HERC HOLDINGS INC
Form 10-Q
May 09, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 001-33139
HERC HOLDINGS INC.
(Exact name of registrant as specified in its charter)

Delaware	20-3530539
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

27500 Riverview Center Blvd.
Bonita Springs, Florida 34134
(239) 301-1000
(Address, including Zip Code, and telephone number, including area code, of registrant's principal executive offices)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

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

As of May 4, 2018, there were 28,422,031 shares of the registrant's common stock, $0.01 par value, outstanding.

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

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

	March 31, 2018 (Unaudited)	December 31, 2017
ASSETS		
Cash and cash equivalents	$ 43.0	$ 41.5
Receivables, net of allowances of $24.4 and $26.9, respectively	347.0	386.3
Inventory	22.2	23.7
Prepaid and other current assets	24.0	23.0
Total current assets	436.2	474.5
Revenue earning equipment, net	2,435.2	2,374.6
Property and equipment, net	283.1	286.3
Intangible assets, net	286.3	283.9
Goodwill	91.0	91.0
Other long-term assets	42.1	39.4
Total assets	$ 3,573.9	$ 3,549.7
LIABILITIES AND EQUITY		
Current maturities of long-term debt and financing obligations	$ 23.7	$ 25.4
Accounts payable	266.6	152.0
Accrued liabilities	123.4	113.3
Total current liabilities	413.7	290.7
Long-term debt, net	2,054.7	2,137.1
Financing obligations, net	112.2	112.9
Deferred tax liabilities	456.7	462.8
Other long-term liabilities	36.3	35.8
Total liabilities	3,073.6	3,039.3
Commitments and contingencies (Note 10)		
Equity:		
Preferred stock, $0.01 par value, 13.3 shares authorized, no shares issued and outstanding	—	—
Common stock, $0.01 par value, 133.3 shares authorized, 31.1 and 31.1 shares issued and 28.4 and 28.3 shares outstanding	0.3	0.3
Additional paid-in capital	1,766.6	1,763.1
Accumulated deficit	(472.5)	(462.4)
Accumulated other comprehensive loss	(102.1)	(98.6)
Treasury stock, at cost, 2.7 shares and 2.7 shares	(692.0)	(692.0)
Total equity	500.3	510.4
Total liabilities and equity	$ 3,573.9	$ 3,549.7

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

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

	Three Months Ended March 31,	
	2018	2017
Revenues:		
Equipment rental	$369.1	$320.6
Sales of revenue earning equipment	47.3	54.4
Sales of new equipment, parts and supplies	11.4	11.5
Service and other revenue	3.5	2.9
Total revenues	431.3	389.4
Expenses:		
Direct operating	196.0	168.9
Depreciation of revenue earning equipment	93.3	92.9
Cost of sales of revenue earning equipment	42.0	54.9
Cost of sales of new equipment, parts and supplies	9.0	8.4
Selling, general and administrative	74.5	81.1
Interest expense, net	32.0	37.8
Other income, net	(0.3)	(0.3)
Total expenses	446.5	443.7
Loss before income taxes	(15.2)	(54.3)
Income tax benefit	5.1	15.1
Net loss	$(10.1)	$(39.2)
Weighted average shares outstanding:		
Basic	28.4	28.3
Diluted	28.4	28.3
Loss per share:		
Basic	$(0.36)	$(1.39)
Diluted	$(0.36)	$(1.39)

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

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

	Three Months Ended March 31,	
	2018	2017
Net loss	$(10.1)	$(39.2)
Other comprehensive income (loss):		
Foreign currency translation adjustments	(5.4)	1.7
Unrealized gains and losses on hedging instruments:		
Unrealized gains (losses) on hedging instruments	2.3	(0.4)
Income tax (provision) benefit related to hedging instruments	(0.6)	0.2
Pension and postretirement benefit liability adjustments:		
Amortization of net losses included in net periodic pension cost	0.3	0.4
Income tax provision related to defined benefit pension plans	(0.1)	(0.2)
Total other comprehensive income (loss)	(3.5)	1.7
Total comprehensive loss	$(13.6)	$(37.5)

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

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

Balance at:	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Equity
December 31, 2017	28.3	$ 0.3	$ 1,763.1	$ (462.4)	$ (98.6)	$ (692.0)	$ 510.4
Net loss	—	—	—	(10.1)	—	—	(10.1)
Other comprehensive loss	—	—	—	—	(3.5)	—	(3.5)
Net settlement on vesting of equity awards	—	—	(0.1)	—	—	—	(0.1)
Stock-based compensation charges	—	—	2.8	—	—	—	2.8
Employee stock purchase plan	—	—	0.4	—	—	—	0.4
Exercise of stock options	0.1	—	0.4	—	—	—	0.4
March 31, 2018	28.4	$ 0.3	$ 1,766.6	$ (472.5)	$ (102.1)	$ (692.0)	$ 500.3

