



**CUSTOM
TRUCK**
ONE SOURCE™

ANNUAL REPORT

2022

SELECTED FINANCIAL DATA

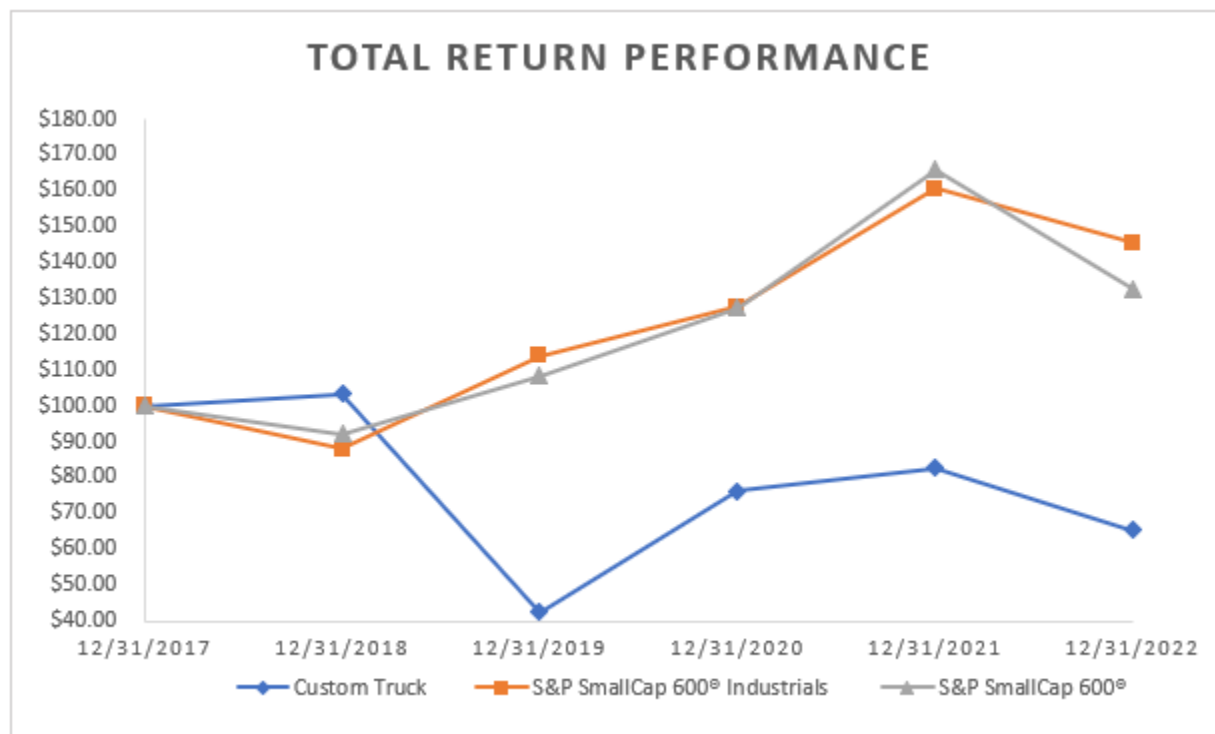
As of and for the Year Ended December 31		
(in \$000s)	2022	2021 ⁽¹⁾
Revenue	\$ 1,573,086	\$ 1,167,154
Gross Profit	383,748	210,013
Net Income (loss)	38,905	(181,501)
Adjusted EBITDA ⁽²⁾	392,978	277,784
Total Assets	2,938,212	2,683,766
Total Long-Term Debt	1,354,766	1,308,265

(1) Includes Custom Truck One Source, L.P. from April 1, 2021 - December 31, 2021.

(2) Adjusted EBITDA is a non-GAAP financial measure. For reconciliation to the most directly comparable GAAP measure, please see Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our 2022 Annual Report on Form 10-K, which is included in this annual report to stockholders.

STOCK PERFORMANCE GRAPH

The following graph and accompanying table show the cumulative total return to stockholders of common stock of Custom Truck One Source, Inc. (“Custom Truck”) relative to the cumulative total returns of the S&P SmallCap 600® and the S&P SmallCap 600® Industrials. The below graph is a comparison of a five year cumulative total return assuming a \$100 initial investment with the reinvestment of all dividends, from December 31, 2017 to December 31, 2022. The stock price performance included in this graph is not necessarily indicative of future stock price performance.



	12/31/17	12/31/18	12/31/19	12/31/20	12/31/21	12/31/22
Custom Truck	\$ 100.00	\$ 103.26	\$ 42.46	\$ 76.14	\$ 82.64	\$ 65.29
S&P SmallCap 600® Industrials	\$ 100.00	\$ 87.85	\$ 113.89	\$ 127.52	\$ 160.55	\$ 145.46
S&P SmallCap 600®	\$ 100.00	\$ 92.12	\$ 108.45	\$ 127.35	\$ 165.87	\$ 132.51

DEAR SHAREHOLDERS,

2022 was a year of tremendous growth for Custom Truck in many positive ways as we continued to reinvest in our business, people, culture and communities. We were honored to receive the accolade of “Best Companies to Work For” in Kansas City by Ingram’s in 2022, highlighting our positive work experience. We addressed record demand levels and supply volatility head-on through continuous innovations, creative and dynamic sourcing and investments in capacity, talent and human capital foundation. We are grateful for all of our employees who have a passion for creating and delivering solutions for our customers, which translated into a year of record performance. Our revenue came in at \$1.6 billion and our net income was \$38.9 million, while our positive cash flow generation allowed us to reduce our leverage. Despite supply chain challenges, we made investments in our business that structure us for sustainable growth to continue to be the one-stop-shop solution for our customers.

In 2022, we launched our Purpose, Vision and Values initiative in order to capture our already great culture. Promoting our core values of Care & Respect, Solve Problems Like a Mechanic, Driven to Deliver, Engage Collaboratively and Spark Innovation will continue to drive our culture and enable us to achieve our vision.

2022 Highlights

- Experienced the strongest results in Custom Truck’s history
- Completed the integration of Custom Truck and Nesco
- Completed the implementation to a single ERP system

Ryan McMonagle
Chief Executive Officer

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2022

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: 001-38186

CUSTOM TRUCK ONE SOURCE, INC.

(Exact name of registrant as specified in its charter)

Delaware
*(State or other jurisdiction of
incorporation or organization)*

84-2531628
*(I.R.S. Employer
Identification No.)*

7701 Independence Ave
Kansas City, MO 64125
(Address of principal executive offices, including zip code)
(816) 241-4888
(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.0001 par value	CTOS	New York Stock Exchange
Redeemable warrants, exercisable for Common Stock, \$0.0001 par value	CTOS.WS	New York Stock Exchange

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by 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 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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

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.

[Table of Contents](#)

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

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

The aggregate market value of shares of common stock held by non-affiliates, computed by reference to the closing price for such common stock as of the last business day of the registrant’s most recently completed second fiscal quarter, as reported on the New York Stock Exchange, was approximately \$328.1 million.

The number of shares of common stock outstanding as of March 8, 2023 was 246,114,861.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Where Incorporated
Proxy Statement related to the 2023 Annual Meeting of Stockholders, which is expected to be filed with the Securities and Exchange Commission on or before May 1, 2023	Part III (Items 10, 11, 12, 13, and 14)

Custom Truck One Source, Inc. and Subsidiaries
Form 10-K Report Index

10-K Part
and Item No.

Page No.

PART I

Item 1	Business	1
Item 1A	Risk Factors	9
Item 1B	Unresolved Staff Comments	18
Item 2	Properties	18
Item 3	Legal Proceedings	20
Item 4	Mine Safety Disclosures	20

PART II

Item 5	Market for Registrant's Common Equity, Related Shareholder Matters, and Issuer Purchases of Equity Securities	21
Item 6	Reserved	21
Item 7	Management's Discussion and Analysis of Financial Condition and Results of Operations	22
Item 7A	Quantitative and Qualitative Disclosures About Market Risk	41
Item 8	Financial Statements and Supplementary Data	42
Item 9	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	83
Item 9A	Controls and Procedures	84
Item 9B	Other Information	88
Item 9C	Disclosure Regarding Foreign Jurisdictions that Prevent Inspections	88

PART III

Item 10	Directors, Executive Officers, and Corporate Governance	89
Item 11	Executive Compensation	89
Item 12	Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters	89
Item 13	Certain Relationships and Related Transactions, and Director Independence	89
Item 14	Principal Accountant Fees and Services	89

PART IV

Item 15	Exhibit and Financial Statement Schedules	90
Item 16	Form 10-K Summary	98
	Signatures	99

Forward-Looking Statements

Any statements made in this report that are not statements of historical fact, including statements about our beliefs and expectations, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, as amended, and should be evaluated as such. These statements often include words such as “anticipate,” “expect,” “suggest,” “plan,” “believe,” “intend,” “estimate,” “target,” “project,” “should,” “could,” “would,” “may,” “will,” “forecast,” and other similar expressions. We base these forward-looking statements or projections on our current expectations, plans and assumptions that we have made in light of our experience in the industry, as well as our perceptions of historical trends, current conditions, expected future developments and other factors we believe are appropriate under the circumstances and at such time. As you read and consider this Annual Report on Form 10-K, you should understand that these statements are not guarantees of performance or results and are subject to and involve risks, uncertainties and assumptions. You should not place undue reliance on these forward-looking statements or projections. Below is a summary of risk factors applicable to us that may materially affect such forward-looking statements and projections:

- increases in labor costs, our inability to obtain raw materials, component parts and/or finished goods in a timely and cost-effective manner, and our inability to manage our rental equipment in an effective manner;
- our sales order backlog may not be indicative of the level of our future revenues;
- increases in unionization rate in our workforce;
- our inability to recruit and retain the experienced personnel, including skilled technicians, we need to compete in our industries;
- our inability to attract and retain highly skilled personnel and our inability to retain our senior management;
- material disruptions to our operation and manufacturing locations as a result of public health concerns, equipment failures, natural disasters, work stoppages, power outages or other reasons;
- potential impairment charges;
- any further increase in the cost of new equipment that we purchase for use in our rental fleet or for sale as inventory;
- aging or obsolescence of our existing equipment, and the fluctuations of market value thereof;
- disruptions in our supply chain;
- our business may be impacted by government spending;
- we may experience losses in excess of our recorded reserves for receivables;
- unfavorable conditions in the capital and credit markets and our inability to obtain additional capital as required;
- increases in price of fuel or freight;
- regulatory technological advancement, or other changes in our core end-markets may affect our customer’s spending;
- difficulty in integrating acquired businesses and fully realizing the anticipated benefits and cost savings of the acquired businesses, as well as additional transaction and transition costs that we will continue to incur following acquisitions;
- material weakness in our internal control over financial reporting which, if not remediated, could result in material misstatements in our financial statements;
- the interest of our majority stockholder, which may not be consistent with the other stockholders;
- our significant indebtedness, which may adversely affect our financial position, limit our available cash and our access to additional capital, prevent us from growing our business and increase our risk of default;
- our inability to generate cash, which could lead to a default;
- significant operating and financial restrictions imposed by our debt agreements;
- changes in interest rates, which could increase our debt service obligations on the variable rate indebtedness and decrease our net income and cash flows;
- the phase-out of the London Interbank Offered Rate (“LIBOR”) and uncertainty as to its replacement;
- disruptions in our information technology systems or a compromise of our system security, limiting our ability to effectively monitor and control our operations, adjust to changing market conditions, and implement strategic initiatives;
- we are subject to complex laws and regulations, including environmental and safety regulations that can adversely affect cost, manner or feasibility of doing business;
- we are subject to a series of risks related to climate change; and
- increased attention to, and evolving expectations for, sustainability and environmental, social and governance initiatives.

These cautionary statements should not be construed by you to be exhaustive and are made only as of the date of this report. We undertake no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by law. See “Risk Factors” in Part I, Item 1A of this Annual Report on Form 10-K, for additional risks.

PART I

Item 1. Business

Company Overview

Custom Truck One Source, Inc. (“we,” “our,” “us,” “Custom Truck,” or “the Company”), a Delaware corporation, and its wholly owned subsidiaries are engaged in the business of providing a range of services and products to customers through rentals and sales of specialty equipment, rentals and sales of aftermarket parts and services related to the specialty equipment, and repair, maintenance, and customization services related to that equipment.

We are a specialty equipment provider to the electric utility transmission and distribution, telecommunications, rail, forestry, waste management and other infrastructure-related industries in North America. Our core business relates to our new equipment inventory and rental fleet of specialty equipment that is utilized by service providers in infrastructure development and improvement work. We offer our specialized equipment to a diverse customer base, including utilities and contractors, for the maintenance, repair, upgrade, and installation of critical infrastructure assets, including distribution and transmission electric lines, telecommunications networks, and rail systems, as well as for lighting and signage. We rent, produce, sell, and service a broad range of new and used equipment, including bucket trucks, digger derricks, dump trucks, cranes, service trucks, and heavy-haul trailers. We manage our business in our three reporting segments: Equipment Rental Solutions (“ERS”), Truck and Equipment Sales (“TES”), and Aftermarket Parts and Services (“APS”).

We operate with a differentiated “one-stop-shop” business model, offering equipment rental, new and used equipment sales, and aftermarket parts and service out of more than 35 locations across the U.S. and Canada. Customers receive additional support throughout the country from Custom Truck’s twenty-four hour, seven-day a week (“24/7”) call center, approximately 80 mobile technicians, and over 100 third-party locations. Custom Truck and its customers also benefit from its sophisticated sourcing model and large-scale integrated production and customization capabilities, which enhance the quality and diversity of its equipment offerings, reduce both cost and lead times for equipment sales and provide greater flexibility to optimize its rental fleet. These attributes, together with a strong reputation built over many years, position Custom Truck to capitalize on attractive secular growth trends across its end-markets.

Custom Truck owns one of the industry’s largest fleets of specialty rental equipment focused on electric utility transmission and distribution (“T&D”), rail, telecommunications, and infrastructure end-markets through our ERS segment. As of December 31, 2022, our fleet is comprised of more than 10,000 units with an average unit age of approximately 3.7 years, which we believe is young by rental fleet standards and compares favorably to the long useful life of the equipment. Our rental fleet is managed on a national level, which allows us to efficiently reposition equipment in response to shifts in regional demand and thereby sustain strong utilization levels.

As is customary among equipment rental companies, we sell used equipment out of our rental fleet to end user customers. We also offer a broad variety of new equipment for sale across our end-markets, often highly customized to meet its customers’ specific needs. Integrated production capabilities and extensive knowledge gained over a long history of selling equipment have positioned Custom Truck uniquely in the market as a trusted partner for customers seeking tailored solutions with short lead times. New and used equipment sales are accomplished through our TES segment.

Through our APS segment, we provide our customers a total job-site solution, offering a range of products for rent or sale to fully outfit their equipment and crews for activity in the field. Our comprehensive APS offering expands opportunities to serve our equipment rental and sales customers through the convenience of a single vendor for all their specialty equipment, tools and accessories needs.

End-Market Overview

Our core end-markets include operators of vocational and specialty trucks and associated parts and services. These operators serve infrastructure-related electric utility T&D, telecom, rail, forestry, and waste management, among others.

General End-Market Trends

The North American market has, and continues, to experience a secular shift from equipment ownership to rental. We believe that customers’ growing preference for equipment rental is driven by several factors including the avoidance of significant capital outlay, improved asset utilization, reduced storage and maintenance, access to a wider range of modern productive equipment, dedicated customer care, and operational efficiencies. We believe that the rental penetration rate will continue to trend towards the levels

observed in the broader market, and we believe there will be significant growth within our specific markets. We purchase the majority of our chassis from several Original Equipment Manufacturers (“OEM”) across our geographic footprint. The majority of our boom and crane components are sourced from selected suppliers.

On November 6, 2021, the United States Congress passed, and the President of the United States signed, the Infrastructure Investment and Jobs Act (the “Infrastructure Act”). The Infrastructure Act was amended and renamed to the Infrastructure Investment and Jobs Act. This amended version included approximately \$1.2 trillion in spending in new and reallocated funds with positive impacts to each of our end-markets.

Electric Utility T&D End-Market

Maintaining safe and effective transmission and distribution lines is critical to national infrastructure, as they carry the electricity that powers the nation. Transmission lines carry high voltage electricity long distances, while distribution lines carry electricity from local transformers to houses and businesses. Additionally, as the economy “electrifies,” in pursuit of reducing greenhouse gas emissions, electric reliability has become increasingly important. There will continue to be an increasing need for grid resiliency projects such as fire mitigation and storm hardening, and substantial renewable energy investments will be required in the electric transmission grid. From 2008 to 2020, compound annual growth rates for capital expenditures relating to transmission, distribution and solar were approximately 9%, 6% and 53%, respectively. Our specialty equipment is used for these projects, including the maintenance and repair of live lines and installation of new lines. Capital expenditure spend in the electric utility T&D end-market is approximately \$65 billion annually. This spend is driven by a number of attractive dynamics, demonstrating that the U.S. is potentially in the very early stages of a multi-year electric utility T&D spending cycle.

Aging and Underinvested Electric Utility T&D Infrastructure - Electricity delivery in the U.S. depends on an aging and complex patchwork system of power generation facilities, transmission grids, local distribution lines, and substations. Most electric utility T&D lines were constructed in the 1950s and 1960s with a 50-year life expectancy and were not originally engineered to meet today’s load demands. The average age of the transmission system in the United States is well over 40 years, with 25% to 35% being greater than 50 or more years old. Due in part to this aging infrastructure, costly electric emergency incidents and disturbances have increased since 2000. Multiple costly fires have also been caused by aging and under-maintained transmission and distribution lines. The prevention of additional incidents associated with the continued operations of aging electric utility T&D infrastructure is expected to continue to drive increasing levels of maintenance and repair and replacement spend by utilities.

Changing Generation Landscape - The ongoing transition from coal to gas and renewables continues to drive changes in the generation landscape and transmission project development. In the last five years, 19 states have adopted greenhouse gas emission goals and renewable portfolio standards. The share of new renewables in the U.S. electricity generation mix has been on an upward trend in the last five years and is estimated to continue to increase through 2028. As a result, significant spend for new transmission lines will be required to interconnect these new sources of power with the electrical grid.

Increased Outsourcing by Utilities - Utilities are increasingly turning to specialized third-party contractors to fulfill construction and maintenance needs. This outsourcing trend is driven by the challenge of an aging workforce and desire to shift the management and responsibilities of non-core activities to external service providers. Outsourcing is a favorable trend for us, given our rental penetration among electric utility T&D contractors who prefer to rent due to lower initial capital outlay, increased flexibility, improved asset utilization and productivity, and significantly reduced storage and maintenance costs.

The Infrastructure Act includes \$7.5 billion to build a national network of electric vehicle chargers and \$65 billion to upgrade power infrastructure.

Telecom End-Market

Telecommunications infrastructure, including telecom cells, towers, and wirelines, are the backbone of telephonic interaction and the transportation of mobile data. We provide the specialty equipment required to maintain and install telecom cells, towers, and communication lines. Construction spend on telecommunications infrastructure has exceeded approximately \$80 billion annually in recent years. This spend is expected to continue to grow due largely to the advent of 5G technology, which requires existing cell sites add equipment to support new frequencies. 5G technology will require the installation of numerous higher bandwidth small cells to “densify” wireless networks and enhance performance. This is because small cells only deliver coverage within approximately a quarter mile of their location, compared to approximately five miles for the existing 4G and predecessor macro cells. As a result, approximately 20 times more small cells will need to be installed in order to provide the same level of coverage as the existing macro cells.

Rapid technological advancements, including advanced digital and video service offerings, continue to increase demand for greater wireline and wireless network capacity and reliability. Data traffic is at an all-time high and is expected to increase in the future. North America data traffic is expected to grow at a 21% compound annual growth rate (“CAGR”) from 2022 to 2028.

The spend required by the key telecom operators to deploy 5G technology is expected to grow at a 47.6% CAGR from 2022 to 2030, of approximately \$198 billion. The Infrastructure Act provided an additional \$65 billion to increase access to reliable high-speed internet.

Rail End-Market

Freight and commuter rail are responsible for transporting products and people across North America. Our rail mounted equipment is used for a variety of tasks including the installation of new rail and maintenance of the existing rail lines. Ontario Limited (d/b/a HiRail Leasing), Ontario Inc. (d/b/a Heavy Equipment Repairs), and Ontario Limited (d/b/a Northshore Rail Contracting) (collectively “HiRail”) equipment is utilized in projects for both installation and repair of track, electric lines, signal crossings, and signs. The equipment is also often used for working on older infrastructure such as repairing bridges and terminals with more antiquated track and systems that are in need of upgrades with more modern systems like Positive Train Control (“PTC”) and others. The six largest public railroads operating in North America spend more than \$10 billion annually in capital expenditures. Such capital expenditures are expected to continue to grow as freight demands increase. In addition to freight rail, spend on active commuter rail projects is significant with a growing pipeline.

Freight Rail - Freight rail, one of the most cost-effective, energy-efficient modes of transport, and carries a majority of intercity freight as measured by ton-miles, more than any other mode of transportation. Our North American customers are principally Class I railroads and related contractors. These Class I operators accounted for approximately 67% of total railroad route miles in 2019.

Commuter Rail - Trends such as population growth, increasing urbanization, a focus on sustainability, environmental awareness, and increasing highway congestion are expected to drive continued investment in commuter rail. Furthermore, as a result of years of insufficient funding, transit systems across the U.S. are struggling to cope with aging infrastructure, creating and increasing backlog. The most recent federal estimates quantify the backlog of projects required to attain a “state of good repair,” meaning public transit is repaired to an age within its average service life, at \$90 billion — projected to grow to \$122 billion by 2032.

The Infrastructure Act provides \$39 billion to modernize transportation and an additional \$89.9 billion in guaranteed funding for public transportation along with an additional \$66 billion of funding specifically earmarked for passenger rail services.

Infrastructure End-Market

We also serve the general infrastructure end-market, which includes surface transportation, national highway performance, highway safety, metropolitan transit, and other key infrastructure systems, including residential and non-residential waste and water. Total infrastructure capex spend annually exceeds \$200 billion, and we believe the infrastructure end-market outlook remains positive.

We consider the waste end-market as part of the general infrastructure industry. Long-term, secular growth in this market is driven by growing waste volumes generated by increasing waste generation per capita. Population and income growth drive municipal solid waste generation. Municipal solid waste revenue is projected to grow at a compounded annual growth rate of 3.3% from 2020 to 2027. Waste is generally considered to be a recession-resistant industry given the non-discretionary nature of waste collection and disposal. Ongoing consolidation amongst waste haulers results in increasing market share for large, well-capitalized companies that have the resources to invest in the latest trucks and equipment.

The Infrastructure Act provides \$55 billion to expand access to clean drinking water for households, businesses, schools, and child care centers across the United States through many programs starting in 2021, over a 5 year period.

Products and Services

Equipment Rental Solutions and Truck and Equipment Sales

Our equipment rental fleet consists of more than 10,000 units, which management believes is among the largest specialty equipment rental fleets in North America. Our fleet consists of more than 250 product variations to serve the specialized needs of our customers including various terrain options such as truck mounted, rail mounted, track mounted, and all-wheel drive. Our equipment can reach transmission lines and cell sites in excess of 200 feet in the air, dig to a depth of 60 feet to install telephone and power line poles, provide power line and fiber line pulling capacity of up to 40,000 pounds, and reach remote and inaccessible areas for rail maintenance. A large percentage of our fleet is insulated, which allows customers to safely work on live electric lines. Our equipment is regularly tested for safety, which includes regulation-mandated dielectric testing of all insulated units to ensure safe operations near

electrical wiring. The majority of our equipment can be used across a variety of end-markets and many of our customers operate in multiple end-markets. Rental rates vary depending on product type, geography, demand, and other factors.

Examples of our rental and sales equipment include:

<i>Bucket Trucks</i>	Trucks equipped with a bucket mounted on an insulated or non-insulated hydraulic lifting aerial device used to maintain and construct utility, rail, or telecommunication lines.
<i>Digger Derricks</i>	Trucks equipped with a boom and auger used to dig holes and set utility, rail, and telephone poles.
<i>Cable placers</i>	Equipment used to string new and re-conduct overhead utility, rail, telecom, or cable lines including pole trailers, reel handling trailers, and other material handling trailers.
<i>Boom Trucks</i>	Trucks equipped with a boom mounted on an insulated or non-insulated hydraulic lifting aerial device used to maintain and construct utility, rail, or telecommunication lines.
<i>Rail Trucks</i>	Trucks equipped with specialty equipment to drive on rail tracks.
<i>Roll-Off Trucks</i>	Trucks equipped to transport waste containers
<i>Knuckleboom Trucks</i>	Trucks equipped to lift for utility, construction, and building materials applications
<i>Vacuum Trucks</i>	Trucks equipped to safely dig holes and transport materials by vacuuming materials or liquids
<i>Cranes</i>	Equipment made to lift heavy objects utilized in our core markets
<i>Pressure Diggers</i>	Trucks equipped with a pressure drill used to dig holes for utility poles, structure bases, and foundations through hard materials such as rock.
<i>Underground Equipment</i>	Variety of equipment used to place and remove underground utility and telecom lines without disruption to the surface.
<i>Trucks and Miscellaneous Equipment</i>	HiRail equipment including HiRail service trucks, grapples, roto-dumps, PTC trucks, etc.

Aftermarket Parts and Services

Our APS offerings include a broad range of parts, tools, and accessories inventory, which is a natural extension of our core equipment offering and can be rented or purchased on an individual basis or in packaged specialty kits.

The technical nature of certain parts, tools, and accessories requires periodic testing in a certified lab and expertise in specialized repairs, which we provide at our test and repair facilities. We provide nationwide coverage through eight locations that serve as hubs for the rental and sale of parts, tools, and accessories, and five of which offer technical test and repair.

Examples of our aftermarket parts and services include:

<i>Equipment Parts</i>	Aftermarket replacement parts for various types of trucks and equipment sold and rented by Custom Truck.
<i>Stringing Blocks</i>	Stringing dollies and accessories used to string powerline, telephone line (including fiber), or cable, above ground or underground in the new construction, rebuild, or maintenance of the lines.
<i>Augers</i>	Tool used to dig holes for power, telephone, or cable poles and also used to dig holes for structure bases, pilings, and foundation supports.
<i>Insulated Tools</i>	Extension arms, temp arms, insulated ladders, etc., used to insulate and dielectrically protect workers and temporarily reposition powerlines for safe execution of tasks while working at height in live line circumstances.
<i>Other parts, tools, and accessories (“PTA”)</i>	Crimping tools and dies, pumps/motors, underground fiber laying tools, and various other tools used in either utility, telecom, or rail applications.
<i>Test and Repair Services</i>	Testing and inspections of various tools and safety equipment and personal protective equipment (“PPE”) to comply with regulatory and safety requirements.
<i>Upfit and Repair Services</i>	Customizing existing heavy-duty trucks by adding features, and repair services, including labor and parts, for customer-owned trucks.

Competitive Strengths

We believe our platform is differentiated and benefits from several significant strengths that will continue to support our leading market position and future growth. We believe that the following factors have been instrumental in our success and will position us for continued growth:

Market Leader with a Differentiated “One-Stop Shop” Platform - Our platform offers our customers a true “one-stop shop” solution for their needs across the specialty equipment market, including rentals, new and used sales, production and customization, aftermarket parts and services, and financing and asset disposal, building upon the successful business model that has been a key source of differentiation for Custom Truck historically. Our flexibility to meet customers’ capital allocation preferences allow us to develop deeper relationships with our customers and our wide variety of equipment offered enables us to meet more of our customers’ needs than our competitors. Additionally, our national platform and scale provides us the ability to serve both regional and national customers wherever they operate.

Integrated Business Model with Large-Scale Production and Customization Capabilities - We are able to provide our customers with highly tailored solutions on an expedited basis, enabled by our extensive internal production and customization operations. These capabilities allow us to deepen our relationships with customers by offering them the ability to customize equipment to meet their specific job demands. Our large-scale production further offers benefits to customers by reducing lead times for equipment and provides the ability to change and adapt mid-production should the customer need to modify its order. Maintaining inventory and shorter lead times helps us to support our own rental operations and more quickly react to changing customer demands and preferences. We are also able to quickly adapt our processes and procedures to enter into new markets and product offerings, such as dump trucks, roll-offs, and vacuum trucks, which are products that have been added over the past several years. As one of the largest consumers of vocational chassis and attachments in the United States, we have a structural cost advantage on purchasing. Our production capabilities further lower costs, while providing flexibility to pursue the highest growth portions of the market.

Attractive Long-term End-Market Dynamics - We are a leader across a diverse set of end-markets, including infrastructure-related electric utility T&D, telecom, rail, forestry, and waste management, among others, many of which have attractive long-term growth dynamics. This position was established by our expansive fleets, national sales and service network, longstanding customer relationships, and operational expertise. The favorable end-market dynamics may lead to increased spend on specialty equipment by our existing customers. These end-markets are in the early years of a secular upcycle that is expected to persist for years to come. We are well positioned to benefit from this projected growth and maintain the flexibility to pivot our production and focus to any end-market that is experiencing greater demand due to our deep knowledge and expertise in the production of different types of equipment.

Young, Well-Maintained Rental Fleet Comprised of In-Demand Equipment - Our rental fleet consists of more than 10,000 units and is one of the youngest in the industry, with an average age of 3.7 years as of December 31, 2022. We maintain the majority of our fleet using our own trained technicians and locations to ensure consistent repairs, best-in-class service and maintenance, and delivery of fully functioning, ready-to-work equipment to our customers. We are highly responsive, adding high-quality equipment to our fleet on an ongoing basis to meet customer demands in a changing market landscape. We focus our production capabilities on the equipment that our customers need most in the end-markets with the most growth potential. Disciplined fleet maintenance and strict focus on meeting customer and end-market requirements have resulted in over 80% utilization on average of our rental fleets in the last two years.

Geographical Diversity - We have a large geographic footprint that enables us to provide local service throughout North America. Our more than 35 locations are strategically located to provide access to key high-growth end-markets and have sufficient geographic reach to provide a holistic solution to nationwide accounts. Our footprint is further expanded by over 100 third-party service locations. We maintain a 24/7 call center, as well as a large team of mobile technicians, ensuring that our customers can quickly access experienced technicians regardless of geography. Because our rental fleet is managed nationally, equipment can be deployed strategically across locations in periods of high regional demand. This allows us to maintain high utilization rates for our entire rental fleet while quickly responding to both equipment and service requests from customers. Our broad reach also represents a competitive advantage in serving customers with nationwide operations who may prefer the convenience of interacting with a limited number of equipment providers. Although we have an expansive national footprint already, we have identified additional attractive geographic markets for potential expansion.

Strong, Diverse Client Relationships and Industry Expertise - We serve more than 3,000 customers, with the top 15 customers representing approximately 25% of total revenue and no single customer representing greater than 4% of total revenue in 2022. Of our top 20 customers, 16 of them both rent and purchase equipment. We have very strong brand recognition among our industry-leading customers. Our ability to deliver an unmatched value proposition for our customers’ most complex and technical requirements, on a tight deadline, results in long-tenured relationships with premier customers across our different end-markets. We have significant tenure with our top customers, with key relationships spanning more than 16 years. Our strong knowledge of the equipment and product requirements in our customers’ end-markets allows us to work closely with our customers to determine their specialty equipment needs while our ability to offer the optionality to either rent or purchase equipment helps meet customers’ capital allocation preferences and increases customer penetration.

Attractive Unit Economics Driving High Returns - Our integrated, “one-stop shop” business model results in both lower costs and higher equipment resale values, driving exceptional unit economics. We believe that our ability to purchase equipment components

separately with vertically-integrated assembly results in a cost advantage over buying fully completed units. Additionally, our direct-to-customer sales channels drive attractive net resale values that exceed those of our competitors who typically sell used equipment through auctions.

Growth Strategy

We offer a full suite of specialty equipment services and a broad portfolio of products, which provides us with numerous channels for future growth and opportunities to deepen customer relationships. We intend to maintain our leading position and expand our market share by continuing to pursue the following strategies:

Capitalize on Favorable Trends Across a Large Addressable Market - Because of the highly fragmented industry in which we operate, we have significant runway to increase our share of the market. We estimate the addressable market to be approximately \$59 billion: \$18.5 billion in new sales, \$21 billion in aftermarket parts and service, and \$19.5 billion in rental and used sales. The new sales addressable market has grown from an estimated \$15.6 billion in 2019 to \$18.5 billion in 2021. Our differentiated cost position, North American branch network, broad product offering, and flexible distribution model position us to achieve strong growth in the future. Additionally, several end-markets we serve, including electric utility T&D, telecom, infrastructure, rail, forestry, and waste management, are increasing their capital expenditures. Our production and customization capabilities will only serve to bolster our ability to meet the growing demand and changing landscapes in these end-markets as we can nimbly adapt as necessary to capitalize on opportunities as they present themselves.

Invest in Rental Fleet to Meet Growing Demand - We see continued opportunity to invest in our rental fleet to meet customer demand. We will look to drive utilization improvements via enhanced selling efforts and investments in in-demand equipment as well as drive rental penetration via continued customer education. We believe that by investing in new products and adding to our rental fleet, we can continue to satisfy the growing specialty equipment needs of our customers across end-markets. We have the resources and capital structure necessary to capture incremental demand. Lastly, a large percentage of our rental fleet is currently focused on serving the electric utility T&D and telecom industries, but we believe there is significant opportunity to continue to grow our fleet of specialty equipment tailored to serve the growing rail and infrastructure end-markets as well.

Grow Equipment Sales Across Both Current and New Customers, End-Markets, and Product Offerings - We will be able to leverage our national and local sales approach to achieve growth in our existing customer base and across existing and newly entered product categories. We have identified several new product categories that we plan to expand into, where our experience and expertise in production, customization, and purchasing are expected to provide favorable returns. We will look to drive volume growth via continued equipment innovations and strategic selling initiatives. We are currently well positioned to capitalize on favorable trends across end-markets, including grid updates and maintenance, build-out of renewable resources, 5G roll-out, and potential significant infrastructure spend.

Increase Penetration of Aftermarket Parts and Service - Each full-service location provides certified test and repair services and an expanded product offering of both insulated and non-insulated tools. Today, we leverage our service technicians, including those dedicated to field service, to support our existing rental fleet and select customer-owned equipment. We see an opportunity to grow the size of the internal service organization and external service provider network to increase our ability to service customer-owned equipment. Additionally, we launched our e-commerce platform in 2020 to begin selling proprietary Load King™ equipment parts and other targeted specialty equipment parts.

Continue to Pursue Domestic Geographic Expansion - We operate more than 35 locations; however, broad sections of the United States and Canada are still outside of our primary operating area. In the past, we have expanded into new geographical markets through both strategic acquisitions and through internal growth. There is an opportunity for future expansion across the United States to support growth. Custom Truck has successfully opened five locations in geographic areas where there were no attractive acquisition targets, exemplifying the ability to expand our reach without the use of acquisitions. In addition to organic geographic expansion, we may opportunistically pursue acquisitions to expand our product and service offering and accelerate growth.

Sales and Marketing

Sales

We operate with a nationwide direct sales team to address the specialized needs of our customer base and to cultivate strategic partnerships with key customers. Our more than 100-member sales organization is led by members of our senior management team, including Presidents and Regional Sales Managers. The average years of experience in the industry of our sales personnel is more than 20 years. Our field sales organization and 24-hour support center have developed “first-call” relationships with several of our largest customers while providing significant expertise in the technical nature of the equipment and projects.

For key national or regional accounts, we employ a top to bottom sales approach with a focus on building partnerships at all levels within these key accounts and securing commitments to use us as a preferred supplier. Strategic Account Managers are responsible for establishing and managing these relationships along with direct involvement from senior leadership to create more contact and touch points between the key decision makers and Custom Truck.

We divide the remainder of our sales organization into regional go-to market teams for our ERS, TES and APS segments consisting of Territory Managers supported by Inside Rental Representatives and Assistants. Territory Managers are responsible for developing new relationships and maintaining communication with key decision makers at customer organizations and working with employees at both the corporate office and on individual job sites to ensure customer satisfaction. After a rental opportunity is generated, Inside Rental Representatives and Assistants serve in a support role by working directly with customers to finalize orders, schedule delivery, coordinate payment and handle inbound requests. This direct communication helps expedite future orders on rental equipment availability and rate quotes.

Marketing

We utilize targeted advertising, tradeshows, focused email distributions, a comprehensive equipment catalog, and our website for marketing our products and services. Our rental catalog contains detailed technical information and diagrams for all our products, while the website offers easy access to equipment specifications and rental listings. We supplement these materials with 10 to 12 major marketing publications annually. In addition to print and online publications, we participate in national and select regional trade shows, which represent important customer touch points for the sales team to both approach new customers and maintain strong relationships with existing customers.

Facilities

We are headquartered in Kansas City, Missouri where we house executive management, accounting, finance, information technology, human resources, marketing, and procurement professionals, as well as production, assembly, service and distribution operations. We maintain a diverse geographic footprint in the U.S. and Canada, with 35 locations.

Intellectual Property

We do not own or license any patents, patent applications, or registered copyrights. We own a number of trademarks and domain names important to the business. Our material trademarks are registered or pending applications for registrations in the U.S. Patent and Trademark Office and various non-U.S. jurisdictions. We use “Custom Truck One Source” and “Truck Utilities” as unregistered trademarks and “Load King” as a registered trademark. Additionally, pursuant to an agreement with Terex, we have a revocable, royalty-free, limited license to use certain Terex trademarks to promote the sale and servicing of Terex products, subject to certain conditions of use. We believe we own or license, or could obtain on reasonable terms, any intellectual property rights needed to conduct its business.

Governmental Regulation

We are subject to various governmental, including environmental, laws and regulations. Regulations affecting our operations principally relate to the licensing, permitting and inspection requirements for vehicles in our rental fleet. Additionally, we are subject to environmental regulations governing the discharge of pollutants into the air or water, the management, storage and disposal of, or exposure to, hazardous substances and wastes, the responsibility to investigate and clean up contamination, and occupational health and safety. The Company is not aware of any material instances of non-compliance with respect to the foregoing regulations.

We are subject to federal, state, and local environmental laws and regulations with respect to the ownership and operation of tanks for the storage of petroleum products, such as gasoline, diesel fuel and motor and waste oils. If leakage or a spill occurs, it is possible that the resulting costs of cleanup, investigation and remediation, as well as any resulting fines could adversely affect our business. The U.S. Congress and other federal and state legislative and regulatory authorities in the U.S. and internationally have considered, and will likely continue to consider, numerous measures related to climate change and greenhouse gas emissions. Should rules establishing limitations on greenhouse gas emissions or rules imposing fees on entities deemed to be responsible for greenhouse gas emissions become effective, demand for our services could be affected, our vehicle, and/or other, costs could increase, and our business could be adversely affected.

Human Capital

Our people are a critical component to our success. Our drive, deep expertise, and responsiveness to the specialized needs of our customers set us apart. As of December 31, 2022, we had more than 2,270 employees in 35 locations across North America.

Approximately 2.5% of our U.S. employees are covered by a collective bargaining agreement, and management values a strong relationship with our employees.

Our Culture

We promote our core values of Care & Respect, Solve Problems Like A Mechanic, Driven to Deliver, Engage Collaboratively, and Spark Innovation. These values drive our culture and will enable us to achieve our vision.

We are committed to a diverse and inclusive work environment where our employees of all backgrounds and experiences can succeed. We are always striving to enhance our employee experience, seeking feedback from employees through our engagement surveys, which helps us identify areas where we can continuously enhance their experience and sense of belonging.

We were honored to receive the accolade of “Best Companies to Work For” in Kansas City by Ingram’s in 2022, highlighting our positive work experience.

Our Talent

We engage in multiple initiatives focused on identifying, hiring and retaining a diverse range of talent. These include engaging with recruiting firms, utilizing job-posting sites, and collaborating with university and vocational technical programs that specialize in connecting companies like us with a diverse array of candidates. Moving forward, we will continue to review and refine our initiatives as we seek to grow and further diversify our workforce.

We engage with our Veteran Employee Resource Group as a strategic business partner to foster an inclusive culture and positive work experience for our military/veteran employees. We also partner with various organizations to support a range of recruitment efforts. For example, we partner with Hiring Our Heroes, U.S. Chamber of Commerce Foundation, the U.S. Department of Labor, and Military Transition Assistant Programs to recruit veteran candidates to join our team. Our military veteran employees represent 8% of our U.S. workforce and bring valuable attributes and skills to our organization. Our Veterans Employee Resource Group provides support to current and past service members within our organization and in the communities where we operate.

We are also proud to partner with Lyrik’s Institution, a school-based behavior support organization, that serves students from the inner city of Kansas City. In 2022, we provided 20 paid internship opportunities and hired 11 full-time employees from Lyrik’s program.

We value lifelong learning and support our employees’ development through a combination of experiential on-the-job learning and formal education. We provide technical and operational training with special emphasis on safety, quality, and customer service. We offer employees tuition assistance to assist our employees with expanding their formal education while working.

Our Ethics & Compliance

One of our most valuable assets is our integrity, an unwavering commitment to acting honestly and ethically in all that we do. We established a Code of Conduct to ensure our employees understand our commitment and how to report concerns.

