

H&E Equipment Services, Inc.
Form 10-K
February 21, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018

or

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

For the transition period from _____ to _____

Commission file number 000-51759

H&E EQUIPMENT SERVICES, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

81-0553291
(IRS Employer
Identification No.)

7500 Pecue Lane,

Baton Rouge, Louisiana 70809
(Address of Principal Executive Offices, including Zip Code)

(225) 298-5200
(Registrant's Telephone Number, Including Area Code)

Edgar Filing: H&E Equipment Services, Inc. - Form 10-K

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$0.01 per share	Nasdaq Global Market

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large Accelerated Filer	Accelerated Filer
Non-Accelerated Filer	Smaller Reporting Company
Emerging Growth Company	

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

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

Edgar Filing: H&E Equipment Services, Inc. - Form 10-K

The aggregate market value of the common stock held by non-affiliates of the registrant was approximately \$1,190,402,497 (computed by reference to the closing sale price of the registrant's common stock on the Nasdaq Global Market on June 29, 2018, the last business day of the registrant's most recently completed second fiscal quarter).

As of February 14, 2019, there were 35,754,246 shares of common stock, par value \$0.01 per share, of the registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the document listed below have been incorporated by reference into the indicated parts of this Form 10-K, as specified in the responses to the item numbers involved.

Part III The registrant's definitive proxy statement, for use in connection with the Annual Meeting of Stockholders, to be filed within 120 days after the registrant's fiscal year ended December 31, 2018.

PART I

Item 1.	<u>Business</u>	4
Item 1A.	<u>Risk Factors</u>	10
Item 1B.	<u>Unresolved Staff Comments</u>	20
Item 2.	<u>Properties</u>	21
Item 3.	<u>Legal Proceedings</u>	22
Item 4.	<u>Mine Safety Disclosures</u>	22

PART II

Item 5.	<u>Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	23
Item 6.	<u>Selected Financial Data</u>	25
Item 7.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	27
Item 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	49
Item 8.	<u>Financial Statements and Supplementary Data</u>	50
Item 9.	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	92
Item 9A.	<u>Controls and Procedures</u>	92
Item 9B.	<u>Other Information</u>	95

PART III

Item 10.	<u>Directors, Executive Officers and Corporate Governance</u>	96
Item 11.	<u>Executive Compensation</u>	96
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	96
Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	96
Item 14.	<u>Principal Accountant Fees and Services</u>	96

PART IV

Item 15.	<u>Exhibits and Financial Statement Schedules</u>	97
Item 16.	<u>Form 10-K Summary</u>	100
	<u>SIGNATURES</u>	102

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements include statements preceded by, followed by or that include the words “may”, “could”, “would”, “should”, “believe”, “expect”, “anticipate”, “plan”, “estimate”, “target”, “project”, “intend” or similar expressions. These statements include, among others, statements regarding our expected business outlook, anticipated financial and operating results, our business strategy and means to implement the strategy, our objectives, the amount and timing of capital expenditures, the likelihood of our success in expanding our business, financing plans, budgets, working capital needs and sources of liquidity. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We believe that these risks and uncertainties include, but are not limited to, those described in the “Risk Factors” section of this Annual Report on Form 10-K. These factors should not be construed as exhaustive and should be read with the other cautionary statements in this Annual Report on Form 10-K.

Forward-looking statements are only predictions and are not guarantees of performance. These statements are based on our management’s beliefs and assumptions, which in turn are based on currently available information. Important assumptions relating to the forward-looking statements include, among others, assumptions regarding demand for our products, the expansion of product offerings geographically or through new marketing applications, the timing and cost of planned capital expenditures, competitive conditions and general economic conditions. These assumptions could prove inaccurate. Forward-looking statements also involve known and unknown risks and uncertainties, which could cause actual results to differ materially from those contained in any forward-looking statement. In addition, even if our actual results are consistent with the forward-looking statements contained in this Annual Report on Form 10-K, those results may not be indicative of results or developments in subsequent periods. Many of these factors are beyond our ability to control or predict. Such factors include, but are not limited to, the following:

- general economic conditions and construction and industrial activity in the markets where we operate in North America;
- our ability to forecast trends in our business accurately, and the impact of economic downturns and economic uncertainty on the markets we serve;
- the impact of conditions in the global credit and commodity markets and their effect on construction spending and the economy in general;
- relationships with equipment suppliers;
- increased maintenance and repair costs as we age our fleet and decreases in our equipment’s residual value;
- our indebtedness;
- risks associated with the expansion of our business and any potential acquisitions we may make, including any related capital expenditures, or our ability to consummate such acquisitions;
- our possible inability to integrate any businesses we acquire;
- competitive pressures;
- security breaches and other disruptions in our information technology systems;
- adverse weather events or natural disasters;
- compliance with laws and regulations, including those relating to environmental matters, corporate governance matters and tax matters, as well as any future changes to such laws and regulations; and
- other factors discussed under Item 1A - Risk Factors or elsewhere in this Annual Report on Form 10-K.

Except as required by applicable law, including the securities laws of the United States and the rules and regulations of the Securities and Exchange Commission (“SEC”), we are under no obligation to publicly update or revise any forward-looking statements after we file this Annual Report on Form 10-K, whether as a result of any new information, future events or otherwise. Investors, potential investors and other readers are urged to consider the above mentioned factors carefully in evaluating the forward-looking statements and are cautioned not to place undue

reliance on such forward-looking statements. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results or performance.

PART I

Item 1. Business

Our Company

We are one of the largest integrated equipment services companies in the United States focused on heavy construction and industrial equipment. We rent, sell and provide parts and services support for four core categories of specialized equipment: (1) hi-lift or aerial work platform equipment; (2) cranes; (3) earthmoving equipment; and (4) industrial lift trucks. We engage in five principal business activities in these equipment categories:

- equipment rentals;
- new equipment sales;
- used equipment sales;
- parts sales; and
- repair and maintenance services.

By providing rental, sales, parts, repair and maintenance functions under one roof, we offer our customers a one-stop solution for their equipment needs. This full-service approach provides us with (1) multiple points of customer contact; (2) cross-selling opportunities among our rental, new and used equipment sales, parts sales and services operations; (3) an effective method to manage our rental fleet through efficient maintenance and profitable distribution of used equipment; and (4) a mix of business activities that enables us to operate effectively throughout economic cycles. We believe that the operating experience and extensive infrastructure we have developed throughout our history as an integrated equipment services company provide us with a competitive advantage over rental-focused companies and equipment distributors. In addition, our focus on four core categories of heavy construction and industrial equipment enables us to offer specialized knowledge and support to our customers.

We have operated, through our predecessor companies, as an integrated equipment services company for approximately 58 years and have built an extensive infrastructure that as of February 14, 2019 includes 96 full-service facilities located throughout the West Coast, Intermountain, Southwest, Gulf Coast, Southeast and Mid-Atlantic regions of the United States. Our management, from the corporate level down to the branch store level, has extensive industry experience. We focus our rental and sales activities on, and organize our personnel principally by, our four core equipment categories. We believe this allows us to provide specialized equipment knowledge, improve the effectiveness of our rental and sales forces and strengthen our customer relationships. In addition, we operate our day-to-day business on a branch basis, which we believe allows us to more closely service our customers, fosters management accountability at local levels and strengthens our local and regional relationships.

Products and Services

Equipment Rentals. We rent our heavy construction and industrial equipment to our customers on a daily, weekly and monthly basis. We have a well-maintained rental fleet that, at December 31, 2018, consisted of approximately 40,542 pieces of equipment having an original acquisition cost (which we define as the cost originally paid to manufacturers or the original amount financed under operating leases) of approximately \$1.76 billion and an average age of approximately 34.5 months. Our rental business creates cross-selling opportunities for us in sales and service support activities.

New Equipment Sales. We sell new heavy construction and industrial equipment in all four core equipment categories, and are a leading U.S. distributor for nationally recognized suppliers including JLG Industries, Gehl, Genie Industries (Terex), Komatsu, and Doosan/Bobcat. In addition, we are the world's largest distributor of Grove and Manitowoc crane equipment. Our new equipment sales operation is a source of new customers for our parts sales and service support activities, as well as for used equipment sales.

Used Equipment Sales. We sell used equipment primarily from our rental fleet, as well as inventoried equipment that we acquire through trade-ins from our customers and selective purchases of high-quality used equipment. For the year ended December 31, 2018, approximately 89.6% of our used equipment sales revenues were derived from sales of rental fleet equipment. Used equipment sales, like new equipment sales, generate parts and services business for us.

Parts Sales. We sell new and used parts to customers and also provide parts to our own rental fleet. We maintain an extensive in-house parts inventory in order to provide timely parts and service support to our customers as well as to our own rental fleet. In addition, our parts operations enable us to maintain a high-quality rental fleet and provide additional product support to our end users.

Service Support. We provide maintenance and repair services for our customers' owned equipment and to our own rental fleet. In addition to repair and maintenance on an as-needed or scheduled basis, we provide ongoing preventative maintenance services and warranty repairs for our customers. We devote significant resources to training our technical service employees and over time, we have built a full-scale services infrastructure that we believe would be difficult for companies without the requisite resources and lead time to effectively replicate.

In addition to our principal business activities mentioned above, we provide ancillary equipment support activities including transportation, hauling, parts shipping and loss damage waivers.

Industry Background

Although there has been some consolidation within the industry in recent years, including the acquisitions of Rental Services Corporation, NES Rentals and Neff Corporation by United Rentals, Inc. ("URI"), the U.S. construction equipment distribution industry remains highly fragmented and consists mainly of a small number of multi-location regional or national operators and a large number of relatively small, independent businesses serving discrete local markets. The industry is driven by a broad range of economic factors including total U.S. non-residential construction trends, construction machinery demand, demand for rental equipment and additional, region-specific factors. Construction equipment is largely distributed to end users through two channels: equipment rental companies and equipment dealers. Examples of equipment rental companies include URI, Sunbelt Rentals, and Hertz Equipment Rental. Examples of equipment dealers include Finning and Toromont. Unlike many of these companies, which principally focus on one channel of distribution, we operate substantially in both channels. As an integrated equipment services company, we rent, sell and provide parts and services support. Although many of the historically pure equipment rental companies also provide parts and service support to customers, their service offerings are typically limited and may prove difficult to expand due to the infrastructure, training and resources necessary to develop the breadth of offerings and depth of specialized equipment knowledge that our services and sales staff provides.

Our Competitive Strengths

Integrated Platform of Products and Services. We believe that our operating experience and the extensive infrastructure we have developed through years of operating as an integrated equipment services company provides us with a competitive advantage over rental-focused companies and equipment distributors. Key strengths of our integrated equipment services platform include:

- ability to strengthen customer relationships by providing a full-range of products and services;
- purchasing power gained through purchases for our new equipment sales and rental operations;
- high quality rental fleet supported by our strong product support capabilities;
- established retail sales network resulting in profitable disposal of our used equipment; and
- mix of business activities that enables us to effectively operate through economic cycles.

Complementary, High Margin Parts and Services Operations. Our parts and services businesses allow us to maintain our rental fleet in excellent condition and to offer our customers high-quality rental equipment. Our after-market parts and services businesses together provide us with a high-margin revenue source that has proven to be relatively stable throughout a range of economic cycles.

High-Quality, Multipurpose Fleet. Our focus on four core types of heavy construction and industrial equipment allows us to better provide the specialized knowledge and support that our customers demand when renting and purchasing equipment. These four types of equipment are attractive because they have a long useful life, high residual value and generally strong industry demand.

Well-Developed Infrastructure. We have built an infrastructure that as of February 14, 2019 included a network of 96 full-service facilities in 22 states. Our workforce included, as of December 31, 2018, a highly-skilled group of approximately 511 service technicians and an aggregate of 284 sales people in our specialized rental and equipment sales forces. We believe that our well-developed infrastructure helps us to better serve large multi-regional customers than our historically rental-focused competitors and provides an advantage when competing for lucrative fleet and project management business as well as the ability to quickly capitalize on new opportunities.

Leading Distributor for Suppliers. We are a leading U.S. distributor for nationally-recognized equipment suppliers, including JLG Industries, Gehl, Genie Industries (Terex), Komatsu and Doosan/Bobcat. In addition, we are the world's largest distributor of Grove and Manitowoc crane equipment. These relationships improve our ability to negotiate equipment acquisition pricing and allow us to purchase parts at wholesale costs.

Customized Information Technology Systems. Our information systems allow us to actively manage our business and our rental fleet. We have a customer relationship management system that provides our sales force with real-time access to customer and sales information. In addition, our enterprise resource planning system enhances our ability to provide more timely and meaningful information to manage our business.

Strong Customer Relationships. We have a diverse base of approximately 41,600 customers as of December 31, 2018 who we believe value our high level of service, knowledge and expertise. Our customer base includes a wide range of industrial and commercial companies, construction contractors, manufacturers, public utilities, municipalities, maintenance contractors and numerous and diverse other large industrial accounts. Our branches enable us to closely service local and regional customers, while our well-developed full-service infrastructure enables us to effectively service multi-regional and national accounts. We believe that our expansive presence and commitment to superior service at all levels of the organization is a key differentiator to many of our competitors. As a result, we spend a significant amount of time and resources to train all key personnel to be responsive and deliver high quality customer service and well-maintained equipment so that we can maintain and grow our customer relationships.

Experienced Management Team. Our senior management team is led by Bradley M. Barber, our Chief Executive Officer, who has over 23 years of industry experience. Our senior and regional managers have approximately 24 years on average of industry experience. Our branch managers have extensive knowledge and industry experience as well.

Our Business Strategy

Our business strategy includes, among other things, leveraging our integrated business model, managing the life cycle of our rental equipment, further developing our parts and services operations and selectively entering new markets and pursuing acquisitions. However, the timing and extent to which we implement these various aspects of our strategy depend on a variety of factors, many of which are outside our control, such as general economic conditions and construction activity in the U.S.

Leverage Our Integrated Business Model. We intend to continue to actively leverage our integrated business model to offer a one-stop solution to our customers' varied needs with respect to the four categories of heavy construction and industrial equipment on which we focus. We will continue to cross-sell our services to expand and deepen our customer relationships. We believe that our integrated equipment services model provides us with a strong platform for growth and enables us to effectively operate through economic cycles.

Managing the Life Cycle of Our Rental Equipment. We actively manage the size, quality, age and composition of our rental fleet, employing a "cradle through grave" approach. During the life of our rental equipment, we (1) aggressively negotiate on purchase price; (2) use our customized information technology systems to closely monitor and analyze, among other things, time utilization (equipment usage based on customer demand), rental rate trends and pricing optimization and equipment demand; (3) continuously adjust our fleet mix and pricing; (4) maintain fleet quality through regional quality control managers and our on-site parts and services support; and (5) dispose of rental equipment through our retail sales force. This allows us to purchase our rental equipment at competitive prices, optimally utilize our fleet, cost-effectively maintain our equipment quality and maximize the value of our equipment at the end of its useful life.

Make Selective Acquisitions. We intend to continue to evaluate and pursue, on an opportunistic basis, acquisitions which meet our selection criteria, including favorable financing terms, with the objective of increasing our revenues, improving our profitability, entering additional attractive markets and strengthening our competitive position. We are focused on identifying and acquiring rental companies to complement our existing business, broaden our geographic footprint, and increase our density in existing markets. Effective January 1, 2018, we completed the acquisition of Contractors Equipment Center ("CEC"), an equipment rental company serving the greater Denver, Colorado area with

three branch locations, for approximately \$132.4 million in cash. Effective April 1, 2018, we completed the acquisition of Rental, Inc., an equipment rental company with five branch locations in Alabama and Florida, for approximately \$68.6 million in cash. Effective February 1, 2019, we completed the acquisition of We-Rent-Inc., a central Texas based non-residential construction-focused equipment rental company with six branch locations for approximately \$100.0 million in cash.

Grow Our Parts and Services Operations. Our strong parts and services operations are keystones of our integrated equipment services platform and together provide us with a relatively stable high-margin revenue source. Our parts and services operations help us develop strong, ongoing customer relationships, attract new customers and maintain a high quality rental fleet. We intend to further grow this product support side of our business and further penetrate our customer base.

Enter Carefully Selected New Markets. We intend to continue our strategy of selectively expanding our network to solidify our presence in attractive and contiguous regions where we operate. We look to add new locations in those markets that offer attractive growth opportunities, high or increasing levels of demand for construction and heavy equipment, and contiguity to our existing markets.

History

Through our predecessor companies, we have been in the equipment services business for approximately 58 years. H&E Equipment Services L.L.C. was formed in June 2002 through the combination of Head & Engquist Equipment, LLC (“Head & Engquist”), a wholly-owned subsidiary of Gulf Wide Industries, L.L.C. (“Gulf Wide”), and ICM Equipment Company L.L.C. (“ICM”). Head & Engquist, founded in 1961, and ICM, founded in 1971, were two leading regional, integrated equipment service companies operating in contiguous geographic markets. In the June 2002 transaction, Head & Engquist and ICM were merged with and into Gulf Wide, which was renamed H&E Equipment Services L.L.C. (“H&E LLC”). Prior to the combination, Head & Engquist operated 25 facilities in the Gulf Coast region, and ICM operated 16 facilities in the Intermountain region of the United States.

Prior to our initial public offering in February 2006, our business was conducted through H&E LLC. In connection with our initial public offering, we converted H&E LLC into H&E Equipment Services, Inc. In order to have an operating Delaware corporation as the issuer for our initial public offering, H&E Equipment Services, Inc. was formed as a Delaware corporation and wholly-owned subsidiary of H&E Holdings, and immediately prior to the closing of our initial public offering, on February 3, 2006, H&E LLC and H&E Holdings merged with and into us (H&E Equipment Services, Inc.), with us surviving the reincorporation merger as the operating company. Effective February 3, 2006, H&E LLC and H&E Holdings no longer existed under operation of law pursuant to the reincorporation merger.

We completed, effective as of February 28, 2006, the acquisition of all the outstanding capital stock of Eagle High Reach Equipment, Inc. (now known as H&E California Holding, Inc.) and all of the outstanding equity interests of its subsidiary, Eagle High Reach Equipment, LLC (now known as H&E Equipment Services (California), LLC) (collectively, “Eagle” or the “Eagle Acquisition”). Prior to the acquisition, Eagle was a privately-held construction and industrial equipment rental company serving the southern California construction and industrial markets out of four branch locations.

We completed, effective as of September 1, 2007, the acquisition of all of the outstanding capital stock of J.W. Burrell, Incorporated (now known as H&E Equipment Services (Mid-Atlantic), Inc.) (“Burrell” or the “Burrell Acquisition”). Prior to the acquisition, Burrell was a privately-held company operating primarily as a distributor in the construction and industrial equipment markets out of 12 locations in four states in the Mid-Atlantic region of the United States.

We completed, effective January 1, 2018, the acquisition of Contractors Equipment Center (“CEC”). Prior to the acquisition, CEC was a privately-held company focused on non-residential construction equipment rentals serving the greater Denver, Colorado area out of three branch locations.

We completed, effective April 1, 2018, the acquisition of Rental, Inc., an equipment rental company with five branch locations in Alabama and Florida.

We completed, effective February 1, 2019, the acquisition of We-Rent-Inc., a central Texas based non-residential construction-focused equipment rental company with six branch locations.

Customers

We serve approximately 41,600 customers in the United States, primarily in the West Coast, Intermountain, Southwest, Gulf Coast, Southeast and Mid-Atlantic regions. Our customers include a wide range of industrial and commercial companies, construction contractors, manufacturers, public utilities, municipalities, maintenance contractors and numerous and diverse other large industrial accounts. They vary from small, single machine owners to large contractors and industrial and commercial companies who typically operate under equipment and maintenance budgets. Our branches enable us to closely service local and regional customers, while our well-developed full-service infrastructure enables us to effectively service multi-regional and national accounts. Our integrated strategy enables us to satisfy customer requirements and increase revenues from customers through cross-selling opportunities presented by the various products and services that we offer. As a result, our five reporting segments generally derive their revenue from the same customer base. In 2018, no single customer accounted for more than 1.2% of our total revenues, and no single customer accounted for more than 10% of our revenue on a segmented basis. Our top ten customers combined accounted for approximately 6.5% of our total revenues in 2018.

Sales and Marketing

We have two distinct, focused sales forces; one specializing in equipment rentals and one focused specifically on new and used equipment sales. We believe maintaining separate sales forces for equipment rental and equipment sales is important to our customer service, allowing us to effectively meet the demands of different types of customers.

Both our rental sales force and equipment sales force are divided into smaller, product focused teams which enhances the development of in-depth product application and technical expertise. To further develop knowledge and experience, we provide our sales forces with extensive training, including frequent factory and in-house training by manufacturer representatives regarding the operational features, operator safety training and maintenance of new equipment. This training is essential, as our sales personnel regularly call on customers' job sites, often assisting customers in assessing their immediate and ongoing equipment needs. In addition, we have a commission-based compensation program for our sales forces.

We maintain a company-wide customer relationship management system. We believe that this comprehensive customer and sales management tool enhances our territory management program by increasing the productivity and efficiency of our sales representatives and branch managers as they are provided real-time access to sales and customer information.

We have developed strategies to identify target customers for our equipment services in all markets. These strategies allow our sales force to identify frequent rental users, function as advisors and problem solvers for our customers and accelerate the sales process in new operations.

While our specialized, well-trained sales force strengthens our customer relationships and fosters customer loyalty, we also promote our business through marketing and advertising, including industry publications, direct mail campaigns, television, the Yellow Pages and our Company website at www.he-equipment.com.

Suppliers

We purchase a significant amount of equipment from the same manufacturers with whom we have distribution agreements. We purchased approximately 54% of our new equipment and rental fleet from five manufacturers (Grove/Manitowoc, Genie Industries (Terex), JCB, Komatsu, and Skyjack) during the year ended December 31, 2018. These relationships improve our ability to negotiate equipment acquisition pricing. We are also a leading U.S. distributor for nationally-recognized equipment suppliers including JLG Industries, Gehl, Genie Industries (Terex), Komatsu, Doosan/Bobcat and Grove/Manitowoc. As an authorized distributor for a wide range of suppliers, we are also able to provide our customers parts and services that in many cases are covered under the manufacturer's warranty. While we believe that we have alternative sources of supply for the equipment we purchase in each of our principal product categories, termination of one or more of our relationships with any of our major suppliers of equipment could have a material adverse effect on our business, financial condition or results of operations if we were unable to obtain adequate or timely rental and sales equipment.

Information Technology Systems

We have specialized information systems that track (1) rental inventory utilization statistics; (2) maintenance and repair costs; (3) returns on investment for specific equipment types; and (4) detailed operational and financial information for each piece of equipment. These systems enable us to closely monitor our performance and actively manage our business, and include features that were custom designed to support our integrated services platform. The point-of-sale aspect of our systems enables us to link all of our facilities, permitting universal access to real-time data concerning equipment located at the individual facility locations and the rental status and maintenance history for each

piece of equipment. In addition, our systems include, among other features, on-line contract generation, automated billing, applicable sales tax computation and automated rental purchase option calculation. We customized our customer relationship management system to enable us to more effectively manage our sales territories and sales representatives' activity. This customer relationship management system provides sales and customer information, available rental fleet and inventory information, a quote system and other organizational tools to assist our sales forces. We maintain an extensive customer database which allows us to monitor the status and maintenance history of our customers' owned-equipment and enables us to more effectively provide parts and services to meet their needs. All of our critical systems run on servers and other equipment that is current technology and available from major suppliers and serviceable through existing maintenance agreements.

Seasonality

Although our business is not significantly impacted by seasonality, the demand for our rental equipment tends to be lower in the winter months. The level of equipment rental activities is directly related to commercial and industrial construction and maintenance activities. Therefore, equipment rental performance will be correlated to the levels of current construction activities. The severity of weather conditions can have a temporary impact on the level of construction activities.

Equipment sales cycles are also subject to some seasonality with the peak selling period occurring during the spring season and extending through the summer. Parts and services activities are less affected by changes in demand caused by seasonality.

Competition

The equipment industry is generally comprised of either pure rental equipment companies or manufacturer dealer/distributorship companies. We are an integrated equipment services company and rent, sell and provide parts and services support. Although there has been some consolidation within the equipment industry in recent years, including the recent acquisitions of Rental Services Corporation, NES Rentals and Neff Corporation by United Rentals, Inc., the equipment industry remains highly fragmented and consists mainly of a small number of multi-location regional or national operators and a large number of relatively small, independent businesses serving discrete local markets. Many of the markets in which we operate are served by numerous competitors, ranging from national and multi-regional equipment rental companies (for example, United Rentals, Sunbelt Rentals and Hertz Equipment Rental) or equipment dealers (for example, Finning and Toromont) to small, independent businesses with a limited number of locations.

We believe that participants in the equipment rental industry generally compete on the basis of availability, quality, reliability, delivery and price. In general, large operators enjoy substantial competitive advantages over small, independent rental businesses due to a distinct price advantage. Many rental equipment companies' parts and services offerings are limited and may prove difficult to expand due to the training, infrastructure and management resources necessary to develop the breadth of service offerings and depth of knowledge our service technicians are able to provide. Some of our competitors have significantly greater financial, marketing and other resources than we do.

Traditionally, equipment manufacturers distributed their equipment and parts through a network of independent dealers with distribution agreements. As a result of consolidation and competition, both manufacturers and distributors sought to streamline their operations, improve their costs and gain market share. Our established, integrated infrastructure enables us to compete directly with our competitors on either a local, regional or national basis. We believe customers place greater emphasis on value-added services, teaming with equipment rental and sales companies who can meet all of their equipment, parts and services needs.

Environmental and Safety Regulations

Our facilities and operations are subject to comprehensive and frequently changing federal, state and local environmental and occupational health and safety laws. These laws regulate (1) the handling, storage, use and disposal of hazardous materials and wastes and, if any, the associated cleanup of properties affected by pollutants; (2) air quality (emissions); and (3) wastewater. We do not currently anticipate any material adverse effect on our business or financial condition or competitive position as a result of our efforts to comply with such requirements. Although we have made and will continue to make capital and other expenditures to comply with environmental requirements, we do not expect to incur material capital expenditures for environmental controls or compliance.

In the future, federal, state or local governments could enact new or more stringent laws or issue new or more stringent regulations concerning environmental and worker health and safety matters, or effect a change in their enforcement of existing laws or regulations, that could affect our operations. Also, in the future, contamination may be found to exist at our facilities or off-site locations where we have sent wastes. There can be no assurance that we, or various environmental regulatory agencies, will not discover previously unknown environmental non-compliance or contamination. We could be held liable for such newly-discovered non-compliance or contamination. It is possible that changes in environmental and worker health and safety laws or liabilities from newly-discovered non-compliance or contamination could have a material adverse effect on our business, financial condition and results of operations.

Employees

As of December 31, 2018, we had approximately 2,369 employees. Of these employees, 936 are salaried personnel and 1,433 are hourly personnel. Our employees perform the following functions: sales operations, parts operations, rental operations, technical services and office and administrative support. A collective bargaining agreement relating to two branch locations covers approximately 69 of our employees. We believe our relations with our employees are good, and we have never experienced a work stoppage.

Generally, the total number of employees does not significantly fluctuate throughout the year. However, acquisition activity or the opening of new branches may increase the number of our employees or fluctuations in the level of our business activity could require some staffing level adjustments in response to actual or anticipated customer demand.

Available Information

We file electronically with the SEC annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. The SEC maintains an Internet site (www.sec.gov) that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. Copies of these reports, proxy and information statements and other information may be obtained by electronic request at the following e-mail address: publicinfo@sec.gov. Copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, ownership reports for insiders and any exhibits to and amendments to these reports filed with or furnished to the SEC are available free of charge through our internet website (www.he-equipment.com) as soon as reasonably practicable after filing with the SEC. We use the Investor Relations section of our website as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. Accordingly, investors should monitor the Investor Relations section of our website, in addition to following press releases, SEC filings and public conference calls and webcasts.

Additionally, we make available free of charge on our internet website:

- our Code of Conduct and Ethics;
- the charter of our Corporate Governance and Nominating Committee;
 - the charter of our Compensation Committee; and
- the charter of our Audit Committee.

Item 1A. Risk Factors

Investing in our securities involves a high degree of risk. You should consider carefully the following risk factors and the other information in this Annual Report on Form 10-K, including our consolidated financial statements and related notes, before making any investment decisions regarding our securities. If any of the following risks actually occur, our business, financial condition and operating results could be adversely affected. As a result, the trading price of our securities could decline and you may lose part or all of your investment.

Our business could be adversely affected by declines in construction and industrial activities, or a downturn in the economy in general, which could lead to decreased demand for equipment, depressed equipment rental rates and lower sales prices, resulting in a decline in our revenues, gross margins and operating results.

Our equipment is principally used in connection with construction and industrial activities. Consequently, a downturn in construction or industrial activities, or the economy in general, may lead to a decrease in the demand for equipment or depress rental rates and the sales prices for our equipment. Our business may also be negatively impacted, either temporarily or long-term, by:

- a reduction in spending levels by customers;
- unfavorable credit markets affecting end-user access to capital;
- adverse changes in federal, state and local government infrastructure spending;

- an increase in the cost of construction materials;
- adverse weather conditions or natural disasters which may affect a particular region;
- a prolonged shutdown of the U.S. government;
- an increase in interest rates; or
- terrorism or hostilities involving the United States.

10

Weakness or deterioration in the non-residential construction and industrial sectors caused by these or other factors could have a material adverse effect on our financial position, results of operations and cash flows in the future and may also have a material adverse effect on residual values realized on the disposition of our rental fleet. For example, during fiscal years 2009 and 2010, the economic downturn and related economic uncertainty, combined with weakness in the construction industry and a decrease in industrial activity, resulted in a significant decrease in the demand for our new and used equipment and depressed equipment rental rates, which resulted in decreased revenues and lower gross margins realized on our equipment rentals and on the sale of our new and used inventory during those periods. More recently, the decline in oil prices and the related downturn in oil industry activities during fiscal years 2014, 2015 and 2016 resulted in a significant decrease in our new equipment sales, primarily the sale of new cranes, due to lower demand.

The inability to forecast trends accurately may have an adverse impact on our business and financial condition.

An economic downturn or economic uncertainty makes it difficult for us to forecast trends, which may have an adverse impact on our business and financial condition. For example, the economic downturn of 2009 and 2010 — which included, among other things, significant reductions in available capital and liquidity from banks and other providers of credit, substantial reductions and/or fluctuations in equity and currency values worldwide and concerns that the worldwide economy may enter into a prolonged recessionary period — limited our ability, as well as the ability of our customers and our suppliers, to accurately forecast future product demand trends. More recently, declines in oil and natural gas prices, and uncertainty regarding future price levels, have negatively impacted the exploration, production and construction activity of our customers in those markets. Uncertainty regarding future equipment product demand could cause us to maintain excess equipment inventory and increase our equipment inventory carrying costs. Alternatively, this forecasting difficulty could cause a shortage of equipment for sale or rental that could result in an inability to satisfy demand for our products and a loss of market shares.

Unfavorable conditions or disruptions in the capital and credit markets may adversely impact business conditions and the availability of credit.

Disruptions in the global capital and credit markets as a result of an economic downturn, economic uncertainty, changing or increased regulation, reduced alternatives or failures of significant financial institutions could adversely affect our customers' ability to access capital and could adversely affect our access to liquidity needed for business in the future. Additionally, unfavorable market conditions may depress demand for our products and services or make it difficult for our customers to obtain financing and credit on reasonable terms. Unfavorable market conditions also may cause more of our customers to be unable to meet their payment obligations to us, increasing delinquencies and credit losses. If we are unable to manage credit risk adequately, or if a large number of customers should have financial difficulties at the same time, our credit losses could increase above historical levels and our operating results would be adversely affected. Delinquencies and credit losses generally can be expected to increase during economic slowdowns or recessions. Moreover, our suppliers may be adversely impacted by unfavorable capital and credit markets, causing disruption or delay of product availability. These events could negatively impact our business, financial position, results of operations and cash flows.

Our substantial indebtedness could adversely affect our financial condition.

We have a significant amount of indebtedness outstanding. As of December 31, 2018, we had total outstanding indebtedness of approximately \$1.12 billion, consisting of the \$950.0 million aggregate amounts outstanding under our senior unsecured notes, \$170.7 million outstanding under our senior secured credit facility (the "Credit Facility") and \$0.7 million of capital lease obligations. As of February 14, 2019, we had borrowing availability under the Credit Facility of \$483.3 million, net of a \$7.7 million outstanding letter of credit.

Our substantial indebtedness could have important consequences. For example, it could:

- increase our vulnerability to general adverse economic, industry and competitive conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- place us at a competitive disadvantage compared to our competitors that have less debt; and
- limit our ability to obtain additional financing for working capital, capital expenditures, acquisitions or general corporate purposes.

11

We expect to use cash flow from operations and borrowings under our Credit Facility to meet our current and future financial obligations, including funding our operations, debt service and capital expenditures. Our ability to make these payments depends on our future performance, which will be affected by financial, business, economic and other factors, many of which we cannot control. Our business may not generate sufficient cash flow from operations in the future, which could result in our being unable to repay indebtedness, or to fund other liquidity needs. If we do not have enough capital, we may be forced to reduce or delay our business activities and capital expenditures, sell assets, obtain additional debt or equity capital or restructure or refinance all or a portion of our debt, including the senior unsecured notes and our Credit Facility, on or before maturity. We cannot make any assurances that we will be able to accomplish any of these alternatives on terms acceptable to us, or at all. In addition, the terms of existing or future indebtedness, including the agreements governing the senior unsecured notes and the Credit Facility may limit our ability to pursue any of these alternatives.

We may not be able to generate sufficient cash to service all of our indebtedness and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments or to refinance our debt obligations depends on our financial and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We cannot make assurances that we will maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. The Credit Facility and the indenture governing the senior unsecured notes restrict our ability to dispose of assets and use the proceeds from the disposition. We may not be able to consummate those dispositions or to obtain the proceeds which we could realize from such dispositions. Any proceeds we do receive from a disposition may not be adequate to meet any debt service obligations then due.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, sell assets or operations, seek additional capital or restructure or refinance our indebtedness. We cannot assure you that we would be able to take any of these actions, that these actions would be successful and permit us to meet our scheduled debt service obligations or that these actions would be permitted under the terms of our existing or future debt agreements, including the Credit Facility or the indenture governing the senior unsecured notes.

If we cannot make scheduled payments on our debt, we will be in default and, as a result:

- our debt holders could declare all outstanding principal and interest to be due and payable;
- the lenders under our credit facilities, including the Credit Facility, could terminate their commitments to lend us money and foreclose against the assets securing our borrowings; and
- we could be forced into bankruptcy or liquidation.

Despite current indebtedness levels, we may still be able to incur more indebtedness, which could further exacerbate the risks described above.

Under the terms of the agreements governing the Credit Facility and the senior unsecured notes, we and our subsidiaries may be able to incur substantial indebtedness in the future.

Additionally, our Credit Facility provides revolving commitments of up to \$750.0 million in the aggregate. As of February 14, 2019, we had \$483.3 million of availability under the Credit Facility, net of a \$7.7 million outstanding letter of credit. If new debt is added to our current debt levels, the risks that we now face relating to our substantial indebtedness could intensify.

The agreements governing the Credit Facility and our senior unsecured notes restrict our business and our ability to engage in certain corporate and financial transactions.

The agreements governing the Credit Facility and the senior unsecured notes contain certain covenants that, among other things, restrict or limit our and our restricted subsidiaries' ability to:

- incur more debt;
- pay dividends and make distributions;
- issue preferred stock of subsidiaries;
- make investments;

12

- repurchase stock;
- create liens;
- enter into transactions with affiliates;
- enter into sale and lease-back transactions;
- merge or consolidate; and
- transfer and sell assets.

Our ability to borrow under the Credit Facility depends upon compliance with the restrictions contained in the Credit Facility. Events beyond our control could affect our ability to meet these covenants. In addition, the Credit Facility requires us to meet certain financial conditions tests and availability thereunder is subject to borrowing base availability.

