

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

H&E Equipment Services, Inc.

Form 10-Q

April 26, 2019

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2019-03-31 0001339605 hees:OtherRevenuesMember 2018-01-01 2018-03-31 0001339605 2018-01-01 2018-03-31
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hees:EquipmentRentalsMember hees:RentalExpenseMember 2019-01-01 2019-03-31 0001339605
hees:EquipmentRentalsMember hees:RentalExpenseMember 2018-01-01 2018-03-31 0001339605
hees:EquipmentRentalsMember hees:RentalsOtherMember 2019-01-01 2019-03-31 0001339605
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2019-01-01 2019-03-31 0001339605 hees:RentalIncMember 2019-01-01 2019-03-31 0001339605
hees:CobraEquipmentRentalsLLCMember 2019-01-01 2019-03-31 0001339605
hees:EquipmentRentalsRentalsMember us-gaap:AccountingStandardsUpdate201409Member
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hees:EquipmentRentalsRentalsMember us-gaap:AccountingStandardsUpdate201409Member
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0001339605 hees:EquipmentRentalsRentalsMember 2018-01-01 2018-03-31 0001339605
hees:NewEquipmentMember us-gaap:AccountingStandardsUpdate201409Member
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hees:RentalDepreciationMember 2018-01-01 2018-03-31 0001339605 hees:RentalExpenseMember
us-gaap:AccountingStandardsUpdate201409Member

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us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member 2018-01-01 2018-03-31 0001339605
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us-gaap:DifferenceBetweenRevenueGuidanceInEffectBeforeAndAfterTopic606Member 2018-01-01 2018-03-31
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2018-03-31 0001339605 us-gaap:AccountingStandardsUpdate201409Member hees:PartsAndServicesMember
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2018-03-31 0001339605 us-gaap:CalculatedUnderRevenueGuidanceInEffectBeforeTopic606Member 2018-01-01
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hees:ContractorsEquipmentCenterLLCMember 2018-01-01 2018-01-01 hees:Branch 0001339605
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hees:ContractorsEquipmentCenterLLCMember 2018-01-01 2018-01-01 0001339605 us-gaap:TradeNamesMember
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hees:ContractorsEquipmentCenterLLCMember 2018-01-01 2018-01-01 hees:ReportingUnit 0001339605
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us-gaap:CustomerRelationshipsMember 2019-02-01 2019-02-01 0001339605 2017-01-01 2017-03-31 0001339605
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2019-03-31 0001339605 us-gaap:FairValueInputsLevel2Member
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us-gaap:FairValueInputsLevel2Member us-gaap:EstimateOfFairValueFairValueDisclosureMember 2019-03-31
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2018-12-31 0001339605 us-gaap:EstimateOfFairValueFairValueDisclosureMember
us-gaap:FairValueInputsLevel3Member 2018-12-31 0001339605
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2018-03-31 0001339605 hees:WellsFargoCapitalFinanceLimitedLiabilityCompanyMember
hees:SeniorSecuredCreditFacilityMember 2019-03-31 0001339605 us-gaap:RevolvingCreditFacilityMember
2019-01-01 2019-03-31 0001339605 us-gaap:RevolvingCreditFacilityMember 2017-12-20 2017-12-21 0001339605
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us-gaap:RevolvingCreditFacilityMember 2017-12-21 0001339605 us-gaap:RevolvingCreditFacilityMember
2017-12-22 0001339605 us-gaap:RevolvingCreditFacilityMember srt:MaximumMember 2019-01-01 2019-03-31
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2019-03-31 0001339605 us-gaap:RevolvingCreditFacilityMember srt:MinimumMember
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2019-01-01 2019-03-31 0001339605 us-gaap:RevolvingCreditFacilityMember srt:MinimumMember
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srt:MaximumMember us-gaap:LetterOfCreditMember 2019-03-31 0001339605
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2019-02-01 2019-02-01 0001339605 us-gaap:RevolvingCreditFacilityMember
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2017-08-24 0001339605 hees:SevenPercentSeniorNotesMember 2017-09-25 0001339605
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2017-11-21 2017-11-22 0001339605 us-gaap:UnsecuredDebtMember 2017-12-31 0001339605
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srt:GuarantorSubsidiariesMember srt:ReportableLegalEntitiesMember 2019-01-01 2019-03-31 0001339605
hees:UsedEquipmentMember srt:ParentCompanyMember srt:ReportableLegalEntitiesMember 2019-01-01
2019-03-31 0001339605 hees:UsedEquipmentMember srt:GuarantorSubsidiariesMember

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2019

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	81-0553291
(State or Other Jurisdiction of	(I.R.S. Employer
Incorporation or Organization)	Identification No.)