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

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

	Three Months Ended March 31,	
	2018	2017
Cash flows from operating activities:		
Net loss	$(10.1)	$(39.2)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation of revenue earning equipment	93.3	92.9
Depreciation of property and equipment	12.7	10.5
Amortization of intangible assets	1.1	1.2
Amortization of deferred debt and financing obligations costs	1.5	1.6
Stock-based compensation charges	2.8	1.5
Provision for receivables allowance	10.1	10.6
Deferred taxes	(5.1)	(15.1)
(Gain) loss on sale of revenue earning equipment	(5.3)	0.5
Income from joint ventures	(0.5)	(0.6)
Other	2.3	2.2
Changes in assets and liabilities:		
Receivables	19.8	2.4
Inventory, prepaid and other assets	(1.8)	(3.4)
Accounts payable	(0.3)	3.6
Accrued liabilities and other long-term liabilities	8.7	21.2
Net cash provided by operating activities	129.2	89.9
Cash flows from investing activities:		
Revenue earning equipment expenditures	(82.5)	(56.2)
Proceeds from disposal of revenue earning equipment	52.9	44.7
Non-rental capital expenditures	(14.4)	(17.9)
Proceeds from disposal of property and equipment	1.2	0.5
Net cash used in investing activities	(42.8)	(28.9)

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

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

	Three Months Ended March 31, 2018	2017
Cash flows from financing activities:		
Repayments of long-term debt	—	(123.5)
Proceeds from revolving lines of credit	51.0	173.8
Repayments on revolving lines of credit	(131.6)	(105.0)
Principal payments under capital lease and financing obligations	(4.5)	(3.8)
Debt extinguishment costs	—	(3.7)
Proceeds from exercise of stock options and other	0.4	—
Proceeds from employee stock purchase plan	0.4	—
Net settlement on vesting of equity awards	(0.1)	—
Net cash used in financing activities	(84.4)	(62.2)
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	(0.5)	0.1
Net increase (decrease) in cash, cash equivalents and restricted cash during the period	1.5	(1.1)
Cash, cash equivalents and restricted cash at beginning of period	41.5	31.0
Cash, cash equivalents and restricted cash at end of period	$ 43.0	$ 29.9
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 11.7	$ 13.4
Cash paid for income taxes, net	$ 3.5	$ 1.4

Supplemental disclosure of non-cash investing activity:				
Purchases of revenue earning equipment in accounts payable	$	114.9	$	63.0
Disposals of revenue earning equipment in accounts receivable	$	—	$	5.5
Non-rental capital expenditures in accounts payable	$	0.3	$	—
Supplemental disclosure of non-cash investing and financing activity:				
Equipment acquired through capital lease	$	0.1	$	—

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

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

Note 1—Background

Herc Holdings Inc. ("we," "us," "our," "Herc Holdings," "the Company" or, as the context requires, "its") is one of the leading equipment rental suppliers with approximately 275 locations at March 31, 2018, principally in North America. The Company conducts substantially all of its operations through subsidiaries, including Herc Rentals Inc. ("Herc"). Operations are conducted under the Herc Rentals brand in the United States and under the Hertz Equipment Rental brand in Canada and other international locations. With over 50 years of experience, we are a full-line equipment rental supplier offering a broad portfolio of equipment for rent. In addition to our principal business of equipment rental, we sell used equipment and contractor supplies such as construction consumables, tools, small equipment and safety supplies; provide repair, maintenance, equipment management services and safety training to certain of our customers; offer equipment re-rental services and provide on-site support to our customers; and provide ancillary services such as equipment transport, rental protection, cleaning, refueling and labor.

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

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

Note 2—Basis of Presentation and Recently Issued Accounting Pronouncements

Basis of Presentation

The Company prepares its condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). In the opinion of management, the condensed consolidated financial statements reflect all adjustments of a normal recurring nature that are necessary for a fair statement of the results for the interim periods presented. Interim results are not necessarily indicative of results for a full year. The year-end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP.

