign Currency Items	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2017	$ (13.5)	$ 1.3	$(86.4)	$ (98.6)
Other comprehensive income before reclassification	(5.6)	1.1	(20.0)	(24.5)
Amounts reclassified from accumulated other comprehensive loss	2.9	—	—	2.9
Cumulative effect of accounting change (Note 13)	(2.5)	0.3	—	(2.2)
Net current period other comprehensive income	(5.2)	1.4	(20.0)	(23.8)
Balance at December 31, 2018	$ (18.7)	$ 2.7	$(106.4)	$ (122.4)

	Pension and Other Post-Employment Benefits	Unrealized Gains on Hedging Instruments	Foreign Currency Items	Accumulated Other Comprehensive Income (Loss)
Balance at December 31, 2016	$ (14.6)	$ —	$(104.1)	$ (118.7)
Other comprehensive income before reclassification	—	1.3	17.7	19.0
Amounts reclassified from accumulated other comprehensive loss	1.1	—	—	1.1
Net current period other comprehensive income	1.1	1.3	17.7	20.1
Balance at December 31, 2017	$ (13.5)	$ 1.3	$(86.4)	$ (98.6)

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

	Twelve Months Ended December 31,			
Pension and other postretirement benefit plans	2018	2017	2016	Statement of Operations Caption

Amortization of actuarial losses	$0.7	$1.4	$1.4	Selling, general and administrative
Settlement loss	1.2	0.9	—	Selling, general and administrative
Total	1.9	2.3	1.4	
Tax benefit (provision)	1.0	(1.2)	(0.5)	Income tax benefit (provision)
Total reclassifications for the period	$2.9	$1.1	$0.9	

Note 16—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 the settlement with the SEC described below. 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.

Governmental Investigations - In June 2014, Hertz Holdings was advised by the staff of the New York Regional Office of the SEC that it was investigating the events disclosed in certain of Hertz Holdings’ filings with the SEC. In addition, Hertz Holdings and New Hertz had communications with the United States Attorney’s Office for the District of New Jersey regarding the same or similar events. New Hertz was responsible for managing these matters. The investigations and communications generally involved the restatements included in Hertz Holdings’ 2014 Form 10-K and related accounting for prior periods. On December 31, 2018, the SEC entered an administrative order that, among other things, orders New Hertz to cease and desist from violating certain of the federal securities laws and imposes a civil penalty of $16.0 million. Pursuant to the Separation and Distribution Agreement that we entered into in connection with the Spin-Off, the Company agreed to indemnify New Hertz for 15% of any shared liabilities. Accordingly, the Company has accrued a loss contingency of $2.4 million for this matter with respect to the quarter ended December 31, 2018. In addition, New Hertz has advised us that it does not expect any further communications with the United States Attorney’s Office for the District of New Jersey.

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 21, "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 December 31, 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).

Guarantee

The Company has a joint venture with a third-party that it accounts for using the equity method. The joint venture has an outstanding bank loan to which the Company is also a guarantor. The Company has determined the maximum potential payment amount under the guarantee is approximately $7.6 million, however the probability of any payment is remote and therefore the Company has not recorded a liability on its balance sheet as of December 31, 2018. The bank loan is collateralized by the rental equipment and other assets of the joint venture entity and has maturities through 2023.

Note 17—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. The aggregate amount of the swap is equal to a portion of the U.S. dollar principal amount of the ABL Credit Facility and the payment dates of the swap coincide with the interest payment dates of the 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 cash flow hedge of a portion of the ABL Credit Facility.

The following table summarizes the outstanding interest rate swap arrangement as of December 31, 2018 (dollars in millions):

	Aggregate Notional Amount	Receive Rate	Receive Rate as of December 31, 2018	Pay Rate
ABL Credit Facility	$ 350.0	1-month LIBOR + 2.00%	4.5 %	3.7%

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

	Fair Value of Financial Instruments	
	Other Long-Term Assets	Accrued Liabilities

	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Derivatives Designated as Hedging Instruments				
Interest rate swap	$3.6	$ 2.1	$ —	$ —

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 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 consolidated statements of operations (in millions).

	Gain (Loss) Recognized		
	2018	2017	2016
Derivatives Not Designated as Hedging Instruments			
Foreign currency forward contracts	$0.2	$(4.0)	$5.0

Note 18—Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market or, if none exists, the most advantageous market, for the specific asset or liability at the measurement date (referred to as the "exit price"). Fair value is a market-based measurement that should be determined based upon assumptions that market participants would use in pricing an asset or liability, including consideration of nonperformance risk.

The Company assesses the inputs used to measure fair value using the three-tier hierarchy promulgated under U.S. GAAP. This hierarchy indicates the extent to which inputs used in measuring fair value are observable in the market.

Level 1: Inputs that reflect quoted prices for identical assets or liabilities in active markets that are observable.

Level 2: Inputs other than quoted prices included in Level 1 that are observable either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; or model-derived valuations in which significant inputs are observable or can be derived principally from, or corroborated by, observable market data.