We train our employees on our Code of Conduct and offer multiple pathways for reporting any concerns promptly, including through their leader, Human Resources, Legal or our anonymous 24/7 compliance hotline, which is managed by an experienced and objective third-party.

Our Health, Safety & Well Being

We are committed to a safe and healthy workplace and culture of total well-being. We strive to have zero workplace injuries and engage our employees in raising awareness and education through our Safety Ambassador Network, which includes a diverse cross section of employees from multiple work facilities. We have a network of approximately 100 Safety Ambassadors who are provided training and instruction from our Environmental, Health and Safety professionals. Our Safety Ambassadors are volunteers who have shown a willingness and capability to devote a portion of their workday to ensure that employees have a safe environment in which to work. We track recordable injuries and have an incident management system to investigate all safety incidents. Every incident is investigated and, based on the findings, our safety team implements processes and procedures to prevent recurrences and remediate known hazards.

We offer competitive pay and a comprehensive benefit program including medical, vision, dental, life and disability insurance to attract and retain top talent. We offer employees options to create financial security through our 401(k) savings program that includes a Company matching component, health savings account, and pre-tax flexible spending accounts for healthcare and dependent care.

We provide employees and their family members 24/7 access to doctors and counselors with telemedicine and virtual counseling. In addition, we offer an employee assistance program that provides employees and their family members with confidential support on a

wide variety of areas to support total well-being—such as mental and emotional health conditions, stress management, dependent/elder care, nutrition, fitness, and legal and financial issues.

Legal Proceedings and Insurance

From time to time, we are subject to various lawsuits, claims and legal proceedings, the vast majority of which arise out of the ordinary course of business. The nature of our business is such that disputes related to vehicles and accidents occasionally arise. We assess these matters on a case-by-case basis as they arise and we establish reserves as and if required, based on our assessment of exposure. We have insurance policies to cover general liability, product, and workers' compensation related claims. Management believes that none of the existing legal matters will have a material adverse effect on our business or financial condition.

Available information

This Annual Report on Form 10-K, as well as future quarterly reports on Form 10-Q, current reports on Form 8-K and any amendments to all of the foregoing reports, are made available free of charge on our Internet website (<https://www.customtruck.com>) under "Investors" / "Financials" / "SEC Filings" as soon as reasonably practicable after such reports are electronically filed with or furnished to the Securities and Exchange Commission ("SEC"). The contents of our website are not incorporated by reference in this Annual Report. The SEC also maintains an Internet website that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. The public can obtain any documents that are filed by us at www.sec.gov.

Item 1A. Risk Factors

In addition to the other information contained in this Annual Report on Form 10-K, the risk factors discussed herein should be considered carefully in evaluating the Company. Any of these factors could result in a significant or material adverse effect on our business, results of operations and financial condition. Additional risk factors not presently known to us or that we currently deem immaterial may also impair our business results of operations and financial condition.

Risks Related to the Company's Business and Industry

Effective management of our rental equipment is vital to our business, and an inability to obtain raw materials, component parts and/or finished goods in a timely and cost-effective manner would adversely affect our ability to manufacture and market our products.

Our rental equipment has a long economic life, and managing this equipment is a critical element of our business. We must successfully maintain and repair our equipment in a cost-effective manner to maximize the economic life of our products and the level of proceeds from the sale of such products. As the needs of our customers change, we may need to incur costs to relocate or remanufacture our assets to better meet shifts in demand. If the distribution of our assets is not aligned with regional demand, we may be unable to take advantage of opportunities despite excess inventory in other regions. If we are not able to successfully manage our assets, our business, results of operations and financial condition may be materially adversely affected.

We purchase raw materials, component parts and finished goods to be used in the manufacturing, sale and rental of our products. In addition, we may incorporate vehicle chassis provided directly by our customers in our production process. Although the vast majority of our raw materials and component parts are sourced domestically, certain of our suppliers are based in other countries, and certain of our domestic suppliers may source subcomponents from suppliers based in other countries. Uncertainty remains regarding supply chain disruptions, inflationary pressure, public health crises, and geopolitical risks that have led to issues, broadly, in the supply chain. Changes in our relationships with suppliers, shortages in availability of materials, production delays, regulatory restrictions, public health crises, armed conflicts or political instability or other supply chain disruptions, whether due to our suppliers or customers, could have a material adverse effect on our ability to timely manufacture and market products. Increases in the costs of shipping and transportation, purchased raw materials, component parts or finished goods could result in manufacturing interruptions, delays, inefficiencies or our inability to market products. The unprecedented nature of the supply chain disruptions continues to make it difficult to predict our future business and financial performance. In addition, our profit margins would decrease if prices of purchased raw materials, component parts or finished goods increase and we are unable to pass on those increases to our customers.

Our sales order backlog may not be indicative of the level of our future revenues.

Our sales order backlog represents future production for which we have written orders from our customers for customized and stock equipment. Orders that comprise our backlog may be subject to change in quantities, delivery, specifications and terms, or cancellation. Our backlog recently increased due to strong demand, as well as shortages of materials, and labor, and may not remain at

such levels in the future. Our reported sales order backlog may not be converted to revenue in any particular period and actual revenue from such orders may not equal our backlog. Therefore, our sales order backlog may not be indicative of the level of our future revenues.

A small portion of our workforce is unionized, and more of our workforce could become unionized in the future, which could negatively impact the stability of our production, materially reduce our profitability and increase the risk of work stoppages.

Our employees have the right at any time under the National Labor Relations Act to form or affiliate with a union, and unions may conduct organizing activities in this regard. If our employees choose to form or affiliate with a union and the terms of a union collective bargaining agreement are significantly different from our current compensation and job assignment arrangements with our employees, these arrangements could negatively impact the stability of our production, materially reduce our profitability and increase the risk of work stoppages. In addition, even if our managed operations remain primarily non-union, our business may still be adversely affected by work stoppages. The stoppage of work for a prolonged period of time at one, or several, of our principal manufacturing facilities resulting from union or non-union matters could materially adversely affect our business.

As a small portion of our workforce is unionized, we are subject to risk of work stoppages and other labor relations matters. As of December 31, 2022, approximately 2.5% of the U.S. hourly workers of the Company were represented by a labor union and were covered by a collective bargaining agreement. Any strikes, threats of strikes or other organized disruptions in connection with the negotiation of new labor agreements or other negotiations could materially adversely affect our business as well as impair our ability to implement further measures to reduce costs and improve production efficiencies.

We may not be able to attract and retain skilled technicians, which could have a material adverse effect on our ability to meet customer demand.

Competition for skilled technicians in our industry, especially during periods of low unemployment or periods of high demand, could increase our labor costs and hinder our ability to meet customer demand, which could have a material adverse effect on our business, financial condition and results of operations.

A number of key personnel are critical to the success of our business.

Our success is dependent on our ability to attract and retain highly skilled personnel. Competition within our industry and the business world for high-performing management talent is substantial. We have senior executives and other management-level employees with extensive industry experience. We rely on this knowledge and experience in our strategic planning and in our day-to-day business operations. Our success depends in large part upon our ability to retain our senior management, the loss of one or more of whom could have a material adverse effect on our business. Additionally, due to our legacy as a combination of several family-operated businesses, a number of our key employees have family relationships within our organization and our inability to retain those individuals could have a negative impact on our business. Competition for experienced managers and skilled technicians in our industry can be intense. If we fail to retain and recruit the necessary personnel, our business and our ability to retain customers and provide acceptable levels of customer service could suffer.

A material disruption to our operation and manufacturing locations could adversely affect our ability to generate revenue.

We have several significant production and manufacturing locations. If operations at any of these production and manufacturing locations were disrupted as a result of public health concerns, equipment failures, natural disasters, work stoppages, power outages or other reasons, our business, financial condition and results of operations could be adversely affected. Interruptions in production could increase costs and delay delivery of units in production. Production capacity limits could cause us to reduce or delay sales efforts until production capacity is available.

We may be required to take write-downs or write-offs, restructuring and impairment or other charges that could have a material negative effect on our financial condition and results of operations and contribute to negative market perceptions about the Company or its securities, which could cause you to lose some or all of your investment.

The cost of new equipment that we purchase for use in our rental fleet or for sale as inventory may increase, and the aging or obsolescence of our existing equipment, and fluctuations in the market value thereof, could have a material adverse effect on our business, financial condition and results of operations.

The cost of new equipment from manufacturers that we purchase for use in our rental fleet or for sale may increase as a result of factors beyond our control, such as inflation, higher interest rates and increased labor and raw material costs, including increases in the cost of steel, which is a primary material used in most of the equipment we use or sell. Such increases could materially impact our financial condition and results of operations in future periods if we are not able to pass such cost increases through to our customers in the form of higher prices. In addition, our inventory has increased recently as part of our measures to manage supply chain challenges.

Due to changing demands of our customers, the types of equipment we rent or sell to our customers may become obsolete, resulting in a negative impact on our results of operations and financial condition due to, with respect to our rental fleet, increased capital expenditures required to replace the obsolete equipment, and our potential inability to sell the obsolete equipment in the used equipment market. In addition, we may incur losses upon dispositions of our rental fleet due to residual value risk or upon any write-off and write-down of our sales inventory.

If the average age of our fleet of rental equipment were to increase, the cost of maintaining our equipment, if not replaced within a certain period of time, will likely increase. If our operating costs increase as our rental equipment fleet ages and we are unable to pass along such costs, our results of operations will be negatively impacted. As of December 31, 2022, the average age of our rental equipment fleet was less than four years. The costs of maintenance may materially increase in the future. Any significant increase in such costs could have a material adverse effect on our business, financial condition and results of operations.

In addition, the market value of any given piece of rental equipment could be less than its book value at the time of sale. The market value of used rental equipment depends on several factors, including:

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

We include in operating income the difference between the sales price and the book value of equipment sold. Changes in our assumptions regarding depreciation could change our depreciation expense, as well as the gains or losses realized upon disposal of equipment. We cannot assure you that used equipment selling prices will not decline. Any significant decline in the selling prices for used equipment could have a material adverse effect on our business, financial condition and results of operations.

Our business is highly dependent on the timely and sufficient delivery of finished goods, such as commercial vehicles, from our suppliers.

We depend on the timely and sufficient delivery of finished goods from our suppliers. Supply chain disruptions, such as the ongoing semiconductor shortage, have impacted us and in the future could continue to limit the ability of our suppliers to meet demand in future periods. Disruptions in the supply chains of these manufacturers and dealers, such as pandemic-related plant and production shutdowns, semiconductor chip shortages, labor and equipment shortages, and transportation delays, have impacted and in the future could significantly impact our ability to meet customer demand and generate revenue, which could have a material adverse effect on our business, financial condition and results of operations.

Our business may be impacted by government spending.

A number of our customers are impacted by government funding of infrastructure projects. Policies of governments attempting to address local deficit or structural economic issues, or a decrease in expected levels of infrastructure spending, could have a material impact on our customers and markets. Any decrease or delay in government funding of infrastructure projects could cause our revenues and profits to decrease.

We may experience losses in excess of our recorded reserves for receivables.

We evaluate the collectability of our receivables based on consideration of a customer's payment history, leverage, availability of third-party financing, political and other factors. Recorded reserves represent our estimate of current expected credit losses on existing receivables and are determined based on historical customer assessments, current financial conditions, and reasonable and supportable forecasts. An unexpected change in customer financial condition or future economic uncertainty could result in additional requirements for specific reserves, which could have a negative impact on our consolidated financial position.

Uncertainty relating to macroeconomic conditions may reduce demand for our products and services, resulting in non-performance of contracts by our lessees, limit our ability to obtain additional capital to finance new investments, or have other unforeseen negative effects.

Uncertainty and negative trends in general economic conditions in the United States and abroad, including widespread health emergencies, rising inflation and interest rates, the continued conflict between Russia and Ukraine, supply chain disruptions, increases in labor costs, significant tightening of credit markets and commodity price volatility, may create difficult operating environments for our lessees and also for our industry. Many factors, including factors that are beyond our control, may impact our operating results or financial condition and/or affect the lessees that form our customer base. A number of governments have implemented, or are considering implementing, a broad variety of governmental actions or new regulations for the financial markets. In addition, limitations on the availability of capital, higher costs of capital or financing expenditures or the desire to preserve liquidity, may cause our current or prospective customers to make reductions in future capital budgets and spending.

If petroleum prices increase, then our results of operations could be adversely affected.

Petroleum prices have fluctuated significantly in recent years. Prices and availability of petroleum products are subject to political, economic and market factors that are outside of our control. Political events in petroleum-producing regions as well as hurricanes and other weather-related events may cause the price of fuel to increase. If the price of fuel increases, the demand for our products may decline and transportation and freight costs may increase, which would adversely affect our financial condition and results of operations.

Regulatory, technological advancement, or other changes in our core end-markets may affect our customers' spending on the products and services we provide.

Many of our customers operate in regulated industries (for example, electric utility T&D, telecom, rail, forestry, waste management and infrastructure) and are subject to laws and regulations that can change frequently and without notice. The adoption of new laws or regulations, or changes to the enforcement or interpretation of existing laws or regulations, could cause our customers to reduce or delay spending on the products and services we provide. Further, technological advancement or other changes not directly related to the products and services we provide may affect the ability of one or more of our customers to compete effectively, which could result in a reduction or elimination of their use of our products and services. Any reduction, elimination, or delay of spending by our customers on the products and services we provide could adversely affect our revenues, results of operations, and cash flows.

Integration of acquired businesses may be difficult, costly and time-consuming, and the anticipated benefits and cost savings of acquired businesses may not be realized or may be less than expected.

Our ability to realize the anticipated benefits of acquisitions we make will depend, to a large extent, on our ability to integrate the businesses acquired. Integrating acquired businesses is a complex, costly and time-consuming process, and we cannot assure you that we will be able to successfully integrate them or, if the integration is successfully accomplished, that the integration will not be more costly or take longer than presently contemplated. If we cannot successfully integrate and manage acquired businesses within a reasonable time following their acquisition, we may not be able to realize the potential and anticipated benefits of them, which could have a material adverse effect on our business, financial condition and results of operations.

Our ability to realize expected synergies and benefits from acquisitions is subject to a number of risks and uncertainties, many of which are outside of our control. These risks and uncertainties could adversely impact our business, financial condition and operating results, and include, among other things:

- our ability to complete the timely integration of operations and systems, organizations, standards, controls, procedures, policies and technologies, as well as the harmonization of differences in business cultures;
- our ability to minimize the diversion of management attention from ongoing business concerns during the integration process;
- our ability to retain the service of key management and other key personnel;
- our ability to preserve customer, supplier and other important relationships and resolve potential conflicts that may arise;
- the risk that acquired businesses may have liabilities that we failed to discover or fully appreciate in the course of performing due diligence;
- difficulties in achieving anticipated cost savings, synergies, business opportunities and growth prospects from the combination; and
- difficulties in managing the expanded operations of a larger and more complex combined company.

We may encounter additional integration-related costs, fail to realize all of the benefits anticipated or be subject to other factors that adversely affect preliminary estimates of synergies. In addition, even if the operations of acquired businesses are integrated successfully, the full benefits of them may not be realized, including the synergies, cost savings or sales or growth opportunities that we expect. The occurrence of any of these events, individually or in combination, could have a material adverse effect on our financial condition and results of operations.

Measures of anticipated synergies we report from time to time are based upon assumptions about our ability to implement integration measures in a timely fashion and within certain cost parameters. Our ability to achieve the planned synergies is dependent upon a significant number of factors, many of which are beyond our control, such as our ability to integrate businesses that we acquire (including the integration of Nesco and Custom Truck LP), operating difficulties, increased operating costs, delays in implementing initiatives and general economic, competitive or industry conditions. For example, we may be unable to eliminate duplicative costs in a timely fashion or at all. Additionally, achieving these benefits may require certain related one-time costs, charges and expenses, which may be material. We can provide no assurance that we will be successful in generating growth, maintaining or increasing our cash flows or profitability or achieving cost savings and revenue enhancements, and our inability to do so could have a material adverse effect on our business, results of operations and financial condition.

The assumptions and estimates underlying the pro forma cost synergies we report from time to time are inherently uncertain and, although considered reasonable by our management as of the date of this report, are subject to significant business, economic and competitive risks and uncertainties that could cause actual results to differ materially from those contained in the financial projections, including, among others, risks and uncertainties due to general business, economic, regulatory, market and financial conditions, as well as changes to our businesses, financial condition or results of operations, and other risks and uncertainties included in this “Risk Factors” section.

Platinum owns the majority of our equity, and its interests may not be aligned with yours.

Platinum owns the majority of our fully diluted shares of common stock and, therefore, has the power to control our affairs and policies. Platinum also controls, to a large degree, the election of directors, the appointment of management, the entry into mergers, sales of substantially all of our assets, and other extraordinary transactions. The directors so elected have authority, subject to the terms of our indebtedness, to issue additional stock, implement stock repurchase programs, declare dividends and make other decisions. The interests of Platinum could conflict with your interests. For example, Platinum is in the business of making investments in companies and, from time to time in the future, may acquire interests in businesses that directly or indirectly compete with certain portions of our business or are suppliers or customers of ours. Platinum may also pursue acquisition opportunities that may be complementary to our business and, as a result, these acquisition opportunities may not be available to us.

Risks Related to the Company’s Indebtedness

We have, and may incur, significant indebtedness and may be unable to service our debt. This indebtedness could adversely affect our financial position, limit our available cash and our access to additional capital and prevent us from growing our business.

We have a significant amount of indebtedness and may incur additional indebtedness in the future, including in connection with our growth capital expenditure plan. As of December 31, 2022, our total indebtedness was \$1,394.4 million, consisting of \$920.0 million in aggregate principal amount of the 2029 Secured Notes, \$437.7 million of borrowings under our Asset Based Lending (“ABL”) Facility and finance lease and other debt obligations of \$36.7 million (excluding approximately \$430.2 million of indebtedness under our floorplan financing agreements). Although the indenture governing our 2029 Secured Notes (the “Indenture”) and the ABL Credit Agreement (as defined below) contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant exceptions and qualifications, and the additional indebtedness incurred in compliance with these restrictions could be substantial. Moreover, the Indenture does not impose any limitation on our incurrence of certain liabilities or obligations that are not considered “Indebtedness” under the Indenture (such as operating leases), nor does it impose any limitation on the amount of liabilities incurred by our subsidiaries, if any, that might be designated as “unrestricted subsidiaries” under such Indenture. Similarly, the ABL Credit Agreement does not impose any limitation on our incurrence of certain liabilities or obligations that are not considered “Indebtedness” under the agreement (such as operating leases).

The level of our indebtedness could have important consequences, including:

- a portion of our cash flows from operations is dedicated to debt service and may not be available for other purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- limiting our ability to obtain financing in the future for working capital, capital expenditures and general corporate purposes, including acquisitions, and potentially impeding our ability to secure favorable lease terms;

Table of Contents

- exposing us to the risk of increased interest rates, as borrowings under our ABL Facility are subject to variable rates of interest;
- making us more vulnerable to economic downturns and industry conditions and possibly limiting our ability to withstand competitive pressures;
- placing us at a competitive disadvantage compared to our competitors with less indebtedness;
- making it more difficult for us to satisfy our obligations with respect to our debt; and
- increasing our cost of borrowing.

If new debt is added to our current debt levels, the risks that we now face would intensify.

To service our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors, some of which are beyond our control. An inability to service our indebtedness could lead to a default under the Indenture or ABL Credit Agreement, which may result in an acceleration of our indebtedness.

To service our indebtedness, we will require a significant amount of cash. Our ability to pay interest and principal in the future on our indebtedness and to fund our capital expenditures and acquisitions will depend upon our future operating performance and the availability of refinancing options, which will be affected by prevailing economic conditions and, the availability of capital, as well as financial, business and other factors, some of which are beyond our control.

Our future cash flows may not be sufficient to meet our obligations and commitments. If we are unable to generate sufficient cash flows from operations in the future to service our indebtedness and to meet our other commitments, we will be required to adopt one or more alternatives, such as refinancing or restructuring our indebtedness, selling material assets or operations or seeking to raise additional debt or equity capital. These actions may not be effected on a timely basis or on satisfactory terms or at all, and these actions may not enable us to continue to satisfy our capital requirements. In addition, our existing debt agreements, including the Indenture and the ABL Credit Agreement, contain, or future debt agreements may contain, restrictive covenants prohibiting us from adopting any of these alternatives. Our failure to comply with these covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our indebtedness.

The Indenture and the ABL Credit Agreement impose significant operating and financial restrictions on our company and our subsidiaries, which may prevent us from capitalizing on business opportunities.

The Indenture and the ABL Credit Agreement impose significant operating and financial restrictions on us. These restrictions will limit our ability, among other things, to:

- incur additional indebtedness;
- pay dividends or certain other distributions on our capital stock or repurchase our capital stock;
- make certain investments or other restricted payments;
- cause subsidiaries to pay dividends or make other payments to us;
- engage in transactions with stockholders or affiliates;
- sell certain assets or merge with or into other companies, reorganize our companies, or suspend or dispose of a substantial portion of our business;
- prepay or modify the terms of our other indebtedness;
- guarantee indebtedness; and
- create liens.

There are limitations on our ability to incur the full \$750.0 million of commitments under the ABL Facility. Availability will be limited to the lesser of a borrowing base and \$750.0 million. The borrowing base is calculated on a monthly (or more frequent under certain circumstances) valuation of our parts inventory, fleet inventory accounts receivable and unrestricted cash (in each case, subject to customary reserves). As a result, our access to credit under the ABL Facility is potentially subject to significant fluctuations, depending on the value of the borrowing base-eligible assets as of any measurement date. With respect to the ABL Facility, on any date when Availability (as defined in the ABL Credit Agreement) is less than the greater of (i) 10% of the lesser of (A) the aggregate

revolving commitments under the ABL Facility at such time and (B) the borrowing base at such time (such lesser amount, the “Line Cap”) and (ii) \$60 million, we will also be required by a springing covenant to maintain a minimum fixed charge coverage ratio of 1.00 to 1.00, tested for the four fiscal quarter period ending on the last day of the most recently ended fiscal quarter for which financials have been delivered, and at the end of each succeeding fiscal quarter thereafter until the date on which Availability has been equal to or greater than the greater of (x) 10% of the Line Cap and (y) \$56 million for five consecutive business days. Our ability to meet the financial covenant could be affected by events beyond our control. The inability to borrow under the ABL Facility may adversely affect our liquidity, financial condition and results of operations.

These restrictions could limit our ability to obtain future financing, make strategic acquisitions or needed capital expenditures, withstand economic downturns in our business or the economy in general, conduct operations or otherwise take advantage of business opportunities that may arise. A failure to comply with the restrictions in the Indenture and the ABL Credit Agreement could result in an event of default under such instruments or credit agreement. Our future operating results may not be sufficient to enable compliance with the covenants in the Indenture or ABL Credit Agreement or to remedy any such default. In addition, in the event of an acceleration, we may not have or be able to obtain sufficient funds to refinance our indebtedness or make any accelerated payments, including those under the Indenture and under our ABL Facility. If we default on our indebtedness, our business, financial condition or results of operations could be materially and adversely affected. If we fail to maintain compliance with these covenants in the future, we cannot assure you that we will be able to obtain waivers from the lenders and/or amend the covenants.

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

Borrowings under our ABL Facility are at variable rates of interest, which will expose us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness will increase even if the amount borrowed remains the same, and our net income and cash flows, including cash available for servicing our indebtedness, will correspondingly decrease. As of December 31, 2022, we have variable rate debt, consisting of \$437.7 million outstanding under the ABL Facility. Holding other variables constant, each one-eighth percentage point increase or decrease in the applicable interest rates would correspondingly change our interest expense on the ABL Facility by approximately \$0.5 million per year. In the future, we may enter into interest rate swaps that involve the exchange of floating for fixed rate interest payments in order to reduce interest rate volatility. However, we may not maintain interest rate swaps with respect to any of our variable rate indebtedness, and any swaps we enter into may not fully mitigate our interest rate risk.

The phase-out of LIBOR, and uncertainty as to its replacement, may adversely affect our business.

On July 27, 2017, the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that it intends to stop persuading or compelling banks to submit rates for the calibration of LIBOR after 2021 after which time it can no longer guarantee its availability. In March 2021, the ICE Benchmark Administration Limited, the administrator of LIBOR, extended the transition dates of certain LIBOR tenors to June 30, 2023, after which LIBOR reference rates will cease to be provided. Despite this deferral, the LIBOR administrator has advised that no new contracts using U.S. Dollar LIBOR should be entered into after December 31, 2021. It is unknown whether any banks will continue to voluntarily submit rates for the calculation of LIBOR, or whether LIBOR will continue to be published by its administrator based on these submissions, or on any other basis, after such dates. Although alternative reference rates have been proposed, it is unknown at this point which of these alternative reference rates will attain market acceptance as replacements for LIBOR.

Certain of our agreements make reference to LIBOR. To prepare for the phase out of LIBOR, we may need to renegotiate these agreements and may not be able to do so on terms that are favorable to us. It is also currently unknown what impact any contract modification will have on our financial statements. Further, the financial markets may be disrupted as a result of the phase out of LIBOR if banks fail to execute a smooth transition to an alternate rate.

Disruption in the financial markets or the inability to renegotiate our agreements to remove and replace LIBOR on favorable terms, or a negative impact from any contract modifications, could have an adverse effect on our business, financial condition, and results of operations.

Risks Related to Information Technology, Cybersecurity and Data Privacy

Disruptions or security compromises affecting our information technology systems or those of our critical service providers could adversely affect our operating results by subjecting us to liability, and limiting our ability to effectively monitor and control our operations, adjust to changing market conditions, or implement strategic initiatives.

The security and integrity, or the perception thereof, of our information technology systems and assets (“IT systems”) are critical to our business and ability to monitor and control our operations, deliver our products and services, and adjust to changing market

conditions. While we own and manage certain of our IT systems, we also engage third parties across an array of software, systems and technologies (including cloud-based) and functions (e.g., HR, finance, communications, compliance), which enable us to conduct, monitor and/or protect our business, operations, systems and data assets. In addition, in the ordinary course of business, we and/or our service providers generate, collect, process and store sensitive information and data, including intellectual property, our proprietary business data and that of our customers, suppliers and business partners, as well as personally identifiable information.

We and our service providers have experienced and expect to continue to experience cyberattacks and security incidents that impact our IT systems and data. Despite various security controls and measures, we and third parties remain vulnerable to cyberattacks and security incidents resulting from malware (e.g., ransomware), computer viruses, software and hardware vulnerabilities, malfeasance by external or internal actors, and/or incidents attributable to human error (e.g., due to social engineering or phishing). The White House, SEC and other regulators have accordingly increased their focus on companies' cybersecurity vulnerabilities and risks. We have also observed a global increase, in both frequency and impact, in cybersecurity threats and more sophisticated cyber-attacks and threat actors. Such attacks and threats are unpredictable as to their timing, nature and scope. As a result, we may be unable to anticipate or prevent future attacks, particularly as the methodologies utilized by attackers change frequently or are not recognized until launched, and we may be unable to identify, investigate or remediate incidents due to the increased use by threat actors of tools and techniques that are designed to circumvent controls, to avoid detection, and to remove or obfuscate forensic evidence. Cybersecurity risks due to work-from-home arrangements at the Company and third parties have presented additional opportunities for threat actors to engage in social engineering (for example, phishing) and to exploit vulnerabilities in non-corporate networks.

Any successful or perceived cyberattack, compromise, breach, or disruption involving, or in relation to, our or our service providers' IT systems or data, or the failure of any IT systems to operate as expected could, depending on the magnitude of the problem, adversely affect our operating results by limiting our capacity to effectively monitor and control our operations and adjust to changing market conditions. Further, any compromise or breach of IT systems or data could result in adverse publicity, harm our reputation, lead to claims against us and affect our relationships with our customers and employees, and require significant resources for remediation and compliance purposes, any of which could have a material adverse effect on our business. Certain of our software applications are also utilized by third parties who provide outsourced administrative functions, which may increase the risk of a cybersecurity incident. In addition, because our systems may contain sensitive data and information about individuals and businesses, our failure to maintain the security, integrity or confidentiality of the data we hold, whether the result of our own error or the malfeasance or errors of others, could harm our reputation or give rise to legal liabilities leading to lower revenues, increased costs for compliance and systems remediation, increased costs of liability for litigation (including class actions) and regulatory proceedings as well as fines and penalties, result in the misuse of our systems and networks, manipulation and destruction of data, misappropriation of assets or production stoppages and supply shortages, and other potential material adverse effects on our results of operations. Our failure to appropriately maintain the security of the data we hold could also violate applicable privacy, data security and other laws and subject us to lawsuits, fines and other means of regulatory enforcement. Global consumer protection, data privacy and cybersecurity rules, regulations and industry standards are rapidly evolving, including laws like the California Consumer Privacy Act and California Privacy Rights Act, which provide for a private right of action for certain types of data breaches and create compliance obligations around user choice, data subject rights and transparency, among others. Complying with any new or changing legal and regulatory requirements could force us to incur substantial expenses or require us to change our business practices in a manner that could harm our business. If any actual or perceived security or disruptive attacks, breaches or incidents are not detected or deflected by our current security measures, we could also be required to expend additional capital and other resources, including costs to deploy additional personnel and protection technologies, train employees and engage third-party experts and consultants.

Although we maintain insurance coverage for various cybersecurity risks and liabilities, there can be no guarantee that any or all costs or losses incurred will be partially or fully insured.

Risks Related to Legal, Compliance and Regulatory Matters

We are subject to complex laws and regulations, including environmental and safety regulations that can adversely affect the cost, manner or feasibility of doing business.

Our operations are subject to certain federal, state and local laws and regulations relating to, among other things, climate change, the generation, storage, handling, emission, transportation, disposal and discharge of hazardous and non-hazardous substances and materials into the environment, the manufacturing of motor vehicles and other equipment and employee health and safety. We may require permits or other approvals under certain laws, which may delay our ability to execute portions of our business strategy. Additionally, compliance with such laws and regulations can be costly, and our costs of compliance may increase if existing laws and regulations are revised or reinterpreted, or if new laws and regulations become applicable to our operations. We currently make, and in future may be required to make additional capital expenditures to comply with environmental and other regulations, such as:

- Applicable motor vehicle safety standards established by the National Highway Traffic Safety Administration;

- Emissions or other standards related to climate change as established by international, federal, state and local regulatory bodies;
- Reclamation and remediation and other environmental protection; and
- Standards for workplace safety established by the Occupational Safety and Health Administration.

While we monitor our compliance with applicable laws and regulations and attempt to budget for anticipated costs associated with compliance, we cannot predict the future cost of such compliance. Failure to comply with such laws and regulations, including any evolving interpretation and enforcement by governmental authorities, could materially impact our business, financial condition, results of operations and cash flows. We may also be liable, under certain laws and regulations, for product liability, personal injury, other environmental damages (including natural resources), and other claims, as well as the costs of investigation and remediation of environmental contamination and any sanctions, such as fines and penalties. Additionally, certain environmental laws may impose liability without regard to fault or the legality of the original conduct. While compliance with these laws has not historically had a material adverse effect on our operations, our operations could be significantly delayed or curtailed and our costs of operations could significantly increase as a result of regulatory requirements, restrictions or claims. We are unable to predict the ultimate cost of compliance with these requirements or their effect on our operations.

We have identified a material weakness in our internal control over financial reporting which, if not remediated, could result in material misstatements in our financial statements.

During the fourth quarter ended December 31, 2021, we identified a material weakness in internal control over financial reporting that related to control deficiencies in information technology general controls (“ITGCs”) for both user access and program change-management for systems supporting all of the Company’s internal control processes and controls, controls over the completeness and accuracy of information used in business process controls and management review controls. Our business process controls (automated and manual) and management review controls were also deemed ineffective because they are adversely impacted by ineffective ITGCs. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual consolidated financial statements will not be prevented or detected on a timely basis.

We have developed and are implementing a plan to remediate the material weakness. The material weakness will not be remediated until all necessary internal controls have been implemented, tested and determined to be operating effectively. In addition, we may need to take additional measures to address the material weakness or modify the planned remediation steps, and we cannot be certain that the measures we have taken, and expect to take, to improve our internal controls will be sufficient to address the issues identified, to ensure that our internal controls are effective or to ensure that the identified material weakness will not result in a material misstatement of our annual consolidated financial statements. Moreover, we cannot assure you that we will not identify additional material weaknesses in our internal control over financial reporting in the future. If we are unable to remediate the material weakness, our ability to record, process and report financial information accurately, and to prepare financial statements with the time periods specified by the rules and forms of the Securities and Exchange Commission, could be adversely affected. This failure could negatively affect the market price and trading liquidity of our common stock, cause investors to lose confidence in our reported financial information, subject us to civil and criminal investigations and penalties and generally materially and adversely impact our business and financial condition.

We are subject to a series of risks related to climate change.

There are inherent climate-related risks wherever business is conducted. Various meteorological phenomena and extreme weather events (including, but not limited to, storms, flooding, drought, wildfire, and extreme temperatures) may disrupt our operations or those of our customers and suppliers, require us to incur additional operating or capital expenditures, reduce the demand for certain of our product offerings, or otherwise adversely impact our business, financial condition, or results of operations. Climate change may impact the frequency and/or intensity of such events. While we may take various actions to mitigate our business risks associated with climate change, this may require us to incur substantial costs and may not be successful, due to, among other things, the uncertainty associated with the longer-term projections associated with managing climate risks.

Additionally, regulatory, market, and other changes to respond to climate change may adversely impact our business, financial condition, or results of operations. Developing alternatives that satisfy the market’s evolving expectations of vehicle emissions profiles may require us to incur significant costs. Additionally, there are several competing alternatives to replace petroleum-based fuels for vehicles, including but not limited to: electricity, hydrogen, and compressed and/or renewable gas. To the extent potential customers prefer technologies different from those used in the vehicles we develop and manufacture, then demand for such vehicles may not develop as quickly as we expect, or at all.

Reporting expectations are also increasing, with a variety of customers, capital providers, and regulators seeking increased information on climate related risks. For example, the SEC has proposed a rule that, if finalized, may require us to incur significant costs to assess and disclose on a range of climate-related data and risks. Increased scrutiny from various parties may also result in increased compliance costs and increased legal risks may also impact our suppliers or customers, which may indirectly impact our business, financial condition, or results of operations.

Increased attention to, and evolving expectations for, sustainability and environmental, social, and governance (“ESG”) initiatives could increase our costs, harm our reputation, or otherwise adversely impact our business.

Companies across industries are facing increasing scrutiny from a variety of stakeholders related to their ESG and sustainability practices. Expectations regarding voluntary ESG initiatives and disclosures and consumer demand for alternative forms of energy may result in increased costs (including, but not limited to increased costs related to compliance, stakeholder engagement, contracting and insurance), changes in demand for certain products, enhanced compliance or disclosure obligations, or other impacts to our business, financial condition, or results of operations.

While we may in the future engage in voluntary initiatives (such as voluntary disclosures, certifications, or goals, among others) or commitments to improve the ESG profile of our company and/or products, such initiatives or achievements of such commitments may be costly and may not have the desired effect. For example, expectations around company’s management of ESG matters continues to evolve rapidly, in many instances due to factors that are out of our control. In addition, we may commit to certain initiatives or goals and we may not ultimately be able to achieve such commitments or goals due to factors that are within or outside of our control. Moreover, actions or statements that we may take based on expectations, assumptions, or third-party information that we currently believe to be reasonable may subsequently be determined to be erroneous or be subject to misinterpretation. Even if this is not the case, our current actions may subsequently be determined to be insufficient by various stakeholders, and we may be subject to investor or regulator engagement on our ESG initiatives and disclosures, even if such initiatives are currently voluntary.

Certain market participants, including major institutional investors and capital providers, use third-party benchmarks and scores to assess companies’ ESG profiles in making investment or voting decisions. Unfavorable ESG ratings could lead to increased negative investor sentiment towards us or our industry, which could negatively impact our share price as well as our access to and cost of capital. To the extent ESG matters negatively impact our reputation, it may also impede our ability to compete as effectively to attract and retain employees or customers, which may adversely impact our operations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our headquarters are in Kansas City, Missouri where we house executive management, accounting, finance, information technology, human resources, marketing and procurement professionals. Kansas City, Missouri is also home to our mega-center which performs the majority of our production and manufacturing. We maintain a diverse geographic footprint in the U.S. and Canada, with more than 35 equipment rental and service locations. These facilities are typically service centers for the maintenance and support of our equipment and, depending on the location, may include separate areas for displaying and storage of equipment and parts. Our one-stop shop approach focuses on providing the products and services offered by each of our segments at each of our locations.

[Table of Contents](#)

Location	Type
7701 Independence Avenue, Kansas City, MO United States	Owned
6714 Inverness Way and 7413 Sr 930 E Fort Wayne/New Haven, IN United States	Leased
11669 226 St Lot 9, Acheson, AB Canada	Leased
9230 51 St SE Calgary, AB Canada	Leased
29 Perini RD, Elliot Lake, ON Canada	Leased
4045 Hwy 5 and 2665 South Rockwood Cabot, AR United States	Leased
655 E 20Th St Yuma, AZ United States	Leased
4500 State Rd and 1032 Black Gold Rd Bakersfield, CA United States	Leased
14670 Randall Ave Fontana, CA United States	Leased
10808 Weaver Ave South El Monte, CA United States	Leased
705 W 62Nd Ave Denver, CO and 5455 E 52Nd Ave Commerce City, CO United States	Leased
4729 Capital Cir Nw and 4755DI Capital Cir Nw Tallahassee, FL United States	Leased
9879 Us Hwy 301 N; 7906 Baseline Ct and 8949 Maislin Rd Tampa, FL United States	Leased
3112 E State Rd 124 Bluffton, IN United States	Leased
5323 Kansas Ave Kansas City, KS United States	Leased
10740 Nall Ave Overland Park, KS United States	Leased
9230 Cedar Knoll Dr Grass Lake, MI United States	Leased
2370 English St Maplewood and 2384 English St Maplewood, MN United States	Leased
2109 Manchester Trafficway and 6501 E. Commerce Ave, Suite 200 Kansas City, MO United States	Leased
2770 5Th Ave S Fargo, ND United States	Leased
6 Sutton Cir and Unit 2 Sutton Cir Condominium Hooksett, NH United States	Leased
1400 Union Lndg Rd and 1850 Union Lndg Rd Cinnaminson, NJ United States	Leased
6708 Townline Rd Syracuse, NY United States	Leased
3522 Middlebranch Rd NE Canton, OH United States	Leased
3205 Davinion Rd El Reno, OK United States	Leased
300 Johnson St and 370 Johnson St Wilkes Barre, PA United States	Leased
1400 E Hwy 67 Alvarado, TX United States	Leased
2801 N Earl Rudder FWY, Bryan TX United States	Leased
7200 Jack Newell Blvd S and 7525 Pebble Dr Bldg 24 Fort Worth, TX United States	Leased
18725 Mckay Blvd Humble, TX United States	Leased
12519 W I-20 Odessa, TX United States	Leased
9775 E Lynchburg Salem Tpke Forest, VA United States	Leased
26109 & 26119 United Rd NE and 26129 Calvary Kingston, WA United States	Leased
5734 Minder Rd Ste A-1 Poulsbo, WA United States	Leased
11139 W Becher St West Allis, WI United States	Leased
2900 Rissler Rd Sedalia, MO United States	Owned
4334 Snapfinger Woods Dr Atlanta, GA United States	Owned
1700 Leider Dr Union Grove, WI United States	Owned
12660 E Lynchburg Salem Turnpike Lynchburgh, VA United States	Owned
702 East Rose St Elk Point, SD United States	Owned

We believe that all of our properties are in good operating condition and are suitable to adequately meet our current needs.

Item 3. Legal Proceedings

We may, at any given time, be named as a defendant in certain lawsuits, investigations and claims arising in the ordinary course of business. While the outcome of these potential lawsuits, investigations and claims cannot be predicted with certainty, we do not expect these matters to have a material adverse impact on our business, results of operations, cash flows or financial condition. In the opinion of management, there are no pending litigations, disputes or claims against the Company that, if decided adversely, would have a material adverse effect on its consolidated financial condition, cash flows or results of operations.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Market Information

Custom Truck One Source, Inc.’s common stock and warrants trade on the New York Stock Exchange under the symbol “CTOS” and “CTOS.WS,” respectively. As of March 8, 2023, there were approximately 68 holders of record of our common stock and 14 holders of record of warrants.

Recent Sales of Unregistered Securities; Use of Proceeds From Registered Securities

There were no sales of unregistered securities by the Company during the year ended December 31, 2022.

Equity Compensation Plans

For information regarding equity compensation plans, see Item 11, Executive Compensation, of this Annual Report on Form 10-K and Note 14: Share-Based Compensation, to the consolidated financial statements included in this Annual Report on Form 10-K.

Dividend Policy

We have never declared or paid, and do not anticipate declaring or paying, any cash dividends on our shares of common stock in the foreseeable future. It is presently intended that we will retain our earnings for use in business operations and, accordingly, it is not anticipated that our board of directors will declare dividends in the foreseeable future. In addition, the terms of our ABL and the Indenture include restrictions on our ability to issue dividends.