Events beyond our control can affect our ability to meet these financial conditions tests and to comply with other provisions governing the Credit Facility and the senior unsecured notes. Our failure to comply with obligations under the agreements governing the Credit Facility and the senior unsecured notes may result in an event of default under the agreements governing the Credit Facility and the senior unsecured notes, respectively. A default, if not cured or waived, may permit acceleration of this indebtedness and our other indebtedness. We may not be able to remedy these defaults. If our indebtedness is accelerated, we may not have sufficient funds available to pay the accelerated indebtedness and may not have the ability to refinance the accelerated indebtedness on terms favorable to us or at all.

Variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.

Borrowings under the Credit Facility are at variable rates of interest and expose us to interest rate risk. As such, our results of operations are sensitive to movements in interest rates. There are many economic factors outside our control that have in the past and may, in the future, impact rates of interest including publicly announced indices that underlie the interest obligations related to a certain portion of our debt. Currently, a portion of our outstanding borrowings under our Credit Facility are borrowed at LIBOR plus an applicable margin and it is unclear how increased regulatory oversight and changes in the method for determining LIBOR may affect our results of operations or financial conditions. For example, on July 27, 2017, the U.K. Financial Conduct Authority announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. At this time, it is not possible to predict the effect of any such changes, any establishment of alternative reference rates or any other reforms to LIBOR that may be enacted in the United Kingdom or elsewhere, including the potential impact to our Credit Facility. Also, factors that impact interest rates include governmental monetary policies, inflation, recession, changes in unemployment, the money supply, international disorder and instability in domestic and foreign financial markets. If interest rates increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, and our results of operations would be adversely impacted. Such increases in interest rates could have a material adverse effect on our financial conditions and results of operations.

Our business could be hurt if we are unable to obtain additional capital as required, resulting in a decrease in our revenues and profitability. In addition, our inability to refinance our indebtedness on favorable terms, or at all, could materially and adversely affect our liquidity and our ongoing results of operations.

The cash that we generate from our business, together with cash that we may borrow under our Credit Facility, if available, may not be sufficient to fund our capital requirements. We may require additional financing to obtain capital for, among other purposes, purchasing equipment, completing acquisitions, establishing new locations and refinancing existing indebtedness. Any additional indebtedness that we incur will make us more vulnerable to economic downturns and limit our ability to withstand competitive pressures. Moreover, we may not be able to obtain additional capital on acceptable terms, if at all. If we are unable to obtain sufficient additional financing in the future, our business could be adversely affected by reducing our ability to increase revenues and profitability.

In addition, our ability to refinance indebtedness will depend in part on our operating and financial performance, which, in turn, is subject to prevailing economic conditions and to financial, business, legislative, regulatory and other factors beyond our control. In addition, prevailing interest rates or other factors at the time of refinancing could increase our interest expense. A refinancing of our indebtedness could also require us to comply with more onerous covenants and further restrict our business operations. Our inability to refinance our indebtedness or to do so upon attractive terms could materially and adversely affect our business, prospects, results of operations, financial condition and cash flows, and make us vulnerable to adverse industry and general economic conditions.

Our revenue and operating results may fluctuate, which could result in a decline in our profitability and make it more difficult for us to grow our business.

Our revenue and operating results have historically varied from quarter to quarter. Periods of decline could result in an overall decline in profitability and make it more difficult for us to make payments on our indebtedness and grow our business. We expect our quarterly results to continue to fluctuate in the future due to a number of factors, including:

- general economic conditions in the markets where we operate;
- the cyclical nature of our customers' business, particularly our construction customers and customers in the oil and gas industry;
- seasonal sales and rental patterns of our construction customers, with sales and rental activity tending to be lower in the winter months;
 - changes in the size of our rental fleet and/or in the rate at which we sell our used equipment from the fleet;
- an overcapacity of fleet in the equipment rental industry;
- severe weather and seismic conditions temporarily affecting the regions where we operate;
- changes in corporate spending for plants and facilities or changes in government spending for infrastructure projects;
- changes in interest rates and related changes in our interest expense and our debt service obligations;
- the possible need, from time to time, to record goodwill impairment charges or other write-offs or charges due to a variety of occurrences, such as the adoption of new accounting standards, the impairment of assets, rental location divestitures, dislocation in the equity and/or credit markets, consolidations or closings, restructurings, or the refinancing of existing indebtedness;
- the effectiveness of integrating acquired businesses and new start-up locations; and
- timing of acquisitions and new location openings and related costs.

In addition, we incur various costs when integrating newly acquired businesses or opening new start-up locations, and the profitability of a new location is generally expected to be lower in the initial months of operation.

We may not be able to facilitate our growth strategy by identifying or completing transactions with attractive acquisition candidates, which could limit our revenues and profitability. Future acquisitions may result in significant transaction expenses and we may involve significant costs. We may experience integration and consolidation risks associated with future acquisitions.

An element of our growth strategy is to selectively pursue on an opportunistic basis acquisitions of additional businesses, in particular rental companies that complement our existing business and footprint, such as our recent acquisition of Contractors Equipment Center, LLC ("CEC") and Rental, LLC (dba "Rental Inc.") in January 2018 and April 2018, respectively, and We-Rent-It in February 2019. The success of this element of our growth strategy depends, in part, on selecting strategic acquisition candidates at attractive prices and effectively integrating their businesses into our own, including with respect to financial reporting and regulatory matters. We cannot assure you that we will be able to identify attractive acquisition candidates or complete the acquisition of any identified candidates at favorable prices and upon advantageous terms and conditions, including financing alternatives. We expect to face competition for acquisition candidates, which may limit the number of acquisition opportunities and lead to higher acquisition costs. We may not have the financial resources necessary to consummate any acquisitions or the ability to obtain the necessary funds on satisfactory terms. Any future acquisitions may result in significant transaction expenses and risks associated with entering new markets. We may also be subject to claims by third parties related to the operations of these businesses prior to our acquisition and by sellers under the terms of our acquisition agreements. The Company also regularly reviews other potential strategic transactions, including dispositions.

We may not have sufficient management, financial and other resources to integrate and consolidate any future acquisitions. Any significant diversion of management's attention or any major difficulties encountered in the

integration of the businesses we acquire, including CEC, could have a material adverse effect on our business, financial condition or results of operations, which could decrease our profitability and make it more difficult for us to grow our business. Among other things, these integration risks could include:

- the loss of key employees;
- the disruption of operations and business;
- the retention of the existing clients and the retention or transition of customers and vendors;

14

- the integration of corporate cultures and maintenance of employee morale;
- inability to maintain and increase competitive presence;
- customer loss and revenue loss;
- possible inconsistencies in standards, control procedures and policies;
- unexpected problems with costs, operations, personnel, technology and credit;
- problems with the assimilation of new operations, sites or personnel, which could divert resources from our regular operations;
- integration of financial reporting and regulatory reporting functions, including with the Securities & Exchange Commission and pursuant to the Sarbanes-Oxley Act of 2002; and/or
- potential unknown liabilities.

Furthermore, general economic conditions or unfavorable global capital and credit markets could affect the timing and extent to which we successfully acquire or integrate new businesses, which could limit our revenues and profitability.

Fluctuations in the stock market, as well as general economic and market conditions, may impact the market price of our common stock.

The market price of our common stock has been and may continue to be subject to significant fluctuations in response to general economic changes and other factors including, but not limited to:

- variations in our quarterly operating results or results that vary from investor expectations;
 - changes in the strategy and actions taken by our competitors, including pricing changes;
- securities analysts' elections to discontinue coverage of our common stock, changes in financial estimates by analysts or a downgrade of our common stock or of our sector by analysts;
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in the price of oil and other commodities;
- investor perceptions of us and the equipment rental and distribution industry; and
- national or regional catastrophes or circumstances and natural disasters, hostilities and acts of terrorism.

Broad market and industry factors may materially reduce the market price of our common stock, regardless of or in a manner that is disproportionate to any related impact on our operating performance. As an example, in the latter half of 2014 the price of oil fell significantly and the price further declined and remained depressed throughout 2015 and 2016, compared to pre-2014 price levels. We believe that this prolonged decline in oil prices and its impact on oil related economic activities was a significant factor in the price decline of our stock during the same period, even though other industrial and construction activities that are also primary drivers of our business generally remained at or above historic levels. Although oil prices have subsequently stabilized and improved slightly, we believe the uncertainty regarding future oil prices has an impact on the price of our stock. In addition, the stock market historically has experienced price and volume fluctuations that often have been unrelated or disproportionate to the operating performance of companies. These fluctuations, as well as general economic and market conditions, including those listed above and others, may harm the market price of our common stock.

We are subject to competition, which may have a material adverse effect on our business by reducing our ability to increase or maintain revenues or profitability.

The equipment rental and retail distribution industries are highly competitive and the equipment rental industry is highly fragmented. Many of the markets in which we operate are served by numerous competitors, ranging from national and multi-regional equipment rental companies to small, independent businesses with a limited number of locations. We generally compete on the basis of availability, quality, reliability, delivery and price. Some of our competitors have significantly greater financial, marketing and other resources than we do, and may be able to reduce

rental rates or sales prices. We may encounter increased competition from existing competitors or new market entrants in the future, which could have a material adverse effect on our business, financial condition and results of operations.

15

We may not be able to facilitate our growth strategy by identifying and opening attractive start-up locations, which could limit our revenues and profitability.

An element of our growth strategy is to selectively identify and implement start-up locations in order to add new customers. The success of this element of our growth strategy depends, in part, on identifying strategic start-up locations.

We also cannot assure you that we will be able to identify attractive start-up locations. Opening start-up locations may involve significant costs and limit our ability to expand our operations. Start-up locations may involve risks associated with entering new markets and we may face significant competition.

We may not have sufficient management, financial and other resources to successfully operate new locations. Any significant diversion of management's attention or any major difficulties encountered in the locations that we open in the future could have a material adverse effect on our business, financial condition or results of operations, which could decrease our profitability and make it more difficult for us to grow our business. Furthermore, general economic conditions or unfavorable global capital and credit markets could affect the timing and extent to which we open new start-up locations, which could limit our revenues and profitability.

The continued payment of our quarterly dividend is subject to, among other things, the availability of funds and the discretion of our board of directors.

The payment of future dividends and the amount thereof is uncertain, at the sole discretion of our board of directors and considered by the board of directors each quarter. The payment of dividends is dependent upon, among other things, operating cash flow generated by our business, financial requirements for our operations, the execution of our growth strategy, the restrictions and covenants pursuant to our Credit Facility and senior unsecured notes, and the satisfaction of solvency tests imposed by the Delaware General Corporation Law and other applicable law for the declaration and payment of dividends.

We purchase a significant amount of our equipment from a limited number of manufacturers. Termination of one or more of our relationships with any of those manufacturers could have a material adverse effect on our business, as we may be unable to obtain adequate or timely rental and sales equipment.

We purchase most of our rental and sales equipment from leading, nationally-known original equipment manufacturers ("OEMs"). For the year ended December 31, 2018, we purchased approximately 54% of our rental and sales equipment from five manufacturers (Grove/Manitowoc, Genie Industries (Terex), JCB, Komatsu, and Skyjack). Although we believe that we have alternative sources of supply for the rental and sales equipment we purchase in each of our core product categories, termination of one or more of our relationships with any of these major suppliers could have a material adverse effect on our business, financial condition or results of operations if we were unable to obtain adequate or timely rental and sales equipment.

Our suppliers of new equipment may appoint additional distributors, sell directly or unilaterally terminate our distribution agreements, which could have a material adverse effect on our business due to a reduction of, or inability to increase, our revenues.

We are a distributor of new equipment and parts supplied by leading, nationally-known OEMs. Under our distribution agreements with these OEMs, manufacturers retain the right to appoint additional dealers and sell directly to national accounts and government agencies. We have both written and oral distribution agreements with our new equipment suppliers. Under our oral agreements with the OEMs, we operate under our established course of dealing with the supplier and are subject to the applicable state law regarding such relationship. In most instances, the OEMs may

appoint additional distributors, elect to sell to customers directly or unilaterally terminate their distribution agreements with us at any time without cause. Any such actions could have a material adverse effect on our business, financial condition and results of operations due to a reduction of, or an inability to increase, our revenues.

The cost of new equipment that we sell or purchase for use in our rental fleet may increase and therefore we may spend more for such equipment. In some cases, we may not be able to procure new equipment on a timely basis due to supplier constraints.

The cost of new equipment from manufacturers that we sell or purchase for use in our rental fleet may increase as a result of increased raw material costs, including increases in the cost of steel, which is a primary material used in most of the equipment we use, or due to increased regulatory requirements, such as those related to emissions. These increases could materially impact our financial condition or results of operations in future periods if we are not able to pass such cost increases through to our customers.

Our rental fleet is subject to residual value risk upon disposition.

The market value of any given piece of rental equipment could be less than its depreciated value at the time it is sold. The market value of used rental equipment depends on several factors, including:

- the market price for new equipment of a like kind;
- wear and tear on the equipment relative to its age;
- the time of year that it is sold (prices are generally higher during the construction season);
- worldwide and domestic demands for used equipment;
- the supply of used equipment on the market; and
- general economic conditions.

We include in operating income the difference between the sales price and the depreciated value of an item of equipment sold. Although for the year ended December 31, 2018, we sold used equipment from our rental fleet at an average selling price of approximately 152.1% of net book value, we cannot assure you that used equipment selling prices will not decline. Any significant decline in the selling prices for used equipment could have a material adverse effect on our business, financial condition, results of operations or cash flows.

We incur maintenance and repair costs associated with our rental fleet equipment that could have a material adverse effect on our business in the event these costs are greater than anticipated.

As our fleet of rental equipment ages, the cost of maintaining such equipment, if not replaced within a certain period of time, generally increases. Determining the optimal age for our rental fleet equipment is subjective and requires considerable estimates by management. We have made estimates regarding the relationship between the age of our rental fleet equipment, and the maintenance and repair costs, and the market value of used equipment. Our future operating results could be adversely affected because our maintenance and repair costs may be higher than estimated and market values of used equipment may fluctuate.

Security breaches and other disruptions in our information technology systems, including our customer relationship management system, could limit our capacity to effectively monitor and control our operations, compromise our or our customers' and suppliers' confidential information or otherwise adversely affect our operating results or business reputation.

Our information technology systems, some of which are managed by third parties, facilitate our ability to monitor and control our operations and adjust to changing market conditions, including processing, transmitting, storing, managing and supporting a variety of business processes, activities and information. Further, as we pursue our strategy to grow through acquisitions and to pursue new initiatives that improve our operations, we are also expanding and improving our information technologies, resulting in a larger technological presence and corresponding exposure to cybersecurity risk. Any disruption in any of these systems, including our customer management system, or the failure of any of these systems to operate as expected could, depending on the magnitude of the problem, adversely affect our operating results by limiting our capacity to effectively monitor and control our operations and adjust to changing market conditions.

Additionally, we collect and store sensitive data, including proprietary business information and the proprietary business information of our customers and suppliers, in data centers and on information technology networks, including cloud-based networks. The secure operation of these information technology networks and the processing and maintenance of this information is critical to our business operations and strategy. Despite security measures and business continuity plans, our information technology networks and infrastructure may be vulnerable to damage, disruptions or shutdowns due to attacks by cyber criminals or breaches due to employee error or malfeasance or other disruptions during the process of upgrading or replacing computer software or hardware, power outages, computer

viruses, telecommunication or utility failures, terrorist acts or natural disasters or other catastrophic events. Further, the growing use and rapid evolution of technology, including mobile devices, has heightened the risk of unintentional data breaches or leaks. The occurrence of any of these events could compromise our networks, and the information stored there could be accessed, publicly disclosed, lost or stolen. In addition, as security threats continue to evolve we may need to invest additional resources to protect the security of our systems or to comply with privacy, data security, cybersecurity and data protection laws applicable to our business.

Any failure to effectively prevent, detect and/or recover from any such access, disclosure or other loss of information, or to comply with any such current or future law related thereto, could result in legal claims or proceedings, liability or regulatory penalties under laws protecting the privacy of personal information, disrupt operations, and damage our reputation, which could adversely affect our business.

Fluctuations in fuel costs or reduced supplies of fuel could harm our business.

We could be adversely affected by limitations on fuel supplies or significant increases in fuel prices that result in higher costs to us for transporting equipment from one branch to another branch or one region to another region. A significant or protracted disruption of fuel supplies could have an adverse effect on our financial condition and results of operations.

Hurricanes, other adverse weather events, national or regional catastrophes or natural disasters could negatively affect our local economies or disrupt our operations, which could have an adverse effect on our business or results of operations.

Our market areas in the Gulf Coast and Mid-Atlantic regions of the United States are susceptible to hurricanes. Such weather events can disrupt our operations, result in damage to our properties and negatively affect the local economies in which we operate. Future hurricanes could result in damage to certain of our facilities and the equipment located at such facilities, or equipment on rent with customers in those areas. In addition, climate change could lead to an increase in intensity or occurrence of hurricanes or other adverse weather events, including severe winter storms. Future occurrences of these events, as well as regional or national catastrophes or natural disasters, and their effects may adversely impact our business or results of operations.

We are dependent on key personnel. A loss of key personnel could have a material adverse effect on our business, which could result in a decline in our revenues and profitability.

Our senior and regional managers have an average of approximately 24 years of industry experience. Our branch managers have extensive knowledge and industry experience as well. Our success is dependent, in part, on the experience and skills of our management team. Competition for top management talent within our industry is generally significant. If we are unable to fill and keep filled all of our senior management positions, or if we lose the services of any key member of our senior management team and are unable to find a suitable replacement in a timely manner, we may be challenged to effectively manage our business and execute our strategy.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report financial results or prevent fraud.

Effective internal controls are necessary to provide reliable financial reports and to assist in the effective prevention of fraud. Any inability to provide reliable financial reports or prevent fraud could harm our business. We must annually evaluate our internal procedures to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, which requires management and auditors to assess the effectiveness of our internal controls. If we fail to remedy or maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we could be subject to regulatory scrutiny, civil or criminal penalties or stockholder litigation.

In addition, failure to maintain effective internal controls could result in financial statements that do not accurately reflect our financial condition or results of operations. There can be no assurance that we will be able to maintain a system of internal controls that fully complies with the requirements of the Sarbanes-Oxley Act of 2002 or that our management and independent registered public accounting firm will continue to conclude that our internal controls are effective.

We are exposed to various risks related to legal proceedings or claims that could adversely affect our operating results. The nature of our business exposes us to various liability claims, which may exceed the level of our insurance coverage resulting in us not being fully protected.

We are a party to lawsuits in the normal course of our business. Litigation in general can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. Responding to lawsuits brought against us, or legal actions that we may initiate, can often be expensive and time-consuming. Unfavorable outcomes from these claims and/or lawsuits could adversely affect our business, results of operations, or financial condition, and we could incur substantial monetary liability and/or be required to change our business practices.

Our business exposes us to claims for personal injury, death or property damage resulting from the use of the equipment we rent or sell and from injuries caused in motor vehicle accidents in which our delivery and service personnel are involved and other employee related matters. Additionally, we could be subject to potential litigation associated with compliance with various laws and governmental regulations at the federal, state or local levels, such as those relating to the protection of persons with disabilities, employment, health, safety, security and other regulations under which we operate.

We carry comprehensive insurance, subject to deductibles, at levels we believe are sufficient to cover existing and future claims made during the respective policy periods. However, we may be exposed to multiple claims, and, as a result, we could incur significant out-of-pocket costs before reaching the deductible amount which could adversely affect our financial condition and results of operations. In addition, the cost of such insurance policies may increase significantly upon renewal of those policies as a result of general rate increases for the type of insurance we carry as well as our historical experience and experience in our industry. Although we have not experienced any material losses that were not covered by insurance, our existing or future claims may exceed the coverage level of our insurance, and such insurance may not continue to be available on economically reasonable terms, or at all. If we are required to pay significantly higher premiums for insurance, are not able to maintain insurance coverage at affordable rates or if we must pay amounts in excess of claims covered by our insurance, we could experience higher costs that could adversely affect our financial condition and results of operations.

Our future operating results and financial position could be negatively affected by impairment charges to our goodwill or other long-lived assets.

When we acquire a business, we record goodwill as the excess of the consideration transferred plus the fair value of any non-controlling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. At December 31, 2018, we had goodwill of approximately \$105.8 million. In accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 350, Intangibles–Goodwill & Other (“ASC 350”), we test goodwill for impairment on October 1 of each year, and on an interim date if factors or indicators become apparent that would require an interim test.

If economic conditions deteriorate and result in significant declines in operating results and/or significant declines in our stock price, or if there are significant downward revisions in the present value of our estimated future cash flows, additional impairments to one or more reporting units could occur in future periods, and such impairments could be material. A downward revision in the present value of estimated future cash flows could be caused by a number of factors, including, among others, adverse changes in the business climate, negative industry or economic trends, decline in performance in our industry sector, or a decline in market multiples for competitors. Our estimates regarding future cash flows are inherently uncertain and changes in our underlying assumptions and the impact of market conditions on those assumptions could materially affect the determination of fair value and/or goodwill impairment. Future events and changing market conditions may impact our assumptions as to revenues, costs or other factors that may result in changes in our estimates of future cash flows. We can provide no assurance that a material impairment charge will not occur in a future period. Such a charge could negatively affect our results of operations and financial position. We will continue to monitor on an ongoing basis the recoverability of the carrying value of our goodwill and other long-lived assets (see “Critical Accounting Policies and Estimates” in Part II, Item 7).

Labor disputes could disrupt our ability to serve our customers and/or lead to higher labor costs.

As of December 31, 2018, we have approximately 69 employees in Utah, a significant territory in our geographic footprint, who are covered by a collective bargaining agreement and approximately 2,300 employees who are not represented by unions or covered by collective bargaining agreements. Various unions periodically seek to organize certain of our nonunion employees. Union organizing efforts or collective bargaining negotiations could potentially lead to work stoppages and/or slowdowns or strikes by certain of our employees, which could adversely affect our ability to serve our customers. Further, settlement of actual or threatened labor disputes or an increase in the number of our employees covered by collective bargaining agreements can have unknown effects on our labor costs, productivity and flexibility.

We have operations throughout the United States, which exposes us to multiple federal, state and local regulations. Changes in applicable law, regulations or requirements, or our material failure to comply with any of them, can

increase our costs and have other negative impacts on our business.

Our 96 branch locations, as of February 14, 2019, in the United States are located in 22 different states, which exposes us to a host of different federal, state and local regulations. These laws and requirements address multiple aspects of our operations, such as worker safety, consumer rights, privacy, employee benefits and more, and can often have different requirements in different jurisdictions. Changes in these requirements, or any material failure by our branches to comply with them, could increase our costs, affect our reputation, limit our business, drain management's time and attention or otherwise, generally impact our operations in adverse ways.

We could be adversely affected by environmental and safety requirements, which could force us to increase significant capital and other operational costs and may subject us to unanticipated liabilities.

Our operations, like those of other companies engaged in similar businesses, require the handling, use, storage and disposal of certain regulated materials. As a result, we are subject to the requirements of federal, state and local environmental and occupational health and safety laws and regulations. We may not be in complete compliance with all such requirements at all times. We are subject to potentially significant civil or criminal fines or penalties if we fail to comply with any of these requirements. We have made and will continue to make capital and other expenditures in order to comply with these laws and regulations. However, the requirements of these laws and regulations are complex, change frequently, and could become more stringent in the future. It is possible that these requirements will change or that liabilities will arise in the future in a manner that could have a material adverse effect on our business, financial condition and results of operations.

Environmental laws also impose obligations and liability for the cleanup of properties affected by hazardous substance spills or releases. These liabilities can be imposed on the parties generating or disposing of such substances or the operator of the affected property, often without regard to whether the owner or operator knew of, or was responsible for, the presence of hazardous substances. Accordingly, we may become liable, either contractually or by operation of law, for remediation costs even if a contaminated property is not currently owned or operated by us, or if the contamination was caused by third parties during or prior to our ownership or operation of the property. Given the nature of our operations (which involve the use of petroleum products, solvents and other hazardous substances for fueling and maintaining our equipment and vehicles), there can be no assurance that prior site assessments or investigations have identified all potential instances of soil or groundwater contamination. Future events, such as changes in existing laws or policies or their enforcement, or the discovery of currently unknown contamination, may give rise to additional remediation liabilities, which may be material.

Our business may be materially affected by changes to fiscal and tax policies. Negative or unexpected tax consequences could adversely affect our results of operations.

The Tax Cuts and Jobs Act of 2017 (the “Act”) signed into law on December 22, 2017 resulted in significant changes to the U.S. Internal Revenue Code. Such changes include a reduction in the corporate tax rate (from 35% to 21%) and limitations on certain corporate deductions and credits, among other changes. We have completed our accounting for all the tax effects of the Act.

However, adverse changes in the underlying profitability and financial outlook of our operations or future changes in tax law could lead to changes in the value of tax assets or liabilities that we currently or in the future may hold, which could materially affect our results of operations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

As of February 14, 2019, we had a network of 96 full-service facilities in 22 states in the West Coast, Intermountain, Southwest, Gulf Coast, Southeast and Mid-Atlantic regions of the United States. In our facilities, we rent, display and sell equipment, including tools and supplies, and provide maintenance and basic repair work. Of the 96 total facilities, we own 12 of our locations and lease 84 locations. Our leases typically provide for varying terms and renewal options. The following table provides data on our locations and the number of multiple branch locations in each city is indicated by parentheses:

City/State	Leased/Owned	City/State	Leased/Owned
Alabama (4)		Montana (2)	
Birmingham	Leased	Belgrade	Leased
Dothan	Leased	Billings	Leased
Huntsville	Leased	New Mexico (1)	
Opelika	Leased	Albuquerque	Leased
Arizona (2)		Nevada (2)	
Phoenix (2)	Leased (1) Owned (1)	Las Vegas	Leased
Tucson	Owned	Reno	Leased
Arkansas (2)		North Carolina (5)	
Little Rock	Owned	Arden	Leased
Springdale	Owned	Durham	Leased
California (8)		Charlotte	Leased
Bakersfield	Leased	Raleigh	Leased
Benicia	Leased	Winston-Salem	Leased
Fontana	Leased	Oklahoma (2)	
La Mirada	Owned	Oklahoma City	Leased
Sacramento	Leased	Tulsa	Leased
San Diego	Leased	South Carolina (3)	
San Francisco	Leased	Charleston	Leased
San Jose	Leased	Columbia	Leased
Colorado (6)		Greenville	Leased
Colorado Springs	Leased	Tennessee (3)	
Commerce City	Leased	Chattanooga	Leased
Denver	Owned	Memphis	Leased
Erie	Leased	Nashville	Leased
Fort Collins	Leased	Texas (22)	
Greeley	Leased	Austin	Leased
Florida (8)		Bastrop	Leased
Fort Myers	Leased	Beaumont	Leased
Ft. Walton Beach	Leased	Bryan	Leased
Jacksonville	Leased	Buda	Leased
Orlando	Leased	Corpus Christi	Leased
Panama City	Leased	Dallas(2)	Leased(1) Owned(1)
Pompano Beach	Leased	Fort Worth	Leased
Tallahassee	Leased	Freeport	Leased
Tampa	Leased	Georgetown	Leased
Georgia (3)		Houston(2)	Leased(2)
Atlanta	Leased	Katy	Leased

Edgar Filing: H&E Equipment Services, Inc. - Form 10-K

Savannah	Leased	Lubbock	Leased
Suwannee	Leased	Mesquite	Leased
Idaho (2)		Midland	Leased
Boise	Leased	Pasadena	Leased
Coeur d'Alene	Leased	Pleasanton	Leased
Louisiana (9)		San Antonio	Leased
Alexandria	Leased	Schertz	Leased
Baton Rouge	Owned	Utah (2)	
Belle Chasse	Leased	Salt Lake City	Leased
Kenner	Owned	St. George	Leased
Lafayette	Leased	Virginia (4)	
Lake Charles	Leased	Ashland	Owned
New Orleans	Leased	Norfolk	Leased
Shreveport(2)	Leased(2)	Roanoke	Owned
Maryland (2)		Warrenton	Owned
Baltimore	Leased	Washington(2)	
Forestville	Leased	Seattle	Leased
Mississippi (1)		Lynwood	Leased
Jackson	Leased		

Each facility location has a branch manager who is responsible for day-to-day operations. In addition, branch operating facilities are typically staffed with approximately 10 to over 100 people, who may include technicians, salespeople, rental operations staff and parts specialists. While facility offices are typically open five days a week, we provide 24 hour, seven day per week service.

Our corporate headquarters employs approximately 349 people. Our corporate headquarters facility is on 3.1 acres of company-owned land where we occupy a total of approximately 42,550 square feet.

Item 3. Legal Proceedings

From time to time, we are involved in various claims and legal actions arising in the ordinary course of our business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these various matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock, par value \$0.01 per share, trades on the Nasdaq Global Market ("Nasdaq") under the symbol "HEES."

Holders

As of December 31, 2018, there were 73 stockholders of record of our common stock. This does not include beneficial owners of our common stock whose stock is held in nominee or "street name".

Dividends

During the years ended December 31, 2018 and 2017, the Company paid quarterly cash dividends totaling \$1.10 per share in each year, or approximately \$39.3 million and \$39.2 million, respectively. The Company intends to continue to pay regular quarterly cash dividends; however, the declaration of any subsequent dividends is discretionary and will be subject to a final determination by the Board of Directors each quarter after its review of, among other things, business and market conditions.

Securities Authorized for Issuance Under Equity Compensation Plans

For certain information concerning securities authorized for issuance under our equity compensation plan, see Item 12 — Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Performance Graph

The Performance Graph below compares the cumulative total stockholder return on H&E Equipment Services, Inc.'s common stock beginning on December 31, 2013 and for each subsequent quarter period end through and including December 31, 2018, with the cumulative returns of the Russell 2000 Index and an industry peer group selected by us. The peer group we selected is comprised of the following companies: United Rentals, Inc., Toromont Industries, Ltd., Finning International, Inc., and The Ashtead Group, PLC. In our Annual Reports on Form 10-K for the years ended December 31, 2014 and 2015, we included within our peer group, Hertz Global Holdings, which previously owned Herc Holdings Inc., the then parent company of Herc Rentals Inc., Hertz's equipment rental business. On July 1, 2016, Herc Holdings Inc. was separated from Hertz Global Holdings, Inc. and became an independent, publicly-traded corporation. Accordingly, we have excluded Herc Holdings Inc. and Hertz Global Holdings, Inc. from our industry peer group in the five-year Performance Graph below.

The Performance Graph comparison assumes \$100 was invested in our common stock and in each of the other indices described above on December 31, 2013. Dividend reinvestment has been assumed and returns have been weighted to reflect relative stock market capitalization. The stock performance shown on the graph below is not necessarily indicative of future price performance.

	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18
H&E Equipment Services, Inc.	\$ 100.00	\$ 96.05	\$ 63.04	\$ 89.83	\$ 164.21	\$ 85.47
Russell 2000 Index	100.00	104.89	100.26	121.63	139.44	124.09
Peer Group	100.00	122.72	98.08	132.12	195.16	138.99

This stock performance information is “furnished” and shall not be deemed to be “soliciting material” or subject to Rule 14A of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), shall not be deemed “filed” for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that section, and shall not be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date of this Annual Report on Form 10-K and irrespective of any general incorporation by reference language in any such filing, except to the extent that we specifically incorporate this information by reference.

Issuer Purchases of Equity Securities

On October 12, 2018, 2,982 shares of non-vested stock that were issued in 2015 vested at \$30.81 per share. The holder of those vested shares returned 876 shares of common stock to the Company during the quarter ended December 31, 2018 as payment for their withholding taxes. This resulted in an addition of 876 shares to treasury stock.

Item 6. Selected Financial Data

The following table sets forth our selected historical consolidated financial data as of the dates and for the periods indicated. The selected historical consolidated statement of income data and other financial data for the years ended December 31, 2018, 2017 and 2016 and balance sheet data as of December 31, 2018 and 2017 have been derived from our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The selected historical consolidated statement of income data and other financial data for the years ended December 31, 2015 and 2014 and balance sheet data as of December 31, 2016, 2015 and 2014 have been derived from our audited consolidated financial information not included herein. Our historical results are not necessarily indicative of future performance or results of operations. You should read the consolidated historical financial data together with our consolidated financial statements and related notes included in Item 8 of this Annual Report on Form 10-K and with Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations.

	For the Year Ended December 31,				
	2018	2017	2016	2015	2014
	(Amounts in thousands, except per share amounts)				
Statement of income data ⁽¹⁾ :					
Revenues ⁽²⁾ :					
Equipment rentals	\$592,193	\$479,016	\$445,227	\$443,024	\$404,110
New equipment sales	262,948	203,301	196,688	238,172	328,036
Used equipment sales	125,125	107,329	96,910	118,338	123,173
Parts sales	120,454	114,253	115,989	118,152	120,785
Services revenues	63,488	62,873	64,673	63,954	61,292
Other	74,753	63,247	58,650	58,191	53,016
Total revenues	1,238,961	1,030,019	978,137	1,039,831	1,090,412
Cost of revenues ⁽²⁾ :					
Rental depreciation	208,453	169,455	162,415	162,089	146,055
Rental expense	89,520	77,706	71,694	71,950	61,916
New equipment sales	232,057	180,702	175,556	212,235	289,526
Used equipment sales	86,052	74,132	66,738	81,338	84,936
Parts sales	88,263	83,135	84,327	86,255	86,496
Services revenues	21,328	21,111	21,839	21,693	21,507
Other	74,754	63,870	59,957	58,539	52,038
Total cost of revenues	800,427	670,111	642,526	694,099	742,474
Gross profit (loss):					
Equipment rentals	294,220	231,855	211,118	208,985	196,139
New equipment sales	30,891	22,599	21,132	25,937	38,510
Used equipment sales	39,073	33,197	30,172	37,000	38,237
Parts sales	32,191	31,118	31,662	31,897	34,289
Services revenues	42,160	41,762	42,834	42,261	39,785
Other	(1)	(623)	(1,307)	(348)	978
Total gross profit	438,534	359,908	335,611	345,732	347,938
Selling, general and administrative expenses ⁽³⁾					
	278,298	232,784	228,129	220,226	206,480
Merger costs (net of merger breakup fee proceeds) ⁽⁴⁾					
	708	(5,782)	—	—	—
Gain from sales of property and equipment, net	7,118	5,009	3,285	2,737	2,286
Income from operations	166,646	137,915	110,767	128,243	143,744
Other income (expense):					

Edgar Filing: H&E Equipment Services, Inc. - Form 10-K

Interest expense ⁽⁵⁾	(63,707)	(54,958)	(53,604)	(54,030)	(52,353)
Loss on early extinguishment of debt ⁽⁶⁾	—	(25,363)	—	—	—
Other, net	1,724	1,750	1,867	1,463	1,293
Total other expense, net	(61,983)	(78,571)	(51,737)	(52,567)	(51,060)
Income before provision (benefit) for income taxes	104,663	59,344	59,030	75,676	92,684
Income tax provision (benefit) ⁽⁷⁾	28,040	(50,314)	21,858	31,371	37,545
Net income	\$76,623	\$109,658	\$37,172	\$44,305	\$55,139
Net income per common share:					
Basic	\$2.15	\$3.09	\$1.05	\$1.26	\$1.57
Diluted	\$2.13	\$3.07	\$1.05	\$1.25	\$1.56
Weighted average common shares outstanding:					
Basic	35,677	35,516	35,393	35,272	35,159
Diluted	35,903	35,699	35,480	35,343	35,249
Dividends declared per common share outstanding	\$1.10	\$1.10	\$1.10	\$1.05	\$0.50

25

	For the Year Ended December 31,				
	2018	2017	2016	2015	2014
	(Amounts in thousands)				
Other financial data:					
Depreciation and amortization ⁽⁸⁾	\$236,366	\$193,245	\$189,697	\$186,457	\$166,514
Statement of cash flows:					
Net cash provided by operating activities	247,211	226,199	176,979	206,620	158,318
Net cash used in investing activities	(526,240)	(153,075)	(114,410)	(101,759)	(296,643)
Net cash provided by (used in) financing activities	129,828	85,071	(62,045)	(113,563)	136,579

	As of December 31,				
	2018	2017	2016	2015	2014
	(Amounts in thousands)				
Balance sheet data:					
Cash	\$16,677	\$165,878	\$7,683	\$7,159	\$15,861
Rental equipment, net	1,141,498	904,824	893,816	893,393	889,706
Goodwill	105,843	31,197	31,197	31,197	31,197
Deferred financing costs, net ⁽⁹⁾	3,000	3,772	1,964	2,777	2,850
Intangible assets, net	28,380				
Total assets ⁽⁹⁾	1,727,181	1,467,717	1,241,611	1,299,511	1,356,990
Total debt ⁽⁹⁾	1,116,267	945,574	792,057	814,070	888,918
Stockholders' equity	256,803	216,793	142,765	142,588	133,367

⁽¹⁾ See note 18 to the consolidated financial statements discussing segment information.