Level 3: Inputs that are unobservable to the extent that observable inputs are not available for the asset or liability at the measurement date and include management's judgment about assumptions that market participants would use in pricing the asset or liability.

Under U.S. GAAP, entities are allowed to measure certain financial instruments and other items at fair value. The Company has not elected the fair value measurement option for any of its assets or liabilities that meet the criteria for this option. Irrespective of the fair value option previously described, U.S. GAAP requires certain financial and non-financial assets and liabilities of the Company to be measured on either a recurring basis or on a nonrecurring basis as shown in the sections that follow.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The fair value of cash, accounts receivable, accounts payable and accrued liabilities, to the extent the underlying liability will be settled in cash, approximates carrying values because of the short-term nature of these instruments. The Company's assessment of goodwill and other intangible assets for impairment includes an assessment using various Level 2 (EBITDA multiples and discount rate) and Level 3 (forecasted cash flows) inputs. See Note 2, "Basis of Presentation and Recently Issued Accounting Pronouncements," for more information on the application of the use of fair value methodology.

Cash Equivalents and Investments

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 December 31, 2018 or 2017.

Financial Instruments

The fair value of the Company's financial instruments as of December 31, 2018 and 2017 are shown in Note 17, "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 ABL Credit Facility, AR Facility, capital leases and other borrowings approximated their book values as of December 31, 2018 and 2017. The fair value of the Company's 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).

	December 31, 2018		December 31, 2017	
	Nominal Unpaid Principal Balance	Aggregate Fair Value	Nominal Unpaid Principal Balance	Aggregate Fair Value
Debt	$864.5	$ 901.2	$988.0	$ 1,074.6

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Note 19—Equity and Earnings (Loss) Per Share

Earnings (Loss) Per Share
Basic earnings (loss) per share has been computed based upon the weighted average number of common shares outstanding. Diluted earnings (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.

On June 30, 2016, the Company effected a 1-for-15 reverse stock split. All share data, per share amounts and dilutive and antidilutive amounts have been retroactively adjusted to reflect the impact of the separation and conversion, including the reverse stock split, in the accompanying consolidated financial statements and notes thereto for the year ended December 31, 2016.

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

	Year Ended December 31,		
	2018	2017	2016
Basic and diluted earnings (loss) per share:			
Numerator:			
Net income (loss), basic and diluted	$69.1	$160.3	$(19.7)
Denominator:			
Basic weighted average common shares	28.4	28.3	28.3
Stock options, RSUs and PSUs[(a)]	0.5	0.3	—
Weighted average shares used to calculate diluted earnings (loss) per share	28.9	28.6	28.3
Earnings (loss) per share:			
Basic	$2.43	$5.66	$(0.70)
Diluted	$2.39	$5.60	$(0.70)
Antidilutive stock options, RSUs and PSUs	0.2	0.4	0.3

(a) The dilutive impact of stock options, RSUs and PSUs for the year ended December 31, 2016 rounds to zero.

Share Repurchase Program

In March 2014, Hertz Holdings announced a $1.0 billion share repurchase program (the "Share Repurchase Program"), which replaced an earlier program. The Share Repurchase Program permits the Company, as the successor to Hertz Holdings, to purchase shares through a variety of methods, including in the open market or through privately negotiated transactions, in accordance with applicable securities laws. It does not obligate the Company to make any repurchases at any specific time or in any specific amount. The timing and extent to which the Company repurchases its shares will depend upon, among other things, market conditions, share price, liquidity targets, contractual restrictions and other factors. Share repurchases may be commenced or suspended at any time or from time to time, subject to legal and contractual requirements, without prior notice. During 2015, Hertz Holdings repurchased 2.5 million shares (on a reverse split adjusted basis) at an aggregate purchase price of approximately $604.5 million under the Share Repurchase Program. Repurchases are included in treasury stock in the accompanying consolidated balance sheets as of December 31, 2018 and December 31, 2017. There were no share repurchases during the years ended

December 31, 2018 or 2017. As of December 31, 2018, the approximate dollar value that remains available for share purchases under the Share Repurchase Program is $395.9 million.

Note 20—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 and certain related entities and individuals. 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 and Nicholas F. Graziano (collectively, the "Icahn Designees," and, together with Carl C. Icahn and the other parties to the Nomination and Standstill Agreements 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,

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are collectively referred to herein as the "Icahn Agreements").

Pursuant to the Icahn Agreements, the Icahn Designees were appointed to the Company’s Board. 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.

Pursuant to the Icahn Agreements, the Company will not create a separate executive committee of the Board so as long as an Icahn Designee is a member of the Board. 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 certain entities related to Carl C. Icahn 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 21—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 year ended December 31, 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. 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. During the year ended December 31, 2018, the Company incurred expenses of $6.3 million, under the TSA which are included in "Direct operating" and "Selling, general and administrative" expenses in the Company's consolidated statements of operations, compared to $18.4 million and $10.9 million for 2017 and 2016, respectively.

Tax Matters Agreement

The Company entered into a tax matters agreement (the "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.

