H&E Equipment Services, Inc.
Form 10-Q
October 27, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number: 000-51759

H&E Equipment Services, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	81-0553291
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
7500 Pecue Lane, Baton Rouge, Louisiana	70809
(Address of Principal Executive Offices)	(ZIP Code)

(225) 298 5200

(Registrant's Telephone Number, Including Area Code)

None

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

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

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

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

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

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

As of October 21, 2016, there were 35,557,785 shares of H&E Equipment Services, Inc. common stock, $0.01 par value, outstanding.

H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES

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September 30, 2016

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements include statements preceded by, followed by or that include the words “may”, “could”, “would”, “should”, “believe”, “expect”, “anticipate”, “plan”, “estimate”, “target”, “project”, “intend similar expressions. These statements include, among others, statements regarding our expected business outlook, anticipated financial and operating results, our business strategy and means to implement the strategy, our objectives, the amount and timing of capital expenditures, the likelihood of our success in expanding our business, financing plans, budgets, working capital needs and sources of liquidity.

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

- general economic conditions and construction and industrial activity in the markets where we operate in North America;
- our ability to forecast trends in our business accurately, and the impact of economic downturns and economic uncertainty on the markets we serve;
- the impact of conditions in the global credit and commodity markets and their effect on construction spending and the economy in general;
- relationships with equipment suppliers;
- increased maintenance and repair costs as we age our fleet and decreases in our equipment’s residual value;
- our indebtedness;
- risks associated with the expansion of our business;
- our possible inability to integrate any businesses we acquire;
- competitive pressures;
- compliance with laws and regulations, including those relating to environmental matters and corporate governance matters; and
- other factors discussed under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015.

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

For a more detailed discussion of some of the foregoing risks and uncertainties, see Item 1A — “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015, as well as other reports and registration statements filed by us with the SEC. All of our annual, quarterly and current reports, and any amendments thereto, filed with or furnished to the SEC are available on our Internet website under the Investor Relations link. For more information about us and the announcements we make from time to time, visit our Internet website at www.he-equipment.com.

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PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share amounts)

	Balances at September 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
Cash	$7,034	$7,159
Receivables, net of allowance for doubtful accounts of $4,027 and $4,729, respectively	138,833	147,328
Inventories, net of reserves for obsolescence of $902 and $934, respectively	73,998	96,818
Prepaid expenses and other assets	8,894	10,054
Rental equipment, net of accumulated depreciation of $424,551 and $390,317, respectively	922,486	893,393
Property and equipment, net of accumulated depreciation and amortization of $116,658 and $107,170, respectively	107,216	110,785
Deferred financing costs, net of accumulated amortization of $11,957 and $11,347, respectively	2,167	2,777
Goodwill	31,197	31,197
Total assets	$1,291,825	$1,299,511
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Amounts due on senior secured credit facility	$209,762	$184,857
Accounts payable	48,227	66,777
Manufacturer flooring plans payable	38,226	62,433
Accrued expenses payable and other liabilities	51,502	55,551
Dividends payable	56	32
Senior unsecured notes, net of unaccreted discount of $2,391 and $2,694, respectively	627,609	627,306
Capital leases payable	1,756	1,907
Deferred income taxes	173,449	155,886
Deferred compensation payable	1,826	2,174
Total liabilities	1,152,413	1,156,923
Commitments and Contingencies		
Stockholders' equity:		
Preferred stock, $0.01 par value, 25,000,000 shares authorized; no shares issued	—	—

Common stock, $0.01 par value, 175,000,000 shares authorized; 39,500,053 and 39,333,571 shares issued at September 30, 2016 and December 31, 2015, respectively, and 35,558,750 and 35,428,868 shares outstanding at September 30, 2016 and December 31, 2015, respectively	394	392
Additional paid-in capital	222,817	220,879
Treasury stock at cost, 3,941,303 and 3,904,703 shares of common stock held at September 30, 2016 and December 31, 2015, respectively	(60,951)	(60,405)
Retained deficit	(22,848)	(18,278)
Total stockholders' equity	139,412	142,588
Total liabilities and stockholders' equity	$1,291,825	$1,299,511