Issuer Purchases of Equity Securities

On August 2, 2022, our Board of Directors authorized a stock repurchase program for up to \$30.0 million of the Company’s common stock. This authorization does not have an expiration date. Repurchases under the program may be made in the open market, in privately negotiated transactions or otherwise, with the amount and timing of repurchases depending on market conditions and corporate needs.

We purchased and held in treasury 93,118 shares for tax withholding purposes related to our equity compensation plans during the fourth quarter of 2022. The shares purchased under our equity compensation plans were withheld to satisfy tax withholding obligations upon the vesting of restricted stock unit awards or exercise of stock options.

The following table contains information regarding our purchases of our common stock during the three months ended December 31, 2022:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in \$000s)
October 1, 2022 to October 31, 2022	680,754	\$ 6.28	680,423	\$ 23,977
November 1, 2022 to November 30, 2022	381,855	\$ 6.33	381,855	\$ 21,562
December 1, 2022 to December 31, 2022	381,188	\$ 6.37	288,401	\$ 19,721
	<u>1,443,797</u>	<u>\$ 6.31</u>	<u>1,350,679</u>	

Item 6. [Reserved]

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

On April 1, 2021 (the “Closing Date”), Nesco Holdings II, Inc., a subsidiary of Custom Truck One Source, Inc. (formerly Nesco Holdings, Inc.), completed the acquisition of Custom Truck One Source, L.P. (“Custom Truck LP”) in a series of transactions described below (the “Acquisition”). On April 1, 2021, Nesco Holdings, Inc. (“Nesco Holdings”) changed its name to “Custom Truck One Source, Inc.” and changed The New York Stock Exchange ticker for its shares of common stock (“Common Stock”) from “NSCO” to “CTOS,” and the ticker of its redeemable warrants from “NSCO.WS” to “CTOS.WS.”

Throughout this section, unless otherwise noted, terms such as “we,” “our,” “us,” or “the Company” refer to Nesco Holdings prior to the Acquisition and to the combined company after the Acquisition. Unless the context otherwise requires, the terms “Nesco” or “Nesco Holdings” mean Nesco Holdings and its consolidated subsidiaries prior to the Acquisition, and the term “Custom Truck LP” means Custom Truck LP and its consolidated subsidiaries prior to the Acquisition.

Acquisition of Custom Truck LP

On December 3, 2020, Nesco Holdings and Nesco Holdings II, Inc., a subsidiary of Nesco Holdings (the “Buyer” or the “Issuer”), entered into a Purchase and Sale Agreement (as amended, the “Purchase Agreement”) with certain affiliates of The Blackstone Group (“Blackstone”) and other direct and indirect equity holders (collectively, “Sellers”) of Custom Truck LP, Blackstone Capital Partners VI-NQ L.P., and PE One Source Holdings, LLC, an affiliate of Platinum Equity, LLC (“Platinum”), pursuant to which Buyer agreed to acquire 100% of the partnership interests of Custom Truck LP. In connection with the Acquisition, Nesco Holdings and certain Sellers entered into Rollover and Contribution Agreements (the “Rollover Agreements”), pursuant to which such Sellers agreed to contribute a portion of their equity interests in Custom Truck LP (the “Rollovers”) with an aggregate value of \$100.5 million in exchange for shares of Common Stock, valued at \$5.00 per share.

Also on December 3, 2020, Nesco Holdings entered into a Common Stock Purchase Agreement (the “Investment Agreement”) with Platinum, relating to, among other things, the issuance and sale to Platinum (the “Subscription”) of shares of Common Stock, for an aggregate purchase price in the range of \$700 million to \$763 million, with the specific amount calculated in accordance with the Investment Agreement based upon the total equity funding required to fund the consideration paid pursuant to the terms of the Purchase Agreement. The shares of Common Stock issued and sold to Platinum had a purchase price of \$5.00 per share. In accordance with the Investment Agreement, on December 21, 2020, Nesco Holdings entered into Subscription Agreements (the “Subscription Agreements”) with certain investors (the “PIPE Investors”) to finance, in part, the Acquisition. Pursuant to the Subscription Agreements, concurrently with the closing of the transactions contemplated by the Investment Agreement, the PIPE Investors agreed to purchase an aggregate of 28,000,000 shares of Common Stock at \$5.00 per share for an aggregate purchase price of \$140 million (the “Supplemental Equity Financing”).

On the Closing Date, in connection with (i) the Rollovers, the Company issued, in the aggregate, 20,100,000 shares of Common Stock to the parties to the Rollover Agreements; (ii) the Subscription, the Company issued 148,600,000 shares of Common Stock to Platinum; and (iii) the Supplemental Equity Financing, the Company issued, in the aggregate, 28,000,000 shares of Common Stock to the PIPE Investors. Following the completion of these transactions, as of April 1, 2021, the Company had 245,919,383 shares of Common Stock issued and outstanding. The trading price of the Common Stock was \$9.35 per share on the Closing Date. The purchase price for the Acquisition was \$1.5 billion.

On the Closing Date, the Issuer issued \$920 million in aggregate principal amount of 5.50% senior secured second lien notes due 2029 (the “2029 Secured Notes”) and, together with its direct parent, and certain of its direct and indirect subsidiaries, entered into a senior secured asset-based revolving credit agreement (the “ABL Credit Agreement”) with Bank of America, N.A., as administrative agent and collateral agent, and certain other lenders party thereto, consisting of a \$750.0 million first lien senior secured asset-based revolving credit facility with a maturity of five years (the “ABL Facility,” together with the offering of the 2029 Secured Notes, the Acquisition, the Rollover, the Subscription and the Supplemental Equity Financing, the “Acquisition and Related Financing Transactions”). For more detail regarding the 2029 Secured Notes and the ABL Facility, see “Liquidity and Capital Resources” below.

Presentation of Financial Condition and Results of Operations

Custom Truck LP became a wholly owned subsidiary of the Company on April 1, 2021. The Company's consolidated financial statements prepared under United States generally accepted accounting principles (“GAAP”) include Custom Truck LP as of December 31, 2021 and for the period from April 1, 2021 to December 31, 2021. Accordingly, information presented for the year ended December 31, 2021 represents the financial results of Nesco Holdings and its subsidiaries for that entire period and the financial results of Custom Truck LP and its subsidiaries only from April 1, 2021 to December 31, 2021. Financial information for the year ended December 31, 2021 is not comparable to the year ended December 31, 2020 because of the Acquisition. We have provided an

analysis of the year ended December 31, 2021 compared to the year ended December 31, 2020, which financial results are those of Nesco Holdings and its subsidiaries prior to the Acquisition and does not include Custom Truck LP. Additionally, we have included information on a "pro forma" basis as further described below, which we believe provides for more meaningful year-over-year comparability. The discussion of results of operations in this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is presented on a historical basis, as of or for the year ended December 31, 2022, and the year ended December 31, 2021. For a discussion and analysis of the year ended December 31, 2021 compared to the same period in 2020, please refer to Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part II, Item 7 of our Annual Report on Form 10-K dated March 16, 2022.

Pro Forma Financial Information

The unaudited pro forma combined financial information presented in the section entitled "Supplemental Pro Forma Information," give effect to the Acquisition, as if the Acquisition had occurred on January 1, 2020, and is presented to facilitate comparisons with our results following the Acquisition. This information has been prepared in accordance with Securities and Exchange Commission Article 11 of Regulation S-X. Such unaudited pro forma combined financial information also uses the fair value of assets and liabilities, including the fair value of tax assets and liabilities on the Closing Date, and makes the following assumptions: (1) removes acquisition-related costs and charges that were recognized in the Company's consolidated financial statements in the year ended December 31, 2021 and applies these costs and charges to the year ended December 31, 2020, as if the Acquisition and Related Financing Transactions had occurred on January 1, 2020; (2) removes the loss on the extinguishment of debt that was recognized in the Company's consolidated financial statements in the year ended December 31, 2021 and applies the charge to the year ended December 31, 2020, as if the debt extinguishment giving rise to the loss had occurred on January 1, 2020; (3) adjusts for the impacts of purchase accounting in the years ended December 31, 2021 and 2020; (4) adjusts interest expense, including amortization of debt issuance costs, to reflect borrowings on the ABL Facility and issuance of the 2029 Secured Notes, as if the funds had been borrowed and notes had been issued on January 1, 2020 and used to repay pre-acquisition debt; and (5) adjusts for the income tax effect using a tax rate of 25%.

Financial and Performance Measures

Financial Measures

Revenue — As a full-service equipment provider, we generate revenue through renting, selling, assembling, upfitting, and servicing new and used heavy-duty trucks and cranes, as well as the sale of related parts. We also sell and rent specialized tools on an individual basis and in kits. Rental revenue is primarily comprised of revenues from rental agreements and freight charges billed to customers. For periods after January 1, 2021, the Company records changes in estimated collectability directly against rental revenue. Equipment sales revenue reflects the value of vocational trucks and other equipment sold to customers. Parts and service revenue is derived from maintenance and repair services, light upfit services, and parts, tools and accessories sold directly to customers.

Cost of rental revenue — Cost of rental revenue reflects repairs and maintenance costs of rental equipment, parts costs, labor and other overheads related to maintaining the rental fleet, and freight associated with the shipping of rental equipment.

Depreciation of rental equipment — Depreciation of rental equipment is comprised of depreciation expense on the rental fleet. We allocate the cost of rental equipment generally over the rentable life of the equipment. The depreciation allocation is based upon estimated lives ranging from five to seven years. The cost of equipment is depreciated to an estimated residual value using the straight-line method.

Cost of equipment sales — Cost of equipment sales reflects production and inventory costs associated with new units sold, parts costs, labor and other overheads related to production, and freight associated with the shipping and receiving of equipment and parts. Cost of equipment sales also includes the net book value of rental units sold.

Selling, general and administrative expenses — Selling, general and administrative expenses include sales compensation, fleet licensing fees and corporate expenses, including salaries, stock-based compensation expense, insurance, advertising costs, professional services, fees earned on customer arranged financing, gains or losses resulting from insurance settlements, and information technology costs.

Amortization and non-rental depreciation — Amortization expense relates to intangible assets such as customer lists, trade names, etc. Non-rental depreciation expense reflects the depreciation of property and equipment that is not part of the rental fleet.

Transaction expenses and other — Transaction expenses and other include expenses directly related to the acquisition of businesses. These expenses generally are comprised of travel and out-of-pocket expenses and legal, accounting and valuation or appraisal fees

incurred in connection with pre- and post-closure activities. We also include costs and expenses associated with post-acquisition integration activities related to the acquired businesses.

Financing and other expense (income) — Financing and other expense (income) reflects the financing expense (income) associated with sales-type lease activity, foreign currency gains and losses related to our Canadian operations, as well as other miscellaneous gains or losses from non-operating activities. Also included in financing and other expense (income) are the unrealized remeasurement gains and losses related to our interest rate collar and redeemable warrants.

Interest expense — Interest expense consists of contractual interest expense on outstanding debt obligations, floorplan financing facilities, amortization of deferred financing costs and other related financing expenses.

Income Tax Expense (Benefit) — We have net operating loss carryforward and disallowed interest deduction carryforward assets, which are generally available to be used to offset taxable income generated in future years. Due to limitations on the use of these carryforwards under U.S. federal and state income tax regulations, we record valuation allowances to reduce the carryforward assets to amounts that we estimate will be realized. Accordingly, income tax expense or benefit generally is comprised of changes to these valuation allowance estimates and does not reflect taxes on current period income (or tax benefit on current period losses). For these reasons, our effective tax rate differs from the federal statutory tax rate.

Performance Measures

We consider the following key operational measures when evaluating our performance and making day-to-day operating decisions:

Ending OEC — Ending original equipment cost (“OEC”) is the original equipment cost of units at the end of the measurement period. OEC represents the original equipment cost, exclusive of the effect of adjustments to rental equipment fleet acquired in business combinations, and is the basis for calculating certain of the measures set forth below. This adjusted measure of OEC is used by our creditors pursuant to our credit agreements, wherein this is a component of the basis for determining compliance with our financial loan covenants. Additionally, the pricing of our rental contracts and equipment sales prices for our equipment is based upon OEC, and we measure a rate of return from our rentals and sales using OEC. OEC is a widely used industry metric to compare fleet dollar value independent of depreciation.

Average OEC on rent — Average OEC on rent is calculated as the weighted-average OEC on rent during the stated period.

Fleet utilization — Fleet utilization is defined as the total number of days the rental equipment was rented during a specified period of time divided by the total number of days available during the same period and weighted based on OEC. Utilization is a measure of fleet efficiency expressed as a percentage of time the fleet is on rent and is considered to be an important indicator of the revenue generating capacity of the fleet.

OEC on rent yield — OEC on rent yield (“ORY”) is a measure of return realized by our rental fleet during a period. ORY is calculated as rental revenue (excluding freight recovery and ancillary fees) during the stated period divided by the average OEC on rent for the same period. For periods less than 12 months, ORY is adjusted to an annualized basis.

Sales order backlog — Sales order backlog consists of purchase orders received for customized and stock equipment. Sales order backlog should not be considered an accurate measure of future net sales.

Operating Segments

Following the Acquisition, we modified our management structure and expanded from two reportable operating segments to three: Equipment Rental Solutions, Truck and Equipment Sales and Aftermarket Parts and Services. Segment information provided within this Annual Report on Form 10-K has been adjusted for all prior periods consistent with the current reportable segment presentation.

Equipment Rental Solutions (“ERS”) Segment — We own a broad range of new and used specialty equipment, including truck-mounted aerial lifts, cranes, service trucks, dump trucks, trailers, digger derricks and other machinery and equipment. As of December 31, 2022, this equipment (the “rental fleet”) is comprised of more than 10,000 units. The majority of our rental fleet can be used across a variety of end-markets, which coincides with the needs of many of our customers who operate in multiple end-markets. As is customary for equipment rental companies, we sell used equipment out of our rental fleet to end user customers. These sales are often made in response to specific customer requests. These sales offer customers an opportunity to buy well-maintained equipment with long remaining useful lives and enable us to effectively manage the age and mix of our rental fleet to match current market demand. We also employ rental purchase options (“RPOs”) on a select basis, which provide a buyout option with an established purchase price that decreases over time as rental revenue is collected. Customers are given credit against such purchase price for a portion of the amounts paid over the life of the rental, allowing customers the flexibility of a rental with the option to purchase at any time at a known price. Activities in our ERS segment consist of the rental and sale from the rental fleet, of the foregoing products.

Truck and Equipment Sales (“TES”) Segment — We offer a broad variety of new equipment for sale to be used across our end-markets, which can be modified to meet our customers’ specific needs. We believe that our integrated production capabilities and extensive knowledge gained over a long history of selling equipment have established us as a trusted partner for customers seeking tailored solutions with short lead times. In support of these activities, we primarily employ a direct-to-customer sales model, leveraging our dedicated sales force of industry and product managers, who are focused on driving national and local sales. We also opportunistically engage in the sale of used equipment purchased from third parties or received via trade-ins from new equipment sales customers. In all of these cases, we will sell used equipment directly to customers, rather than relying on auctions. Activities in our TES segment consist of the production and sale of new and used specialty equipment and vocational trucks, which includes equipment from leading original equipment manufacturers (“OEMs”) across our end-markets, as well as our Load King™ brand.

Aftermarket Parts and Services (“APS”) Segment — The APS segment includes the sale of specialized aftermarket parts, including captive parts related to our Load King™ brand, used in the maintenance and repair of the equipment we sell and rent. Specialized tools, including stringing blocks, insulated hot stick, and rigging equipment, are sold or rented to our customers on an individual basis or in packaged specialty kits. We also provide truck and equipment maintenance and repair services, which are executed throughout our nationwide branch network and fleet of mobile technicians supported by our 24/7 call center based in Kansas City, Missouri.

Non-GAAP Financial Measures

In this Management’s Discussion and Analysis of Financial Condition and Results of Operations and in the Supplemental Pro Forma Information, we report certain financial measures that are not required by, or presented in accordance with, GAAP. We utilize these financial measures to manage our business on a day-to-day basis, and many of these measures are commonly used in our industry to evaluate performance considered to be non-recurring by excluding items. We believe these non-GAAP measures provide investors with expanded insight to assess performance, in addition to the standard GAAP-based financial measures. Reconciliation of the most directly comparable GAAP measure to each non-GAAP measure that we refer to is included in this Annual Report on Form 10-K. The following provides a description of the non-GAAP financial measures.

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP financial performance measure that the Company uses to monitor its results of operations and to measure performance against debt covenants and performance relative to competitors. The Company believes Adjusted EBITDA is a useful performance measure because it allows for an effective evaluation of operating performance, without regard to financing methods or capital structures. The Company excludes the items identified in the reconciliations of net income (loss) to Adjusted EBITDA because these amounts are either non-recurring or can vary substantially within the industry depending upon accounting methods and book values of assets, including the method by which the assets were acquired, and capital structures. Adjusted EBITDA should not be considered as an alternative to, or more meaningful than, net income (loss) determined in accordance with GAAP. Certain items excluded from Adjusted EBITDA are significant components in understanding and assessing a company’s financial performance, such as a company’s cost of capital and tax structure, as well as the historical costs of depreciable assets, none of which are reflected in Adjusted EBITDA. The Company’s presentation of Adjusted EBITDA should not be construed as an indication that results will be unaffected by the items excluded from Adjusted EBITDA. The Company’s computation of Adjusted EBITDA may not be identical to other similarly titled measures of other companies.

The Company defines Adjusted EBITDA as net income or loss before interest expense, income taxes, depreciation and amortization, share-based compensation, and other items that the Company does not view as indicative of ongoing performance. The Company’s Adjusted EBITDA includes an adjustment to exclude the effects of purchase accounting adjustments when calculating the cost of inventory and used equipment sold. When inventory or equipment is purchased in connection with a business combination, the assets are revalued to their current fair values for accounting purposes. The consideration transferred (i.e., the purchase price) in a business combination is allocated to the fair values of the assets as of the acquisition date, with amortization or depreciation recorded thereafter following applicable accounting policies; however, this may not be indicative of the actual cost to acquire inventory or new equipment that is added to product inventory or the rental fleets apart from a business acquisition. Additionally, the pricing of rental contracts and equipment sales prices for equipment is based on OEC, and the Company measures a rate of return from rentals and sales using OEC. The Company also includes an adjustment to remove the impact of accounting for certain of our rental contracts with customers containing a rental purchase option that are accounted for under GAAP as a sales-type lease. We include this adjustment because we believe continuing to reflect the transactions as an operating lease better reflects the economics of the transactions given our large portfolio of rental contracts. These, and other, adjustments to GAAP net income or loss that are applied to derive Adjusted EBITDA are specified by the Company’s senior secured credit agreements.

Although management evaluates and presents the Adjusted EBITDA non-GAAP measure for the reasons described herein, please be aware that this non-GAAP measure has limitations and should not be considered in isolation or as a substitute for revenue, operating income/loss, net income/loss, earnings/loss per share or any other comparable operating measure prescribed by GAAP. In addition, we

may calculate and/or present this non-GAAP financial measure differently than measures with the same or similar names that other companies report, and, as a result, the non-GAAP measure we report may not be comparable to those reported by others.

Pro Forma Adjusted EBITDA

We present Pro Forma Adjusted EBITDA for the year ended December 31, 2021, as if the Acquisition had occurred on January 1, 2020. Refer to the reconciliation of pro forma combined net income (loss) to Pro Forma Adjusted EBITDA for the year ended December 31, 2021 in the section entitled “Supplemental Pro Forma Information.”

Overview of Markets

We continue to focus on four primary end-markets: Electric Utility Transmission and Distribution, or T&D, Telecom, Rail, Forestry, Waste Management, and Infrastructure. In the T&D end-market, we continue to observe demand for new generation assets resulting in the development of new transmission lines as well as repair projects to address advanced-age transmission and distribution grids to replace existing lines and poles. These factors resulted in continued demand from our customers of the Company’s products and services. Telecom, specifically the roll-out of 5G, has seen some positive trends over the last few years. Our existing T&D related contactor customers will continue to deliver the roll-out, and our existing equipment portfolio aligns well with the needs of this market. Rail investment, both in the freight and commuter markets, remains robust. The existing rail infrastructure is aged and in need of maintenance. Infrastructure also provides potential growth opportunities as seen by the major road and bridge maintenance work experienced across the United States.

The Company purchases raw materials, component parts and finished goods to be used in the manufacturing, sale and rental of its products. Uncertainty remains regarding supply chain disruptions, inflationary pressures, public health crises, and geopolitical risks that have led to issues, broadly, in the supply chain. Changes in the Company’s relationships with suppliers, shortages in availability of materials, production delays, regulatory restrictions, public health crises, or other supply chain disruptions, whether due to suppliers or customers, could have a material adverse effect on the Company’s ability to timely manufacture and market products. Increases in the costs of shipping and transportation, purchased raw materials, component parts or finished goods could result in manufacturing interruptions, delays, inefficiencies or the Company’s inability to market products. The unprecedented nature of the supply chain disruptions continues to make it difficult to predict the Company’s future business and financial performance. The Company continues to monitor the impact on its supply chain, including, but not limited to, the commercial vehicle manufacturers that provide the chassis used in the Company’s production and manufacturing processes and the ongoing semiconductor shortage, which could potentially limit the ability of these manufacturers to meet demand in future periods.

Results of Operations

Year Ended December 31, 2022, Compared to Year Ended December 31, 2021

The consolidated operating results presented below for the year ended December 31, 2021 include the results of Custom Truck LP from April 1, 2021 to December 31, 2021 and, therefore, are not comparable to the year ended December 31, 2022.

Consolidated Results of Operations

(in \$000s)	Year Ended December 31,					
	2022	% of revenue	2021	% of revenue	\$ Change	% of change
Rental revenue	\$ 464,039	29.5%	\$ 370,067	31.7%	\$ 93,972	25.4%
Equipment sales	982,341	62.4%	695,334	59.6%	287,007	41.3%
Parts sales and services	126,706	8.1%	101,753	8.7%	24,953	24.5%
Total revenue	1,573,086	100.0%	1,167,154	100.0%	405,932	34.8%
Cost of revenue, excluding rental equipment depreciation	1,017,635	64.7%	800,031	68.5%	217,604	27.2%
Depreciation of rental equipment	171,703	10.9%	157,110	13.5%	14,593	9.3%
Gross profit	383,748	24.4%	210,013	18.0%	173,735	82.7%
Total operating expenses	280,440		251,980		28,460	
Operating income (loss)	103,308		(41,967)		145,275	
Total other expense	56,576		135,109		(78,533)	
Income (loss) before income taxes	46,732		(177,076)		223,808	
Income tax expense (benefit)	7,827		4,425		3,402	
Net income (loss)	\$ 38,905		\$ (181,501)		\$ 220,406	

Total Revenue - The increase in revenue for the year ended December 31, 2022, both in total and for each of our individual revenue streams, was driven by the addition of Custom Truck LP's revenues to our operating results and strong customer demand for equipment sales, rental equipment and for parts sales and service. The Acquisition significantly increased the size of our rental fleet and added a new equipment production and sales line of business (which we report under our TES segment) and a parts sales and heavy equipment service business. In addition, we achieved record levels of vehicle production in 2022. The rental revenue reflects our continued expansion of our rental fleet, higher utilization and pricing gains. Equipment sales increased as an improvement in supply chain challenges allowed for greater order fulfillments.

Cost of Revenue, Excluding Rental Equipment Depreciation - Consistent with the increase in revenue versus the prior year period, the increase in cost of revenue, excluding rental equipment depreciation, was driven by the addition of Custom Truck LP's cost of revenue to our operating results.

Total Operating Expenses - The primary drivers of the increase in operating expenses for the year ended December 31, 2022 was the addition of Custom Truck LP's operating expenses to our operating results.

Total Other Expense - The decrease in other expense for the year ended December 31, 2022 was largely driven by mark-to-market gains related to our private warrants, which are accounted for as a liability derivative instrument, partially offset by increases in interest expense. Expenses for a loss on extinguishment of debt related to the closing of the Acquisition were included in the year ended December 31, 2021.

Income Tax Expense (Benefit) - Our overall effective tax rate for the year ended December 31, 2022 was affected by a number of factors, such as the relative amounts of income we earn in differing tax jurisdictions, tax law changes, certain non-deductible expenses (non-taxable income), such as compensation disallowance and mark-to-market adjustments on derivative financial instruments, and changes in the valuation allowance we establish against deferred tax assets. The rate was also affected by discrete items that may occur in any given year, such as legislative enactments and changes in our corporate structure that may occur. These discrete items may not be consistent from year to year. For the year ended December 31, 2022, the impact of discrete items, such as derivative mark-to-market adjustments, transaction and integration expenses, our foreign operations and changes in the valuation allowance, resulted in an overall effective tax rate in the period of 16.7% and \$7.8 million of tax expense being recognized in the year ended December 31, 2022. The overall effective tax rate in the year ended December 31, 2021 was (2.5)%, \$4.4 million of tax expense recognized, and was primarily driven by changes in the valuation allowance.

On August 16, 2022, the U.S. enacted the Inflation Reduction Act of 2022 (“IRA”), which, among other things, implements a 15% minimum tax for certain large corporations, a 1% excise tax on net stock repurchases, and several tax incentives to promote clean energy. The IRA is effective for tax years beginning after December 31, 2022. Based on our current analysis of the provisions, we do not believe this legislation will have a material effect on our consolidated financial statements. We will continue to monitor the additional guidance from the Internal Revenue Service (the “IRS”).

Net Income (Loss) - The change in net income (loss) for the year ended December 31, 2022 was due to the addition of Custom Truck LP to our operating results and mark-to-market gains related to our private warrants. During the year ended December 31, 2021, we incurred significant transaction expenses in connection with the closing of the Acquisition, including the loss on the extinguishment of debt.

Key Performance Measures

We believe that our operating model, together with our highly variable cost structure, enables us to sustain high margins, strong cash flow generation and stable financial performance throughout various economic cycles. We are able to generate cash flow through our earnings. Our highly variable cost structure adjusts with the utilization of our equipment, thereby reducing our costs to match our revenue. We principally evaluate financial performance based on the following measurements: ending OEC, average OEC on rent, fleet utilization, and OEC on rent yield. We also report sales order backlog related to our customers’ orders as an indicator of the demand environment for our products. The table below presents these key measures.

<i>(in \$000s)</i>	Year Ended December 31,		Change	% Change
	2022	2021		
Ending OEC (as of period end)	\$ 1,455,820	\$ 1,363,451	\$ 92,369	6.8 %
Average OEC on rent	\$ 1,187,950	\$ 960,203	\$ 227,747	23.7 %
Fleet utilization	83.9 %	81.2 %	2.7 %	3.3 %
OEC on rent yield	39.1 %	38.0 %	1.1 %	2.9 %
Sales order backlog (as of period end)	\$ 754,142	\$ 411,636	\$ 342,506	83.2 %

Ending OEC - The increase in Ending OEC for the year ended December 31, 2022 compared to the same period in 2021 was driven by positive net rental fleet additions in the current period and the acquisition of HiRail in the first quarter of 2022.

Average OEC on Rent - The increase in Average OEC on rent for the year ended December 31, 2022 compared to the same period in 2021 was driven by fleet growth and continued strong rental demand.

Fleet Utilization - Fleet utilization increased as a result of strong rental demand.

OEC on Rent Yield - OEC on rent yield increased as a result of the impact of continued pricing increases, reflective of strong demand.

Sales Order Backlog - Sales order backlog consists of customer orders placed for customized and stock equipment. The increase in sales order backlog was driven by continued strong customer demand.

Adjusted EBITDA

The following table provides a reconciliation of net income (loss) to Adjusted EBITDA for the years ended December 31, 2022 and December 31, 2021. As previously noted, Adjusted EBITDA is a non-GAAP financial measure and should not be considered in isolation or as a substitute for revenue, operating income/loss, net income/loss, earnings/loss per share or any other comparable operating measure prescribed by GAAP.

[Table of Contents](#)

<i>(in \$000s)</i>	Year Ended December 31,			
	2022	2021	\$ Change	% Change
Net income (loss)	\$ 38,905	\$ (181,501)	\$ 220,406	121.4 %
Interest expense	76,265	67,610	8,655	12.8 %
Income tax expense (benefit)	7,827	4,425	3,402	76.9 %
Depreciation and amortization	223,483	209,073	14,410	6.9 %
EBITDA	346,480	99,607	246,873	247.8 %
Adjustments:				
Non-cash purchase accounting impact ⁽¹⁾	23,069	33,954	(10,885)	(32.1)%
Transaction and integration costs ⁽²⁾	26,218	51,993	(25,775)	(49.6)%
Loss on extinguishment of debt ⁽³⁾	—	61,695	(61,695)	(100.0)%
Sales-type lease adjustment ⁽⁴⁾	5,204	7,030	(1,826)	(26.0)%
Share-based payments ⁽⁵⁾	12,297	17,313	(5,016)	(29.0)%
Change in fair value of derivative and warrants ⁽⁶⁾	(20,290)	6,192	(26,482)	(427.7)%
Adjusted EBITDA	\$ 392,978	\$ 277,784	\$ 115,194	41.5 %

- (1) Represents the non-cash impact of purchase accounting, net of accumulated depreciation, on the cost of equipment and inventory sold. The equipment and inventory acquired received a purchase accounting step-up in basis, which is a non-cash adjustment to the equipment cost pursuant to our ABL Credit Agreement.
- (2) Represents transaction and process improvement costs related to acquisitions of businesses, including post-acquisition integration costs, which are recognized within operating expenses in our Consolidated Statements of Operations and Comprehensive Income (Loss). These expenses are comprised of professional consultancy, legal, tax and accounting fees. Also included are expenses associated with the integration of acquired businesses. These expenses are presented as adjustments to net income (loss) pursuant to our ABL Credit Agreement.
- (3) Loss on extinguishment of debt represents special charges, which are not expected to recur. Such charges are adjustments pursuant to our ABL Credit Agreement.
- (4) Represents the impact of sales-type lease accounting for certain leases containing RPOs, as the application of sales-type lease accounting is not deemed to be representative of the ongoing cash flows of the underlying rental contracts. The adjustments are made pursuant to our ABL Credit Agreement.

<i>(in \$000s)</i>	Year Ended December 31,	
	2022	2021
Equipment sales	\$ (41,525)	\$ (16,274)
Cost of equipment sales	37,582	16,532
Gross (profit) loss	(3,943)	258
Interest (income) expense	(12,130)	(5,898)
Rentals invoiced	21,277	12,670
Sales-type lease adjustment	\$ 5,204	\$ 7,030

- (5) Represents non-cash share-based compensation expense associated with the issuance of stock options and restricted stock units.
- (6) Represents the charge to earnings for our interest rate collar and the change in fair value of the liability for warrants.

Operating Results by Segment

The following segment information compares results by segment for years ended December 31, 2022 and December 31, 2021. The information for the year ended December 31, 2021 includes results of Custom Truck LP from April 1, 2021 to December 31, 2021. Accordingly, the year-over-year changes in all financial statement line items within each segment is attributable to the addition of Custom Truck LP on April 1, 2021. Refer to the Supplemental Pro Forma Information section in this filing that presents the consolidated results of the Company and Custom Truck LP for the year ended December 31, 2021.

Equipment Rental Solutions (ERS) Segment

<i>(in \$000s)</i>	Year Ended December 31,	
	2022	2021
Rental revenue	\$ 449,108	\$ 354,557
Equipment sales	212,146	105,435
Total revenue	661,254	459,992
Cost of rental revenue	106,598	94,644
Cost of equipment sales	158,167	90,420
Depreciation of rental equipment	167,962	151,954
Total cost of revenue	432,727	337,018
Gross profit	\$ 228,527	\$ 122,974

Total Revenue - The increase in total revenue for the ERS segment for the year ended December 31, 2022 compared to the year ended December 31, 2021 was driven by the addition of Custom Truck LP's revenues to our operating results and strong customer demand for rental equipment and equipment sales. Continued demand across our end-markets coupled with growth in the rental fleet were contributors to higher levels of fleet utilization.

Cost of Revenue - The increase in total cost of revenue for the year ended December 31, 2022 compared to the year ended December 31, 2021 was driven by the addition of Custom Truck LP's cost of revenue to our operating results. The increase in sales volume of rental equipment and growth in the rental fleet that contributed to higher depreciation expense, were also drivers of the increase.

Gross Profit - The increase in gross profit for the year ended December 31, 2022 compared to the year ended December 31, 2021 was due to the addition of Custom Truck LP.

Truck and Equipment Sales (TES) Segment

<i>(in \$000s)</i>	Year Ended December 31,	
	2022	2021
Equipment sales	\$ 770,195	\$ 589,899
Cost of equipment sales	647,685	528,024
Gross profit	\$ 122,510	\$ 61,875

Equipment Sales - Equipment sales increased for the year ended December 31, 2022 compared to the year ended December 31, 2021, as an improvement in supply chain challenges allowed for greater order fulfillments. We continue to see strong customer demand for our products, as evidenced by the growth in our sales order backlog for the year ended December 31, 2022 versus the year ended December 31, 2021, and a positive pricing environment for our products.

Cost of Equipment Sales - The increase in cost of equipment sales for the year ended December 31, 2022 compared to the year ended December 31, 2021 was due to an increase in supply chain costs and an increase in equipment sales for the period.

Gross Profit - The increase in gross profit for the year ended December 31, 2022 compared to the year ended December 31, 2021 is reflective of an increase in equipment sales and a positive pricing environment for our products.

Aftermarket Parts and Services (APS) Segment

<i>(in \$000s)</i>	Year Ended December 31,	
	2022	2021
Rental revenue	\$ 14,931	\$ 15,510
Parts and services revenue	126,706	101,753
Total revenue	141,637	117,263
Cost of revenue	105,185	86,943
Depreciation of rental equipment	3,741	5,156
Total cost of revenue	108,926	92,099
Gross profit	\$ 32,711	\$ 25,164

Total Revenue - Total revenue increased for the year ended December 31, 2022 compared to the year ended December 31, 2021, driven by growth in demand for parts, tools and accessories (“PTA”) sales, partially offset by reduced tools and accessories rentals in the PTA division.

Cost of Revenue - The increase in cost of revenue for the year ended December 31, 2022 compared to the year ended December 31, 2021 was due to product mix and expenses related to labor and facilities maintenance.

Gross Profit - The increase in gross profit for the year ended December 31, 2022 compared to the year ended December 31, 2021 was primarily due to growth in demand, partially offset by increased supply chain costs and product mix.

Supplemental Pro Forma Information

As result of the Acquisition and Related Financing Transactions, we believe presenting supplemental pro forma financial information is beneficial to the readers of our financial statements. The following table sets forth key metrics used by management to run our business on a pro forma and combined basis as if the Acquisition and Related Financing Transactions had occurred on January 1, 2020. Refer to the information below for pro forma adjustments of the statement of operations.

Summary Pro Forma Financial Information and Operational Data

<i>(in \$000s)</i>	Year Ended December 31,	
	2022 Actual	2021 Pro Forma
Revenue	\$ 1,573,086	\$ 1,483,625
Gross profit	\$ 383,748	\$ 278,418
Net income (loss)	\$ 38,905	\$ (90,521)
Adjusted EBITDA	\$ 392,978	\$ 323,118
Fleet and Operational Metrics:		
Ending OEC (as of period end)	\$ 1,455,820	\$ 1,363,451
Average OEC on rent	\$ 1,187,950	\$ 1,097,200
Fleet utilization	83.9 %	81.2 %
OEC on rent yield	39.1 %	38.0 %
Sales order backlog (as of period end)	\$ 754,142	\$ 411,636

Pro Forma Financial Statements

The following pro forma information has been prepared in accordance with Article 11 of Regulation S-X, "Pro Forma Financial Information," as amended by the Securities and Exchange Commission's Final Rule Release No. 33-10786, "Amendments to Financial Disclosures About Acquired and Disposed Businesses," as adopted on May 21, 2020 ("Article 11"). The amended Article 11 became effective on January 1, 2021. The pro forma combined statements of operations for the year ended December 31, 2021 combine the Consolidated Statements of Operations and Comprehensive Income (Loss) of Nesco Holdings and Custom Truck LP, giving effect to the following items as if they had occurred on January 1, 2020:

- i. the sale of the Company’s Common Stock, proceeds from which were used for the Acquisition;
- ii. the extinguishment of Nesco’s asset-based revolving credit facility (the "2019 Credit Facility") and its 10% Senior Secured Second Lien Notes due 2024 (the "2024 Secured Notes") and the contemporaneous issuance of the 2029 Secured Notes and borrowings under the ABL Facility, proceeds from which were used for the Acquisition; and

iii. the estimated effects of the Acquisition of Custom Truck LP, inclusive of the estimated effects of debt repaid.

The adjustments presented in the following pro forma financial information have been identified and presented to provide relevant information necessary for an accurate understanding of the combined company following the transactions and events described above. The pro forma financial information set forth below is based upon available information and assumptions that we believe are reasonable and is for illustrative purposes only. The financial results may have been different if the transactions described above had been completed sooner. You should not rely on the pro forma financial information as being indicative of the historical results that would have been achieved if these transactions and events had been completed as of January 1, 2020. The pro forma combined financial information below should be read in conjunction with the consolidated financial statements and related notes of the Company included elsewhere in this Annual Report on Form 10-K. All pro forma adjustments and their underlying assumptions are described more fully below.

During the preparation of these pro forma combined financial statements, we assessed whether there were any material differences between the accounting policies of the Company and Custom Truck LP. The assessment performed did not identify any material differences and, as such, these pro forma combined financial statements do not adjust for or assume any differences in accounting policies between the two entities.

The following pro forma combined financial information and associated notes are based on the historical financial statements of Nesco Holdings and Custom Truck LP prior to the Acquisition. The pro forma combined statements of operations for the period indicated below is based on, derived from, and should be read in conjunction with, the Company's historical financial statements.

Pro Forma Combined Statements of Operations — Year Ended December 31, 2021

<i>(in \$000s)</i>	Custom Truck One Source, Inc.	Custom Truck LP (Three Months Ended March 31, 2021)	Pro Forma Adjustments^a	Pro Forma Combined
Rental revenue	\$ 370,067	\$ 51,973	\$ —	\$ 422,040
Equipment sales	695,334	245,955	—	941,289
Parts sales and services	101,753	18,543	—	120,296
Total revenue	<u>1,167,154</u>	<u>316,471</u>	<u>—</u>	<u>1,483,625</u>
Cost of revenue	800,031	240,678	(19,186) ^b	1,021,523
Depreciation of rental equipment	157,110	22,757	3,817 ^c	183,684
Total cost of revenue	<u>957,141</u>	<u>263,435</u>	<u>(15,369)</u>	<u>1,205,207</u>
Gross profit	210,013	53,036	15,369	278,418
Selling, general and administrative	155,783	34,428	—	190,211
Amortization	40,754	1,990	3,589 ^d	46,333
Non-rental depreciation	3,613	1,151	(213) ^d	4,551
Transaction expenses and other	51,830	5,254	(40,277) ^e	16,807
Total operating expenses	<u>251,980</u>	<u>42,823</u>	<u>(36,901)</u>	<u>257,902</u>
Operating income (loss)	(41,967)	10,213	52,270	20,516
Loss on extinguishment of debt	61,695	—	(61,695) ^f	—
Interest expense, net	72,843	9,992	(3,919) ^g	78,916
Finance and other expense (income)	571	(2,346)	—	(1,775)
Total other expense	<u>135,109</u>	<u>7,646</u>	<u>(65,614)</u>	<u>77,141</u>
Income (loss) before taxes	(177,076)	2,567	117,884	(56,625)
Income tax expense	4,425	—	29,471 ^h	33,896
Net income (loss)	<u>\$ (181,501)</u>	<u>\$ 2,567</u>	<u>\$ 88,413</u>	<u>\$ (90,521)</u>

- a. The pro forma adjustments give effect to the following as if they occurred on January 1, 2020: (i) the Acquisition, (ii) the extinguishment of Nesco Holdings' 2019 Credit Facility and the repayment of the 2024 Secured Notes in connection with the Acquisition and (iii) the extinguishment of the outstanding borrowings of Custom Truck LP's credit facility and term loan that was repaid on the closing of the Acquisition.
- b. Represents adjustments to cost of revenue for a reduction to depreciation expense for the difference between historical depreciation and depreciation of the fair value of the property and equipment acquired from the Acquisition.
- c. Represents the adjustment for depreciation of rental fleet relating to the mark-up to fair value from purchase accounting as a result of the Acquisition.
- d. Represents the differential in other amortization and depreciation related to the fair value of the identified intangible assets from purchase accounting as a result of the Acquisition.
- e. Represents the elimination of transaction expenses recognized in the Company's consolidated financial statements for the year ended December 31, 2021. The expenses were directly attributable to the Acquisition and are reflected as adjustments to the comparable prior period (e.g. December 31, 2020) as if the Acquisition had occurred on January 1, 2020.
- f. Represents the elimination of the loss on extinguishment of debt recognized in the Company's consolidated financial statements for the year ended December 31, 2021 as though the repayment of the 2019 Credit Facility and the 2024 Secured Notes had occurred on January 1, 2020.

- g. Reflects the differential in interest expense, inclusive of amortization of capitalized debt issuance costs, related to the Company’s debt structure after the Acquisition as though the following had occurred on January 1, 2020: (i) borrowings under the ABL Facility; (ii) repayment of the 2019 Credit Facility; (iii) repayment of the 2024 Secured Notes; (iv) repayment of Custom Truck LP’s borrowings under its revolving credit and term loan facility; and (v) the issuance of the 2029 Secured Notes.
- h. Reflects the adjustment to recognize the tax impacts of the pro forma adjustments for which a tax expense is recognized using a statutory tax rate of 25%.