Real Estate Arrangements

The Company and New Hertz entered into certain real estate lease agreements pursuant to which the Company leased certain office space from New Hertz through June 30, 2018 and New Hertz leased certain rental facilities space from the Company through April 30, 2018. Rent payments were negotiated based on comparable fair market rental rates.

Note 22—Segment Information

The Company consists of a single reportable segment, worldwide equipment rental. The Company considered guidance in ASC Topic 280, Segment Reporting, and used the management approach in determining its reportable segments.

We generate substantially all of our equipment rental revenue in North America. For each of the last three fiscal years, revenues from our external customers attributed to the U.S. and all foreign countries (primarily Canada) in total are set forth below:

	Years Ended December 31,		
	2018	2017	2016
United States	1,757.8	1,548.1	1,361.2
International	218.9	206.4	193.6
Total revenue	1,976.7	1,754.5	1,554.8

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

Geographic information for long-lived assets, which consist primarily of rental equipment and property and equipment, was as follows (in millions):

	December 31, 2018	December 31, 2017
Total assets at end of year		
United States	$ 3,182.7	$ 3,259.0
International	427.5	290.7
Total	$ 3,610.2	$ 3,549.7
Rental equipment, net, at end of year		
United States	$ 2,248.3	$ 2,111.2
International	256.4	263.4
Total	$ 2,504.7	$ 2,374.6
Property and equipment, net, at end of year		
United States	$ 256.3	$ 256.5
International	26.2	29.8
Total	$ 282.5	$ 286.3

Note 23—Quarterly Financial Information (Unaudited)

Provided below is a summary of the quarterly operating results during 2018 and 2017. Amounts are computed independently each quarter. As a result, the sum of the quarter's amounts may not equal the total amount for the respective year.

(In millions, except per share data)	First Quarter 2018	Second Quarter 2018	Third Quarter 2018	Fourth Quarter 2018
Revenues	$431.3	$485.5	$ 516.2	$ 543.7
Income (loss) before income taxes	(15.2)	0.5	45.2	38.3
Net income (loss)[(a)]	(10.1)	(0.3)	46.2	33.3
Earnings (loss) per share:				
Basic	$ (0.36)	$ (0.01)	$ 1.62	$ 1.17
Diluted	$ (0.36)	$ (0.01)	$ 1.60	$ 1.16

(In millions, except per share data)	First Quarter 2017	Second Quarter 2017	Third Quarter 2017	Fourth Quarter 2017
Revenues	$389.4	$415.8	$ 457.6	$ 491.7
Income (loss) before income taxes	(54.3)	(49.8)	18.6	21.1
Net income (loss)[(b)]	(39.2)	(27.6)	12.8	214.3
Earnings (loss) per share:				
Basic	$ (1.39)	$ (0.98)	$ 0.45	$ 7.57
Diluted	$ (1.39)	$ (0.98)	$ 0.45	$ 7.44

(a) Net income for the third quarter, fourth quarter and full year 2018 includes a net benefit of $14.8 million, $6.0 million and $20.8 million, respectively, associated with the finalization of the impacts of the 2017 Tax Act discussed further in Note 13, "Income Taxes." The third quarter includes the early redemption of $123.5 million of Notes, resulting in a loss on the early extinguishment of debt of $5.4 million as discussed in Note 9, "Debt".

(b) Net income for the fourth quarter and full year 2017 includes an estimated net benefit of $207.1 million associated with the enactment of the 2017 Tax Act. The second quarter includes an impairment charge of $29.3 million related to the write-off of assets previously capitalized as part of the development of new financial and point of sale systems and the impairment of certain rental equipment discussed further in Note 7, "Impairment." The first and fourth quarters of 2017 each include the early redemption of $123.5 million of Notes, resulting in losses on the early extinguishment of debt of $5.8 million and $5.6 million, respectively.

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SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS

HERC HOLDINGS INC. AND SUBSIDIARIES

(In millions)

	Beginning Balance	Provisions	Translation Adjustments	Deductions	Ending Balance
Receivables allowances:					
Year to date December 31, 2018	$ 26.9	$ 57.8	$ (0.2)	$ (63.0)	$ 21.5
Year to date December 31, 2017	24.9	52.4	0.3	(50.7)	26.9
Year to date December 31, 2016	23.8	44.4	0.1	(43.4)	24.9
Tax valuation allowances:					
Year to date December 31, 2018	$ 7.6	$ 0.3	$ (0.3)	$ (1.8)	$ 5.8
Year to date December 31, 2017	4.5	2.8	0.3	—	7.6
Year to date December 31, 2016	3.6	1.2	(0.3)	—	4.5

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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), 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 December 31, 2018, 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 our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

Management’s Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that we maintained effective internal control over financial reporting as of December 31, 2018.

The effectiveness of our internal control over financial reporting as of December 31, 2018 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report, which appears in Part II, Item 8 of this Report.

Remediation of Prior Material Weaknesses

We previously identified and disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017 material weaknesses in our internal control over financial reporting. We undertook actions during 2018 to remediate the material weaknesses, including the re-design and implementation of new controls.