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

H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Amounts in thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Revenues:				
Equipment rentals	$118,535	$118,055	$330,023	$328,072
New equipment sales	44,764	66,552	151,836	175,465
Used equipment sales	20,630	29,111	71,973	83,113
Parts sales	27,335	28,968	81,958	84,400
Services revenues	16,076	16,727	49,322	47,452
Other	17,346	17,440	48,679	48,121
Total revenues	244,686	276,853	733,791	766,623
Cost of revenues:				
Rental depreciation	41,528	40,963	120,700	121,121
Rental expense	18,378	19,210	53,162	52,522
New equipment sales	40,147	60,000	135,152	156,068
Used equipment sales	14,364	20,262	49,751	56,761
Parts sales	19,708	21,098	59,184	61,224
Services revenues	5,445	5,582	16,736	16,017
Other	16,991	16,901	48,129	47,329
Total cost of revenues	156,561	184,016	482,814	511,042
Gross profit	88,125	92,837	250,977	255,581
Selling, general and administrative expenses	55,962	54,704	172,385	162,584
Gain on sales of property and equipment, net	927	339	2,301	1,769
Income from operations	33,090	38,472	80,893	94,766
Other income (expense):				
Interest expense	(13,469)	(13,481)	(40,229)	(40,675)
Other, net	386	501	1,505	1,083
Total other expense, net	(13,083)	(12,980)	(38,724)	(39,592)
Income before provision for income taxes	20,007	25,492	42,169	55,174
Provision for income taxes	8,342	10,720	17,427	22,836
Net income	$11,665	$14,772	$24,742	$32,338
Net income per common share:				
Basic	$0.33	$0.42	$0.70	$0.92
Diluted	$0.33	$0.42	$0.70	$0.92
Weighted average common shares outstanding:				
Basic	35,424	35,308	35,373	35,258
Diluted	35,504	35,350	35,461	35,317
Dividends declared per common share outstanding	$0.275	$0.275	$0.825	$0.775

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

H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Amounts in thousands)

	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Cash flows from operating activities:		
Net income	$24,742	$32,338
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	20,321	17,895
Depreciation of rental equipment	120,700	121,121
Amortization of deferred financing costs	789	774
Accretion of note discount, net of premium amortization	124	126
Provision for losses on accounts receivable	2,723	2,446
Provision for inventory obsolescence	82	201
Change in deferred income taxes	17,193	22,514
Stock-based compensation expense	2,308	2,036
Gain from sales of property and equipment, net	(2,301)	(1,769)
Gain from sales of rental equipment, net	(21,450)	(24,962)
Changes in operating assets and liabilities:		
Receivables	5,772	15,282
Inventories	(15,220)	(18,673)
Prepaid expenses and other assets	1,160	(3,702)
Accounts payable	(18,549)	599
Manufacturer flooring plans payable	(24,207)	(33,696)
Accrued expenses payable and other liabilities	(4,436)	(11,484)
Deferred compensation payable	(348)	51
Net cash provided by operating activities	109,403	121,097
Cash flows from investing activities:		
Purchases of property and equipment	(16,753)	(22,317)
Purchases of rental equipment	(152,644)	(137,184)
Proceeds from sales of property and equipment	2,689	2,582
Proceeds from sales of rental equipment	62,259	68,187
Net cash used in investing activities	(104,449)	(88,732)
Cash flows from financing activities:		
Purchases of treasury stock	(546)	(470)
Borrowings on senior secured credit facility	767,550	768,572
Payments on senior secured credit facility	(742,645)	(778,903)
Payments of deferred financing costs	—	(725)
Dividends paid	(29,287)	(27,370)
Payments of capital lease obligations	(151)	(143)
Net cash used in financing activities	(5,079)	(39,039)
Net decrease in cash	(125)	(6,674)

Cash, beginning of period	7,159	15,861
Cash, end of period	$7,034	$9,187

H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited)

(Amounts in thousands)

	Nine Months Ended September 30, 2016	2015
Supplemental schedule of noncash investing and financing activities:		
Noncash asset purchases:		
Assets transferred from new and used inventory to rental fleet	$37,958	$49,482
Purchases of property and equipment included in accrued expenses payable and other liabilities	$(387)	$—
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$50,180	$50,787
Income taxes paid, net of refunds received	$271	$368

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

H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Organization and Nature of Operations

Basis of Presentation

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

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such regulations. In the opinion of management, all adjustments (consisting of all normal and recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016, and therefore, the results and trends in these interim condensed consolidated financial statements may not be the same for the entire year. These interim condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and related notes in our Annual Report on Form 10-K for the year ended December 31, 2015, from which the consolidated balance sheet amounts as of December 31, 2015 were derived.

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

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

Nature of Operations

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

(2) Significant Accounting Policies

We describe our significant accounting policies in note 2 of the notes to consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2015. During the nine month period ended September 30, 2016, there were no significant changes to those accounting policies.