⁽²⁾ As more fully discussed in "Recent Accounting Pronouncements" in note 2 to the consolidated financial statements, we reclassified certain revenues in connection with our adoption of the revenue recognition guidance in FASB revenue recognition guidance Topic 606 ("Topic 606"). The amounts presented herein reflect the adoption of Topic 606 for all periods presented. Revenues as presented in the above statement of income data for the years ended December 31, 2015 and 2014 related to our adoption of Topic 606 are unaudited.

⁽³⁾ Stock-based compensation expense included in selling, general and administrative expenses for the years ended December 31, 2018, 2017, 2016, 2015 and 2014 totaled \$4.2 million, \$3.5 million, \$3.0 million, \$2.7 million and \$2.6 million, respectively.

⁽⁴⁾ Pursuant to the terms of our merger agreement with Neff Corporation, we received a \$13.2 million breakup fee concurrently with Neff's termination of the merger agreement. Related merger transaction fees totaled \$6.5 million. Estimated merger transaction fees related to our acquisition of CEC totaled \$0.8 million, resulting in net proceeds of approximately \$5.8 million for the year ended December 31, 2017. Merger costs incurred in 2018 related to the Company's acquisition activity was approximately \$0.7 million.

⁽⁵⁾ Interest expense for the periods presented is comprised of cash-pay interest (interest recorded on debt and other obligations requiring periodic cash payments) and non-cash pay interest (comprised of amortization of deferred financing costs and accretion (amortization) of note discount (premium)).

⁽⁶⁾ As more fully discussed in note 9 to the consolidated financial statements, we recorded in 2017 a one-time loss on the early extinguishment of debt in the three month period ended September 30, 2017 of approximately \$25.4 million, reflecting payment of \$12.8 million of tender premiums associated with our repurchase of the Old Notes (as defined below) and \$10.5 million of premiums in accordance with the indenture governing the Old Notes to redeem the remaining untendered Old Notes, combined with the write off of approximately \$2.0 million of

unamortized deferred financing costs, related to the Old Notes.

- (7) On December 22, 2017, the Act was signed into law and we recorded in the fourth quarter of 2017 a one-time decrease in income tax expense of \$66.9 million. The decrease in income tax expense is the result of the re-measurement of our deferred tax assets and liabilities, resulting from the decrease in the corporate statutory federal income tax rate from 35% to 21% under the Act.
- (8) Excludes amortization of deferred financing costs and accretion (amortization) of note discount (premium), which are included in interest expense.
- (9) The line items for Total debt, Total assets, and Deferred financing costs, net, have been retrospectively adjusted for the 2015 and 2014 years to reflect the Company's adoption of Accounting Standards Update No. 2015-03, Simplifying the Presentation of Debt Issuance Costs, which we adopted on January 1, 2016. Total debt represents the carrying amounts for the periods presented, under the Credit Facility, senior unsecured notes and capital leases.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion summarizes the financial position of H&E Equipment Services, Inc. and its subsidiaries as of December 31, 2018, and its results of operations for the year ended December 31, 2018, and should be read in conjunction with the Selected Financial Data and our consolidated financial statements and the accompanying notes thereto included elsewhere in this Annual Report on Form 10-K. The following discussion contains, in addition to historical information, forward-looking statements that include risks and uncertainties (see discussion of "Forward-Looking Statements" included elsewhere in this Annual Report on Form 10-K). Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those factors set forth under Item 1A—Risk Factors of this Annual Report on Form 10-K.

Background

As one of the largest integrated equipment services companies in the United States focused on heavy construction and industrial equipment, we rent, sell and provide parts and services support for four core categories of specialized equipment: (1) hi-lift or aerial work platform equipment; (2) cranes; (3) earthmoving equipment; and (4) industrial lift trucks. By providing equipment rental, sales, on-site parts, repair and maintenance functions under one roof, we are a one-stop provider for our customers' varied equipment needs. This full service approach provides us with multiple points of customer contact, enables us to maintain a high quality rental fleet, as well as an effective distribution channel for fleet disposal and provides cross-selling opportunities among our new and used equipment sales, rental, parts sales and services operations.

As of February 14, 2019, we operated 96 full-service facilities throughout the Intermountain, Southwest, Gulf Coast, West Coast, Southeast and Mid-Atlantic regions of the United States. Our work force includes distinct, focused sales forces for our new and used equipment sales and rental operations, highly skilled service technicians, product specialists and regional managers. We focus our sales and rental activities on, and organize our personnel principally by, our four core equipment categories. We believe this allows us to provide specialized equipment knowledge, improve the effectiveness of our rental and sales force and strengthen our customer relationships. In addition, we have branch managers for each location who are responsible for managing their assets and financial results. We believe this fosters accountability in our business and strengthens our local and regional relationships.

Through our predecessor companies, we have been in the equipment services business for approximately 58 years. H&E Equipment Services L.L.C. ("H&E LLC") was formed in June 2002 through the business combination of Head & Engquist Equipment, LLC ("Head & Engquist"), a wholly-owned subsidiary of Gulf Wide Industries, L.L.C. ("Gulf Wide"), and ICM Equipment Company L.L.C. ("ICM"). Head & Engquist, founded in 1961, and ICM, founded in 1971, were two leading regional, integrated equipment service companies operating in contiguous geographic markets. In the June 2002 transaction, Head & Engquist and ICM were merged with and into Gulf Wide, which was renamed H&E LLC. Prior to the combination, Head & Engquist operated 25 facilities in the Gulf Coast region, and ICM operated 16 facilities in the Intermountain region of the United States.

Prior to our initial public offering in February 2006, our business was conducted through H&E LLC. In connection with our initial public offering, we converted H&E LLC into H&E Equipment Services, Inc. In order to have an operating Delaware corporation as the issuer for our initial public offering, H&E Equipment Services, Inc. was formed as a Delaware corporation and wholly-owned subsidiary of H&E Holdings L.L.C. ("H&E Holdings"), and immediately prior to the closing of our initial public offering, on February 3, 2006, H&E LLC and H&E Holdings merged with and into H&E Equipment Services, Inc., which survived the reincorporation merger as the operating company. Effective February 3, 2006, H&E LLC and H&E Holdings no longer existed under operation of law pursuant to the reincorporation merger.

Effective January 1, 2018, we completed the acquisition of Contractors Equipment Center, a privately-held company focused on non-residential construction equipment rentals serving the greater Denver, Colorado area out of three branch locations. Effective April 1, 2018, we completed the acquisition of Rental, Inc., a privately-held equipment rental and distribution company with five branch locations in Alabama and Florida. Effective February 1, 2019, we completed the acquisition of We-Rent-It, a privately-held equipment rental company with six branch locations in Central Texas.

Business Segments

We have five reportable segments because we derive our revenues from five principal business activities: (1) equipment rentals; (2) new equipment sales; (3) used equipment sales; (4) parts sales; and (5) repair and maintenance services. These segments are based upon how we allocate resources and assess performance. In addition, we also have non-segmented revenues and costs that relate to equipment support activities.

Equipment Rentals. Our rental operation primarily rents our four core types of construction and industrial equipment. We have a well-maintained rental fleet and our own dedicated sales force, focused by equipment type. We actively manage the size, quality, age and composition of our rental fleet based on our analysis of key measures such as time utilization (which we analyze as equipment usage based on: (1) a percentage of original equipment cost, and (2) the number of rental equipment units available for rent), rental rate trends and targets, rental equipment dollar utilization and maintenance and repair costs, which we closely monitor. We maintain fleet quality through regional quality control managers and our parts and services operations.

New Equipment Sales. Our new equipment sales operation sells new equipment in all of our four core product categories. We have a retail sales force focused by equipment type that is separate from our rental sales force. Manufacturer purchase terms and pricing are managed by our product specialists.

Used Equipment Sales. Our used equipment sales are generated primarily from sales of used equipment from our rental fleet, as well as from sales of inventoried equipment that we acquire through trade-ins from our equipment customers and through selective purchases of high quality used equipment. Used equipment is sold by our dedicated retail sales force. Our used equipment sales are an effective way for us to manage the size and composition of our rental fleet and provide a profitable distribution channel for disposal of rental equipment.

Parts Sales. Our parts business sells new and used parts for the equipment we sell and also provides parts to our own rental fleet. To a lesser degree, we also sell parts for equipment produced by manufacturers whose products we neither rent nor sell. In order to provide timely parts and services support to our customers as well as our own rental fleet, we maintain an extensive parts inventory.

Services. Our services operation provides maintenance and repair services for our customers' equipment and to our own rental fleet at our facilities as well as at our customers' locations. As the authorized distributor for numerous equipment manufacturers, we are able to provide service to that equipment that will be covered under the manufacturer's warranty.

Our non-segmented revenues and costs for the periods presented in the Annual Report on Form 10-K relate to equipment support activities that we provide, such as transportation, hauling, parts freight and damage waivers, and are not generally allocated to reportable segments.

You can read more about our business segments in note 18 of the consolidated financial statements in this Annual Report on Form 10-K.

Revenue Sources

We generate all of our total revenues from our five business segments and our non-segmented equipment support activities. Equipment rentals and new equipment sales account for more than half of our total revenues. For the year ended December 31, 2018, approximately 47.8% of our total revenues were attributable to equipment rentals, 21.3% of our total revenues were attributable to new equipment sales, 10.1% were attributable to used equipment sales, 9.7% were attributable to parts sales, 5.1% were attributable to our services revenues and 6.0% were attributable to non-segmented other revenues.

The pie charts below illustrate a breakdown of our revenues and gross profit for the year ended December 31, 2018 by business segment (see note 18 to our consolidated financial statements for further information regarding our business segments):

The equipment that we sell, rent and service is principally used in the construction industry, as well as by companies for commercial and industrial uses such as plant maintenance and turnarounds, as well as in the petrochemical and energy sectors. As a result, our total revenues are affected by several factors including, but not limited to, the demand for and availability of rental equipment, rental rates and other competitive factors, the demand for new and used equipment, the level of construction and industrial activities, spending levels by our customers, adverse weather conditions and general economic conditions. For a discussion of the impact of seasonality on our revenues, see “Seasonality” below.

Equipment Rentals. Our rental operation primarily rents our four core types of construction and industrial equipment. We have a well-maintained rental fleet and our own dedicated sales force, focused by equipment type. We actively manage the size, quality, age and composition of our rental fleet based on our analysis of key measures such as time utilization (which we analyze as equipment usage based on: (1) a percentage of original equipment cost, and (2) the number of rental equipment units available for rent), rental rate trends and targets, rental equipment dollar utilization and maintenance and repair costs, which we closely monitor. We maintain fleet quality through regional quality control managers and our parts and services operations.

New Equipment Sales. We seek to optimize revenues from new equipment sales by selling equipment through a professional in-house retail sales force focused by product type. While sales of new equipment are impacted by the availability of equipment from the manufacturer, we believe our status as a leading distributor for some of our key suppliers improves our ability to obtain equipment. New equipment sales are an important component of our integrated model due to customer interaction and service contact and new equipment sales also lead to future parts and services revenues.

Used Equipment Sales. We generate the majority of our used equipment sales revenues by selling equipment from our rental fleet. The remainder of our used equipment sales revenues comes from the sale of inventoried equipment that we acquire through trade-ins from our equipment customers and selective purchases of high-quality used equipment. Our policy is not to offer specified price trade-in arrangements on equipment for sale. Sales of our rental fleet equipment allow us to manage the size, quality, composition and age of our rental fleet, and provide us with a profitable distribution channel for the disposal of rental equipment.

Parts Sales. We generate revenues from the sale of new and used parts for equipment that we rent or sell, as well as for other makes of equipment. Our product support sales representatives are instrumental in generating our parts revenues. They are product specialists and receive performance incentives for achieving certain sales levels. Most of our parts sales come from our extensive in-house parts inventory. Our parts sales provide us with a relatively stable revenue stream that is generally less sensitive to the economic cycles that tend to affect our rental and equipment sales operations.

Services. We derive our services revenues from maintenance and repair services to customers for their owned equipment. In addition to repair and maintenance on an as-needed or scheduled basis, we also provide ongoing preventative maintenance services to industrial customers. Our after-market service provides a high-margin, relatively

stable source of revenue through changing economic cycles.

29

Our non-segmented other revenues for the periods presented in this Annual Report on Form 10-K relate to equipment support activities that we provide, such as transportation, hauling, parts freight and damage waivers, and are not generally allocated to reportable segments.

Principal Costs and Expenses

Our largest expenses are the costs to purchase the new equipment we sell, the costs associated with the used equipment we sell, rental expenses, rental depreciation and costs associated with parts sales and services, all of which are included in cost of revenues. For the year ended December 31, 2018, our total cost of revenues was approximately \$800.4 million. Our operating expenses consist principally of selling, general and administrative expenses. For the year ended December 31, 2018, our selling, general and administrative expenses were \$278.3 million. In addition, we have interest expense related to our debt instruments. Operating expenses and all other income and expense items below the gross profit line of our consolidated statements of income are not generally allocated to our reportable segments.

We are also subject to federal and state income taxes. Future income tax examinations by state and federal agencies could result in additional income tax expense based on probable outcomes of such matters.

Cost of Revenues:

Rental Depreciation. Depreciation of rental equipment represents the depreciation costs attributable to rental equipment. Estimated useful lives vary based upon type of equipment. Generally, we depreciate cranes and aerial work platforms over a ten year estimated useful life, earthmoving over a five year estimated useful life with a 25% salvage value, and industrial lift trucks over a seven year estimated useful life. Attachments and other smaller type equipment are depreciated over a three year estimated useful life. We periodically evaluate the appropriateness of remaining depreciable lives assigned to rental equipment.

Rental Expense. Rental expense represents the costs associated with rental equipment, including, among other things, the cost of servicing and maintaining our rental equipment, property taxes on our fleet and other miscellaneous costs of rental equipment.

New Equipment Sales. Cost of new equipment sold primarily consists of the equipment cost of the new equipment that is sold, net of any amount of credit given to the customer towards the equipment for trade-ins.

Used Equipment Sales. Cost of used equipment sold consists of the net book value of rental equipment for used equipment sold from our rental fleet, the equipment costs for used equipment we purchase for sale or the trade-in value of used equipment that we obtain from customers in equipment sales transactions.

Parts Sales. Cost of parts sales represents costs attributable to the sale of parts directly to customers.

Services Support. Cost of services revenues represents costs attributable to service provided for the maintenance and repair of customer-owned equipment and equipment then on-rent by customers.

Our non-segmented other expenses for the periods presented in this Annual Report on Form 10-K include costs associated with providing transportation, hauling, parts freight, and damage waiver including, among other items, drivers' wages, fuel costs, shipping costs, and our costs related to damage waiver policies.

Selling, General and Administrative Expenses:

Our selling, general and administrative (“SG&A”) expenses include sales and marketing expenses, payroll and related benefit costs, including stock compensation expense, insurance expenses, legal and professional fees, rent and other occupancy costs, property and other taxes, administrative overhead, depreciation associated with property and equipment (other than rental equipment) and amortization expense associated with intangible assets. These expenses are not generally allocated to our reportable segments.

Interest Expense:

Interest expense for the periods presented represents the interest on our outstanding debt instruments, including aggregate amounts outstanding under our revolving senior secured credit facility (the “Credit Facility”), senior unsecured notes due 2025 and our capital lease obligations, as well as our extinguished senior unsecured notes due 2022 (the “Old Notes”) for the periods during which such Old Notes were outstanding. Interest expense also includes interest on our outstanding manufacturer flooring plans payable which are used to finance inventory and rental equipment purchases. Non-cash interest expense related to the amortization cost of deferred financing costs and the accretion/amortization of note discount/premium are also included in interest expense.

Principal Cash Flows

We generate cash primarily from our operating activities and, historically, we have used cash flows from operating activities, manufacturer floor plan financings and available borrowings under the Credit Facility as the primary sources of funds to purchase inventory and to fund working capital and capital expenditures, growth and expansion opportunities (see also “Liquidity and Capital Resources” below). Our management of our working capital is closely tied to operating cash flows, as working capital can be significantly impacted by, among other things, our accounts receivable activities, the level of new and used equipment inventories, which may increase or decrease in response to current and expected demand, and the size and timing of our trade accounts payable payment cycles.

Rental Fleet

A substantial portion of our overall value is in our rental fleet equipment. The net book value of our rental equipment at December 31, 2018 was \$1.14 billion, or approximately 66.1% of our total assets. Our rental fleet as of December 31, 2018 consisted of 40,542 units having an original acquisition cost (which we define as the cost originally paid to manufacturers or the original amount financed under any operating leases) of approximately \$1.76 billion. As of December 31, 2018, our rental fleet composition was as follows (dollars in millions):

	Units	% of Total	Original Acquisition Cost	% of Original Acquisition Cost	Average Age in Months
Hi-Lift or Aerial Work Platforms	27,153	67.0 %	\$ 1,155.7	65.5 %	37.8
Cranes	252	0.6 %	92.7	5.2 %	58.2
Earthmoving	4,339	10.7 %	366.1	20.8 %	25.6
Industrial Lift Trucks	1,245	3.1 %	38.4	2.2 %	27.7
Other	7,553	18.6 %	110.6	6.3 %	28.3
Total	40,542	100.0 %	\$ 1,763.5	100.0 %	34.5

Determining the optimal age and mix for our rental fleet equipment is subjective and requires considerable estimates and judgments by management. We constantly evaluate the mix, age and quality of the equipment in our rental fleet in response to current economic and market conditions, competition and customer demand. The mix and age of our rental fleet, as well as our cash flows, are impacted by sales of equipment from the rental fleet, which are influenced by used equipment pricing at the retail and secondary auction market levels, and the capital expenditures to acquire new rental fleet equipment. In making equipment acquisition decisions, we evaluate current economic and market conditions, competition, manufacturers’ availability, pricing and return on investment over the estimated useful life of the specific equipment, among other things. As a result of our in-house service capabilities and extensive maintenance program, we believe our rental fleet is well-maintained.

The original acquisition cost of our gross rental fleet increased by approximately \$361.0 million, or 25.7%, for the year ended December 31, 2018, largely reflective of the CEC and Rental Inc. acquired fleets, combined with increase in 2018 rental capital expenditures to meet customer demand. The average age of our rental fleet equipment decreased by approximately 0.1 months for the year ended December 31, 2018.

Our average rental rates for the year ended December 31, 2018 were approximately 2.1% higher than the year ended December 31, 2017 (see further discussion on rental rates in “Results of Operations” below).

The rental equipment mix among our four core product lines for the year ended December 31, 2018 was largely consistent with that of the prior year comparable period as a percentage of total units available for rent and as a percentage of original acquisition cost.

Principal External Factors that Affect our Businesses

We are subject to a number of external factors that may adversely affect our businesses. These factors, and other factors, are discussed below and under the heading “Forward-Looking Statements,” and in Item 1A—Risk Factors in this Annual Report on Form 10-K.

• **Economic downturns.** The demand for our products is dependent on the general economy, the stability of the global credit markets, the industries in which our customers operate or serve, and other factors. Downturns in the general economy or in the construction and manufacturing industries, as well as adverse credit market conditions, can cause demand for our products to materially decrease.

Spending levels by customers. Rentals and sales of equipment to the construction industry and to industrial companies constitute a significant portion of our total revenues. As a result, we depend upon customers in these businesses and their ability and willingness to make capital expenditures to rent or buy specialized equipment. Accordingly, our business is impacted by fluctuations in customers' spending levels on capital expenditures and by the availability of credit to those customers.

Adverse weather. Adverse weather in a geographic region in which we operate may depress demand for equipment in that region. Our equipment is primarily used outdoors and, as a result, prolonged adverse weather conditions may prohibit our customers from continuing their work projects. Adverse weather also has a seasonal impact in parts of our Intermountain region, particularly in the winter months.

Regional and Industry-Specific Activity and Trends. Expenditures by our customers may be impacted by the overall level of construction activity in the markets and regions in which they operate, the price of oil and other commodities and other general economic trends impacting the industries in which our customers and end users operate. As our customers adjust their activity and spending levels in response to these external factors, our rentals and sales of equipment to those customers will be impacted. For example, high levels of industrial activity in our Gulf Coast and Intermountain regions have been a meaningful driver of recent growth in our revenues. However, the decline in oil and natural gas prices and the related downturn in oil industry activities during fiscal years 2014, 2015 and 2016 resulted in a significant decrease in our new equipment sales, primarily the sale of new cranes, due to lower demand. Although oil prices have subsequently stabilized and improved in 2017 and into 2018, prices decreased significantly at the end of 2018 into early 2019 and we believe the uncertainty regarding future oil prices continues to impact customer capital expenditure decisions.

We believe that our integrated business tempers the effects of downturns in a particular segment. For a discussion of seasonality, see "Seasonality" on page 47 of this Annual Report on Form 10-K.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The application of many accounting principles requires us to make assumptions, estimates and/or judgments that affect the reported amounts of assets, liabilities, revenues and expenses in our consolidated financial statements. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable under the circumstances. These assumptions, estimates and/or judgments, however, are often subjective and they and our actual results may change based on changing circumstances or changes in our analyses. If actual amounts are ultimately different from our estimates, the revisions are included in our results of operations for the period in which the actual amounts first become known. We believe the following critical accounting policies could potentially produce materially different results if we were to change underlying assumptions, estimates and/or judgments. See also note 2 to our consolidated financial statements for a summary of our significant accounting policies.

Revenue Recognition. Upon our adoption of Topic 606 on January 1, 2018, we recognize revenue in accordance with two applicable accounting standards: 1) Topic 606 and 2) Topic 840 (which addresses lease accounting). Topic 606 superseded Topic 605 and other legacy industry-specific revenue recognition guidance.

Under Topic 606, revenue from contracts with customers is measured based on the consideration specified in the contract with the customer and excludes any sales incentives and amounts collected on behalf of third parties. A performance obligation is a promise in a contract to transfer a distinct good or service to a customer. We recognize revenue when we satisfy a performance obligation by transferring control over a product or service to a customer. The amount of revenue recognized reflects the consideration we expect to be entitled to in exchange for such products or services.

The accounting for the types of revenues accounted for pursuant to Topic 606 is discussed below. Substantially all of our revenues under Topic 606 are recognized at a point-in-time rather than over time.

Rental revenues: An insignificant portion of our total equipment rental revenues are recognized pursuant to Topic 606 rather than pursuant to Topic 840. These revenues represent services performed by us in connection with the rental of equipment and are comprised of customer training fees on rented equipment and erection and dismantling services on rental equipment. Revenues for these services are recognized upon completion of such services. See discussion below regarding rental revenues recognized pursuant to Topic 840.

New equipment sales: Revenues from the sales of new equipment are recognized at the time of delivery to, or pick-up by, the customer, which is when the customer obtains control of the promised good.

Used equipment sales: Revenues from the sales of used equipment are recognized at the time of delivery to, or pick-up by, the customer, which is when the customer obtains control of the promised good.

Parts sales: Revenues from the sales of equipment parts are recognized at the time of pick-up by the customer for parts counter sales transactions. For parts that are shipped to a customer, we elected to use a practical expedient of Topic 606 and treat such shipping activities as fulfillment costs, thereby recognizing revenues at the time of shipment.

Services revenues: We derive our services primarily from maintenance and repair services to customers for their owned equipment. We recognize services revenues at the time such services are completed, which is when the customer obtains control of the promised service.

Other revenues: Other revenues relate primarily to hauling fees for transporting rental equipment and equipment sold to and from the customer and ancillary charges associated with equipment maintenance and repair services. Such revenues are recognized at the time the services are performed.

Pursuant to Topic 840, we accounted, for the periods presented in this Annual Report on Form 10-K, for equipment rental agreements as operating leases and recognized revenue from equipment rentals in the period earned, regardless of the timing of billing to customers. A rental contract includes rates for daily, weekly or monthly use, and rental revenues are earned on a daily basis as rental contracts remain outstanding. Because rental contracts can extend across multiple reporting periods, we record unbilled rental revenues and deferred rental revenues at the end of reporting periods so rental revenues earned is appropriately stated for the periods presented. We recognize revenue for certain ancillary fees we charge customers: to protect the customer against liability for damage to our equipment while on rent; for fuel; and for environmental costs. Revenues from these ancillary fees are recognized in the period earned. Under Topic 840, we present these ancillary fees we charge to customers in other revenues. Effective January 1, 2019, Topic 842 became effective, replacing Topic 840. See also the "Recent Accounting Pronouncements" discussion in note 2 to these consolidated financial statements for further information related to our adoption of Topic 606 on January 1, 2018 and Topic 842, which became effective on January 1, 2019.

Allowance for Doubtful Accounts. We maintain an allowance for doubtful accounts that reflects our estimate of the amount of our receivables that we will be unable to collect. We develop our estimate of this allowance based on our historical experience with specific customers, our understanding of our current economic circumstances and our own judgment as to the likelihood of ultimate payment. Our largest exposure to doubtful accounts is in our rental operations. We perform credit evaluations of customers and establish credit limits based on reviews of our customers' current credit information and payment histories. We believe our credit risk is somewhat mitigated by our geographically diverse customer base and our credit evaluation procedures. During the year, we write-off customer account balances when we have exhausted reasonable collection efforts and determined that the likelihood of collection is remote. Such write-offs are charged against our allowance for doubtful accounts. Bad debt expense as a percentage of total revenues for the years ended December 31, 2018, 2017 and 2016 were approximately 0.2%, 0.4% and 0.3%, respectively. The actual rate of future credit losses, however, may not be similar to past experience. Our estimate of doubtful accounts could change based on changing circumstances, including changes in the economy or in the particular circumstances of individual customers. Accordingly, we may be required to increase or decrease our allowance for doubtful accounts. See also "Recent Accounting Pronouncements" in note 2 to our consolidated financial statements regarding pending a pending accounting pronouncement related to estimating credit losses.

Useful Lives of Rental Equipment and Property and Equipment. We depreciate rental equipment and property and equipment over their estimated useful lives (generally three to ten years), after giving effect to an estimated salvage value ranging from 0% to 25% of cost. The useful life of rental equipment is determined based on our estimate of the

period the asset will generate revenues, and the salvage value is determined based on our estimate of the minimum value we could realize from the asset after such period. We periodically review the assumptions utilized in computing rates of depreciation. We may be required to change these estimates based on changes in our industry or other changing circumstances. If these estimates change in the future, we may be required to recognize increased or decreased depreciation expense for these assets.

The amount of depreciation expense we record is highly dependent upon the estimated useful lives and the salvage values assigned to each category of rental equipment. Generally, we assign estimated useful lives to our rental fleet ranging from a three-year life, five-year life with a 25% salvage value, seven-year life and a ten-year life.

Depreciation expense on our rental fleet for the year ended December 31, 2018 was approximately \$208.5 million. For the year ended December 31, 2018, the estimated impact of a change in estimated useful lives for each category of equipment by two years was as follows:

	Hi-Lift or Aerial Work	Earth- moving Cranes	Trucks	Industrial Lift	Other	Total
Impact of 2-year change in useful life on results of operations for the year ended December 31, 2018						
Depreciation expense for the year ended						
December 31, 2018	\$108.7	\$10.1	\$64.4	\$5.5	\$19.8	\$208.5
Increase of 2 years in useful life	88.7	7.9	34.8	3.9	18.6	153.9
Decrease of 2 years in useful life	133.1	11.9	81.0	7.1	19.8	252.9

For purposes of the sensitivity analysis above, we elected not to decrease the useful lives of other equipment, which are primarily three-year estimated useful life assets; rather, we have held the depreciation expense constant at the actual amount of depreciation expense. We believe that decreasing the life of the other equipment by two years is an unreasonable estimate and would potentially lead to the decision to expense, rather than capitalize, a significant portion of the subject asset class. In general terms, a one-year increase in the estimated life across all classes of our rental equipment will give rise to an approximate decrease in our annual depreciation expense of approximately \$27.3 million. Additionally, a one-year decrease in the estimated life across all classes of our rental equipment (with the exception of other equipment as discussed above) will give rise to an approximate increase in our annual depreciation expense of approximately \$22.2 million.

Another significant assumption used in our calculation of depreciation expense is the estimated salvage value assigned to our earthmoving equipment. Based on our recent experience, we have used a 25% factor of the equipment's original cost to estimate its salvage value. This factor is highly subjective and subject to change in the future based upon actual results at the time we dispose of the equipment. A change of 5%, either increase or decrease, in the estimated salvage value would result in a change in our annual depreciation expense of approximately \$3.2 million.

Purchase Price Allocation. We have made significant acquisitions in the past and we intend to make additional acquisitions in the future that meet our selection criteria that solidify our presence in the contiguous regions where we operate with an objective of increasing our revenues, improving our profitability, entering additional attractive markets and strengthening our competitive position. Pursuant to Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 350 ("ASC 350"), Intangibles-Goodwill and Other, we record as goodwill the excess of the consideration transferred plus the fair value of any non-controlling interest in the acquiree at the

acquisition date over the fair values of the identifiable net assets acquired. Such fair market value assessments require judgments and estimates that can be affected by various factors over time, which may cause final amounts to differ materially from original estimates.

With the exception of goodwill, long-lived fixed assets generally represent the largest component of our acquisitions. Typically, the long-lived fixed assets that we acquire are primarily comprised of rental fleet equipment. Historically, virtually all of the rental equipment that we have acquired through business combinations have been classified as “To be Used,” rather than as “To be Sold.” Equipment that we acquire and classify as “To be Used” is recorded at fair value. Any significant inventories of new and used equipment acquired in the transaction are valued at fair value, which should approximate a market participant’s estimated selling price adjusted for (1) costs in the selling effort and (2) a reasonable profit allowance.

In addition to long-lived fixed assets, we also acquire other assets and assume liabilities. These other assets and liabilities typically include, but are not limited to, parts inventory, accounts receivable, accounts payable and other working capital items. Because of their short-term nature, the fair values of these assets and liabilities generally approximate the carrying values reflected on the acquired entities balance sheets. However, when appropriate, we adjust these carrying values for factors such as collectibility and existence. The intangible assets that we have acquired generally consist primarily of the goodwill recognized. Depending upon the applicable purchase agreement and the particular facts and circumstances of the business acquired, we may identify other intangible assets, such as trade names or trademarks, non-compete agreements and customer-related intangibles (specifically, customer relationships). A trademark has a fair value equal to the present value of the royalty income attributable to it. The royalty income attributable to a trademark represents the hypothetical cost savings that are derived from owning the trademark instead of paying royalties to license the trademark from another owner. When specifically negotiated by the parties in the applicable purchase

agreements, we base the value of non-compete agreements on the amounts assigned to them in the purchase agreements as these amounts represent the amounts negotiated in an arm's length transaction. When not negotiated by the parties in the applicable purchase agreements, the fair value of non-compete agreements is estimated based on an income approach since their values are representative of the current and future revenue and profit erosion protection they provide. Customer relationships are generally valued based on an excess earnings or income approach with consideration to projected cash flows. We use an independent third party valuation firm to assist us with estimating the fair values of our acquired intangible assets.

Goodwill. We have made acquisitions in the past that resulted in the recognition of goodwill. Pursuant to ASC 350, goodwill is the excess of the consideration transferred plus the fair value of any non-controlling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. We evaluate goodwill for impairment annually or more frequently if triggering events occur or other impairment indicators arise which might impair recoverability.

Application of the goodwill impairment test requires judgment, including: the identification of reporting units; assignment of assets and liabilities to reporting units; assignment of goodwill to reporting units; determination of the fair value of each reporting unit; and an assumption as to the form of the transaction in which the reporting unit would be acquired by a market participant (either a taxable or nontaxable transaction). Impairment of goodwill is evaluated at the reporting unit level. A reporting unit is defined as an operating segment (i.e., before aggregation or combination), or one level below an operating segment (i.e., a component). A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and segment management regularly reviews the operating results of that component. Pursuant to ASC 350 and ASC 280, Segment Reporting, and other relevant guidance, we have identified two components within our Rental operating segment (Equipment Rentals Component 1 and Equipment Rentals Component 2) and have determined that each of our other four operating segments (New Equipment, Used Equipment, Parts, and Service segments) represents a reporting unit, resulting in six total reporting units.

As of December 31, 2018, our goodwill was comprised of the following carrying values for our six reporting units (amounts in thousands):

	Carrying Value
	at December 31,
Reporting Unit	2018
Equipment Rentals Component 1	\$ 34,297
Equipment Rentals Component 2	\$ 42,536
New Equipment Sales	10,434
Used Equipment Sales	8,461
Parts Sales	8,910
Services Revenues	1,205
Total Goodwill	\$ 105,843

ASC 350 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not (a likelihood of greater than 50%) that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, the currently prescribed two-step goodwill test must be performed. Otherwise, the two-step goodwill impairment test is not required. Considerable judgment is required by management in using the qualitative approach under ASC 350 to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. ASC 350 suggests that a qualitative assessment may become less relevant over time. In other words, the longer it has been since the last quantitative assessment, the more difficult it could be for a company to conclude that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount. Our most recent quantitative assessment of goodwill impairment was as of October 1, 2016, whereby we bypassed the qualitative assessment for each reporting unit and proceeded directly to Step 1 of the goodwill impairment test. Our goodwill impairment testing as of that date indicated that there was no impairment among our reporting units as estimated fair values exceeded their respective carrying amounts.

During 2017 and 2018, we performed, as of October 1 of each respective year, a qualitative assessment and determined that it is more likely than not that the fair value of each of our reporting units is not less than its carrying value and, therefore, did not perform the prescribed two-step goodwill impairment test. We considered various factors in performing the qualitative test, including macroeconomic conditions, industry and market considerations, the overall financial performance of our reporting units, the Company's stock price and the excess amount or "cushion" between our reporting unit's fair value and carrying value as indicated on our most recent quantitative assessment. Based upon improving macroeconomic conditions, positive trends within our industry and market and continuing positive operating results in comparison to prior periods and our internal forecasts, as well as consideration of the cushion between the reporting unit's fair value and carrying value from our prior quantitative analysis, we determined that it is more likely than not that the fair value of our reporting units exceeds their respective carrying values at the October 1, 2017 and 2018 valuation dates and there was no goodwill impairment at October 1, 2017 or 2018.

If the two-step goodwill test must be performed, we determine whether the fair value of our goodwill reporting units is greater than their carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that reporting unit, goodwill is not impaired. However, if the fair value of a reporting unit is less than its carrying value, then the second step of the impairment test is performed to determine the implied fair value of goodwill. If the carrying value of a reporting unit's goodwill exceeds its implied fair value, then we record an impairment loss for the excess amount. See also the "Recent Accounting Pronouncements" discussion in note 2 to these consolidated financial statements for new pending accounting guidance, which removes Step 2 of the goodwill impairment test.

For purposes of performing the first step of the impairment test described above, we estimate the fair value of our reporting units using a discounted cash flow analysis and/or by applying various market multiples. The principal factors used in the discounted cash flow analysis are our internal projected results of operations, weighted average cost of capital ("WACC") and terminal value assumptions.