Risk Assessment

We have remediated the material weakness related to risk assessment through designing and maintaining controls responsive to the risk of material misstatement by (i) enhancing risk assessment processes, control procedures and documentation, (ii) hiring key personnel with significant public-company financial reporting experience and (iii) completing a comprehensive review and updating accounting and IT policies, process descriptions and control activities. The remediation of the risk assessment material weakness also contributed to the remediation of the following additional material weaknesses:

Period-end Financial Reporting Process

We have remediated the material weakness associated with certain business processes in the period-end financial reporting process by designing and maintaining policies, procedures and controls over the preparation, analysis and review of transactions and significant account reconciliations. This remediation included enhancing our documentation to reflect the control attributes that are performed. Additionally, we delivered supplemental training to appropriate personnel covering the Company's account reconciliations policies and review controls.

IT Systems

We have remediated the material weakness associated with our IT systems and IT general controls, including our financial applications and data, by designing and maintaining controls over the effective review of user access, privileged access and appropriate segregation of duties. We provided training to IT system control owners regarding risk, controls and maintenance of control evidence. In addition, we hired additional resources to administer IT general controls and IT systems.

Outsourced IT Systems

We have remediated the material weakness associated with ineffective design and maintenance of controls to monitor certain IT systems that the Company outsourced to New Hertz under the TSA (the "TSA Controls"). In July 2018, the Company's financial systems were migrated from the New Hertz system to Company-maintained stand-alone systems that are governed by the Company's controls in our environment to address the associated risk. The Company receives no further services from New Hertz under the TSA and, therefore, the TSA Controls are no longer required to be maintained as part of our internal control over financial reporting.

Control Activities

Earned but Unbilled Revenue

We have remediated the material weakness over earned but unbilled revenue by enhancing controls over the effective review of the model, assumptions and data used in developing the earned but unbilled revenue accrual. Additionally, we delivered supplemental training to appropriate personnel covering the Company's earned but unbilled revenue policies, procedures and related internal control activities.

Equipment Rental Revenue

We have remediated the material weakness over ineffective design and maintenance of a control related to the occurrence of equipment rental revenue by designing and maintaining policies, procedures and controls related to validation of the occurrence of equipment rental revenue. Additionally, we delivered supplemental training to appropriate personnel covering the Company's rental equipment revenue policies, procedures and related internal control activities.

Income Tax

We have remediated the material weakness related to the ineffective design and maintenance of controls over income tax accounts. We enhanced policies, procedures and controls to allow for timely and increased oversight by our management of accounting for the provision for income taxes and the related documentation of such review. Additionally, we delivered supplemental training to appropriate personnel covering the Company's income taxes policies, procedures and related internal control activities.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2018, that materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

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HERC HOLDINGS INC. AND SUBSIDIARIES

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Executive Officers

The name, age, position and a description of the business experience of each of our executive officers is provided below. There is no family relationship among the executive officers or between any executive officer and a director.

Name	Age	Position
Lawrence H. Silber	62	President and Chief Executive Officer, Director
Mark Irion	52	Senior Vice President and Chief Financial Officer
Christian J. Cunningham	57	Senior Vice President and Chief Human Resources Officer
J. Bruce Dressel	55	Senior Vice President and Chief Operating Officer
Tamir Peres	49	Senior Vice President and Chief Information Officer
Maryann A. Waryjas	67	Senior Vice President, Chief Legal Officer and Secretary

Lawrence H. Silber. Mr. Silber joined the Company in May 2015. Prior to that, Mr. Silber most recently served as an executive advisor at Court Square Capital Partners, LLP, a private equity firm primarily investing in the business services, healthcare, general industrial and technology and telecommunications sectors, from April 2014 to May 2015. Mr. Silber led Hayward Industries, one of the world's largest swimming pool equipment manufacturers, as chief operating officer from 2008 to 2012, overseeing a successful transition through the recession and returning the company to solid profitability. From 1978 to 2008, Mr. Silber worked for Ingersoll-Rand plc, a publicly traded manufacturer of industrial products and components, in a number of roles of increasing responsibility. He led major Ingersoll-Rand business groups, including Utility Equipment, Rental and Remarketing and the Equipment and Services businesses. Earlier in his career, he led sales, marketing and operations functions in Ingersoll-Rand's Power Tool Division and Construction and Mining Group. Mr. Silber served on the board of directors of SMTC Corporation, a mid-size provider of end-to-end electronics manufacturing services, from 2012 to 2015 (and from May 2013 through January 2014 served as its interim president and CEO).

Mark Irion. Mr. Irion joined the Company in June 2018. Prior to that, Mr. Irion most recently served as the chief financial officer of Neff Corporation, a publicly traded equipment rental company, for 19 years until its sale in October 2017. Prior to his role with Neff, he was chief financial officer for Markvision Holdings, Inc., a computer component distribution company, from 1994 to 1998 and, before that, he was an audit senior for Deloitte & Touche LLP in the U.S. and New Zealand.