Use of Estimates

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

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers ("ASU 2014-09"). ASU 2014-09 requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In doing so, entities will need to use more judgment and make more estimates than under current guidance. These judgments and estimates may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 also requires an entity to disclose sufficient qualitative and quantitative information surrounding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. This ASU supersedes the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance throughout the Industry Topics of the Codification, and further permits the use of either a retrospective or cumulative effect transition method. The FASB agreed to a one-year deferral of the original effective date of this guidance and, as a result, it will become effective for fiscal years and interim periods after December 15, 2017. However, entities may adopt the new guidance as of the original effective date (for fiscal years and interim periods beginning after December 15, 2016). We expect to adopt ASU 2014-09 as of January 1, 2018 and expect to use the modified retrospective application method. While evaluation of the comprehensive standard, including several subsequent amendments and clarifications to the original standard, is ongoing, we do not expect that the adoption of this standard will have a material impact on the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) ("ASU 2016-02"). The new standard is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet, with the exception of leases with a term of 12 months or less, which permits a lessee to make an accounting policy election by class of underlying asset not to recognize lease assets and liabilities. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and early adoption is permitted. The new standard requires the recognition and measurement of leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

In March 2016, the FASB Issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting ("ASU 2016-09"). The updated guidance changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods, with early application permitted. We are currently evaluating the effect the guidance will have on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). This ASU modifies the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, which will result in the more timely recognition of losses. ASU 2016-13 will be effective for us as of January 1, 2020. We are currently reviewing the effect of ASU No. 2016-13.

In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"), which aims to eliminate diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. ASU 2016-15 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2017. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.

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Guidance Adopted in the First Quarter of 2016

In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"), which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. The guidance in the new standard is limited to the presentation of debt issuance costs and does not affect the recognition and measurement of debt issuance costs. In August 2015, the FASB issued ASU No. 2015-15, Interest-Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements - Amendments to SEC Paragraphs Pursuant to Staff Announcements ("ASU 2015-15"). ASU 2015-15 amends Subtopic 835-30 to include that the SEC would not object to the deferral and presentation of debt issuance costs as an asset and subsequent amortization of debt issuance costs over the term of the line-of-credit arrangement, whether or not there are any outstanding borrowings on the line-of-credit arrangement. This guidance became effective for us in the first quarter of 2016 and was applied on a retrospective basis. As a result of adopting this guidance, total assets and total liabilities as of December 31, 2015 changed as shown below (amounts in thousands).

	Deferred Financing Costs	Total Assets	Senior Unsecured Notes	Total Liabilities	Total Liabilities and Stockholders' Equity
Previously reported	$ 4,353	$ 1,301,087	$ 628,882	$ 1,158,499	$ 1,301,087
Reclassification of debt issuance costs	(1,576)	(1,576)	(1,576)	(1,576)	(1,576)
Current presentation	$ 2,777	$ 1,299,511	$ 627,306	$ 1,156,923	$ 1,299,511

(3) Fair Value of Financial Instruments

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

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

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

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

The carrying value of financial instruments reported in the accompanying condensed consolidated balance sheets for cash, accounts receivable, accounts payable and accrued expenses payable and other liabilities approximate fair value due to the immediate or short-term nature or maturity of these financial instruments. The fair value of our letter of credit is based on fees currently charged for similar agreements. The carrying amounts and fair values of our other financial instruments subject to fair value disclosures as of September 30, 2016 and December 31, 2015 are presented in the table below (amounts in thousands) and have been calculated based upon market quotes and present value calculations based on market rates.

	September 30, 2016	
	Carrying Amount	Fair Value
Manufacturer flooring plans payable with interest computed at 4.50% (Level 3)	$38,226	$33,497
Senior unsecured notes with interest computed at 7.0% (Level 1)	627,609	648,900
Capital leases payable with interest computed at 5.929% to 9.55% (Level 3)	1,756	1,172
Letter of credit (Level 3)	—	155

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	December 31, 2015 Carrying Amount	Fair Value
Manufacturer flooring plans payable with interest computed at 5.00% (Level 3)	$62,433	$54,710
Senior unsecured notes with interest computed at 7.0% (Level 1)	627,306	617,400
Capital leases payable with interest computed at 5.929% to 9.55% (Level 3)	1,907	1,329
Letter of credit (Level 3)	—	145

During the three and nine month periods ended September 30, 2016 and 2015, there were no transfers of financial assets or liabilities in or out of Level 1, Level 2 or Level 3 of the fair value hierarchy.

