H&E Equipment Services, Inc.
Form 10-Q
October 25, 2018

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, 2018

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 (Address of Principal Executive Offices)	70809 (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, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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

As of October 18, 2018, there were 35,734,421 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, 2018

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. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future.

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

- general economic conditions and construction and industrial activity in the markets where we operate in North America;
- our ability to forecast trends in our business accurately, and the impact of economic downturns and economic uncertainty on the markets we serve;
- the impact of conditions in the global credit and commodity markets and their effect on construction spending and the economy in general;
- relationships with equipment suppliers;
- increased maintenance and repair costs as we age our fleet and decreases in our equipment’s residual value;
- our indebtedness;
- risks associated with the expansion of our business and any potential acquisitions we may make, including any related capital expenditures, or our ability to consummate such acquisitions;
- our possible inability to integrate any businesses we acquire;
- competitive pressures;
- security breaches and other disruptions in our information technology systems;
- adverse weather events or natural disasters;
- compliance with laws and regulations, including those relating to environmental matters 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, 2017.

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, 2017, as well as other reports and registration statements filed by us with the SEC. These factors should not be construed as exhaustive and should be read with other cautionary statements in this Quarterly Report on Form 10-Q and our other public filings. All of our annual, quarterly and current reports, and any amendments thereto, filed with or furnished to the SEC are available on our Internet website under the Investor Relations link. For more information about us and the announcements we make from time to time, visit our Internet website at www.he-equipment.com.

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements.

H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share amounts)

	Balances at September 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Cash	$5,088	$ 165,878
Receivables, net of allowance for doubtful accounts of $3,692 and $3,774, respectively	191,305	176,081
Inventories, net of reserves for obsolescence of $377 and $947, respectively	113,252	75,004
Prepaid expenses and other assets	9,368	9,172
Rental equipment, net of accumulated depreciation of $562,647 and $495,940, respectively	1,153,244	904,824
Property and equipment, net of accumulated depreciation and amortization of $142,316 and $131,500, respectively	113,403	101,789
Deferred financing costs, net of accumulated amortization of $13,530 and $12,946, respectively	3,188	3,772
Intangible assets, net	29,285	—
Goodwill	105,843	31,197
Total assets	$1,723,976	$ 1,467,717
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Amounts due on senior secured credit facility	$219,018	$ —
Accounts payable	84,765	89,781
Manufacturer flooring plans payable	26,472	22,002
Accrued expenses payable and other liabilities	61,591	65,095
Dividends payable	104	150
Senior unsecured notes, net of unaccreted discount of $3,287 and $3,644 and deferred financing costs of $2,129 and $2,267, respectively	944,584	944,088
Capital leases payable	778	1,486
Deferred income taxes	144,288	126,419

Deferred compensation payable	1,968	1,903
Total liabilities	1,483,568	1,250,924
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; 39,749,549 and 39,623,773 shares issued at September 30, 2018 and December 31, 2017, respectively, and 35,735,432 and 35,646,585 shares outstanding at September 30, 2018 and December 31, 2017, respectively	396	395
Additional paid-in capital	229,958	227,070
Treasury stock at cost, 4,014,117 and 3,977,188 shares of common stock held at September 30, 2018 and December 31, 2017, respectively	(63,072)	(61,749)
Retained earnings	73,126	51,077
Total stockholders’ equity	240,408	216,793
Total liabilities and stockholders’ equity	$1,723,976	$ 1,467,717