Christian J. Cunningham. Mr. Cunningham joined the Company in September 2014 from DFC Global Corporation where he served as vice president, corporate HR and HR services since June 2013 with global responsibility for all human resource matters for corporate staff. Previously, Mr. Cunningham held the position of vice president, HR, compensation and benefits at Sunoco Inc. and Sunoco Logistics from 2010 to 2013. Prior to Sunoco, Mr. Cunningham served at ARAMARK as vice president, global compensation and strategy (2008 to 2010); at Scholastic Inc. as vice president, compensation, benefits and HRIS (2006 to 2007); and at Pep Boys as assistant vice president, human resources (2005 to 2006). Previously, Mr. Cunningham held director and regional managerial positions in roles with increasing levels of responsibility at Pep Boys (1995 to 2005) and Tire Service Corporation, Inc. (1985 to 1995).

J. Bruce Dressel. Mr. Dressel joined the Company in June 2015, bringing with him significant expertise in the equipment rental industry and more than 30 years of experience in various leadership and senior management roles. Mr. Dressel served as president and CEO of Sunbelt Rentals, Inc. from February 1997 to July 2003, where he grew the company from 24 to 195 locations and expanded equipment rental offerings. Mr. Dressel began his career in the equipment rental business in 1984 and held various positions in a privately held company that was acquired by Sunbelt in 1996. Following Sunbelt, from 2004 to 2013, Mr. Dressel held roles of increasing responsibility, including serving as chief sales officer, for ADS, Inc., a provider of industry-leading equipment and logistics support solutions to the Department of Defense and other federal agencies. From 2013 until he joined the Company in 2015, Mr. Dressel had been consulting within the equipment rental industry.

Tamir Peres. Mr. Peres joined the Company in September 2017 from Sunoco Logistics, a publicly-traded, midstream energy company, where he served as vice president and chief information officer since 2012, leading the Sunoco Logistics Information Technology group. From 2005 to 2012, Mr. Peres held the position of director of corporate information technology at Sunoco, Inc., where he was responsible for all strategic and tactical aspects of technology across the Refining and Supply, Retail Marketing, Chemicals, Logistics and Coke business units. He was previously director of Worldwide Financial Systems for Kulicke & Soffa Industries, Inc., a global manufacturer and supplier of semiconductor equipment, and before that he worked for Ernst & Young, including as a Senior Auditor in its Assurance Services area.

Maryann A. Waryjas. Ms. Waryjas joined the Company in November 2015 from Great Lakes Dredge & Dock Corporation, one of the largest providers of dredging services in the United States. At Great Lakes, Ms. Waryjas served as senior vice president,

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE (continued)

chief legal officer and corporate secretary from August 2012 to November 2015. From 2000 until joining Great Lakes, Ms. Waryjas was a partner at the law firm of Katten Muchin Rosenman, LLP, and was co-chair of the firm's Corporate Governance and Mergers and Acquisitions practices during 2011 and 2012. Ms. Waryjas served two consecutive terms on Katten's board of directors. Prior to Katten, Ms. Waryjas was a partner at the law firms of Jenner & Block LLP and Kirkland & Ellis LLP.

Code of Ethics

We have adopted a Code of Ethics that applies to all of our officers (including the principal executive officer, principal financial officer, principal accounting officer and controller), employees and designated agents and contractors. The Code of Ethics is available through our Internet website (http://ir.hercrentals.com). From time to time we may amend our Code of Ethics. We intend to disclose, by posting on our website, information about any amendments to our Code of Ethics, as well as information concerning any waiver of the Code of Ethics, that may be granted by our Board of Directors to our principal executive officer, principal financial officer, principal accounting officer or controller in accordance with SEC regulations.

Directors and Corporate Governance

Other information required by this Item is incorporated by reference to the applicable information in the Proxy Statement.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference to the applicable information in the Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Equity Compensation Plan Information

The following table summarizes the securities authorized for issuance pursuant to our equity compensation plans as of December 31, 2018:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights [1] (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) [2] (c)
Equity compensation plans approved by security holders	1,094,034	$ 37.56	2,185,556
Equity compensation plans not approved by security holders	—	—	—
Total	1,094,034		2,185,556

(1) Represents the weighted average exercise price of 370,273 outstanding stock options as of December 31, 2018. The remaining securities under this plan as of December 31, 2018 are restricted stock units and performance stock units, which have no exercise price and have been excluded from the calculation of the weighted average exercise price above.
(2) All of the securities remaining available for future issuance are available under our 2018 Omnibus Incentive Plan.

Security Ownership of Certain Beneficial Owners and Management
Other information required by this Item is incorporated by reference to the applicable information in the Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE
The information required by this Item is incorporated by reference to the applicable information in the Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES
The information required by this Item is incorporated by reference to the applicable information in the Proxy Statement.