Reconciliation of Pro Forma Net Income (Loss) to Pro Forma Adjusted EBITDA

The following table provides a reconciliation of pro forma net income (loss) to pro forma Adjusted EBITDA, as applicable:

<i>(in \$000s)</i>	Year Ended December 31,	
	2022 Actual	2021 Pro Forma
Net income (loss)	\$ 38,905	\$ (90,521)
Interest expense	76,265	71,204
Income tax expense (benefit)	7,827	33,896
Depreciation and amortization	223,483	243,570
EBITDA	346,480	258,149
Adjustments:		
Non-cash purchase accounting impact(a)	23,069	15,755
Transaction and integration costs(b)	26,218	16,967
Sales-type lease adjustment(c)	5,204	8,185
Share-based payments(d)	12,297	17,870
Change in fair value of derivative and warrants(e)	(20,290)	6,192
Adjusted EBITDA	\$ 392,978	\$ 323,118

- a. Represents the non-cash impact of purchase accounting, net of accumulated depreciation, on the cost of equipment and inventory sold. The equipment and inventory acquired received a purchase accounting step-up in basis, which is a non-cash adjustment to the equipment cost pursuant to our credit agreement.
- b. Represents transaction and process improvement costs related to acquisitions of businesses, including post-acquisition integration costs, which are recognized within operating expenses in our Consolidated Statements of Operations and Comprehensive Income (Loss). These expenses are comprised of professional consultancy, legal, tax and accounting fees. Also included are expenses associated with the integration of acquired businesses. These expenses are presented as adjustments to net income (loss) pursuant to our ABL Credit Agreement.
- c. Represents the adjustment for the impact of sales-type lease accounting for certain leases containing rental purchase options (or “RPOs”), as the application of sales-type lease accounting is not deemed to be representative of the ongoing cash flows of the underlying rental contracts. This adjustment is made pursuant to our credit agreement.
- d. Represents non-cash share-based compensation expense associated with the issuance of stock options and restricted stock units.
- e. Represents the charge to earnings for our interest rate collar and the change in fair value of the liability for warrants.

For the Year Ended December 31, 2021, Compared to Year Ended December 31, 2020

For a comparison of our results of operations for the year ended December 31, 2021, compared to the year ended December 31, 2020, see [“Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our annual report on Form 10-K for the year ended December 31, 2021, filed with the Securities and Exchange Commission on March 16, 2022, which is incorporated herein by reference.](#)

Liquidity and Capital Resources

For the Year Ended December 31, 2022, Compared to the Year Ended December 31, 2021

Our principal sources of liquidity include cash generated by operating activities and borrowings under revolving credit facilities as described below. We believe that our liquidity sources and operating cash flows are sufficient to address our operating, debt service and capital requirements, including investments in our rental fleet, over the next 12 months. As of December 31, 2022, we had \$14.4 million in cash and cash equivalents compared to \$35.9 million as of December 31, 2021. As of December 31, 2022, we had \$437.7 million of outstanding borrowings under our ABL Facility compared to \$394.9 million of outstanding borrowings as of December 31, 2021.

Future Contractual Obligations

Our estimated future obligations as of December 31, 2022 include both short-term (over the next 12 months) and long-term obligations. We expect that our principal short-term (over the next 12 months) and long-term needs for cash relating to our operations will be to fund operating activities and working capital, the purchase of rental equipment and inventories for vocational truck production and parts and accessories products, human capital costs (which are not accurately estimable), payments due under leases, debt service, and acquisitions. We plan to fund such cash requirements from our existing sources of cash. In addition, we may seek additional financing through the use of additional operating leases or other financing sources as market conditions permit.

Our expected material contractual cash requirements over the next twelve months primarily consist of minimum operating lease obligations of \$6.9 million, finance lease obligations of \$2.0 million, debt principal and interest payments of \$6.9 million and \$79.0 million, respectively, and the repayment of floor plan borrowings. We enter into purchase agreements with manufacturers and suppliers of chassis, parts and components and attachments, for our rental fleet and inventory. The purchase agreements are cancellable within a specified notification period to the supplier. Such amounts are not estimable as of December 31, 2022.

Operating Lease and Finance Lease Payments. We have short-term and long-term minimum cash requirements for operating lease payments of \$6.9 million and \$31.8 million, respectively. We have short-term and long-term minimum cash requirements for finance lease payments of \$2.0 million and \$3.7 million, respectively. The total amounts do not equal the carrying amount due to imputed interest. See Note 10: Leases as Lessee in the Notes to the Consolidated Financial Statements under Part II, Item 8, for a summary of the estimated future repayment terms for the operating lease and finance lease amounts.

Floor Plan Financing. We have floor plan payables of \$293.5 million at December 31, 2022 that represent financing arrangement to facilitate our purchase of chassis, parts, components and attachments inventory. All floor plan payables are collateralized by the inventory financed. These payables become due and payable upon the sale, transfer, or reclassification of each unit to inventory. See Note 7: Floor Plan Financing in the Notes to the Consolidated Financial Statements under Part II, Item 8, for obligations related to trade and non-trade floor plan financings.

Daimler Truck Financial

The Company is party to the Wholesale Financing Agreement with Daimler Truck Financial (the “Daimler Facility”) which bears interest at a rate of the Prime plus 0.80% after an initial interest free period of up to 150 days. The total borrowing capacity under the Daimler Facility is \$175.0 million. As of December 31, 2022 and December 31, 2021, borrowings on the Daimler Facility were \$105.4 million and \$46.0 million, respectively. The Daimler agreement is evergreen and is subject to termination by either party through written notice.

PACCAR

The Company has an Inventory Financing Agreement with PACCAR Financial Corp that provides the Company with a line of credit of \$75.0 million to finance inventory purchases of new Peterbilt and/or Kenworth trucks, tractors, and chassis. Amounts borrowed against this line of credit incur interest at a rate of LIBOR plus 2.4%. As of December 31, 2022 and December 31, 2021, borrowings on the PACCAR line of credit were \$31.2 million and \$26.7 million, respectively. Effective during the first quarter of 2023, the interest rate will be U.S. Prime Rate minus 0.6%. The PACCAR agreement extends automatically each April and is subject to termination by either party through written notice.

References to the prime rate in the foregoing agreements represent the rate as published in The Wall Street Journal.

PNC Equipment Finance, LLC

The Company has an Inventory Loan, Guaranty and Security Agreement (the “Loan Agreement”) with PNC Equipment Finance, LLC. As of December 31, 2022, the Loan Agreement provided the Company with a \$315.0 million revolving credit facility, which matures on August 25, 2023. As of December 31, 2022 and December 31, 2021, borrowings on the Loan Agreement were \$293.5 million and \$165.2 million, respectively, and the interest rate was a three-month term secured overnight financing rate (“SOFR”) plus 3.25% and a LIBOR plus 3.05%, respectively.

Notes Payable and Loan Principal and Interest Payments. We have short-term and long-term cash requirements of \$6.9 million and \$1,382.5 million, respectively, for the payment of principal related to notes payable and loans as of December 31, 2022. The total amount does not equal the carrying amount due to unamortized deferred charges. See Note 9: Long-Term Debt in the Notes to the Consolidated Financial Statements under Part II, Item 8 for more information.

ABL Facility

In connection with the Acquisition on the Closing Date, the Buyer, as borrower, and the ABL Guarantors (as defined in the ABL Credit Agreement) entered into the ABL Credit Agreement. The ABL Facility provides for revolving loans, in an amount equal to the lesser of the then-current borrowing base (described below) and the committed maximum borrowing capacity of \$750.0 million, with a \$75.0 million swingline sublimit, and letters of credit in an amount equal to the lesser of (a) \$50.0 million and (b) the aggregate unused amount of commitments under the ABL Facility then in effect. The ABL Facility permits the Buyer to incur additional capacity under the ABL Facility in an aggregate amount equal to the greater of (x) \$200.0 million and (y) 60.0% of Consolidated EBITDA (as defined in the ABL Credit Agreement) in additional commitments. As of the Closing Date, Buyer had no commitments from any lender to provide incremental commitments.

Borrowings under the ABL Facility are limited by a borrowing base calculation based on the sum of, without duplication:

- (a) 90.0% of book value of eligible accounts of Buyer and certain ABL Guarantors; plus
- (b) the lesser of (i) 75.0% of book value of eligible parts inventory of Buyer and certain ABL Guarantors (subject to certain exceptions) and (ii) 90.0% of the net orderly liquidation value of eligible parts inventory of Buyer and certain ABL Guarantors; plus
- (c) the sum of (i) 95.0% of the net book value of the eligible fleet inventory of Buyer and certain ABL Guarantors that has not been appraised and (ii) 85.0% of the net orderly liquidation value of the eligible fleet inventory of Buyer and certain ABL Guarantors that has been appraised; plus
- (d) 100.0% of eligible cash of Buyer and certain ABL Guarantors; minus
- (e) any reserves established by the administrative agent from time to time.

As of December 31, 2022, borrowing availability under the ABL Facility was \$309.4 million, and outstanding standby letters of credit were \$2.9 million. Borrowings under the ABL Facility bears interest at a floating rate, which, at Buyer’s election, could be (a) in the case of U.S. dollar denominated loans, either (i) the London Interbank Offered Rate (“LIBOR”) plus an applicable margin or (ii) the base rate plus an applicable margin or (b) in the case of Canadian dollar denominated loans, the CDOR rate plus an applicable margin. The applicable margin varies based on Average Availability (as defined in the ABL Credit Agreement) from (x) with respect to base rate loans, 0.50% to 1.00% and (y) with respect to LIBOR loans and CDOR rate loans, 1.50% to 2.00%. The ability to draw under the ABL Facility or issue letters of credit thereunder is conditioned upon, among other things, delivery of prior written notice of a borrowing or issuance, as applicable, the ability to reaffirm the representations and warranties contained in the ABL Credit Agreement and the absence of any default or event of default under the ABL Facility.

Buyer is required to pay a commitment fee to the lenders under the ABL Facility in respect of the unutilized commitments thereunder at a rate equal to 0.375% per annum, which may be reduced following the first full fiscal quarter to 0.250% per annum based on average daily usage. Buyer must also pay customary letter of credit and agency fees.

The balance outstanding under the ABL Facility will be due and payable on April 1, 2026. Buyer may, at any time and from time to time, prepay, without premium or penalty, any borrowing under the ABL Facility and terminate, or from time to time reduce, the commitments under the ABL Facility.

The obligations under the ABL Facility are guaranteed by Capitol Investment Merger Sub 2, LLC, Buyer and each of Buyer’s existing and future direct and indirect wholly owned domestic restricted subsidiaries, subject to certain exceptions, as well as certain of Buyer’s material Canadian subsidiaries (the “ABL Guarantors”). The obligations under the ABL Facility and the guarantees of those

obligations are secured by (subject to certain exceptions): (i) a first priority pledge by each ABL Guarantor of all of the equity interests of restricted subsidiaries directly owned by such ABL Guarantors (limited to 65% of voting capital stock in the case of foreign subsidiaries owned directly by a U.S. subsidiary and subject to certain other exceptions in the case of non-wholly owned subsidiaries) and (ii) a first priority security interest in substantially all of the ABL Guarantors' present and after-acquired assets (subject to certain exceptions).

The ABL Facility contains customary negative covenants for transactions of this type, including covenants that, among other things, limit Buyer's and its restricted subsidiaries' ability to: incur additional indebtedness; pay dividends, redeem stock, or make other distributions; repurchase, prepay or redeem subordinated indebtedness; make investments; create restrictions on the ability of Buyer's restricted subsidiaries to pay dividends to Buyer; create liens; transfer or sell assets; consolidate, merge, sell, or otherwise dispose of all or substantially all of Buyer's assets; enter into certain transactions with Buyer's affiliates; and designate subsidiaries as unrestricted subsidiaries, in each case subject to certain exceptions, as well as a restrictive covenant applicable to each Specified Floor Plan Company (as defined in the ABL Credit Agreement) limiting its ability to own certain assets and engage in certain lines of business. In addition, the ABL Facility contains a springing financial covenant that requires Buyer and its restricted subsidiaries to maintain a Consolidated Fixed Charge Coverage Ratio (as defined in the ABL Credit Agreement) of at least 1.00 to 1.00; provided that the financial covenant shall only be tested when Specified Excess Availability (as defined in the ABL Credit Agreement) under the ABL Facility is less than the greater of (i) 10.0% of the Line Cap (as defined in the ABL Credit Agreement) and (ii) \$60.0 million (the "FCCR Test Amount"), in which case it shall be tested at the end of each succeeding fiscal quarter thereafter until the date on which Specified Excess Availability has exceeded the FCCR Test Amount for 30 consecutive calendar days.

The ABL Facility provides for a number of customary events of default, including, among others, and in each case subject to an applicable grace period: payment defaults to the lenders; covenant defaults; material inaccuracies of representations and warranties; failure to pay certain other indebtedness after final maturity or acceleration of other indebtedness exceeding a specified amount; voluntary and involuntary bankruptcy proceedings; material judgments for payment of money exceeding a specified amount; and certain change of control events. The occurrence of an event of default could result in the acceleration of obligations and the termination of revolving commitments under the ABL Facility.

2029 Secured Notes

On the Closing Date, the Issuer issued \$920.0 million in aggregate principal amount of 5.50% senior secured second lien notes due 2029. The 2029 Secured Notes were issued pursuant to an indenture, dated as of April 1, 2021, between the Issuer, Wilmington Trust, National Association, as trustee and the guarantors party thereto (the "Indenture"). The Issuer pays interest on the 2029 Secured Notes semi-annually in arrears on April 15 and October 15 of each year, commencing on October 15, 2021. Unless earlier redeemed, the 2029 Secured Notes will mature on April 15, 2029.

Ranking and Security

The 2029 Secured Notes are jointly and severally guaranteed on a senior secured basis by Capitol Investment Merger Sub 2, LLC and, subject to certain exceptions, each of the Issuer's existing and future wholly owned domestic restricted subsidiaries that is an obligor under the ABL Credit Agreement or certain other capital markets indebtedness. Under the terms of the Indenture, the 2029 Secured Notes and the related guarantees rank senior in right of payment to all of the Issuer's and the guarantors' subordinated indebtedness and are effectively senior to all of the Issuer's and the guarantors' unsecured indebtedness and indebtedness secured by liens junior to the liens securing the 2029 Secured Notes, in each case, to the extent of the value of the collateral securing the 2029 Secured Notes. The 2029 Secured Notes and the related guarantees rank equally in right of payment with all of the Issuer's and the guarantors' senior indebtedness, without giving effect to collateral arrangements, and effectively equal to all of the Issuer's and the guarantors' senior indebtedness secured on the same priority basis as the 2029 Secured Notes. The 2029 Secured Notes and the related guarantees are effectively subordinated to any of the Issuer's and the guarantors' indebtedness that is secured by assets that do not constitute collateral for the 2029 Secured Notes to the extent of the value of the assets securing such indebtedness, and indebtedness that is secured by a senior-priority lien, including the ABL Credit Agreement to the extent of the value of the collateral securing such indebtedness, and are structurally subordinated to the liabilities of the Issuer's non-guarantor subsidiaries.

Optional Redemption Provisions and Repurchase Rights

At any time, upon not less than 10 nor more than 60 days' notice, the 2029 Secured Notes are redeemable at the Issuer's option, in whole or in part, at a price equal to 100% of the principal amount of the 2029 Secured Notes redeemed, plus a make-whole premium as set forth in the Indenture, plus accrued and unpaid interest, if any, to, but not including, the applicable redemption date. Beginning April 15, 2024, the Issuer may redeem the 2029 Secured Notes, at its option, in whole or in part, at any time, subject to the payment of a redemption price together with accrued and unpaid interest, if any, to, but not including, the applicable redemption date. The redemption price includes a call premium that varies (from 2.750% to 0.000%) depending on the year of redemption.

In addition, at any time prior to April 15, 2024, the Issuer may redeem up to 40% of the aggregate principal amount of the 2029 Secured Notes, at a redemption price equal to 105.5% of the principal amount thereof, together with accrued and unpaid interest, if any, to, but not including, the applicable redemption date, with the net cash proceeds of sales of one or more equity offerings by the Issuer or any direct or indirect parent of the Issuer, subject to certain exceptions.

In addition, at any time prior to April 15, 2024, the Issuer may redeem during each calendar year up to 10% of the aggregate principal amount of the 2029 Secured Notes at a redemption price equal to 103% of the aggregate principal amount of the 2029 Secured Notes to be redeemed, together with accrued and unpaid interest, if any, to, but not including, the applicable redemption date; provided that, in any given calendar year, any amount not previously utilized in any calendar year may be carried forward to subsequent calendar years.

Subject to certain exceptions, the holders of the 2029 Secured Notes also have the right to require the Issuer to repurchase their 2029 Secured Notes upon the occurrence of a change in control, as defined in the Indenture, at an offer price equal to 101% of the principal amount of the 2029 Secured Notes plus accrued and unpaid interest, if any, to, but not including, the date of repurchase.

In addition, if the Issuer or any of its restricted subsidiaries sells assets, under certain circumstances, the Issuer is required to use the net proceeds to make an offer to purchase the 2029 Secured Notes at an offer price in cash equal to 100% of the principal amount of the 2029 Secured Notes plus accrued and unpaid interest to, but not including, the repurchase date.

In connection with any offer to purchase all or any of the 2029 Secured Notes (including a change of control offer and any tender offer), if holders of no less than 90% of the aggregate principal amount of the 2029 Secured Notes validly tender their 2029 Secured Notes, the Issuer or a third party is entitled to redeem any remaining 2029 Secured Notes at the price offered to each holder.

Restrictive Covenants

The Indenture contains covenants that limit the Issuer's (and certain of its subsidiaries') ability to, among other things: (i) incur additional debt or issue certain preferred stock; (ii) pay dividends, redeem stock, or make other distributions; (iii) make other restricted payments or investments; (iv) create liens on assets; (v) transfer or sell assets; (vi) create restrictions on payment of dividends or other amounts by the Issuer to the Issuer's restricted subsidiaries; (vii) engage in mergers or consolidations; (viii) engage in certain transactions with affiliates; or (ix) designate the Issuer's subsidiaries as unrestricted subsidiaries.

Events of Default

The Indenture provides for customary events of default, including non-payment, failure to comply with covenants or other agreements in the Indenture, and certain events of bankruptcy or insolvency. If an event of default occurs and continues with respect to the 2029 Secured Notes, the trustee or the holders of at least 30% in aggregate principal amount of the outstanding 2029 Secured Notes of such series may declare the entire principal amount of all the 2029 Secured Notes to be due and payable immediately (except that if such event of default is caused by certain events of bankruptcy or insolvency, the entire principal of the 2029 Secured Notes will become due and payable immediately without further action or notice).

Notes Payables

Our notes payable require the Company to pay monthly and quarterly interest payments and have maturities beginning in 2022 through 2026. Notes payable include (i) debt assumed from the Acquisition related to borrowings for facilities renovations and to support general business activities, (ii) notes payables related to past businesses acquired, and (iii) term loans. Subsequent to the Acquisition, the Company consolidated certain notes payable assumed from the Acquisition into a \$23.9 million loan agreement with Security Bank of Kansas City ("SBKC") that bears interest at a rate of 3.125% per annum, and a \$3.5 million loan agreement with SBKC that bears interest at a rate of 3.5% per annum.

2023 Credit Facility

On January 13, 2023, the Company entered into a new credit agreement allowing for borrowings of up to \$18.0 million (the "2023 Credit Facility"). Proceeds from the credit agreement were used to finance a portion of the Company's acquisition of real property from a related party in December 2022, see Note 20: Related Parties for further information. A portion of the loan proceeds will be used to finance improvements to the property. In connection with entering into the agreement, the Company received proceeds of \$13.7 million with the ability to draw an additional \$4.2 million upon completion of certain construction milestones. Borrowings bear interest at a fixed rate of 5.75% per annum and are required to be repaid monthly in an amount of approximately \$0.1 million with a balloon payment due on the maturity date of January 13, 2028. Borrowings are secured by the real property and improvements.

Historical Cash Flows

The following table summarizes our sources and uses of cash:

<i>(in \$000s)</i>	Year Ended December 31,	
	2022	2021
Net cash flow from operating activities	\$ 45,968	\$ 138,926
Net cash flow from investing activities	(218,936)	(1,429,480)
Net cash flow from financing activities	153,896	1,323,044
Effect of exchange rate changes on cash and cash equivalents	(2,470)	—
Net change in cash and cash equivalents	\$ (21,542)	\$ 32,490

As of December 31, 2022, we had cash and cash equivalents of \$14.4 million, a decrease of \$21.5 million from December 31, 2021. Generally, we manage our cash flow by using any excess cash, after considering our working capital and capital expenditure needs, including paying down the outstanding balance under our ABL Facility.

Cash Flows from Operating Activities

Net cash provided by operating activities was \$46.0 million for the year ended December 31, 2022, as compared to \$138.9 million in the same period of 2021. The use of cash in the current period is the result of our increased levels of inventory purchases and production.

Cash Flows from Investing Activities

Net cash used in investing activities was \$218.9 million for the year ended December 31, 2022, as compared to cash used in investing activities of \$1,429.5 million in 2021. The decrease is attributable to the cash paid to acquire Custom Truck LP on April 1, 2021.

Cash Flows from Financing Activities

Net cash provided by financing activities was \$153.9 million for the year ended December 31, 2022, as compared to \$1,323.0 million in 2021. The decrease is attributable to the cash proceeds provided by the sale of our common stock and placement of new debt, the funds from which were used to acquire Custom Truck LP on April 1, 2021.

Year Ended December 31, 2021, Compared to the Year Ended December 31, 2020

For a comparison of our liquidity and capital resources for the year ended December 31, 2021, compared to the year ended December 31, 2020, see [“Part II, Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our annual report on Form 10-K for the year ended December 31, 2021](#), filed with the Securities and Exchange Commission on March 16, 2022, which is incorporated herein by reference.

Critical Accounting Estimates

We prepare our consolidated financial statements in accordance with U.S. Generally Accepted Accounting Principles (“GAAP”). In applying accounting principles it is often required to use estimates. These estimates consider the facts, circumstances, and information available, and may be based on subjective inputs, assumptions, and information known and unknown to us. Material changes in certain of the estimates that we use, could potentially affect, by a material amount, our consolidated financial position and results of operations. Although results may vary, we believe our estimates are reasonable and appropriate. See Note 2: Summary of Significant Accounting Policies in the Notes to the Consolidated Financial Statements under Part II, Item 8 thereof. The following describes certain of our significant accounting policies that involve more subjective and complex judgments where the effect on our consolidated financial position and operating performance could be material.

Useful Lives and Salvage Values of Rental Equipment and Property and Equipment

Our rentable equipment consists of aftermarket parts and specialized rental equipment. Purchases of our equipment are recorded at cost, the OEC, and we depreciate OEC to an estimated salvage value. We depreciate our aftermarket parts over their estimated useful rentable life of five years. We depreciate our rental equipment over its estimated useful rentable life of five to seven years with an estimated residual value of 15% to 35% of the OEC, using the straight-line method. Useful life is estimated based upon the expected period the equipment will be in the fleet as a rentable unit. A salvage value is estimated to approximate the value of the equipment at the end of its useful (i.e., rentable) life, allowing for a reasonable profit margin on the sale of the equipment when we remove the unit

from the fleet. In establishing useful lives and salvage values, we consider factors related to customer demand of differing types of equipment in order for us to hold and maintain an optimal mix of equipment types in our fleet. We also continuously evaluate factors related to the condition and serviceability of the equipment in our fleet in order to make estimates of useful life and expected end-of-life value. Depreciation of our equipment is recognized as a component of our cost of revenue. For sold equipment, the carrying value of an item is recognized as cost of equipment sale within cost of revenue. Changes in estimated useful life and/or salvage value would impact our gross profit in our consolidated financial statements. To the extent that the useful lives of our rental equipment were to increase or decrease by one year, we estimate that our annual depreciation expense would increase or decrease by approximately \$110.5 million, respectively. Similarly, to the extent the estimated salvage values of our rental equipment were to increase or decrease by one percentage point, we estimate that our annual depreciation expense would change by approximately \$2.9 million. Any change in depreciation expense as a result of a hypothetical change in either useful lives or salvage values would generally result in a proportional increase or decrease in the gross profit we would recognize upon the ultimate sale of the asset.

Business Combinations

We have made acquisitions in the past and may continue to make acquisitions in the future. We allocate the cost of the acquired enterprise to the assets acquired and liabilities assumed based on their respective fair values at the date of acquisition. Rental equipment generally represents the largest component and was 39% of total assets acquired over the three years ended December 31, 2022, followed by goodwill at 29% and other intangible assets at 19%. Goodwill is attributable to the synergies and economies of scale expected from the combination of the businesses.

In addition to long-lived fixed assets, we also acquire other assets and assume liabilities. These other assets and liabilities typically include, but are not limited to, parts inventory, accounts receivable, accounts payable, deferred revenue and other working capital items. Because of their short-term nature, the fair values of these other assets and liabilities generally approximate the carrying values reflected on the acquired entities' balance sheets. However, when appropriate, we adjust these carrying values for factors such as collectability and existence. The intangible assets that we have acquired included goodwill and customer relationships. Goodwill was calculated as the excess of the cost of the acquired entity over the fair value of the net assets acquired. Customer relationships were valued based on an excess earnings or income approach with consideration to projected cash flows.

Our estimates of the values of tangible assets from our business combinations, principally rental equipment, utilize data that reflect quoted prices for similar assets available in active markets (such as the used equipment market). For this reason, estimates of the fair values of these items is not considered to be highly subjective or complex. However, to estimate the values of intangible assets we utilize income methods that involve forecasting future cash flow related to the acquired businesses. The estimates of future cash flow require us to establish expectations about customer demand, investments in maintaining or expanding infrastructure for the markets the businesses serve, and the supply and capacity of equipment in the rental market, among others. Additionally, we are required to establish expectations for the businesses' cost of capital and ability to acquire and maintain equipment in the future. Critical estimates utilized in valuing intangible assets acquired include, but are not limited to, free cash flows, taxes, amortization, customer attrition rates, discount rates and long-term growth rates. Changes in these assumptions would have an impact to the amount of intangible assets recorded and the resulting amortization expense.

On January 14, 2022, we acquired HiRail for \$49.8 million, net of cash acquired. We allocated the cost of the acquired enterprise to the assets acquired and liabilities assumed based on their respective fair values at the date of acquisition. Rental equipment generally represents the largest component and was 58% of total assets acquired followed by other intangible assets at 19% and goodwill at 15%. Goodwill was attributable to the synergies and economies of scale expected from the combination of businesses. Critical estimates utilized in valuing intangible assets acquired include, but are not limited to, free cash flows, taxes, amortization, customer attrition rates, discount rate of 15.5% and long-term growth rate of 2.0%.

Goodwill and the Evaluation of Goodwill Impairment

Goodwill represents the excess of cost over the fair value of identifiable net assets of businesses acquired. We review goodwill for impairment at least annually or more frequently as warranted by triggering events that indicate potential impairment. As of October 1, 2022, our annual impairment test date, we performed a Step 1 quantitative goodwill impairment test. Goodwill was tested for impairment at the reporting unit level, which we have determined to be ERS, TES, and APS. We estimated the fair value of these reporting units by weighting the results from the income approach and the market approach. The market value approach compared current and projected financial results to entities of similar size and industry to determine market value. The income approach utilized assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. These cash flows consider factors regarding expected future operating income and historical trends.

Factors that management must estimate when performing impairment tests include rental and sales volumes and prices, inflation, discount rates, tax rates and capital spending. Significant management judgment is involved in estimating these factors, and they

include inherent uncertainties. The estimates of future cash flow require us to establish expectations about customer demand, investments in maintaining or expanding infrastructure for the markets each reporting unit serves, and the supply and capacity of equipment in the rental market, among others. Additionally, we are required to establish expectations for the businesses' cost of capital and ability to acquire and maintain equipment in the future. Measurement of the recoverability of these assets is dependent upon the accuracy of the assumptions used in making these estimates, as well as how the estimates compare to our eventual future operating performance. As of October 1, 2022, the related cash flows were discounted using rates ranging from 10.0% to 10.5% for our reporting units. We used a long-term growth rate of 2.5%. Changes in these estimates, many of which fall under Level 3 within the fair value measurement hierarchy, could change our conclusion regarding the impairment of goodwill assets and potentially reduce the carrying value of goodwill on our balance sheet and reduce our income in the year in which it is recorded. No impairment loss was recorded as a result of the annual impairment test on October 1, 2022.

Accounts Receivable and Allowance for Doubtful Accounts

Allowance for doubtful accounts represents our estimate of current expected credit losses on our trade accounts receivable. Accounts receivable from customers are generated from our leasing, sales and service businesses. We make judgments regarding our expected credit losses, which are based on an assessment of historical credit losses, ability of customers to pay, current financial conditions of customers, as well as forecasts of collections and losses. Other factors that could lead to credit losses include adverse trends in the end-market industries that we serve and macroeconomic trends, each of which is considered in our forecasts. Estimated credit losses related to accounts receivable generated through leasing activities are recorded as a reduction to rental revenue. Estimated credit losses related to accounts receivable generated through sales and service activities are recorded within selling, general and administrative expense. The allowance for doubtful accounts represents our estimate of credit losses expected on our trade receivables. Although we believe that our estimates and judgments are reasonable, actual results may differ from these estimates. At December 31, 2022, a 100 basis point increase to our credit loss estimate would increase our allowance for doubtful accounts by approximately \$1.0 million.

Income Taxes

We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences (meaning, inclusions of income and deductions in income tax returns to be filed in future periods) of events that have been included in the financial statements. These items may be referred to as "temporary differences." Under this method, deferred tax assets and liabilities are determined based on the differences between their financial statement carrying amount (or, basis) and the carrying amount for taxes (or, tax basis) using enacted tax rates in effect for the year in which the differences are expected to affect income in the future tax filings. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

We record deferred tax assets to the extent we believe that it is more likely than not that these assets will be realized in the future. Future realization of deferred income tax assets (meaning, items that may provide tax deductions in future periods) requires sufficient taxable income in those future periods, or within any carryback periods available under tax law. We evaluate the realizability of our deferred tax assets on a quarterly basis. To be realized, there must be an objective and verifiable basis for the expectation of taxable income in future periods to offset, or "consume," the deferred tax assets. The evaluation includes the consideration of all available factors, both positive and negative, regarding (i) the estimated future reversals of existing taxable temporary differences (that is, deferred tax liabilities), (ii) forecasted future taxable income exclusive of those reversing temporary differences and carryforwards, (iii) historical taxable income in prior carryback periods if carryback is permitted, and (iv) potential tax planning strategies that may be employed to prevent an operating loss or tax credit carryforward from expiring unused. The verifiable evidence, such as future reversals of existing temporary differences and the ability to carryback, are considered before estimated future taxable income (exclusive of temporary differences and tax planning strategies) is considered because future taxable income estimates are more subjective. The majority of our deferred tax assets are comprised of income tax carryforwards, including federal and state net operating loss carryforwards ("NOLs") and non-deductible interest expense carryforwards. Some of these carryforwards are subject to annual usage limitations and expiration, while other state NOLs and all of our federal NOLs do not have expirations.

While we remain in a financial reporting loss position based on a cumulative pre-tax loss for the three-year period ended December 31, 2022, the determination of the valuation allowance is based on our evaluation of the periods over which future taxable items are expected to be utilized to offset tax loss and deduction carryforward items in those future periods. That is, future forecasts of our taxable income are not considered in the evaluation of realizability of our deferred tax assets. Therefore, changes in our deferred tax asset valuation allowances will primarily be affected by changes in the estimates of the time periods over which those future taxable items will occur. At December 31, 2022, our deferred tax asset valuation allowance was \$78.6 million.

Recent Accounting Pronouncements

See *Note 2: Summary of Significant Accounting Policies*, to our Annual Report on Form 10-K for a discussion of recently issued and adopted accounting pronouncements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest rate risk

We are subject to interest rate market risk in connection with our long-term debt. Our principal interest rate exposure relates to outstanding amounts under our asset-based revolving credit facility. Interest rate changes generally impact the amount of our interest payments and, therefore, our future net income and cash flows, assuming other factors are held constant. As of December 31, 2022, we had \$437.7 million aggregate principal amount of variable rate debt, consisting of the balance outstanding under the ABL Facility. Holding other variables constant, each one-eighth percentage point increase or decrease in the applicable interest rates would correspondingly change our interest expense on the ABL Facility by approximately \$0.5 million on an annual basis.

We, from time to time, may manage a portion of our risks from exposures to fluctuations in interest rates as part of our risk management program through the use of derivative financial instruments. The objective of controlling these risks is to limit the impact on earnings and cash flows caused by fluctuations, and our primary exposure is from our variable-rate debt.

Exchange rate risk

During the year ended December 31, 2022, we generated \$43.9 million of revenue in Canadian dollars. Each 100 basis point increase or decrease in the average Canadian dollar to U.S. dollar exchange rate for the year would have correspondingly changed our revenues by approximately \$0.1 million. We do not currently hedge our exchange rate exposure.

Item 8. Financial Statements and Supplementary Data

**Custom Truck One Source, Inc. and Subsidiaries
Consolidated Financial Statements Index**

	<u>Page No.</u>
Report of Independent Registered Public Accounting Firm - Ernst & Young LLP (PCAOB ID No. 42).....	43
Report of Independent Registered Public Accounting Firm - Deloitte & Touche LLP (PCAOB ID No. 34).....	45
Consolidated Financial Statements:	
Consolidated Balance Sheets	46
Consolidated Statements of Operations and Comprehensive Income (Loss)	47
Consolidated Statements of Cash Flows	48
Consolidated Statements of Stockholders' Equity (Deficit)	50
Notes to Consolidated Financial Statements	51

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Custom Truck One Source, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Custom Truck One Source, Inc. (the Company) as of December 31, 2022 and 2021, the related consolidated statements of operations and comprehensive income (loss), stockholders' equity (deficit) and cash flows for each of the two years ended December 31, 2022, and the related notes and financial statement schedules listed in the Index at Item 15(a) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the two years ended December 31, 2022, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 14, 2023 expressed an adverse opinion thereon.

Adoption of ASU No. 2016-02

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for leases in 2021 due to the of adoption of Accounting Standards Update No. 2016-02, "Leases (Topic 842)."

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Valuation of Goodwill of the Equipment Rental Solutions and Truck and Equipment Sales Reporting Units

Description of the Matter

At December 31, 2022, the Company's goodwill was \$703.8 million with \$498.6 million assigned to the Equipment Rental Solutions (ERS) reporting unit and \$167.3 million assigned to the Truck and Equipment Sales (TES) reporting unit. As described in Note 2 to the consolidated financial statements, goodwill is tested for impairment annually on October 1st and whenever events or circumstances indicate a reporting unit's fair value may be less than its carrying value. The Company estimates the fair value of its reporting units using a combination of market-based valuation methodologies and the income approach using discounted estimated future cash flows.

Auditing management's annual goodwill impairment analysis for the ERS and TES reporting units was complex and highly judgmental due to the significant estimation required by management to determine the fair value of the reporting units. In particular, the income approach fair value estimates were sensitive to significant assumptions, such as the revenue growth and discount rate for the ERS reporting unit and revenue growth for the TES reporting unit, which are affected by expectations about future market or economic conditions.

How We Addressed the Matter in Our Audit

We obtained an understanding of the Company's goodwill impairment assessment for the ERS and TES reporting units.

To test the estimated fair values of the Company's ERS and TES reporting units, we performed audit procedures that included, among others, evaluating valuation methodologies and testing the significant assumptions discussed above used by the Company in its analysis. We involved our internal valuation specialists to assist in the evaluation of the valuation methodologies and testing certain significant assumptions, including the discount rate. We compared the significant assumptions, such as revenue growth, used by management to current industry and economic data, recent historical performance and other factors. We assessed the historical accuracy of management's estimates and performed sensitivity analyses of significant assumptions to evaluate the changes in the fair values of the reporting units that would result from changes in the assumptions. We also tested the underlying data used by the Company in its analysis for completeness and accuracy.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2021.
Kansas City, Missouri
March 14, 2023

REPORT OF INDEPENDENT REGISTERED ACCOUNTING FIRM

To the shareholders and the Board of Directors of Custom Truck One Source, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of operations and comprehensive income (loss), stockholders' equity (deficit), and cash flows of Custom Truck One Source, Inc. (formerly Nesco Holdings, Inc.) and subsidiaries (the "Company") for the year ended December 31, 2020, and the related notes and the schedule listed in the Index at Item 15 for the year ended December 31, 2020 (collectively referred to as the "financial statements"). In our opinion, the 2020 financial statements present fairly, in all material respects, the results of the Company's operations and its cash flows for the year ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. For the year ended December 31, 2020, the Company was not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we were required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Indianapolis, Indiana

March 8, 2021

We began serving as the Company's auditor in 2016. In 2021, we became the predecessor auditor.

Custom Truck One Source, Inc.
Consolidated Balance Sheets

(in \$000s, except share data)

	December 31, 2022	December 31, 2021
Assets		
Current Assets		
Cash and cash equivalents	\$ 14,360	\$ 35,902
Accounts receivable, net	193,106	168,394
Financing receivables, net	38,271	28,649
Inventory	596,724	410,542
Prepaid expenses and other	25,784	13,217
Total current assets	868,245	656,704
Property and equipment, net	121,956	108,612
Rental equipment, net	883,674	834,325
Goodwill	703,827	695,865
Intangible assets, net	304,132	327,840
Operating lease assets	29,434	36,014
Other assets	26,944	24,406
Total Assets	\$ 2,938,212	\$ 2,683,766
Liabilities and Stockholders' Equity		
Current Liabilities		
Accounts payable	\$ 87,255	\$ 91,123
Accrued expenses	68,784	60,337
Deferred revenue and customer deposits	34,671	35,791
Floor plan payables - trade	136,634	72,714
Floor plan payables - non-trade	293,536	165,239
Operating lease liabilities - current	5,262	4,987
Current maturities of long-term debt	6,940	6,354
Current portion of finance lease obligations	1,796	4,038
Total current liabilities	634,878	440,583
Long-term debt, net	1,354,766	1,308,265
Finance leases	3,206	5,109
Operating lease liabilities - noncurrent	24,818	31,514
Deferred income taxes	29,086	15,621
Derivative, warrants and other liabilities	3,015	24,164
Total long-term liabilities	1,414,891	1,384,673
Commitments and contingencies (see Note 19)		
Stockholders' Equity		
Common stock — \$0.0001 par value, 500,000,000 shares authorized, 248,311,104 and 247,358,412 shares issued and outstanding, at December 31, 2022 and December 31, 2021, respectively	25	25
Treasury stock, at cost — 2,241,069 and 318,086 shares at December 31, 2022 and December 31, 2021, respectively	(15,537)	(3,020)
Additional paid-in capital	1,521,487	1,508,995
Accumulated other comprehensive loss	(8,947)	—
Accumulated deficit	(608,585)	(647,490)
Total stockholders' equity	888,443	858,510
Total Liabilities and Stockholders' Equity	\$ 2,938,212	\$ 2,683,766

See accompanying notes to consolidated financial statements.

Custom Truck One Source, Inc.
Consolidated Statements of Operations and Comprehensive Income (Loss)

	Year Ended December 31,		
	2022	2021	2020
<i>(in \$000s, except per share data)</i>			
Revenue			
Rental revenue	\$ 464,039	\$ 370,067	\$ 195,490
Equipment sales	982,341	695,334	56,632
Parts sales and services	126,706	101,753	50,617
Total revenue	<u>1,573,086</u>	<u>1,167,154</u>	<u>302,739</u>
Cost of Revenue			
Cost of rental revenue	110,272	99,885	61,207
Depreciation of rental equipment	171,703	157,110	78,532
Cost of equipment sales	805,852	618,444	47,407
Cost of parts sales and services	101,511	81,702	39,150
Total cost of revenue	<u>1,189,338</u>	<u>957,141</u>	<u>226,296</u>
Gross Profit	383,748	210,013	76,443
Operating Expenses			
Selling, general and administrative expenses	210,868	155,783	46,409
Amortization	33,940	40,754	3,153
Non-rental depreciation	9,414	3,613	95
Transaction expenses and other	26,218	51,830	9,538
Total operating expenses	<u>280,440</u>	<u>251,980</u>	<u>59,195</u>
Operating Income (Loss)	103,308	(41,967)	17,248
Other Expense			
Loss on extinguishment of debt	—	61,695	—
Interest expense, net	88,906	72,843	63,200
Financing and other expense (income)	(32,330)	571	5,399
Total other expense	<u>56,576</u>	<u>135,109</u>	<u>68,599</u>
Income (Loss) Before Income Taxes	46,732	(177,076)	(51,351)
Income Tax Expense (Benefit)	7,827	4,425	(30,074)
Net Income (Loss)	<u>\$ 38,905</u>	<u>\$ (181,501)</u>	<u>\$ (21,277)</u>
Other Comprehensive Income (Loss):			
Unrealized foreign currency translation adjustments, net of \$505 tax	\$ (8,947)	\$ —	\$ —
Other Comprehensive Income (Loss)	(8,947)	—	—
Comprehensive Income (Loss)	<u>\$ 29,958</u>	<u>\$ (181,501)</u>	<u>\$ (21,277)</u>
Net Income (Loss) Per Share:			
Basic	\$ 0.16	\$ (0.75)	\$ (0.43)
Diluted	<u>\$ 0.16</u>	<u>\$ (0.75)</u>	<u>\$ (0.43)</u>
Weighted-Average Common Shares Outstanding:			
Basic (in thousands)	247,152	241,370	49,065
Diluted (in thousands)	247,705	241,370	49,065

See accompanying notes to consolidated financial statements.