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

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

Principles of Consolidation

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

Recently Issued Accounting Pronouncements

Adopted

Revenue from Contracts with Customers

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance that replaced existing revenue recognition guidance in U.S. GAAP. The new guidance requires entities to recognize revenue when control of the promised goods or services is transferred to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

On January 1, 2018, the Company adopted the guidance using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. The Company did not record any amount to the opening balance of retained earnings as of January 1, 2018 as the cumulative impact of adopting the guidance was not material. The comparative financial statement information has not been restated and continues to be reported under the accounting standards in effect for those periods. The adoption of the guidance had no material impact on the Company’s consolidated balance sheet as of January 1, 2018. The Company's accounting for equipment rental revenue is primarily outside the scope of this new revenue guidance and will be evaluated under the new lease guidance which is described further under the subheading "Leases" below.

Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments

In August 2016, the FASB issued guidance to eliminate the diversity in practice related to the classification of certain cash receipts and payments in the statement of cash flows, by adding or clarifying guidance on eight specific cash flow issues. The Company adopted this guidance on January 1, 2018 in accordance with the effective date and has amended its statement of cash flows for the three months ended March 31, 2017 by reclassifying $3.7 million of debt extinguishment costs from cash used in operating activities to cash used in financing activities.

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

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

Statement of Cash Flows: Restricted Cash

In November 2016, the FASB issued guidance requiring restricted cash and cash equivalents to be included with cash and cash equivalents on the statement of cash flows. The Company adopted this guidance on January 1, 2018 in accordance with the effective date and has amended its statement of cash flows for the three months ended March 31, 2017 accordingly.

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

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

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Compensation - Stock Compensation

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

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

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

Not Yet Adopted

Leases

In February 2016, the FASB issued guidance that replaces the existing lease guidance. The new guidance establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. This guidance also expands the requirements for lessees to record leases embedded in other arrangements and the required quantitative and qualitative disclosures surrounding leases. Accounting guidance for lessors is largely unchanged. This guidance is effective for annual periods beginning after December 15, 2018 and interim periods within those annual periods using a modified retrospective transition approach.

As discussed in Note 3, "Revenue Recognition," most of the Company's equipment rental revenues will be accounted for under the current lease accounting standard, Accounting Standards Codification (“ASC”) Topic 840, Leases ("Topic 840") until the adoption of the new lease accounting standard ("Topic 842"). Also, under Topic 842, our operating leases, which include both real estate and non-rental equipment, will result in lease assets and lease liabilities being recognized on the Company's balance sheet. The Company expects that the quantification of the amount of the lease assets and lease liabilities that it will recognize on the balance sheet will take a significant amount of time. As such, the Company is currently in the process of assessing the potential impacts of adopting this guidance on its financial position, results of operations and cash flows.

Income Statement - Reporting Comprehensive Income

In February 2018, the FASB issued guidance that allows reclassification from accumulated other comprehensive income to retained earnings for certain tax effects resulting from the Tax Cuts and Jobs Act of 2017 (the "2017 Tax

Act") that would otherwise be stranded in accumulated other comprehensive income. This guidance is effective for annual and interim periods beginning after December 15, 2018, with early adoption permitted. The Company is in the process of assessing the potential impacts of adopting this guidance on its financial position, results of operations and cash flows.

Note 3—Revenue Recognition

The Company is principally engaged in the business of renting equipment. Ancillary to the Company’s principal equipment rental business, the Company also sells used rental equipment, new equipment and parts and supplies and offers certain services to support its customers. The Company’s business is primarily focused in North America with approximately 87.5% and 88.2% of total revenue for the three months ended March 31, 2018 and 2017, respectively, representing revenue from the United States.
The Company’s rental transactions are principally accounted for under Topic 840. The Company’s sale of revenue earning and new equipment, parts and supplies along with certain services provided to customers are accounted for under ASC Topic 606,

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

Revenue from Contracts with Customers (“Topic 606”). Prior to the adoption of Topic 606, the Company accounted for these non-rental transactions under ASC Topic 605, Revenue Recognition ("Topic 605").

The following table summarizes the applicable accounting guidance for the Company’s revenues for the three months ended March 31, 2018 and 2017, respectively (in millions):

	Three Months Ended March 31,					
	2018			2017		
	Topic 840	Topic 606	Total	Topic 840	Topic 605	Total
Revenues:						
Equipment rental	$340.7	$—	$340.7	$297.0	$—	$297.0
Other rental revenue:						
Delivery and pick-up	—	17.2	17.2	—	14.9	14.9
Other	11.2	—	11.2	8.7	—	8.7
Total other rental revenues	11.2	17.2	28.4	8.7	14.9	23.6
Total equipment rentals	351.9	17.2	369.1	305.7	14.9	320.6
Sales of revenue earning equipment	—	47.3	47.3	—	54.4	54.4
Sales of new equipment, parts and supplies	—	11.4	11.4	—	11.5	11.5
Service and other revenues	—	3.5	3.5	—	2.9	2.9
Total revenues	$351.9	$79.4	$431.3	$305.7	$83.7	$389.4

Equipment Rental Revenue

The Company offers a broad portfolio of equipment for rent on a daily, weekly or monthly basis with most rental agreements cancelable upon the return of the equipment.