HERC HOLDINGS INC. AND SUBSIDIARIES

PART IV
ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE

(a) Documents filed as part of this Report

(1) Consolidated financial statements:

Report of Independent Registered Public Accounting Firm
Herc Holdings Inc. and Subsidiaries Consolidated Balance Sheets at December 31, 2018 and 2017
Herc Holdings Inc. and Subsidiaries Consolidated Statements of Operations for the years ended December 31, 2018, 2017 and 2016
Herc Holdings Inc. and Subsidiaries Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2018, 2017 and 2016
Herc Holdings Inc. and Subsidiaries Consolidated Statements of Changes in Equity for the years ended December 31, 2018, 2017 and 2016
Herc Holdings Inc. and Subsidiaries Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016
Notes to Consolidated Financial Statements

(2) Schedule to the financial statements

Schedule II Valuation and Qualifying Accounts

(3) Exhibits

Exhibit Number	Description
2.1***	Separation and Distribution Agreement, dated June 30, 2016, by and between Herc Holdings and Hertz Global Holdings, Inc. (Incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on July 6, 2016).
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, 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).
4.1	Indenture (including the form of Notes), dated as of June 9, 2016, between Herc Spinoff Escrow Issuer, LLC, Herc Spinoff Escrow Issuer, Corp. and Wilmington Trust, National Association, as Trustee and Note Collateral Agent (Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of Hertz Global

	Holdings, Inc. (File No. 001-33139), as filed on June 15, 2016).
4.2	First Supplemental Indenture, dated as of June 9, 2016, among Herc Spinoff Escrow Issuer, LLC, Herc Spinoff Escrow Issuer, Corp. and Wilmington Trust, National Association, as Trustee and Note Collateral Agent (Incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on June 15, 2016).
4.3	Second Supplemental Indenture, dated as of June 9, 2016, among Herc Spinoff Escrow Issuer, LLC, Herc Spinoff Escrow Issuer, Corp. and Wilmington Trust, National Association and Note Collateral Agent (Incorporated by reference to Exhibit 4.3 to the Current Report on Form 8-K of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on June 15, 2016).
4.4	Third Supplemental Indenture, dated as of June 29, 2016, among Herc Rentals Inc. and Wilmington Trust, National Association, as Trustee and Note Collateral Agent (Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on July 6, 2016).
4.5	Fourth Supplemental Indenture, dated as of June 30, 2016, among Herc Rentals Inc., the subsidiary guarantors from time to time party thereto and Wilmington Trust, National Association, as Trustee and Note Collateral Agent (Incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on July 6, 2016).

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HERC HOLDINGS INC. AND SUBSIDIARIES

4.6	Nomination and Standstill Agreement, dated September 15, 2014, by and among the persons and entities listed on Schedule A thereto and Herc Holdings (Incorporated by reference to Exhibit 99.1 to the Current Report on Form 8-K of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on September 16, 2014).
4.7	Confidentiality Agreement, dated September 15, 2014, by and among the persons and entities listed on Schedule A thereto and Herc Holdings (Incorporated by reference to Exhibit 99.2 to the Current Report on Form 8-K of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on September 16, 2014).
4.8	Registration Rights Agreement, effective June 30, 2016, among Herc Holdings, High River Limited Partnership, Icahn Partners LP and Icahn Partners Master Fund LP, on behalf of certain other members of the Icahn group, together with those who may in the future become a party thereto under the terms thereof (Incorporated by reference to Exhibit 4.6 to the Quarterly Report on Form 10-Q of Herc Holdings (File No. 001-33139), as filed on August 9, 2016).
10.1	ABL Credit Agreement, dated as of June 30, 2016, among Herc Rentals Inc., certain other subsidiaries of Herc Rentals Inc., Citibank, N.A., as administrative agent and collateral agent, Citibank, N.A., as Canadian administrative agent and Canadian collateral agent, Bank of America, N.A., as co-collateral agent, Capital One, National Association, ING Capital LLC and Wells Fargo Bank, National Association, as senior managing agents, Barclays Bank PLC, Bank of Montreal, BNP Paribas, Credit Agricole Corporate and Investment Bank, Goldman Sachs Bank USA, JPMorgan Chase Bank, N.A., Royal Bank of Canada and Regions Bank, as co-documentation agents, and the other financial institutions party thereto from time to time (Incorporated by reference to Exhibit 10.6 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on July 6, 2016).
10.2	Collateral Agreement, dated as of June 30, 2016, made by Herc Rentals Inc. and certain of its subsidiaries in favor of Wilmington Trust, National Association, as Note Collateral Agent (Incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on July 6, 2016).
10.3	U.S. Guarantee and Collateral Agreement, dated as of June 30, 2016, made by Herc Intermediate Holdings, LLC, Herc Rentals Inc. and certain of its subsidiaries from time to time in favor of Citibank, N.A., as collateral agent and administrative agent (Incorporated by reference to Exhibit 10.7 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on July 6, 2016).
10.4	Canadian Guarantee and Collateral Agreement, dated as of June 30, 2016, made by Matthews Equipment Limited, Western Shut-Down (1995) Limited, Hertz Canada Equipment Rental Partnership, 3222434 Nova Scotia Company and certain of their subsidiaries from time to time in favour of Citibank, N.A., as Canadian collateral agent and Canadian administrative agent (Incorporated by reference to Exhibit 10.8 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on July 6, 2016).
10.5	Transition Services Agreement, dated June 30, 2016, by and between Hertz Global Holdings, Inc. and Herc Holdings Inc. (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on July 6, 2016).
10.6	Tax Matters Agreement, dated June 30, 2016, among Herc Holdings Inc., The Hertz Corporation, Herc Rentals Inc. and Hertz Global Holdings, Inc. (Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on July 6, 2016).
10.7	Employee Matters Agreement, dated June 30, 2016, by and between Hertz Global Holdings, Inc. and Herc Holdings Inc. (Incorporated by reference to Exhibit 10.3 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on July 6, 2016).
10.8	Intellectual Property Agreement, dated June 30, 2016, among The Hertz Corporation, Hertz System, Inc. and Herc Rentals Inc. (Incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on July 6, 2016).
10.9[t]	Form of Change in Control Severance Agreement among Herc Holdings and executive officers (Incorporated by reference to Exhibit 10.5 to the Current Report on Form 8-K of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on May 25, 2016).