7500 Pecue Lane,	70809
Baton Rouge, Louisiana	(ZIP Code)
(Address of Principal Executive Offices)	
(225) 298 5200	

(Registrant's Telephone Number, Including Area Code)

None

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

Emerging Growth Company

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

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

As of April 22, 2019, there were 35,777,333 shares of H&E Equipment Services, Inc. common stock, \$0.01 par value, outstanding.

H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES

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Forward-Looking Statements

This Quarterly Report on Form 10-Q 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.

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 Quarterly Report on Form 10-Q, 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 “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2018.

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 Quarterly Report on Form 10-Q, 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.

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For a more detailed discussion of some of the foregoing risks and uncertainties, see Item 1A — “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2018, as well as other reports and registration statements filed by us with the SEC. These factors should not be construed as exhaustive and should be read with other cautionary statements in this Quarterly Report on Form 10-Q and our other public filings. All of our annual, quarterly and current reports, and any amendments thereto, filed with or furnished to the SEC are available on our Internet website under the Investor Relations link. For more information about us and the announcements we make from time to time, visit our Internet website at www.he-equipment.com.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share amounts)

	Balances at	
	March 31,	December 31,
	2019	2018
	(Unaudited)	
ASSETS		
Cash	\$6,442	\$16,677
Receivables, net of allowance for doubtful accounts of \$4,221 and \$4,094, respectively	188,343	201,556
Inventories, net of reserves for obsolescence of \$272 and \$368, respectively	142,379	104,598
Prepaid expenses and other assets	12,646	10,508
Rental equipment, net of accumulated depreciation of \$607,306 and \$582,520, respectively	1,189,677	1,141,498
Property and equipment, net of accumulated depreciation and amortization of \$144,604 and \$142,662, respectively	118,759	115,121
Operating lease right-of-use assets, net of accumulated amortization of \$2,729 at March 31, 2019	166,293	—
Finance lease right-of-use assets, net of accumulated amortization of \$1,929 at March 31, 2019	487	—
Deferred financing costs, net of accumulated amortization of \$13,895 and \$13,717, respectively	3,347	3,000
Intangible assets, net of accumulated amortization of \$4,272 and \$3,320, respectively	34,729	28,380
Goodwill	142,490	105,843
Total assets	\$2,005,592	\$1,727,181
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Amounts due on senior secured credit facility	\$265,647	\$170,761
Accounts payable	115,494	101,840
Manufacturer flooring plans payable	26,350	23,666
Accrued expenses payable and other liabilities	61,622	73,371
Dividends payable	93	132
Senior unsecured notes, net of unaccreted discount of \$3,048 and \$3,168 and deferred financing costs of \$1,975 and \$2,052, respectively	944,977	944,780
Operating lease right-of-use liabilities	168,579	—
Finance lease right-of-use liabilities	725	—
Capital leases payable	—	726
Deferred income taxes	158,090	153,113

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Deferred compensation payable	2,016	1,989
Total liabilities	1,743,593	1,470,378
Commitments and Contingencies		
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; 39,808,072 and 39,748,562 shares issued at March 31, 2019 and December 31, 2018, respectively, and 35,778,807 and 35,733,569 shares outstanding at March 31, 2019 and December 31, 2018, respectively	397	396
Additional paid-in capital	232,362	231,174
Treasury stock at cost, 4,029,265 and 4,014,993 shares of common stock held at March 31, 2019 and December 31, 2018, respectively	(63,486)	(63,099)
Retained earnings	92,726	88,332
Total stockholders' equity	261,999	256,803
Total liabilities and stockholders' equity	\$2,005,592	\$1,727,181

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

H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Amounts in thousands, except per share amounts)