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,	
	2018	2017	2018	2017
Revenues:				
Equipment rentals	$156,037	$125,616	$429,227	$351,303
New equipment sales	68,233	48,940	183,265	128,883
Used equipment sales	30,294	22,250	87,287	75,219
Parts sales	31,484	29,534	89,916	86,259
Services revenues	16,426	16,097	48,250	47,121
Other	19,667	16,725	55,042	46,568
Total revenues	322,141	259,162	892,987	735,353
Cost of revenues:				
Rental depreciation	55,060	43,255	152,700	125,996
Rental expense	22,936	19,988	66,281	58,524
New equipment sales	60,394	43,609	162,465	114,440
Used equipment sales	20,512	15,116	59,221	51,979
Parts sales	23,129	21,577	65,677	62,735
Services revenues	5,628	5,567	16,430	15,898
Other	19,752	16,024	54,795	46,743
Total cost of revenues	207,411	165,136	577,569	476,315
Gross profit	114,730	94,026	315,418	259,038
Selling, general and administrative expenses	70,346	55,203	205,272	172,328
Merger costs (net of merger breakup fee proceeds)	219	(6,506)	439	(6,506)
Gain on sales of property and equipment, net	1,153	2,325	6,040	4,431
Income from operations	45,318	47,654	115,747	97,647
Other income (expense):				
Interest expense	(16,715)	(15,060)	(47,061)	(41,665)
Loss on early extinguishment of debt	—	(25,363)	—	(25,363)
Other, net	368	346	1,222	1,156
Total other expense, net	(16,347)	(40,077)	(45,839)	(65,872)
Income before provision (benefit) for income taxes	28,971	7,577	69,908	31,775
Provision (benefit) for income taxes	7,657	(885)	18,345	8,045
Net income	$21,314	$8,462	$51,563	$23,730
Net income per common share:				
Basic	$0.60	$0.24	$1.45	$0.67
Diluted	$0.59	$0.24	$1.44	$0.67
Weighted average common shares outstanding:				
Basic	35,719	35,543	35,649	35,494

Diluted	35,926	35,715	35,904	35,656
Dividends declared per common share outstanding	$0.275	$0.275	$0.825	$0.825

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, 2018	2017
Cash flows from operating activities:		
Net income	$51,563	$23,730
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property and equipment	18,367	18,092
Depreciation of rental equipment	152,700	125,996
Amortization of intangible assets	2,415	—
Amortization of deferred financing costs	819	785
Accretion of note discount, net of premium amortization	357	239
Provision for losses on accounts receivable	2,056	3,048
Provision for inventory obsolescence	74	151
Change in deferred income taxes	17,869	7,752
Stock-based compensation expense	2,998	2,614
Loss on early extinguishment of debt	—	25,363
Gain from sales of property and equipment, net	(6,040)	(4,431)
Gain from sales of rental equipment, net	(27,641)	(22,196)
Changes in operating assets and liabilities, net of acquisitions:		
Receivables	(6,825)	(15,811)
Inventories	(56,355)	(38,930)
Prepaid expenses and other assets	175	(1,606)
Accounts payable	(10,081)	42,122
Manufacturer flooring plans payable	4,470	(7,494)
Accrued expenses payable and other liabilities	(8,961)	(3,075)
Deferred compensation payable	65	44
Net cash provided by operating activities	138,025	156,393
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired	(196,027)	—
Purchases of property and equipment	(27,038)	(16,002)
Purchases of rental equipment	(350,646)	(183,754)
Proceeds from sales of property and equipment	7,958	6,765
Proceeds from sales of rental equipment	78,947	66,316
Net cash used in investing activities	(486,806)	(126,675)
Cash flows from financing activities:		
Purchases of treasury stock	(1,323)	(753)
Borrowings on senior secured credit facility	1,142,811	732,840
Payments on senior secured credit facility	(923,793)	(818,285)

Dividends paid	(29,447)	(29,369)
Principal payments on senior unsecured notes due 2022	—	(630,000)
Costs paid to tender and redeem senior unsecured notes due 2022	—	(23,336)
Proceeds from issuance of senior unsecured notes due 2025	—	750,000
Payments of deferred financing costs	(97)	(12,152)
Payments of capital lease obligations	(160)	(162)
Net cash provided by (used in) financing activities	187,991	(31,217)
Net decrease in cash	(160,790)	(1,499)
Cash, beginning of period	165,878	7,683
Cash, end of period	$5,088	$6,184

H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited)

(Amounts in thousands)

	Nine Months Ended September 30,	
	2018	2017
Supplemental schedule of noncash investing and financing activities:		
Accrued acquisition purchase price consideration	$3,432	$—
Noncash asset purchases:		
Assets transferred from new and used inventory to rental fleet	$23,860	$9,621
Purchases of property and equipment included in accrued expenses payable and other liabilities	$(226)	$(127)
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$59,475	$50,931
Income taxes paid, net of refunds received	$1,949	$453