(4) Stockholders' Equity

The following table summarizes the activity in Stockholders' Equity for the nine month period ended September 30, 2016 (amounts in thousands, except share data):

	Common Stock Shares Issued	Amount	Additional Paid-in Capital	Treasury Stock	Retained Deficit	Total Stockholders' Equity
Balances at December 31, 2015	39,333,571	$ 392	$ 220,879	$ (60,405)	$ (18,278)	$ 142,588
Stock-based compensation	—	—	2,308	—	—	2,308
Tax deficiency associated with stock-based awards	—	—	(370)	—	—	(370)
Cash dividends declared on common stock ($0.825 per share)	—	—	—	—	(29,312)	(29,312)
Issuance of common stock	166,482	2	—	—	—	2
Repurchases of 29,815 shares of restricted common stock		—	—	(546)	—	(546)
Net income	—	—	—	—	24,742	24,742
Balances at September 30, 2016	39,500,053	$ 394	$ 222,817	$ (60,951)	$ (22,848)	$ 139,412

(5) Stock-Based Compensation

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

Over the last ten years prior to June 2016, we had been granting awards under our 2006 Stock-Based Incentive Compensation Plan, as amended (the “Prior Stock Plan”). The Prior Stock Plan expired pursuant to its terms in June 2016, and the Company is no longer be able to grant equity awards under the Prior Stock Plan. At our annual meeting of stockholders in May 2016, our stockholders approved our 2016 Stock-Based Incentive Compensation Plan (the “2016 Plan”). Shares available for future stock-based payment awards under our 2016 Plan were 1,973,495 shares as of September 30, 2016. To the extent that awards granted under the Prior Stock Plan are forfeited or otherwise terminate for any reason whatsoever without an actual distribution or issuance of shares, the plan limit will be increased by such number of shares.

Non-vested Stock

The following table summarizes our non-vested stock activity for the nine months ended September 30, 2016. All awards granted prior to May 16, 2016 were made pursuant to the Prior Stock Plan, and all grants subsequent to May 16, 2016 have been made pursuant to the 2016 Plan.

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested stock at December 31, 2015	322,355	$ 19.90
Granted	227,532	$ 17.39
Vested	(133,783)	$ 18.85
Forfeited	(9,027)	$ 18.99
Non-vested stock at September 30, 2016	407,077	$ 18.87

As of September 30, 2016, we had unrecognized compensation expense of approximately $5.6 million related to non-vested stock that we expect to be recognized over a weighted-average period of approximately 2.4 years. The following table summarizes compensation expense related to non-vested stock, which is included in selling, general and administrative expenses in the accompanying condensed consolidated statements of income for the three and nine months ended September 30, 2016 and 2015 (amounts in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Compensation expense	$ 641	$ 531	$2,308	$2,036

Stock Options

At September 30 2016, there is no unrecognized compensation expense as all stock option awards have fully vested. The following table represents stock option activity for the nine months ended September 30, 2016:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Contractual Life In Years

Outstanding options at December 31, 2015	51,000	$ 17.80	
Granted	—	—	
Exercised	—	—	
Canceled, forfeited or expired	(45,000)	$ 17.60	
Outstanding options at September 30, 2016	6,000	$ 19.27	0.8
Options exercisable at September 30, 2016	6,000	$ 19.27	0.8

The closing price of our common stock at September 30, 2016 was $16.76. Options outstanding at September 30, 2016, all of which were granted pursuant to the Prior Stock Plan, have grant date fair values that exceed the September 30, 2016 closing stock price.

(6) Earnings per Share

Earnings per common share for the three and nine months ended September 30, 2016 are based on the weighted average number of common shares outstanding during the period. The effects of potentially dilutive securities that are anti-dilutive are not included in the computation of dilutive income per share. We include all common shares granted under our incentive compensation plan which remain unvested (“restricted common shares”) and contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid (“participating securities”), in the number of shares outstanding in our basic and diluted EPS calculations using the two-class method. All of our restricted common shares are currently participating securities.