	Three Months Ended	
	March 31,	
	2019	2018
Revenues:		
Equipment rentals	\$ 176,129	\$ 137,038
New equipment sales	59,103	46,493
Used equipment sales	29,634	24,853
Parts sales	30,428	28,151
Services revenues	15,568	15,036
Other	2,776	8,911
Total revenues	313,638	260,482
Cost of revenues:		
Rental depreciation	57,148	46,469
Rental expense	24,768	21,272
Rental other	16,275	12,100
	98,191	79,841
New equipment sales	52,099	40,845
Used equipment sales	19,012	16,937
Parts sales	22,289	20,617
Services revenues	5,004	5,050
Other	3,343	4,607
Total cost of revenues	199,938	167,897
Gross profit	113,700	92,585
Selling, general and administrative expenses	78,647	65,880
Merger costs	119	152
Gain on sales of property and equipment, net	741	773
Income from operations	35,675	27,326
Other income (expense):		
Interest expense	(16,855)	(14,653)
Other, net	532	395
Total other expense, net	(16,323)	(14,258)
Income before provision for income taxes	19,352	13,068
Provision for income taxes	5,109	3,590
Net income	\$ 14,243	\$ 9,478
Net income per common share:		
Basic	\$0.40	\$0.27
Diluted	\$0.40	\$0.26
Weighted average common shares outstanding:		
Basic	35,787	35,592
Diluted	35,973	35,879

Dividends declared per common share outstanding \$0.275 \$0.275

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

H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Amounts in thousands)

	Three Months Ended	
	March 31, 2019	2018
Cash flows from operating activities:		
Net income	\$ 14,243	\$ 9,478
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	6,479	5,884
Depreciation of rental equipment	57,148	46,469
Amortization of finance lease right-of-use assets	41	—
Amortization of intangible assets	952	705
Amortization of deferred financing costs	254	289
Accretion of note discount, net of premium amortization	120	120
Operating right-of-use lease liabilities, net	146	—
Provision for losses on accounts receivable	1,301	817
Provision for inventory obsolescence	42	67
Change in deferred income taxes	4,977	4,456
Stock-based compensation expense	1,188	1,319
Gain from sales of property and equipment, net	(741)	(773)
Gain from sales of rental equipment, net	(10,621)	(7,745)
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	17,605	22,414
Inventories	(58,062)	(88,674)
Prepaid expenses and other assets	(2,117)	(2,237)
Accounts payable	13,539	45,384
Manufacturer flooring plans payable	2,684	6,110
Accrued expenses payable and other liabilities	(10,137)	(15,799)
Deferred compensation payable	27	22
Net cash provided by operating activities	39,068	28,306
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	(106,746)	(125,207)
Purchases of property and equipment	(7,221)	(4,505)
Purchases of rental equipment	(48,644)	(40,654)
Proceeds from sales of property and equipment	931	785
Proceeds from sales of rental equipment	28,292	23,430
Net cash used in investing activities	(133,388)	(146,151)
Cash flows from financing activities:		
Borrowings on senior secured credit facility	447,503	294,229
Payments on senior secured credit facility	(352,617)	(294,229)
Dividends paid	(9,832)	(9,804)
Purchases of treasury stock	(387)	—

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Payments of deferred financing costs	(525)	(88)
Payments of finance lease obligations	(57)	—
Payments of capital lease obligations	—	(57)
Net cash provided by (used in) financing activities	84,085	(9,949)
Net decrease in cash	(10,235)	(127,794)
Cash, beginning of period	16,677	165,878
Cash, end of period	\$6,442	\$38,084

H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited)

(Amounts in thousands)

	Three Months Ended March 31,	
	2019	2018
Supplemental schedule of noncash investing and financing activities:		
Noncash asset purchases:		
Assets transferred from new and used inventory to rental fleet	\$21,112	\$15,414
Purchases of property and equipment included in accrued expenses		
payable and other liabilities	\$345	\$(23)
Operating lease right-of-use assets and lease liabilities recorded upon		
adoption of ASC 842	\$162,814	\$-
Finance lease right-of-use assets and lease liabilities recorded upon		
adoption of ASC 842	\$782	\$-
Operating lease assets obtained in exchange for new		
operating lease liabilities	\$8,370	\$-
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$29,481	\$28,633
Income taxes paid (net of refunds received)	\$(519)	\$(16)

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

H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Organization and Nature of Operations

Basis of Presentation

Our condensed 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.”