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 months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018, 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, 2017, from which the consolidated balance sheet amounts as of December 31, 2017 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 services support for four core categories of specialized equipment: (1) hi-lift or aerial work platform equipment; (2) cranes; (3) earthmoving equipment; and (4) industrial lift trucks. By providing equipment rental, sales, on-site parts, repair and maintenance functions under one roof, we are a one-stop provider for our customers' varied equipment needs. This full service approach provides us with multiple points of customer contact, enables us to maintain a high quality rental fleet, as well as an effective distribution channel for fleet disposal and provides cross selling opportunities among our new and used equipment sales, rental, parts sales and services operations.

(2) Significant Accounting Policies

We describe our significant accounting policies in note 2 of the notes to consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2017. During the three and nine month periods ended September 30, 2018, there were no significant changes to those accounting policies, other than those policies impacted by the new revenue recognition guidance, which is further described below in “Recent Accounting Pronouncements Adopted in Fiscal 2018”.

Use of Estimates

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

Recent Accounting Pronouncements

Pronouncements Not Yet Adopted

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

We will adopt ASU 2016-02 as of January 1, 2019. Originally, Topic 842 required all entities to use a modified retrospective transition approach that is intended to maximize comparability and be less complex than a full retrospective approach. Under the modified retrospective approach, Topic 842 is effectively implemented as of the beginning of the earliest comparative period presented in an entity's financial statements. ASU 2018-11 amends Topic 842 so that entities may elect not to recast their comparative periods in transition and allows entities to change their date of initial application to the beginning of the period of adoption. In doing so, the entity would (1) apply Topic 840 in the comparative periods; (2) provide the disclosures required by Topic 840 for all periods that continue to be presented in accordance with Topic 840; and (3) recognize the effects of applying Topic 842 as a cumulative-effect adjustment to retained earnings as of January 1, 2019. ASU 2018-11 also amends certain narrow-scope aspects of Topic 842.

Our operating leases under current guidance (Topic 840) include the real estate where all but 12 of our 89 branch locations are located as of September 30, 2018. Additionally, the Company leases various types of non-rental equipment. Given the size of our lease portfolio, we expect that the new standard will have a material effect on our consolidated balance sheets as a result of recognizing new right-of-use assets and lease liabilities for our existing operating leases. We have begun accumulating the information related to these leases but have not completed our comprehensive analysis of those leases and are unable to quantify the impact to our consolidated financial statements at this time. We are concurrently evaluating our internal processes and controls over financial reporting with respect to the impact that the new lease standard will have on our lease administration and financial reporting activities. We are also in the process of implementing a new software tool to help facilitate compliance with the new guidance.

As mentioned in the Topic 606 discussion below, our equipment rental business involves rental agreements with customers whereby we are the lessor in the transaction and therefore, we believe that such transactions are subject to the pending lessor accounting guidance of Topic 842. Topic 842, as originally issued, required lessors to separate lease and nonlease components in all circumstances. Under this requirement, once separate components are identified, lessors are required to use the relative stand-alone selling price allocation method in Topic 606 to allocate the consideration in the contract to the separated components. ASU 2018-11 also amends Topic 842 to include a practical expedient under which lessors are not required to separate lease and nonlease components. While our evaluation of Topic 842 is ongoing with respect to our equipment rental activities, we have tentatively concluded that no significant changes are expected to the accounting for our rental equipment revenues, as substantially all of our rental agreements with customers will continue to be treated as operating leases under the new standard. Accordingly, we do not expect material changes to our related rental agreement accounting processes or internal controls upon adoption of Topic 842.