Under the two-class method, earnings per common share are computed by dividing the sum of distributed earnings allocated to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of common shares outstanding for the period. In applying the two-class method, distributed and undistributed earnings are allocated to both common shares and restricted common shares based on the total weighted average shares outstanding during the period. The number of restricted common shares outstanding was approximately 0.9% and 0.8% of total outstanding shares for each of the three and nine months ended September 30, 2016 and 2015, respectively, and, consequently, was immaterial to the basic and diluted EPS calculations. Therefore, use of the two-class method had no impact on our basic and diluted EPS calculations for the periods presented. The following table sets forth the computation of basic and diluted net income per common share for the three and nine months ended September 30, 2016 and 2015 (amounts in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Basic net income per share:				
Net income	$11,665	$14,772	$24,742	$32,338
Weighted average number of common shares outstanding	35,424	35,308	35,373	35,258
Net income per share of common stock – basic	$0.33	$0.42	$0.70	$0.92
Diluted net income per share:				
Net income	$11,665	$14,772	$24,742	$32,338
Weighted average number of common shares outstanding	35,424	35,308	35,373	35,258
Effect of dilutive securities:				
Effect of dilutive stock options	—	—	—	13
Effect of dilutive non-vested restricted stock	80	42	88	46
Weighted average number of common shares outstanding – diluted	35,504	35,350	35,461	35,317
Net income per share of common stock – diluted	$0.33	$0.42	$0.70	$0.92
Common shares excluded from the denominator as anti-dilutive:				
Stock options	—	51	5	17
Non-vested restricted stock	1	17	2	7

(7) Senior Secured Credit Facility

We and our subsidiaries are parties to a $602.5 million senior secured credit facility (the “Credit Facility”) with Wells Fargo Capital Finance, LLC (“Wells Fargo”), as agent (as successor in such capacity to General Electric Capital Corporation (“GE Capital”)), and the lenders named therein (the “Lenders”).

On May 21, 2014, we amended, extended and restated the Credit Facility by entering into the Fourth Amended and Restated Credit Agreement (the “Amended and Restated Credit Agreement”) by and among the Company, Great Northern Equipment, Inc., H&E Equipment Services (California), LLC, the other credit parties named therein, the lenders named therein, GE Capital, as administrative agent, Bank of America, N.A. as co-syndication agent and documentation agent, Wells Fargo, as co-syndication agent and Deutsche Bank Securities Inc. as joint lead arranger and joint bookrunner. In March 2016, Wells Fargo succeeded and was substituted for GE Capital as the administrative agent under the Amended and Restated Credit Agreement.

The Amended and Restated Credit Agreement, among other things, (i) extends the maturity date of the Credit Facility from February 29, 2017 to May 21, 2019, (ii) increases the uncommitted incremental revolving capacity from $130 million to $150 million, (iii) permits a like-kind exchange program under Section 1031 of the Internal Revenue Code of 1986, as amended, (iv) provides that the unused commitment fee margin will be either 0.50%, 0.375% or 0.25%, depending on the ratio of the average of the daily closing balances of the aggregate revolving loans, swing line loans and letters of credit outstanding during each month to the aggregate commitments for the revolving loans, swing line loans and letters of credit, (v) lowers the interest rate (a) in the case of index rate revolving loans, to the index rate plus an applicable margin of 0.75% to 1.25% depending on the leverage ratio and (b) in the case of LIBOR revolving loans, to LIBOR plus an applicable margin of 1.75% to 2.25%, depending on the leverage ratio, (vi) lowers the margin applicable to the letter of credit fee to between 1.75% and 2.25%, depending on the leverage ratio, and (vii) permits, under certain conditions, for the payment of dividends and/or stock repurchases or redemptions on the capital stock of the Company of up to $75 million per calendar year and further additionally permits the payment of the special cash dividend of $7.00 per share previously declared by the Company on August 20, 2012 to the holders of outstanding restricted stock of the Company following the declared payment date with such permission not tied to the vesting of such restricted stock (which includes the Company’s payment in June 2014 of all amounts that remained payable to the holders of the restricted stock of the Company with respect to such special dividend that was otherwise payable following the applicable vesting dates in May and July 2014 and 2015).

On February 5, 2015, we entered into an amendment of the Credit Facility which, among other things, increased the total amount of revolving loan commitments under the Amended and Restated Credit Agreement from $402.5 million to $602.5 million.

As of September 30, 2016, we were in compliance with our financial covenants under the Credit Facility. At September 30, 2016, the Company could borrow up to an additional $385.0 million and remain in compliance with the debt covenants under the Company's Credit Facility.

At September 30, 2016, the interest rate on the Credit Facility was based on a 3.25% U.S. Prime Rate plus 100 basis points or LIBOR plus 200 basis points. The weighted average interest rate at September 30, 2016 was approximately 2.7%. At October 21, 2016, we had $391.6 million of available borrowings under our Credit Facility, net of $7.7 million of outstanding letters of credit.