Our internal projected results of operations serve as key inputs for developing our cash flow projections for a planning period of twelve years. Beyond this period, we also determine an assumed long-term growth rate representing the expected rate at which a reporting unit's earnings stream is expected to grow. These rates are used to calculate the terminal value of our reporting units and are added to the cash flows projected during the twelve year planning period. The WACC is an estimate of the overall after-tax rate of return required by equity and debt holders of a business enterprise and represents the expected cost of new capital likely to be used by market participants. The WACC is used to discount our combined future cash flows.

The inputs and variables used in determining the fair value of a reporting unit require management to make certain assumptions regarding the impact of operating and macroeconomic changes, as well as estimates of future cash flows. Our estimates regarding future cash flows are based on historical experience and projections of future operating performance, including revenues, margins and operating expenses. These estimates involve risk and are inherently uncertain. Changes in our estimates and assumptions could materially affect the determination of fair value and/or the amount of goodwill impairment to be recognized. However, we believe that our estimates and assumptions are reasonable and represent our most likely future operating results based upon current information available. Future deterioration in the macroeconomic environment, adverse changes within our industry, further deterioration in our common stock price, downward revisions to our projected cash flows based on new information, or other factors, some of which are beyond our ability to control, could result in a future impairment charge that could materially impact our future results of operations and financial position in the reporting period identified.

Long-lived Assets. Our long-lived assets principally consist of rental equipment and property and equipment. We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In reviewing for impairment, the carrying value of such assets is compared to the estimated undiscounted future cash flows expected from the use of the assets and their eventual disposition. If such cash flows are not sufficient to support the asset's recorded value, an impairment charge is recognized to reduce the carrying value of the asset to its estimated fair value. The determination of future cash flows as well as the estimated fair value of long-lived and intangible assets involves significant estimates and judgment on the part of management. Our estimates and assumptions may prove to be inaccurate due to factors such as changes in economic conditions, changes in our business prospects or other changing circumstances.

Inventories. We state our new and used equipment inventories at the lower of cost or net realizable value by specific identification. Parts and supplies are stated at the lower of the weighted average cost or net realizable value. Net realizable value is considered to be the estimated selling price in the ordinary course of business, less reasonably predictable cost of completion, disposal and transportation. We maintain allowances for damaged, slow-moving and unmarketable inventory to reflect the difference between the cost of the inventory and the estimated market value.

Changes in product demand may affect the value of inventory on hand and may require higher inventory allowances. Uncertainties with respect to inventory valuation are inherent in the preparation of financial statements.

Reserves for Claims. We are exposed to various claims relating to our business, including those for which we provide self-insurance. Claims for which we self-insure up to specified retention limits include: (1) workers compensation claims; (2) general liability claims by third parties for injury or property damage caused by our equipment or personnel; (3) automobile liability claims; and (4) employee health insurance claims. These types of claims may take a substantial amount of time to resolve and, accordingly, the ultimate liability associated with a particular claim, including claims incurred but not reported as of a period-end reporting date, may not be known for an extended period of time. Our methodology for developing self-insurance reserves is based on management estimates and independent third party actuarial estimates. Our estimation process considers, among other matters, the cost of known claims over time, cost inflation and incurred but not reported claims. These estimates may change based on, among other things, changes in our claim history or receipt of additional information relevant to assessing the claims. Further, these estimates may prove to be inaccurate due to factors such as adverse judicial determinations or other claim settlements at higher than estimated amounts. Accordingly, we may be required to increase or decrease our reserve levels.

Income Taxes. The Company files a consolidated federal income tax return with its wholly-owned subsidiaries. The Company is a C-Corporation under the provisions of the Internal Revenue Code. We utilize the asset and liability approach to measure deferred tax assets and liabilities based on temporary differences existing at each balance sheet date using currently enacted tax rates in accordance with ASC 740, Income Taxes (“ASC 740”). ASC 740 takes into account the differences between financial statement treatment and tax treatment of certain transactions. 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 rate is recognized as income or expense in the period that includes the enactment date of that tax rate.

In accordance with ASC 740, the Company recognizes the effect of an income tax position only if it is more likely than not (a likelihood of greater than 50%) that such position will be sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company recognizes both interest and penalties related to uncertain tax positions in net other income (expense).

Our deferred tax calculation requires management to make certain estimates about future operations. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Our U.S. federal tax returns for 2015 and subsequent years remain subject to examination by tax authorities. We are also subject to examination in various state jurisdictions for 2013 and subsequent years.

On December 22, 2017, the Act was signed into law. Included in the Act is a reduction in the corporate statutory tax rate from 35% to 21%, effective for us as of January 1, 2018. Under ASC 740, the effects of changes in tax rates and laws are recognized in the period in which the new legislation is enacted. In the case of U.S. federal income taxes, the enactment date is the date the bill becomes law (i.e., upon presidential signature). We have completed our accounting for all the tax effects of the enactment of the Act.

Results of Operations

The tables included in the period-to-period comparisons below provide summaries of our revenues and gross profits for our business segments and non-segmented revenues for the years ended December 31, 2018, 2017 and 2016. The period-to-period comparisons of our financial results are not necessarily indicative of future results.

Year Ended December 31, 2018 Compared to the Year Ended December 31, 2017

Revenues.

For the Year Ended

December 31,		Total Dollar Change	Percentage Change Increase
2018	2017		

Edgar Filing: H&E Equipment Services, Inc. - Form 10-K

	Increase				
	(in thousands, except percentages)				
Segment revenues:					
Equipment rentals	\$592,193	\$479,016	\$113,177	23.6	%
New equipment sales	262,948	203,301	59,647	29.3	%
Used equipment sales	125,125	107,329	17,796	16.6	%
Parts sales	120,454	114,253	6,201	5.4	%
Services revenues	63,488	62,873	615	1.0	%
Non-Segmented other revenues	74,753	63,247	11,506	18.2	%
Total revenues	\$1,238,961	\$1,030,019	\$208,942	20.3	%

Total Revenues. Our total revenues were \$1.24 billion for the year ended December 31, 2018 compared to \$1.03 billion for the year ended December 31, 2017, an increase of \$208.9 million, or 20.3%. Revenues increased for all of our reportable segments and non-segmented other revenues and are further discussed below.

Equipment Rental Revenues. Our revenues from equipment rentals for the year ended December 31, 2018 increased \$113.2 million, or 23.6%, to \$592.2 million from \$479.0 million in 2017. The increase in equipment rental revenues was largely due to increased demand and the equipment rental revenues from our CEC and Rental Inc. locations.

Rental revenues from aerial work platform equipment increased \$66.7 million and earthmoving equipment rental revenues increased \$24.3 million, while rental revenues from other equipment and lift trucks increased \$8.5 million and \$3.0 million, respectively. Partially offsetting these increases in equipment rental revenues was a \$1.1 million decrease in crane rental revenues. The product line equipment rental revenue fluctuations above do not include the impact of legacy CEC and Rental Inc. equipment rental revenues by product line for the three month periods ended March 31, 2018 and June 30, 2018, respectively.

Our average rental rates for the year ended December 31, 2018 increased 2.1% compared to the year ended December 31, 2017. Our average rental rates for the year ended December 31, 2018 do not include rental rate data for legacy CEC and Rental Inc. for the three month periods ended March 31, 2018 and June 30, 2018, respectively.

Rental equipment dollar utilization (annual rental revenues divided by the average original rental fleet equipment costs) for the year ended December 31, 2018 increased 0.9% to 35.8% from 34.9% in 2017. The increase in comparative rental equipment dollar utilization was primarily the result of the increase in equipment rental rates, combined with the mix of equipment rented, which was partially offset by a decrease in rental equipment time utilization. Rental equipment time utilization as a percentage of original equipment cost was approximately 71.6% for the year ended December 31, 2018 compared to 72.1% in the year ended December 31, 2017, a decrease of 0.5%.

New Equipment Sales Revenues. Our new equipment sales for the year ended December 31, 2018 increased \$59.6 million, or 29.3%, to \$262.9 million from \$203.3 million in 2017. This increase, as noted below, was driven primarily by increased sales of new cranes and aerial work platform equipment, combined with the new equipment sales revenues from our Rental Inc. locations.

Sales of new cranes increased \$44.3 million, resulting from improved crane demand. Sales of new aerial work platform equipment increased \$13.8 million. Sales of new lift trucks and new earthmoving equipment increased \$1.4 million and \$1.0 million, respectively. Partially offsetting these increases in new equipment sales was a \$3.3 million decrease in new other equipment sales. The product line new equipment sales revenue fluctuations above do not include the impact of legacy CEC and Rental Inc. new equipment sales revenues by product line for the three month periods ended March 31, 2018 and June 30, 2018, respectively.

Used Equipment Sales Revenues. Our used equipment sales increased \$17.8 million, or 16.6%, to \$125.1 million for the year ended December 31, 2018, from \$107.3 million for the same period in 2017.

Sales of used aerial work platform equipment increased \$24.8 million while sales of used other equipment and used cranes increased \$2.4 million and \$1.5 million, respectively. Partially offsetting these increases in used equipment sales were a \$9.6 million decrease in used earthmoving equipment sales and a \$1.8 million decrease in used lift truck sales. The product line used equipment sales revenue fluctuations above do not include the impact of legacy CEC and Rental Inc. used equipment sales revenues by product line for the three month period ended March 31, 2018 and June 30, 2018, respectively.

Parts Sales Revenues. Our parts sales revenues increased \$6.2 million, or 5.4%, to \$120.5 million for the year ended December 31, 2018 from \$114.3 million for the same period in 2017. The increase in parts sales was largely attributable to increases in crane parts sales, aerial work platform equipment parts sales and earthmoving equipment parts sales, combined with parts sales revenues from our CEC and Rental Inc. locations.

Services Revenues. Our services revenues for the year ended December 31, 2018 increased \$0.6 million, or 1.0%, to \$63.5 million from \$62.9 million in the same period last year. The increase in services revenues was primarily due to services revenues from our CEC and Rental Inc. locations.

Non-Segmented Other Revenues. For the year ended December 31, 2018, our other revenues were \$74.8 million, an increase of approximately \$11.5 million, or 18.2%, from \$63.2 million in 2017. This increase was primarily driven by higher hauling revenues and damage waiver income associated with our equipment rental activities, combined with non-segmented other revenues from our CEC and Rental Inc. locations.

Gross Profit.

	For the Year Ended				Total Percentage	
	December 31,					
			Total Dollar	Change		Total Percentage
	2018	2017	Increase	Increase		
(in thousands, except percentages)						
Segment Gross Profit (Loss):						
Equipment rentals	\$294,220	\$231,855	\$62,365	26.9	%	
New equipment sales	30,891	22,599	8,292	36.7	%	
Used equipment sales	39,073	33,197	5,876	17.7	%	
Parts sales	32,191	31,118	1,073	3.4	%	
Services revenues	42,160	41,762	398	1.0	%	
Non-Segmented revenues	(1)	(623)	622	99.8	%	
Total gross profit	\$438,534	\$359,908	\$78,626	21.8	%	

Total Gross Profit. Our total gross profit was \$438.5 million for the year ended December 31, 2018 compared to \$359.9 million for the year ended December 31, 2017, an increase of \$78.6 million, or 21.8%. Total gross profit margin for the year ended December 31, 2018 was approximately 35.4%, an increase of 0.5% from the 34.9% gross profit margin for the same period in 2017. Gross profit and gross margin for all reportable segments and non-segmented other revenues are further described below.

Equipment Rentals Gross Profit. Our gross profit from equipment rentals for the year ended December 31, 2018 increased \$62.4 million, or 26.9%, to approximately \$294.2 million from \$231.9 million in 2017.

The increase in equipment rentals gross profit was the result of a \$113.2 million increase in equipment rental revenues for the year ended December 31, 2018 compared to last year, which was partially offset by a \$38.9 million increase in rental equipment depreciation expense and an \$11.9 million increase in rental expenses. The increases in both depreciation expense and rental expenses are primarily due to a larger fleet size in 2018 compared to 2017.

Gross profit margin on equipment rentals for the year ended December 31, 2018 was approximately 49.7% compared to 48.4% in 2017, an increase of 1.3%. As a percentage of equipment rental revenues, rental expenses were 15.1% for the year ended December 31, 2018 compared to 16.2% for the same period last year, a decrease of 1.1%, resulting primarily from the increase in equipment rental revenues. Depreciation expense was 35.2% of equipment rental revenues for the year ended December 31, 2018 compared to 35.4% for the same period in 2017, a decrease of 0.2%, primarily as a result of the increase in equipment rental revenues, which was partially offset by the increase in depreciation expense resulting from the purchase accounting fair value step up adjustments on the CEC and Rental Inc. acquired rental fleets, and the mix of our equipment rental fleet.

New Equipment Sales Gross Profit. Our new equipment sales gross profit for the year ended December 31, 2018 increased \$8.3 million, or 36.7%, to \$30.9 million compared to \$22.6 million in 2017 on an increase in total new equipment sales of \$59.6 million. Gross profit margin on new equipment sales for the year ended December 31, 2017 was approximately 11.7%, an increase of 0.6% from 11.1% in 2017, as a result of higher new crane and aerial work platform sales gross margins and the mix of new equipment sold.

Used Equipment Sales Gross Profit. Our used equipment sales gross profit for the year ended December 31, 2018 increased approximately \$5.9 million, or 17.7%, to \$39.1 million from \$33.2 million in 2017 on a used equipment sales increase of \$17.8 million. Gross profit margin on used equipment sales for the year ended December 31, 2018 was 31.2%, up 0.3% from 30.9% for the year ended December 31, 2017, primarily as a result of the mix of used equipment sold and higher used equipment margins on used aerial work platform equipment sales. These improved gross margins were partially offset by lower margins on sales of CEC and Rental Inc. used equipment, reflecting the purchase accounting fair value step up basis adjustment applied to the acquired used equipment inventory and rental equipment.

Our used equipment sales from the rental fleet, which comprised approximately 89.6% and 89.7% of our used equipment sales for the years ended December 31, 2018 and 2017, respectively, were approximately 152.1% and 149.6% of net book value for the years ended December 31, 2018 and 2017, respectively.

Parts Sales Gross Profit. For the year ended December 31, 2018, our parts sales revenue gross profit increased \$1.1 million, or 3.4%, to \$32.2 million from \$31.1 million for the same period in 2017 on a \$6.2 million increase in parts sales revenues. Gross profit margin on parts sales for the year ended December 31, 2018 was 26.7%, a decrease of 0.5% from 27.2% in the same period in 2017, as a result of the mix of parts sold.

Services Revenues Gross Profit. For the year ended December 31, 2018, our services revenues gross profit increased \$0.4 million, or 1.0%, to \$42.2 million from \$41.8 million for the same period in 2017 on a \$0.6 million increase in services revenues. Gross profit margin on services revenues for each of the years ended December 31, 2018 and 2017 was 66.4%.

Non-Segmented Other Revenues Gross Profit. Our non-segmented other revenues gross loss was approximately \$1 thousand for the year ended December 31, 2018 compared to a gross loss of \$0.6 million for the same period last year, a decrease of \$0.6 million. Gross margin for the year ended December 31, 2018 was 0.0% compared to a gross margin of (1.0)% in 2017, an improvement of 1.0%, primarily reflective of improved gross margins on hauling and transportation related charges in the current period and improved gross margin on damage waiver income.

Selling, General and Administrative Expenses. SG&A expenses increased \$45.5 million, or approximately 19.6%, to \$278.3 million for the year ended December 31, 2018 compared to \$232.8 million for the year ended December 31, 2017.

The net increase in SG&A expenses was attributable to several factors. Employee salaries, wages, payroll taxes and related employee benefit and other employee expenses increased \$30.8 million, primarily as a result of our CEC and Rental Inc. acquisitions, a larger workforce and higher incentive compensation related to improved profitability. Legal and professional fees increased \$3.6 million. Supply costs increased \$2.0 million. Utilities costs increased \$1.7 million and other facility-related expenses increased \$1.8 million. Promotional expenses increased \$1.1 million. Liability insurance costs increased \$0.9 million. Additionally, our results for the year ended December 31, 2018 also includes \$3.3 million of amortization expense associated with the recognition of intangible assets resulting from the CEC and Rental Inc. purchase price allocations.

Approximately \$4.0 million of the total increase in SG&A expenses was attributable to branches opened since January 1, 2017 (but excluding for this purpose branches acquired as a result of our CEC and Rental Inc. acquisitions) with less than a full year of comparable operations in either or both of the years ended December 31, 2018 and 2017.

As a percentage of total revenues, SG&A expenses were 22.5% for the year ended December 31, 2018 compared to 22.6% for the year ended December 31, 2017, a decrease of 0.1%.

Merger Costs (net of Merger Breakup Fee Proceeds). Pursuant to the terms of our terminated 2017 merger agreement with Neff Corporation (“Neff”), we received a \$13.2 million breakup fee concurrently with Neff’s termination of the merger agreement in the third quarter of 2017. Related estimated merger transaction fees related to Neff and other acquisition-related activity for the year ended December 31, 2017 totaled \$6.7 million, resulting in estimated net proceeds of \$5.8 million for the year ended December 31, 2017.

Merger costs incurred in the year ended December 31, 2018 were approximately \$0.7 million.

Gain on Sales of Property and Equipment, Net. During the year ended December 31, 2018, we sold a parcel of company-owned land and realized a gain of approximately \$3.7 million, resulting in total net gains on sales of property and equipment of \$7.1 million for the period, compared to \$5.0 million for the year ended December 31, 2017, an increase of \$2.1 million.

Other Income (Expense). For the year ended December 31, 2018, our net other expenses decreased approximately \$16.6 million to \$62.0 million compared to \$78.6 million for the same period in 2017. Included in Other Income (Expense) for the year ended December 31, 2017 is a \$25.4 million loss on the early extinguishment of debt (see “Loss on Early Extinguishment of Debt” below).

Interest expense increased approximately \$8.7 million to \$63.7 million for the year ended December 31, 2018 compared to \$55.0 million for the year ended December 31, 2017. The increase in interest expense was due to additional interest costs of \$7.2 million associated with the upside of our \$950 million 5.625% senior unsecured notes that were issued in the third and fourth quarters of 2017 compared to our \$630 million 7% senior unsecured notes, which were retired in the third quarter of 2017. Interest costs related to the Credit Facility increased \$1.3 million for the year ended December 31, 2018 compared to the same period last year.

Loss on Early Extinguishment of Debt. We recorded a one-time loss on the early extinguishment of debt in the three month period ended September 30, 2017 of approximately \$25.4 million, reflecting payment of \$12.8 million of tender premiums associated with our repurchase of the Old Notes and \$10.5 million of premiums in accordance with the indenture governing the Old Notes to redeem the remaining untendered Old Notes, combined with the write off of approximately \$2.0 million of unamortized note premium, unaccreted note discount and unamortized deferred financing costs, related to the Old Notes

Income Taxes. We recorded income tax expense of \$28.0 million for the year ended December 31, 2018 compared to an income tax benefit of approximately \$50.3 million for the year ended December 31, 2017. Our effective income tax rate for the year ended December 31, 2018 was 26.8%.

The 2017 income tax benefit for the year ended December 31, 2017 was the result of the Act being signed into law on December 22, 2017. Under ASC 740, the effects of changes in tax rates and laws are recognized in the period in which the new legislation is enacted. With respect to U.S. federal income taxes, the enactment date is the date the bill becomes law (i.e. upon presidential signature). Therefore, we recorded in the fourth quarter of 2017 a one-time decrease in income tax expense of \$66.9 million from the re-measurement of our deferred tax assets and liabilities resulting from the decrease in the corporate federal income tax rate from 35% to 21% under the Act. Our accounting for the income tax effects of the Act has been completed.

Based on available evidence, both positive and negative, we believe it is more likely than not that our federal deferred tax assets at December 31, 2018 are fully realizable through future reversals of existing taxable temporary differences and future taxable income, and are not subject to any limitations. For the year ended December 31, 2018, we decreased our valuation allowance by \$0.1 million for certain state net operating losses that were utilized.

Year Ended December 31, 2017 Compared to the Year Ended December 31, 2016

Revenues.

	For the Year Ended December 31,		Total Dollar Increase	Total Percentage Increase	
	2017	2016	(Decrease)	(Decrease)	
	(in thousands, except percentages)				
Segment revenues:					
Equipment rentals	\$479,016	\$445,227	\$ 33,789	7.6	%
New equipment sales	203,301	196,688	6,613	3.4	%
Used equipment sales	107,329	96,910	10,419	10.8	%
Parts sales	114,253	115,989	(1,736)	(1.5)	%
Services revenues	62,873	64,673	(1,800)	(2.8)	%
Non-Segmented other revenues	63,247	58,650	4,597	7.8	%
Total revenues	\$1,030,019	\$978,137	\$ 51,882	5.3	%

Total Revenues. Our total revenues were \$1.03 billion for the year ended December 31, 2017 compared to approximately \$978.1 million for the year ended December 31, 2016, an increase of \$51.9 million, or 5.3%. Revenues for our reportable segments and non-segmented other revenues are further discussed below.

Equipment Rental Revenues. Our revenues from equipment rentals for the year ended December 31, 2017 increased \$33.8 million, or 7.6%, to \$479.0 million from \$445.2 million in 2016. Rental revenues from aerial work platform equipment increased \$30.7 million and earthmoving equipment rental revenues increased \$5.5 million, while rental revenues from other equipment and lift trucks increased \$2.8 million and \$0.5 million, respectively. Partially offsetting these increases in equipment rental revenues was a \$5.7 million decrease in crane rental revenues. Our average rental rates for the year ended December 31, 2017 increased 0.2% compared to the year ended December 31, 2016.

Rental equipment dollar utilization (annual rental revenues divided by the average original rental fleet equipment costs) for the year ended December 31, 2017 increased 0.9% to 34.9% from 34.0% in 2016. The increase in comparative rental equipment dollar utilization was the result of an increase in rental equipment time utilization, combined with a 0.2% increase in average rental rates. Rental equipment time utilization as a percentage of original equipment cost was 72.1% for the year ended December 31, 2017 compared to approximately 69.7% for the year ended December 31, 2016, an increase of 2.4%. The increase in equipment rental time utilization based on original equipment cost is largely reflective of increased demand in 2017 for rental equipment, especially aerial work platform equipment.

New Equipment Sales Revenues. Our new equipment sales for the year ended December 31, 2017 increased \$6.6 million, or 3.4%, to \$203.3 million from \$196.7 million in 2016, as new crane sales increased \$11.8 million. Sales of new other equipment increased \$7.1 million and sales of new aerial work platform equipment increased \$3.3 million. Partially offsetting these increases in new equipment sales were a \$15.3 million decrease in new earthmoving equipment sales and a \$0.3 million decrease in new lift truck sales.

Used Equipment Sales Revenues. Our used equipment sales increased \$10.4 million, or 10.8%, to \$107.3 million for the year ended December 31, 2017, from \$96.9 million for the same period in 2016. Sales of used earthmoving equipment increased \$5.4 million and sales of used cranes increased \$3.1 million. Sales of used other equipment increased \$1.2 million, while sales of used lift trucks and used aerial work platform equipment increased \$0.5 million and \$0.2 million, respectively.

Parts Sales Revenues. Our parts sales revenues decreased approximately \$1.8 million, or 1.6%, to \$107.4 million for the year ended December 31, 2017 from \$109.1 million for the same period in 2016. The decrease in parts revenues was driven primarily by lower crane parts sales revenues.

Services Revenues. Our services revenues for the year ended December 31, 2017 decreased \$1.8 million, or 2.8%, to \$62.9 million from \$64.7 million in the same period in 2016. The decrease in services revenues was due to lower crane services revenues and lower other equipment services revenues.

Non-Segmented Other Revenues. For the year ended December 31, 2017, our other revenues were \$70.1 million, an increase of approximately \$4.6 million, or 7.1%, from \$65.5 million in 2016. The increase was primarily due to an increase in hauling revenues, fuel charges and damage waiver income associated with the increase in our equipment rental activity.

Gross Profit.

	For the Year Ended		Total	Total	
	December 31,		Dollar	Percentage	
			Change	Change	
			Increase	Increase	
	2017	2016	(Decrease)	(Decrease)	
	(in thousands, except percentages)				
Segment Gross Profit (Loss):					
Equipment rentals	\$ 231,855	\$ 211,118	\$ 20,737	9.8	%
New equipment sales	22,599	21,132	1,467	6.9	%
Used equipment sales	33,197	30,172	3,025	10.0	%
Parts sales	31,118	31,662	(544)	(1.7)	%
Services revenues	41,762	42,834	(1,072)	(2.5)	%
Non-Segmented revenues	(623)	(1,307)	684	(52.3)	%
Total gross profit	\$ 359,908	\$ 335,611	\$ 24,297	7.2	%

Total Gross Profit. Our total gross profit was \$359.9 million for the year ended December 31, 2017 compared to \$335.6 million for the year ended December 31, 2016, an increase of \$24.3 million, or 7.2%. Total gross profit margin for the year ended December 31, 2017 was approximately 34.9%, an increase of 0.6% from the 34.3% gross profit margin for the same period in 2016. Gross profit and gross margin for all reportable segments and non-segmented other revenues are further described below.

Equipment Rentals Gross Profit. Our gross profit from equipment rentals for the year ended December 31, 2017 increased \$20.7 million, or 9.8%, to approximately \$231.9 million from \$211.1 million in 2016. The increase in equipment rentals gross profit was the result of a \$33.8 million increase in rental revenues for the year ended December 31, 2017, which was partially offset by a \$7.1 million increase in equipment rental depreciation expense and a \$6.0 million increase in rental expenses. The increase in rental expenses is primarily due to higher repair costs and increased property taxes resulting from a larger rental fleet size. The increase in rental equipment depreciation expense is largely due also to a larger rental fleet size. Gross profit margin on equipment rentals for the year ended December 31, 2017 was approximately 48.4% compared to 47.4% for the same period in 2016, an increase of 1.0%. Depreciation expense was 35.4% of equipment rental revenues for the year ended December 31, 2017 compared to 36.5% for the same period in 2016, a decrease of 1.1%. As a percentage of equipment rental revenues, rental expenses were 16.2% for the year ended December 31, 2017 compared to approximately 16.1% for the same period in 2016, an increase of 0.1%.

New Equipment Sales Gross Profit. Our new equipment sales gross profit for the year ended December 31, 2017 increased \$1.5 million, or 6.9%, to \$22.6 million compared to \$21.1 million for the same period in 2016 on an increase in total new equipment sales of \$6.6 million. Gross profit margin on new equipment sales for the year ended December 31, 2017 was 11.1%, an increase of 0.4% from 10.7% in the same period in 2016, as a result of the mix of new equipment sold.

Used Equipment Sales Gross Profit. Our used equipment sales gross profit for the year ended December 31, 2017 increased \$3.0 million, or 10.0%, to \$33.2 million from \$30.2 million in the same period in 2016 on an increase in used equipment sales of \$10.4 million. Gross profit margin on used equipment sales for the year ended December 31, 2017 was 30.9%, down 0.2% from 31.1% for the same period in 2016, primarily as a result of the mix of used equipment sold. Our used equipment sales from the rental fleet, which comprised approximately 89.7% and 87.1% of our used equipment sales for the years ended December 31, 2017 and 2016, respectively, were approximately 149.6% and 152.4% of net book value for the years ended December 31, 2017 and 2016, respectively.

Parts Sales Gross Profit. For the year ended December 31, 2017, our parts sales revenue gross profit decreased \$0.5 million, or 1.7%, to \$29.7 million from \$30.2 million for the same period in 2016 on a \$1.8 million decrease in parts sales revenues. Gross profit margin on parts sales for the year ended December 31, 2017 was 27.6%, a decrease of 0.1% from 27.7% in the same period in 2016, as a result of the mix of parts sold.

Services Revenues Gross Profit. For the year ended December 31, 2017, our services revenues gross profit decreased approximately \$1.1 million, or 2.5%, to \$41.8 million from \$42.8 million for the same period in 2016 on a \$1.8 million decrease in services revenues. Gross profit margin on services revenues for the year ended December 31, 2017 was 66.4%, up 0.2% from 66.2% in the same period in 2016, as a result of services revenues mix.

Non-Segmented Other Revenues Gross Profit. Our non-segmented other revenues gross profit increased approximately \$0.6 million to \$0.8 million for the year ended December 31, 2017 from \$0.2 million for the same period in 2016 on a \$4.6 million increase in non-segmented other revenues. Gross margin for the year ended December 31, 2017 was 1.2% compared to a gross margin of 0.3% in the same period 2016, an increase of 0.9%, primarily reflective of improved margins on hauling revenues compared to last year.

Selling, General and Administrative Expenses. SG&A expenses increased \$4.7 million, or 2.0%, to \$232.8 million for the year ended December 31, 2017 compared to \$228.1 million for the year ended December 31, 2016. The increase in SG&A expenses was attributable to several factors. Employee salaries, wages, payroll taxes, employee benefit expenses and other employee costs increased approximately \$7.6 million, primarily as a result of a larger workforce compared to the same period last year, an increase in incentive compensation associated with our increase in current year revenues, and higher employer health insurance costs. Facility costs increased \$1.6 million, comprised primarily of additional rent expense related to new branches opened since the fourth quarter of last year. Bad debt expense increased \$0.9 million, while supplies expense and other general corporate overhead expenses increased \$0.5 million. Partially offsetting these increases was a \$4.1 million decrease in depreciation and amortization expense due to lower software amortization costs. Legal, professional and other service fees decreased \$1.1 million. General liability insurance costs decreased \$0.7 million.

Branches opened since January 1, 2016 with less than twelve full months of comparable operations in 2016 and 2017 contributed \$3.6 million to the increase in our SG&A for the year ended December 31, 2017 compared to the same period in 2016.

As a percentage of total revenues, SG&A expenses were 22.6% for the year ended December 31, 2017, a decrease of 0.7% from 23.3% for the same period in 2016, primarily as a result of the increase in 2017 total revenues.

Other Income (Expense). For the year ended December 31, 2017, our net other expenses increased \$26.8 million to \$78.6 million, compared to \$51.7 million in 2016. Included in Other Income (Expense) for the year ended December 31, 2017 is a \$25.4 million loss on the early extinguishment of debt (see discussion immediately below regarding the issuance of the New Notes). Interest expense was \$55.0 million for the year ended December 31, 2017 compared to \$53.6 million for the year ended December 31, 2016, an increase of \$1.4 million. The increase in interest expense is primarily related to the timing of the issuance of the New Notes in relation to the redemption of the Old Notes. Our New Notes were issued on August 24, 2017, while approximately \$300.3 million of the Old Notes remained outstanding until the September 25, 2017 redemption date. Miscellaneous other income was \$1.8 million for the year ended December 31, 2017 compared to \$1.9 million in 2016, a decrease of \$0.1 million.

Loss on Early Extinguishment of Debt. As more fully described in note 9 to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K, we recorded a one-time loss on the early extinguishment of debt in the year ended December 31, 2017 of approximately \$25.4 million, reflecting payment of \$12.8 million of tender premiums associated with our repurchase of the Old Notes and \$10.5 million of premiums in accordance with the indenture governing the Old Notes to redeem the remaining untendered Old Notes, combined with the write off of approximately \$2.0 million of unamortized note premium, unaccreted note discount and unamortized deferred financing costs, in each case, related to the Old Notes.

Merger Costs (net of Merger Breakup Fee Proceeds). Pursuant to the terms of our terminated merger agreement with Neff, in August 2017 we received a \$13.2 million breakup fee concurrently with Neff's termination of the merger agreement. Merger fees related to the proposed Neff merger totaled \$6.5 million and estimated merger fees for the year ended December 31, 2017 associated with our acquisition of CEC in January 2018 totaled \$0.8 million, resulting in net breakup fees of approximately \$5.8 million for the year ended December 31, 2017.

Income Taxes. We recorded an income tax benefit of approximately \$50.3 million for the year ended December 31, 2017 compared to income tax expense of approximately \$21.9 million for the year ended December 31, 2016. On December 22, 2017, the Act was signed into law. Under ASC 740, the effects of changes in tax rates and laws are recognized in the period in which the new legislation is enacted. With respect to U.S. federal income taxes, the enactment date is the date the bill becomes law (i.e. upon presidential signature). Therefore, we recorded in the fourth quarter of 2017 a one-time decrease in income tax expense of \$66.9 million from the re-measurement of our deferred tax assets and liabilities resulting from the decrease in the corporate federal income tax rate from 35% to 21% under the Act.

Based on available evidence, both positive and negative, we believe it is more likely than not that our federal deferred tax assets at December 31, 2017 are fully realizable through future reversals of existing taxable temporary differences and future taxable income, and are not subject to any limitations. However, for the year ended December 31, 2017, we increased our valuation allowance by \$0.5 million for certain state net operating losses that may not be utilized.

Liquidity and Capital Resources

Cash Flow from Operating Activities. For the year ended December 31, 2018, the cash provided by our operating activities was \$247.2 million. Our reported net income of \$76.6 million, when adjusted for non-cash income and expense items, such as depreciation and amortization (including net amortization (accretion) of note discount (premium)), deferred income taxes, provision for losses on accounts receivable, provision for inventory obsolescence, stock-based compensation expense and net gains on the sale of long-lived assets, provided positive cash flows of \$302.9 million. These cash flows from operating activities were also positively impacted by a \$7.0 increase in accounts payable and a \$2.8 million increase in accrued expenses and other liabilities. Additionally, manufacturing flooring plans payable and deferred compensation increased \$1.7 million and \$0.1 million, respectfully. Partially offsetting these positive cash flows were a \$48.2 million increase in inventories and a \$17.8 million increase in receivables. Also, prepaid expenses and other assets increased \$1.0 million and dividends payable increased \$0.2 million.

For the year ended December 31, 2017, the cash provided by our operating activities was \$226.2 million. Our reported net income of \$109.7 million, when adjusted for non-cash income and expense items, such as depreciation and amortization, (including net amortization (accretion) of note discount (premium)), deferred income taxes, provision for losses on accounts receivable, provision for inventory obsolescence, stock-based compensation expense and net gains on the sale of long-lived assets, provided positive cash flows of \$249.8 million. These cash flows from operating activities were also positively impacted by a \$50.3 increase in accounts payable and an \$8.2 million increase in accrued expenses and other liabilities. Partially offsetting these positive cash flows were a \$40.0 million increase in

receivables, a \$31.8 million increase in inventories, an \$8.8 million decrease in manufacturing flooring plans payable and a \$1.7 million increase in prepared expenses and other assets.

Cash Flow from Investing Activities. For the year ended December 31, 2018, our cash provided by our investing activities was exceeded by our cash used in our investing activities, resulting in net cash used in our investing activities of approximately \$526.2 million. The acquisitions of CEC and Rental Inc. totaled approximately \$196.0 million (net of cash acquired) and purchases of rental and non-rental equipment totaled approximately \$451.6 million, which were partially offset by proceeds from the sale of rental and non-rental equipment of approximately \$121.3 million.

For the year ended December 31, 2017, cash provided by our investing activities was exceeded by cash used in our investing activities, resulting in net cash used in our investing activities of approximately \$153.1 million. This was a result of purchases of rental and non-rental equipment totaling \$256.7 million, which was partially offset by proceeds from the sale of rental and non-rental equipment of approximately \$103.6 million.

Cash Flow from Financing Activities. For the year ended December 31, 2018, cash provided by our financing activities was \$129.8 million. Net borrowings under our Credit Facility for the year ended December 31, 2018 were \$170.8 million, which was partially offset by dividends paid totaling \$39.3 million, or \$1.10 per common share, treasury stock purchases totaling approximately \$1.4 million, payments on capital lease obligations of \$0.2 million and payments of deferred financing costs of \$0.1 million.

For the year ended December 31, 2017, the cash provided by our financing activities was approximately \$85.1 million. Dividends totaling approximately \$39.2 million, or \$1.10 per common share, were paid during the year ended December 31, 2017. Net payments under the Credit Facility were \$162.6 million. Payments on capital lease obligations were \$0.2 million. Purchases of treasury stock were \$0.8 million. In connection with the redemption of our Old Notes, we paid \$653.3 million, representing aggregate principal payments of \$630.0 million and tender and redemption premiums totaling approximately \$23.3 million. In connection with the issuance of our New Notes and Add-on Notes, we received net proceeds of \$958.5 million. Deferred financing costs paid in connection with the New Notes and Add-on Notes as well as the Credit Facility totaled \$17.3 million.