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such regulations. In the opinion of management, all adjustments (consisting of all normal and recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2019 are not necessarily indicative of the results that may be expected for the year ending December 31, 2019, and therefore, the results and trends in these interim condensed consolidated financial statements may not be the same for the entire year. These interim condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and related notes in our Annual Report on Form 10-K for the year ended December 31, 2018, from which the consolidated balance sheet amounts as of December 31, 2018 were derived.

All significant intercompany accounts and transactions have been eliminated in these condensed consolidated financial statements. Business combinations accounted for as purchases are included in the condensed 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 condensed consolidated balance sheets are presented on an unclassified basis.

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Historically, we have presented hauling revenues and related cost of sales associated with our equipment rental activities within Other Revenues and Other Cost of Sales. This presentation did not change upon our adoption of Topic 606 on January 1, 2018 as hauling activities are deemed a separate performance obligation under Topic 606 and SEC Regulation S-X permitted flexibility in the presentation of such revenues. However, given the presentation changes of certain ancillary fees required by Topic 842 as described in note 2 to these condensed consolidated financial statements, we believe that including equipment rental hauling revenues and related costs of sales within our Rental Revenues segment results in a more meaningful presentation and analysis of our equipment rental activities. In accordance with SEC Regulation S-X, the reclassification of equipment rental hauling revenues and related cost of sales from Other Revenues and Other Cost of Sales to Rental Revenues and Rental Other Cost of Sales is presented on a retrospective basis, meaning our condensed consolidated statements of income for the three month periods ended March 31, 2019 and 2018 include hauling revenues and related costs of sales presented within Equipment Rental Revenues and Rental Other Cost of Sales. The table below reconciles for the three month period ended March 31, 2018, our Revenues, Cost of Revenues and Gross Profit as previously reported to the current period presentation in this Quarterly Report on Form 10-Q.

\$'s in
thousands

	Three Month Period Ended March 31, 2018		
	As Previously Reported	Hauling Fees	As Currently Reported
REVENUES			
Equipment rentals	\$ 129,361	\$ 7,677	\$ 137,038
New equipment sales	46,493	-	46,493
Used equipment sales	24,853	-	24,853
Parts sales	28,151	-	28,151
Services revenues	15,036	-	15,036
Other	16,588	(7,677)	8,911
Total revenues	260,482	-	260,482
COST OF REVENUES			
Rental depreciation	46,469	-	46,469
Rental expense	21,272	-	21,272
Rental other	-	12,100	12,100
	67,741	12,100	79,841
New equipment sales	40,845	-	40,845
Used equipment sales	16,937	-	16,937
Parts sales	20,617	-	20,617
	5,050	-	5,050

Services revenues			
Other	16,707	(12,100)	4,607
Total cost of revenues	167,897	-	167,897
Gross Profit	\$ 92,585	\$ -	\$ 92,585

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) Significant Accounting Policies

We describe our significant accounting policies in note 2 of the notes to consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2018. During the three month period ended March 31, 2019, there were no significant

changes to those accounting policies, other than those policies impacted by our adoption of the new lease accounting standard, which is further described below in “Recent Accounting Pronouncements Adopted in Fiscal 2019”.

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.

Recent Accounting Pronouncements

Pronouncements Not Yet Adopted

In June 2016, the FASB issued Accounting Standards Update (“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.

In August 2018, the FASB issued ASU No. 2018-13, "*Fair Value Measurement - Disclosure Framework*," or ASU 2018-13. ASU 2018-13 modifies the disclosure requirements for fair value measurements. The amendments relate to disclosures regarding unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty and are to be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years, and early adoption is permitted. We are currently evaluating the impact of ASU 2018-13 on our consolidated financial statements.

Recently Adopted Accounting Pronouncements

Leases

We adopted ASU No. 2016-02, *Leases* (Topic 842), on January 1, 2019. Topic 842 is an update to Topic 840, which was the lease accounting standard in effect through December 31, 2018. Topic 842 applies to us from both a lessor and a lessee perspective, as further described below.

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. We account for such rental contracts as operating leases pursuant to Topic 842, as well as pursuant to previous lease accounting guidance (Topic 840) in effect for periods prior to the effective date of Topic 842.