(8) Senior Unsecured Notes

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

Balance at December 31, 2014	$628,714
Accretion of discount through December 31, 2015	1,055
Amortization of note premium through December 31, 2015	(887)
Reclass of deferred financing costs to debt discount (see footnote 2)	(1,576)
Balance at December 31, 2015	$627,306
Accretion of discount through September 30, 2016	791
Amortization of note premium through September 30, 2016	(666)
Amortization of deferred financing costs through September 30, 2016	178
Balance at September 30, 2016	$627,609

(9) Segment Information

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

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Segment Revenues:				
Equipment rentals	$118,535	$118,055	$330,023	$328,072
New equipment sales	44,764	66,552	151,836	175,465
Used equipment sales	20,630	29,111	71,973	83,113
Parts sales	27,335	28,968	81,958	84,400
Services revenues	16,076	16,727	49,322	47,452
Total segmented revenues	227,340	259,413	685,112	718,502
Non-segmented revenues	17,346	17,440	48,679	48,121
Total revenues	$244,686	$276,853	$733,791	$766,623
Segment Gross Profit:				
Equipment rentals	$58,629	$57,882	$156,161	$154,429
New equipment sales	4,617	6,552	16,684	19,397
Used equipment sales	6,266	8,849	22,222	26,352
Parts sales	7,627	7,870	22,774	23,176
Services revenues	10,631	11,145	32,586	31,435
Total segmented gross profit	87,770	92,298	250,427	254,789
Non-segmented gross profit	355	539	550	792
Total gross profit	$88,125	$92,837	$250,977	$255,581

	Balances at September 30, 2016	December 31, 2015
Segment identified assets:		
Equipment sales	$55,853	$77,365
Equipment rentals	922,486	893,393
Parts and services	18,145	19,453
Total segment identified assets	996,484	990,211
Non-segment identified assets	295,341	309,300
Total assets	$1,291,825	$1,299,511

The Company operates primarily in the United States and our sales to international customers for the three month period ended September 30, 2016 and 2015 were 0.3% and 0.5%, respectively, of total revenues. Our sales to international customers for the nine month periods ended September 30, 2016 and 2015 were 0.4% and 0.6%, respectively, of total revenues. No one customer accounted for more than 10% of our revenues on an overall or segment basis for any of the periods presented.

(10) Condensed Consolidating Financial Information of Guarantor Subsidiaries

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

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

CONDENSED CONSOLIDATING BALANCE SHEET

	As of September 30, 2016			
	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Assets:				
Cash	$7,034	$—	$—	$7,034
Receivables, net	112,891	25,942	—	138,833
Inventories, net	66,822	7,176	—	73,998
Prepaid expenses and other assets	8,721	173	—	8,894
Rental equipment, net	763,627	158,859	—	922,486
Property and equipment, net	95,580	11,636	—	107,216
Deferred financing costs, net	2,167	—	—	2,167
Investment in guarantor subsidiaries	228,976	—	(228,976)	—
Goodwill	1,671	29,526	—	31,197
Total assets	$1,287,489	$233,312	$(228,976)	$1,291,825
Liabilities and Stockholders' Equity:				
Amounts due on senior secured credit facility	$209,762	$—	$—	$209,762
Accounts payable	45,274	2,953	—	48,227
Manufacturer flooring plans payable	38,056	170	—	38,226
Accrued expenses payable and other liabilities	52,008	(506)	—	51,502
Dividends payable	93	(37)	—	56
Senior unsecured notes	627,609	—	—	627,609
Capital leases payable	—	1,756	—	1,756
Deferred income taxes	173,449	—	—	173,449
Deferred compensation payable	1,826	—	—	1,826
Total liabilities	1,148,077	4,336	—	1,152,413
Stockholders' equity	139,412	228,976	(228,976)	139,412
Total liabilities and stockholders' equity	$1,287,489	$233,312	$(228,976)	$1,291,825