Senior Unsecured Notes

On August 24, 2017, we completed an offering of \$750 million aggregate principal amount of 5.6250% senior notes due 2025 (the “New Notes”) and the settlement of a cash tender offer (the “Tender Offer”) with respect to our 7% senior notes due 2022 (the “Old Notes”). Net proceeds, after deducting \$10.3 million of estimated offering expenses, from the sale of the New Notes totaled approximately \$739.7 million. We used a portion of the net proceeds from the sale of the New Notes to repurchase \$329.7 million of aggregate principal amount of the Old Notes in early settlement of the Tender Offer, which the Company launched on August 17, 2017. Holders who tendered their Old Notes prior to the early tender deadline received \$1,038.90 per \$1,000 principal amount of Old Notes tendered, plus accrued and unpaid interest up to, but not including, the payment date of August 24, 2017. Effective as of August 24, 2017, we (i) provided notice of the redemption of all remaining Old Notes that were not validly tendered in the Tender Offer at the expiration time and (ii) satisfied and discharged the indenture governing the Old Notes in accordance with its terms. On September 25, 2017, we redeemed the remaining \$300.3 million principal amount outstanding of the Old Notes at a redemption price equal to 103.50% of the principal amount thereof, plus accrued and unpaid interest up to, but not including, the date of redemption.

The New Notes were issued at par and require semiannual interest payments on March 1st and September 1st of each year, commencing on March 1, 2018. No principal payments are due until maturity (September 1, 2025).

The New Notes are redeemable, in whole or in part, at any time on or after September 1, 2020 at specified redemption prices plus accrued and unpaid interest to the date of redemption. We may redeem up to 40% of the aggregate principal amount of the New Notes before September 1, 2020 with the net cash proceeds from certain equity offerings. We may also redeem the New Notes prior to September 1, 2020 at a specified “make-whole” redemption price plus accrued and unpaid interest to the date of redemption.

The New Notes rank equally in right of payment to all of our existing and future senior indebtedness and rank senior to any of our subordinated indebtedness. The New Notes are unconditionally guaranteed on a senior unsecured basis by all of our current and future significant domestic restricted subsidiaries. In addition, the New Notes are effectively subordinated to all of our and the guarantors’ existing and future secured indebtedness, including the Credit Facility, to the extent of the assets securing such indebtedness, and are structurally subordinated to all of the liabilities and preferred stock of any of our subsidiaries that do not guarantee the New Notes.

If we experience a change of control, we will be required to offer to purchase the New Notes at a repurchase price equal to 101% of the principal amount, plus accrued and unpaid interest to the date of repurchase.

The indenture governing the New Notes contains certain covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to: (i) incur additional indebtedness, assume a guarantee or issue preferred stock; (ii) pay dividends or make other equity distributions or payments to or affecting our subsidiaries; (iii) purchase or redeem our capital stock; (iv) make certain investments; (v) create liens; (vi) sell or dispose of assets or engage in mergers or consolidations; (vii) engage in certain transactions with subsidiaries or affiliates; (viii) enter into sale-leaseback transactions; and (ix) engage in certain business activities. Each of the covenants is subject to exceptions and qualifications. As of December 31, 2018, we were in compliance with these covenants.

On November 22, 2017, we closed on an offering of \$200 million aggregate principal amount of 5.625% senior notes due 2025 (the “Add-on Notes”) in an unregistered offering through a private placement. The Add-on Notes were priced at 104.25% of the principal amount. Net proceeds from the offering of the Add-on Notes, including accrued interest from August 24, 2017 totaled approximately \$209.2 million. The net proceeds of the offering, was used to repay indebtedness outstanding under the Company’s existing senior secured credit facility (the “Credit Facility”) and for the payment of fees and expenses related to the offering. The remainder of the net proceeds will be used for general corporate purposes and to fund potential acquisitions in connection with our ongoing strategy of acquiring rental companies to complement our existing business and footprint.

The Add-on Notes were issued as additional notes under an indenture dated as of August 24, 2017, pursuant to which we previously issued the New Notes as described above. The Add-on Notes have identical terms to, rank equally with and form a part of a single class of securities with the New Notes.

Pursuant to registration rights agreements entered into among us, the guarantors of the New Notes and the Add-On Notes, respectively, and the initial purchasers of the New Notes and the Add-On Notes, respectively, we agreed to make offers to exchange (collectively, the “Exchange Offer”) the New Notes and Add-On Notes and the respective guarantees for registered, publicly tradable notes and guarantees that have terms identical in all material respects to the New Notes and the Add-On Notes, respectively (except that the exchange notes do not contain any transfer restrictions) within a certain period of time following the completion of the respective note offerings. We completed the Exchange Offer for the New Notes and the Add-On Notes in March 2018.

Senior Secured Credit Facility

We and our subsidiaries are parties to a \$750.0 million Credit Facility with Wells Fargo Capital Finance, LLC (as successor to General Electric Company, successor-by-merger to General Electric Capital Corporation Capital Corporation) as Agent, and the lenders named therein.

On December 22, 2017, we amended, extended and restated the Credit Facility by entering into the Fifth Amended and Restated Credit Agreement (the “Amended and Restated Credit Agreement”) by and among the Company, Great Northern Equipment, Inc., H&E Equipment Services (California), LLC, H&E Equipment Services (Mid-Atlantic), LLC, the other credit parties named therein, the lenders named therein, Wells Fargo Capital Finance, LLC, as administrative agent, the other credit parties named therein, the lenders named therein, and the joint lead arrangers, joint book runners, co-syndication agents and documentation agent named therein.

The Amended and Restated Credit Agreement, among other things, (i) extended the maturity date of the credit facility from May 21, 2019 to December 22, 2022, (ii) increased the commitments under the senior secured asset based revolver provided for therein from \$602.5 million to \$750 million, (iii) increased the uncommitted incremental revolving capacity from \$150 million to \$250 million, (iv) provided that the unused line fee margin will be either 0.375% or 0.25%, depending on the Average Revolver Usage (as defined in the Amended and Restated Credit Agreement) of the borrowers, (v) lowered the interest rate (a) in the case of base rate revolving loans, to the base rate plus an applicable margin of 0.50% to 1.00% depending on the Average Availability (as defined in the Amended and Restated Credit Agreement) and (b) in the case of LIBOR revolving loans, to LIBOR (as defined in the Amended and Restated Credit Agreement) plus an applicable margin of 1.50% to 2.00%, depending on the Average Availability, (vi) lowered the margin applicable to the letter of credit fee to between 1.50% and 2.00%, depending on the Average Availability, and (vii) permitted, subject to certain conditions, an unlimited amount of Permitted Acquisitions, Restricted Payments and prepayments of Indebtedness (in each case, as defined in the Amended and Restated Credit Agreement).

On February 1, 2019, we further amended and extended the Amended and Restated Credit Agreement with the First Amendment to the Fifth Amended and Restated Credit Agreement (the “First Amendment”) by and among the Company, Great Northern Equipment, Inc., H&E Equipment Services (California), LLC, H&E Equipment Services (Mid-Atlantic), LLC, the other credit parties named therein, the lenders named therein, Wells Fargo Capital Finance, LLC, as administrative agent, the other credit parties named therein, the lenders named therein, and the joint lead arrangers, joint book runners, co-syndication agents and documentation agent named therein.

The First Amendment, among other things, (i) extends the maturity date of the credit facility from December 22, 2022 to February 1, 2024, and (ii) lowers the interest rate in the case of LIBOR revolving loans, to LIBOR plus an applicable margin of 1.25% to 1.75%, depending on the Average Availability and (iii) lowers the interest rate in the

case of Base Rate loans, to the Base Rate (as defined in the Amended and Restated Credit Agreement) plus an applicable margin of 0.25% to 0.75%, depending on the Average Availability.

The Amended and Restated Credit Agreement continues to provide for, among other things, a \$30 million letter of credit sub-facility, and a guaranty by certain of the Company's subsidiaries of the obligations under the Credit Facility. In addition, the Credit Facility remains secured by substantially all of the assets of the Company and certain of its subsidiaries.

At December 31, 2018, we had total borrowings under the Credit Facility of \$170.8 million and we could borrow up to \$571.5 million and remain in compliance with the debt covenants under the Company's credit facility. At February 14, 2019, we had \$483.3 million of available borrowings under our Credit Facility, net of a \$7.7 million outstanding letter of credit.

Cash Requirements Related to Operations

Our principal sources of liquidity have been from cash provided by operating activities and the sales of new, used and rental fleet equipment, proceeds from the issuance of debt, and borrowings available under the Credit Facility. Our principal uses of cash have been to fund operating activities and working capital (including new and used equipment inventories), purchases of rental fleet equipment and property and equipment, fund payments due under facility operating leases and manufacturer flooring plans payable, fund acquisitions and to meet debt service requirements. In the future, we may pursue additional strategic acquisitions and seek to open new start-up locations. We anticipate that the above described uses will be the principal demands on our cash in the future.

The amount of our future capital expenditures will depend on a number of factors including general economic conditions and growth prospects. Our gross rental fleet capital expenditures for the year ended December 31, 2018 were approximately \$440.9 million, including \$24.3 million of non-cash transfers from new and used equipment to rental fleet inventory. Our gross property and equipment capital expenditures for the year ended December 31, 2018 were \$35.0 million. In response to changing economic conditions, we believe we have the flexibility to modify our capital expenditures by adjusting them (either up or down) to match our actual performance.

To service our debt, we will require a significant amount of cash. Our ability to pay interest and principal on our indebtedness (including the New Notes and the Add-on Notes, the Credit Facility and our other indebtedness), will depend upon our future operating performance and the availability of borrowings under the Credit Facility and/or other debt and equity financing alternatives available to us, which will be affected by prevailing economic conditions and conditions in the global credit and capital markets, as well as financial, business and other factors, some of which are beyond our control. Based on our current level of operations and given the current state of the capital markets, we believe our cash flow from operations, available cash and available borrowings under the Credit Facility will be adequate to meet our future liquidity needs for the foreseeable future. As of February 14, 2019, we had \$483.3 million of available borrowings under the Credit Facility, net of a \$7.7 million outstanding letter of credit.

We cannot provide absolute assurance that our future cash flow from operating activities will be sufficient to meet our long-term obligations and commitments. If we are unable to generate sufficient cash flow from operating activities in the future to service our indebtedness and to meet our other commitments, we will be required to adopt one or more alternatives, such as refinancing or restructuring our indebtedness, selling material assets or operations or seeking to raise additional debt or equity capital. Given current economic and market conditions, including the significant disruptions in the global capital markets, we cannot assure investors that any of these actions could be effected on a timely basis or on satisfactory terms or at all, or that these actions would enable us to continue to satisfy our capital requirements. In addition, our existing debt agreements, including the Credit Facility and the indenture governing the New Notes and the Add-on Notes, as well as any future debt agreements, contain or may contain restrictive covenants, which may prohibit us from adopting any of these alternatives. Our failure to comply with these covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our debt.

Quarterly Dividend

On each of February 16, 2018, May 16, 2018, August 8, 2018 and November 7, 2018, the Company announced a quarterly dividend of \$0.275 per share to stockholders of record, which were paid on March 9, 2018, June 15 2018, September 7, 2018 and December 7, 2018, respectively, totaling approximately \$39.3 million. On February 8, 2019, the Company announced a quarterly dividend of \$0.275 per share to stockholders of record as of the close of business on February 20, 2019, which is to be paid on March 8, 2019.

The Company intends to continue to pay regular quarterly cash dividends; however, the declaration of any subsequent dividends is discretionary and will be subject to a final determination by the Board of Directors each quarter after its

review of, among other things, business and market conditions.

Seasonality

Although we believe our business is not materially impacted by seasonality, the demand for our rental equipment tends to be lower in the winter months. The level of equipment rental activities is directly related to commercial and industrial construction and maintenance activities. Therefore, equipment rental performance will be correlated to the levels of current construction activities. The severity of weather conditions can have a temporary impact on the level of construction activities. Adverse weather has a seasonal impact in parts of the markets we serve, including our Intermountain region, particularly in the winter months.

Equipment sales cycles are also subject to some seasonality with the peak selling period during the spring season and extending through the summer. Parts and services activities are typically less affected by changes in demand caused by seasonality.

Certain Information Concerning Off-Balance Sheet Arrangements

An off-balance sheet arrangement is any transaction, agreement or other contractual arrangement involving an unconsolidated entity under which a company has (1) made guarantees, (2) a retained or a contingent interest in transferred assets, (3) an obligation under derivative instruments classified as equity or (4) any obligation arising out of a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the Company, or that engages in leasing, hedging or research and development arrangements with the Company.

We have no off-balance sheet arrangements as described above. Further, we do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. We are, therefore, not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships. We have also evaluated our relationships with related parties and determined that none of the related party interests represent variable interest entities pursuant to ASC 810, Consolidation.

In the normal course of our business activities, we may lease real estate, rental equipment and non-rental equipment under operating leases. See “Contractual and Commercial Commitments” below.

Contractual and Commercial Commitments

Our contractual obligations and commercial commitments principally include obligations associated with our outstanding indebtedness and interest payments as of December 31, 2018.

	Payments Due by Year				
	Total	2018	2019-2020	2021-2022	Thereafter
	(Amounts in thousands)				
Senior unsecured notes payable	\$950,000	\$—	\$—	\$—	\$950,000
Interest payments on senior unsecured notes (1)	378,516	53,438	106,875	106,875	111,328
Credit Facility (2)	170,761	—	—	170,761	—
Interest payments on Credit Facility (1) (2)	37,490	9,431	18,861	9,198	—
Capital lease obligations (including interest) (3)	798	252	504	42	—
Operating leases (4)	188,313	21,775	43,141	36,999	86,398
Other long-term obligations (5)	23,666	12,606	11,060	—	—
Total contractual cash obligations	\$1,749,544	\$97,502	\$180,441	\$323,875	\$1,147,726

(1) Future interest payments are calculated based on the assumption that all debt remains outstanding until maturity.

Interest on the Credit Facility assumes the interest rate in effect at December 31, 2018 and includes unused commitment fees.

(2) As described in further detail elsewhere in this Annual Report on Form 10-K, our Credit Facility was amended on February 1, 2019.

(3) This includes a real estate capital lease for which the related liability has been recorded (including interest) at the present value of future minimum lease payments due under the leases.

(4) This includes total minimum operating lease rental payments having initial or remaining non-cancelable lease terms longer than one year.

(5) Represents amounts due on manufacturer flooring plans payable, which are used to finance certain purchases of new equipment inventory and rental equipment.

As of December 31, 2018, we had standby letters of credit issued under our Credit Facility totaling \$7.7 million that expire in May 2019. The Company expects to renew those letters of credit under similar terms upon their expiration.

Inflation

Although we cannot accurately anticipate the effect of inflation on our operations, we believe that inflation has not had for the three most recent fiscal years ended, and is not likely in the foreseeable future to have, a material impact on our results of operations.

Acquisitions and Start-up Facilities

We periodically engage in evaluations of potential acquisitions and start-up facilities. We intend to continue to evaluate and pursue, on an opportunistic basis, acquisitions which meet our selection criteria, and we are focused on identifying and acquiring rental companies to complement our existing business, broaden our geographic footprint, and increase our density in existing markets.

Effective January 1, 2018, we completed the acquisition of Contractors Equipment Center, a privately-held company focused on non-residential construction equipment rentals serving the greater Denver, Colorado area out of three branch locations. Effective April 1, 2018, we completed the acquisition of Rental, Inc., an equipment rental and distribution company with five branch locations in Alabama and Florida. Effective February 1, 2019, we completed the acquisition of We-Rent-It, an equipment rental company with six branch locations in Central Texas.

The success of our growth strategy depends, in part, on selecting strategic acquisition candidates at attractive prices and identifying strategic start-up locations. We expect to face competition for acquisition candidates, which may limit the number of acquisition opportunities and lead to higher acquisition costs. We may not have the financial resources necessary to consummate any acquisitions or to successfully open any new facilities in the future or the ability to obtain the necessary funds on satisfactory terms. For further information regarding our risks related to acquisitions, see Item 1A – Risk Factors of this Annual Report on Form 10-K.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Our earnings may be affected by changes in interest rates since interest expense on the Credit Facility is currently calculated based upon (a) the index rate plus an applicable margin of 0.50% to 1.00%, depending on the Average Availability (as defined in the Credit Facility), in the case of index rate revolving loans and (b) LIBOR plus an applicable margin of 1.25% to 1.75%, depending on the Average Availability (as defined in the Credit Facility), in the case of LIBOR revolving loans.

At December 31, 2018, we had outstanding borrowings under the Credit Facility totaling \$170.8 million. A 1.0% increase in the interest rate on the Credit Facility would result in an increase of approximately \$1.7 million in interest expense on an annualized basis. At February 14, 2019, we had borrowings outstanding totaling \$259.0 million, with \$483.3 million of available borrowings, net of \$7.7 million of outstanding letters of credit. We did not have significant exposure to changing interest rates as of December 31, 2018 on the fixed-rate senior unsecured notes. Historically, we have not engaged in derivatives or other financial instruments for trading, speculative or hedging purposes, though we may do so from time to time if such instruments are available to us on acceptable terms and prevailing market conditions are accommodating.

Item 8. Financial Statements and Supplementary Data

Index to consolidated financial statements of H&E Equipment Services, Inc. and Subsidiaries

See note 17 to the consolidated financial statements for summarized quarterly financial data.

	Page
<u>Report of Independent Registered Public Accounting Firm</u>	51
<u>Consolidated Balance Sheets as of December 31, 2018 and 2017</u>	52
<u>Consolidated Statements of Income for the years ended December 31, 2018, 2017 and 2016</u>	53
<u>Consolidated Statements of Stockholders' Equity for the years ended December 31, 2018, 2017 and 2016</u>	54
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016</u>	55
<u>Notes to Consolidated Financial Statements</u>	57

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors

H&E Equipment Services, Inc.

Baton Rouge, Louisiana

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of H&E Equipment Services, Inc. (the “Company”) and subsidiaries as of December 31, 2018 and 2017, the related consolidated statements of income, stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and schedule listed in Item 15(a)(2) of this annual report on Form 10-K (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and subsidiaries at December 31, 2018 and 2017, and the results of their operations and their 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.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), 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”) and our report dated February 21, 2019 expressed an unqualified opinion thereon.

Change in Accounting Principle

As is discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for revenue arising from contracts with customers as of January 1, 2018, due to the adoption of Revenue from Contracts with Customers (Topic 606), using the full retrospective adoption method.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audits 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. We believe that our audits provide a reasonable basis for our opinion.

/s/ BDO USA, LLP

We have served as the Company's auditor since 2004.

Dallas, Texas

February 21, 2019

51

H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

AS OF DECEMBER 31,

	2018	2017
	(Amounts in thousands, except	
	share amounts)	
Assets		
Cash	\$ 16,677	\$ 165,878
Receivables, net of allowance for doubtful accounts of \$4,094 and \$3,774, respectively	201,556	176,081
Inventories, net of reserves for obsolescence of \$368 and \$947, respectively	104,598	75,004
Prepaid expenses and other assets	10,508	9,172
Rental equipment, net of accumulated depreciation of \$582,520 and \$495,940, respectively	1,141,498	904,824
Property and equipment, net of accumulated depreciation and amortization of \$142,662 and \$131,500, respectively	115,121	101,789
Deferred financing costs, net of accumulated amortization of \$13,717 and \$12,946, respectively	3,000	3,772
Intangible assets, net of accumulated amortization of \$3,320 at December 31, 2018	28,380	—
Goodwill	105,843	31,197
Total assets	\$ 1,727,181	\$ 1,467,717
Liabilities and Stockholders' Equity		
Liabilities:		
Amounts due on senior secured credit facility	\$ 170,761	\$ —
Accounts payable	101,840	89,781
Manufacturer flooring plans payable	23,666	22,002
Accrued expenses payable and other liabilities	73,371	65,095
Dividends payable	132	150
Senior unsecured notes, net of unaccreted discount of \$3,168 and \$3,644 and deferred financing costs of \$2,052 and \$2,268, respectively	944,780	944,088
Capital leases payable	726	1,486
Deferred income taxes	153,113	126,419
Deferred compensation payable	1,989	1,903
Total liabilities	1,470,378	1,250,924
Commitments and Contingencies (Note 13)		
Stockholders' equity:		
Preferred stock, \$0.01 par value, 25,000,000 shares authorized; no shares issued	—	—
Common stock, \$0.01 par value, 175,000,000 shares authorized; 39,748,562 and	396	395

Edgar Filing: H&E Equipment Services, Inc. - Form 10-K

39,623,773 shares issued at December 31, 2018 and 2017, respectively, and		
35,733,569 and 35,646,585 shares outstanding at December 31, 2018 and		
2017, respectively		
Additional paid-in capital	231,174	227,070
Treasury stock at cost, 4,014,993 and 3,977,188 shares of common stock held at		
December 31, 2018 and 2017, respectively	(63,099)	(61,749)
Retained earnings	88,332	51,077
Total stockholders' equity	256,803	216,793
Total liabilities and stockholders' equity	\$1,727,181	\$1,467,717

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

H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31,

	2018	2017	2016
	(Amounts in thousands, except per share amounts)		
Revenues:			
Equipment rentals	\$592,193	\$479,016	\$445,227
New equipment sales	262,948	203,301	196,688
Used equipment sales	125,125	107,329	96,910
Parts sales	120,454	114,253	115,989
Services revenues	63,488	62,873	64,673
Other	74,753	63,247	58,650
Total revenues	1,238,961	1,030,019	978,137
Cost of revenues:			
Rental depreciation	208,453	169,455	162,415
Rental expense	89,520	77,706	71,694
New equipment sales	232,057	180,702	175,556
Used equipment sales	86,052	74,132	66,738
Parts sales	88,263	83,135	84,327
Services revenues	21,328	21,111	21,839
Other	74,754	63,870	59,957
Total cost of revenues	800,427	670,111	642,526
Gross profit	438,534	359,908	335,611
Selling, general and administrative expenses	278,298	232,784	228,129
Merger costs (net of merger breakup fee proceeds)	708	(5,782)	—
Gain from sales of property and equipment, net	7,118	5,009	3,285
Income from operations	166,646	137,915	110,767
Other income (expense):			
Interest expense	(63,707)	(54,958)	(53,604)
Loss on early extinguishment of debt	—	(25,363)	—
Other, net	1,724	1,750	1,867
Total other expense, net	(61,983)	(78,571)	(51,737)
Income before provision (benefit) for income taxes	104,663	59,344	59,030
Provision (benefit) for income taxes	28,040	(50,314)	21,858
Net income	\$76,623	\$109,658	\$37,172
Net income per common share:			
Basic	\$2.15	\$3.09	\$1.05
Diluted	\$2.13	\$3.07	\$1.05
Weighted average common shares outstanding:			
Basic	35,677	35,516	35,393
Diluted	35,903	35,699	35,480
Dividends declared per common share outstanding	\$1.10	\$1.10	\$1.10

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

H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

(Amounts in thousands, except share amounts)

	Common Stock			Retained		Total
	Shares	Amount	Additional	Earnings	Stockholders'	
			Paid-in	(Accumulated		
	Issued		Capital	Treasury	Deficit)	
Balances at December 31, 2015	39,333,571	\$ 392	\$ 220,879	\$(60,405)	\$ (18,278)	\$ 142,588
Stock-based compensation	—	—	3,037	—	—	3,037
Cash dividends on common stock (\$1.10 per share)	—	—	—	—	(39,101)	(39,101)
Tax deficiency associated with stock-based awards	—	—	(372)	—	—	(372)
Issuance of non-vested restricted common stock	163,188	2	—	—	—	2
Repurchases of 37,565 shares of restricted common stock	—	—	—	(561)	—	(561)
Net income	—	—	—	—	37,172	37,172
Balances at December 31, 2016	39,496,759	394	223,544	(60,966)	(20,207)	142,765
Cumulative effect adjustment for previously unrecognized excess tax benefits pursuant to the adoption of ASU 2016-09	—	—	—	—	881	881
Stock-based compensation	—	—	3,526	—	—	3,526
Cash dividends on common stock (\$1.10 per share)	—	—	—	—	(39,255)	(39,255)
Issuance of non-vested restricted common stock	127,014	1	—	—	—	1
	—	—	—	(783)	—	(783)

Edgar Filing: H&E Equipment Services, Inc. - Form 10-K

Repurchases of 37,565 shares of restricted common stock						
Net income	—	—	—	—	109,658	109,658
Balances at December 31, 2017	39,623,773	395	227,070	(61,749)	51,077	216,793
Stock-based compensation	—	—	4,214	—	—	4,214
Cash dividends declared on common stock (\$1.10 per share)						
	—	—	—	—	(39,368)	(39,368)
Issuance of non-vested restricted common stock	124,789	1	(110)	—	—	(109)
Repurchases of 37,805 shares of restricted common stock						
	—	—	—	(1,350)	—	(1,350)
Net income	—	—	—	—	76,623	76,623
Balances at December 31, 2018	39,748,562	\$ 396	\$ 231,174	\$(63,099)	\$ 88,332	\$ 256,803

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

H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31,

	2018	2017	2016
	(Amounts in thousands)		
Cash flows from operating activities:			
Net income	\$76,623	\$109,658	\$37,172
Adjustments to reconcile net income to net cash provided			
by operating activities:			
Depreciation and amortization of property and equipment	24,593	23,790	27,282
Depreciation of rental equipment	208,453	169,455	162,415
Amortization of intangible assets	3,320	—	—
Amortization of deferred financing costs	1,083	1,046	1,052
Accretion of note discount, net of premium amortization	477	274	168
Provision for losses on accounts receivable	2,741	3,932	3,137
Provision for inventory obsolescence	122	161	127
Change in deferred income taxes	26,695	(50,535)	21,578
Stock-based compensation expense	4,214	3,526	3,037
Loss on early extinguishment of debt	—	25,363	—
Gain from sales of property and equipment, net	(7,118)	(5,009)	(3,285)
Gain from sales of rental equipment, net	(38,352)	(31,882)	(29,003)
Changes in operating assets and liabilities, net of acquisitions:			
Receivables	(17,761)	(40,012)	4,154
Inventories	(48,230)	(31,771)	4,267
Prepaid expenses and other assets	(965)	(1,659)	2,541
Accounts payable	6,994	50,349	(27,345)
Manufacturer flooring plans payable	1,664	(8,778)	(31,653)
Accrued expenses payable and other liabilities	2,572	8,230	1,667
Deferred compensation payable	86	61	(332)
Net cash provided by operating activities	247,211	226,199	176,979
Cash flows from investing activities:			
Acquisition of businesses, net of cash acquired	(196,027)	—	—
Purchases of property and equipment	(34,960)	(22,515)	(22,895)
Purchases of rental equipment	(416,600)	(234,209)	(179,709)
Proceeds from sales of property and equipment	9,261	7,506	3,805
Proceeds from sales of rental equipment	112,086	96,143	84,389
Net cash used in investing activities	(526,240)	(153,075)	(114,410)
Cash flows from financing activities:			
Purchases of treasury stock	(1,350)	(783)	(561)
Borrowings on senior secured credit facility	1,436,849	1,193,544	966,146
Payments on senior secured credit facility	(1,266,088)	(1,356,186)	(988,361)
Principal payments on senior unsecured notes due 2022	—	(630,000)	—
Costs paid to tender and redeem senior unsecured notes due 2022	—	(23,336)	—

Edgar Filing: H&E Equipment Services, Inc. - Form 10-K

Proceeds from issuance of senior unsecured notes due 2025	—	958,500	—
Payments of deferred financing costs	(97)	(17,278)	—
Dividends paid	(39,274)	(39,172)	(39,066)
Payments of capital lease obligations	(212)	(218)	(203)
Net cash provided by (used in) financing activities	129,828	85,071	(62,045)
Net increase (decrease) in cash	(149,201)	158,195	524
Cash, beginning of year	165,878	7,683	7,159
Cash, end of year	\$16,677	\$165,878	\$7,683

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

H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

FOR THE YEARS ENDED DECEMBER 31,

	2018	2017	2016
	(Amounts in thousands)		
Supplemental schedule of non-cash investing and financing activities:			
Accrued acquisition purchase price consideration	\$3,432	\$—	\$—
Non-cash asset purchases:			
Assets transferred from new and used inventory to rental fleet	\$24,341	\$10,515	\$38,515
Purchases of property and equipment included in accrued expenses payable and other liabilities	\$(473)	\$(23)	\$(386)
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	\$62,424	\$49,546	\$52,494
Income taxes paid (refunds received), net	\$2,366	\$478	\$177

H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Organization and Nature of Operations

Organization

Prior to our initial public offering in February 2006, our business was conducted through H&E LLC. In connection with our initial public offering, we converted H&E LLC into H&E Equipment Services, Inc. In order to have an operating Delaware corporation as the issuer for our initial public offering, H&E Equipment Services, Inc. was formed as a Delaware corporation and wholly-owned subsidiary of H&E Holdings L.L.C. (“H&E Holdings”), and immediately prior to the closing of our initial public offering, on February 3, 2006, H&E LLC and H&E Holdings merged with and into H&E Equipment Services, Inc., which survived the reincorporation merger as the operating company. Effective February 3, 2006, H&E LLC and H&E Holdings no longer existed under operation of law pursuant to the reincorporation merger.

Nature of Operations

As one of the largest integrated equipment services companies in the United States focused on heavy construction and industrial equipment, we rent, sell and provide parts and services support for four core categories of specialized equipment: (1) hi-lift or aerial work platform equipment; (2) cranes; (3) earthmoving equipment; and (4) industrial lift trucks. By providing equipment rental, sales, on-site parts, repair and maintenance functions under one roof, we are a one-stop provider for our customers’ varied equipment needs. This full service approach provides us with multiple points of customer contact, enables us to maintain a high quality rental fleet, as well as an effective distribution channel for fleet disposal and provides cross selling opportunities among our new and used equipment sales, rental, parts sales and services operations.

(2) Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

Our consolidated financial statements include the financial position and results of operations of H&E Equipment Services, Inc. and its wholly-owned subsidiaries H&E Finance Corp., GNE Investments, Inc., Great Northern Equipment, Inc., H&E California Holding, Inc., H&E Equipment Services (California), LLC and H&E Equipment Services (Mid-Atlantic), Inc., collectively referred to herein as “we” or “us” or “our” or the “Company.”

All significant intercompany accounts and transactions have been eliminated in these consolidated financial statements. Business combinations are included in the consolidated financial statements from their respective dates of acquisition.

The nature of our business is such that short-term obligations are typically met by cash flows generated from long-term assets. Consequently, and consistent with industry practice, the accompanying consolidated balance sheets

are presented on an unclassified basis.

Use of Estimates

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, which requires management to use its judgment to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. These assumptions and estimates could have a material effect on our condensed consolidated financial statements. Actual results may differ materially from those estimates. We review our estimates on an ongoing basis based on information currently available, and changes in facts and circumstances may cause us to revise these estimates.

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09, Revenue from Contracts with Customers (Topic 606). Under Topic 606, revenue is recognized when control of the promised goods or services is transferred to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. Entities may use a full retrospective approach or report on the cumulative effect as of the date of adoption. We adopted this standard effective January 1, 2018 using the full retrospective transition method.

Edgar Filing: H&E Equipment Services, Inc. - Form 10-K

As further discussed below, upon the adoption of Topic 606 on January 1, 2018, we recognize revenue in accordance with two different accounting standards: 1) Topic 606 and 2) Topic 840 (which addresses lease accounting). As discussed below in “Pronouncements Not Yet Adopted”, Topic 842 superseded Topic 840 effective January 1, 2019.

Under Topic 606, revenue from contracts with customers is measured based on the consideration specified in the contract with the customer, and excludes any sales incentives and amounts collected on behalf of third parties. A performance obligation is a promise in a contract to transfer a distinct good or service to a customer. We recognize revenue when we satisfy a performance obligation by transferring control over a product or service to a customer. The amount of revenue recognized reflects the consideration we expect to be entitled to in exchange for such products or services.

Nature of goods and services

The tables below summarize our revenues as presented in our consolidated statements of income for the years ended December 31, 2018, 2017 and 2016 by revenue type and by the applicable accounting standard (amounts in thousands).

	Year Ended December 31,		2017			
	2018		2017			
	Topic 840	Topic 606	Total	Topic 840	Topic 606	Total
	\$		\$			
	590,858		\$ 592,193			
Rental revenues	\$ 1,335		\$ 476,278	\$ 476,278		\$ 479,016
New equipment sales	262,948		262,948	203,301		203,301
Used equipment sales	125,125		125,125	107,329		107,329
Parts sales	120,454		120,454	114,253		114,253
Service revenues	63,488		63,488	62,873		62,873
Other	21,693	53,060	74,753	17,916	45,666	63,247
			\$ 1,238,961	\$		\$
Total revenues	\$ 626,561	\$ 626,410	\$ 1,238,961	\$ 494,769	\$ 744,250	\$ 1,030,019

	Year Ended December 31, 2016		
	Topic 840	Topic 606	Total
Rental revenues	\$ 443,148	\$ 2,079	\$ 445,227
New equipment sales		196,688	196,688
Used equipment sales		96,910	96,910
Parts sales		115,989	115,989
Service revenues		64,673	64,673
Other	16,199	42,451	58,650
Total revenues	\$ 459,347	\$ 518,790	\$ 978,137

Revenues by reporting segment are presented in note 18 of our condensed consolidated financial statements, using the revenue captions reflected in our consolidated statements of income. We believe that the disaggregation of our revenues from contracts to customers as reflected above, coupled with further discussion below and the reporting segment in note 18, depicts how the nature, amount, timing and uncertainty of our revenues and cash flows are affected by economic factors.

Lease revenues (Topic 840)

Rental Revenues: Owned equipment rentals represent revenues from renting equipment. We account for these rental contracts as operating leases. We recognize revenue from equipment rentals in the period earned, regardless of the timing of billing to customers. A rental contract includes rates for daily, weekly or monthly use, and rental revenues are earned on a daily basis as rental contracts remain outstanding. Because the rental contracts can extend across multiple reporting periods, we record unbilled rental revenues and deferred rental revenues at the end of reporting periods so rental revenues earned is appropriately stated for the periods presented.

Other: Other rental revenues primarily represent services performed by us in connection with the rental of equipment to a customer, such as fuel consumption charges, environmental fees and damage waiver insurance. Fuel consumption charges are recognized upon return of the rental equipment when fuel consumption by the customer, if any, can be measured. Income from environmental fees and damage waiver insurance policies are recognized when earned over the period the equipment is rented.

See discussion below in “Pending Accounting Pronouncements Not Yet Adopted” for the expected impact of adopting Topic 842, which became effective for us on January 1, 2019.

Revenues from contracts with customers (Topic 606)

The accounting for the types of revenues accounted for pursuant to Topic 606 are discussed below. Substantially all of our revenues under Topic 606 are recognized at a point-in-time rather than over time.

Rental revenues: An insignificant portion of our total equipment rental revenues are recognized pursuant to Topic 606 rather than pursuant to Topic 840. These revenues represent services performed by us in connection with the rental of equipment and are comprised of customer training fees on rented equipment and erection and dismantling services on rental equipment. Revenues for these services are recognized upon completion of such services. See discussion above regarding rental revenues recognized pursuant to Topic 840.

New equipment sales: Revenues from the sales of new equipment are recognized at the time of delivery to, or pick-up by, the customer, which is when the customer obtains control of the promised good.

Used equipment sales: Revenues from the sales of used equipment are recognized at the time of delivery to, or pick-up by, the customer, which is when the customer obtains control of the promised good.

Parts sales: Revenues from the sales of equipment parts are recognized at the time of pick-up by the customer for parts counter sales transactions. For parts that are shipped to a customer, we elected to use a practical expedient of Topic 606 and treat such shipping activities as fulfillment costs, thereby recognizing revenues at the time of shipment.