In accordance with Topic 842, certain ancillary fees that we charge our equipment rental customers result in a different presentation within our consolidated statements of income compared to our historical presentation of those items under previous lease accounting guidance. Specifically, amounts we charge our customers for loss damage waiver fees, environmental fees, and fuel and other recovery fees, upon adoption of Topic 842, are to be included within our Equipment Rentals segment rather than included within non-segmented Other Revenues as we have historically presented those items under previous lease accounting guidance. Likewise, the related cost of goods sold for these ancillary items under Topic 842 are to be presented within our Equipment Rentals segment rather than included in non-segmented Other Cost of Goods Sold as we have historically presented under previous lease accounting guidance.

We adopted Topic 842 on January 1, 2019 using the transition method that allowed us to initially apply Topic 842 as of January 1, 2019 and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. As such, Topic 842 will not be applied to periods prior to January 1, 2019. Therefore, the above changes as described are not reflected in our condensed consolidated statements of income for the three month period ended March 31, 2018. While the above changes resulting from our adoption of Topic 842 do not impact total consolidated revenues or total consolidated gross profit, the change does impact the comparability of our total Rental Revenues and total Other Revenues gross profit and resulting gross margins for 2019 compared to our previously reported gross profit and resulting gross margins for periods prior to January 1, 2019.

Lessee Accounting

Topic 842 requires leases with durations greater than twelve months to be recognized on the balance sheet. We adopted Topic 842 using the modified retrospective approach with an effective date as of the beginning of our fiscal year, January 1, 2019. Therefore, prior year financial statements were not recast under the new standard. We recognized an adjustment of less than \$0.1 million to retained earnings upon adoption of Topic 842.

We elected the package of transition provisions available for expired or existing leases, which allowed us to carryforward our historical assessments of (1) whether contracts are or contain leases, (2) lease classification and (3) initial direct costs. We did not elect the use-of-hindsight practical expedient or the practical expedient pertaining to land easements. We elected not to apply Topic 842 to arrangements with lease terms of 12 months or less.

The adoption of Topic 842 had a material impact on our consolidated balance sheet related to operating leases. Upon adoption of Topic 842, we recognized additional operating lease liabilities, net of deferred rent, of \$162.8 million. We also recognized corresponding right-of-use operating lease assets of \$162.8 million. Finance lease liabilities recognized upon adoption of Topic 842 were \$0.8 million and finance right-of-use lease assets were \$0.5 million.

Topic 842 significantly expanded the disclosure requirements related to our leasing activities. Additional information and disclosures required by Topic 842 are presented in note 10 to these condensed consolidated financial statements.

Revenue Recognition

In May 2014, the FASB issued 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

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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. As described above and in note 10 to these condensed consolidated financial statements, we adopted Topic 842 on January 1, 2019. We recognize revenue in accordance with two different accounting standards: 1) Topic 606 and 2) Topic 842. 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, and is the unit of account under Topic 606. Our contracts with customers generally do not include multiple performance obligations. 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.

In the table below, revenue as presented in our condensed consolidated statement of income for the three month period ended March 31, 2019 and 2018 is summarized by type and by the applicable accounting standard.

	Three Month Period Ended March 31,			2018		
	2019 Topic 842	Topic 606	Total	Topic 840	Topic 606	Total
Revenues:						
Rental revenues						
Owned equipment rentals	\$ 153,350	\$ 274	\$ 153,624	\$ 123,734	\$ 522	\$ 124,256
Re-rent revenue	6,036		6,036	5,105		5,105
Ancillary and other rental revenues:						
Delivery and pick-up		8,982	8,982	7,677		7,677
Other	7,487		7,487			
Total ancillary rental revenues	7,487	8,982	16,469	7,677		7,677
Total equipment rental revenues	166,873	9,256	176,129	128,839	8,199	137,038
New equipment sales		59,103	59,103	46,493		46,493
Used equipment sales		29,634	29,634	24,853		24,853
Parts sales		30,428	30,428	28,151		28,151
Service revenues		15,568	15,568	15,036		15,036
Other		2,776	2,776	6,267	2,644	8,911
Total revenues	\$ 166,873	\$146,765	\$ 313,638	\$ 135,106	\$ 125,376	\$ 260,482

Revenues by reporting segment are presented in note 11 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 segments in note 11, depict how the nature, amount, timing and uncertainty of our revenues and cash flows are affected by economic factors.

Lease revenues (Topic 842)

Owned Equipment Rentals: 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.

Re-rent revenue: Re-rent revenue reflects revenues from equipment that we rent from vendors and then rent to our customers. We account for such rentals as subleases. The accounting for re-rent revenue is the same as the accounting for owned equipment rentals described above.