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

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

In August 2018, the FASB issued ASU No. 2018-15, Intangibles—Goodwill and Other – Internal-Use Software (Subtopic 350-40). This update aligns the requirements for capitalizing implementation costs incurred in a cloud computing arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. This update will be effective for us in the first quarter of 2020. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

Recent Accounting Pronouncements Adopted in Fiscal 2018

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

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

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

While the adoption of the new standard did not have an impact on our reported net income for the periods presented in this quarterly report on Form 10-Q, approximately $1.8 million and $5.2 million of revenues that were previously classified in Other Revenues have been reclassified to Parts Revenues for the three and nine month periods ended September 30, 2018, respectively. These revenues relate to freight income associated with our parts transactions, and such income was not deemed to be a separate performance obligation under the new guidance. Accordingly, we also reclassified $1.5 million and $4.0 million of associated freight costs related to these parts transactions from Other Cost of Revenues to Parts Costs of Revenues for the three and nine months ended September 30, 2018, respectively. We have recast our results for the prior year three and nine month periods ended September 30, 2017 as shown in the tables below (amounts in thousands).

Statement of Income:	Three Months Ended September 30, 2017 As Previously Reported	Adjustments	Current Presentation
Revenues:			
Equipment rentals	$ 125,616	$	$ 125,616
New equipment sales	48,940		48,940
Used equipment sales	22,250		22,250
Parts sales	27,763	1,771	29,534
Services revenues	16,097		16,097
Other	18,496	(1,771)	16,725
Total revenues	259,162		259,162
Cost of revenues:			
Rental depreciation	43,255		43,255
Rental expense	19,988		19,988
New equipment sales	43,609		43,609
Used equipment sales	15,116		15,116
Parts sales	20,125	1,452	21,577
Services revenues	5,567		5,567
Other	17,476	(1,452)	16,024
Total cost of revenues	165,136		165,136
Gross profit	$ 94,026	$	$ 94,026

Statement of Income:	Nine Months Ended September 30, 2017 As Previously Reported	Adjustments	Current Presentation
Revenues:			
Equipment rentals	$ 351,303	$	$ 351,303
New equipment sales	128,883		128,883
Used equipment sales	75,219		75,219
Parts sales	81,063	5,196	86,259
Services revenues	47,121		47,121
Other	51,764	(5,196)	46,568
Total revenues	735,353		735,353
Cost of revenues:			
Rental depreciation	125,996		125,996
Rental expense	58,524		58,524

New equipment sales	114,440		114,440
Used equipment sales	51,979		51,979
Parts sales	58,696	4,039	62,735
Services revenues	15,898		15,898
Other	50,782	(4,039)	46,743
Total cost of revenues	476,315		476,315
Gross profit	$ 259,038	$	$ 259,038

Revenue Recognition

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

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

Nature of goods and services

The tables below summarize for the three and nine months ended September 30, 2018 our revenue by type and by the applicable accounting standard (amounts in thousands).

	Three Months Ended September 30, 2018			2017		
	Topic 840	Topic 606	Total	Topic 840	Topic 605	Total
Rental revenues	$ 155,840	$ 197	$ 156,037	$ 125,071	$ 545	$ 125,616
New equipment sales		68,233	68,233		48,940	48,940
Used equipment sales		30,294	30,294		22,250	22,250
Parts sales		31,484	31,484		27,763	27,763
Service revenues		16,426	16,426		16,097	16,097
Other	5,623	14,044	19,667	4,800	13,696	18,496
Total revenues	$ 161,463	$160,678	$ 322,141	$ 129,871	$ 129,291	$ 259,162

Nine Months Ended September 30,

	2018			2017		
	Topic 840	Topic 606	Total	Topic 840	Topic 605	Total
Rental revenues	$ 428,115	$ 1,112	$ 429,227	$ 349,704	$ 1,599	$ 351,303
New equipment sales		183,265	183,265		128,883	128,883
Used equipment sales		87,287	87,287		75,219	75,219
Parts sales		89,916	89,916		81,063	81,063
Service revenues		48,250	48,250		47,121	47,121
Other	15,565	39,477	55,042	12,951	38,813	51,764
Total revenues	$ 443,680	$ 449,307	$ 892,987	$ 362,655	$ 372,698	$ 735,353

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Revenues by reporting segment are presented in note 10 of our condensed consolidated financial statements, using the revenue captions reflected in our condensed consolidated statements of income. We believe that the disaggregation of our revenues from contracts to customers as reflected above, coupled with further discussion below and the reporting segment in note 10, depicts how the nature, amount, timing and uncertainty of our revenues and cash flows are affected by economic factors.