Equipment rental revenue represented 85.6% and 82.3% of the Company’s total revenues for the three months ended March 31, 2018 and 2017, respectively. Equipment rental revenue includes revenue generated from renting equipment to customers, including re-rent revenue in which the Company will rent specific pieces of equipment from vendors and then rent that equipment to its customers. Also included in equipment rental revenue are fees for delivery and pick up of rental equipment to and from customer locations, fees for the Company’s rental protection program, environmental charges, discounts, rebates to customers and other revenue adjustments. Fees paid for the rental protection program allow customers to limit the risk of financial loss in the event the Company’s equipment is damaged or lost. Total non-rental rate fees charged to customers represent approximately 7.7% and 7.4% of the total equipment rental revenue for the three months ended March 31, 2018 and 2017, respectively.

Equipment rental revenue is recognized on a straight-line basis over the length of the rental contract. Virtually all customer contracts can be canceled with no penalty by the customer by returning the equipment within one day, therefore, the Company does not allocate the transaction price between the different contract elements. Provisions for discounts, rebates to customers and other adjustments are provided for in the period the related revenue is recorded. Fees for the rental protection program and environmental recovery fees are recognized on a straight-line basis over the length of the rental contract. Other fees are recognized when related services are provided.

Sales of Revenue Earning Equipment, New Equipment, Parts and Supplies

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

	Three months ended March 31,

	2018	2017
Sales of revenue earning equipment	$47.3	$54.4
Sales of new equipment	5.8	5.2
Sales of parts and supplies	5.6	6.3
Total	$58.7	$65.9

Sales of revenue earning equipment represents 11.0% and 14.0% of the Company’s total revenue for the three months ended March 31, 2018 and 2017, respectively. The Company routinely sells its used rental equipment in order to manage repair and maintenance costs, as well as the composition, age and size of its fleet. The Company disposes of used equipment through a variety of channels including retail sales to customers and other third parties, sales to wholesalers, brokered sales and auctions. The Company sold its used revenue earning equipment through the following channels:

	Three Months Ended March 31,	
	2018	2017
Wholesale	45 %	45 %
Retail	28	27
Auction	27	28
Total	100 %	100 %

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

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

Under Topic 606, the accounts receivable balance, prior to allowances for doubtful accounts, for the sale of revenue earning equipment, new equipment, parts and supplies, was approximately $33.7 million as of March 31, 2018.

Service and other revenues

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

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

Receivables and contract assets and liabilities

Most of the Company's equipment rental revenue is accounted for under Topic 840. The customers that are responsible for the remaining revenue that is accounted for under Topic 606 are generally the same customers that rent the Company's equipment. Concentration of credit risk with respect to the Company's accounts receivable is limited because a large number of geographically diverse customers makes up our customer base. No single customer makes up more than 3% of the Company's equipment rental revenue or accounts receivable balance for the last three years. The Company manages credit risk associated with its accounts receivable at the customer level through credit approvals, credit limits and other monitoring procedures. The Company maintains allowances for doubtful accounts that reflect the Company's estimate of the amount of receivables that the Company will be unable to collect based on its historical write-off experience.

The Company does not have contract assets or material contract liabilities associated with customer contracts. The Company's contracts with customers do not generally result in material amounts billed to customers in excess of recognizable revenue. The Company did not recognize material revenue during the three months ended March 31, 2018 that was included in the contract liability balance as of the beginning of such period.

Performance obligations

Most of the Company's revenue recognized under Topic 606 is recognized at a point-in-time, rather than over time. Accordingly, in any particular period, the Company does not generally recognize a significant amount of revenue from performance obligations

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satisfied (or partially satisfied) in previous periods, and the amount of such revenue recognized during the three months ended March 31, 2018 was not material. We also do not expect to recognize material revenue in the future related to performance obligations that are unsatisfied (or partially unsatisfied) as of March 31, 2018.

Contract estimates and judgments

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

- The transaction price is generally fixed and stated on the Company's contracts;
- As noted above, the Company's contracts generally do not include multiple performance obligations, and accordingly do not generally require estimates of the standalone selling price for each performance obligation;
- The Company's revenues do not include material amounts of variable consideration; and