CONDENSED CONSOLIDATING BALANCE SHEET

	As of December 31, 2015			
	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Assets:				
Cash	$7,159	$ —	$ —	$ 7,159
Receivables, net	124,157	23,171	—	147,328
Inventories, net	88,831	7,987	—	96,818
Prepaid expenses and other assets	9,909	145	—	10,054
Rental equipment, net	750,773	142,620	—	893,393
Property and equipment, net	99,342	11,443	—	110,785
Deferred financing costs, net	2,777	—	—	2,777
Investment in guarantor subsidiaries	211,542	—	(211,542)	—
Goodwill	1,671	29,526	—	31,197
Total assets	$1,296,161	$ 214,892	$ (211,542)	$ 1,299,511
Liabilities and Stockholders' Equity:				
Amount due on senior secured credit facility	$184,857	$ —	$ —	$ 184,857
Accounts payable	63,959	2,818	—	66,777
Manufacturer flooring plans payable	62,433	—	—	62,433
Dividends payable	62	(30)	—	32
Accrued expenses payable and other liabilities	56,896	(1,345)	—	55,551
Senior unsecured notes	627,306	—	—	627,306
Capital leases payable	—	1,907	—	1,907
Deferred income taxes	155,886	—	—	155,886
Deferred compensation payable	2,174	—	—	2,174
Total liabilities	1,153,573	3,350	—	1,156,923
Stockholders' equity	142,588	211,542	(211,542)	142,588
Total liabilities and stockholders' equity	$1,296,161	$ 214,892	$ (211,542)	$ 1,299,511

CONDENSED CONSOLIDATING STATEMENT OF INCOME

	Three Months Ended September 30, 2016			
	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Revenues:				
Equipment rentals	$96,310	$ 22,225	$ —	$ 118,535
New equipment sales	37,110	7,654	—	44,764
Used equipment sales	16,778	3,852	—	20,630
Parts sales	23,807	3,528	—	27,335
Services revenues	13,693	2,383	—	16,076
Other	14,072	3,274	—	17,346
Total revenues	201,770	42,916	—	244,686
Cost of revenues:				
Rental depreciation	34,168	7,360	—	41,528
Rental expense	15,127	3,251	—	18,378
New equipment sales	33,206	6,941	—	40,147
Used equipment sales	11,762	2,602	—	14,364
Parts sales	17,221	2,487	—	19,708
Services revenues	4,686	759	—	5,445
Other	13,716	3,275	—	16,991
Total cost of revenues	129,886	26,675	—	156,561
Gross profit (loss):				
Equipment rentals	47,015	11,614	—	58,629
New equipment sales	3,904	713	—	4,617
Used equipment sales	5,016	1,250	—	6,266
Parts sales	6,586	1,041	—	7,627
Services revenues	9,007	1,624	—	10,631
Other	356	(1)	—	355
Gross profit	71,884	16,241	—	88,125
Selling, general and administrative expenses	45,810	10,152	—	55,962
Equity in earnings of guarantor subsidiaries	3,892	—	(3,892)	—
Gain on sales of property and equipment, net	782	145	—	927
Income from operations	30,748	6,234	(3,892)	33,090
Other income (expense):				
Interest expense	(11,074)	(2,395)	—	(13,469)
Other, net	333	53	—	386
Total other expense, net	(10,741)	(2,342)	—	(13,083)
Income before income taxes	20,007	3,892	(3,892)	20,007
Income tax expense	8,342	—	—	8,342
Net income	$11,665	$ 3,892	$ (3,892)	$ 11,665

CONDENSED CONSOLIDATING STATEMENT OF INCOME

	Three Months Ended September 30, 2015			
	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Revenues:				
Equipment rentals	$96,768	$ 21,287	$ —	$ 118,055
New equipment sales	57,311	9,241	—	66,552
Used equipment sales	22,124	6,987	—	29,111
Parts sales	25,429	3,539	—	28,968
Services revenues	14,206	2,521	—	16,727
Other	14,110	3,330	—	17,440
Total revenues	229,948	46,905	—	276,853
Cost of revenues:				
Rental depreciation	34,194	6,769	—	40,963
Rental expense	15,705	3,505	—	19,210
New equipment sales	51,569	8,431	—	60,000
Used equipment sales	15,501	4,761	—	20,262
Parts sales	18,547	2,551	—	21,098
Services revenues	4,811	771	—	5,582
Other	13,657	3,244	—	16,901
Total cost of revenues	153,984	30,032	—	184,016
Gross profit:				
Equipment rentals	46,869	11,013	—	57,882
New equipment sales	5,742	810	—	6,552
Used equipment sales	6,623	2,226	—	8,849
Parts sales	6,882	988	—	7,870
Services revenues	9,395	1,750	—	11,145
Other	453	86	—	539
Gross profit	75,964	16,873	—	92,837
Selling, general and administrative expenses	44,810	9,894	—	54,704
Equity in earnings of guarantor subsidiaries	3,663	—	(3,663)	—
Gain on sales of property and equipment, net	232	107	—	339
Income from operations	35,049	7,086	(3,663)	38,472
Other income (expense):				
Interest expense	(10,023)	(3,458)	—	(13,481)
Other, net	466	35	—	501
Total other expense, net	(9,557)	(3,423)	—	(12,980)
Income before income taxes	25,492	3,663	(3,663)	25,492
Income tax expense	10,720	—	—	10,720
Net income	$14,772	$ 3,663	$ (3,663)	$ 14,772