Lease revenues (Topic 840)

As discussed above in “Pending Accounting Pronouncements Not Yet Adopted”, we expect to adopt Topic 842 on January 1, 2019. While our review of the revenue accounting under Topic 842 is ongoing, we have tentatively concluded that no significant changes are expected to our rental revenue accounting upon adoption of Topic 842.

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

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

Revenues from contracts with customers (Topic 606)

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

Rental revenues: These revenues represent revenues for services performed by us in connection with the rental of equipment and are comprised of customer training fees on rented equipment and erection and dismantling services on rental equipment. Revenues for these services are recognized upon completion of such services.

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

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

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

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

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

Receivables and contract assets and liabilities

We manage credit risk associated with our accounts receivables at the customer level. Because the same customers typically generate the revenues that are accounted for under both Topic 606 and Topic 840, the discussions below on credit risk and our allowances for doubtful accounts address our total revenues from Topic 606 (Topic 605 for 2017) and Topic 840.

We believe concentration of credit risk with respect to our receivables is limited because our customer base is comprised of a large number of geographically diverse customers. Our largest customer accounted for less than one percent of total revenues for the three and nine months ended September 30, 2018, and for each of the last three full years. No single customer accounted for more than 10%

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

We maintain an allowance for doubtful accounts that reflects our estimate of the amount of our receivables that we will be unable to collect. We develop our estimate of this allowance based on our historical experience with specific customers, our understanding of our current economic circumstances and our own judgment as to the likelihood of ultimate payment. Our largest exposure to doubtful accounts is in our rental operations. We perform credit evaluations of customers and establish credit limits based on reviews of our customers' current credit information and payment histories. We believe our credit risk is somewhat mitigated by our geographically diverse customer base and our credit evaluation procedures. During the year, we write-off customer account balances when we have exhausted reasonable collection efforts and determined that the likelihood of collection is remote. Such write-offs are charged against our allowance for doubtful accounts. Bad debt expense as a percentage of total revenues for the nine month periods ended September 30, 2018 and 2017 were approximately 0.3% and 0.4%, respectively. The actual rate of future credit losses, however, may not be similar to past experience. Our estimate of doubtful accounts could change based on changing circumstances, including changes in the economy or in the particular circumstances of individual customers. Accordingly, we may be required to increase or decrease our allowance for doubtful accounts.

We do not have material contract assets, impairment losses associated therewith, or material contract liabilities associated with contracts with customers. Our contracts with customers do not generally result in material amounts billed to customers in excess of recognizable revenue. We did not recognize material revenue during the three and nine months ended September 30, 2018 or 2017 that was included in the contract liability balance as of the beginning of such periods.

Performance obligations

Most of our Topic 606 revenue is recognized at a point-in-time, rather than over time. Accordingly, in any particular period, we do not generally recognize a significant amount of revenue from performance obligations satisfied (or partially satisfied) in previous periods, and the amount of such revenue recognized during the three and nine months ended September 30, 2018 and 2017 was not material. We also do not expect to recognize material revenue in the future related to performance obligations that are unsatisfied (or partially unsatisfied) as of September 30, 2018.

Payment terms

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

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

Contract costs

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

Contract estimates and judgments

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

(3) Acquisitions

Contractors Equipment Center ("CEC")

On January 1, 2018, we completed the acquisition of CEC, a non-residential construction focused equipment rental company with three branches located in the greater Denver, Colorado area. CEC had approximately 100 employees and approximately $84 million of rental assets at original equipment cost as of December 31, 2017. CEC also had total revenues of approximately $34 million in the year ended December 31, 2017. The acquisition significantly expands our presence in the Denver area and surrounding markets.