“Other” equipment rental revenue is primarily comprised of (i) revenue from customers who purchase insurance to protect against potential damages or loss the equipment they rent, (ii) environmental charges associated with the rental of equipment, and (iii) fuel recovery fees charged to customers. 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. Prior to our adoption of Topic 842 on January 1, 2019, these revenue items were included in other revenues as shown in the table above for the three month period ended March 31, 2018.

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 842. 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 842.

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

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 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 842, the discussions below on credit risk and our allowance for doubtful accounts address our total revenues from Topic 606 and Topic 842.

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. 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 Quarterly Report on Form 10-Q. 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 three month periods ended March 31, 2019 and 2018 were approximately 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 three month periods ended March 31, 2019 or 2018 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 three month periods ended March 31, 2019 and 2018 was not material. We also do not expect to recognize material revenue in the future related to performance obligations that are unsatisfied (or partially unsatisfied) as of March 31, 2019.

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.

(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 fair values of the assets acquired and liabilities assumed as of the acquisition date.

	\$'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)

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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. Since our acquisition of CEC on January 1, 2018, significant amounts of equipment rental fleet have been moved between H&E locations and the acquired CEC locations, and it is impractical to reasonably estimate the amount of CEC revenues and earnings since the acquisition date.

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 markets.

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 fair value of the assets acquired and liabilities assumed as of the acquisition date.

	\$’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) 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 that is 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 approximately \$0.3 million. Since our acquisition of Rental Inc. on April 1, 2018, significant amounts of equipment rental fleet have been moved between H&E locations and the acquired Rental Inc. locations, and it is impractical to reasonably estimate the amount of Rental Inc. revenues and earnings since the acquisition date.

2019 Acquisition

Cobra Equipment Rentals LLC (dba “We-Rent-It”)

Effective February 1, 2019, we completed the acquisition of We-Rent-It (“WRI”), an equipment rental company with six branches located in central Texas. The acquisition expands our presence in the surrounding markets.

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). The following table summarizes the estimated fair value of the assets acquired and liabilities assumed as of the acquisition date. The amounts presented below are preliminary and are subject to change.

	\$’s in thousands
Cash	\$ 1,745
Accounts receivable	5,149
Inventory	873
Prepaid expenses and other assets	544
Rental equipment	53,242
Property and equipment	3,959
Other assets	21
Intangible assets (1)	7,300
Total identifiable assets acquired	72,833
Accounts payable	(115)
Accrued expenses payable and other liabilities	(874)
Total liabilities assumed	(989)
Net identifiable assets acquired	71,844
Goodwill	36,647
Net assets acquired	\$ 108,491

(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	\$ 7,300	10

The analysis of assigning the above \$36.6 million goodwill among our six goodwill reporting units has not been finalized. The level of goodwill that resulted from the WRI acquisition is primarily reflective of WRI's going-concern value, the value of WRI'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 WRI acquisition costs were \$0.3 million. Total revenues attributable to WRI since the February 1, 2019 acquisition were \$5.9 million for the three month period ended March 31 2019. Estimated net income attributable to WRI since the acquisition was approximately \$0.8 million, or \$0.02 per share, for the three month period ended March 31, 2019. It should be noted that as we integrate WRI into H&E's operations, significant amounts of rental fleet will be moved between H&E locations and WRI locations, such that reasonably estimating WRI acquisition revenues and earnings will likely become impractical to do.

Pro forma financial information

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We completed the CEC acquisition on January 1, 2018. Therefore, the operating results of CEC are included in our reported condensed consolidated statements of income for the full three month periods ended March 31, 2019 and 2018. We completed the Rental Inc. acquisition on April 1, 2018. Therefore, our reported condensed consolidated statements of income for the three month period ended March 31, 2018 do not include Rental Inc. for the period January 1, 2018 through March 31, 2018. We completed the We-Rent-It acquisition on February 1, 2019. Therefore, our reported condensed consolidated statements includes We-Rent-It for the period of February 1, 2019 through March 31, 2019.

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Pursuant to ASC 805, pro forma disclosures should be repeated whenever the year or interim period of the acquisition is presented. Since the CEC acquisition was completed in the first quarter of 2018, the pro forma information below gives effect to the CEC acquisition as if the acquisition occurred on January 1, 2017 (the CEC pro forma acquisition date) for the three month period ended March 31, 2017.