10.10	Receivables Financing Agreement, dated as of September 17, 2018, among Herc Receivables U.S. LLC, Herc Rentals Inc., the Lenders and Managing Agents from time to time party thereto and Credit Agricole Corporate and Investment Bank, as Administrative Agent (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139) as filed on September 21, 2018).
10.11	Purchase and Contribution Agreement, dated as of September 17, 2018, among Herc Rentals Inc., as a Seller and Collection Agent, Cinelease, Inc. as a Seller, and Herc Receivables U.S. LLC, as Purchaser. (Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139) as filed on September 21, 2018).
10.12.1[t]	Offer Letter, dated as of May 18, 2015, by and between Herc Holdings and Lawrence H. Silber (Incorporated by reference to Exhibit 10.12 to the Current Report on Form 8-K of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on May 25, 2016).
10.12.2[t]	Offer Letter, dated as of August 13, 2014, by and between Herc Holdings and Christian J. Cunningham (Incorporated by reference to Exhibit 10.16 to the Current Report on Form 8-K of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on May 25, 2016).
10.12.3[t]	Offer Letter, dated as of June 11, 2015, by and between Herc Holdings and James Bruce Dressel (Incorporated by reference to Exhibit 10.14 to the Current Report on Form 8-K of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on May 25, 2016).
10.12.4[t]	Offer Letter, dated as of October 11, 2015, by and between Herc Holdings and Maryann Waryjas (Incorporated by reference to Exhibit 10.15 to the Current Report on Form 8-K of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on May 25, 2016).
10.12.5[t]	Offer Letter, dated as of June 5, 2018, by and between Herc Holdings and Mark Irion. (Incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Herc Holdings Inc. (File No. 001-33139), as filed on August 8, 2018).

HERC HOLDINGS INC. AND SUBSIDIARIES

10.12.6[t*]	Offer Letter, dated as of March 1, 2017, by and between Herc Holdings and Mark Humphrey.
10.13.1	Amended and Restated Herc Holdings Inc. Employee Stock Purchase Plan, effective May 17, 2018 (Incorporated by reference to Annex B to the Definitive Proxy Statement on Schedule 14A of Herc Holdings Inc. (File No. 001-33139), as filed on April 2, 2018).
10.13.2	Herc Holdings Inc. Employee Stock Purchase Plan International Sub-plan (as amended and restated, effective January 1, 2017). (Incorporated by reference to Exhibit 10.16.2 to the Annual Report on Form 10-K of Herc Holdings Inc. (File No. 001-33139), as filed on March 15, 2017).
10.14.1[t]	Hertz Global Holdings, Inc. 2008 Omnibus Incentive Plan (as amended and restated, effective as of March 4, 2010) (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on June 1, 2010.)
10.14.2[t]	Amendment No. 1 dated as of May 12, 2014 to the Hertz Global Holdings, Inc. 2008 Omnibus Incentive Plan (as amended and restated, effective March 4, 2010) (Incorporated by reference to Exhibit 10.6.2 to the Annual Report on Form 10-K of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on July 16, 2015).
10.14.3[t]	Form of Employee Stock Option Agreement under the Hertz Global Holdings, Inc. 2008 Omnibus Incentive Plan (Incorporated by reference to Exhibit 10.4 to the Current Report on Form 8-K of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on June 1, 2010).
10.14.4[t]	Form of Performance Stock Unit Agreement under the Hertz Global Holdings, Inc. 2008 Omnibus Incentive Plan (form used for awards in 2015) (Incorporated by reference to Exhibit 10.6.16 to the Annual Report on Form 10-K of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on July 16, 2015).
10.14.5[t]	Form of Restricted Stock Unit Agreement under the Hertz Global Holdings, Inc. 2008 Omnibus Incentive Plan (form used for awards in 2015) (Incorporated by reference to Exhibit 10.6.17 to the Annual Report on Form 10-K of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on July 16, 2015).
10.14.6[t]	Form of Employee Stock Option Agreement under the Hertz Global Holdings, Inc. 2008 Omnibus Incentive Plan (form used for agreements entered into beginning January 1, 2016) (Incorporated by reference to Exhibit 10.5.18 to the Quarterly Report on Form 10-Q of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on May 9, 2016).
10.14.7[t]	Form of Restricted Stock Unit Agreement under the Hertz Global Holdings, Inc. 2008 Omnibus Incentive Plan (form used for awards in the first half of 2016) (Incorporated by reference to Exhibit 10.5.19 to the Quarterly Report on Form 10-Q of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on May 9, 2016).
10.14.8[t]	Form of Performance Stock Unit Agreement under the Hertz Global Holdings, Inc. 2008 Omnibus Incentive Plan (form used for Herc Adjusted Corporate EBITDA awards in 2016) (Incorporated by reference to Exhibit 10.5.21 to the Quarterly Report on Form 10-Q of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on May 9, 2016).
10.15.1[t]	Herc Holdings 2008 Omnibus Incentive Plan (as amended and restated, effective June 30, 2016). (Incorporated by reference to Exhibit 10.18.1 to the Annual Report on Form 10-K of Herc Holdings Inc. (File No. 001-33139), as filed on March 15, 2017).
10.15.2	Herc Holdings Inc. 2018 Omnibus Incentive Plan, effective May 17, 2018 (Incorporated by reference to Annex A to the Definitive Proxy Statement on Schedule 14A of Herc Holdings Inc. (File No. 001-33139), as filed on April 2, 2018.)
10.15.3[t]	Form of Executive Officer Restricted Stock Unit Agreement (form used beginning in August 2016) (Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on August 24, 2016).
10.15.4[t]	Form of Executive Officer Stock Option Agreement (form used beginning in August 2016) (Incorporated by reference to Exhibit 10.2 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on August 24, 2016).