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

	$'s in thousands
Cash	$ 1,244
Accounts receivable, net of allowance for doubtful accounts (1)	7,583
Inventory	504
Prepaid expenses and other assets	324
Rental equipment	55,342
Property and equipment	2,700
Intangible assets (2)	21,500
Total identifiable assets acquired	89,197
Accounts payable	(1,023)
Accrued expenses payable and other liabilities	(876)
Total liabilities assumed	(1,899)
Net identifiable assets acquired	87,298
Goodwill (3)	45,092
Net assets acquired	$ 132,390

(1) The fair value of accounts receivable acquired was approximately $7.6 million and the gross contractual amount was $7.7 million.

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

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

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

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

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

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Total CEC acquisition costs were $0.9 million, of which approximately $0.2 million was incurred in the nine month period ended September 30, 2018.

Total revenues attributable to CEC since the acquisition were $8.9 million and $30.3 million for the three and nine month periods ended September 30 2018, respectively. Estimated net income attributable to CEC since the acquisition was $1.2 million, or $0.03 per share, for the three month period ended September 30, 2018 and $3.9 million, or $0.11 per share, for the nine month period ended September 30, 2018. It should be noted that since our acquisition of CEC, significant amounts of equipment rental fleet have been moved between H&E locations and the acquired CEC locations, the impact of which is included in these CEC operating results above, as it is impractical to report CEC operating results on a pure stand-alone basis post-acquisition.

Rental, LLC (dba “Rental Inc.”)

On April 1, 2018, we completed the acquisition of Rental Inc., a non-residential equipment rental and distribution company with five branches located in Alabama, Florida and Western Georgia. Rental Inc. had approximately 65 employees and approximately $35 million of rental assets at original equipment costs as of March 31, 2018, immediately prior to the acquisition. The acquisition expands our presence in the surrounding market.

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

	$’s in thousands
Cash	$ 260
Accounts receivable, net of allowance for doubtful accounts (1)	2,873
Inventory	5,324
Prepaid expenses and other assets	47
Rental equipment	22,578
Property and equipment	1,935
Intangible assets (2)	10,200
Total identifiable assets acquired	43,217
Accounts payable	(439)

Manufacturer flooring plans payable		(3,293)
Accrued expenses payable and other liabilities		(469)
Total liabilities assumed		(4,201)
Net identifiable assets acquired		39,016
Goodwill (3)		29,554
Net assets acquired	$	68,570

(1) The fair value of accounts receivables acquired was approximately $2.9 million and the gross contractual amount was $3.1 million.

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

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

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

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

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

Total Rental Inc. acquisition costs were $0.2 million, substantially all of which was incurred in the nine month period ended September 30, 2018.

Total revenues attributable to Rental Inc. since the April 1, 2018 acquisition were $7.0 million and $14.7 million for the three and nine month periods ended September 30 2018, respectively. Estimated net loss attributable to Rental Inc. since the acquisition was $0.8 million, or $0.02 per share, for the three month period ended September 30, 2018 and $0.9 million, or $0.02 per share, for the nine month period ended September 30, 2018. It should be noted that since our acquisition of Rental Inc., significant amounts of rental fleet have been moved between H&E locations and the acquired Rental Inc. locations, the impact of which is included in these Rental Inc. operating results above, as it is impractical to report Rental Inc. operating results on a pure stand-alone basis post-acquisition.

Pro forma financial information

We completed the CEC acquisition on January 1, 2018. Therefore, the operating results of CEC are included in our reported condensed consolidated statements of income for the full three and nine month periods ended September 30, 2018. We completed the Rental Inc. acquisition on April 1, 2018. Therefore, our reported condensed consolidated statements of income for the nine month period ended September 30, 2018 do not include Rental Inc. for the period January 1, 2018 through March 31, 2018.

The pro forma information below gives effect to the CEC and Rental Inc. acquisitions as if they had been completed on January 1, 2017 (the "pro forma acquisition date"). The pro forma information is not necessarily indicative of our results of operations had the acquisitions been completed on the above date, nor is it necessarily indicative of our future results. The pro forma information does not reflect any cost savings from operating efficiencies or synergies that could result from the acquisitions, nor does it reflect additional revenue opportunities following the acquisition. The pro forma adjustments reflected in the table below are subject to change as additional analysis is performed. The tables below present unaudited pro forma consolidated statements of income information for the three and nine month periods ended September 30, 2017 and the nine month period ended September 30, 2018 as if CEC and Rental Inc. were included in our consolidated results for the entire periods presented.