Custom Truck One Source, Inc.
Consolidated Statements of Cash Flows

<i>(in \$000s)</i>	Year Ended December 31,		
	2022	2021	2020
Operating Activities			
Net income (loss)	\$ 38,905	\$ (181,501)	\$ (21,277)
Adjustments to reconcile net income (loss) to net cash flow from operating activities:			
Depreciation and amortization	223,483	209,073	84,889
Amortization of debt issuance costs	4,860	4,740	3,290
Loss on extinguishment of debt	—	61,695	—
Provision for losses on accounts receivable	12,650	11,103	3,765
Share-based compensation	12,297	17,313	2,357
Gain on sales and disposals of rental equipment	(55,213)	(11,636)	(7,996)
Change in fair value of derivative and warrants	(20,290)	6,192	5,303
Deferred tax expense (benefit)	7,387	3,863	(28,810)
Changes in assets and liabilities:			
Accounts and financing receivables	(36,821)	(37,716)	7,061
Inventories	(194,691)	46,574	(9,642)
Prepays, operating leases and other	(11,936)	(6,123)	(2,313)
Accounts payable	(5,589)	8,060	3,113
Accrued expenses and other liabilities	8,108	5,580	4,384
Floor plan payables - trade, net	63,920	(18,276)	—
Customer deposits and deferred revenue	(1,102)	19,985	(1,295)
Net cash flow from operating activities	45,968	138,926	42,829
Investing Activities			
Acquisition of businesses, net of cash acquired	(49,832)	(1,337,686)	—
Purchases of rental equipment	(340,791)	(188,389)	(67,546)
Proceeds from sales and disposals of rental equipment	205,852	99,833	38,933
Purchase of non-rental property and cloud computing arrangements	(34,165)	(3,238)	(701)
Net cash flow from investing activities	(218,936)	(1,429,480)	(29,314)
Financing Activities			
Proceeds from debt	—	952,743	—
Proceeds from issuance of common stock	—	883,000	—
Payment of common stock issuance costs	—	(6,386)	—
Payment of premiums on debt extinguishment	—	(53,469)	—
Share-based payments	(1,838)	(652)	—
Borrowings under revolving credit facilities	153,036	491,084	86,178
Repayments under revolving credit facilities	(110,249)	(347,111)	(85,208)
Repayments of notes payable	(1,012)	(507,509)	(1,146)
Finance lease payments	(3,955)	(5,223)	(15,950)
Repurchase of common stock	(10,279)	—	—
Acquisition of inventory through floor plan payables - non-trade	619,896	304,902	—
Repayment of floor plan payables - non-trade	(491,599)	(353,641)	—
Payment of debt issuance costs	(104)	(34,694)	(279)
Net cash flow from financing activities	153,896	1,323,044	(16,405)
Effect of exchange rate changes on cash and cash equivalents	(2,470)	—	—
Net Change in Cash and Cash Equivalents	(21,542)	32,490	(2,890)
Cash and Cash Equivalents at Beginning of Period	35,902	3,412	6,302
Cash and Cash Equivalents at End of Period	\$ 14,360	\$ 35,902	\$ 3,412

Custom Truck One Source, Inc.
Consolidated Statements of Cash Flows — Continued

<i>(in \$000s)</i>	Year Ended December 31,		
	2022	2021	2020
Supplemental Cash Flow Information			
Interest paid	\$ 81,177	\$ 92,625	\$ 60,340
Income taxes paid	567	541	646
Non-Cash Investing and Financing Activities			
Non-cash consideration - acquisition of business	—	187,935	—
Rental equipment and property and equipment purchases in accounts payable	68	—	9,122
Rental equipment sales in accounts receivable	11,283	1,555	5,120

See accompanying notes to consolidated financial statements.

Custom Truck One Source, Inc.
Consolidated Statements of Stockholders' Equity (Deficit)

<i>(in \$000s, except share data)</i>	Shares		Common Stock	Treasury Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Common	Treasury						
Balance, December 31, 2019	49,033,903	—	\$ 5	\$ —	\$ 432,577	\$ —	\$ (444,712)	\$ (12,130)
Net income (loss)	—	—	—	—	—	—	(21,277)	(21,277)
Share-based payments	122,850	—	—	—	2,340	—	—	2,340
Balance, December 31, 2020	49,156,753	—	\$ 5	\$ —	\$ 434,917	\$ —	\$ (465,989)	\$ (31,067)
Net income (loss)	—	—	—	—	—	—	(181,501)	(181,501)
Share-based payments	1,501,659	(318,086)	—	(3,020)	19,839	—	—	16,819
Warrants liability reclassification	—	—	—	—	(10,290)	—	—	(10,290)
Shares issued in business combination	196,700,000	—	20	—	1,064,529	—	—	1,064,549
Balance, December 31, 2021	247,358,412	(318,086)	\$ 25	\$ (3,020)	\$ 1,508,995	\$ —	\$ (647,490)	\$ 858,510
Net income (loss)	—	—	—	—	—	—	38,905	38,905
Other comprehensive loss	—	—	—	—	—	(8,947)	—	(8,947)
Common stock repurchases	—	(1,657,635)	—	(10,483)	—	—	—	(10,483)
Share-based payments	952,692	(265,348)	—	(2,034)	12,492	—	—	10,458
Balance, December 31, 2022	<u>248,311,104</u>	<u>(2,241,069)</u>	<u>\$ 25</u>	<u>\$ (15,537)</u>	<u>\$ 1,521,487</u>	<u>\$ (8,947)</u>	<u>\$ (608,585)</u>	<u>\$ 888,443</u>

See accompanying notes to consolidated financial statements.

Custom Truck One Source, Inc.

Notes to Consolidated Financial Statements

Note 1: Business and Organization

Organization

Custom Truck One Source, Inc., formerly Nesco Holdings, Inc., a Delaware corporation, and its wholly owned subsidiaries are engaged in the business of providing a range of products and services to customers through rentals and sales of specialty equipment, rentals and sales of aftermarket parts and services related to the specialty equipment, and repair, maintenance and customization services related to that equipment. Immediately following the acquisition by Nesco Holdings II, Inc. of Custom Truck One Source, L.P. (“Custom Truck LP”) as discussed in Note 3: Business Combinations, on April 1, 2021 (the “Acquisition”), Nesco Holdings, Inc. (“Nesco Holdings”) changed its name to “Custom Truck One Source, Inc.” and changed The New York Stock Exchange ticker for its shares of common stock (“Common Stock”) from “NSCO” to “CTOS,” and the ticker of its redeemable warrants from “NSCO.WS” to “CTOS.WS.” Terms such as, “we,” “our,” “us,” or “the Company” refer to Nesco Holdings prior to the Acquisition, and to the combined company after the Acquisition. Unless the context otherwise requires, the term “Nesco” or “Nesco Holdings” as used in these financial statements means Nesco Holdings and its consolidated subsidiaries prior to the Acquisition, and the term “Custom Truck LP” means Custom Truck LP and its consolidated subsidiaries prior to and on the date of the Acquisition.

We are a specialty equipment provider to the electric utility transmission and distribution, telecommunications, rail, forestry, waste management and other infrastructure-related industries in North America. Our core business relates to our new equipment inventory and rental fleet of specialty equipment that is utilized by service providers in infrastructure development and improvement work. We offer our specialized equipment to a diverse customer base, including utilities and contractors, for the maintenance, repair, upgrade, and installation of critical infrastructure assets, including distribution and transmission electric lines, telecommunications networks and rail systems, as well as for lighting and signage. We rent, produce, sell and service a broad range of new and used equipment, including bucket trucks, digger derricks, dump trucks, cranes, service trucks, and heavy-haul trailers. We manage the business in three reporting segments: Equipment Rental Solutions (“ERS”), Truck and Equipment Sales (“TES”) and Aftermarket Parts and Services (“APS”). Segment information provided within this Annual Report on Form 10-K, is included in Note 21: Segments.

Equipment Rental Solutions (“ERS”) Segment

We own a broad range of new and used specialty equipment, including truck-mounted aerial lifts, cranes, service trucks, dump trucks, trailers, digger derricks and other machinery and equipment. As of December 31, 2022, this equipment (the “rental fleet”) is comprised of more than 10,000 units. The majority of our rental fleet can be used across a variety of end-markets, which coincides with the needs of many of our customers who operate in multiple end-markets. As is customary for equipment rental companies, we sell used equipment out of our rental fleet to end user customers. These sales are often made in response to specific customer requests. These sales offer customers an opportunity to buy well-maintained equipment with long remaining useful lives and enable us to effectively manage the age and mix of our rental fleet to match current market demand. We also employ rental purchase options on a select basis, which provide a buyout option with an established purchase price that decreases over time as rental revenue is collected. Customers are given credit against such purchase price for a portion of the amounts paid over the life of the rental, allowing customers the flexibility of a rental with the option to purchase at any time at a known price. Activities in our ERS segment consist of the rental and sale from the rental fleet, of the foregoing products.

Truck and Equipment Sales (“TES”) Segment

We offer a broad variety of new equipment for sale to be used across our end-markets, which can be modified to meet our customers’ specific needs. We believe that our integrated production capabilities and extensive knowledge gained over a long history of selling equipment have established us as a trusted partner for customers seeking tailored solutions with short lead times. In support of these activities, we primarily employ a direct-to-customer sales model, leveraging our dedicated sales force of industry and product managers, who are focused on driving national and local sales. We also opportunistically engage in the sale of used equipment purchased from third parties or received via trade-ins from new equipment sales customers. In all of these cases, we will sell used equipment directly to customers, rather than relying on auctions. Activities in our TES segment consist of the production and sale of new and used specialty equipment and vocational trucks, which includes equipment from leading original equipment manufacturers (“OEMs”) across our end-markets, as well as our Load KingTM brand.

Aftermarket Parts and Services (“APS”) Segment

The APS segment includes the sale of specialized aftermarket parts, including captive parts related to our Load King™ brand, used in the maintenance and repair of the equipment we sell and rent. Specialized tools, including stringing blocks, insulated hot stick, and rigging equipment, are sold or rented to our customers on an individual basis or in packaged specialty kits. We also provide truck and equipment maintenance and repair services, which are executed throughout our nationwide branch network and fleet of mobile technicians supported by our 24/7 call center based in Kansas City, Missouri.

Supply Chain

The Company purchases raw materials, component parts and finished goods to be used in the manufacturing, sale and rental of its products. Uncertainty remains regarding supply chain disruptions, inflationary pressures, public health crises, and geopolitical risks that have led to issues, broadly, in the supply chain. Changes in the Company’s relationships with suppliers, shortages in availability of materials, production delays, regulatory restrictions, public health crises, or other supply chain disruptions, whether due to suppliers or customers, could have a material adverse effect on the Company’s ability to timely manufacture and market products. Increases in the costs of shipping and transportation, purchased raw materials, component parts or finished goods could result in manufacturing interruptions, delays, inefficiencies or the Company’s inability to market products. The unprecedented nature of the supply chain disruptions continues to make it difficult to predict the Company’s future business and financial performance. The Company continues to monitor the impact on its supply chain, including, but not limited to, the commercial vehicle manufacturers that provide the chassis used in the Company’s production and manufacturing processes and the ongoing semiconductor shortage, which could potentially limit the ability of these manufacturers to meet demand in future periods.

Note 2: Summary of Significant Accounting Policies

Basis of Presentation

Our accompanying consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles (“GAAP”) and the accounting policies described below. Our consolidated financial statements include the accounts of all wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The preparation of financial statements in accordance with GAAP requires that these Consolidated Financial Statements and most of the disclosures in these Notes be presented on a historical basis, as of or for the current annual period or prior annual periods. The consolidated financial position and results of operations and cash flows (including segment information) presented herein include those of Custom Truck One Source, Inc. as of December 31, 2022 and since the date of the Acquisition. Financial information presented for periods prior to the Acquisition represent those of Nesco Holdings and its subsidiaries.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements

Accounting for Contract Assets and Contract Liabilities from Contracts with Customers

In October 2021, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2021-08, *Accounting for Contract Assets and Contract Liabilities from Contracts with Customers (“ASU 2021-08”)*. This ASU improves the comparability for both the recognition and measurement of acquired revenue contracts with customers at the date of and after a business combination and requires that an entity (acquirer) recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with Topic 606. The amended guidance specifies for all acquired revenue contracts regardless of their timing of payment (1) the circumstances in which the acquirer should recognize contract assets and contract liabilities that are acquired in a business combination and (2) how to measure those contract assets and contract liabilities, thereby providing consistent recognition and measurement guidance for revenue contracts with customers acquired in a business combination and revenue contracts with customers not acquired in a business combination. The ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Early adoption of the amendments is permitted. The Company will apply the guidance in ASU 2021-08 prospectively to any future business combinations occurring on or after the effective date of January 1, 2023.

In March 2022, the FASB issued ASU No. 2022-02, Financial Instruments—Credit Losses (Topic 326) (“ASU 2022-04”), which requires an entity to disclose current period gross write-offs by year of origination for financing receivables and net investment in leases. Gross write-off information must be included in the vintage disclosures, which requires that an entity disclose the amortized cost basis of financing receivables by credit-quality indicator and class of financing receivable by year of origination. The disclosure requirements in ASU 2022-02 are effective for fiscal years beginning after December 15, 2022. Early adoption is permitted. The Company will adopt the disclosure requirements in the first quarter of 2023.

Revenue Recognition

We recognize revenue in accordance with two different accounting standards: (1) Topic 606, Revenue from contracts with customers (“Topic 606”), and Topic 842, Leases (“Topic 842”), for periods after January 1, 2021, and (2) Topic 606 and Topic 840, Leases, for periods prior to January 1, 2021.

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. 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. Our contracts with customers generally do not include multiple performance obligations.

Rental Revenue – Rental revenue is primarily comprised of revenues from rental agreements and freight charges billed to customers. We also charge customers for damaged equipment, which is assessed and billed at the time a rental asset is returned to the Company and recorded within Parts Sales and Services revenue. In connection with our adoption of Topic 842, beginning January 1, 2021, we record changes in the estimated collectability of operating lease trade receivables against rental revenue. Such amounts were previously classified as selling, general and administrative expenses. Our rental contracts are for various equipment, aftermarket parts and services under 28-day or monthly agreements which include automatic renewal provisions. The majority of our rental payments are due upon receipt, with a majority billed at the end of each 28-day or monthly period. Revenue is recognized ratably over the rental agreement period and in accordance with Topic 842, and, for periods prior to January 1, 2021, Topic 840. Unearned revenue is reported in deferred revenue and customer deposits in our consolidated balance sheets. We require our rental customers to maintain liability and property insurance covering the units during the rental term and to indemnify us from losses caused by the negligence of the customer, their employees or contractors.

We also provide rental customers the opportunity to enter into contracts containing a rental purchase option (“RPO”). The RPO allows the customer to earn credit towards the purchase price of the leased equipment. The earned credit is based on rental payments made. Certain leases containing these purchase options are classified as sales-type leases because the RPO purchase price related to the leased equipment is considered to be a “bargain purchase option” in the lease. Revenue on these lease contracts is recognized at the point in time when the customer’s net purchase price for the equipment meets or falls below the fair value of the equipment. Revenue from these leases is recorded as equipment sales in the Consolidated Statements of Operations and Comprehensive Income (Loss).

Equipment Sales – We sell both new and used equipment. There are no rights of return or warranties offered on equipment sales. The contractual sales price for each individual equipment represents the standalone selling price. Our used equipment is of a sufficiently unique nature, based on specific characteristics such as its age and usage, that it does not have an observable standalone selling price. Equipment sales revenue is recognized upon the transfer of control of equipment. Except for equipment sold under bill-and-hold arrangements, control is transferred when title and physical possession of the equipment has transferred to the customer, which is at the point in time of customer pickup or when the equipment is delivered to a specified destination and the Company has a present right to payment. Payment is usually due within 30 days subsequent to transfer of control of the equipment.

We have bill and hold arrangements with a small number of customers who request to complete the purchase of equipment prior to their ability to take physical possession. In these cases, customers request that we retain physical possession of the equipment until customer pickup or delivery at a later date. Under these arrangements, control is transferred to the customer when the equipment is ready for transfer to the customer, the customer has taken legal title, and the Company has a present right to payment. Under the bill and hold arrangements, which are rare, we recognize sales only when all of the following criteria are met: 1) the customer’s reason for the bill-and-hold arrangement is substantive, 2) the equipment is separately identified as belonging to the customer, 3) the equipment is ready for transfer to the customer and 4) we do not have the ability to use the equipment or direct it to another customer.

Parts Sales and Services – We sell aftermarket parts and services. We derive our services revenue primarily from maintenance, repair and upfit services on heavy-duty trucks and cranes. Revenue from these services includes parts sales needed to complete the service work. We recognize services revenue as the service work is completed. We record revenue on a point in time basis as parts are delivered. The amount of consideration we receive for parts is based upon a list price net of discounts and incentives, and the impact

of such variable consideration is factored into the amount of revenue we recognize at any point in time. The amount of consideration received for services is based upon labor hours expended and parts utilized to perform and complete the necessary services for our customers. There are no rights of return or warranties offered on parts sales. Payment is usually due and collected within 30 days subsequent to delivery of parts or performance of service.

We record sales tax billed to customers and remitted to governmental authorities on a net basis and, consequently, these amounts are excluded from revenues and expenses. Sales taxes are recorded as accrued expenses when billed.

Shipping and Handling Costs – We classify shipping and handling fees billed to customers related to the placement of rental units as rental revenue in our Consolidated Statements of Operations and Comprehensive Income (Loss). We include the related shipping and handling costs in cost of rental revenue, excluding depreciation, in our Consolidated Statements of Operations and Comprehensive Income (Loss). Shipping and handling fees billed to customers related to the sale of equipment and parts are recorded as equipment sales or parts sales and services revenue, respectively. The related shipping and handling costs are recorded in cost of equipment sales or cost of parts sales and services, respectively.

Cash and Cash Equivalents

Cash and cash equivalents consists of cash and short-term investments with remaining maturities of three months or less when acquired. The carrying amount of cash and cash equivalents approximates its fair value. The Company maintains deposits at financial institutions in excess of federally insured limits.

Trade Receivables and Allowance for Credit Losses

We are exposed to credit losses from trade receivables generated through our leasing, sales and service businesses. We assess each customer's ability to pay for the products and services by conducting a credit review. The credit review considers expected billing exposure and timing for payment and the customer's established credit rating. We perform a credit review of new customers at inception of the customer relationship and, for existing customers, when the customer transacts new leases or product orders after a period of dormancy. We also consider contract terms and conditions, country risk and business strategy in the evaluation.

We monitor ongoing credit exposure through an active review of customer balances against contract terms and due dates. We may employ collection agencies and legal counsel to pursue recovery of defaulted receivables. The allowances for credit losses reflect the estimate of the amount of receivables that management assesses will be unable to be collected based on historical write-off experience and, as applicable, current conditions and reasonable and supportable forecasts that affect collectability. This estimate could require 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 the allowances. We review the adequacy of the allowance on a quarterly basis. The allowance for doubtful accounts is included in accounts receivable, net on our Consolidated Balance Sheets.

Accounts receivable, net consisted of the following:

<i>(in \$000s)</i>	December 31, 2022	December 31, 2021
Accounts receivables	\$ 212,347	\$ 179,214
Less: allowance for doubtful accounts	(19,241)	(10,820)
Accounts receivable, net	<u>\$ 193,106</u>	<u>\$ 168,394</u>

The relationship between provision for losses on accounts receivable and allowance for doubtful accounts is presented below:

<i>(in \$000s)</i>	Year Ended December 31,		
	2022	2021	2020
Allowance - beginning of period	\$ 10,820	\$ 6,372	\$ 4,654
Provision for losses on accounts receivable	12,650	11,103	3,765
Accounts written off during period, net of recoveries	(4,229)	(6,655)	(2,047)
Allowance - end of period	<u>\$ 19,241</u>	<u>\$ 10,820</u>	<u>\$ 6,372</u>

In accordance with the adoption of Topic 842, effective January 1, 2021, specifically identifiable lease revenue receivables not deemed probable of collection are recorded as a reduction of rental revenue. The remaining provision for credit losses, which relates to product sales and services, is recorded in selling, general and administrative expense. For periods prior to January 1, 2021, the entire provision for credit losses was recorded in selling, general and administrative expense.

Inventory

Inventory is carried at the lower of cost or net realizable value. The Company periodically reviews inventories on hand and maintains reserves for slow-moving, excess, or obsolete inventories.

Whole goods inventory is comprised of chassis, attachments (i.e., boom cranes, aerial lifts, digger derricks, dump bodies, etc.), and the in-process costs incurred in the final assembly of those units. As part of our business model, we sell unassembled individual whole goods and whole goods with varying levels of customization direct to consumers or dealers. Whole goods inventory also includes new equipment purchased specifically for resale to customers, which purchases are recorded directly to inventory when received. Cost is determined by specific identification for whole goods inventory. Aftermarket parts and services inventories are recorded at weighted average cost.

Rental Equipment and Property and Equipment

Rental Equipment

Rental equipment is primarily comprised of the cost of truck-mounted aerial lifts, cranes, trucks, trailers, digger derricks, line equipment, cranes, pressure diggers, underground and other machinery and equipment. The rental equipment we purchase is recorded at cost and depreciated over the estimated rentable life of the equipment using the straight-line method over useful lives, depending on product categories, ranging from 5 to 7 years, to an estimated residual value, depending on product categories, ranging from 15% to 35% of cost. Depreciation of rental equipment commences when a rental unit is placed into the rental fleet and becomes available to rent and the cost is depreciated whether or not the equipment is on rent. We reevaluate the estimated rentable life as rental equipment is purchased, estimating the period that the asset will be held, considering factors such as historical rental activity and expectations of future rental activity. We also reevaluate the estimated residual values of the applicable rental equipment. The residual value of equipment is affected by factors that include equipment age, amount of usage and market conditions. Market conditions for used equipment sales can also be affected by external factors such as the economy, natural disasters, fuel prices, supply of similar used equipment, the market price for similar new equipment, and incentives offered by manufacturers of new equipment. These factors are considered when estimating future residual values and depreciation periods.

Expenditures for repair and maintenance that extend the useful life of the equipment and are necessary to keep an equipment unit in rentable condition are capitalized and depreciated over the estimated remaining useful life of the equipment, which is the period the repair and maintenance is expected to provide future economic benefit. When making repairs, we dispose of damaged and replaced components at their net carrying values. The cost of routine and recurring maintenance activities related to the rental fleet are charged to expense as incurred.

Property and Equipment

Property and equipment is primarily comprised of land, buildings and improvements, machinery and equipment, and vehicles, and is carried at cost, net of accumulated depreciation. Depreciation is provided using the straight-line method based on useful lives ranging from four to 39.5 years. Expenditures for major renewals and betterments that extend the useful lives of property and equipment are capitalized. Expenditures for maintenance and repairs are charged to expense as incurred. Leasehold improvements are depreciated over the lesser of the improvement's useful life or the remaining lease term.

Leases as Lessee

We determine if an arrangement is a lease at inception of an arrangement. Operating and finance lease assets and liabilities are recognized at the commencement date of the lease based on the present value of lease payments over the lease term. Lease assets represent the Company's right to use an underlying asset for the lease term, while lease liabilities represent the Company's obligation to make lease payments arising from the lease. As most leases do not provide an implicit interest rate, we use our incremental borrowing rate based on the information available at the lease commencement date, in determining the present value of lease payments. The length of a lease term includes options to extend or terminate the lease when it is reasonably certain that we will exercise those options. The Company made an accounting policy election to not recognize lease assets or liabilities for leases with a term of 12 months or less. Additionally, we elected the practical expedient to not separate lease and non-lease components and also elected the short-term practical expedient for all leases that qualify. As a result, we will not recognize right-of-use assets or liabilities for short-term leases that qualify for the short-term practical expedient, but instead will recognize the lease payments as lease cost on a straight-line basis over the lease term. Finally, we apply a portfolio approach to determine the discount rate for leases with similar characteristics.

For our leases classified as operating, the ROU asset is measured throughout the lease term at the carrying amount of the lease liability, plus unamortized initial direct costs, plus/(minus) any unamortized prepaid/(accrued) lease payments, less the unamortized balance of lease incentives received. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

For our leases classified as finance leases, the ROU asset is amortized using the straight-line method from the lease commencement date to the earlier of the end of its useful life or the end of the lease term unless the lease transfers ownership of the underlying asset to the Company, or the Company is reasonably certain to exercise an option to purchase the underlying asset. In those cases, the ROU asset is amortized over the useful life of the underlying asset. We expect to exercise our options to purchase the rental equipment assets we lease under finance leases. Accordingly, the assets leased under the finance leases are included in rental equipment and property and equipment, and depreciation thereon is recognized in depreciation of rental equipment, cost of revenue and non-rental depreciation expense in the Consolidated Statements of Operations and Comprehensive Income (Loss). When we make our contractually required payments under finance leases, we allocate a portion to reduce the finance lease obligation and a portion is recognized as interest expense.

Goodwill and Other Intangible Assets

We recognize goodwill when the purchase price of an acquired business exceeds the fair value of net assets acquired. Goodwill is not amortized for financial reporting purposes. Goodwill is impaired when its carrying value exceeds its implied fair value. We perform our goodwill impairment analysis annually on October 1 or more frequently if an event or circumstance (such as a significant adverse change in the business climate, operating performance metrics, or legal factors) indicates that an impairment may have occurred. If the fair value of the reporting unit exceeds its carrying value, goodwill of the reporting unit is not considered impaired. If the carrying value of the reporting unit exceeds its fair value, then there is an indication impairment may exist.

Recognized goodwill is assigned to our reporting units using an income approach based on the present value of estimated future cash flows. We estimate the fair value of our reporting units using both an income approach based on the present value of estimated future cash flows and a market approach based on traded values of selected companies. We believe this combined approach yields the most appropriate evidence of fair value. Determining the fair value of our reporting units is judgmental and involves the use of significant estimates and assumptions. We based our fair value estimates on assumptions that we believe are reasonable. Changes in these estimates and assumptions could materially affect the determination of fair value and goodwill impairment for our reporting units.

The Company performed a Step 1 quantitative impairment test on October 1, 2022 to evaluate whether it was more likely than not that the fair value of its three reporting units was less than their respective carrying amounts as of its annual assessment date. Goodwill was tested for impairment at the reporting unit level, which the Company has determined to be the same as its reportable segments (ERS, TES, and APS). The Company estimated the fair value of these reporting units by weighting the results from the income approach and the market approach. The market value approach compared current and projected financial results to entities of similar size and industry to determine market value. The income approach utilized assumptions regarding estimated future cash flows and other factors to determine the fair value of the respective assets. The estimates of future cash flow required the Company to establish expectations about customer demand, investments in maintaining or expanding infrastructure for the markets each reporting unit serves, and the supply and capacity of equipment in the rental market, among others. The related cash flows were discounted using rates ranging from 10.00% to 10.50% for the Company's reporting units. The Company used a long-term growth rate of 2.50%. Significant management judgment was involved in estimating these factors, and they include inherent uncertainties, which fall under Level 3 within the fair value measurement hierarchy.

The Company performed a qualitative impairment test as of December 31, 2022 and concluded that it was not more likely than not that the fair value of either of the Company's three reporting units had been reduced below their respective carrying amounts. As a result, the Company concluded that there were no triggering events as of December 31, 2022. There were no intangible asset impairment charges incurred during the years ended December 31, 2022 and December 31, 2021.

See Note 11: Goodwill and Intangible Assets for additional information.

Impairment of Long-Lived Assets, including Intangible Assets

We evaluate the carrying value of long-lived assets held for use, including rental equipment and definite-lived intangible assets, for impairment whenever an event or circumstance has occurred (such as a significant adverse change in the business climate, operating performance metrics, or legal factors) which suggests that the carrying value may not be recoverable. Impairment of a long-lived asset held for use (or relative asset group, if applicable) is measured when the anticipated separately identifiable undiscounted cash flows from the asset are less than the carrying value. In that event, a loss is recognized based on the amount by which the carrying value exceeds the fair value. Fair value is determined primarily using anticipated cash flows discounted at a rate commensurate with the risk involved.

Other intangible assets consist of customer relationships, non-compete agreements and trade names. We amortize intangible assets with finite lives over the period the economic benefits are estimated to be consumed. Definite lived intangibles are amortized using the straight-line method over their useful life, as we believe this method best matches the pattern of economic benefit. See Note 11: Goodwill and Intangible Assets for additional information.

Fair Value Measurements

Fair value is defined as an exit price representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or most advantageous market. Fair value is a market-based measurement that is determined based on inputs, which refer broadly to assumptions that market participants use in pricing assets and liabilities. These inputs can be readily observable, market corroborated, or generally unobservable.

Fair Value Hierarchy - In measuring fair value, we use observable market data when available and minimize the use of unobservable inputs. Unobservable inputs may be required to value certain financial instruments due to complexities in contract terms. Inputs used in fair value measurements are categorized into three fair value hierarchy levels for disclosure purposes. The entire fair value measurement is categorized based on the lowest level of input that is significant to the fair value measurement. The three levels of the fair value hierarchy are:

Level 1 - Inputs that reflect unadjusted quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur with both sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 - Inputs that reflect quoted prices for similar assets and liabilities are available in active markets, and inputs other than quoted prices that are observable for the assets or liabilities, either directly or indirectly, for substantially the full term of the financial instruments.

Level 3 - Inputs that are generally less observable or from unobservable sources in which there is little or no market data. These inputs may be used with internally developed methodologies that result in our best estimate of fair value.

Valuation Techniques - Assets and liabilities measured at fair value are based on one or more of the following three valuation techniques:

Market approach - Technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Income approach - Technique that converts future amounts to a single present amount based upon market expectations (including present value techniques, option-pricing, and excess earnings models).

Cost approach - Technique that estimates the amount that would be required to replace the service capacity of an asset (i.e., replacement cost).

Assets and Liabilities with Recurring Fair Value Measurements - Certain assets and liabilities may be measured at fair value on an ongoing basis. We did not elect to apply the fair value option for recording financial assets and financial liabilities. Other than the warrants liability and an interest rate collar (which was settled in February 2022), we do not have any assets or liabilities which we measure at fair value on a recurring basis.

Assets and Liabilities with Nonrecurring Fair Value Measurements - Certain assets and liabilities are not measured at fair value on an ongoing basis. These assets and liabilities, which include long-lived assets, goodwill, and intangible assets, are subject to fair value adjustment in certain circumstances. From time to time, the fair value is determined on these assets as part of related impairment tests. For certain assets and liabilities acquired in business combinations, we record the fair value as of the acquisition date. Refer to Note 3: Business Combinations, for the fair values of assets acquired and liabilities assumed in connection with our business combinations. Other than acquisition adjustments, no adjustments to fair value or fair value measurements were required for non-financial assets and liabilities for all periods presented. See Note 11: Goodwill and Intangible Assets and Note 15: Fair Value Measurements for additional information.

Deferred Financing Costs

Direct costs incurred in connection with the issuance, and amendments thereto, of our debt are capitalized and amortized over the terms of the respective agreements using the effective interest method, or the straight-line method when not materially different than the effective interest method. The net carrying value of deferred financing costs are classified as a reduction to long-term debt in the

Consolidated Balance Sheets (see Note 9: Long-Term Debt). The amortization is included in interest expense on our Consolidated Statements of Operations and Comprehensive Income (Loss).

Accrued Expenses

Accrued expenses consisted of the following:

<i>(in \$000s)</i>	December 31, 2022	December 31, 2021
Accrued interest	\$ 14,097	\$ 11,773
Accrued salaries, wages and benefits	39,653	36,535
Accrued sales taxes	8,533	5,755
Other	6,501	6,274
Total accrued expenses	<u>\$ 68,784</u>	<u>\$ 60,337</u>

Cloud Computing Arrangement Implementation Costs

The Company has entered into certain cloud-based hosting agreements that are accounted for as service contracts. For internal-use software obtained through a hosting arrangement that is a service contract, the Company capitalizes certain implementation costs, such as costs incurred to integrate, configure, and customize internal-use software, which are consistent with costs incurred during the application development stage for on-premise software. These capitalized development costs are recorded in other assets on our Consolidated Balance Sheets. Capitalized implementation costs are amortized straight-line over the term of the hosting arrangement plus any reasonably certain renewal periods, which range from three years to 10 years.

Cloud computing arrangements, net included in other assets in the Consolidated Balance Sheets consisted of the following:

<i>(in \$000s)</i>	December 31, 2022	December 31, 2021
Cloud computing arrangements	\$ 34,587	\$ 28,094
Less: accumulated amortization	(9,703)	(4,865)
Cloud computing arrangements, net	<u>\$ 24,884</u>	<u>\$ 23,229</u>

Amortization expense for these assets is included in selling, general, and administrative expenses in the Consolidated Statements of Operations and Comprehensive Income (Loss). For the years ended December 31, 2022 and December 31, 2021, amortization expense was \$4.3 million and \$2.5 million, respectively. For the year ended December 31, 2020, amortization of these costs was not material.

Advertising Costs

We promote our business through various industries media channels, and expense advertising costs as incurred to selling, general, and administrative expenses. For the years ended December 31, 2022 and December 31, 2021, advertising costs were approximately \$3.1 million and \$4.8 million respectively. Amounts were immaterial for the year ended December 31, 2020.

Share-Based Compensation

The fair value of equity-classified awards is determined at the grant date using techniques appropriate for the awards, which we use to determine compensation expense over the service period. We recognize compensation expense for our share-based payments over the requisite service period for the entire award and forfeitures are recognized as they occur. See Note 14: Share-Based Compensation for additional information.

Income Taxes

We utilize the asset and liability method in accounting for income taxes. Under this method, deferred tax assets and liabilities are determined based on the differences between financial accounting and tax bases of assets and liabilities and are measured using the tax rates and laws that are expected to be in effect when the differences are expected to reverse. Recognition of deferred tax assets is limited to amounts considered by management to be more-likely-than-not to be realized in future periods. A valuation allowance is established to reduce deferred tax assets if it is more likely than not that a deferred tax asset will not be realized. The effect on net deferred tax assets and liabilities resulting from a change in tax rates is recognized as income or expense in the period that the change in tax rates is enacted.

We make certain estimates and judgments in determining income tax expense for financial statement purposes. These estimates and judgments are applied in the calculation of the deferred income tax expense or benefit associated with certain deferred tax assets and liabilities. Significant changes to these estimates may result in an increase or decrease to our tax provision in a subsequent period.

Our income tax returns are subject to examination by federal, state and foreign tax authorities. There may be differing interpretations of tax laws and regulations, and as a result, disputes may arise with these tax authorities involving the timing and amount of deductions and allocation of income. With the exception of net operating loss carryforwards, we are generally no longer subject to federal, state, local, and foreign income tax examinations by tax authorities for years ending on or prior to December 31, 2018.

We recognize uncertain income tax positions if it is more-likely-than-not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more-likely-than-not means a likelihood of more than 50%. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. Our determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Unrecognized tax benefits are tax benefits claimed in our tax returns that do not meet recognition and measurement standards. Our policy is to record interest and penalties related to unrecognized tax benefits in income tax expense (benefit) on our Consolidated Statements of Operations and Comprehensive Income (Loss). As of December 31, 2022 and 2021, our uncertain income tax positions, unrecognized tax benefits, and accrued interest were not material.

Acquisition Accounting

We have made acquisitions in the past and may continue to make acquisitions in the future. The assets acquired and liabilities assumed are recorded based on their respective fair values at the date of acquisition. Long-lived assets (principally rental equipment), goodwill and other intangible assets generally represent the largest components of our acquisitions. Rental equipment is valued utilizing either a cost, market or income approach, or a combination of certain of these methods, depending on the asset being valued and the availability of market or income data. The intangible assets that we have acquired are non-compete agreements, customer relationships and trade names and associated trademarks. The estimated fair values of these intangible assets reflect various assumptions about discount rates, revenue growth rates, operating margins, royalty rates, customer attrition rates, terminal values, useful lives and other prospective financial information. Goodwill is calculated as the excess of the cost of the acquired entity over the net of the fair value of the assets acquired and the liabilities assumed. Non-compete agreements, customer relationships and trade names and associated trademarks are valued based on an excess earnings or income approach based on projected cash flows.

Determining the fair value of the assets and liabilities acquired is judgmental in nature and can involve the use of significant estimates and assumptions. The judgments made in determining the estimated fair value assigned to the assets acquired, as well as the estimated life of the assets, can materially impact net income (loss) in periods subsequent to the acquisition because of depreciation and amortization, and in certain instances through impairment charges if the asset becomes impaired in the future. As discussed above, we regularly review long-lived assets for impairments.

When we make an acquisition, we also acquire other assets and assume liabilities. These other assets and liabilities typically include, but are not limited to, parts inventory, accounts receivable, accounts payable and other working capital items. Because of their short-term nature, the fair values of these other assets and liabilities generally approximate the carrying values on the acquired entities' balance sheets.

Note 3: Business Combinations

Acquisition of Custom Truck One Source, L.P.

On December 3, 2020, Nesco Holdings and Nesco Holdings II, Inc., a subsidiary of Nesco Holdings (the "Buyer" or the "Issuer"), entered into a Purchase and Sale Agreement (as amended, the "Purchase Agreement") with certain affiliates of The Blackstone Group ("Blackstone") and other direct and indirect equity holders (collectively, "Sellers") of Custom Truck One Source, L.P., Blackstone Capital Partners VI-NQ L.P., and PE One Source Holdings, LLC, an affiliate of Platinum Equity, LLC ("Platinum"), pursuant to which Buyer agreed to acquire 100% of the partnership interests of Custom Truck LP. In connection with the Acquisition, Nesco Holdings and certain Sellers entered into Rollover and Contribution Agreements (the "Rollover Agreements"), pursuant to which such Sellers agreed to contribute a portion of their equity interests in Custom Truck LP (the "Rollovers") with an aggregate value of \$100.5 million in exchange for shares of Common Stock, valued at \$5.00 per share. We believe the Acquisition creates a leading, one-stop shop for specialty equipment, serving highly attractive and growing infrastructure end-markets, including transmission and distribution, telecom, rail and other national infrastructure initiatives.

Also on December 3, 2020, Nesco Holdings entered into a Common Stock Purchase Agreement (the "Investment Agreement") with Platinum, relating to, among other things, the issuance and sale to Platinum (the "Subscription") of shares of Common Stock, for an aggregate purchase price in the range of \$700 million to \$763 million, with the specific amount calculated in accordance with the

Investment Agreement based upon the total equity funding required to fund the consideration paid pursuant to the terms of the Purchase Agreement. The shares of Common Stock issued and sold to Platinum had a purchase price of \$5.00 per share. In accordance with the Investment Agreement, on December 21, 2020, Nesco Holdings entered into Subscription Agreements (the “Subscription Agreements”) with certain investors (the “PIPE Investors”) to finance, in part, the Acquisition. Pursuant to the Subscription Agreements, concurrently with the closing of the transactions contemplated by the Investment Agreement, the PIPE Investors agreed to purchase an aggregate of 28,000,000 shares of Common Stock at \$5.00 per share for an aggregate purchase price of \$140 million (the “Supplemental Equity Financing”).

On April 1, 2021 (the “Closing Date”), in connection with (i) the Rollovers, the Company issued, in the aggregate, 20,100,000 shares of Common Stock to the parties to the Rollover Agreements, (ii) the Subscription, the Company issued 148,600,000 shares of Common Stock to Platinum, and (iii) the Supplemental Equity Financing, the Company issued, in the aggregate, 28,000,000 shares of Common Stock to the PIPE Investors.

Purchase Price

The Company issued 20,100,000 shares of Common Stock to Custom Truck LP equity interest holders, as well as paid cash and repaid debt obligations as consideration for the Acquisition. The trading price of the Common Stock was \$9.35 per share on the Closing Date. The purchase price has been determined to be as follows:

(in \$000s, except share and per share data)

Common stock issued		20,100,000
Common stock per share price as of April 1, 2021	\$	9.35
Fair value of common stock issued	\$	187,935
Cash consideration paid to equity interest holders		790,324
Repayment of debt obligations		552,600
Total purchase price	\$	1,530,859

During the year ended December 31, 2021, the Company transferred an additional \$3.4 million of cash consideration to the Sellers related to certain customary closing adjustments set forth in the Purchase Agreement.

Opening Balance Sheet

The acquisition of Custom Truck LP has been accounted for using the acquisition method of accounting, and the Company is considered the accounting acquirer. Under the acquisition method of accounting, we are required to assign the purchase price to tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values as of the Closing Date. The excess of the purchase price over those fair values is recorded as goodwill. The total purchase price has been assigned to the underlying assets acquired and liabilities assumed based upon their fair values as of the Closing Date, and the estimated fair values have been recorded based on independent valuations, discounted cash flow analysis, quoted market prices, contributory asset charges, and estimates made by management, which estimates fall under “Level 3” of the fair value hierarchy (as defined in Note 15: Fair Value Measurements).