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10.19t	Herc Holdings Inc. Senior Executive Bonus Plan (as amended and restated, effective June 30, 2016). (Incorporated by reference to Exhibit 10.19 to the Annual Report on Form 10-K of Herc Holdings Inc. (File No. 001-33139), as filed on March 15, 2017).
10.20	Form of Director Indemnification Agreement (Incorporated by reference to Exhibit 10.51 to the Quarterly Report on Form 10-Q of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on August 6, 2010).
10.21t	Separation Agreement, dated as of May 26, 2015, by and among Brian MacDonald, Herc Holdings and The Hertz Corporation (Incorporated by reference to Exhibit 10.38 to the Annual Report on Form 10-K of Hertz Global Holdings, Inc. (File No. 001-33139), as filed on July 16, 2015).
10.22	Retirement and Separation Agreement, dated March 26, 2018, between Herc Rentals Inc. and Barbara L. Brasier. (Incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q of Herc Holdings Inc. (File No. 001-33139), as filed on May 9, 2018.)
14.1	Herc Holdings Inc. Code of Conduct (Incorporated by reference to Exhibit 14.1 to the Current Report on Form 8-K of Herc Holdings (File No. 001-33139), as filed on October 18, 2016.)
21.1*	Subsidiaries of Herc Holdings Inc.
23.1*	Consent of Independent Registered Public Accounting Firm
31.1*	Certification of the Chief 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 Chief Financial 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
32.1**	18 U.S.C. Section 1350 Certifications of the Chief Executive Officer and the Chief Financial Officer
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

*Filed herewith
**Furnished herewith
***Omitted schedules will be furnished supplementally to the SEC upon request.
t Indicates management contracts and compensatory agreements.

ITEM 16. FORM 10-K SUMMARY

Not applicable.

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SIGNATURES
Pursuant to the requirements of Section 13 or 15(d) 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.

	HERC HOLDINGS INC.
	(Registrant)
By:	/s/ MARK IRION
Name:	Mark Irion
Title:	Senior Vice President and Chief Financial Officer
	(On behalf of the Registrant)

Date: February 28, 2019
Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of February 28, 2019:

Signature	Title
/s/ LAWRENCE H. SILBER Lawrence H. Silber	President and Chief Executive Officer, Director (Principal Executive Officer)
/s/ MARK IRION Mark Irion	Senior Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ MARK HUMPHREY Mark Humphrey	Vice President, Controller and Chief Accounting Officer (Principal Accounting Officer)
/s/ HERBERT L. HENKEL Herbert L. Henkel	Non-Executive Chairman of the Board
/s/ JAMES H. BROWNING James H. Browning	Director
/s/ PATRICK D. CAMPBELL Patrick D. Campbell	Director
/s/ JEAN K. HOLLEY Jean K. Holley	Director
/s/ NICHOLAS GRAZIANO Nicholas Graziano	Director
/s/ JACOB M. KATZ Jacob M. Katz	Director
/s/ MICHAEL A. KELLY Michael A. Kelly	Director
/s/ COURTNEY MATHER Courtney Mather	Director
/s/ LOUIS J. PASTOR	Director

Louis J. Pastor

/s/ MARY PAT SALOMONE Mary Pat Salomone	Director

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