Services revenues: We derive our services primarily from maintenance and repair services to customers for their owned equipment. We recognize services revenues at the time such services are completed, which is when the customer obtains control of the promised service.

Other revenues: Other revenues relate primarily to hauling fees for transporting rental equipment and equipment sold to and from the customer and ancillary charges associated with equipment maintenance and repair services. Such revenues are recognized at the time the services are performed.

Receivables and contract assets and liabilities

We manage credit risk associated with our accounts receivables at the customer level. Because the same customers typically generate the revenues that are accounted for under both Topic 606 and Topic 840, the discussions below on credit risk and our allowances for doubtful accounts address our total revenues from Topic 606 and Topic 840.

We believe concentration of credit risk with respect to our receivables is limited because our customer base is comprised of a large number of geographically diverse customers. Our largest customer accounted for approximately 1.2% of total revenues for the year ended December 31, 2018 and for less than one percent of total revenues for the years ended December 31, 2017 and 2016. No single customer accounted for more than 10% of our revenues on an

overall or segment basis for any of the periods presented in this Annual Report on Form 10-K. We manage credit risk through credit approvals, credit limits and other monitoring procedures.

We maintain an allowance for doubtful accounts that reflects our estimate of the amount of our receivables that we will be unable to collect. We develop our estimate of this allowance based on our historical experience with specific customers, our understanding of our current economic circumstances and our own judgment as to the likelihood of ultimate payment. Our largest exposure to doubtful accounts is in our rental operations. We perform credit evaluations of customers and establish credit limits based on reviews of our customers' current credit information and payment histories. We believe our credit risk is somewhat mitigated by our geographically diverse customer base and our credit evaluation procedures. During the year, we write-off customer account balances when we have exhausted reasonable collection efforts and determined that the likelihood of collection is remote. Such write-offs are charged against our allowance for doubtful accounts. Bad debt expense as a percentage of total revenues for the years ended December 31, 2018, 2017 and 2016 were approximately 0.2%, 0.4% and 0.3%, respectively. The actual rate of future credit losses, however, may not be similar to past experience. Our estimate of doubtful accounts could change based on changing circumstances, including changes in the economy or in the particular circumstances of individual customers. Accordingly, we may be required to increase or decrease our allowance for doubtful accounts.

We do not have material contract assets, impairment losses associated therewith, or material contract liabilities associated with contracts with customers. Our contracts with customers do not generally result in material amounts billed to customers in excess of recognizable revenue. We did not recognize material revenues during the years ended December 31, 2018, 2017 or 2016 that was included in the contract liability balance as of the beginning of such periods.

Performance obligations

Most of our Topic 606 revenue is recognized at a point-in-time, rather than over time. Accordingly, in any particular period, we do 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 years ended December 31, 2018, 2017 and 2016 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.

Payment terms

Our Topic 606 revenues do not include material amounts of variable consideration. Our payment terms vary by the type and location of our customer and the products or services offered. The time between invoicing and when payment is due is not significant. Our contracts do not generally include a significant financing component. Our contracts with customers do not generally result in significant obligations associated with returns, refunds or warranties. See above for a discussion of how we manage credit risk.

Sales tax amounts collected from customers are recorded on a net basis.

Contract costs

We do not recognize any assets associated with the incremental costs of obtaining a contract with a customer (for example, a sales commission) that we expect to recover. Most of our revenue is recognized at a point-in-time or over a period of one year or less, and we use the practical expedient that allows us to recognize the incremental costs of obtaining a contract as an expense when incurred if the amortization period of the asset that we otherwise would have recognized is one year or less.

Contract estimates and judgments

Our revenues accounted for under Topic 606 generally do not require significant estimates or judgments as the transaction price is generally fixed and stated on our contracts. Our contracts generally do not include multiple performance obligations, and accordingly do not generally require estimates of the standalone selling price for each performance obligation. Also, our revenues do not include material amounts of variable consideration. Substantially all of our revenues are recognized at a point-in-time and the timing of the satisfaction of the applicable performance

obligations is readily determinable. As noted above, our Topic 606 revenues are generally recognized at the time of delivery to, or pick-up by, the customer.

Inventories

We measure inventory at the lower of cost or net realizable value; where net realizable value is considered to be estimated selling price in the ordinary course of business, less reasonably predictable cost of completion, disposal and transportation. For new and used equipment inventories, cost is determined by specific-identification. For inventories of parts and supplies, cost is determined by using average cost.

Long-lived Assets and Goodwill

Rental Equipment

The rental equipment we purchase is stated at cost and is depreciated over the estimated useful life of the equipment using the straight-line method. Estimated useful lives vary based upon type of equipment. Generally, we depreciate cranes and aerial work platforms over a ten year estimated useful life, earthmoving equipment over a five year estimated useful life with a 25% salvage value, and industrial lift trucks over a seven year estimated useful life. Attachments and other smaller type equipment are depreciated generally over a three year estimated useful life. We periodically evaluate the appropriateness of remaining depreciable lives and any salvage value assigned to rental equipment.

Ordinary repair and maintenance costs and property taxes are charged to operations as incurred. However, expenditures for additions or improvements that significantly extend the useful life of the asset are capitalized in the period incurred. When rental equipment is sold or disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any gains or losses are included in income. We receive individual offers for fleet on a continual basis, at which time we perform an analysis on whether or not to accept the offer. The rental equipment is not transferred to inventory under the held for sale model as the equipment is used to generate revenues until the equipment is sold.

Property and Equipment

Property and equipment are recorded at cost and are depreciated over the assets' estimated useful lives using the straight-line method. Ordinary repair and maintenance costs are charged to operations as incurred. However, expenditures for additions or improvements that significantly extend the useful life of the asset are capitalized in the period incurred. At the time assets are sold or disposed of, the cost and accumulated depreciation are removed from their respective accounts and the related gains or losses are reflected in income.

We capitalize interest on qualified construction projects. Costs associated with internally developed software are accounted for in accordance with FASB Accounting Standards Codification ("ASC") 350-40, Internal-Use Software ("ASC 350-40"), which provides guidance for the treatment of costs associated with computer software development and defines the types of costs to be capitalized and those to be expensed.

We periodically evaluate the appropriateness of remaining depreciable lives assigned to property and equipment. Leasehold improvements are amortized using the straight-line method over their estimated useful lives or the remaining term of the lease, whichever is shorter. Generally, we assign the following estimated useful lives to these categories:

Category	Estimated Useful Life
Transportation equipment	5 years
Buildings	39 years
Office equipment	5 years
Computer equipment	3 years
Machinery and equipment	7 years

In accordance with ASC 360, Property, Plant and Equipment ("ASC 360"), when events or changes in circumstances indicate that the carrying amount of our rental fleet and property and equipment might not be recoverable, the expected future undiscounted cash flows from the assets are estimated and compared with the carrying amount of the assets. If the sum of the estimated undiscounted cash flows is less than the carrying amount of the assets, an impairment loss is recorded. The impairment loss is measured by comparing the fair value of the assets with their carrying amounts. Fair value is determined based on discounted cash flows or appraised values, as appropriate. We did not record any impairment losses related to our rental equipment or property and equipment during 2018, 2017 or 2016.

Goodwill

We have made acquisitions in the past that included the recognition of goodwill, which was determined based upon previous accounting principles. Pursuant to ASC 350, Intangibles-Goodwill and Other ("ASC 350"), goodwill is recorded as the excess of the consideration transferred plus the fair value of any non-controlling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired.

We evaluate goodwill for impairment at least annually, or more frequently if triggering events occur or other impairment indicators arise which might impair recoverability. Impairment of goodwill is evaluated at the reporting unit level. A reporting unit is defined as an operating segment (i.e. before aggregation or combination), or one level

below an operating segment (i.e. a component). A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and segment management regularly reviews the operating results of that component. We have identified two components within our Rental operating segment and have determined that each of our other operating segments (New, Used, Parts and Service) represent a reporting unit, resulting in six total reporting units.

ASC 350 allows entities to first use a qualitative approach to test goodwill for impairment. ASC 350 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not (a likelihood of greater than 50%) that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, the currently prescribed two-step goodwill test must be performed. Otherwise, the two-step goodwill impairment test is not required. Considerable judgment is required by management in using the qualitative approach under ASC 350 to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. We performed a qualitative assessment as of October 1, 2018 and 2017, and there was no goodwill impairment.

ASC 350 suggests that a qualitative assessment may become less relevant over time. In other words, the longer it has been since the last quantitative assessment, the more difficult it could be for a company to conclude that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount. Our last quantitative assessment of goodwill impairment was as of October 1, 2016. Step 1 of that test determined that the fair values of the goodwill reporting units exceeded their respective carrying values and, therefore, Step 2 of the goodwill test was not required, as there was no goodwill impairment at October 1, 2016.

The changes in the carrying amount of goodwill for our reporting units for the years ended December 31, 2018 and 2017 were as follows (amounts in thousands):

	Eq. Rental Comp. 1	Eq. Rental Comp. 2	New Eq. Sales	Used Eq. Sales	Parts Sales	Services Revenues	Total
Balance at December 31, 2016	\$	\$ 18,700	\$	\$ 6,137	\$ 6,360	\$	\$ 31,197
Increases (Decreases)							
Balance at December 31, 2017		18,700		6,137	6,360		31,197
Increases ⁽¹⁾	34,297	23,836	10,434	2,324	2,550	1,205	74,646
Decreases							
Balance at December 31, 2018	\$ 34,297	\$ 42,536	\$ 10,434	\$ 8,461	\$ 8,910	\$ 1,205	\$105,843

(1) Increases are related to goodwill recognized in the CEC and Rental Inc. 2018 acquisitions. See footnote 3 for further information.

Closed Branch Facility Charges

We continuously monitor and identify branch facilities with revenues and operating margins that consistently fall below Company performance standards. Once identified, we continue to monitor these branches to determine if operating performance can be improved or if the performance is attributable to economic factors unique to the particular market with unfavorable long-term prospects. If necessary, branches with unfavorable long-term prospects are closed and the rental fleet and new and used equipment inventories are deployed to more profitable branches within our geographic footprint where demand is higher.

We closed one branch during each of the years ended December 31, 2018 and 2017 in markets where long-term prospects did not support continued operations. No branches were closed during 2016. Under ASC 420, Exit or Disposal Cost Obligations (“ASC 420”), exit costs include, but are not limited to, the following: (a) one-time termination benefits; (b) contract termination costs, including costs that will continue to be incurred under operating leases that have no future economic benefit; and (c) other associated costs. A liability for costs associated with an exit or disposal activity is recognized and measured at its fair value in the period in which the liability is incurred, except for one-time termination benefits that are incurred over time. Although we do not expect to incur material charges related to branch closures, additional charges are possible to the extent that actual future settlements differ from our estimates of such costs. Costs incurred for the one closed branch in 2018 and 2017 did not have a material impact on

the Company's consolidated financial statements. As of the date of this Annual Report on Form 10-K, the Company has not identified any other branch facilities with a more than likely probability of closing where the associated costs pursuant to ASC 420 are expected to be material.

Deferred Financing Costs and Initial Purchasers' Discounts

Deferred financing costs include legal, accounting and other direct costs incurred in connection with the issuance and amendments thereto, of the Company's debt. These costs are amortized over the terms of the related debt using the straight-line method which approximates amortization using the effective interest method.

Initial purchasers' discount and bond premium is the differential between the price paid to an issuer for the new issue and the prices (below and above, respectively) at which the securities are initially offered to the investing public. The amortization expense of deferred financing costs and bond premium and accretion of initial purchasers' discounts are included in interest expense as an overall cost of the related financings. Such costs are presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount.

Reserves for Claims

We are exposed to various claims relating to our business, including those for which we provide self-insurance. Claims for which we self-insure include: (1) workers compensation claims; (2) general liability claims by third parties for injury or property damage caused by our equipment or personnel; (3) automobile liability claims; and (4) employee health insurance claims. These types of claims may take a substantial amount of time to resolve and, accordingly, the ultimate liability associated with a particular claim, including claims incurred but not reported as of a period-end reporting date, may not be known for an extended period of time. Our methodology for developing self-insurance reserves is based on management estimates and independent third party actuarial estimates. Our estimation process considers, among other matters, the cost of known claims over time, cost inflation and incurred but not reported claims. These estimates may change based on, among other things, changes in our claim history or receipt of additional information relevant to assessing the claims. Further, these estimates may prove to be inaccurate due to factors such as adverse judicial determinations or other claim settlements at higher than estimated amounts. Accordingly, we may be required to increase or decrease our reserve levels. At December 31, 2018, our claims reserves related to workers compensation, general liability and automobile liability, which are included in “Accrued expenses and other liabilities” in our consolidated balance sheets, totaled \$4.8 million and our health insurance reserves totaled \$1.3 million. At December 31, 2017, our claims reserves related to workers compensation, general liability and automobile liability totaled \$4.6 million and our health insurance reserves totaled \$1.2 million.

Advertising

Advertising costs are expensed as incurred and totaled \$0.5 million, \$0.5 million and \$1.0 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Income Taxes

The Company files a consolidated federal income tax return with its wholly-owned subsidiaries. The Company is a C-Corporation under the provisions of the Internal Revenue Code. We utilize the asset and liability approach to measure deferred tax assets and liabilities based on temporary differences existing at each balance sheet date using currently enacted tax rates in accordance with ASC 740. ASC 740 takes into account the differences between financial statement treatment and tax treatment of certain transactions. 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 rate is recognized as income or expense in the period that includes the enactment date of that rate.

On December 22, 2017, the Tax Cuts and Jobs Act (the “Act”) was signed into law. Included in the Act is a reduction in the corporate statutory tax rate from 35% to 21%, effective for us on January 1, 2018. Under ASC 740, the effects of changes in tax rates and laws are recognized in the period in which the new legislation is enacted. In the case of US federal income taxes, the enactment date is the date the bill becomes law (i.e., upon presidential signature), and we recognized the impact of the Act in our consolidated financial statements for the year ended December 31, 2017. We have completed our accounting for all the tax effects of the enactment of the Act.

In accordance with ASC 740, the Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax provisions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company recognizes both interest and penalties related to uncertain tax positions in net other income (expense).

Our deferred tax calculation requires management to make certain estimates about future operations. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Fair Value of Financial Instruments

Fair value is defined as the amount that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The FASB fair value measurement guidance established a fair value hierarchy that prioritizes the inputs used to measure fair value. The three broad levels of the fair value hierarchy are as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – Quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly

Level 3 – Unobservable inputs for which little or no market data exists, therefore requiring a company to develop its own assumptions

The carrying value of financial instruments reported in the accompanying consolidated balance sheets for cash, accounts receivable, accounts payable and accrued expenses payable and other liabilities approximate fair value due to the immediate or short-term nature or maturity of these financial instruments. The fair value of our letter of credit is based on fees currently charged for similar agreements. The carrying amounts and fair values of our other financial instruments subject to fair value disclosures as of December 31, 2018 and 2017 are presented in the table below (amounts in thousands) and have been calculated based upon market quotes and present value calculations based on market rates.

	December 31, 2018	
	Carrying Amount	Fair Value
Manufacturer flooring plans payable with interest computed at 5.50% (Level 3)	\$23,666	\$19,870
Senior unsecured notes due 2025 with interest computed at 5.625% (Level 2)	944,780	871,625
Capital leases payable with interest computed at 5.929% to 9.55% (Level 3)	726	330
Letter of credit (Level 3)	—	116
	December 31, 2017	
	Carrying Amount	Fair Value
Manufacturer flooring plans payable with interest computed at 4.50% (Level 3)	\$22,002	\$18,737
Senior unsecured notes due 2025 with interest computed at 5.625% (Level 3)	944,088	619,019
Capital leases payable with interest computed at 5.929% to 9.55% (Level 3)	1,486	1,114
Letter of credit (Level 3)	—	116

At December 31, 2018, the fair value of our senior unsecured notes due 2025 was based on quoted bond trading market prices for those notes. At December 31, 2017, the fair value of our senior unsecured notes due 2025 was based on our incremental borrowing rate as these notes were not available (registered) on a bond trading market as of December 31, 2017.

Concentrations of Credit and Supplier Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade accounts receivable. Credit risk can be negatively impacted by adverse changes in the economy or by disruptions in the credit markets. However, we believe that credit risk with respect to trade accounts receivable is somewhat mitigated by our large number of geographically diverse customers and our credit evaluation procedures. Although generally no collateral is required, when feasible, mechanics' liens are filed and personal guarantees are signed to protect the Company's interests. We maintain reserves for potential losses.

We record trade accounts receivables at sales value and establish specific reserves for certain customer accounts identified as known collection problems due to insolvency, disputes or other collection issues. The amounts of the specific reserves estimated by management are based on the following assumptions and variables: the customer's financial position, age of the customer's receivables and changes in payment schedules. In addition to the specific reserves, management establishes a non-specific allowance for doubtful accounts by applying specific percentages to the different receivable aging categories (excluding the specifically reserved accounts). The percentage applied against the aging categories increases as the accounts become further past due. The allowance for doubtful accounts is charged with the write-off of uncollectible customer accounts.

We purchase a significant amount of equipment from the same manufacturers with whom we have distribution agreements. During the year ended December 31, 2018, we purchased approximately 54% from five manufacturers (Grove/Manitowoc, Genie Industries (Terex), JCB, Komatsu, and Skyjack) providing our rental and sales equipment. We believe that while there are alternative sources of supply for the equipment we purchase in each of the principal product categories, termination of one or more of our relationships with any of our major suppliers of equipment could have a material adverse effect on our business, financial condition or results of operation if we were unable to obtain adequate or timely rental and sales equipment.

Income per Share

Income per common share for the years ended December 31, 2018, 2017 and 2016 is based on the weighted average number of common shares outstanding during the period. The effects of potentially dilutive securities that are anti-dilutive are not included in the computation of diluted income per share. We include all common shares granted under our incentive compensation plan which remain unvested (“restricted common shares”) and contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid (“participating securities”), in the number of shares outstanding in our basic and diluted EPS calculations using the two-class method. All of our restricted common shares are currently participating securities.

Under the two-class method, earnings per common share are computed by dividing the sum of distributed earnings allocated to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of common shares outstanding for the period. In applying the two-class method, distributed and undistributed earnings are allocated to both common shares and restricted common shares based on the total weighted average shares outstanding during the period. The number of restricted common shares outstanding during the years ended December 31, 2018, 2017 and 2016 were less than 1% of total outstanding shares for each of the years ended December 31, 2018, 2017 and 2016 and consequently, were immaterial to the basic and diluted EPS calculations. Therefore, use of the two-class method had no impact on our basic and diluted EPS calculations as presented for the years ended December 31, 2018, 2017 and 2016.

The following table sets forth the computation of basic and diluted net income per common share for the years ended December 31, (amounts in thousands, except per share amounts):

	2018	2017	2016
Basic net income per share:			
Net income	\$76,623	\$109,658	\$37,172
Weighted average number of common shares outstanding	35,677	35,516	35,393
Net income per common share — basic	\$2.15	\$3.09	\$1.05
Diluted net income per share:			
Net income	\$76,623	\$109,658	\$37,172
Weighted average number of common shares outstanding	35,677	35,516	35,393
Effect of dilutive securities:			
Effect of dilutive stock options	—	—	—
Effect of dilutive non-vested stock	226	183	87
Weighted average number of common shares outstanding —			
diluted	35,903	35,699	35,480
Net income per common share — diluted	\$2.13	\$3.07	\$1.05
Common shares excluded from the denominator as			
anti-dilutive:			
Stock options	—	—	4
Non-vested stock	43	—	3

Stock-Based Compensation

We adopted our 2006 Stock-Based Incentive Compensation Plan (as amended and restated from time to time, the “Prior Stock Plan”) and over the ten years prior to June 2016, we had been granting awards under our Prior Stock Plan. The Prior Stock Plan expired pursuant to its terms in June 2016, and the Company is no longer able to grant equity awards under the Prior Stock Plan. At our annual meeting of stockholders in May 2016, our stockholders approved our 2016 Stock-Based Incentive Compensation Plan (the “2016 Plan” and collectively with the Prior Stock Plan, the “Stock Plans”). To the extent that awards granted under the Prior Stock Plan are forfeited or otherwise terminate for any reason whatsoever without an actual distribution or issuance of shares, the plan limit will be increased by such number of shares. The Stock Plans are administered by the Compensation Committee of our Board of Directors, which selects persons eligible to receive awards and determines the number of shares and/or options subject to each award, the terms, conditions, performance measures, if any, and other provisions of the award. Under the Stock Incentive Plan, we may offer deferred shares or restricted shares of our common stock and grant options, including both incentive stock options and nonqualified stock options, to purchase shares of our common stock. Shares available for future stock-based payment awards under our Stock Incentive Plan were 1,734,986 shares of common stock as of December 31, 2018.

We account for our stock-based compensation plans using the fair value recognition provisions of ASC 718, Stock Compensation (“ASC 718”). Under the provisions of ASC 718, stock-based compensation is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the requisite employee service period (generally the vesting period of the grant).

Non-vested Stock

From time to time, we issue shares of non-vested stock typically with vesting terms of three years. The following table summarizes our non-vested stock activity for the years ended December 31, 2018 and 2017:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested stock at January 1, 2017	400,801	\$ 18.86
Granted	190,134	\$ 22.94
Vested	(131,807)	\$ 21.85
Forfeited	(13,164)	\$ 19.50
Non-vested stock at December 31, 2017	445,964	\$ 19.70
Granted	143,121	\$ 37.10
Vested	(181,194)	\$ 20.53
Forfeited	(28,332)	\$ 19.61
Non-vested stock at December 31, 2018	379,559	\$ 25.87

As of December 31, 2018, we had unrecognized compensation expense of approximately \$5.0 million related to non-vested stock award payments that we expect to be recognized over a weighted average period of 1.9 years. Stock compensation expense for the years ended December 31, 2018, 2017 and 2016 was \$4.2 million, \$3.5 million and \$3.0 million, respectively.

Stock Options

No stock options were granted during 2018, 2017 or 2016. At December 31, 2018, we had no unrecognized compensation expense related to prior stock option awards. No stock compensation expense was recognized in 2018, 2017 or 2016 related to stock options.

The following table represents stock option activity for the years ended December 31, 2018 and 2017:

Number of Shares	Weighted Average	Weighted Average Contractual Life
------------------------	---------------------	--------------------------------------

Edgar Filing: H&E Equipment Services, Inc. - Form 10-K

		Exercise Price	In Years
Outstanding options at January 1, 2017	4,500	\$ 19.27	0.5
Granted	—	—	
Exercised	—	—	
Canceled, forfeited or expired	(4,500)	19.27	
Outstanding options at December 31, 2017	—		
Granted	—		
Exercised	—		
Canceled, forfeited or expired	—		
Outstanding options at December 31, 2018	—		
Options exercisable at December 31, 2018	—		

Purchases of Company Common Stock

Purchases of our common stock are accounted for as treasury stock in the accompanying consolidated balance sheets using the cost method. Repurchased stock is included in authorized shares, but is not included in shares outstanding.

Segment Reporting

We have determined in accordance with ASC 280, Segment Reporting (“ASC 280”) that we have five reportable segments. We derive our revenues from five principal business activities: (1) equipment rentals; (2) new equipment sales; (3) used equipment sales; (4) parts sales; and (5) repair and maintenance services. These segments are based upon how we allocate resources and assess performance. See note 18 to the consolidated financial statements regarding our segment information.

Recent Accounting Pronouncements

Pronouncements Not Yet Adopted

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, Leases (Topic 842) (“ASU 2016-02”). The new standard is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet, with the exception of leases with a term of 12 months or less, which permits a lessee to make an accounting policy election by class of underlying asset not to recognize lease assets and liabilities. At inception, lessees must classify leases as either finance or operating based on five criteria. Balance sheet recognition of finance and operating leases is similar, but the pattern of expense recognition in the income statement, as well as the effect on the classification of cash flows within the statement of cash flows, differs depending on the lease classification. Also, certain qualitative and quantitative disclosures are required to enable users of financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. Topic 842 is effective for fiscal years beginning after December 15, 2018.

Originally, Topic 842 required all entities to use a modified retrospective transition approach that is intended to maximize comparability and be less complex than a full retrospective approach. Under the modified retrospective approach, Topic 842 is effectively implemented as of the beginning of the earliest comparative period presented in an entity’s financial statements. ASU 2018-11 amended Topic 842 so that entities may elect not to recast their comparative periods in transition and allows entities to change their date of initial application to the beginning of the period of adoption. In doing so, the entity would (1) apply Topic 840 in the comparative periods; (2) provide the disclosures required by Topic 840 for all periods that continue to be presented in accordance with Topic 840; and (3) recognize the effects of applying Topic 842 as a cumulative-effect adjustment to retained earnings as of January 1, 2019. Subsequent ASU’s were issued that provided additional clarification and guidance on the application of Topic 842.

We expect to use the package of practical expedients that will allow us to not reassess: (1) whether any expired or existing contracts are or contain leases; (2) lease classification for any expired or existing leases and (3) initial direct costs for any expired or existing leases. We also will use the practical expedient as described above to reflect the adoption of Topic 842 as of January 1, 2019 without recasting prior periods. We do not expect to recognize a material adjustment to retained earnings upon adoption. We are not expecting significant changes to our internal processes and controls over financial reporting with respect to the impact that the new lease standard will have on our lease administration and financial reporting activities. Presented below is our evaluation of Topic 842 from both the lessor and lessee perspectives.

Lessee Accounting: We determine if an arrangement is a lease at inception. We lease real estate and equipment under operating leases. We lease 77 of our 89 branch locations as of December 31, 2018. Given the size of our operating lease portfolio, the new standard will have a material effect on our consolidated balance sheet as a result of recognizing new right-of-use (“ROU”) assets and lease liabilities for our existing operating leases. ROU assets represent our right to use the leased asset for the lease term and lease liabilities represent our obligation to make lease payments. Under Topic 842, operating lease ROU assets and liabilities are recognized at the lease commencement date (as defined in Topic 842) based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, upon adoption of Topic 842, we will use our estimated incremental borrowing rate at the commencement date to determine the present value of lease payments. The operating lease ROU assets will also include any lease payments made and exclude lease incentives. Our lease terms will include options to extend the lease that we are reasonably certain to exercise. Operating lease expense under Topic 842 will be recognized on a straight-line basis over the lease term. We have lease agreements with lease and non-lease components, and we expect to elect the practical expedient allowing us to account for the lease and non-lease components as a single lease component under Topic 842 for all asset classes. The adoption of Topic 842 will have a material impact on our consolidated balance sheet due to the recognition of ROU assets and lease liabilities. We do not, however, expect our operating leases to have a material impact on our consolidated statements of income or consolidated statement of cash flows. See note 13 to the consolidated financial statements related to our operating leases and related rent expense for the years ended December 31, 2018, 2017 and 2016 and future lease commitments as of December 31, 2018, as determined pursuant to the lease accounting guidance (Topic 840) in effect for the periods presented. Our capital lease obligation addressed in note 11 to the consolidated financial statements is expected to be accounted for as a finance lease upon adoption of Topic 842, and we do not expect any significant impacts to our consolidated financial statements upon adoption related to this lease. Because of the transition method we will use to adopt Topic 842, Topic 842 will not be applied to periods prior to adoption and the adoption of Topic 842 will have no impact on our previously reported results. After the adoption of Topic 842, we will first report the ROU assets and lease liabilities for our operating leases as of March 31, 2019 in our Quarterly Report on Form 10-Q based on our lease portfolio as of that date.

Lessor Accounting: Our equipment rental business involves rental contracts with customers whereby we are the lessor in the transaction and therefore, we believe that such transactions are subject to Topic 842. Based upon our analysis of Topic 842, we believe that certain ancillary fees that we charge our equipment rental customers will result in a different presentation within our consolidated statements of income upon adoption. Specifically, amounts we charge our customers for loss damage waiver fees, environmental fees and fuel recovery fees, upon adoption of Topic 842, are required to be included within our rental revenues segment rather than included in other revenues as we've historically presented. Likewise, we will present the related cost of goods sold for these items within our rental revenues cost of goods sold rather than included in other cost of goods sold as we've historically presented. While this change will not impact total consolidated revenues or total consolidated gross profit, the change will impact our rental revenues and other revenues gross margins compared to our historical gross margins. Because of the transition method we will use to adopt Topic 842, Topic 842 will not be applied to periods prior to adoption and the adoption of Topic 842 will have no impact on our previously reported results, but the comparability of our reported 2019 results compared to 2018 results will be impacted by the above-described statements of income presentation change.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). This standard adds to U.S. GAAP an impairment model (known as the current expected credit loss ("CECL") model) that is based on expected losses rather than incurred losses. Under the new guidance, an entity recognizes as an allowance its estimate of expected credit losses, which is intended to result in the more timely recognition of losses. Under the CECL model, entities will estimate credit losses over the entire contractual term of the instrument (considering estimated prepayments, but not expected extensions or modifications) from the date of initial recognition of the financial instrument. Measurement of expected credit losses are to be based on relevant forecasts that affect collectability. The scope of financial assets within the CECL methodology is broad and includes trade receivables from certain revenue transactions and certain off-balance sheet credit exposures. Different components of the guidance require modified retrospective or prospective adoption. ASU 2016-13 will be effective for us as of January 1, 2020. While our review is ongoing, we believe ASU 2016-13 will only have applicability to our receivables from revenue transactions, or trade receivables, except those arising from our rental revenues as ASU 2016-13 does not apply to receivables arising from operating leases. Under Topic 606, revenue is recognized when, among other criteria, it is probable that the entity will collect the consideration to which it is entitled for goods or services transferred to a customer. At the point that trade receivables are recorded, they become subject to the CECL model and estimates of expected credit losses on trade receivables over their contractual life will be required to be recorded at inception based on historical information, current conditions, and reasonable and supportable forecasts. We are currently evaluating whether the new guidance, while limited to our non-operating lease trade receivables, will have an impact on our consolidated financial statements or existing internal controls.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment ("ASU 2017-04"), which removes Step 2 of the current goodwill impairment test, which was required if there was an indication that an impairment may exist, and the second step required calculating the potential impairment by comparing the implied fair value of the reporting unit's goodwill with the carrying amount of the goodwill. Under the new guidance, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount, and then recognizing an impairment charge for the amount by which the reporting unit's carrying value exceeds its fair value, not to exceed the carrying amount of the reporting unit's goodwill. ASU 2017-04 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2019, with early adoption permitted and requires prospective adoption. Based upon our review of ASU 2017-04, we do not expect the guidance to have a material impact on our consolidated financial statements.

In August 2018, the FASB issued ASU No. 2018-15, Intangibles—Goodwill and Other – Internal-Use Software (Subtopic 350-40). This update aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop

or obtain internal-use software. This update will be effective for us in the first quarter of 2020. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

Recent Accounting Pronouncements Adopted in 2018

In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments", which aims to eliminate the diversity in the presentation of certain cash receipts and cash payments presented and classified in the statement of cash flows. The guidance addresses the following specific cash flow issues: (1) debt prepayment or debt extinguishment costs, (2) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing, (3) contingent consideration payments made after a business combination, (4) proceeds from the settlement of insurance claims, (5) proceeds from settlement of corporate-owned life insurance policies, including bank-owned life insurance policies, (6) distributions received from equity method investees, (7) beneficial interests in securitization transitions and (8) separately identifiable cash flows and application of predominance principle. We adopted this guidance effective January 1, 2018 and it had no impact to our condensed consolidated statement of cash flows for the periods presented in this Annual Report on Form 10-K.

In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business (“ASU 2017-01”). ASU 2017-01 clarifies the definition of a business when evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects several areas of accounting, including acquisitions, disposals, goodwill and consolidation. We adopted this guidance effective January 1, 2018 and it had no impact on our condensed consolidated financial statements for the periods presented in this Annual Report on Form 10-K. The future impact of this guidance will depend on the nature of our future activities.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). Under this ASU and subsequently issued amendments, revenue is recognized when control of the promised goods or services is transferred to our customers, in an amount that reflect the consideration we expect to be entitled to in exchange for those goods or services. Entities may use a full retrospective approach or report on the cumulative effect as of the date of adoption. We adopted this standard effective January 1, 2018 using the full retrospective transition method.

While the adoption of the new standard did not have an impact on our reported net income for the periods presented in this Annual Report on Form 10-K, approximately \$6.9 million and \$6.8 million of revenues that were previously classified in Other Revenues have been reclassified to Parts Revenues for the years ended December 31, 2017 and 2016, respectively. These revenues relate to freight income associated with our parts transactions, and such income was not deemed to be a separate performance obligation under the new guidance. Accordingly, we also reclassified \$5.4 million and \$5.4 million of associated freight costs related to these parts transactions from Other Cost of Revenues to Parts Costs of Revenues for the years ended December 31, 2017 and 2016, respectively. We have recast our results for the prior years ended December 31, 2017 and 2016 as shown in the tables below (amounts in thousands) pursuant to the adoption of Topic 606 using the full retrospective transition method.

Statement of Income:	Year Ended December 31, 2017		
	As Previously Reported	Adjustments	Current Presentation
Revenues:			
Equipment rentals	\$ 479,016	\$	\$ 479,016
New equipment sales	203,301		203,301
Used equipment sales	107,329		107,329
Parts sales	107,384	6,869	114,253
Services revenues	62,873		62,873
Other	70,116	(6,869)	63,247
Total revenues	1,030,019		1,030,019
Cost of revenues:			
Rental depreciation	169,455		169,455
Rental expense	77,706		77,706
New equipment sales	180,702		180,702
Used equipment sales	74,132		74,132
Parts sales	77,713	5,422	83,135
Services revenues	21,111		21,111
Other	69,292	(5,422)	63,870
Total cost of revenues	670,111		670,111
Gross profit	\$ 359,908	\$	\$ 359,908

	Year Ended December 31, 2016		
	As		
Statement of Income:	Previously	Adjustments	Current Presentation
Revenues:	Reported		
	\$		
Equipment rentals	445,227	\$	\$ 445,227
New equipment sales	196,688		196,688
Used equipment sales	96,910		96,910
Parts sales	109,147	6,842	115,989
Services revenues	64,673		64,673
Other	65,492	(6,842)	58,650
Total revenues	978,137		978,137
Cost of revenues:			
Rental depreciation	162,415		162,415
Rental expense	71,694		71,694
New equipment sales	175,556		175,556
Used equipment sales	66,738		66,738
Parts sales	78,966	5,361	84,327
Services revenues	21,839		21,839
Other	65,318	(5,361)	59,957
Total cost of revenues	642,526		642,526
Gross profit	\$ 335,611	\$	\$ 335,611

(3) Acquisitions
2018 Acquisitions

Contractors Equipment Center (“CEC”)

Effective January 1, 2018, we completed the acquisition of CEC, a non-residential construction focused equipment rental company with three branches located in the greater Denver, Colorado area. The acquisition significantly expands our presence in the Denver area and surrounding markets.

The aggregate consideration paid to the pre-acquisition owners of CEC was approximately \$132.4 million. The acquisition and related fees and expenses were funded through available cash. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the acquisition date. We do not expect any further changes to these assigned values.

	\$'s in thousands
Cash	\$ 1,244
Accounts receivable	7,583
Inventory	504
Prepaid expenses and other assets	324
Rental equipment	55,342
Property and equipment	2,700
Intangible assets (1)	21,500
Total identifiable assets acquired	89,197
Accounts payable	(1,023)
Accrued expenses payable and other liabilities	(876)
Total liabilities assumed	(1,899)
Net identifiable assets acquired	87,298
Goodwill (2)	45,092
Net assets acquired	\$ 132,390

(1) The following table reflects the estimated fair values and useful lives of the acquired intangible assets identified based on our purchase accounting assessments:

	Fair Value (amounts in thousands)	Life (years)
Customer relationships	\$ 21,000	10
Tradenames	300	1
Leasehold interests	200	10
	\$ 21,500	

(2) We have allocated the \$45.1 million goodwill among our six goodwill reporting units as follows (amounts in thousands):

Rental Component 1	\$25,233
Rental Component 2	18,391
New Equipment	217
Used Equipment	632
Parts	379
Service	240

The level of goodwill that resulted from the CEC acquisition is primarily reflective of CEC's going-concern value, the value of CEC's assembled workforce, new customer relationships expected to arise from the acquisition and expected synergies from combining operations. We currently expect the goodwill recognized to be 100% deductible for income tax purposes.