	(amounts in thousands)		
	Three Month Period Ended March 31, 2017		
	H&E	CEC	Total
Total revenues (1)	\$ 226,828	\$ 8,389	\$ 235,217
Pretax income	8,530	1,441	9,971
Pro forma adjustments to pretax income:			
Impact of fair value mark-ups/useful life changes on depreciation (2)		(903)	(903)
Intangible asset amortization (3)		(705)	(705)
Pro forma pretax income (loss)	8,530	(167)	8,363
Income tax expense (benefit)	3,140	(63)	3,077
Net income (loss)	\$ 5,390	\$ (104)	\$ 5,286
Net income per share - basic	\$ 0.15	\$	\$ 0.15
Net income per share – diluted	\$ 0.15	\$	\$ 0.15

(1) There were no nonrecurring pro forma adjustments directly attributable to the CEC acquisition included in the reported pro forma total revenues.

(2) 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 CEC acquisition.

(3) Represents the amortization of the intangible assets acquired in the CEC acquisition.

The pro forma information below gives effect to the WRI acquisition as if it had been completed on January 1, 2018 (the WRI pro forma acquisition date). Because the Rental Inc. acquisition occurred in the second quarter of 2018 and the acquisition is not included in our condensed consolidated statements of income for the three month period March 31, 2018, pro forma information, pursuant to ASC 805, is not required to be presented in this Quarterly Report on Form 10-Q.

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The pro forma information below 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 tables below present unaudited pro forma consolidated statements of income information for the three month period ended March 31, 2018 as if WRI was included in our consolidated results for the entire period presented.

	(amounts in thousands, except per share data) Three Month Period Ended March 31, 2018		
	H&E(1)	We-Rent-It	Total
Total revenues	\$260,482	\$7,587	\$268,069
Pretax income	13,068	784	13,852
Pro forma adjustments to pretax income:			
Impact of fair value mark-ups/useful life changes on depreciation (2)	—	(250)	(250)
Intangible asset amortization (3)	—	(122)	(122)
Interest expense (4)	—	(1,356)	(1,356)
Elimination of historic interest expense (5)	—	80	80
Pro forma pretax income (loss)	13,068	(864)	12,204
Income tax expense (benefit)	3,590	(235)	3,355
Net income (loss)	\$ 9,478	\$ (629)	\$8,849
Net income (loss) per share – basic	\$ 0.27	\$(0.02)	\$ 0.25
Net income (loss) per share - diluted			
	\$ 0.26	\$(0.02)	\$ 0.25

(1) Amounts presented above for “H&E” are derived from the Company’s consolidated statements of income in this Quarterly Report on Form 10-Q for the three month period ended March 31, 2018.

(2) 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 acquisition.

(3) Represents the amortization of the intangible asset acquired in the acquisition.

(4) Interest expense was adjusted to reflect the additional debt resulting from the acquisition.

(5) Represents the elimination of historic debt of WRI that is not part of the combined entity.

(4) 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

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The carrying value of financial instruments reported in the accompanying condensed 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 March 31, 2019 and December 31, 2018 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.

	March 31, 2019	
	Carrying	Fair
	Amount	Value
Manufacturer flooring plans payable with interest computed		
at 5.50% (Level 3)	\$26,350	\$22,281
Senior unsecured notes with interest computed		
at 5.625% (Level 2)	944,977	947,625
Letter of credit (Level 3)	—	97
	December 31, 2018	
	Carrying	Fair
	Amount	Value
Manufacturer flooring plans payable with interest computed		
at 5.50% (Level 3)	\$23,666	\$19,870
Senior unsecured notes 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

During the three month period ended March 31, 2019 and 2018, there were no transfers of financial assets or liabilities in or out of Level 1, Level 2 or Level 3 of the fair value hierarchy.

(5) Stockholders' Equity

The following table summarizes the activity in Stockholders' Equity for the three month period ended March 31, 2019 and March 31, 2018, respectively (amounts in thousands, except share data):

	Common Stock		Additional Paid-in Capital	Treasury Stock	Retained Earnings	Total Stockholders' Equity
	Shares Issued	Amount				
Balances at December 31, 2018	39,748,562	\$ 396	\$ 231,174	\$(63,099)	\$ 88,332	\$ 256,803
Stock-based compensation	—	—	1,188	—	—	