CONDENSED CONSOLIDATING STATEMENT OF INCOME

	Nine Months Ended September 30, 2016			
	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Revenues:				
Equipment rentals	$270,927	$ 59,096	$ —	$ 330,023
New equipment sales	124,450	27,386	—	151,836
Used equipment sales	59,515	12,458	—	71,973
Parts sales	71,323	10,635	—	81,958
Services revenues	42,140	7,182	—	49,322
Other	39,619	9,060	—	48,679
Total revenues	607,974	125,817	—	733,791
Cost of revenues:				
Rental depreciation	100,111	20,589	—	120,700
Rental expense	44,135	9,027	—	53,162
New equipment sales	110,594	24,558	—	135,152
Used equipment sales	41,565	8,186	—	49,751
Parts sales	51,660	7,524	—	59,184
Services revenues	14,470	2,266	—	16,736
Other	39,069	9,060	—	48,129
Total cost of revenues	401,604	81,210	—	482,814
Gross profit:				
Equipment rentals	126,681	29,480	—	156,161
New equipment sales	13,856	2,828	—	16,684
Used equipment sales	17,950	4,272	—	22,222
Parts sales	19,663	3,111	—	22,774
Services revenues	27,670	4,916	—	32,586
Other	550	—	—	550
Gross profit	206,370	44,607	—	250,977
Selling, general and administrative expenses	142,402	29,983	—	172,385
Equity in earnings of guarantor subsidiaries	8,388	—	(8,388)	—
Gain on sales of property and equipment, net	1,948	353	—	2,301
Income from operations	74,304	14,977	(8,388)	80,893
Other income (expense):				
Interest expense	(33,460)	(6,769)	—	(40,229)
Other, net	1,325	180	—	1,505
Total other expense, net	(32,135)	(6,589)	—	(38,724)
Income before income taxes	42,169	8,388	(8,388)	42,169
Income tax expense	17,427	—	—	17,427
Net income	$24,742	$ 8,388	$ (8,388)	$ 24,742

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CONDENSED CONSOLIDATING STATEMENT OF INCOME

	Nine Months Ended September 30, 2015			
	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Revenues:				
Equipment rentals	$271,270	$ 56,802	$ —	$ 328,072
New equipment sales	156,657	18,808	—	175,465
Used equipment sales	66,072	17,041	—	83,113
Parts sales	73,516	10,884	—	84,400
Services revenues	40,279	7,173	—	47,452
Other	39,012	9,109	—	48,121
Total revenues	646,806	119,817	—	766,623
Cost of revenues:				
Rental depreciation	101,237	19,884	—	121,121
Rental expense	43,301	9,221	—	52,522
New equipment sales	139,121	16,947	—	156,068
Used equipment sales	45,672	11,089	—	56,761
Parts sales	53,435	7,789	—	61,224
Services revenues	13,719	2,298	—	16,017
Other	38,211	9,118	—	47,329
Total cost of revenues	434,696	76,346	—	511,042
Gross profit (loss):				
Equipment rentals	126,732	27,697	—	154,429
New equipment sales	17,536	1,861	—	19,397
Used equipment sales	20,400	5,952	—	26,352
Parts sales	20,081	3,095	—	23,176
Services revenues	26,560	4,875	—	31,435
Other	801	(9)	—	792
Gross profit	212,110	43,471	—	255,581
Selling, general and administrative expenses	135,966	26,618	—	162,584
Equity in earnings of guarantor subsidiaries	7,023	—	(7,023)	—
Gain on sales of property and equipment, net	1,306	463	—	1,769
Income from operations	84,473	17,316	(7,023)	94,766
Other income (expense):				
Interest expense	(30,261)	(10,414)	—	(40,675)
Other, net	962	121	—	1,083
Total other expense, net	(29,299)	(10,293)	—	(39,592)
Income before income taxes	55,174	7,023	(7,023)	55,174
Income tax expense	22,836	—	—	22,836
Net income	$32,338	$ 7,023	$ (7,023)	$ 32,338

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

	Nine Months Ended September 30, 2016			
	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Cash flows from operating activities:				
Net income	$24,742	$ 8,388	$ (8,388)	$ 24,742
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization on property and equipment	18,022	2,299	—	20,321
Depreciation of rental equipment	100,111	20,589	—	120,700
Amortization of deferred financing costs	789	—	—	