The following table summarizes the April 1, 2021 fair values of the assets acquired and liabilities assumed. Since the Closing Date, the Company identified and recorded certain measurement period adjustments to the preliminary purchase price allocation, which are reflected in the table below. These adjustments were not significant and related primarily to rental equipment and current liabilities. The measurement period adjustments, coupled with the additional cash consideration discussed above, increased goodwill by approximately \$15.6 million during the year ended December 31, 2021. The final assessment of the fair value of the Custom Truck LP assets acquired and liabilities assumed was complete as of March 31, 2022.

(in \$000s)

Accounts and financing receivables (a)	\$	115,325
Inventory		431,648
Other current assets		13,201
Property and equipment (b)		104,721
Rental equipment		556,569
Intangible assets (c)		301,018
Operating lease assets		23,793
Other assets		18,223
Total identifiable assets acquired		1,564,498
Current liabilities		(410,276)
Long-term debt		(28,607)
Operating lease liabilities-noncurrent		(21,308)
Deferred tax and other liabilities		(31,261)
Total identifiable liabilities assumed		(491,452)
Total net assets		1,073,046
Goodwill (d)		457,813
Net assets acquired (purchase price)	\$	1,530,859

- The estimated fair value of accounts and financing receivables is \$115.3 million, with the gross contractual amount being \$122.4 million. The Company estimates approximately \$7.0 million to be uncollectible.
- Acquired property and equipment is primarily comprised of land, buildings and improvements with an estimated fair value of \$67.9 million, and machinery, equipment and vehicles, with an estimated fair value of \$31.1 million, as well as other property with an estimated fair value of \$5.7 million.
- The acquired identified intangible assets are comprised of trade names, with an estimated fair value of \$151.0 million, and customer relationships, with an estimated fair value of \$150.0 million. The weighted average useful lives of the trade names and the customer relationships are estimated to be 15 years and 12 years, respectively.
- The goodwill recognized is attributable primarily to synergies and economies of scale provided by the acquired rental and new equipment sales businesses, as well as the assembled workforce of Custom Truck LP. Approximately \$265.4 million of the goodwill is expected to be deductible for income tax purposes.

Goodwill attributable to the Acquisition was assigned to the Company's segments as follows:

(in \$000s)

ERS	\$	261,607
TES		167,307
APS		28,899

Custom Truck LP generated \$923.8 million of revenue and \$28.2 million of pre-tax loss since the Closing Date for the year ended December 31, 2021, which was included in the Consolidated Statements of Operations and Comprehensive Income (Loss) for the year ended December 31, 2021.

Financing Transactions

On the Closing Date, the Issuer issued \$920 million in aggregate principal amount of 5.50% senior secured second lien notes due 2029 (the "2029 Secured Notes"). The 2029 Secured Notes were issued pursuant to an indenture, dated as of April 1, 2021, by and among the Issuer, Wilmington Trust, National Association, as trustee, and the guarantors party thereto (the "Indenture"). The Issuer will pay interest on the Notes semi-annually in arrears on April 15 and October 15 of each year, which commenced on October 15, 2021. Unless earlier redeemed, the 2029 Secured Notes will mature on April 15, 2029. The notes were offered pursuant to a private placement exempt from registration under the Securities Act of 1933, as amended (the "Securities Act"), to qualified institutional buyers pursuant to Rule 144A under the Securities Act and to certain non-U.S. persons outside of the United States in reliance on Regulation S under the Securities Act. The proceeds from the issuance and sale of the 2029 Secured Notes were used to consummate the Acquisition and to repay the Senior Secured Notes due 2024 previously issued by Nesco Holdings, repay certain indebtedness of Custom Truck LP and pay certain fees and expenses related to the Acquisition and financing transactions.

Also on the Closing Date, the Buyer, its direct parent, and certain of its direct and indirect subsidiaries entered into a senior secured asset-based revolving credit agreement (the "ABL Credit Agreement") with Bank of America, N.A., as administrative agent and collateral agent, and certain other lenders party thereto, consisting of a \$750.0 million first lien senior secured asset-based revolving credit facility with a maturity of five years (the "ABL Facility"), which includes borrowing capacity for revolving loans (with a swingline sub-facility) and the issuance of letters of credit. Proceeds from the ABL Facility were used to finance the repayment of

certain indebtedness of (i) Custom Truck LP under that certain Credit Agreement, dated as of April 18, 2017 (the “Custom Truck LP Credit Facility”), by and among Custom Truck LP, the other entities party thereto and Morgan Stanley Senior Funding, Inc., as administrative agent, and (ii) Buyer under that certain Credit Agreement, dated as of July 31, 2019 (the “2019 Credit Facility”), by and among Capitol Investment Merger Sub 2, LLC, the other entities party thereto and JPMorgan Chase Bank, N.A., as administrative agent, as well as to pay fees and expenses related to the Acquisition and the financing transactions.

Pro Forma Information

The below pro forma information is presented for the years ended December 31, 2021 and December 31, 2020 and uses the estimated fair value of assets and liabilities on the Closing Date, and makes the following assumptions: (1) removes acquisition-related costs and charges that were recognized in the Company's consolidated financial statements in the year ended December 31, 2021 and applies these costs and charges to the year ended December 31, 2020, as if the Acquisition and related financing transactions had occurred on January 1, 2020; (2) removes the loss on the extinguishment of debt that was recognized in the Company's consolidated financial statements in the year ended December 31, 2021 and applies the charge to the year ended December 31, 2020, as if the debt extinguishment giving rise to the loss had occurred on January 1, 2020; (3) adjusts for the impacts of purchase accounting in the years ended December 31, 2021 and December 31, 2020; (4) adjusts interest expense, including amortization of debt issuance costs, to reflect borrowings on the ABL Facility and issuance of the 2029 Secured Notes, as if the funds had been borrowed and the notes had been issued on January 1, 2020 and used to repay Nesco's 2019 Credit Facility, Nesco's Senior Secured Notes due 2024 (both as defined in Note 9: Long-Term Debt) and the Custom Truck LP Credit Facility and term loan; and (5) adjusts for the income tax effect using a tax rate of 25%. The pro forma information is not necessarily indicative of the Company's results of operations had the Acquisition been completed on January 1, 2020, nor is it necessarily indicative of the Company's future results. The pro forma information does not reflect any cost savings from operating efficiencies, synergies, or revenue opportunities that could result from the Acquisition.

	Year Ended December 31,	
	2021	2020
(in \$000s)		
Revenue	\$ 1,483,625	\$ 1,356,481
Net income (loss)	\$ (90,521)	\$ (96,415)

The following presents a summary of the pro forma adjustments that are directly attributable to the business combination:

	Year Ended December 31,	
	2021	2020
(in \$000s)		
Increase (decrease) net income/loss:		
Impact of fair value mark-ups on inventory	a \$ 19,186	\$ (14,775)
Impact of fair value mark-ups on rental fleet depreciation	b (3,817)	(8,643)
Intangible asset amortization and other depreciation expense	c (3,376)	(12,964)
Transaction expenses	d 40,277	(40,277)
Interest expense and amortization of debt issuance costs	e 3,919	26,232
Loss on extinguishment of debt refinanced	f 61,695	(61,695)
Income tax (benefit) expense	g (29,471)	28,031

- Represents adjustments to cost of revenue for the run-off of the mark-up in fair value of inventory acquired and applied to the year ended December 31, 2020.
- Represents the adjustment for depreciation of rental fleet relating to the estimated increase in the value of the rental fleet to its fair value.
- Represents the differential in amortization and depreciation of non-rental equipment related to the respective fair values of the assets.
- Represents adjustments for transaction expenses that are applied to the year ended December 31, 2020.
- Reflects the differential in interest expense, inclusive of amortization of capitalized debt issuance costs, related to our debt structure after the Acquisition as though the following had occurred on January 1, 2020: (i) borrowings under the ABL Facility; (ii) repayment of the 2019 Credit Facility; (iii) repayment of the Senior Secured Notes due 2024; (iv) repayment of the Custom Truck LP's borrowings under its revolving credit and term loan facility; and (v) the issuance of the 2029 Secured Notes.
- Represents the adjustment of the loss on extinguishment of debt applied to the year ended December 31, 2020 as though the repayment of the 2019 Credit Facility and Senior Secured Notes due 2024 had occurred on January 1, 2020.
- Reflects the adjustment to recognize the tax impacts of the pro forma adjustments for which a tax expense is recognized using a statutory tax rate of 25%. This rate may vary from the actual effective rate of the historical and combined businesses.

Transaction Costs

The Company expensed approximately \$51.8 million in transaction and post-acquisition integration costs related to the Acquisition within transaction expenses and other in the year ended December 31, 2021.

Acquisition of HiRail

On January 14, 2022, a subsidiary of the Company, CTOS Canada, Ltd., closed a Share Purchase Agreement with certain affiliates of Ontario Limited (d/b/a HiRail Leasing), Ontario Inc. (d/b/a Heavy Equipment Repairs), and Ontario Limited (d/b/a Northshore Rail Contracting) (collectively “HiRail”) to acquire 100% of the equity interests of HiRail. The acquisition of HiRail expands our presence in our strategic markets and deepens our relationships with key customers. HiRail, including the assignment of purchase accounting goodwill (see below), is included in the Company’s ERS segment.

Purchase Price

The Company paid \$51.0 million, net of working capital adjustments, to HiRail equity interest holders and to repay debt obligations as consideration for the HiRail acquisition.

Opening Balance Sheet

The acquisition of HiRail has been accounted for using the acquisition method of accounting. Under the acquisition method of accounting, the Company was required to assign the purchase price to tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values as of January 14, 2022. The excess of the purchase price over those fair values was recorded as goodwill and was attributable to expanded access to markets for the Company’s product and service offering, synergies, and broader product offerings to existing customers of HiRail. The total purchase price has been assigned to the underlying assets acquired and liabilities assumed based upon their fair values as of January 14, 2022, and the estimated fair values have been recorded based on independent valuations, discounted cash flow analysis, quoted market prices, contributory asset charges, and estimates made by management, which estimates fall under “Level 3” of the fair value hierarchy (as defined in Note 15: Fair Value Measurements).

The following table summarizes the January 14, 2022 fair values of the assets acquired and liabilities assumed. The final assessment of the fair value of the HiRail assets acquired and liabilities assumed was complete as of December 31, 2022.

(in \$000s)	January 14, 2022	Changes	December 31, 2022
Current assets	\$ 2,891	\$ 956	\$ 3,847
Property, equipment and other assets	819	—	819
Rental equipment	34,224	—	34,224
Total identifiable assets acquired	37,934	956	38,890
Total identifiable liabilities assumed	(6,011)	(1,596)	(7,607)
Total net assets	31,923	(640)	31,283
Goodwill	8,685	(41)	8,644
Intangible assets	11,027	—	11,027
Net assets acquired (purchase price)	51,635	(681)	50,954
Less: cash acquired	(1,122)	—	(1,122)
Net cash paid	\$ 50,513	\$ (681)	\$ 49,832

Since January 14, 2022, HiRail has generated \$16.9 million of revenue and \$2.6 million of pre-tax income, which are included in the Consolidated Statements of Operations and Comprehensive Income (Loss) for the year ended December 31, 2022. Costs and expenses related to the acquisition were expensed as incurred and were not material. Additionally, pro forma information as if the acquisition of HiRail had occurred on January 1, 2021 is not being presented as the information is not considered material to our consolidated financial statements.

Note 4: Revenue

Revenue Disaggregation

Geographic Areas

The Company had total revenue in the following geographic areas:

(in \$000s)	Year Ended December 31,		
	2022	2021	2020
United States	\$ 1,529,165	\$ 1,148,683	\$ 295,125
Canada	43,921	18,471	5,827
Mexico	—	—	1,787
Total revenue	<u>\$ 1,573,086</u>	<u>\$ 1,167,154</u>	<u>\$ 302,739</u>

Major Product Lines and Services

Equipment leasing and equipment sales are the core businesses of the Company, with leasing complemented by the sale of rental units from the rental fleet. The Company's revenue by major product and service line are presented in the tables below.

(in \$000s)	Year Ended December 31,			Year Ended December 31,			Year Ended December 31,		
	2022			2021			2020		
	Topic 842	Topic 606	Total	Topic 842	Topic 606	Total	Topic 840	Topic 606	Total
Rental:									
Rental	\$ 444,155	\$ —	\$ 444,155	\$ 355,658	\$ —	\$ 355,658	\$ 187,522	\$ —	\$ 187,522
Shipping and handling	—	19,884	19,884	—	14,409	14,409	—	7,968	7,968
Total rental revenue	<u>444,155</u>	<u>19,884</u>	<u>464,039</u>	<u>355,658</u>	<u>14,409</u>	<u>370,067</u>	<u>187,522</u>	<u>7,968</u>	<u>195,490</u>
Sales and services:									
Equipment sales	30,547	951,794	982,341	16,274	679,060	695,334	—	56,632	56,632
Parts and services	13,402	113,304	126,706	6,726	95,027	101,753	—	50,617	50,617
Total sales and services	<u>43,949</u>	<u>1,065,098</u>	<u>1,109,047</u>	<u>23,000</u>	<u>774,087</u>	<u>797,087</u>	<u>—</u>	<u>107,249</u>	<u>107,249</u>
Total revenue	<u>\$ 488,104</u>	<u>\$ 1,084,982</u>	<u>\$ 1,573,086</u>	<u>\$ 378,658</u>	<u>\$ 788,496</u>	<u>\$ 1,167,154</u>	<u>\$ 187,522</u>	<u>\$ 115,217</u>	<u>\$ 302,739</u>

Rental revenue is primarily comprised of revenues from rental agreements and freight charges billed to customers. Equipment sales recognized pursuant to sales-type leases are recorded within equipment sales revenue. Charges to customers for damaged rental equipment are recorded within parts and services revenue. Parts and services revenue includes \$26.1 million and \$21.5 million related to services provided to customers for the years ended December 31, 2022 and December 31, 2021, respectively. Services revenue in the year ended December 31, 2020 was not material.

Receivables, Contract Assets and Liabilities

As of December 31, 2022 and December 31, 2021, the Company had receivables related to contracts with customers of \$98.0 million and \$69.7 million, respectively. As of December 31, 2022 and December 31, 2021, the Company had receivables related to rental contracts and other of \$95.1 million and \$98.7 million, respectively.

The Company manages credit risk associated with its accounts receivable at the customer level. Because the same customers generate the revenues that are accounted for under both Topic 606 and Topic 842 (or Topic 840 for periods prior to January 1, 2021), the discussions below on credit risk and the Company's allowance for credit losses address the Company's total revenues. Concentration of credit risk with respect to the Company's receivables is limited because of a large number of geographically diverse customers who operate in a variety of end user markets. The Company manages credit risk through credit approvals, credit limits, and other monitoring procedures.

The Company's allowance for credit losses reflects its estimate of the amount of receivables that it will be unable to collect. The estimated losses are based upon a review of outstanding receivables, the related aging, including specific accounts if deemed necessary, and on the Company's historical collection experience. The estimated losses are calculated using the loss rate method based upon a review of outstanding receivables, related aging, and historical collection experience. The Company's estimates reflect changing circumstances, including changes in the economy or in the particular circumstances of individual customers, and, as a result,

the Company may be required to increase or decrease its allowance. See Note 2: Summary of Significant Accounting Policies for further information regarding allowance for credit losses.

When customers are billed for rentals in advance of the rental period, the Company defers recognition of revenue. As of both December 31, 2022 and December 31, 2021, the Company had approximately \$3.0 million of deferred rental revenue. Additionally, the Company collects deposits from customers for orders placed for equipment and rentals. The Company had approximately \$29.6 million and \$32.9 million in deposits as of December 31, 2022 and December 31, 2021, respectively. Of the \$32.9 million deposit liability balance as of December 31, 2021, \$32.2 million was recorded as revenue during the year ended December 31, 2022 due to performance obligations being satisfied. The Company's remaining performance obligations on its equipment deposit liabilities have original expected durations of one year or less.

The Company does not have material contract assets, and it did not recognize any material impairments of any contract assets.

The primary costs to obtain contracts for new and rental unit sales with the Company's customers are commissions. The Company pays its sales force commissions related to the sale and rental of new and used units. For new unit and rental unit sales, the period benefited by each commission is less than one year. As a result, the Company has applied the practical expedient for incremental costs of obtaining a sales contract and expenses commissions as incurred.

Note 5: Sales-Type Leases

Revenue from rental agreements qualifying as sales-type leases was as follows:

<i>(in \$000s)</i>	Year Ended December 31,	
	2022	2021
Equipment sales	\$ 41,525	\$ 16,274
Cost of equipment sales	37,582	16,532
Gross profit (loss)	<u>\$ 3,943</u>	<u>\$ (258)</u>

As these transactions remained under rental contracts, \$21.3 million and \$12.7 million for the years ended December 31, 2022 and December 31, 2021, respectively, were billed under the contracts as rentals. Interest income from financing receivables was \$12.1 million and \$5.9 million for the years ended December 31, 2022 and December 31, 2021, respectively.

The Company's financing receivables are related to sales-type leases and are collateralized by a security interest in the underlying equipment. As of December 31, 2022 and December 31, 2021 financing receivables, net of unearned income of \$0.7 million and \$0.4 million, were \$38.3 million and \$28.6 million, respectively.

Note 6: Inventory

Inventory consisted of the following:

<i>(in \$000s)</i>	December 31, 2022	December 31, 2021
Whole goods	\$ 468,557	\$ 326,641
Aftermarket parts and services inventory	128,167	83,901
Inventory	<u>\$ 596,724</u>	<u>\$ 410,542</u>

Note 7: Floor Plan Financing

Floor plan payables represent financing arrangements to facilitate the Company's purchase of new and used trucks, cranes, and construction equipment inventory. All floor plan payables are collateralized by the inventory financed. These payables become due and payable upon the sale, transfer, or reclassification of each unit of inventory. Certain floor plan arrangements require the Company to satisfy various financial ratios consistent with those under the ABL Facility. See Note 9: Long-Term Debt. As of December 31, 2022, the Company was in compliance with these covenants.

The amounts owed under floor plan payables are summarized as follows:

<i>(in \$000s)</i>	December 31, 2022	December 31, 2021
Trade:		
Daimler Truck Financial	\$ 105,447	\$ 46,012
PACCAR Financial Services	31,187	26,702
Trade floor plan payables	<u>\$ 136,634</u>	<u>\$ 72,714</u>
Non-trade:		
PNC Equipment Finance, LLC	\$ 293,536	\$ 165,239
Non-trade floor plan payables	<u>\$ 293,536</u>	<u>\$ 165,239</u>

Interest on outstanding floor plan payable balances is due and payable monthly. Floor plan interest expense was \$12.6 million and \$5.2 million for the years ended December 31, 2022 and December 31, 2021, respectively.

Trade Floor Plan Financing:

Daimler Truck Financial

The Company is party to the Wholesale Financing Agreement with Daimler Truck Financial (the “Daimler Facility”) which bears interest at a rate of the Prime plus 0.80% after an initial interest free period of up to 150 days. The total borrowing capacity under the Daimler Facility is \$175.0 million. The Daimler agreement is evergreen and is subject to termination by either party through written notice.

PACCAR

The Company has an Inventory Financing Agreement with PACCAR Financial Corp that provides the Company with a line of credit of \$75.0 million to finance inventory purchases of new Peterbilt and/or Kenworth trucks, tractors, and chassis. Amounts borrowed against this line of credit incur interest at a rate of the London Interbank Offered Rate (“LIBOR”) plus 2.4%. Effective during the first quarter of 2023, the interest rate will be U.S. Prime Rate minus 0.6%. The PACCAR agreement extends automatically each April and is subject to termination by either party through written notice.

References to the prime rate in the foregoing agreements represent the rate as published in The Wall Street Journal.

Non-Trade Floor Plan Financing:

PNC Equipment Finance, LLC

The Company has an Inventory Loan, Guaranty and Security Agreement (the “Loan Agreement”) with PNC Equipment Finance, LLC. As of December 31, 2022, the Loan Agreement provided the Company with a \$315.0 million revolving credit facility, which matures on August 25, 2023. The Loan Agreement interest rate at December 31, 2022 and December 31, 2021 was a three-month term secured overnight financing rate (“SOFR”) plus 3.25% and a LIBOR plus 3.05%, respectively.

Note 8: Rental Equipment and Property and Equipment

Rental equipment, net consisted of the following:

<i>(in \$000s)</i>	December 31, 2022	December 31, 2021
Rental equipment	\$ 1,360,205	\$ 1,247,375
Less: accumulated depreciation	(476,531)	(413,050)
Rental equipment, net	<u>\$ 883,674</u>	<u>\$ 834,325</u>

Property and equipment, net consisted of the following:

<i>(in \$000s)</i>	December 31, 2022	December 31, 2021
Buildings and leasehold improvements	\$ 65,660	\$ 52,418
Vehicles	29,184	17,656
Land and improvements	25,773	20,290
Machinery and equipment	22,224	31,578
Furniture and fixtures	6,321	5,502
Construction in progress	2,981	2,016
Total property and equipment	<u>152,143</u>	<u>129,460</u>
Accumulated depreciation	<u>(30,187)</u>	<u>(20,848)</u>
Property and equipment, net	<u>\$ 121,956</u>	<u>\$ 108,612</u>

Note 9: Long-Term Debt

Debt obligations and associated interest rates consisted of the following:

<i>(in \$000s)</i>	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
ABL Facility	\$ 437,731	\$ 394,945	6.1%	1.8%
2029 Secured Notes	920,000	920,000	5.5%	5.5%
Notes payable	31,661	32,619	3.1%-5.0%	3.0%-5.0%
Total debt outstanding	<u>1,389,392</u>	<u>1,347,564</u>		
Deferred financing fees	<u>(27,686)</u>	<u>(32,945)</u>		
Total debt excluding deferred financing fees	<u>1,361,706</u>	<u>1,314,619</u>		
Less: current maturities	<u>(6,940)</u>	<u>(6,354)</u>		
Long-term debt	<u>\$ 1,354,766</u>	<u>\$ 1,308,265</u>		

In connection with the Acquisition and related financing transactions, on April 1, 2021, the Company entered into the ABL Facility and repaid the Custom Truck LP Credit Facility and Nesco's 2019 Credit Facility as described in Note 3: Business Combinations. Additionally, on April 1, 2021, the Company redeemed all of Nesco's Senior Secured Notes due 2024 and paid a make-whole premium. The terms of the ABL Facility and 2029 Secured Notes are described below. The financing transactions related to the Acquisition resulted in the recognition of a loss on the extinguishment of debt in the year ended December 31, 2021, comprised of (i) the elimination of unamortized deferred financing fees related to the 2019 Credit Facility and the Senior Secured Notes due 2024 of \$8.2 million and, (ii) the payment of the make-whole premium to holders of the Senior Secured Notes due 2024 of \$38.5 million. Additionally, prior to the consummation of the Acquisition, on December 3, 2020, the Company entered into a bridge financing commitment that was available to be used to provide a portion of the financing necessary to fund the consideration to be paid pursuant to the terms of the Acquisition. Because the Company entered into the ABL Facility and issued the 2029 Secured Notes, financing under the bridge facility was not used; however, on the Closing Date, the Company paid \$15.0 million in fees to the bridge financing parties, which fees are included in loss on extinguishment of debt, in the Consolidated Statements of Operations and Comprehensive Income (Loss) for the year ended December 31, 2021.

ABL Facility

In connection with the Acquisition, Buyer, as borrower, and the ABL Guarantors (as defined in the ABL Credit Agreement) entered into the ABL Credit Agreement. The ABL Facility provides for revolving loans, in an amount equal to the lesser of the then-current borrowing base (described below) and the committed maximum borrowing capacity of \$750.0 million, with a \$75.0 million swingline sublimit, and letters of credit in an amount equal to the lesser of (a) \$50.0 million and (b) the aggregate unused amount of commitments under the ABL Facility then in effect. The ABL Facility permits the Buyer to incur additional capacity under the ABL Facility in an aggregate amount equal to the greater of (x) \$200.0 million and (y) 60.0% of Consolidated EBITDA (as defined in the ABL Credit Agreement) in additional commitments. As of the Closing Date, Buyer had no commitments from any lender to provide incremental commitments.

Borrowings under the ABL Facility are limited by a borrowing base calculation based on the sum of, without duplication:

- (a) 90.0% of book value of eligible accounts of Buyer and certain ABL Guarantors; plus

- (b) the lesser of (i) 75.0% of book value of eligible parts inventory of Buyer and certain ABL Guarantors (subject to certain exceptions) and (ii) 90.0% of the net orderly liquidation value of eligible parts inventory of Buyer and certain ABL Guarantors; plus
- (c) the sum of (i) 95.0% of the net book value of the eligible fleet inventory of Buyer and certain ABL Guarantors that has not been appraised and (ii) 85.0% of the net orderly liquidation value of the eligible fleet inventory of Buyer and certain ABL Guarantors that has been appraised; plus
- (d) 100.0% of eligible cash of Buyer and certain ABL Guarantors; minus
- (e) any reserves established by the administrative agent from time to time.

As of December 31, 2022, borrowing availability under the ABL Facility was \$309.4 million, and outstanding standby letters of credit were \$2.9 million. Borrowings under the ABL Facility bears interest at a floating rate, which, at Buyer's election, could be (a) in the case of U.S. dollar denominated loans, either (i) LIBOR plus an applicable margin or (ii) the base rate plus an applicable margin; or (b) in the case of Canadian dollar denominated loans, the CDOR rate plus an applicable margin. The applicable margin varies based on Average Availability (as defined in the ABL Credit Agreement) from (a) with respect to base rate loans, 0.50% to 1.00% and (b) with respect to LIBOR loans and CDOR rate loans, 1.50% to 2.00%. The ability to draw under the ABL Facility or issue letters of credit thereunder is conditioned upon, among other things, delivery of prior written notice of a borrowing or issuance, as applicable, the ability to reaffirm the representations and warranties contained in the ABL Credit Agreement and the absence of any default or event of default under the ABL Facility.

Buyer is required to pay a commitment fee to the lenders under the ABL Facility in respect of the unutilized commitments thereunder at a rate equal to 0.375% per annum, which may be reduced following the first full fiscal quarter to 0.250% per annum based on average daily usage. Buyer must also pay customary letter of credit and agency fees.

The balance outstanding under the ABL Facility will be due and payable on April 1, 2026. Buyer may, at any time and from time to time, prepay, without premium or penalty, any borrowing under the ABL Facility and terminate, or from time to time reduce, the commitments under the ABL Facility.

The obligations under the ABL Facility are guaranteed by Capitol Investment Merger Sub 2, LLC, Buyer and each of Buyer's existing and future direct and indirect wholly owned domestic restricted subsidiaries, subject to certain exceptions, as well as certain of Buyer's material Canadian subsidiaries (the "ABL Guarantors"). The obligations under the ABL Facility and the guarantees of those obligations are secured by (subject to certain exceptions): (i) a first priority pledge by each ABL Guarantor of all of the equity interests of restricted subsidiaries directly owned by such ABL Guarantors (limited to 65% of voting capital stock in the case of foreign subsidiaries owned directly by a U.S. subsidiary and subject to certain other exceptions in the case of non-wholly owned subsidiaries) and (ii) a first priority security interest in substantially all of the ABL Guarantors' present and after-acquired assets (subject to certain exceptions).

The ABL Facility contains customary negative covenants for transactions of this type, including covenants that, among other things, limit Buyer's and its restricted subsidiaries' ability to: incur additional indebtedness; pay dividends, redeem stock, or make other distributions; repurchase, prepay, or redeem subordinated indebtedness; make investments; create restrictions on the ability of Buyer's restricted subsidiaries to pay dividends to Buyer; create liens; transfer or sell assets; consolidate, merge, sell, or otherwise dispose of all or substantially all of Buyer's assets; enter into certain transactions with Buyer's affiliates; and designate subsidiaries as unrestricted subsidiaries, in each case subject to certain exceptions, as well as a restrictive covenant applicable to each Specified Floor Plan Company (as defined in the ABL Credit Agreement) limiting its ability to own certain assets and engage in certain lines of business. In addition, the ABL Facility contains a springing financial covenant that requires Buyer and its restricted subsidiaries to maintain a Consolidated Fixed Charge Coverage Ratio (as defined in the ABL Credit Agreement) of at least 1.00 to 1.00; provided that the financial covenant shall only be tested when Specified Excess Availability (as defined in the ABL Credit Agreement) under the ABL Facility is less than the greater of (i) 10.0% of the Line Cap (as defined in the ABL Credit Agreement) and (ii) \$60.0 million (the "FCCR Test Amount"), in which case it shall be tested at the end of each succeeding fiscal quarter thereafter until the date on which Specified Excess Availability has exceeded the FCCR Test Amount for 30 consecutive calendar days.

The ABL Facility provides for a number of customary events of default, including, among others, and in each case subject to an applicable grace period: payment defaults to the lenders; covenant defaults; material inaccuracies of representations and warranties; failure to pay certain other indebtedness after final maturity or acceleration of other indebtedness exceeding a specified amount; voluntary and involuntary bankruptcy proceedings; material judgments for payment of money exceeding a specified amount; and certain change of control events. The occurrence of an event of default could result in the acceleration of obligations and the termination of revolving commitments under the ABL Facility.

2029 Secured Notes

On the Closing Date, the Issuer issued \$920.0 million in aggregate principal amount of 5.50% senior secured second lien notes due 2029. The 2029 Secured Notes were issued pursuant to an Indenture, dated as of April 1, 2021, between the Issuer, Wilmington Trust, National Association, as trustee and the guarantors party thereto. The Issuer pays interest on the 2029 Secured Notes semi-annually in arrears on April 15 and October 15 of each year, commencing on October 15, 2021. Unless earlier redeemed, the 2029 Secured Notes will mature on April 15, 2029.

Ranking and Security

The 2029 Secured Notes are jointly and severally guaranteed on a senior secured basis by Capitol Investment Merger Sub 2, LLC and, subject to certain exceptions, each of the Issuer's existing and future wholly owned domestic restricted subsidiaries that is an obligor under the ABL Credit Agreement or certain other capital markets indebtedness. Under the terms of the Indenture, the 2029 Secured Notes and the related guarantees rank senior in right of payment to all of the Issuer's and the guarantors' subordinated indebtedness and are effectively senior to all of the Issuer's and the guarantors' unsecured indebtedness, and indebtedness secured by liens junior to the liens securing the 2029 Secured Notes, in each case, to the extent of the value of the collateral securing the 2029 Secured Notes. The 2029 Secured Notes and the related guarantees rank equally in right of payment with all of the Issuer's and the guarantors' senior indebtedness, without giving effect to collateral arrangements, and effectively equal to all of the Issuer's and the guarantors' senior indebtedness secured on the same priority basis as the 2029 Secured Notes. The 2029 Secured Notes and the related guarantees are effectively subordinated to any of the Issuer's and the guarantors' indebtedness that is secured by assets that do not constitute collateral for the 2029 Secured Notes to the extent of the value of the assets securing such indebtedness, and indebtedness that is secured by a senior-priority lien, including the ABL Credit Agreement to the extent of the value of the collateral securing such indebtedness, and are structurally subordinated to the liabilities of the Issuer's non-guarantor subsidiaries.

Optional Redemption Provisions and Repurchase Rights

At any time, upon not less than 10 nor more than 60 days' notice, the 2029 Secured Notes are redeemable at the Issuer's option, in whole or in part, at a price equal to 100% of the principal amount of the 2029 Secured Notes redeemed, plus a make-whole premium as set forth in the Indenture, plus accrued and unpaid interest, if any, to, but not including, the applicable redemption date. Beginning April 15, 2024, the Issuer may redeem the 2029 Secured Notes, at its option, in whole or in part, at any time, subject to the payment of a redemption price together with accrued and unpaid interest, if any, to, but not including, the applicable redemption date. The redemption price includes a call premium that varies (from 2.750% to 0.000%) depending on the year of redemption.

In addition, at any time prior to April 15, 2024, the Issuer may redeem up to 40% of the aggregate principal amount of the 2029 Secured Notes, at a redemption price equal to 105.5% of the principal amount thereof, together with accrued and unpaid interest, if any, to, but not including, the applicable redemption date, with the net cash proceeds of sales of one or more equity offerings by the Issuer or any direct or indirect parent of the Issuer, subject to certain exceptions.

In addition, at any time prior to April 15, 2024, the Issuer may redeem during each calendar year up to 10% of the aggregate principal amount of the 2029 Secured Notes at a redemption price equal to 103% of the aggregate principal amount of the 2029 Secured Notes to be redeemed, together with accrued and unpaid interest, if any, to, but not including, the applicable redemption date; provided that, in any given calendar year, any amount not previously utilized in any calendar year may be carried forward to subsequent calendar years.

Subject to certain exceptions, the holders of the 2029 Secured Notes also have the right to require the Issuer to repurchase their 2029 Secured Notes upon the occurrence of a change in control, as defined in the Indenture, at an offer price equal to 101% of the principal amount of the 2029 Secured Notes plus accrued and unpaid interest, if any, to, but not including, the date of repurchase.

In addition, if the Issuer or any of its restricted subsidiaries sells assets, under certain circumstances, the Issuer is required to use the net proceeds to make an offer to purchase the 2029 Secured Notes at an offer price in cash equal to 100% of the principal amount of the 2029 Secured Notes plus accrued and unpaid interest to, but not including, the repurchase date.

In connection with any offer to purchase all or any of the 2029 Secured Notes (including a change of control offer and any tender offer), if holders of no less than 90% of the aggregate principal amount of the 2029 Secured Notes validly tender their 2029 Secured Notes, the Issuer or a third party is entitled to redeem any remaining 2029 Secured Notes at the price offered to each holder.

Restrictive Covenants

The Indenture contains covenants that limit the Issuer's (and certain of its subsidiaries') ability to, among other things: (i) incur additional debt or issue certain preferred stock; (ii) pay dividends, redeem stock, or make other distributions; (iii) make other restricted payments or investments; (iv) create liens on assets; (v) transfer or sell assets; (vi) create restrictions on payment of dividends or other

amounts by the Issuer to the Issuer’s restricted subsidiaries; (vii) engage in mergers or consolidations; (viii) engage in certain transactions with affiliates; or (ix) designate the Issuer’s subsidiaries as unrestricted subsidiaries.

Events of Default

The Indenture provides for customary events of default, including non-payment, failure to comply with covenants or other agreements in the Indenture, and certain events of bankruptcy or insolvency. If an event of default occurs and continues with respect to the 2029 Secured Notes, the trustee or the holders of at least 30% in aggregate principal amount of the outstanding 2029 Secured Notes of such series may declare the entire principal amount of all the 2029 Secured Notes to be due and payable immediately (except that if such event of default is caused by certain events of bankruptcy or insolvency, the entire principal of the 2029 Secured Notes will become due and payable immediately without further action or notice).

Notes Payable

Our notes payable require the Company to pay monthly and quarterly interest payments and have maturities through 2026. Notes payable include (i) debt assumed from the Acquisition related to borrowings for facilities renovations and to support general business activities, (ii) notes payable related to past businesses acquired, and (iii) term loans. Subsequent to the Acquisition, the Company consolidated certain notes payable assumed from the Acquisition into a \$23.9 million loan agreement with Security Bank of Kansas City (“SBKC”) that bears interest at a rate of 3.125% per annum, and a \$3.5 million loan agreement with SBKC that bears interest at a rate of 3.5% per annum.

Debt Maturities

As of December 31, 2022, the principal payments of debt outstanding over the next five years and thereafter were as follows:

<i>(in \$000s)</i>	Notes Payable	Long-Term Debt
2023	\$ 6,940	\$ —
2024	1,080	—
2025	1,117	—
2026	22,524	437,731
2027	—	—
Thereafter	—	920,000
Total	\$ 31,661	\$ 1,357,731
Less unamortized discount and issuance costs	—	(27,686)
	\$ 31,661	\$ 1,330,045

2023 Credit Facility

On January 13, 2023, the Company entered into a new credit agreement allowing for borrowings of up to \$18.0 million (the “2023 Credit Facility”). Proceeds from the credit agreement were used to finance a portion of the Company’s acquisition of real property from a related party in December 2022, see Note 20: Related Parties for further information. A portion of the loan proceeds will be used to finance improvements to the property. In connection with entering into the agreement, the Company received proceeds of \$13.7 million with the ability to draw an additional \$4.2 million upon completion of certain construction milestones. Borrowings bear interest at a fixed rate of 5.75% per annum and are required to be repaid monthly in an amount of approximately \$0.1 million with a balloon payment due on the maturity date of January 13, 2028. Borrowings are secured by the real property and improvements.

Note 10: Leases as Lessee

The Company adopted Topic 842 on January 1, 2021, using the modified retrospective transition method; and therefore, the comparative information has not been adjusted for the year ended December 31, 2020 and continues to be reported under the accounting standards in effect for that year (e.g., under Topic 840).

The Company’s operating lease agreements primarily consist of real estate property, such as warehouses and office buildings, in addition to personal property, such as vehicles and equipment. The majority of the Company’s lease arrangements are comprised of fixed payments and a limited number of these arrangements include a variable payment component based on certain index fluctuations. The Company also leases certain rental equipment under master lease agreements, which are classified as finance leases. The master lease agreements are typically for a five-year period, at the end of which the Company is entitled to return or purchase the equipment, or extend the life of the lease.

Components of Lease Expense

The components of lease expense are as follows:

<i>(in \$000s)</i>	Year Ended December 31,	
	2022	2021
Operating lease cost	\$ 7,659	\$ 6,969
Finance lease cost:		
Amortization of lease assets	1,820	2,973
Interest on lease liabilities	1,189	1,431
Short-term lease cost	1,472	3,690
Sublease income	(1,730)	(5,383)
Total lease cost	<u>\$ 10,410</u>	<u>\$ 9,680</u>

Supplemental Cash Flow Information

Supplemental cash flow information related to leases is as follows:

<i>(in \$000s)</i>	Year Ended December 31,	
	2022	2021
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash outflows - payments on operating leases	\$ 7,855	\$ 6,969
Operating cash outflows - interest payments on finance leases	\$ 1,189	\$ 1,431
Finance cash outflows - payments on finance lease obligations	\$ 3,955	\$ 5,223
Supplemental disclosure of noncash leasing activities:		
Right-of-use assets obtained in exchange for new operating lease liabilities (1)	\$ 3,761	\$ 1,809

(1) Includes lease extension and option exercises.

Supplemental Balance Sheet Information

Supplemental balance sheet information related to leases is as follows:

<i>(in \$000s)</i>	December 31, 2022	December 31, 2021
Finance leases		
Property and equipment	\$ 4,362	\$ 3,535
Accumulated depreciation	(1,089)	(95)
Property and equipment, net	<u>\$ 3,273</u>	<u>\$ 3,440</u>
Rental equipment	\$ 11,370	\$ 18,715
Accumulated depreciation	(6,610)	(8,056)
Rental equipment, net	<u>\$ 4,760</u>	<u>\$ 10,659</u>

Future Maturities and Payment Information

Maturities of lease liabilities as of December 31, 2022 are as follows:

<i>(in \$000s)</i>	Operating Leases	Finance Leases
2023	\$ 6,898	\$ 2,047
2024	5,939	3,744
2025	4,796	—
2026	3,918	—
2027	3,121	—
Thereafter	13,981	—
Total lease payments	38,653	5,791
Less: imputed interest	(8,573)	(789)
Total present value of lease liabilities	<u>\$ 30,080</u>	<u>\$ 5,002</u>

The weighted average discount rate under operating and finance leases was 6.0% and 11.6%, respectively, as of December 31, 2022. The weighted average remaining lease term under operating and finance leases was 7.9 years and 1.4 years, respectively, as of December 31, 2022.

Note 11: Goodwill and Intangible Assets

Goodwill

The following table summarizes the changes in goodwill by reporting unit:

<i>(in \$000s)</i>	ERS	TES	APS	Total
Balance, December 31, 2020	\$ 229,055	\$ —	\$ 8,997	\$ 238,052
Acquisition of Custom Truck One Source, L.P. (1)	261,607	167,307	28,899	457,813
Balance, December 31, 2021	490,662	167,307	37,896	695,865
Acquisition of HiRail (1)	8,644	—	—	8,644
Currency translation adjustment	(682)	—	—	(682)
Balance, December 31, 2022	<u>\$ 498,624</u>	<u>\$ 167,307</u>	<u>\$ 37,896</u>	<u>\$ 703,827</u>

(1) See Note 3: Business Combinations, for additional information.

Intangible Assets

Intangible assets consisted of the following:

<i>(in \$000s)</i>	Weighted Average Remaining Life (Years)	December 31, 2022		December 31, 2021	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Definite-lived intangible assets:					
Trade names	13.2	\$ 180,780	\$ (46,513)	\$ 180,780	\$ (28,978)
Customer relationships	11.8	212,351	(42,502)	202,170	(26,173)
Non-compete agreements and other	1.2	535	(519)	538	(497)
Total		<u>\$ 393,666</u>	<u>\$ (89,534)</u>	<u>\$ 383,488</u>	<u>\$ (55,648)</u>

Amortization expense associated with the intangible assets noted above was \$33.9 million, \$40.8 million, and \$3.2 million for the years ended December 31, 2022, December 31, 2021, and December 31, 2020, respectively.