Total CEC acquisition costs were \$1.0 million, of which approximately \$0.2 million was incurred in the year ended December 31, 2018.

Total revenues attributable to CEC since the acquisition were \$39.3 million for the year ended December 31, 2018. Estimated net income attributable to CEC since the acquisition was \$5.1 million for the year ended December 31, 2018. It should be noted that since our acquisition of CEC, significant amounts of equipment rental fleet have been moved between H&E locations and the acquired CEC locations, the impact of which is included in these CEC operating results above, as it is impractical to report CEC operating results on a pure stand-alone basis post-acquisition.

Rental, LLC (dba "Rental Inc.")

Effective April 1, 2018, we completed the acquisition of Rental Inc., a non-residential equipment rental and distribution company with five branches located in Alabama, Florida and Western Georgia. The acquisition expands our presence in the surrounding market.

The aggregate consideration paid to the owners of Rental Inc. was approximately \$68.6 million. The acquisition and related fees and expenses were funded through available cash and from borrowings under our Credit Facility (as defined below). The following table summarizes the estimated fair value of the assets acquired and liabilities assumed as of the acquisition date. The amounts presented here are preliminary and are subject to change. However, we do not expect material changes to these assigned values.

	\$'s in thousands
Cash	\$ 260
Accounts receivable	2,873
Inventory	5,324
Prepaid expenses and other assets	47
Rental equipment	22,578
Property and equipment	1,935
Intangible assets (1)	10,200
Total identifiable assets acquired	43,217
Accounts payable	(439)
Manufacturer flooring plans payable	(3,293)
Accrued expenses payable and other liabilities	(469)
Total liabilities assumed	(4,201)
Net identifiable assets acquired	39,016
Goodwill (2)	29,554
Net assets acquired	\$ 68,570

(1) The following table reflects the estimated fair values and useful lives of the acquired intangible assets identified based on our purchase accounting assessments:

	Fair Value (amounts in thousands)	Life (years)
Customer relationships	\$ 10,000	10
Tradenames	200	1
	\$ 10,200	

(2)

Edgar Filing: H&E Equipment Services, Inc. - Form 10-K

We have allocated the \$29.6 million goodwill among our six goodwill reporting units as follows (amounts in thousands):

Rental Component 1	\$9,064
Rental Component 2	5,445
New Equipment	10,217
Used Equipment	1,692
Parts	2,171
Service	964

Included in the total goodwill amount of \$29.6 million is approximately \$3.4 million of accrued purchase price consideration to be paid to the sellers pursuant to the terms of the purchase agreement among the parties named thereto. The level of goodwill that resulted from the Rental Inc. acquisition is primarily reflective of Rental Inc.'s going-concern value, the value of Rental Inc.'s assembled workforce, new customer relationships expected to arise from the acquisition and expected synergies from combining operations. We currently expect the goodwill recognized to be 100% deductible for income tax purposes.

Total Rental Inc. acquisition costs were \$0.3 million, substantially all of which was incurred in year ended December 31, 2018.

Total revenues attributable to Rental Inc. since the April 1, 2018 acquisition were \$25.3 million for the year ended December 31, 2018. Estimated net income attributable to Rental Inc. since the April 1, 2018 acquisition was \$0.3 million, or \$0.01 per share, for the year ended December 31, 2018. It should be noted that since our acquisition of Rental Inc., significant amounts of rental fleet have been moved between H&E locations and the acquired Rental Inc. locations, the impact of which is included in these Rental Inc. operating results above, as it is impractical to report Rental Inc. operating results on a pure stand-alone basis post-acquisition.

We-Rent-It (“WRI”)

Effective February 1, 2019, we completed the acquisition of WRI, an equipment rental company with six branches located in central Texas. The acquisition expands our presence in the surrounding market. The aggregate consideration paid to the owners of WRI was approximately \$108.5 million. The acquisition and related fees and expenses were funded from borrowings under our Credit Facility (defined below).

As of February 21, 2019, a preliminary allocation of the fair value of the existing purchase price of WRI had yet to be completed. Accordingly, disclosure of the allocation of the purchase price to the WRI balance line items and the pro forma presentation reflecting the impact of the acquisition will be disclosed in subsequent filings.

Pro forma financial information

We completed the CEC acquisition effective January 1, 2018. Therefore, the operating results of CEC are included in our reported condensed consolidated statements of income for the full year ended December 31, 2018. We completed the Rental Inc. acquisition effective April 1, 2018. Therefore, our reported consolidated statements of income for the year ended December 31, 2018 do not include Rental Inc. for the period from January 1, 2018 through March 31, 2018.

The pro forma information below gives effect to the CEC and Rental Inc. acquisitions as if they had been completed on January 1, 2017 (the “pro forma acquisition date”). The pro forma information is not necessarily indicative of our results of operations had the acquisitions been completed on the above date, nor is it necessarily indicative of our future results. The pro forma information does not reflect any cost savings from operating efficiencies or synergies that could result from the acquisitions, nor does it reflect additional revenue opportunities following the acquisition. The pro forma adjustments reflected in the table below are subject to change as additional analysis is performed. The unaudited tables below present unaudited pro forma consolidated statements of income information for the year December 31, 2017 as if CEC and Rental Inc. were included in our consolidated results for the entire period presented.

Edgar Filing: H&E Equipment Services, Inc. - Form 10-K

	(amounts in thousands, except per share data)			
	Year Ended December 31, 2017			
	H&E	CEC	Rental Inc.	Total
Total revenues	\$1,030,019	\$36,790	\$34,942	\$1,101,751
Pretax income	59,344	3,043	7,267	69,654
Pro forma adjustments to pretax income:				
Impact of fair value mark-ups/useful life changes on depreciation (1)	—	(3,575)	(2,794)	(6,369)
Intangible asset amortization (2)	—	(2,420)	(1,200)	(3,620)
Elimination of merger related costs	788	4,465	—	5,285
Interest expense (3)	—	—	(1,609)	(1,609)
Elimination of historic interest expense (4)	—	1,966	382	2,348
Pro forma pretax income	60,132	3,479	2,046	65,689
Pro forma income tax benefit	(50,511)	(2,922)	(1,719)	(55,179)
Pro forma net income	\$ 110,643	\$6,401	\$3,765	\$120,868
Pro forma net income per share – basic	\$ 3.12	\$ 0.18	\$ 0.11	\$ 3.40
Pro forma net income per share - diluted	\$ 3.10	\$ 0.18	\$ 0.11	\$ 3.39

Edgar Filing: H&E Equipment Services, Inc. - Form 10-K

	(amounts in thousands, except per share data)		
	Year Ended December 31, 2018		
	H&E(5)	Rental Inc.(6)	Total
Total revenues	\$1,238,961	\$7,408	\$1,246,369
Pretax income	104,663	1,020	105,683
Pro forma adjustments to pretax income:			
Impact of fair value mark-ups/useful life changes on depreciation (1)		(749)	(749)
Intangible asset amortization (2)		(300)	(300)
Interest expense (3)		(480)	(480)
Elimination of historic interest expense (4)		82	82
Pro forma pretax income (loss)	104,663	(427)	104,236
Pro forma income tax expense (benefit)	28,040	(114)	27,926
Pro forma net income (loss)	\$ 76,623	\$ (313)	\$ 76,310
Pro forma net income (loss) per share – basic	\$ 2.15	\$(0.01)	\$ 2.14
Pro forma net income (loss) per share - diluted	\$ 2.13	\$(0.01)	\$ 2.13

(1) Depreciation of rental equipment and non-rental equipment were adjusted for the fair value markups, and the changes in useful lives and salvage values of the equipment acquired in the acquisitions.

(2) Represents the amortization of the intangible assets acquired in the acquisitions.

(3) A portion of the consideration paid for Rental Inc. was funded with borrowings from our Credit Facility. Interest expense was adjusted to reflect the additional debt resulting from such acquisition.

(4) Represents the elimination of historic debt of CEC and Rental Inc. that is not part of the combined entity.

(5) H&E represents consolidated operating results as presented in this Annual Report on Form 10-K for the year ended December 31, 2018 and includes actual results for CEC for the full twelve months ended December 31, 2018 and actual results for Rental Inc. for the period April 1, 2018 through December 31, 2018.

(6) Represents Rental Inc. pro forma operating results for the three month period ended March 31, 2018. We completed the Rental Inc. acquisition effective April 1, 2018.

(4) Receivables

Receivables consisted of the following at December 31, (amounts in thousands):

Edgar Filing: H&E Equipment Services, Inc. - Form 10-K

	2018	2017
Trade receivables	\$194,601	\$172,522
Unbilled rental revenue	8,833	6,291
Income tax receivables	2,181	997
Other	35	45
	205,650	179,855
Less allowance for doubtful accounts	(4,094)	(3,774)
Total receivables, net	\$201,556	\$176,081

We charge off customer account balances when we have exhausted reasonable collection efforts and determined that the likelihood of collection is remote.

(5) Inventories

Inventories consisted of the following at December 31, (amounts in thousands):

	2018	2017
New equipment	\$84,603	\$55,704
Used equipment	1,980	2,421
Parts, supplies and other	18,015	16,879
Total inventories, net	\$104,598	\$75,004

The above amounts are presented net of reserves for inventory obsolescence at December 31, 2018 and 2017 totaling approximately \$0.4 million and \$0.9 million, respectively.

(6) Property and Equipment

Net property and equipment consisted of the following at December 31, (amounts in thousands):

	2018	2017
Land	\$7,597	\$7,165
Transportation equipment	106,011	93,550
Building and leasehold improvements	63,060	55,523
Office and computer equipment	51,758	53,256
Machinery and equipment	17,811	15,983
Property under capital leases	2,417	3,217
Construction in progress	9,129	4,595
	257,783	233,289
Less accumulated depreciation and amortization	(142,662)	(131,500)
Total net property and equipment	\$115,121	\$101,789

Total depreciation and amortization on property and equipment was \$24.6 million, \$23.8 million and \$27.3 million for the years ended December 31, 2018, 2017 and 2016, respectively.

(7) Manufacturer Flooring Plans Payable

Manufacturer flooring plans payable are financing arrangements for inventory and rental equipment. The interest cost incurred on the manufacturer flooring plans ranged from 0% to the prime rate (5.50% at December 31, 2018) plus an applicable margin at December 31, 2018. Certain manufacturer flooring plans provide for a one to twelve-month reduced interest rate term or a deferred payment period. We recognize interest expense based on the effective interest

method. We make payments in accordance with the original terms of the financing agreements. However, we routinely sell equipment that is financed under manufacturer flooring plans prior to the original maturity date of the financing agreement. The related manufacturer flooring plan payable is then paid at the time the equipment being financed is sold. The manufacturer flooring plans payable are secured by the equipment being financed.

Maturities (based on original financing terms) of the manufacturer flooring plans payable as of December 31, 2018 for each of the next three years ending December 31 are as follows (amounts in thousands):

2019	\$12,605
2020	10,822
2021	239
Thereafter	—
Total	\$23,666

(8) Accrued Expenses Payable and Other Liabilities

Accrued expenses payable and other liabilities consisted of the following at December 31, (amounts in thousands):

	2018	2017
Payroll and related liabilities	\$24,864	\$20,429
Sales, use and property taxes	10,069	9,635
Accrued interest	18,771	19,134
Accrued insurance	4,328	4,211
Deferred revenue	5,973	6,631
Other	9,366	5,055
Total accrued expenses payable and other liabilities	\$73,371	\$65,095

(9) Senior Unsecured Notes

On August 24, 2017, we completed an offering of \$750 million aggregate principal amount of 5.6250% senior notes due 2025 (the “New Notes”) and the settlement of a cash tender offer (the “Tender Offer”) with respect to our 7% senior notes due 2022 (the “Old Notes”). Net proceeds, after deducting \$10.3 million of estimated offering expenses, from the sale of the New Notes totaled approximately \$739.7 million. We used a portion of the net proceeds from the sale of the New Notes to repurchase \$329.7 million of aggregate principal amount of the Old Notes in early settlement of the Tender Offer, which the Company launched on August 17, 2017. Holders who tendered their Old Notes prior to the early tender deadline received \$1,038.90 per \$1,000 principal amount of Old Notes tendered, plus accrued and unpaid interest up to, but not including, the payment date of August 24, 2017. Effective as of August 24, 2017, we (i) provided notice of the redemption of all remaining Old Notes that were not validly tendered in the Tender Offer at the expiration time and (ii) satisfied and discharged the indenture governing the Old Notes in accordance with its terms. On September 25, 2017, we redeemed the remaining \$300.3 million principal amount outstanding of the Old Notes at a redemption price equal to 103.50% of the principal amount thereof, plus accrued and unpaid interest up to, but not including, the date of redemption.

The New Notes were issued at par and require semiannual interest payments on March 1st and September 1st of each year, commencing on March 1, 2018. No principal payments are due until maturity (September 1, 2025).

The New Notes are redeemable, in whole or in part, at any time on or after September 1, 2020 at specified redemption prices plus accrued and unpaid interest to the date of redemption. We may redeem up to 40% of the aggregate principal amount of the New Notes before September 1, 2020 with the net cash proceeds from certain equity offerings. We may also redeem the New Notes prior to September 1, 2020 at a specified “make-whole” redemption price plus accrued and unpaid interest to the date of redemption.

The New Notes rank equally in right of payment to all of our existing and future senior indebtedness and rank senior to any of our subordinated indebtedness. The New Notes are unconditionally guaranteed on a senior unsecured basis by all of our current and future significant domestic restricted subsidiaries. In addition, the New Notes are effectively subordinated to all of our and the guarantors’ existing and future secured indebtedness, including the Credit Facility, to the extent of the assets securing such indebtedness, and are structurally subordinated to all of the liabilities and preferred stock of any of our subsidiaries that do not guarantee the New Notes.

If we experience a change of control, we will be required to offer to purchase the New Notes at a repurchase price equal to 101% of the principal amount, plus accrued and unpaid interest to the date of repurchase.

The indenture governing the New Notes contains certain covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to: (i) incur additional indebtedness, assume a guarantee or issue preferred stock; (ii) pay dividends or make other equity distributions or payments to or affecting our subsidiaries; (iii) purchase or redeem our capital stock; (iv) make certain investments; (v) create liens; (vi) sell or dispose of assets or engage in mergers or consolidations; (vii) engage in certain transactions with subsidiaries or affiliates; (viii) enter into sale-leaseback transactions; and (ix) engage in certain business activities. Each of the covenants is subject to exceptions and qualifications. As of December 31, 2018, we were in compliance with these covenants.

On November 22, 2017, we closed on an offering of \$200 million aggregate principal amount of 5.625% senior notes due 2025 (the "Add-on Notes") in an unregistered offering through a private placement. The Add-on Notes were priced at 104.25% of the principal amount. Net proceeds from the offering of the Add-on Notes, including accrued interest from August 24, 2017 totaled approximately \$209.2 million. The net proceeds of the offering, was used to repay indebtedness outstanding under the Company's existing senior secured credit facility (the "Credit Facility") and for the payment of fees and expenses related to the offering. The remainder of the net proceeds will be used for general corporate purposes and to fund potential acquisitions in connection with our ongoing strategy of acquiring rental companies to complement our existing business and footprint.

The Add-on Notes were issued as additional notes under an indenture dated as of August 24, 2017, pursuant to which we previously issued the New Notes as described above. The Add-on Notes have identical terms to, rank equally with and form a part of a single class of securities with the New Notes.

Pursuant to registration rights agreements entered into among us, the guarantors of the New Notes and the Add-On Notes, respectively, and the initial purchasers of the New Notes and the Add-On Notes, respectively, we agreed to make offers to exchange (collectively, the “Exchange Offer”) the New Notes and Add-On Notes and the respective guarantees for registered, publicly tradable notes and guarantees that have terms identical in all material respects to the New Notes and the Add-On Notes, respectively (except that the exchange notes do not contain any transfer restrictions) within a certain period of time following the completion of the respective note offerings. We completed the Exchange Offer for the New Notes and the Add-On Notes in March 2018.

The following table reconciles our Senior Unsecured Notes to our Consolidated Balance Sheets (amounts in thousands):

Balance at December 31, 2016	\$627,711
Accretion of discount on Old Notes through August 24, 2017	683
Amortization of note premium on Old Notes through August 24, 2017	(574)
Amortization of deferred financing costs on Old Notes through August 24, 2017	153
Aggregate principal amount paid on Old Notes	(630,000)
Writeoff of unaccreted discount on Old Notes	5,294
Writeoff of unamortized premium on Old Notes	(4,452)
Writeoff of deferred financing costs on Old Notes	1,185
Aggregate principal amount issued on New Notes	950,000
Notes discount and deferred transaction costs on New Notes	(14,684)
Note premium on New Notes	8,500
Accretion of discount on New Notes from August 24, 2017 through December 31, 2017	542
Amortization of note premium on New Notes from August 24, 2017 through December 31, 2017	(375)
Amortization of deferred financing costs on New Notes from August 24, 2017 through December 31, 2017	105
Balance at December 31, 2017	\$944,088
Accretion of discount through December 31, 2018	1,539
Amortization of note premium through December 31, 2018	(1,062)
Additional deferred financing costs on New Notes	(97)
Amortization of deferred financing costs through December 31, 2018	312
Balance at December 31, 2018	\$944,780

(10) Senior Secured Credit Facility

We and our subsidiaries are parties to a \$750.0 million Credit Facility with Wells Fargo Capital Finance, LLC (as successor to General Electric Capital Corporation) as administrative agent, and the lenders named therein.

On December 22, 2017, we amended, extended and restated the Credit Facility by entering into the Fifth Amended and Restated Credit Agreement (the “Amended and Restated Credit Agreement”) by and among the Company, Great Northern Equipment, Inc., H&E Equipment Services (California), LLC, H&E Equipment Services (Mid-Atlantic),

LLC, the other credit parties named therein, the lenders named therein, Wells Fargo Capital Finance, LLC, as administrative agent, the other credit parties named therein, the lenders named therein, and the joint lead arrangers, joint book runners, co-syndication agents and documentation agent named therein.

The Amended and Restated Credit Agreement, among other things, (i) extended the maturity date of the credit facility from May 21, 2019 to December 22, 2022, (ii) increased the commitments under the senior secured asset based revolver provided for therein from \$602.5 million to \$750 million, (iii) increased the uncommitted incremental revolving capacity from \$150 million to \$250 million, (iv) provided that the unused line fee margin will be either 0.375% or 0.25%, depending on the Average Revolver Usage (as defined in the Amended and Restated Credit Agreement) of the borrowers, (v) lowered the interest rate (a) in the case of base rate revolving loans, to the base rate plus an applicable margin of 0.50% to 1.00% depending on the Average Availability (as defined in the Amended and Restated Credit Agreement) and (b) in the case of LIBOR revolving loans, to LIBOR (as defined in the Amended and Restated Credit Agreement) plus an applicable margin of 1.50% to 2.00%, depending on the Average Availability, (vi) lowered the margin applicable to the letter of credit fee to between 1.50% and 2.00%, depending on the Average Availability, and (vii) permitted, subject to certain conditions, an unlimited amount of Permitted Acquisitions, Restricted Payments and prepayments of Indebtedness (in each case, as defined in the Amended and Restated Credit Agreement).

On February 1, 2019, we further amended and extended the Amended and Restated Credit Agreement with the First Amendment to the Fifth Amended and Restated Credit Agreement (the “First Amendment”) by and among the Company, Great Northern Equipment, Inc., H&E Equipment Services (California), LLC, H&E Equipment Services (Mid-Atlantic), LLC, the other credit parties named therein, the lenders named therein, Wells Fargo Capital Finance, LLC, as administrative agent, the other credit parties named therein, the lenders named therein, and the joint lead arrangers, joint book runners, co-syndication agents and documentation agent named therein.

The First Amendment, among other things, (i) extended the maturity date of the credit facility from December 22, 2022 to January 31, 2024, and (ii) lowered the interest rate in the case of LIBOR revolving loans, to LIBOR plus an applicable margin of 1.25% to 1.75%, depending on the Average Availability and (iii) lowered the interest rate in the case of Base Rate loans, to the Base Rate (as defined in the Amended and Restated Credit Agreement) plus an applicable margin of 0.25% to 0.75%, depending on the Average Availability.

As amended, the Amended and Restated Credit Agreement continues to provide for, among other things, a \$30 million letter of credit sub-facility, and a guaranty by certain of the Company’s subsidiaries of the obligations under the Credit Facility. In addition, the Credit Facility remains secured by substantially all of the assets of the Company and certain of its subsidiaries.

At December 31, 2018, we had \$170.8 million in borrowings outstanding under the Credit Facility and could borrow up to \$571.5 million and remain in compliance with the debt covenants under the Company’s credit facility. At February 14, 2019, we had \$483.3 million of available borrowings under our Credit Facility, net of a \$7.7 million outstanding letter of credit.

(11) Capital Lease Obligations

As of December 31, 2018, we had one capital lease obligation, expiring in 2022. Future minimum capital lease payments, in the aggregate, existing at December 31, 2018 for each of the next five years ending December 31 and thereafter are as follows (amounts in thousands):

2019	\$252
------	-------

Edgar Filing: H&E Equipment Services, Inc. - Form 10-K

2020	252
2021	252
2022	42
Total minimum lease payments	798
Less: amount representing interest	(72)
Present value of minimum lease payments	\$726

See also “Recent Accounting Pronouncements” in note 2 to these consolidated financial statements regarding the new lease accounting guidance, ASC 842, which became effective January 1, 2019.

(12)Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act (the “Act”) was signed into law. Among other changes, the Act reduced the corporate federal income tax rate from 35% to 21%. As a result of the rate change, in 2017 we recorded a one-time decrease in income tax expense of \$66.9 million from the re-measurement of our deferred tax assets and liabilities which is reflected in the tables below. Our accounting for the income tax effects of the Act is complete and there were no changes made to the enactment-date accounting during 2018.

Our income tax provision (benefit) for the years ended December 31, 2018, 2017 and 2016, consists of the following (amounts in thousands):

	Current	Deferred	Total
Year ended December 31, 2018:			
U.S. Federal	\$(1,522)	\$23,126	\$21,604
State	2,868	3,568	6,436
	\$1,346	\$26,694	\$28,040
Year ended December 31, 2017:			
U.S. Federal	\$—	\$(54,241)	\$(54,241)
State	220	3,707	3,927
	\$220	\$(50,534)	\$(50,314)
Year ended December 31, 2016			
U.S. Federal	\$—	\$21,516	\$21,516
State	280	62	342
	\$280	\$21,578	\$21,858

Significant components of our deferred income tax assets and liabilities as of December 31 are as follows (amounts in thousands):

	2018	2017
Deferred tax assets:		
Accounts receivable	\$1,010	\$929
Inventories	93	239
Net operating losses	86,859	18,165
AMT and tax credits	2,110	3,565
Sec 263A costs	752	544
Accrued liabilities	2,869	2,767
Deferred compensation	1,561	1,132
Accrued interest	387	365
Stock-based compensation	146	181
Goodwill and intangible assets	346	—
Other assets	415	531
	96,548	28,418
Valuation allowance	(609)	(732)
	95,939	27,686
Deferred tax liabilities:		

Edgar Filing: H&E Equipment Services, Inc. - Form 10-K

Property and equipment	(245,198)	(152,235)
Investments	(1,076)	(1,066)
Goodwill and intangible assets	(2,778)	(804)
	(249,052)	(154,105)
Net deferred tax liabilities	\$(153,113)	\$(126,419)

The reconciliation between income taxes computed using the statutory federal income tax rate (21% for the year ended December 31, 2018 and 35% for the years ended December 31, 2017 and 2016) to the actual income tax expense (benefit) is below for the years ended December 31 (amounts in thousands):

	2018	2017	2016
Computed tax at statutory rates	\$21,979	\$20,770	\$20,660
Permanent items - other	1,021	911	904
Permanent items - excess of tax deductible goodwill	—	(2,130)	—
State income tax, net of federal tax effect	5,246	2,563	2,115
Change in valuation allowance	(123)	397	207
Change in uncertain tax positions	(83)	(5,960)	66
Other - change in deferred state rate	—	—	(2,094)
Impact of the Act federal rate change	—	(66,865)	—
	\$28,040	\$(50,314)	\$21,858

At December 31, 2018, we had available federal net operating loss carry forwards of approximately \$86.2 million, which expire in varying amounts from 2030 through 2036 and \$298.2 million, which does not expire. We also had federal alternative minimum tax credit carry forwards at December 31, 2018 of approximately \$3.0 million which do not expire and \$0.4 million general business credit carry forwards that expire in varying amounts from 2026 and 2037, and state income tax credits of \$0.2 million that expire in varying amounts beginning in 2019. In accordance with changes made by the Act, our AMT credit became refundable between 2018 and 2022; therefore, we have reclassified \$1.5 million from deferred income taxes to income tax receivable during the year ended December 31, 2018. The federal and state net operating loss carryforwards in the income tax returns filed included unrecognized tax benefits taken in prior years. These net operating losses for which a deferred tax asset is recognized for financial statement purposes in accordance with ASC 740 are presented net of these unrecognized tax benefits.

Management has concluded that it is more likely than not that the federal deferred tax assets are fully realizable through future reversals of existing taxable temporary differences and future taxable income. Therefore, a valuation allowance is not required to reduce those deferred tax assets as of December 31, 2018. However, for the year ended December 31, 2018, we decreased our valuation allowance by \$0.1 million for certain state net operating losses that were realized.

A reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits is as follows (in thousands):

	2018	2017
Gross unrecognized tax benefits at January 1	\$106	\$6,119
Increases in tax positions taken in prior years	—	22
Decreases in tax positions taken in prior years	(106)	(22)
Lapse in statute of limitations	—	(6,013)
Gross unrecognized tax benefits at December 31	\$—	\$106

As of December 31, 2018, we have no reserves established for the gross amount of unrecognized tax benefits. The statute of limitations lapsed during 2017 for approximately \$6.0 million of unrecognized tax benefits. We recognized a reduction of \$5.9 million in income tax expense in 2017 as a result. Consistent with our historical financial reporting, to the extent we incur interest income, interest expense, or penalties related to unrecognized income tax benefits, they are recorded in "Other net income or expense." The amount of interest and penalties included in the table above are not material. We do not expect a material change in unrecognized tax benefits related to federal and state exposures will occur within the next twelve months.

Our U.S. federal tax returns for 2015 and subsequent years remain subject to examination by tax authorities. We are also subject to examination in various state jurisdictions for 2013 and subsequent years.

(13) Commitments and Contingencies

Operating Leases

As of December 31, 2018, we lease certain real estate related to our branch facilities as well as certain office equipment under non-cancelable operating lease agreements expiring at various dates through 2033. Our real estate leases provide for varying terms, including customary renewal options and base rental escalation clauses, for which the related rent expense is accounted for on a straight-line basis during the terms of the respective leases. Additionally, certain real estate leases may require us to pay maintenance, insurance, taxes and other expenses in addition to the stated rental payments. Rent expense on property leases and equipment leases under non-cancelable operating lease agreements for the years ended December 31, 2018, 2017 and 2016 amounted to approximately \$23.1 million, \$20.1 million and \$18.7 million, respectively.

Future minimum operating lease payments existing at December 31, 2018 for each of the next five years ending December 31 and thereafter are as follows (amounts in thousands):

2019	\$21,775
2020	21,965
2021	21,176
2022	19,854
2023	17,145
Thereafter	86,398
	\$188,313

See also “Recent Accounting Pronouncements” in note 2 regarding the new lease accounting guidance, ASC 842, which became effective on January 1, 2019.

Legal Matters

We are also involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these various matters will not have a material adverse effect on the Company’s consolidated financial position, results of operations or liquidity.

Letters of Credit

The Company had outstanding letters of credit issued under its Credit Facility totaling \$7.7 million as of December 31, 2018 and 2017, respectively. The letters of credit expire in May 2019 and are expected to be renewed for similar one-year terms.

(14) Employee Benefit Plan

We offer substantially all of our employees’ participation in a qualified 401(k)/profit-sharing plan in which we match employee contributions up to predetermined limits for qualified employees as defined by the plan. For the years ended December 31, 2018, 2017 and 2016, we contributed to the plan, net of employee forfeitures, \$2.5 million, \$2.2 million

and \$2.0 million, respectively.

(15)Deferred Compensation Plans

In 2001, we assumed, in a business combination, nonqualified employee deferred compensation plans under which certain employees had previously elected to defer a portion of their annual compensation. Upon assumption of the plans, the plans were amended to not allow further participant compensation deferrals. Compensation previously deferred under the plans is payable upon the termination, disability or death of the participants. At December 31, 2018, we have obligations remaining under one deferred compensation plan. All other plans have terminated pursuant to the provisions of each respective plan. The remaining plan accumulates interest each year at a bank's prime rate in effect at the beginning of January of each year. This rate remains constant throughout the year. The effective rate for the 2018 calendar plan year was 4.50%. The aggregate deferred compensation payable at December 31, 2018 and December 31, 2017 was approximately \$2.0 million and \$1.9 million, respectively. Included in these amounts at December 31, 2018 and 2017 was accrued interest of \$1.5 million and \$1.4 million, respectively.

(16) Related Party Transactions

Mr. John M. Engquist, who served as the Company's Chief Executive Officer for the periods presented in these consolidated financial statements, has a 30.0% ownership interest in Perkins-McKenzie Insurance Agency, Inc. ("Perkins-McKenzie"), an insurance brokerage firm. Mr. Engquist's mother's estate and sister have a 12.0% and 6.0% interest, respectively, in Perkins-McKenzie. Perkins-McKenzie brokers a substantial portion of our commercial liability insurance. As the broker, Perkins-McKenzie receives from our insurance provider as a commission a portion of the premiums we pay to the insurance provider. Commissions paid to Perkins-McKenzie on our behalf as insurance broker totaled approximately \$0.8 million, \$0.8 million and \$0.9 million for the years ended December 31, 2018, 2017 and 2016, respectively.

We purchase products and services from, and sell products and services to, B-C Equipment Sales, Inc., in which Mr. Engquist has a 50% ownership interest. In each of the years ended December 31, 2018, 2017 and 2016, our purchases totaled \$0.1 million, \$0.4 million and \$0.4 million, respectively, and our sales to B-C Equipment Sales, Inc. totaled approximately \$0.1 million, \$0.1 million and \$0.1 million, respectively.

(17) Summarized Quarterly Financial Data (Unaudited)

The following is a summary of our unaudited quarterly financial results of operations for the years ended December 31, 2018 and 2017 (amounts in thousands, except per share amounts):

	First	Second	Third	Fourth
	Quarter	Quarter	Quarter	Quarter
2018:				
Total revenues	\$260,482	\$310,364	\$322,141	\$345,974
Income from operations	27,326	43,103	45,318	50,899
Income before provision for income taxes	13,068	27,869	28,971	34,755
Net income	9,478	20,771	21,314	25,060
Basic net income per common share ⁽¹⁾	0.27	0.58	0.60	0.70
Diluted net income per common share ⁽¹⁾	0.26	0.58	0.59	0.70
	First	Second	Third	Fourth
	Quarter	Quarter	Quarter	Quarter
2017:				
Total revenues	\$226,828	\$249,363	\$259,162	\$294,666
Income from operations ⁽²⁾	21,325	28,668	47,654	40,268
Income before provision for income taxes ⁽³⁾	8,530	15,668	7,577	27,569
Net income ⁽⁴⁾	5,390	9,878	8,462	85,928
Basic net income per common share ⁽¹⁾	0.15	0.28	0.24	2.41
Diluted net income per common share ⁽¹⁾	0.15	0.28	0.24	2.40

- (1) Because of the method used in calculating per share data, the summation of quarterly per share data may not necessarily total to the per share data computed for the entire year due to rounding.
- (2) Includes approximately \$6.5 million and \$5.8 million of net merger breakup fee proceeds (net of merger costs) for the third and fourth quarters of 2017, respectively.
- (3) In addition to the amounts described in (2) above, the third quarter of 2017 includes a \$25.4 million loss on the early extinguishment of debt.
- (4) During the third quarter of 2017, the statute of limitations lapsed for approximately \$6.0 million of unrecognized tax benefits, for which we recognized a \$5.9 million reduction in income tax expense for the third quarter of 2017. During the fourth quarter of 2017 and as further described in note 12 above, we recorded a one-time decrease in income tax expense of approximately \$66.9 million related to the impact from the enactment of the Act legislation.

(18) Segment Information

We have identified five reportable segments: equipment rentals, new equipment sales, used equipment sales, parts sales and service revenues. These segments are based upon how management of the Company allocates resources and assesses performance. Non-segmented revenues and non-segmented costs relate to equipment support activities including transportation, hauling, parts freight and damage-waiver charges and are not allocated to the other reportable segments. There were no sales between segments for any of the periods presented. Selling, general, and administrative expenses as well as all other income and expense items below gross profit are not generally allocated to our reportable segments.

We do not compile discrete financial information by our segments other than the information presented below. The following table presents information about our reportable segments (amounts in thousands):

	Years Ended December 31,		
	2018	2017	2016
Segment Revenues:			
Equipment rentals	\$592,193	\$479,016	\$445,227
New equipment sales	262,948	203,301	196,688
Used equipment sales	125,125	107,329	96,910
Parts sales	120,454	114,253	115,989
Services revenues	63,488	62,873	64,673
Total segmented revenues	1,164,208	966,772	919,487
Non-Segmented revenues	74,753	63,247	58,650
Total revenues	\$1,238,961	\$1,030,019	\$978,137
Segment Gross Profit:			
Equipment rentals	\$294,220	\$231,855	\$211,118
New equipment sales	30,891	22,599	21,132
Used equipment sales	39,073	33,197	30,172
Parts sales	32,191	31,118	31,662
Services revenues	42,160	41,762	42,834
Total gross profit from segmented revenues	438,535	360,531	336,918
Non-Segmented gross profit (loss)	(1)	(623)	(1,307)
Total gross profit	\$438,534	\$359,908	\$335,611

	December 31,	
	2018	2017
Segment identified assets:		
Equipment sales	\$86,583	\$58,125
Equipment rentals	1,141,498	904,824
Parts and service	18,015	16,879
Total segment identified assets	1,246,096	979,828
Non-Segmented identified assets	481,085	487,889
Total assets	\$1,727,181	\$1,467,717

The Company operates primarily in the United States and our sales to international customers for the years ended December 31, 2018, 2017 and 2016 were 0.1%, 0.4% and 0.4%, respectively, of total revenues for the periods

presented. No one customer accounted for more than 10% of our revenues on an overall or segmented basis for any of the periods presented.

(19) Consolidating Financial Information of Guarantor Subsidiaries

All of the indebtedness of H&E Equipment Services, Inc. is guaranteed by GNE Investments, Inc. and its wholly-owned subsidiary Great Northern Equipment, Inc., H&E Equipment Services (California), LLC, H&E California Holding, Inc., H&E Equipment Services (Mid-Atlantic), Inc. and H&E Finance Corp. The guarantor subsidiaries are all wholly-owned and the guarantees, made on a joint and several basis, are full and unconditional (subject to subordination provisions and subject to a standard limitation which provides that the maximum amount guaranteed by each guarantor will not exceed the maximum amount that can be guaranteed without making the guarantee void under fraudulent conveyance laws). There are no restrictions on H&E Equipment Services, Inc.'s ability to obtain funds from the guarantor subsidiaries by dividend or loan.

The consolidating financial statements of H&E Equipment Services, Inc. and its subsidiaries are included below. The financial statements for H&E Finance Corp. are not included within the consolidating financial statements because H&E Finance Corp. has no assets or operations.