Amortization Expense

As of December 31, 2022, estimated amortization expense for intangible assets for each of the next five years and thereafter is estimated to be as follows:

<i>(in \$000s)</i>	Amortization
2023	\$ 26,760
2024	26,380
2025	26,378
2026	26,377
2027	26,377
Thereafter	171,860
Total estimated future amortization expense	<u>\$ 304,132</u>

NESCO Trade Name

In connection with the Acquisition and the combination of the businesses of Nesco Holdings and Custom Truck LP, the Company's products and services will no longer be marketed under the "NESCO" brand. Accordingly, management began the process of discontinuing the brand, which includes the use of trade names such as, "NESCO Specialty" and "NESCO Sales and Rentals." Prior to the Acquisition, the trade name intangible asset was carried as an indefinite-lived intangible asset. As a result of the decommissioning of the brand, the Company determined that the trade name intangible asset should be reclassified to a definite-lived asset. Accordingly, the intangible asset was amortized over a 12-month period, which was the estimated remaining period of economic benefit to the Company. As of December 31, 2022, the trade name was fully amortized.

Note 12: Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net earnings (loss) by the weighted-average number of shares of Common Stock outstanding. Diluted net earnings (loss) per share includes the effects of potentially dilutive shares of Common Stock, if dilutive. Potentially dilutive effects include the exercise of warrants, contingently issuable shares, and share-based compensation. Our potentially dilutive shares aggregated 26.7 million, 24.4 million, and 27.7 million for years ended December 31, 2022, December 31, 2021, and December 31, 2020, respectively, were not included in the computation of diluted earnings (loss) per share because they would not be issuable if the end of the reporting period were the end of the contingency period or they would be anti-dilutive.

The following tables set forth the computation of basic and dilutive earnings (loss) per share:

<i>(in \$000s, except per share data)</i>	Year Ended December 31, 2022			Year Ended December 31, 2021			Year Ended December 31, 2020		
	Net Income (Loss)	Weighted Average Shares	Per Share Amount	Net Income (Loss)	Weighted Average Shares	Per Share Amount	Net Income (Loss)	Weighted Average Shares	Per Share Amount
Basic earnings (loss) per share	\$ 38,905	247,152	\$ 0.16	\$ (181,501)	241,370	\$ (0.75)	\$ (21,277)	49,065	\$ (0.43)
Dilutive common share equivalents	—	553		—	—		—	—	
Diluted earnings (loss) per share	<u>\$ 38,905</u>	<u>247,705</u>	<u>\$ 0.16</u>	<u>\$ (181,501)</u>	<u>241,370</u>	<u>\$ (0.75)</u>	<u>\$ (21,277)</u>	<u>49,065</u>	<u>\$ (0.43)</u>

Note 13: Equity

Preferred Stock

As of both December 31, 2022 and December 31, 2021, we were authorized to issue 10,000,000 shares of preferred stock with a par value of \$0.0001 per share, with such designation, rights and preferences as may be determined from time to time by our board of directors. As of both December 31, 2022 and December 31, 2021, there were no shares of preferred stock issued or outstanding.

Common Stock

As of December 31, 2022 and December 31, 2021, we were authorized to issue 500,000,000 shares of common stock with a par value of \$0.0001 per share.

On August 2, 2022, the Company's Board of Directors authorized a stock repurchase program, allowing for the repurchase of up to \$30 million of the Company's ordinary common shares. During the year ended December 31, 2022, the Company repurchased approximately 1.7 million shares of its common stock, which are held in treasury, for a total of \$10.5 million, including an accrual of \$0.2 million and also commission fees for the repurchase of its common stock.

Contingently Issuable Shares

NESCO Holdings, LP is a Delaware limited partnership holding shares of our common stock. NESCO Holdings, LP is owned and controlled by Energy Capital Partners, and has the right to receive: (1) up to an additional 1,800,000 shares of common stock through July 31, 2024, in increments of 900,000 shares, if (x) the trading price of the common stock exceeds \$13.00 per share or \$16.00 per share for any 20 trading days during a 30 consecutive trading day period or (y) a sale transaction of the Company occurs in which the consideration paid per share to holders of common stock of the Company exceeds \$13.00 per share or \$16.00 per share, and (2) an additional 1,651,798 shares of common stock if during the seven-year period ending July 31, 2026, the trading price of common stock exceeds \$19.00 per share for any 20 trading days during a 30 consecutive trading day period or if a sale transaction of the Company occurs in which the consideration paid per share to holders of common stock exceeds \$19.00 per share.

Note 14: Share-Based Compensation

On July 8, 2021, the Company's stockholders approved the Amended and Restated 2019 Omnibus Incentive Plan, which increased the total authorized shares of Common Stock to 14,650,000 (the "Plan"). The purpose of the Plan is to provide the Company and its subsidiaries' officers, directors, employees and consultants who, by their position, ability and diligence, are able to make important contributions to the Company's growth and profitability, with an incentive to assist the Company in achieving its long-term corporate objectives, to attract and retain executive officers and other employees and to provide such persons with an opportunity to acquire an equity interest in the Company. To accomplish these objectives, the Plan provides for awards of equity-based incentives through granting of restricted stock units, stock options, stock appreciation rights and other stock or cash-based awards. The Plan provides for share recycling whereby shares underlying expired, lapsed or terminated awards, as well as shares surrendered, repurchased, redeemed, or canceled without having been fully exercised or forfeited in a manner that results in the Company acquiring shares covered by the award, are available for award grants under the Plan. At December 31, 2022, there were approximately 1.4 million shares in the share reserve still available for issuance.

The Company records share-based compensation awards using a fair value method and recognizes compensation expense for an amount equal to the fair value of the share-based payment issued in its financial statements. The Company's share-based compensation plans include programs for stock options, restricted stock units ("RSUs"), performance share units ("PSUs") and deferred compensation. Compensation expense for equity awards recognized in selling, general and administrative expenses in the Consolidated Statements of Operations and Comprehensive Income (Loss) was \$12.3 million, \$17.3 million and \$2.4 million for the years ended December 31, 2022, December 31, 2021, and December 31, 2020, respectively.

Restricted Stock Units and Performance Stock Units

Restricted and performance stock awards vest over a period of one to four years. Performance stock awards may be based on the achievement of specific financial performance metrics and market conditions. Awards based strictly on time-based vesting are valued at the market price on the date of grant. The fair values of the awards that contain market conditions are estimated using a Monte Carlo simulation approach in a risk-neutral framework to model future stock price movements based upon historical volatility (based on the weighted-average combination of the Company's historic volatility and of the implied volatility of a group of the Company's peers), risk-free rates of return, and correlation matrix. Restricted and performance stock awards are generally forfeitable in the event of terminated employment prior to vesting.

The following table summarizes the Company's RSU and PSU award activity:

	<u>Number of Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Outstanding, December 31, 2019	656,666	\$ 6.98
Granted	867,838	\$ 2.76
Forfeited/cancelled/expired	(219,412)	\$ 6.37
Vested	(127,500)	\$ 6.98
Outstanding, December 31, 2020	1,177,592	\$ 4.05
Granted	4,362,692	\$ 7.70
Forfeited/cancelled/expired	(24,919)	\$ 2.19
Vested	(998,898)	\$ 4.39
Outstanding, December 31, 2021	4,516,467	\$ 7.51
Granted	4,334,217	\$ 5.53
Forfeited/cancelled/expired	(449,189)	\$ 7.81
Vested	(897,877)	\$ 7.54
Outstanding, December 31, 2022	<u>7,503,618</u>	\$ 6.34

At December 31, 2022, unrecognized compensation expense related to these awards was \$33.5 million and is expected to be recognized over a remaining period of approximately 4.0 years.

Stock Options

The following table summarizes the Company's stock option activity:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
Outstanding stock options, December 31, 2019	1,513,334	\$ 9.60
Granted	1,297,076	\$ 3.70
Exercised	—	\$ —
Forfeited/cancelled/expired	(418,494)	\$ 9.45
Outstanding stock options, December 31, 2020	2,391,916	\$ 6.43
Granted	—	\$ —
Exercised	(502,761)	\$ 4.99
Forfeited/cancelled/expired	(7,956)	\$ 3.85
Outstanding stock options, December 31, 2021	1,881,199	\$ 6.82
Granted	—	\$ —
Exercised	(48,815)	\$ 4.00
Forfeited/cancelled/expired	(11,692)	\$ 4.15
Outstanding stock options, December 31, 2022	<u>1,820,692</u>	\$ 6.92

At December 31, 2022, unrecognized compensation expense related to stock options was not material and the Company made no grants of options in the years ended December 31, 2022 and 2021. As of December 31, 2022, the total intrinsic value of stock options outstanding and currently exercisable was \$2.4 million.

The following table presents the options outstanding and options exercisable by exercise price with the weighted-average remaining contractual life for the options outstanding and the weighted-average exercise price at December 31, 2022:

Exercise Price	Options Outstanding			Options Exercisable	
	Options Outstanding at December 31, 2022	Weighted Average Remaining Contractual Life (In Years)	Weighted Average Grant Date Fair Value	Options Exercisable at December 31, 2022	Weighted Average Grant Date Fair Value
\$3.49 - \$10.00	1,820,692	3.03	\$ 2.36	1,787,361	\$ 2.39

Note 15: Fair Value Measurements

FASB accounting standards provide a comprehensive framework for measuring fair value and sets forth a definition of fair value and establishes a hierarchy prioritizing the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable value inputs.

The following table sets forth the carrying values (exclusive of deferred financing fees) and fair values of our financial liabilities:

<i>(in \$000s)</i>	Carrying Value		Fair Value		
			Level 1	Level 2	Level 3
December 31, 2022					
ABL Facility	\$	437,731	\$	—	\$
2029 Secured Notes		920,000		—	\$
Other notes payable		31,661		—	\$
Derivative and warrant liabilities		3,012		—	\$
				814,200	—
				31,661	—
					3,012
December 31, 2021					
ABL Facility	\$	394,945	\$	—	\$
2029 Secured Notes		920,000		—	\$
Other notes payable		32,619		—	\$
Derivative and warrant liabilities		24,164		—	\$
				394,945	—
				949,900	—
				32,619	—
				2,388	21,776

The carrying amounts of the ABL Facility and other notes payable approximated fair value as of December 31, 2022 and December 31, 2021 based upon terms and conditions available to the Company at those dates in comparison to the terms and conditions of its outstanding debt. The estimated fair value of the 2029 Secured Notes is calculated using Level 2 inputs, based on bid prices obtained from brokers. The Level 3 fair value presented above consists of the fair value of the Non-Public Warrants (as defined in Note 16: Financial Instruments). The Company estimated the fair value using the Black-Scholes option-pricing model based on the market value of the underlying Common Stock, the remaining contractual term of the warrants, risk-free interest rates and expected dividends, and expected volatility of the price of the underlying Common Stock. The changes in the fair value of the derivative and warrant liabilities are recorded in Financing and other expense (income) in the Consolidated Statements of Operations and Comprehensive Income (Loss) and cash flow from operating activities in the Consolidated Statements of Cash Flows.

Note 16: Financial Instruments

In the normal course of business and from time to time, the Company may use various financial instruments, including derivative instruments, to manage the risks associated with interest rate exposure. The Company does not intend to use any of these financial instruments for trading or speculative purposes.

Warrants

During the years ended December 31, 2022 and December 31, 2021, the Company recorded a change in fair value of Non-Public Warrants of approximately \$(18.6) million and \$10.8 million, respectively, in Financing and other expense (income) in its Consolidated Statements of Operations and Comprehensive Income (Loss) related to the change in fair value Non-Public Warrants.

The Company's predecessor, Capitol Investment Corp. IV, an entity formed on May 1, 2017, as a special purpose acquisition company ("Capitol" or the "SPAC"), issued warrants for the purchase of approximately 7.5 million shares of the Company's Common Stock pursuant to a private placement agreement (the "Non-Public Warrants"). In connection with the SPAC's initial public offering, warrants for the purchase of approximately 13.4 million shares of the Company's Common Stock were issued to public investors (the "Public Warrants"). The Public Warrants together with the Non-Public Warrants may hereafter be referred to collectively as the "Warrants."

The Warrants provide for the purchase of approximately 20.9 million shares of the Company's Common Stock. Each Warrant entitles the holder to purchase one share of Common Stock at a price of \$11.50 per share, subject to certain adjustments. The Warrants are currently exercisable and terminate on the earlier to occur of (i) July 31, 2024, and (ii) the redemption date. The Company may redeem the Public Warrants at a price of \$0.01 per Public Warrant upon providing 30-days' notice, only in the event that the last sale price of the Common Stock is at least \$18.00 per share for any 20 trading days within a 30-trading day period ending on the third business day prior to the date on which notice of redemption is given. If the Company elects to redeem the Public Warrants as described above, the Public Warrant may be exercised on a "cashless basis." The redemption rights do not apply to the Non-Public Warrants if, at the time

of the redemption, such Non-Public Warrants continue to be held by the initial holders as of July 31, 2019, or their affiliates or permitted transferees; however, once such Non-Public Warrants are transferred (other than to an affiliate or permitted transferee), the Company may redeem those Non-Public Warrants that have been transferred in a manner similar to any Public Warrants.

The Public Warrants are accounted for as freestanding equity-classified instruments because the Company has the ability to settle with holders of the Public Warrants either by net-share or physical settlement. Because the Non-Public Warrants do not meet the “indexed to the entity’s stock” condition, the Non-Public Warrants are accounted for as a derivative liability and remeasured at their estimated fair value each period. The change in fair value each period is reported in the Company’s Consolidated Statements of Operations and Comprehensive Income (Loss).

Note 17: Income Taxes

We are subject to taxation in all jurisdictions in which we operate within the United States and Canada. Substantially all of our income before income taxes for all periods presented is U.S. sourced. The provision for income tax expense (benefit), including the amount of domestic and foreign loss before taxes, is as follows:

<i>(in \$000s)</i>	Year Ended December 31,		
	2022	2021	2020
Components of income (loss) before tax:			
Domestic	\$ 44,214	\$ (180,669)	\$ (49,096)
Foreign	2,518	3,593	(2,255)
Total income (loss) before tax	46,732	(177,076)	(51,351)
Current tax expense (benefit):			
Federal	—	—	(1,393)
Foreign	161	320	61
State	772	242	66
Total current tax expense (benefit)	933	562	(1,266)
Deferred tax expense (benefit):			
Federal	6,262	(33,415)	(9,179)
Foreign	(1,829)	826	—
State	4,963	(9,507)	(1,786)
Total deferred tax expense (benefit)	9,396	(42,096)	(10,965)
Expense (benefit) from change in valuation allowance	(2,502)	45,959	(17,843)
Total tax expense (benefit)	\$ 7,827	\$ 4,425	\$ (30,074)

A reconciliation between the federal statutory income tax rate and our actual effective income tax rate is as follows:

	Year Ended December 31,		
	2022	2021	2020
Expected federal statutory income tax rate	21.0%	21.0%	21.0%
Tax effect of differences:			
Foreign operations	(3.3)%	(0.3)%	(0.1)%
Share-based payments	(1.0)%	1.0%	(0.2)%
Effect of state income taxes, net of federal income tax benefit	9.8%	5.2%	2.6%
Nondeductible acquisition costs	—%	(0.7)%	—%
Nontaxable income on Warrants (see Note 16)	(8.4)%	(1.3)%	—%
Change in valuation allowance	(3.3)%	(25.8)%	34.7%
Other	1.9%	(1.6)%	0.6%
Effective income tax rate	16.7%	(2.5)%	58.6%

The Company's effective tax rate differs from the U.S. federal statutory tax rate of 21% and is affected by a number of factors, such as the relative amounts of income we earn in differing tax jurisdictions, tax law changes, certain non-deductible expenses (non-taxable income), such as compensation disallowance and mark-to-market adjustments on derivative financial instruments, and changes in the valuation allowance we establish against deferred tax assets. The rate is also affected by discrete items that may occur in any given year, such as legislative enactments and changes in our corporate structure that may occur.

The components of the deferred tax assets and liabilities are as follows:

<i>(in \$000s)</i>	December 31, 2022	December 31, 2021
Deferred tax assets		
Accounts receivable	\$ 4,744	\$ 2,703
Inventory	5,602	6,435
Transaction and debt issuance costs	3,964	4,946
Compensation and benefits	6,511	6,067
Net operating loss carryforwards	252,804	241,663
Section 163j interest disallowance carryforwards	39,344	21,283
Operating lease liabilities	7,548	8,731
Foreign tax credits, accrued expenses, and other	1,547	455
Total deferred tax assets	<u>322,064</u>	<u>292,283</u>
Less: valuation allowance	<u>(78,600)</u>	<u>(84,577)</u>
Total deferred tax assets, net	<u>243,464</u>	<u>207,706</u>
Deferred tax liabilities		
Financing receivable	(9,415)	(3,466)
Rental equipment and other property and equipment	(208,108)	(173,522)
Goodwill and other intangibles	(46,394)	(36,825)
Operating lease assets	(7,388)	(8,647)
Prepaid expenses and other items	(1,245)	(867)
Total deferred tax liabilities	<u>(272,550)</u>	<u>(223,327)</u>
Net deferred tax asset (liability)	<u>\$ (29,086)</u>	<u>\$ (15,621)</u>

As a result of the Acquisition, the Company expects to be able to amortize for U.S. tax purposes, a portion of the goodwill recognized from the Acquisition. For U.S. income taxes, the Acquisition was partly a taxable acquisition and partly a non-taxable acquisition. Accordingly, the taxable component is expected to give rise to increases in the tax bases for a portion of the net assets acquired, while the non-taxable component will result in a carryforward of pre-acquisition tax bases (referred as, “carryover basis”) for a portion of the net assets acquired. The differential between the fair values of the assets acquired and the carryover basis has been recognized as a net deferred tax liability as of the Closing Date (see Note 3: Business Combinations). Additionally, certain federal and state net operating loss and interest expense carryforwards were acquired in the Acquisition and the utilization of these is subject to limitations prescribed by U.S. Internal Revenue Code Section 382 (“Section 382”). The aforementioned net deferred tax liabilities recognized in connection with the assignment of the purchase price from the Acquisition include deferred tax assets from the tax deduction carryforwards, and were reduced by a valuation allowance as of the Closing Date. The acquisition of HiRail did not give rise to any increase in the tax bases acquired in the acquisition and the Company has reflected the carryover tax bases of the net assets acquired. There is no tax basis in amortizable goodwill related to the HiRail acquisition.

We record a valuation allowance against deferred tax assets when we determine that it is more likely than not that all or a portion of a deferred tax asset will not be realized. The valuation allowance primarily relates to federal and state net operating loss carryforwards, as well as disallowed interest expense deduction carryforwards. While the Acquisition resulted in a significant increase in deferred tax liabilities, these tax liabilities, which give rise to future taxable income against which tax carryforwards may be applied, are subject to limitations. Federal and state income tax limitation rules are expected to limit the application of our carryforwards and, accordingly, we record a valuation allowance to reduce our deferred tax assets to amounts expected to be realized.

The following presents changes in the valuation allowance:

<i>(in \$000s)</i>	Year Ended December 31,		
	2022	2021	2020
Valuation allowance - beginning of year	\$ (84,577)	\$ (16,542)	\$ (34,385)
Assigned in purchase accounting (see Note 3)	3,475	(22,076)	—
Charged to benefit (expense) ^(a)	2,502	(45,959)	17,843
Valuation allowance - end of year	<u>\$ (78,600)</u>	<u>\$ (84,577)</u>	<u>\$ (16,542)</u>

(a) Charged to benefit (expense) during the year ended December 31, 2021 includes a reduction to the allowance of approximately \$9.1 million related to federal and state disallowed interest expense deduction carryforwards, offset by additional valuation allowance related to tax losses generated in the year, resulting in net income tax expense of \$4.4 million.

As discussed above, the Company acquired certain federal and state net operating loss and interest expense carryforwards in connection with the Acquisition, the utilization of which is subject to limitations prescribed by Section 382. Accordingly, a portion of the carryforwards is expected to expire prior to being utilized. As of December 31, 2022, we had net operating loss carryforwards of approximately \$1,067.0 million for U.S. federal income tax purposes and \$513.4 million for state income tax purposes. As of December 31, 2021, we had net operating loss carryforwards of approximately \$1,035.6 million for U.S. federal income tax purposes and \$447.1 million for state income tax purposes. The net operating loss carryforwards expire at various dates commencing during 2031 through 2037 for U.S. federal income tax purposes and 2023 through 2042 for state income tax purposes.

Note 18: Concentration Risks

Concentration of Credit Risks

Financial instruments that potentially subject us to significant concentrations of credit risk include cash and cash equivalents and accounts receivable. We maintain cash and cash equivalents with federally insured financial institutions and may maintain deposits in excess of financial insured limits. However, we believe that we are not exposed to significant credit risks due to the financial position of the depository institutions in which our deposits are held. No customer accounted for more than 10% of consolidated revenues during the years ended December 31, 2022, December 31, 2021, and December 31, 2020. Five customers, collectively, accounted for 11.7% of consolidated revenue in 2022. No customer accounted for more than 3% of consolidated revenue in 2021 and three customers, collectively, accounted for 11.1% of consolidated revenue in 2020.

Vendor Concentrations

In 2022, one vendor accounted for approximately 16% of purchases, primarily related to booms, lifts and parts, and the top five vendors accounted for approximately 41% of purchases. In both 2021 and 2020, no vendor accounted for more than 10.0% of purchases and in 2020 three vendors, collectively, accounted for more than 10.0% of purchases.

Note 19: Commitments and Contingencies

We record a liability when we believe that it is both probable that a liability has been incurred and the amount can be reasonably estimated. Significant judgment is required to determine both probability and the estimated amount. We review these provisions at least quarterly and adjust these provisions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and updated information.

Legal Matters

In the normal course of business, there are various claims in process, matters in litigation, and other contingencies. At this time, no claims of these types, certain of which are covered by insurance policies, have had a material effect on the Company. Certain jurisdictions in which the Company operates do not provide insurance recoveries related to punitive damages. For matters pertaining to the pre-Acquisition activities of Custom Truck LP, Sellers have agreed to indemnify Nesco and Buyer for losses arising out of the breach of Sellers' pre-closing covenants in the Purchase Agreement and certain indemnified tax matters, with recourse limited to a \$10 million and \$8.5 million escrow account, respectively.

From time to time, the Company is audited by state and local taxing authorities. These audits typically focus on the Company's withholding of state-specific sales tax and rental-related taxes.

Custom Truck LP's withholdings of federal excise taxes for each of the four quarterly periods during 2015 are currently under audit by the Internal Revenue Service (the "IRS"). The IRS issued an assessment on October 28, 2020 in an aggregate amount of \$2.4 million for the 2015 periods, alleging that certain types of sold equipment are not eligible for the Mobile Machinery Exemption set forth in the Internal Revenue Code (the "Code"). An appeal was filed on January 28, 2021. Based on management's understanding of the facts and circumstances, including the relevant provisions of the Code, and historical precedent, including previous successful appeals of similar assessments in prior years, management does not believe the likelihood of a loss resulting from the IRS assessment to be probable at this time.

While it is not possible to predict the outcome of the foregoing matters with certainty, it is the opinion of management that the final outcome of these matters will not have a material effect on the Company's consolidated financial condition, results of operations and cash flows.

Purchase Commitments

We enter into purchase agreements with manufacturers and suppliers of equipment for our rental fleet and inventory. All of these agreements are cancellable within a specified notification period to the supplier.

Note 20: Related Parties

The Company has transactions with related parties as summarized below.

Rentals and Sales — The Company rents and sells equipment and provides services to R&M Equipment Rental, a business partially owned by members of the Company’s management. The Company also rents equipment and purchases inventory from R&M Equipment Rental. During the year ended December 31, 2021, the Company purchased approximately \$19.4 million in rental equipment from R&M Equipment Rental.

Prior to August 1, 2022, Energy Capital Partners (“ECP”), a stockholder of the Company, and their affiliates had ownership interests in PLH Group, Inc., which was a customer of the Company.

The PIPE Investors, as described in Note 3: Business Combinations, included certain members of management and directors of the Company, which persons purchased approximately 1.4 million shares of the Company’s common stock at a price of \$5.00 per share, during the year ended December 31, 2021.

Facilities Leases and Other — The Company has leased certain facilities, as well as purchased aircraft charter services, from entities owned by members of the Company’s management and their immediate families. Lease and charter services payments related to these transactions are immaterial. Rent and air travel expenses are recorded in selling, general, and administrative expenses. In December 2022, the Company terminated the lease agreements and purchased the facilities and land from these related parties for a purchase price of approximately \$15.4 million.

Management Fees — The Company entered into the Corporate Advisory Services Agreement with Platinum effective as of the Closing Date, under which management fees are payable to Platinum quarterly. The management fees are recorded in transaction expenses and other in the Company’s Consolidated Statements of Operations and Comprehensive Income (Loss).

A summary of the transactions with the foregoing related parties included in the Consolidated Statements of Operations and Comprehensive Income (Loss) is as follows:

<i>(in \$000s)</i>	Year Ended December 31,		
	2022	2021	2020
Total revenues from transactions with related parties	\$ 33,816	\$ 23,251	\$ 9,181
Expenses incurred from transactions with related parties included in cost of revenue	\$ 2,318	\$ 1,687	\$ —
Expenses incurred from transactions with related parties included in operating expenses	\$ 6,103	\$ 4,283	\$ —

Amounts receivable from/payable to related parties included in the Consolidated Balance Sheets are as follows:

<i>(in \$000s)</i>	December 31, 2022	December 31, 2021
Accounts receivable from related parties	\$ 5,053	\$ 5,145
Accounts payable to related parties	\$ 36	\$ 26

Note 21: Segments

Our operations are primarily organized and managed by operating segment. Operating segment performance and resource allocations are primarily based on gross profit. The accounting policies of the reportable segments are consistent with those described in Note 2: Summary of Significant Accounting Policies to the financial statements. Intersegment sales and any related profits are eliminated in consolidation. We manage the business in three reporting segments: Equipment Rental Solutions (“ERS”), Truck and Equipment Sales (“TES”) and Aftermarket Parts and Services (“APS”). The segment operations are described in Note 1: Business and Organization to these financial statements. The revenue by geography is disclosed in Note 4: Revenue. Segment information is presented below.

The Company's segment results are presented in the tables below:

<i>(in \$000s)</i>	Year Ended December 31,			
	2022			
	ERS	TES	APS	Total
Revenue:				
Rental	\$ 449,108	\$ —	\$ 14,931	\$ 464,039
Equipment sales	212,146	770,195	—	982,341
Parts and services	—	—	126,706	126,706
Total revenue	<u>661,254</u>	<u>770,195</u>	<u>141,637</u>	<u>\$ 1,573,086</u>
Cost of revenue:				
Rentals/parts and services	106,598	—	105,185	211,783
Equipment sales	158,167	647,685	—	805,852
Depreciation of rental equipment	167,962	—	3,741	171,703
Total cost of revenue	<u>432,727</u>	<u>647,685</u>	<u>108,926</u>	<u>1,189,338</u>
Gross profit	<u>\$ 228,527</u>	<u>\$ 122,510</u>	<u>\$ 32,711</u>	<u>\$ 383,748</u>

<i>(in \$000s)</i>	Year Ended December 31,			
	2021			
	ERS	TES	APS	Total
Revenue:				
Rental	\$ 354,557	\$ —	\$ 15,510	\$ 370,067
Equipment sales	105,435	589,899	—	695,334
Parts and services	—	—	101,753	101,753
Total revenue	<u>459,992</u>	<u>589,899</u>	<u>117,263</u>	<u>1,167,154</u>
Cost of revenue:				
Rentals/parts and services	94,644	—	86,943	181,587
Equipment sales	90,420	528,024	—	618,444
Depreciation of rental equipment	151,954	—	5,156	157,110
Total cost of revenue	<u>337,018</u>	<u>528,024</u>	<u>92,099</u>	<u>957,141</u>
Gross profit	<u>\$ 122,974</u>	<u>\$ 61,875</u>	<u>\$ 25,164</u>	<u>\$ 210,013</u>

<i>(in \$000s)</i>	Year Ended December 31,			
	2020			
	ERS	TES	APS	Total
Revenue:				
Rental	\$ 179,933	\$ —	\$ 15,557	\$ 195,490
Equipment sales	31,533	25,099	—	56,632
Parts and services	—	—	50,617	50,617
Total revenue	<u>211,466</u>	<u>25,099</u>	<u>66,174</u>	<u>302,739</u>
Cost of revenue:				
Rentals/parts and services	56,140	—	44,217	100,357
Equipment sales	25,615	21,792	—	47,407
Depreciation of rental equipment	74,376	—	4,156	78,532
Total cost of revenue	<u>156,131</u>	<u>21,792</u>	<u>48,373</u>	<u>226,296</u>
Gross profit	<u>\$ 55,335</u>	<u>\$ 3,307</u>	<u>\$ 17,801</u>	<u>\$ 76,443</u>

Total assets by operating segment are not disclosed herein because asset by operating segment data is not reviewed by the chief operating decision-maker (“CODM”) to assess performance and allocate resources.

Gross profit is the primary operating result whereby our segments are evaluated for performance and resource allocation. The following table presents a reconciliation of consolidated gross profit to consolidated loss before income taxes:

<i>(in \$000s)</i>	Year Ended December 31,		
	2022	2021	2020
Gross Profit	\$ 383,748	\$ 210,013	\$ 76,443
Selling, general and administrative expenses	210,868	155,783	46,409
Amortization	33,940	40,754	3,153
Non-rental depreciation	9,414	3,613	95
Transaction expenses and other	26,218	51,830	9,538
Loss on extinguishment of debt	—	61,695	—
Interest expense, net	88,906	72,843	63,200
Financing and other expense (income)	(32,330)	571	5,399
Income (Loss) Before Income Taxes	<u>\$ 46,732</u>	<u>\$ (177,076)</u>	<u>\$ (51,351)</u>

The following table presents total assets by country:

<i>(in \$000s)</i>	December 31, 2022	December 31, 2021
Assets:		
United States	\$ 2,830,958	\$ 2,653,058
Canada	107,254	30,708
	<u>\$ 2,938,212</u>	<u>\$ 2,683,766</u>

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

In accordance with Securities Exchange Act Rules 13a-15(e) and 15d-15(e), our management, under the supervision of our Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of December 31, 2022 because of the material weakness in our internal control over financial reporting described below.

(b) Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934, as amended, as a process designed by, or under the supervision of, the company's principal executive and principal financial officers and effected by the company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the company;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

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

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting can also be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore, it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2022. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("2013 framework") ("COSO") in Internal Control-Integrated Framework. Management's assessment did not include the internal controls of Hi-Rail Leasing Inc., which is included in the Company's 2022 consolidated financial statements and constituted 2% of the Company's total assets as of December 31, 2022 and 1% of the Company's total revenue for the year then ended.

Based on that assessment, the Chief Executive Officer and Chief Financial Officer concluded as of December 31, 2022, the Company's internal control over financial reporting was not effective, due to the material weakness described below.

Inadequate General Information Technology Controls and Business Process Controls

On April 1, 2021, we completed the acquisition of Custom Truck LP, which resulted in a significant change in the Company's internal control over financial reporting. We are in the process of integrating policies, processes, people, technology and operations for the combined company. As part of this integration, we have identified deficiencies in the design and operating effectiveness of internal controls associated with the control activities component of the COSO framework. These include:

During the fourth quarter ended December 31, 2021, we identified control deficiencies related to overall ITGCs for both user access and program change-management for systems supporting all of the Company's internal control processes and controls, controls over the completeness and accuracy of information used in business process controls and management review controls.

Our business process controls (automated and manual) and management review controls were also deemed ineffective because they are adversely impacted by ineffective ITGCs. These control deficiencies could result in misstatements potentially impacting all financial statement accounts and disclosures that may not be prevented or detected.

Accordingly, these deficiencies constitute a material weakness. The material weakness did not result in any identified misstatements to our consolidated financial statements, and there were no changes to previously released financial results. The Company's independent registered public accounting firm that audited the consolidated financial statements included in this Annual Report issued an adverse report on effectiveness of the Company's internal control over financial reporting as of December 31, 2022.

(c) Remediation of the Material Weakness in Internal Control Over Financial Reporting

During the third quarter ended September 30, 2021, we identified a material weakness in the design and operation of information technology general controls ("ITGCs") related to an enterprise resource planning ("ERP") system that supports the processes related to the preparation of our consolidated financial statements. Specifically, we did not maintain adequate control over user access to the ERP system to ensure appropriate segregation of duties and to restrict access to financial applications and data to appropriate Company personnel. As of December 31, 2022, we are no longer processing or maintaining financial information within this ERP system.

The Company is in the process of implementing changes associated with the design, implementation, and monitoring information technology general controls in the areas of user access and program change-management for systems supporting all of the Company's internal control processes to ensure that internal controls are designed and operating effectively. We are also establishing controls to ensure appropriate authorization of new user access requests, including performance of routine reviews of user access, and controls over program-change management. Additionally, management is in the process of enhancing relevant process level controls that are relevant to the preparation of consolidated financial statements. The material weakness cannot be considered remediated until the applicable controls operate for a sufficient period of time and management has concluded, through testing, that these controls are operating effectively.

(d) Changes to Internal Control over Financial Reporting

Other than the ongoing remediation plans described above, there were no changes to our internal control over financial reporting that occurred during the quarter ended December 31, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Certifications

The certifications of the Company's Chief Executive Officer and Chief Financial Officer required by the Sarbanes-Oxley Act are included as Exhibits 31 and 32 to this Annual Report on Form 10-K.

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Custom Truck One Source, Inc.

Opinion on Internal Control Over Financial Reporting

We have audited Custom Truck One Source, Inc.'s internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, because of the effect of the material weakness described below on the achievement of the objectives of the control criteria, Custom Truck One Source, Inc. (the Company) has not maintained effective internal control over financial reporting as of December 31, 2022, based on the COSO criteria.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. Management has identified a material weakness in the design and operation of controls related to:

Not fully designing, implementing and monitoring general information technology controls including user access and program change-management, for systems supporting all of the Company's internal control processes, controls over the completeness and accuracy of information used in business process and management review controls. Business process controls (automated and manual) and management review controls were also deemed ineffective because they are adversely impacted by ineffective ITGCs. These control deficiencies could result in misstatements potentially impacting all financial statement accounts and disclosures that may not be prevented or detected.

As indicated in the accompanying Management's Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Hi-Rail Leasing, Inc., which is included in the 2022 consolidated financial statements of Custom Truck One Source, Inc. and constituted 2% of total assets as of December 31, 2022 and 1% of revenues for the year then ended. Our audit of internal control over financial reporting of Custom Truck One Source, Inc. also did not include an evaluation of the internal control over financial reporting of Hi-Rail Leasing, Inc.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2022 and 2021, the related consolidated statements of operations and comprehensive income (loss), stockholders' equity (deficit) and cash flows for each of the two years ended December 31, 2022, and the related notes and financial statement schedules listed in the Index at Item 15 (a). This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the 2022 consolidated financial statements, and this report does not affect our report dated March 14, 2023, which expressed an unqualified opinion thereon.

Basis for Opinion

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

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the

company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

/s/ Ernst & Young LLP

Kansas City, Missouri

March 14, 2023

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

We maintain a Code of Ethics and Conducts applicable to all of our executive officers, directors and employees, including our Chief Executive Officer, Chief Financial Officer, and Chief Accounting Officer. This code is publicly available on our website at <https://investors.customtruck.com>. If we make any amendments to this code other than technical, administrative or other non-substantive amendments, or grant any waivers, including implicit waivers, from a provision of this code, we will disclose the nature of the amendment or waiver, its effective date and to whom it applies on our website at <https://investors.customtruck.com> or in a Current Report on Form 8-K filed with the SEC.

The remaining information required by this item is incorporated by reference to the applicable information in our Proxy Statement related to the 2023 Annual Meeting of Stockholders, which is expected to be filed with the SEC on or before May 1, 2023.

Item 11. Executive Compensation

The information required by this item is incorporated by reference to the applicable information in our Proxy Statement related to the 2023 Annual Meeting of Stockholders, which is expected to be filed with the SEC on or before May 1, 2023.

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

The information required by this item is incorporated by reference to the applicable information in our Proxy Statement related to the 2023 Annual Meeting of Stockholders, which is expected to be filed with the SEC on or before May 1, 2023.

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

The information required by this item is incorporated by reference to the applicable information in our Proxy Statement related to the 2023 Annual Meeting of Stockholders, which is expected to be filed with the SEC on or before May 1, 2023.

Item 14. Principal Accounting Fees and Services

The information required by this item is incorporated by reference to the applicable information in our Proxy Statement related to the 2023 Annual Meeting of Stockholders, which is expected to be filed with the SEC on or before May 1, 2023.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) *Financial Statement Schedule*

**Condensed Financial Information for Custom Truck One Source, Inc.
for the years ended December 31, 2022, 2021 and 2020**

Custom Truck One Source, Inc.
Condensed Parent Company Balance Sheets

(in \$000s, except share data)

	<u>December 31, 2022</u>	<u>December 31, 2021</u>
Assets		
Investment in subsidiaries	\$ 909,757	\$ 890,590
Total Assets	<u>\$ 909,757</u>	<u>\$ 890,590</u>
Liabilities and Stockholders' Deficit		
Liabilities		
Derivative, warrants and other liabilities	\$ 3,012	\$ 21,605
Deferred income taxes	23,471	15,644
Total long-term liabilities	26,483	37,249
Commitments and contingencies (see Note 5)		
Stockholders' Equity (Deficit)		
Common stock — 0.0001 par value, 500,000,000 shares authorized, 248,311,104 and 247,358,412 shares issued and outstanding, at December 31, 2022 and 2021, respectively	25	25
Treasury stock, at cost — 2,241,069 and 318,086 shares at December 31, 2022 and December 31, 2021, respectively	(15,537)	(3,020)
Additional paid-in capital	1,516,318	1,503,826
Accumulated other comprehensive loss	(8,947)	—
Accumulated deficit	(608,585)	(647,490)
Total stockholders' equity (deficit)	883,274	853,341
Total Liabilities and Stockholders' Equity (Deficit)	<u>\$ 909,757</u>	<u>\$ 890,590</u>

See accompanying notes to condensed parent company financial statements.

Custom Truck One Source, Inc.

Condensed Parent Company Statements of Operations and Comprehensive Income (Loss)

<i>(in \$000s)</i>	Year Ended December 31,		
	2022	2021	2020
Operating Expenses			
Selling, general, and administrative expenses	\$ 12,297	\$ 17,313	\$ 2,357
Total operating expenses	12,297	17,313	2,357
Operating Loss	(12,297)	(17,313)	(2,357)
Other Expense (Income)			
Equity in net loss (income) of subsidiaries	(40,436)	148,948	48,994
Other expense (income)	(18,593)	10,815	—
Total other expense (income)	(59,029)	159,763	48,994
Income (Loss) Before Income Taxes	46,732	(177,076)	(51,351)
Income Tax Expense (Benefit)	7,827	4,425	(30,074)
Net Income (Loss)	\$ 38,905	\$ (181,501)	\$ (21,277)
Other Comprehensive Income (Loss):			
Unrealized foreign currency translation adjustment	\$ (8,947)	\$ —	\$ —
Other Comprehensive Income (Loss)	(8,947)	—	—
Comprehensive Income (Loss)	\$ 29,958	\$ (181,501)	\$ (21,277)

See accompanying notes to condensed parent company financial statements.

Custom Truck One Source, Inc.
Condensed Parent Company Statements of Cash Flows

<i>(in \$000s)</i>	Year Ended December 31,		
	2022	2021	2020
Operating Activities			
Net cash flow from operating activities	\$ 40,231	\$ (148,948)	\$ (48,994)
Investing Activities			
Changes in investment in subsidiaries	(28,114)	(727,014)	48,994
Net cash flow from investing activities	(28,114)	(727,014)	48,994
Financing Activities			
Proceeds from issuance of common stock	—	883,000	—
Common stock issuance costs	—	(6,386)	—
Share-based payments	(1,838)	(652)	—
Common stock repurchase	(10,279)	—	—
Net cash flow from financing activities	(12,117)	875,962	—
Net Change in Cash	—	—	—
Cash at Beginning of Period	—	—	—
Cash at End of Period	\$ —	\$ —	\$ —

See accompanying notes to condensed parent company financial statements.

Custom Truck One Source, Inc.

Notes to Condensed Parent Company Financial Statements

Note 1: Basis of Presentation

Custom Truck One Source, Inc. (the “Parent”), a Delaware corporation, serves as the parent for its two primary operating companies, Custom Truck One Source, L.P. and NESCO, LLC (the “Subsidiaries”). The Subsidiaries are engaged in the business of providing a range of services and products to customers through sales and rentals of specialty equipment, sales of parts related to the specialty equipment, and repair and maintenance services related to that equipment. On April 1, 2021, the Parent, through its wholly-owned subsidiary, NESCO Holdings II, Inc., acquired Custom Truck One Source, L.P. (the “Acquisition”). In connection with the Acquisition, the Parent issued shares of its common stock to certain investors and in exchange for the member interests of Custom Truck One Source, L.P. Additionally, NESCO Holdings II, Inc. issued new notes payable, proceeds from which were used for the Acquisition, to repay prior indebtedness and to pay transaction expenses. Refer to Note 3: Business Combinations, to the Custom Truck One Source, Inc. consolidated financial statements included in this Annual Report on Form 10-K for information about the Acquisition and related financing transactions.