CONDENSED CONSOLIDATING BALANCE SHEET

	As of December 31, 2018			
	H&E			
	Equipment	Guarantor		
	Services	Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Assets:				
Cash	\$16,677	\$—	\$—	\$16,677
Receivables, net	166,393	35,163	—	201,556
Inventories, net	94,483	10,115	—	104,598
Prepaid expenses and other assets	10,382	126	—	10,508
Rental equipment, net	983,281	158,217	—	1,141,498
Property and equipment, net	98,251	16,870	—	115,121
Deferred financing costs, net	3,000	—	—	3,000
Investment in guarantor subsidiaries	246,309	—	(246,309)	—
Intangible assets, net	28,380	—	—	28,380
Goodwill	76,317	29,526	—	105,843
Total assets	\$1,723,473	\$250,017	\$(246,309)	\$1,727,181
Liabilities and Stockholders' Equity:				
Amount due on senior secured credit facility	\$170,761	\$—	\$—	\$170,761
Accounts payable	95,866	5,974	—	101,840
Manufacturer flooring plans payable	23,178	488	—	23,666
Accrued expenses payable and other liabilities	76,798	(3,427)	—	73,371
Dividends payable	185	(53)	—	132
Senior unsecured notes	944,780	—	—	944,780
Capital leases payable	—	726	—	726
Deferred income taxes	153,113	—	—	153,113
Deferred compensation payable	1,989	—	—	1,989
Total liabilities	1,466,670	3,708	—	1,470,378
Stockholders' equity	256,803	246,309	(246,309)	256,803
Total liabilities and stockholders' equity	\$1,723,473	\$250,017	\$(246,309)	\$1,727,181

CONDENSED CONSOLIDATING BALANCE SHEET

	As of December 31, 2017			
	H&E			
	Equipment Guarantor			
	Services	Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Assets:				
Cash	\$ 165,878	\$ —	\$ —	\$ 165,878
Receivables, net	138,657	37,424	—	176,081
Inventories, net	63,828	11,176	—	75,004
Prepaid expenses and other assets	9,030	142	—	9,172
Rental equipment, net	760,972	143,852	—	904,824
Property and equipment, net	89,952	11,837	—	101,789
Deferred financing costs, net	3,772	—	—	3,772
Investment in guarantor subsidiaries	222,217	—	(222,217)	—
Goodwill	1,671	29,526	—	31,197
Total assets	\$ 1,455,977	\$ 233,957	\$ (222,217)	\$ 1,467,717
Liabilities and Stockholders' Equity:				
Amount due on senior secured credit facility	\$ —	\$ —	\$ —	\$ —
Accounts payable	78,811	10,970	—	89,781
Manufacturer flooring plans payable	20,300	1,702	—	22,002
Accrued expenses payable and other liabilities	67,466	(2,371)	—	65,095
Dividends payable	197	(47)	—	150
Senior unsecured notes	944,088	—	—	944,088
Capital leases payable	—	1,486	—	1,486
Deferred income taxes	126,419	—	—	126,419
Deferred compensation payable	1,903	—	—	1,903
Total liabilities	1,239,184	11,740	—	1,250,924
Stockholders' equity	216,793	222,217	(222,217)	216,793
Total liabilities and stockholders' equity	\$ 1,455,977	\$ 233,957	\$ (222,217)	\$ 1,467,717

CONDENSED CONSOLIDATING STATEMENT OF INCOME

	Year Ended December 31, 2018			
	H&E			
	Equipment Guarantor			
	Services	Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Revenues:				
Equipment rentals	\$506,620	\$ 85,573	\$ —	\$ 592,193
New equipment sales	207,564	55,384	—	262,948
Used equipment sales	102,005	23,120	—	125,125
Parts sales	103,586	16,868	—	120,454
Services revenues	53,534	9,954	—	63,488
Other	62,633	12,120	—	74,753
Total revenues	1,035,942	203,019	—	1,238,961
Cost of revenues:				
Rental depreciation	178,371	30,082	—	208,453
Rental expense	76,487	13,033	—	89,520
New equipment sales	183,164	48,893	—	232,057
Used equipment sales	69,960	16,092	—	86,052
Parts sales	76,425	11,838	—	88,263
Services revenues	18,100	3,228	—	21,328
Other	62,745	12,009	—	74,754
Total cost of revenues	665,252	135,175	—	800,427
Gross profit (loss):				
Equipment rentals	251,762	42,458	—	294,220
New equipment sales	24,400	6,491	—	30,891
Used equipment sales	32,045	7,028	—	39,073
Parts sales	27,161	5,030	—	32,191
Services revenues	35,434	6,726	—	42,160
Other	(112)	111	—	(1)
Gross profit	370,690	67,844	—	438,534
Selling, general and administrative expenses	232,892	45,406	—	278,298
Equity in earnings of guarantor subsidiaries	13,247	—	(13,247)	—
Merger costs	708	—	—	708
Gain from sales of property and equipment, net	6,475	643	—	7,118
Income from operations	156,812	23,081	(13,247)	166,646
Other income (expense):				
Interest expense	(53,681)	(10,026)	—	(63,707)
Other, net	1,532	192	—	1,724
Total other expense, net	(52,149)	(9,834)	—	(61,983)
Income before provision for income taxes	104,663	13,247	(13,247)	104,663
Provision for income taxes	28,040	—	—	28,040
Net income	\$76,623	\$ 13,247	\$ (13,247)	\$ 76,623

CONDENSED CONSOLIDATING STATEMENT OF INCOME

	Year Ended December 31, 2017			
	H&E Equipment Guarantor			
	Services	Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Revenues:				
Equipment rentals	\$ 395,275	\$ 83,741	\$ —	\$ 479,016
New equipment sales	166,730	36,571	—	203,301
Used equipment sales	84,741	22,588	—	107,329
Parts sales	97,852	16,401	—	114,253
Services revenues	52,807	10,066	—	62,873
Other	51,627	11,620	—	63,247
Total revenues	849,032	180,987	—	1,030,019
Cost of revenues:				
Rental depreciation	140,489	28,966	—	169,455
Rental expense	64,598	13,108	—	77,706
New equipment sales	148,163	32,539	—	180,702
Used equipment sales	59,481	14,651	—	74,132
Parts sales	71,603	11,532	—	83,135
Services revenues	17,851	3,260	—	21,111
Other	52,068	11,802	—	63,870
Total cost of revenues	554,253	115,858	—	670,111
Gross profit (loss):				
Equipment rentals	190,188	41,667	—	231,855
New equipment sales	18,567	4,032	—	22,599
Used equipment sales	25,260	7,937	—	33,197
Parts sales	26,249	4,869	—	31,118
Services revenues	34,956	6,806	—	41,762
Other	(441)	(182)	—	(623)
Gross profit	294,779	65,129	—	359,908
Selling, general and administrative expenses	190,392	42,392	—	232,784
Equity in earnings of guarantor subsidiaries	16,136	—	(16,136)	—
Merger breakup fees, net of merger costs	(5,782)	—	—	(5,782)
Gain from sales of property and equipment, net	2,435	2,574	—	5,009
Income from operations	128,740	25,311	(16,136)	137,915
Other income (expense):				
Interest expense	(45,480)	(9,478)	—	(54,958)
Loss on early extinguishment of debt	(25,363)	—	—	(25,363)
Other, net	1,447	303	—	1,750
Total other expense, net	(69,396)	(9,175)	—	(78,571)
Income before benefit for income taxes	59,344	16,136	(16,136)	59,344
Benefit for income taxes	(50,314)	—	—	(50,314)
Net income	\$ 109,658	\$ 16,136	\$ (16,136)	\$ 109,658

CONDENSED CONSOLIDATING STATEMENT OF INCOME

	Year Ended December 31, 2016			
	H&E Equipment Guarantor			
	Services	Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Revenues:				
Equipment rentals	\$364,654	\$80,573	\$—	\$445,227
New equipment sales	158,291	38,397	—	196,688
Used equipment sales	78,956	17,954	—	96,910
Parts sales	100,920	15,069	—	115,989
Services revenues	55,391	9,282	—	64,673
Other	47,461	11,189	—	58,650
Total revenues	805,673	172,464	—	978,137
Cost of revenues:				
Rental depreciation	134,484	27,931	—	162,415
Rental expense	59,263	12,431	—	71,694
New equipment sales	140,948	34,608	—	175,556
Used equipment sales	55,075	11,663	—	66,738
Parts sales	73,587	10,740	—	84,327
Services revenues	18,963	2,876	—	21,839
Other	48,273	11,684	—	59,957
Total cost of revenues	530,593	111,933	—	642,526
Gross profit (loss):				
Equipment rentals	170,907	40,211	—	211,118
New equipment sales	17,343	3,789	—	21,132
Used equipment sales	23,881	6,291	—	30,172
Parts sales	27,333	4,329	—	31,662
Services revenues	36,428	6,406	—	42,834
Other	(812)	(495)	—	(1,307)
Gross profit	275,080	60,531	—	335,611
Selling, general and administrative expenses	187,369	40,760	—	228,129
Equity in earnings of guarantor subsidiaries	11,416	—	(11,416)	—
Gain from sales of property and equipment, net	2,789	496	—	3,285
Income from operations	101,916	20,267	(11,416)	110,767
Other income (expense):				
Interest expense	(44,503)	(9,101)	—	(53,604)
Other, net	1,617	250	—	1,867
Total other expense, net	(42,886)	(8,851)	—	(51,737)
Income before provision for income taxes	59,030	11,416	(11,416)	59,030
Provision for income taxes	21,858	—	—	21,858
Net income	\$37,172	\$11,416	\$(11,416)	\$37,172

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

	Year Ended December 31, 2018			
	H&E		Elimination	Consolidated
	Equipment	Guarantor		
	Services	Subsidiaries		
	(Amounts in thousands)			
Cash flows from operating activities:				
Net income	\$76,623	\$ 13,247	\$ (13,247)	\$76,623
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization on property and equipment	21,570	3,023	—	24,593
Depreciation on rental equipment	178,371	30,082	—	208,453
Amortization of intangible assets	3,320	—	—	3,320
Amortization of deferred financing costs	1,083	—	—	1,083
Accretion of note discount, net of premium amortization	477	—	—	477
Provision for losses on accounts receivable	2,065	676	—	2,741
Provision for inventory obsolescence	122	—	—	122
Change in deferred income taxes	26,695	—	—	26,695
Stock-based compensation expense	4,214	—	—	4,214
Gain from sales of property and equipment, net	(6,475)	(643)	—	(7,118)
Gain from sales of rental equipment, net	(31,595)	(6,757)	—	(38,352)
Equity in earnings of guarantor subsidiaries	(13,247)	—	13,247	—
Changes in operating assets and liabilities, net of acquisitions:				
Receivables	(19,346)	1,585	—	(17,761)
Inventories	(45,349)	(2,881)	—	(48,230)
Prepaid expenses and other assets	(981)	16	—	(965)
Accounts payable	11,990	(4,996)	—	6,994
Manufacturer flooring plans payable	2,878	(1,214)	—	1,664
Accrued expenses payable and other liabilities	4,176	(1,604)	—	2,572
Deferred compensation payable	86	—	—	86
Net cash provided by operating activities	216,677	30,534	—	247,211
Cash flows from investing activities:				
Acquisition of business, net of cash acquired	(196,027)	—	—	(196,027)
Purchases of property and equipment	(26,903)	(8,057)	—	(34,960)
Purchases of rental equipment	(362,780)	(53,820)	—	(416,600)
Proceeds from sales of property and equipment	8,617	644	—	9,261
Proceeds from sales of rental equipment	92,014	20,072	—	112,086
Investment in subsidiaries	(10,845)	—	10,845	—
Net cash used in investing activities	(495,924)	(41,161)	10,845	(526,240)
Cash flows from financing activities:				
Purchases of treasury stock	(1,350)	—	—	(1,350)
Borrowings on senior secured credit facility	1,436,849	—	—	1,436,849
Payments on senior secured credit facility	(1,266,088)	—	—	(1,266,088)

Edgar Filing: H&E Equipment Services, Inc. - Form 10-K

Dividends paid	(39,268)	(6)	—	(39,274)
Payments of deferred financing costs	(97)	—	—	(97)
Payments of capital lease obligations	—	(212)	—	(212)
Capital contributions	—	10,845	(10,845)	—
Net cash provided by financing activities	130,046	10,627	(10,845)	129,828
Net decrease in cash	(149,201)	—	—	(149,201)
Cash, beginning of year	165,878	—	—	165,878
Cash, end of year	\$16,677	\$ —	\$ —	\$16,677

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

	Year Ended December 31, 2017			
	H&E			
	Equipment	Guarantor		
	Services	Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Cash flows from operating activities:				
Net income	\$ 109,658	\$ 16,136	\$ (16,136)	\$ 109,658
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization on property and equipment	20,742	3,048	—	23,790
Depreciation on rental equipment	140,489	28,966	—	169,455
Amortization of deferred financing costs	1,046	—	—	1,046
Accretion of note discount, net of premium amortization	274	—	—	274
Provision for losses on accounts receivable	3,148	784	—	3,932
Provision for inventory obsolescence	161	—	—	161
Change in deferred income taxes	(50,535)	—	—	(50,535)
Stock-based compensation expense	3,526	—	—	3,526
Loss on early extinguishment of debt	25,363	—	—	25,363
Gain from sales of property and equipment, net	(2,435)	(2,574)	—	(5,009)
Gain from sales of rental equipment, net	(24,063)	(7,819)	—	(31,882)
Equity in earnings of guarantor subsidiaries	(16,136)	—	16,136	—
Changes in operating assets and liabilities:				
Receivables	(29,083)	(10,929)	—	(40,012)
Inventories	(23,221)	(8,550)	—	(31,771)
Prepaid expenses and other assets	(1,687)	28	—	(1,659)
Accounts payable	42,623	7,726	—	50,349
Manufacturer flooring plans payable	(10,599)	1,821	—	(8,778)
Accrued expenses payable and other liabilities	8,660	(430)	—	8,230
Deferred compensation payable	61	—	—	61
Net cash provided by operating activities	197,992	28,207	—	226,199
Cash flows from investing activities:				
Purchases of property and equipment	(17,852)	(4,663)	—	(22,515)
Purchases of rental equipment	(198,988)	(35,221)	—	(234,209)
Proceeds from sales of property and equipment	3,528	3,978	—	7,506
Proceeds from sales of rental equipment	74,090	22,053	—	96,143
Investment in subsidiaries	14,128	—	(14,128)	—
Net cash used in investing activities	(125,094)	(13,853)	(14,128)	(153,075)
Cash flows from financing activities:				
Purchases of treasury stock	(783)	—	—	(783)
Borrowings on senior secured credit facility	1,193,544	—	—	1,193,544
Payments on senior secured credit facility	(1,356,186)	—	—	(1,356,186)
Dividends paid	(39,164)	(8)	—	(39,172)
Principal payments on senior unsecured notes due 2023	(630,000)	—	—	(630,000)

Edgar Filing: H&E Equipment Services, Inc. - Form 10-K

Costs paid to tender and redeem senior unsecured notes due 2022	(23,336)	—	—	(23,336)
Proceeds from issuance of senior unsecured notes due 2025	958,500	—	—	958,500
Payments of deferred financing costs	(17,278)	—	—	(17,278)
Payments of capital lease obligations	—	(218)	—	(218)
Capital contributions	—	(14,128)	14,128	—
Net cash provided by (used in) financing activities	85,297	(14,354)	14,128	85,071
Net increase in cash	158,195	—	—	158,195
Cash, beginning of year	7,683	—	—	7,683
Cash, end of year	\$ 165,878	\$ —	\$ —	\$ 165,878

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

	Year Ended December 31, 2016			
	H&E			
	Equipment Guarantor			
	Services	Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Cash flows from operating activities:				
Net income	\$37,172	\$ 11,416	\$ (11,416)	\$ 37,172
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization on property and equipment	24,194	3,088	—	27,282
Depreciation on rental equipment	134,484	27,931	—	162,415
Amortization of deferred financing costs	1,052	—	—	1,052
Accretion of note discount, net of premium amortization	168	—	—	168
Provision for losses on accounts receivable	2,616	521	—	3,137
Provision for inventory obsolescence	127	—	—	127
Change in deferred income taxes	21,578	—	—	21,578
Stock-based compensation expense	3,037	—	—	3,037
Gain from sales of property and equipment, net	(2,789)	(496)	—	(3,285)
Gain from sales of rental equipment, net	(22,780)	(6,223)	—	(29,003)
Equity in earnings of guarantor subsidiaries	(11,416)	—	11,416	—
Changes in operating assets and liabilities:				
Receivables	8,783	(4,629)	—	4,154
Inventories	5,785	(1,518)	—	4,267
Prepaid expenses and other assets	2,566	(25)	—	2,541
Accounts payable	(27,771)	426	—	(27,345)
Manufacturer flooring plans payable	(31,534)	(119)	—	(31,653)
Accrued expenses payable and other liabilities	2,263	(596)	—	1,667
Deferred compensation payable	(332)	—	—	(332)
Net cash provided by operating activities	147,203	29,776	—	176,979
Cash flows from investing activities:				
Purchases of property and equipment	(19,505)	(3,390)	—	(22,895)
Purchases of rental equipment	(138,562)	(41,147)	—	(179,709)
Proceeds from sales of property and equipment	3,190	615	—	3,805
Proceeds from sales of rental equipment	67,282	17,107	—	84,389
Investment in subsidiaries	2,749	—	(2,749)	—
Net cash used in investing activities	(84,846)	(26,815)	(2,749)	(114,410)
Cash flows from financing activities:				
Purchases of treasury stock	(561)	—	—	(561)
Borrowing on senior secured credit facility	966,146	—	—	966,146
Payments on senior secured credit facility	(988,361)	—	—	(988,361)
Dividends paid	(39,057)	(9)	—	(39,066)
Payments of capital lease obligations	—	(203)	—	(203)
Capital contributions	—	(2,749)	2,749	—

Edgar Filing: H&E Equipment Services, Inc. - Form 10-K

Net cash used in financing activities	(61,833)	(2,961)	2,749	(62,045)
Net increase in cash	524	—	—	524
Cash, beginning of year	7,159	—	—	7,159
Cash, end of year	\$7,683	\$—	\$—	\$ 7,683

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
None.

Item 9A. Controls and Procedures
Disclosure Controls and Procedures.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or furnishes under the Securities Exchange Act of 1934 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 the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial disclosure.

Our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively) have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Annual Report on Form 10-K. Based on this evaluation, our principal executive officer and principal financial officer have concluded that, as of December 31, 2018, our current disclosure controls and procedures were effective.

The design of any system of control is based upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated objectives under all future events, no matter how remote, or that the degree of compliance with the policies or procedures may not deteriorate. Because of its inherent limitations, disclosure controls and procedures may not prevent or detect all misstatements. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) that occurred during the fourth quarter ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

The management of H&E Equipment Services, Inc. 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 internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Any evaluation or projection of effectiveness to future periods is also subject to risk that controls may become inadequate due to changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2018, based on the framework in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). Based on that evaluation, management concluded that, as of December 31, 2018, our internal control over financial reporting was effective based on these criteria.

The effectiveness of our internal control over financial reporting as of December 31, 2018, has been audited by BDO USA, LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

Date: February 21, 2019

/s/ Bradley W. Barber
Bradley W. Barber
Chief Executive Officer, President and Director

/s/ Leslie S. Magee
Leslie S. Magee
Chief Financial Officer and Secretary

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors

H&E Equipment Services, Inc.

Baton Rouge, Louisiana

Opinion on Internal Control over Financial Reporting

We have audited H&E Equipment Services, Inc. (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 (the “COSO criteria”). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated balance sheets of the Company and subsidiaries as of December 31, 2018 and 2017, the related consolidated statements of income, stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and schedule, and our report dated February 21, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of internal control over financial reporting in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit 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 audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 (3) 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/ BDO USA, LLP

Dallas, Texas

February 21, 2019

94

Item 9B. Other Information

None.

95

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is incorporated herein by reference from the Company's definitive proxy statement for use in connection with the 2019 Annual Meeting of Stockholders (the "Proxy Statement") to be filed within 120 days after the end of the Company's fiscal year ended December 31, 2018.

We have adopted a code of conduct that applies to our Chief Executive Officer and Chief Financial Officer. This code of conduct is available on the Company's internet website at www.he-equipment.com. The information on our website is not a part of or incorporated by reference into this Annual Report on Form 10-K. If the Company makes any amendments to this code other than technical, administrative or other non-substantive amendments, or grants any waivers, including implicit waivers, from a provision of this code to the Company's Chief Executive Officer or Chief Financial Officer, the Company will disclose the nature of the amendment or waiver, its effective date and to whom it applies by posting such information on the Company's internet website at www.he-equipment.com.

Item 11. Executive Compensation

The information required by this Item is incorporated herein by reference from the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is incorporated herein by reference from the Proxy Statement.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is incorporated herein by reference from the Proxy Statement.

Item 14. Principal Accountant Fees and Services

The information required by this Item is incorporated herein by reference from the Proxy Statement.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this report:

(1) Financial Statements

The Company's consolidated financial statements listed below have been filed as part of this report:

	Page
<u>Report of Independent Registered Public Accounting Firm—Internal Control over Financial Reporting</u>	94
<u>Report of Independent Registered Public Accounting Firm—Consolidated Financial Statements</u>	51
<u>Consolidated Balance Sheets as of December 31, 2018 and 2017</u>	52
<u>Consolidated Statements of Income for the years ended December 31, 2018, 2017 and 2016</u>	53
<u>Consolidated Statements of Stockholders' Equity for the years ended December 31, 2018, 2017 and 2016</u>	54
<u>Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016</u>	55
<u>Notes to Consolidated Financial Statements</u>	57
(2) Financial Statement Schedule for the years ended December 31, 2018, 2017 and 2016:	

Schedule II—Valuation and Qualifying Accounts101

All other schedules are omitted because they are not applicable or not required, or the information appears in the Company's consolidated financial statements or notes thereto.

(3) Exhibits: The exhibits to this report are listed in the exhibit index below.

(b) Description of exhibits

97

Exhibit Index

- 2.1 Agreement and Plan of Merger, dated February 2, 2006, among the Company, H&E LLC and Holdings (incorporated by reference to Exhibit 2.1 to Current Report on Form 8-K of H&E Equipment Services, Inc. (File No. 000-51759), filed February 3, 2006).
- 2.2 Agreement and Plan of Merger, dated as of May 15, 2007, by and among H&E Equipment Services, Inc., HE-JWB Acquisition, Inc., J.W. Burress, Incorporated, the Burress Shareholders (as defined therein), and Richard S. Dudley, as Burress Shareholders Representative (as defined therein) (incorporated by reference to Exhibit 2.1 to Current Report on Form 8-K of H&E Equipment Services, Inc. (File No. 000-51759), filed on May 17, 2007).
- 2.3 Amendment No. 1 to Agreement and Plan of Merger, dated as of August 31, 2007, by and among H&E Equipment Services, Inc., HE-JWB Acquisition, Inc., J.W. Burress, Incorporated, the Burress Shareholders (as defined therein), and Richard S. Dudley, as Burress Shareholders Representative (as defined therein) (incorporated by reference to Exhibit 2.1 to Current Report on Form 8-K of H&E Equipment Services, Inc. (File No. 000-51759), filed on September 4, 2007).
- 2.4 Acquisition Agreement, dated as of January 4, 2005, among H&E Equipment Services, L.L.C., Eagle Merger Corp., Eagle High Reach Equipment, LLC, Eagle High Reach Equipment, Inc., SBN Eagle LLC, SummitBridge National Investments, LLC and the shareholders of Eagle High Reach Equipment, Inc. (incorporated by reference to Exhibit 2.1 to Form 8-K of H&E Equipment Services L.L.C. (File Nos. 333-99587 and 333-99589), filed January 5, 2006).
- 3.1 Amended and Restated Certificate of Incorporation of H&E Equipment Services, Inc. (incorporated by reference to Exhibit 3.4 to Registration Statement on Form S-1 of H&E Equipment Services, Inc. (File No. 333-128996), filed January 20, 2006).
- 3.2 Amended and Restated Bylaws of H&E Equipment Services, Inc., as amended (incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K of H&E Equipment Services, Inc. (File No. 000-51759), filed on February 12, 2016).
- 3.3 Amended and Restated Articles of Organization of Gulf Wide Industries, L.L.C. (incorporated by reference to Exhibit 3.2 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. (File No. 333-99589), filed September 13, 2002).
- 3.4 Amended Articles of Organization of Gulf Wide Industries, L.L.C., Changing Its Name To H&E Equipment Services L.L.C. (incorporated by reference to Exhibit 3.3 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. (File No. 333-99589), filed September 13, 2002).
- 3.5 Amended and Restated Operating Agreement of H&E Equipment Services L.L.C. (incorporated by reference to Exhibit 3.8 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. (File No. 333-99589), filed September 13, 2002).
- 3.6 Certificate of Incorporation of H&E Finance Corp. (incorporated by reference to Exhibit 3.4 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. (File No. 333-99589), filed September 13, 2002).

- 3.7 Certificate of Incorporation of Great Northern Equipment, Inc. (incorporated by reference to Exhibit 3.5 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. (File No. 333-99589), filed September 13, 2002).
- 3.8 Articles of Incorporation of Williams Bros. Construction, Inc. (incorporated by reference to Exhibit 3.6 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. (File No. 333-99589), filed September 13, 2002).
- 3.9 Articles of Amendment to Articles of Incorporation of Williams Bros. Construction, Inc. Changing its Name to GNE Investments, Inc. (incorporated by reference to Exhibit 3.7 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. (File No. 333-99589), filed September 13, 2002).
- 3.10 Bylaws of H&E Finance Corp. (incorporated by reference to Exhibit 3.9 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. (File No. 333-99589), filed September 13, 2002).
- 3.11 Bylaws of Great Northern Equipment, Inc. (incorporated by reference to Exhibit 3.10 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. (File No. 333-99589), filed September 13, 2002).
- 3.12 Bylaws of Williams Bros. Construction, Inc. (incorporated by reference to Exhibit 3.11 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. (File No. 333-99589), filed September 13, 2002).
- 3.13 Articles of Incorporation of H&E California Holding, Inc., as amended (incorporated by reference to Exhibit 3.13 to Registration Statement on Form S-4 of H&E Equipment Services, Inc. (File No. 333-185334), filed December 7, 2012).

- 3.14 Bylaws of H&E California Holding, Inc., as amended (incorporated by reference to Exhibit 3.14 to Registration Statement on Form S-4 of H&E Equipment Services, Inc. (File No. 333-185334), filed December 7, 2012).
- 3.15 Certificate of Formation of H&E Equipment Services (California), LLC, as amended (incorporated by reference to Exhibit 3.15 to Registration Statement on Form S-4 of H&E Equipment Services, Inc. (File No. 333-185334), filed December 7, 2012).
- 3.16 Bylaws of H&E Equipment Services (California), LLC (incorporated by reference to Exhibit 3.16 to Registration Statement on Form S-4 of H&E Equipment Services, Inc. (File No. 333-185334), filed December 7, 2012).
- 3.17 Amended and Restated Articles of Incorporation of H&E Equipment Services (Mid-Atlantic), Inc. (incorporated by reference to Exhibit 3.17 to Registration Statement on Form S-4 of H&E Equipment Services, Inc. (File No. 333-185334), filed December 7, 2012).
- 3.18 Bylaws of H&E Equipment Services (Mid-Atlantic), Inc. (incorporated by reference to Exhibit 3.18 to Registration Statement on Form S-4 of H&E Equipment Services, Inc. (File No. 333-185334), filed December 7, 2012).
- 4.1 Amended and Restated Security Holders Agreement, dated as of February 3, 2006, among the Company and certain other parties thereto (incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K of H&E Equipment Services, Inc. (File No. 000-51759), filed February 3, 2006).
- 4.2 Amended and Restated Investor Rights Agreement, dated as of February 3, 2006, among the Company and certain other parties thereto (incorporated by reference to Exhibit 4.2 to Current Report on Form 8-K of H&E Equipment Services, Inc. (File No. 000-51759), filed February 3, 2006).
- 4.3 Amended and Restated Registration Rights Agreement, dated as of February 3, 2006, among the Company and certain other parties thereto (incorporated by reference to Exhibit 4.3 to Current Report on Form 8-K of H&E Equipment Services, Inc. (File No. 000-51759), filed February 3, 2006).
- 4.4 Form of H&E Equipment Services, Inc. common stock certificate (incorporated by reference to Exhibit 4.3 to Registration Statement on Form S-1 of H&E Equipment Services, Inc. (File No. 333-128996), filed January 5, 2006).
- 4.5 Indenture, dated August 24, 2017, by and among H&E Equipment Services, Inc., the guarantors party thereto and The Bank of New York Mellon Trust Company, N.A. as Trustee, relating to the 5.6250% Senior Notes due 2025 (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of H&E Equipment Services, Inc. (File No. 000-51759), filed August 24, 2017).
- 4.6 Registration Rights Agreement, dated August 24, 2017, by and among the Company, GNE Investments, Inc., Great Northern Equipment, Inc., H&E California Holding, Inc., H&E Equipment Services (California, LLC, H&E Equipment Services (Mid-Atlantic), Inc., and H&E Finance Corp. and Wells Fargo Securities, LLC (incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K of H&E Equipment Services, Inc. (File No. 000-51759), filed August 24, 2017).
- 4.7 Registration Rights Agreement, dated November 22, 2017, by and among the Company, the Guarantors, Merrill Lynch, Pierce, Fenner & Smith Incorporated and Wells Fargo Securities, LLC (incorporated by

reference to Exhibit 4.1 to the Current Report on Form 8-K of H&E Equipment Services, Inc. (File No. 000-51759), filed November 22, 2017).

- 10.1 Fifth Amended and Restated Credit Agreement, dated December 22, 2017, by and among the Company, Great Northern Equipment, Inc., H&E Equipment Services (California), LLC and H&E Equipment Services (Mid-Atlantic), Inc. (collectively, the “Borrowers”), Wells Fargo Capital Finance, LLC, as administrative agent for each member of the Lender Group and the Bank Product Providers, and the joint lead arrangers, joint book runners, co-syndication agents and documentation agent party thereto (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of H&E Equipment Services, Inc. (File No. 000-51759), filed December 27, 2017).
- 10.2 First Amendment to the Fifth Amended and Restated Credit Agreement, dated February 1, 2019, by and among the Company, Great Northern Equipment, Inc., H&E Equipment Services (California), LLC and H&E Equipment Services (Mid-Atlantic), Inc. (collectively, the “Borrowers”), Wells Fargo Capital Finance, LLC, as administrative agent for each member of the Lender Group and the Bank Product Providers, and the joint lead arrangers, joint book runners, co-syndication agents and documentation agent party thereto. (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K of H&E Equipment Services, Inc. (File No. 000-51759), filed February 4, 2019).
- 10.3 Purchase Agreement by and among H&E Equipment Services L.L.C., H&E Finance Corp., the guarantors party thereto and Credit Suisse First Boston Corporation, dated June 3, 2002 (incorporated by reference to Exhibit 10.21 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. (File No. 333-99587), filed September 13, 2002).

- 10.4 Purchase Agreement, among H&E Equipment Services L.L.C., H&E Finance Corp., H&E Holdings L.L.C., the guarantors party thereto and Credit Suisse First Boston Corporation, Inc. dated June 17, 2002 (incorporated by reference to Exhibit 10.21 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. (File No. 333-99589), filed September 13, 2002).
- 10.5 H&E Equipment Services, Inc. Amended and Restated 2006 Stock-Based Incentive Compensation Plan (incorporated by reference to Appendix B to the Definitive Proxy Statement of H&E Equipment Services, Inc. (File No. 000-51759), filed April 28, 2006.)†
- 10.6 Amendment No. 1 to the H&E Equipment Services, Inc. Amended and Restated 2006 Stock-Based Incentive Compensation Plan (incorporated by reference from Exhibit 10.7 to Form 10-K of H&E Equipment Services, Inc. (File No. 000-51579), filed March 3, 2011).†
- 10.7 Amendment No. 2 to the H&E Equipment Services, Inc. Amended and Restated 2006 Stock-Based Incentive Compensation Plan (incorporated by reference from Exhibit 10.8 to Form 10-K of H&E Equipment Services, Inc. (File No. 000-51579), filed February 25, 2016).†
- 10.8 H&E Equipment Services, Inc. 2016 Stock-Based Incentive Compensation Plan (incorporated by reference to Appendix A to the Definitive Proxy Statement of H&E Equipment Services, Inc. (File No. 000-51759), filed April 1, 2016).†
- 10.9 Form of Restricted Stock Award Agreement for Officers of H&E Equipment Services, Inc. (incorporated by reference from Exhibit 10.1 to Form 10-Q of H&E Equipment Services, Inc. (File No. 000-51759), filed November 3, 2011). †
- 10.10 Restrictive Covenant Agreement, dated August 14, 2015, by and between the Company and Bradley W. Barber (incorporated by reference to Exhibit 10.1 to Form 10-Q of H&E Equipment Services, Inc. (File No. 000-51759), filed October 29, 2015). †
- 10.11 Restrictive Covenant Agreement, dated October 12, 2015, by and between the Company and Leslie S. Magee (incorporated by reference to Exhibit 10.12 to Form 10-K of H&E Equipment Services, Inc. (File No. 000-51579), filed on February 25, 2016).†
- 18.1 BDO Seidman, LLP Preferability Letter. (incorporated by reference to Exhibit 18.1 to Form 10-K of H&E Equipment Services, Inc. (File No. 000-51759), filed March 7, 2008).
- 21.1 Subsidiaries of the registrant.*
- 23.1 Consent of BDO USA, LLP.*
- 31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
- 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
- 32.1 Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
- 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

Management contract or compensatory plan or arrangement

Item 16. Form 10-K Summary

None.

100

SCHEDULE II: VALUATION AND QUALIFYING ACCOUNTS

FOR THE YEARS ENDED DECEMBER 31, 2018, 2017 AND 2016

(Amounts in thousands)

Description	Balance at Beginning of Year	Additions		Balance at End of Year
		Charged to Costs and Expenses	Deductions	
Year Ended December 31, 2018				
Allowance for doubtful accounts receivable	\$ 3,774	\$ 2,741	\$ (2,421)	\$ 4,094
Allowance for inventory obsolescence	947	122	(701)	368
	\$ 4,721	\$ 2,863	\$ (3,122)	\$ 4,462
Year Ended December 31, 2017				
Allowance for doubtful accounts receivable	\$ 3,769	\$ 3,932	\$ (3,927)	\$ 3,774
Allowance for inventory obsolescence	900	161	(114)	947
	\$ 4,669	\$ 4,093	\$ (4,041)	\$ 4,721
Year Ended December 31, 2016				
Allowance for doubtful accounts receivable	\$ 4,729	\$ 3,137	\$ (4,097)	\$ 3,769
Allowance for inventory obsolescence	934	127	(161)	900
	\$ 5,663	\$ 3,264	\$ (4,258)	\$ 4,669

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, on February 21, 2019.

H&E EQUIPMENT SERVICES, INC.

By: /s/ Bradley W. Barber
 Bradley W. Barber
 Its: Chief Executive Officer, President and Director

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 in the capacities and on the dates indicated.

Signature	Capacity	Date
By: /s/ Bradley W. Barber Bradley W. Barber	Chief Executive Officer, President and Director (Principal Executive Officer)	February 21, 2019
By: /s/ Leslie S. Magee Leslie S. Magee	Chief Financial Officer (Principal Financial and Accounting Officer)	February 21, 2019
By: /s/ John M. Engquist John M. Engquist	Executive Chairman of the Board	February 21, 2019
By: /s/ Paul N. Arnold Paul N. Arnold	Director	February 21, 2019
By: /s/ Gary W. Bagley Gary W. Bagley	Director	February 21, 2019
By: /s/ Bruce C. Bruckmann Bruce C. Bruckmann	Director	February 21, 2019
By: /s/ Patrick L. Edsell Patrick L. Edsell	Director	February 21, 2019
By: /s/ Thomas J. Galligan III Thomas J. Galligan III	Director	February 21, 2019
By: /s/ Lawrence C. Karlson Lawrence C. Karlson	Director	February 21, 2019
By: /s/ John T. Sawyer John T. Sawyer	Director	February 21, 2019