These parent company condensed financial statements should be read in conjunction with the consolidated financial statements and the accompanying notes thereto of Custom Truck One Source, Inc. included in this Annual Report on Form 10-K. For purposes of these condensed financial statements, the Parent’s wholly owned subsidiaries are recorded based upon its proportionate share of the subsidiaries’ net assets (similar to presenting them on the equity method).

Note 2: Financial Instruments

The Parent’s derivatives and warrants liabilities are comprised of warrants (the “Warrants”) that provide for the purchase of approximately 20.9 million shares of the Parent’s common stock. Each Warrant entitles the holder to purchase one share of Common Stock at a price of \$11.50 per share, subject to certain adjustments. Refer to Note 16: Financial Instruments, to the Custom Truck One Source, Inc. consolidated financial statements included in this Annual Report on Form 10-K for information about financial instruments.

Note 3: Debt

The Parent’s subsidiaries have debt obligations under a revolving credit facility that are guaranteed by the Parent and each of its direct and indirect, existing and future, material wholly-owned domestic subsidiaries. Obligations under the ABL will be secured by a first-priority lien on substantially all the assets of the Parent and its subsidiaries. The obligations contain customary financial and non-financial covenants, including covenants that impose restrictions on, among other things, additional indebtedness, liens, investments, advances, guarantees and mergers and acquisitions. These covenants also place restrictions on asset sales, dividends and certain transactions with affiliates. Refer to Note 9: Long-Term Debt, to the Custom Truck One Source, Inc. consolidated financial statements included in this Annual Report on Form 10-K for information about the Parent’s subsidiaries’ debt obligations.

Note 4: Income Taxes

Refer to Note 17: Income Taxes, to the Custom Truck One Source, Inc. consolidated financial statements included in this Annual Report on Form 10-K for information about subsidiaries’ income taxes.

Note 5: Commitments and Contingencies

Refer to Note 19: Commitments and Contingencies, to the Custom Truck One Source, Inc. consolidated financial statements included in this Annual Report on Form 10-K for information about commitments and contingencies.

Note 7: Changes in Stockholders’ Equity (Deficit)

The following table provides a reconciliation of the beginning and ending amounts of total stockholders’ equity (deficit) for the years ended December 31, 2022, 2021, and 2020.

<i>(in \$000s, except share data)</i>	Shares		Common Stock	Treasury Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity (Deficit)
	Common	Treasury						
Balance, December 31, 2019	49,033,903	—	\$ 5	\$ —	\$ 427,391	\$ —	\$ (444,712)	\$ (17,316)
Net income (loss)	—	—	—	—	—	—	(21,277)	(21,277)
Share-based payments	122,850	—	—	—	2,357	—	—	2,357
Balance, December 31, 2020	49,156,753	—	\$ 5	\$ —	\$ 429,748	\$ —	\$ (465,989)	\$ (36,236)
Net income (loss)	—	—	—	—	—	—	(181,501)	(181,501)
Share-based payments	1,501,659	(318,086)	—	(3,020)	19,839	—	—	16,819
Warrants liability reclassification (see Note 2)	—	—	—	—	(10,290)	—	—	(10,290)
Shares issued in business combination	196,700,000	—	20	—	1,064,529	—	—	1,064,549
Balance, December 31, 2021	247,358,412	(318,086)	\$ 25	\$ (3,020)	\$ 1,503,826	\$ —	\$ (647,490)	\$ 853,341
Net income (loss)	—	—	—	—	—	—	38,905	38,905
Other comprehensive loss	—	—	—	—	—	(8,947)	—	(8,947)
Common stock repurchase	—	(1,657,635)	—	(10,483)	—	—	—	(10,483)
Share-based payments	952,692	(265,348)	—	(2,034)	12,492	—	—	10,458
Balance, December 31, 2022	<u>248,311,104</u>	<u>(2,241,069)</u>	<u>\$ 25</u>	<u>\$ (15,537)</u>	<u>\$ 1,516,318</u>	<u>\$ (8,947)</u>	<u>\$ (608,585)</u>	<u>\$ 883,274</u>

(b) Exhibits

Exhibit No.	Description
2.1†	Purchase and Sale Agreement, dated as of December 3, 2020, by and among Blackstone Energy Partners NO L.P., Blackstone Energy Family Investment Partnership SMD L.P., Blackstone Energy Family Investment Partnership NO ESC L.P., Blackstone Capital Partners VI-NQ L.P., Blackstone Family Investment Partnership VI-NQ ESC L.P., Fred M. Ross, Jr. Irrevocable Trust, BEP UOS Feeder Holdco L.P., BCP VI UOS Feeder Holdco L.P., Blackstone Energy Management Associates NO L.L.C., Blackstone Management Associates VI-NQ L.L.C., Nesco Holdings II, Inc., Nesco Holdings, Inc., Blackstone Capital Partners VI-NQ L.P., solely in its capacity as the representative of Sellers, and PE One source Holdings, LLC, solely with respect to Section 9.04 (Incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K filed on December 4, 2020)
3.1	Restated Certificate of Incorporation of the Company (Incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on April 2, 2021)
3.2	Amended and Restated Bylaws of the Company (Incorporated by reference to Exhibit 3.2 of the Company's Current Report on Form 8-K filed on April 2, 2021)
4.1	Indenture, dated as of April 1, 2021, by and among Nesco Holdings II, Inc., Wilmington Trust, National Association, as Trustee and Collateral Agent, and the Guarantors party thereto from time to time (Incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed on April 2, 2021)
4.2	Form of 5.50% Senior Note due 2029 (included in Exhibit 4.1 hereto) (Incorporated by reference to Exhibit 4.2 of the Company's Current Report on Form 8-K filed on April 2, 2021)
4.3*	Description of the Registrant's Securities Registered under Section 12 of the Exchange Act
10.1†	Revolving Credit Agreement, dated as of April 1, 2021, by and among Capitol Investment Merger Sub 2, LLC, NESCO Holdings II, Inc., the various lenders and issuing banks party thereto and Bank of America, N.A., as administrative agent, collateral agent and swingline lender (Incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed on April 2, 2021)
10.2	Registration Rights Agreement, dated as of April 1, 2021, between Custom Truck One Source, Inc. and certain holders identified therein (Incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K filed on April 2, 2021)
10.3†	Amended and Restated Stockholders' Agreement, dated as of April 1, 2021, among Custom Truck One Source, Inc. and certain holders identified therein (Incorporated by reference to Exhibit 10.5 of the Company's Current Report on Form 8-K filed on April 2, 2021)
10.4	Corporate Advisory Services Agreement, dated as of April 1, 2021, between Custom Truck One Source, Inc. and Platinum Equity Advisors, LLC (Incorporated by reference to Exhibit 10.6 of the Company's Current Report on Form 8-K filed on April 2, 2021)
10.5+	Transition Agreement, dated May 20, 2021, by and between Joshua Boone and Custom Truck One Source, Inc. (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on May 26, 2021)
10.6+	Good Reason Extension Letter, dated May 21, 2021, by and between Robert Blackadar and Custom Truck One Source, Inc. (Incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on May 26, 2021)
10.7+	Good Reason Extension Letter, dated May 20, 2021, by and between Kevin Kapelke and Custom Truck One Source, Inc. (Incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed on May 26, 2021)
10.8§	Release Agreement, by and between Lee Jacobson and Custom Truck One Source, Inc. (Incorporated by reference to Exhibit 99.1 of the Company's Current Report on Form 8-K filed on May 26, 2021)
10.9+	Custom Truck One Source, Inc. Amended and Restated 2019 Omnibus Incentive Plan (filed as Annex A to Custom Truck One Source, Inc.'s Definitive Proxy Statement on Schedule 14A filed June 10, 2021, File No. 001-38186, and incorporated herein by reference)
10.10+	Employment Agreement, dated November 2, 2021, by and between Fred Ross and Custom Truck One Source, Inc. (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on November 8, 2021)
10.11+	Amended and Restated Employment Agreement, dated December 7, 2022, by and between Fred Ross and Custom Truck One Source, Inc. (Incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on December 7, 2022)
10.12+	Form Indemnification Agreement (Incorporated by reference to Exhibit 10.7 of the Company's Current Report on Form 8-K filed on April 2, 2021)
10.13+	Form of Rollover and Contribution Agreement (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on December 4, 2020)
10.14†	Common Stock Purchase Agreement, dated as of December 3, 2020, by and between Nesco Holdings, Inc. and PE One Source Holdings, LLC (Incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on December 4, 2020)
10.15+	Employment Agreement, dated November 2, 2021, by and between Thomas "Smiley" Rich and Custom Truck One Source, Inc. (Incorporated by reference to Exhibit 10.15 of the Company's Annual Report on Form 10-K (File No. 001-38186) filed on March 16, 2022)
10.16+	Employment Agreement, dated November 2, 2021, by and between Joe Ross and Custom Truck One Source, Inc. (Incorporated by reference to Exhibit 10.16 of the Company's Annual Report on Form 10-K (File No. 001-38186) filed on March 16, 2022)

10.17+	Employment Agreement, dated August 2, 2022, by and between Christopher J. Eperjesy and Custom Truck One Source, Inc. (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K (File No. 001-38186) filed on August 4, 2022)
10.18+	Amended and Restated Employment Agreement, dated December 7, 2022, by and between Ryan McMonagle and Custom Truck One Source, Inc. (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K (File No. 001-38186) filed on December 7, 2022)
10.19+	Custom Truck One Source, Inc. 2022 Employee Stock Purchase Plan (filed as Annex A to Custom Truck One Source, Inc.'s Definitive Proxy Statement on Schedule 14A (File No. 001-38186) filed on May 2, 2022, and incorporated herein by reference)
10.20+	Form of Performance Stock Agreement (Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q (File No. 001-38186) filed on November 8, 2022)
10.21+	Form of Amended Performance Stock Agreement (Incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q (File No. 001-38186) filed on November 8, 2022)
10.22+	Form of Restricted Stock Agreement (Incorporated by reference to Exhibit 10.18 of the Company's Annual Report on Form 10-K (File No. 001-38186) filed on March 16, 2022)
10.23+	Letter Agreement, by and between the Company and Raymond Todd Barrett, dated April 25, 2022 (Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K (File No. 001-38186) filed on April 26, 2022)
10.24+	Employment Agreement, by and between the Company and Raymond Todd Barrett, dated March 9, 2022 (Incorporated by reference to Exhibit 10.2 of the Company's Report on Form 8-K (File No. 001-38186) filed on April 26, 2022)
21.1*	Subsidiaries of the Company
23.1*	Consent of Deloitte & Touche LLP
23.2*	Consent of Ernst & Young LLP
24.1*	Power of attorney, pursuant to which amendments to this Form 10-K may be filed (included on the signature page contained in Part IV of the Form 10-K)
31.1*	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32 **	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Filed herewith.

** This certificate is being furnished herewith solely to accompany the report pursuant to 18 U.S.C. 1350 and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

† The schedules have been omitted pursuant to Item 601(b)(2) of Regulation S-K and will be provided to the SEC upon request.

+ Management contract or compensatory plan.

§ Certain information contained in this exhibit has been redacted pursuant to Item 601(a)(6) of Regulation S-K

Item 16. Form 10-K Summary

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CUSTOM TRUCK ONE SOURCE, INC.
(Registrant)

Date: March 14, 2023

/s/ Fred Ross

Fred Ross, Chief Executive Officer

Date: March 14, 2023

/s/ Christopher J. Eperjesy

Christopher J. Eperjesy, Chief Financial Officer

Date: March 14, 2023

/s/ R. Todd Barrett

R. Todd Barrett, Chief Accounting Officer

POWER OF ATTORNEY

The undersigned directors and officers of CTOS hereby constitute and appoint Fred Ross, Christopher J. Eperjesy, and R. Todd Barrett with full power to act as our true and lawful attorney-in-fact with full power to execute in our name and behalf in the capacities indicated below, this Annual Report on Form 10-K and any and all amendments thereto and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, and hereby ratify and confirm all that such attorneys-in-fact, or any of them, or their substitutes shall lawfully do or cause to be done by virtue hereof.

In accordance with the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Marshall Heinberg</u> Marshall Heinberg	Chairman of the Board	March 14, 2023
<u>/s/ Bryan Kelln</u> Bryan Kelln	Director	March 14, 2023
<u>/s/ David Glatt</u> David Glatt	Director	March 14, 2023
<u>/s/ David Wolf</u> David Wolf	Director	March 14, 2023

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Fred Ross</u> Fred Ross	Chief Executive Officer and Director	March 14, 2023
<u>/s/ Georgia Nelson</u> Georgia Nelson	Director	March 14, 2023
<u>/s/ Mary Jackson</u> Mary Jackson	Director	March 14, 2023
<u>/s/ Louis Samson</u> Louis Samson	Director	March 14, 2023
<u>/s/ Mark Ein</u> Mark Ein	Director	March 14, 2023
<u>/s/ Paul Bader</u> Paul Bader	Director	March 14, 2023
<u>/s/ Rahman D'Argenio</u> Rahman D'Argenio	Director	March 14, 2023
<u>/s/ Christopher J. Eperjesy</u> Christopher J. Eperjesy	Chief Financial Officer	March 14, 2023
<u>/s/ R. Todd Barrett</u> R. Todd Barrett	Chief Accounting Officer	March 14, 2023

DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED UNDER SECTION 12 OF THE EXCHANGE ACT

The following description sets forth certain material terms and provisions of the securities of Custom Truck One Source, Inc. (the "Company," "we," "us" or "our") that are registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The following description of our securities is not complete and may not contain all the information you should consider before investing in our securities. This description is summarized from, and qualified in its entirety by reference to, our certificate of incorporation and bylaws, which are incorporated herein by reference. The summary below is also qualified by reference to the provisions of the General Corporation Law of the State of Delaware (the "DGCL").

As of March 1, 2023, we had two classes of securities registered under the Exchange Act: our common stock (the "common stock"), par value \$0.0001 per share, and warrants (the "warrants") to purchase shares of our common stock.

General

Common Stock

Our certificate of incorporation authorizes the issuance of 500,000,000 shares of common stock. The holders of common stock are entitled to one vote for each share held of record on all matters to be voted on by stockholders.

Holders of common stock do not have any conversion, preemptive or other subscription rights, and there will be no sinking fund or redemption provisions applicable to the common stock.

The rights, preferences and privileges of the holders of common stock are subject to those of the holders of any shares of preferred stock we may issue in the future.

Preferred Stock

Our certificate of incorporation authorizes the issuance of 10,000,000 shares of preferred stock (the "preferred stock") par value \$0.0001 per share, with such designations, rights and preferences as may be determined from time to time by our board of directors. Subject to limitations prescribed by law, the board of directors is authorized at any time to:

- issue one or more series of preferred stock;
- determine the designation for any series by number, letter or title that shall distinguish the series from any other series of preferred stock;
- determine the number of shares in any series; and
- determine the terms with respect to the series of preferred stock being offered, which may include (without limitation) the following:
 - determine whether dividends on that series of preferred stock will be cumulative, noncumulative or partially cumulative;
 - determine the dividend rate or method for determining the rate;
 - determine the liquidation preference per share of that series of preferred stock, if any;
 - determine the conversion provisions applicable to that series of preferred stock, if any;
 - determine any redemption or sinking fund provisions applicable to that series of preferred stock;
 - determine the voting rights of that series of preferred stock, if any; and
 - determine the terms of any other powers, preferences or rights, if any, and the qualifications, limitations or restrictions thereof, applicable to that series of preferred stock.

The preferred stock, when issued, will be fully paid and nonassessable.

Voting Rights

Each holder of our common stock is entitled to one vote per share on each matter submitted to a vote of stockholders, unless otherwise provided by our certificate of incorporation. Our bylaws provide that the presence, in person or by proxy, of holders of shares representing a majority in voting power of the issued and outstanding shares of capital stock entitled to vote at a stockholders' meeting shall constitute a quorum. When a quorum is present, the affirmative vote of a majority of the votes cast (excluding abstentions and broker non-votes) is required to take action, unless otherwise specified by law, our bylaws, our certificate of incorporation or our Stockholders' Agreement (as defined below). There are no cumulative voting rights.

Dividend Rights

Each holder of shares of our capital stock is entitled to receive such dividends and other distributions in cash, stock or property as may be declared by our board of directors from time to time out of our assets or funds legally available for dividends or other distributions. These rights are subject to the preferential rights of the holders of our preferred stock, if any, and any contractual limitations on our ability to declare and pay dividends.

Liquidation Rights

If the Company is involved in a consolidation, merger, recapitalization, reorganization, voluntary or involuntary liquidation, dissolution or winding up of affairs, or similar event, each holder of common stock will participate pro rata in all assets remaining after payment of liabilities, subject to prior distribution rights of preferred stock, if any, then outstanding.

Warrants

Our warrants are issued under the Amended and Restated Warrant Agreement, dated as of July 31, 2019, between Continental Stock Transfer & Trust Company, as warrant agent, and the Company. The following summary of certain provisions relating to our warrants does not purport to be complete and is subject to, and is qualified in its entirety by reference to, the Amended and Restated Warrant Agreement. Each of our outstanding warrants is exercisable for one share of our common stock at a price of \$11.50 per share, subject to adjustment as discussed below. The warrants will expire at 5:00 p.m., New York City time, July 31, 2024, or earlier upon redemption or liquidation.

We may call the warrants for redemption (excluding certain private warrants that continue to be held by the original holders (or permitted transferees) holding such private warrants as of the date of any such redemption), in whole and not in part, at a price of \$0.01 per warrant,

- at any time while the warrants are exercisable;
- upon not less than 30 days' prior written notice of redemption to each warrant holder;
- if, and only if, the reported last sale price of the common stock equals or exceeds \$18.00 per share, for any 20 trading days within a 30-day trading period ending on the third business day prior to the notice of redemption to warrant holders; and
- if, and only if, there is a current registration statement in effect with respect to the shares of common stock underlying such warrants commencing five business days prior to the 30-day trading period and continuing each day thereafter until the date of redemption.

The warrants will be forfeited unless exercised prior to the date specified in the notice of redemption. On and after the redemption date, a record holder of a warrant will have no further rights except to receive the redemption price for such holder's warrant upon surrender of such warrant.

If we call the warrants for redemption as described above, our management will have the option to require all holders that wish to exercise warrants to do so on a "cashless basis." In such event, each holder would pay the exercise price by surrendering the warrants for that number of shares of common stock equal to the quotient obtained by dividing (x) the product of the number of shares of common stock of the Company underlying the warrants, multiplied by the difference between the exercise price of the warrants and the "fair market value" (defined below) by (y) the fair market value. In this case, the "fair market value" will mean the average reported last sale price of the shares of our common stock for the ten trading days ending on the third trading day prior to the date on which the notice of redemption is sent to the holders of warrants. Whether we will exercise our option to require all holders to exercise their warrants on a "cashless basis" will depend on a variety of factors including the price of shares of our common stock at the time the warrants are called for redemption, our cash needs at such time and concerns regarding dilutive stock issuances.

The private warrants (including the common stock issuable upon exercise thereof) will not be redeemable by us and may be exercisable for cash or on a cashless basis so long as they are held by the initial holders or their affiliates or permitted transferees. The holders of the private warrants agreed to additional transfer restrictions relating to its common stock pursuant to the Stockholders' Agreement. Otherwise, the private warrants have terms and provisions that are identical to those of the public warrants. If the private warrants are held by holders other than the initial holders thereof or their permitted transferees, the private warrants will be redeemable by us and exercisable by the holders on the same basis as the public warrants. If holders of the private warrants elect to exercise them on a cashless basis, they will pay the exercise price by surrendering his, her or its private warrants for that number of shares of common stock equal to the quotient obtained by dividing (x) the product of the number of shares of common stock underlying the private warrants, multiplied by the difference between the exercise price of the warrants and the "fair market value" (defined below) by (y) the fair market value; provided, however, that no cashless

exercise shall be permitted unless the fair market value is equal to or higher than the exercise price. In this case, the “fair market value” shall mean the average reported last sale price of the common stock for the 10 trading days ending on the third trading day prior to the date of exercise.

The exercise price and number of shares of common stock issuable on exercise of the warrants may be adjusted in certain circumstances, including in the event of a share dividend, extraordinary dividend or our recapitalization, reorganization, merger or consolidation. However, the warrants will not be adjusted for issuances of shares of common stock at a price below their respective exercise prices.

The warrants may be exercised upon surrender of the warrant certificate on or prior to the expiration date at the offices of the warrant agent, with the exercise form on the reverse side of the warrant certificate completed and executed as indicated, accompanied by full payment of the exercise price and any and all applicable taxes due in connection with the exercise of the warrant, by certified or official bank check payable to us, for the number of warrants being exercised. The warrant holders do not have the rights or privileges of holders of shares of our common stock or any voting rights unless and until they exercise their warrants and receive shares of common stock. After the issuance of shares of our common stock upon exercise of the warrants, each holder will be entitled to one vote for each share of common stock held of record on all matters to be voted on by stockholders.

Warrant holders may elect to be subject to a restriction on the exercise of their warrants such that an electing warrant holder would not be able to exercise their warrants to the extent that, after giving effect to such exercise, such holder would beneficially own in excess of 4.9% or 9.8% (as specified by the holder) of the shares of our common stock outstanding immediately after giving effect to such exercise.

No fractional shares of common stock will be issued upon exercise of the warrants. If, upon exercise of the warrants, a holder would be entitled to receive a fractional interest in a share of common stock, we will, upon exercise, round up to the nearest whole number of shares of common stock to be issued to the warrant holder.

Certain Anti-Takeover Provisions of Delaware Law and Our Certificate of Incorporation

We have certain anti-takeover provisions in place as follows:

Staggered Board of Directors

Our certificate of incorporation provides that our board of directors is classified into three classes of directors of approximately equal size. As a result, in most circumstances, a person can gain control of our board only by successfully engaging in a proxy contest at two or more annual meetings. Furthermore, because the board is classified, directors may be removed only with cause by a majority of our outstanding shares.

Special Meeting of Stockholders

The DGCL provides that special meetings of our stockholders may be called by the board of directors. Our certificate of incorporation provides that, at any time when Platinum Equity Advisors, LLC (“Platinum”) and its affiliates collectively beneficially own, in the aggregate, at least 5% in voting power of the stock of the Company entitled to vote generally in the election of directors, the Chairman of the our board of directors shall call a special meeting of stockholders at the request of Platinum from time to time.

Advance Notice Requirements for Stockholder Proposals and Director Nominations

Our bylaws provide that stockholders seeking to bring business before our annual meeting of stockholders, or to nominate candidates for election as directors at our annual meeting of stockholders, must provide timely notice of their intent in writing. To be timely, a stockholder’s notice will need to be delivered to, or mailed and received by the company secretary at our principal executive offices not less than 90 days nor more than 120 days prior to the one-year anniversary of the preceding year’s annual meeting of stockholders (except that, with respect to Platinum’s nomination of directors, the reference to 90 days shall be 45 days); *provided, however*, that if the date of the annual meeting is more than 30 days before or more than 60 days after such anniversary date, notice by the stockholder to be timely must be so delivered, or mailed and received, not later than the day occurring 90 days prior to such annual meeting or, if later, the tenth day following the day on which public disclosure of the date of such annual meeting was first made. Such notice also must fulfill certain information requirements with respect to the stockholder delivering such notice and the matter proposed (or director candidate nominated) of which Platinum is partially exempt. Pursuant to Rule 14a-8 of the Exchange Act, proposals seeking inclusion in our annual proxy statement must comply with the notice periods contained therein. Our bylaws also specify certain requirements as to the form and content of a

stockholders' meeting. These provisions may preclude our stockholders from bringing matters before the general meeting of stockholders or from making nominations for directors at our general meeting of stockholders.

Authorized but Unissued Shares

Our authorized but unissued common stock and preferred stock will be available for future issuances without stockholder approval and could be utilized for a variety of corporate purposes, including future offerings to raise additional capital, acquisitions and employee benefit plans. The existence of authorized but unissued and unreserved common stock and preferred stock could render more difficult or discourage an attempt to obtain control of the Company by means of a proxy contest, tender offer, merger or otherwise.

Exclusive Forum Selection

Our certificate of incorporation provides that, unless the Company consents in writing to the selection of an alternative forum, the Court of Chancery (the "Chancery Court") of the State of Delaware (or, in the event that the Chancery Court does not have jurisdiction, the federal district court for the District of Delaware or other state courts of the State of Delaware) shall, to the fullest extent permitted by law, be the sole and exclusive forum for (i) any derivative action or proceeding brought on behalf of the Company, (ii) any action asserting a claim of breach of a fiduciary duty owed by any current or former director, officer, employee or agent of the Company to the Company or the Company's stockholders, (iii) any action asserting a claim against the Company arising pursuant to any provision of the DGCL or our certificate of incorporation or bylaws or (iv) any action asserting a claim against the Company governed by the internal affairs doctrine, in each such case, subject to said Court of Chancery (or the federal district court for the District of Delaware or other state court of the State of Delaware, as applicable) having personal jurisdiction over the indispensable parties named as defendants therein. Unless the Company consents in writing to the selection of an alternative forum, to the fullest extent permitted by law, the federal district courts of the United States will be the exclusive forum for resolving any complaint asserting a cause of action arising under the federal securities laws of the United States.

Business Combinations with Interested Stockholders

Our certificate of incorporation provides that we are not subject to Section 203 of the DGCL, an anti-takeover law. In general, Section 203 prohibits a publicly held Delaware corporation from engaging in a business combination, such as a merger, with an "interested stockholder" (which includes a person or group owning 15% or more of the corporation's voting stock) for a period of three years following the date the person became an interested stockholder, unless (with certain exceptions) the business combination or the transaction in which the person became an interested stockholder is approved in a prescribed manner. Accordingly, we are not subject to any anti-takeover effects of Section 203. Nevertheless, our certificate of incorporation contains provisions that will have a similar effect to Section 203, except that the certificate of incorporation provides that (i) Platinum; (ii) Energy Capital Partners, LLC, Energy Capital Partners II, LLC, Energy Capital Partners III, LLC, Energy Capital Partners Mezzanine, LLC, Energy Capital Partners IV, LLC, Energy Capital Partners Credit Solutions II, LLC, ECP ControlCo, LLC, Energy Capital Partners Holdings, LP, ECP Feeder, LP, and ECP Management GP, LLC; (iii) Capitol Acquisition Management IV LLC and Capitol Acquisition Founder IV LLC (collectively, "Capitol"); and (iv) Blackstone Management Partners L.L.C. ("Blackstone") and their respective direct and indirect transferees will not be deemed to be "interested stockholders," regardless of the percentage of the Company's voting stock owned by them, and accordingly will not be subject to such restrictions.

Limitation on Liability and Indemnification of Directors and Officers

Our certificate of incorporation provides that directors and officers will be indemnified by us to the fullest extent authorized by Delaware law as it now exists or may in the future be amended. In addition, our certificate of incorporation provides that directors will not be personally liable for monetary damages to the Company for breaches of their fiduciary duty as directors, unless they violated their duty of loyalty to us or our stockholders, acted in bad faith, knowingly or intentionally violated the law, authorized unlawful payments of dividends, unlawful stock purchases or unlawful redemptions, or derived an improper personal benefit from their actions as directors.

Our bylaws also permit us to secure insurance on behalf of any officer, director or employee or agent for any liability arising out of his or her actions, regardless of whether Delaware law would permit indemnification. We have purchased a policy of directors' and officers' liability insurance that insures our directors and officers against the cost of defense, settlement or payment of a judgment in some circumstances and insures us against our obligations to indemnify the directors and officers.

These provisions may discourage stockholders from bringing a lawsuit against our directors for breach of their fiduciary duty. These provisions also may have the effect of reducing the likelihood of derivative litigation against directors and officers, even though such an action, if successful, might otherwise benefit us and our stockholders. Furthermore, a stockholder's investment may be adversely affected to the extent we pay the costs of settlement and damage awards against directors and officers pursuant to these indemnification provisions. We believe that these provisions, the insurance and the indemnity agreements are necessary to attract and retain talented and experienced directors and officers.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to our directors, officers and controlling persons pursuant to the foregoing provisions, or otherwise, we have been advised that in the opinion of the SEC such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

Stockholders' Agreement

We are party to an Amended and Restated Stockholders' Agreement (the "Stockholders' Agreement") dated April 1, 2021 with certain affiliates of Platinum, Capitol, Blackstone, and Energy Capital Partners ("ECP").

The Stockholders' Agreement provides that so long as Platinum beneficially owns 50% or more of our common stock, Platinum has the right to designate up to seven nominees for the election to our board of directors, three of which are required to be independent directors. In addition, while Platinum beneficially owns 50% or more of the outstanding shares of our common stock, the Stockholders' Agreement does not restrict Platinum from nominating additional directors and soliciting stockholders outside of the Company's proxy statement, subject to the rights of the other parties to the Stockholders' Agreement. Each Platinum designee director who is not an independent director will have two votes on our board of directors. For so long as Platinum beneficially owns less than 50% but more than 30% of our common stock, Platinum will have the right (but not the obligation) to designate any number of directors having one or two votes each, so long as the total number of votes of all such designees does not exceed the total number of votes constituting a majority of all votes of all directors minus one. The number of designees who are not independent directors that Platinum is entitled to nominate decreases from four to one, and such director's voting power decreases to one vote, if Platinum beneficially owns less than 30% but more than 4.5% of our common stock. All such rights to designate nominees, including independent directors, shall cease if Platinum fails to beneficially own more than 4.5% of our common stock.

The Stockholders' Agreement further provides that (i) ECP will have the right to designate one nominee for the election to our board of directors so long as each beneficially owns at least 4.5% of our common stock, (ii) Capitol will have the right to designate one nominee for the election to our board of directors so long as it beneficially owns at least 50% of the common stock it held as of the April 1, 2021 and (iii) the chief executive officer of the Company shall hold a seat on our board of directors.

While Platinum beneficially owns 30% or more of our common stock and is the largest stockholder in the Company, Platinum, in its capacity as stockholder, will have consent rights over the following actions of the Company or any of its subsidiaries:

- entering into or effecting a change in control;
- entering into agreements providing for the acquisition or divestiture of assets or equity security of any person, with aggregate consideration in excess of \$50 million;
- entering into any joint venture or similar business alliance having a fair market value in excess of \$50 million;
- any liquidation, dissolution, receivership, bankruptcy or other insolvency proceeding;
- any material change in the nature of the business;
- share repurchases, except for repurchases pursuant to a repurchase plan or certain repurchases from employees which are approved by our board of directors;
- declaration of dividends or reclassification of equity securities or securities convertible into equity securities;
- incurrence of indebtedness for borrowed money in an aggregate principal amount in excess of \$50 million, other than borrowings under the existing revolving credit facility;
- granting of security interests or guaranties other than in the ordinary course;
- terminating or hiring the Company's Chief Executive Officer, Chief Financial Officer and Chief Operating Officer;
- amendment of our certificate of incorporation or bylaws;
- designation of any class of stock;

- any issuance of equity securities or rights to acquire equity securities, other than equity issued pursuant to employee equity plans that shall have been approved by the our board of directors;
- establishment or change of employee incentive plans;
- changes to accounting policies other than required in accordance with generally accepted accounting principles, and any material tax elections;
- hiring or terminating of principal outside counsel or auditor; and
- entering into any contracts not specifically listed above involving aggregate payments to or by the Company in excess of \$50 million per annum.

Pursuant to the terms of the Stockholders' Agreement, certain shares of common stock held by ECP and Capitol continue to be designated "Earnout Shares" and such Earnout Shares are subject to restrictions on (i) transfer of such shares of common stock and (ii) forfeiture of such shares of common stock tied to both time and performance that the other shares of common stock are not subject to.

If, at any time while Platinum beneficially owns more than 50% of the common stock, Platinum receives a bona fide offer from a third party to purchase or otherwise desires to transfer shares of common stock to a third party on arm's length terms, including shares of common stock owned by ECP, Capitol or certain members of management of the Company (the "Drag Shares"), and (i) such sale proposal, if consummated, would result in a change in control of the Company (taking into account all Drag Shares), (ii) such sale proposal does not involve the transfer of Drag Shares to Platinum or an affiliate of Platinum and (iii) in such sale proposal, if consummated, Platinum would receive the same form of consideration as the other stockholders in the Company (a "Required Sale"), then Platinum may deliver a written notice with respect to such sale proposal at least 10 business days prior to the anticipated closing date of such Required Sale to ECP or Capitol and the applicable members of the Company's management requiring them to sell or otherwise transfer their shares of common stock to the proposed transferee.

For a period of 18 months following April 1, 2021 (the "Lockup Period"), Platinum may not transfer any of its shares of common stock other than pursuant to the following exceptions:

- in the context of customary permitted transfers;
- upon unanimous approval by the our board of directors;
- upon approval by ECP (while it owns 5% or more of common stock, and in such capacity a "Qualifying Shareholder");
or
- in the context of a transaction that results in a price of \$8.00 per share or more (the "Trigger Price").

In addition, during the Lockup Period, Platinum shall not vote any of its shares of common stock for any change of control transaction (which shall include any take-private transaction involving Platinum) other than pursuant to the following exceptions:

- with the consent of the Qualifying Shareholders;
- upon unanimous approval by the our board of directors; or
- in the context of a transaction at or above the Trigger Price, provided that the consideration received by ECP and Capitol consists of either cash or publicly traded securities.

In the event of one or multiple follow-on offerings that close at or above the Trigger Price during the Lockup Period, for the first \$200 million of aggregate proceeds sold (the "First Tranche"), each Qualifying Shareholder, alongside Platinum, shall have the right to sell up to one third of the First Tranche (Platinum and each Qualifying Shareholder may sell proportionally more to the extent a Qualifying Shareholder does not participate in such transaction up to a third). Capitol will have the right to participate alongside ECP (on a pro rata basis) within ECP's allocable portion of the First Tranche. For any amount raised at or above the Trigger Price in addition to the First Tranche during the Lockup Period, Platinum, Capitol and each Qualifying Shareholder shall participate on a pro rata basis.

Any acquisition proposal by Platinum (or an affiliate thereof) or any acquisition in which Platinum does not receive the same form of consideration as the other stockholders of the Company will, in each case, require approval by both (i) a majority of the disinterested directors or a special committee of independent directors and (ii) while ECP owns 5% or more of the shares of common stock on a fully diluted basis (calculated using the treasury stock method), a majority of the Company's stockholders that are independent of Platinum and otherwise disinterested.

Platinum, ECP, and Capitol will be granted certain rights to have registered, in certain circumstances, the resale under the Securities Act of the shares of common stock held by them, subject to certain conditions set forth therein. The Company agreed to certain indemnification rights for the benefit of Platinum, ECP, Capitol, and certain of their representatives and affiliates in connection with their purchase or ownership of Company equity interests or their involvement in litigation in their capacity as a stockholder of the Company (or as a representative or affiliate of any of Platinum, ECP, or Capitol as the case may be).

SUBSIDIARIES OF THE COMPANY

Name	Jurisdiction
Capitol Intermediate Holdings, LLC	Delaware
Capitol Investment Merger Sub 2, LLC	Delaware
NESCO Holdings II, Inc.	Delaware
NESCO, LLC	Indiana
NESCO Finance Corporation	Delaware
NESCO International, LLC	Delaware
NESCO Investments, LLC	Delaware
NESCO El Alquiler S. de R.L. de C.V.	Mexico
CTOS Blocker GP I L.L.C.	Delaware
CTOS Blocker GP II L.L.C.	Delaware
CTOS Blocker I, L.P.	Delaware
CTOS Blocker II, L.P.	Delaware
Custom Truck One Source, L.P.	Delaware
CTOS, LLC	Delaware
Load King Parts, LLC	Missouri
Utility Fleet Sales, Ltd.	Texas
Utility Fleet Transport, LLC	Delaware
CTEC Holding Co., LLC	Missouri
Custom Truck One Source Forestry Equipment, LLC	Delaware
Load King, LLC	Michigan
CTOS California, LLC	California
Custom Truck & Equipment, LLC	Missouri
CTE Properties, LLC	Missouri
Custom Fabrication & Equipment, LLC	Missouri
CTOS Rentals, LLC	Delaware
CTE, LLC	Wisconsin
CTEC, LLC	Missouri
North American Equipment Upfitters, LLC	New Hampshire
North American Equipment Road Service, LLC	New Hampshire
Equipment Repair Solutions, LLC	Florida
Custom Crane Rental, LLC	Missouri
Custom Equipment Rental, LLC	Missouri
UCO Equipment, LLC	Arkansas
TNT Equipment Sales & Rentals, LLC	New Jersey
Utility Fleet Rental, LLC	Texas
CTOS Canada, Ltd. dba HiRail Leasing	Ontario, Canada

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-259725 and 333-255828 on Form S-3 and Registration Statement Nos. 333-234083, 333-239243, 333-256806 and 333-266990 on Form S-8 of our report dated March 8, 2021, relating to the consolidated financial statements and financial statement schedule of Custom Truck One Source, Inc. (formerly Nesco Holdings, Inc.) for the year ended December 31, 2020, appearing in this Annual Report on Form 10-K of Custom Truck One Source, Inc. for the year ended December 31, 2022.

/s/ Deloitte & Touche LLP
Indianapolis, Indiana
March 14, 2023

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

1. Registration Statement (Form S-8 No. 333-256806);
2. Registration Statement (Form S-8 No. 333-234083);
3. Registration Statement (Form S-8 No. 333-266990);
4. Registration Statement (Form S-8 No. 333-239243);
5. Registration Statement (Form S-3 No. 333-259725); and
6. Registration Statement (Form S-3 No. 333-255828)

of our reports dated March 14, 2023, with respect to the consolidated financial statements and schedules of Custom Truck One Source, Inc. as of December 31, 2022 and 2021 and for each of the two years ended December 31, 2022 and the effectiveness of internal control over financial reporting of Custom Truck One Source, Inc. included in this Annual Report (Form 10-K) of Custom Truck One Source, Inc. for the year ended December 31, 2022.

/s/ Ernst & Young LLP
Kansas City, Missouri
March 14, 2023

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Fred Ross, certify that:

- 1 I have reviewed this Annual Report on Form 10-K of Custom Truck One Source, Inc. for the year ended December 31, 2022;
- 2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4 The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5 The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2023

/s/ Fred Ross

Fred Ross
Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Christopher J. Eperjesy, certify that:

- 1 I have reviewed this Annual Report on Form 10-K of Custom Truck One Source, Inc. for the year ended December 31, 2022;
- 2 Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3 Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4 The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5 The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 14, 2023

/s/ Christopher J. Eperjesy

Christopher J. Eperjesy
Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of Custom Truck One Source, Inc. (the “Company”) for the year ended December 31, 2022, as filed with the Securities and Exchange Commission (the “Report”), each of the undersigned, in the capacities and on the dates indicated below, hereby certifies pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

March 14, 2023

/s/ Fred Ross

Fred Ross
Chief Executive Officer

March 14, 2023

/s/ Christopher J. Eperjesy

Christopher J. Eperjesy
Chief Financial Officer

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EXECUTIVE OFFICERS	BOARD OF DIRECTORS	
Ryan McMonagle Chief Executive Officer	Paul Bader Adjunct Professor Leventhal School of Accounting, University of Southern California	Bryan Kelln Partner, Platinum Equity
Christopher J. Eperjesy Chief Financial Officer	Rahman D'Argenio Partner, Energy Capital Partners	Georgia Nelson Former President and CEO, PTI Resources, LLC
Joseph Ross President, Sales	Mark D. Ein Investor, Entrepreneur and Philanthropist	Mary Jackson Former Vice Admiral, United States Navy
Thomas Rich President, Rentals	David Glatt Managing Director, Platinum Equity	Fred Ross Founder, Custom Truck One Source, Inc.
R. Todd Barrett Chief Accounting Officer	Marshall Heinberg Founder and Managing Director, MAH Associates, LLC	
James Carlsen Chief Information Officer	Louis Samson Co-President, Platinum Equity	
Adam Haubenreich Executive Vice President, General Counsel and Secretary	David Wolf Managing Director, Platinum Equity	

CORPORATE INFORMATION		
Corporate Office Custom Truck One Source, Inc. 7701 Independence Avenue Kansas City, Missouri 64125 www.customtruck.com 816.241.4888	Independent Registered Public Accounting Firm Ernst & Young LLP Kansas City, Missouri	Transfer Agent & Registrar Continental Stock Transfer & Trust Company 1 State Street, 30th Floor New York, New York 10004 www.continentalstock.com 212.509.4000
Investor Relations investors@customtruck.com 844.403.6138	Stock Symbol NYSE: CTOS	

A copy of Custom Truck One Source, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2022, including financial statements and schedules thereto but not including exhibits, as filed with the Securities and Exchange Commission, will be sent to any shareholder of record as of April 21, 2023 without charge, upon written request addressed to our corporate office, to the attention of General Counsel. A reasonable fee will be charged for copies of exhibits.

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Custom Truck One Source, Inc.
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