	(amounts in thousands, except per share data)			
	Three Month Period Ended September 30, 2017			
	H&E	CEC	Rental Inc.	Total
Total revenues	$259,162	$9,186	$9,247	$277,595
Pretax income	7,577	2,133	2,153	11,863
Pro forma adjustments to pretax income:				
Impact of fair value mark-ups/useful life changes on depreciation (1)	—	(823)	(713)	(1,536)
Intangible asset amortization (2)	—	(605)	(300)	(905)
Interest expense (3)	—	—	(451)	(451)
Elimination of historic interest expense (4)	—	425	90	515
Pro forma pretax income	7,577	1,130	779	9,486
Income tax benefit	(885)	(127)	(87)	(1,099)
Net income	$ 8,462	$1,257	$ 866	$10,585
Net income per share – basic	$ 0.24	$ 0.04	$0.02	$ 0.30
Net income per share - diluted	$ 0.24	$ 0.04	$0.02	$ 0.30

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	(amounts in thousands, except per share data) Nine Month Period Ended September 30, 2017			
	H&E	CEC	Rental Inc.	Total
Total revenues	$735,353	$25,715	$26,472	$787,540
Pretax income	31,775	5,022	6,311	43,108
Pro forma adjustments to pretax income:				
Impact of fair value mark-ups/useful life changes on depreciation (1)	—	(2,535)	(2,094)	(4,629)
Intangible asset amortization (2)	—	(1,815)	(600)	(2,415)
Interest expense (3)	—	—	(1,226)	(1,226)
Elimination of historic interest expense (4)	—	1,225	292	1,517
Pro forma pretax income	31,775	1,897	2,683	36,355
Income tax expense	8,045	484	684	9,213
Net income	$ 23,730	$1,413	$1,999	$27,142
Net income per share – basic	$ 0.67	$0.04	$0.06	$ 0.76
Net income per share - diluted	$ 0.67	$0.04	$0.06	$ 0.76

	(amounts in thousands, except per share data) Nine Month Period Ended September 30, 2018		
	H&E(5)	Rental Inc.(6)	Total
Total revenues	$ 892,987	$7,408	$900,395
Pretax income	69,908	1,020	70,928
Pro forma adjustments to pretax income:			
Impact of fair value mark-ups/useful life changes on depreciation (1)		(749)	(749)
Intangible asset amortization (2)		(250)	(250)
Interest expense (3)		(480)	(480)
Elimination of historic interest expense (4)		82	82
Pro forma pretax income (loss)	69,908	(377)	69,531
Income tax expense (benefit)	18,345	(100)	18,245
Net income (loss)	$ 51,563	$ (277)	$ 51,286
Net income (loss) per share – basic	$ 1.45	$(0.01)	$ 1.44
Net income (loss) per share - diluted	$ 1.44	$(0.01)	$ 1.43

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

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

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

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

(5) H&E represents consolidated operating results as presented in this Quarterly Report on Form 10-Q for the nine month period ended September 30, 2018 and includes actual results for CEC for the nine months ended September 30, 2018 and actual results for Rental Inc. for the April 1, 2018 through September 30, 2018.

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

(4) Fair Value of Financial Instruments

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

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

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

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

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, 2018 and December 31, 2017 are presented in the table below (amounts in thousands) and have been calculated based upon market quotes and present value calculations based on market rates.

	September 30, 2018	
	Carrying Amount	Fair Value
Manufacturer flooring plans payable with interest computed at 4.50% (Level 3)	$26,472	$22,544
Senior unsecured notes with interest computed at 5.625% (Level 1)	950,000	947,625
Capital leases payable with interest computed at 5.929% (Level 3)	778	651
Letter of credit (Level 3)	—	116

	December 31, 2017	
	Carrying Amount	Fair Value

Manufacturer flooring plans payable with interest computed at 4.50% (Level 3)	$22,002	$18,737
Senior unsecured notes with interest computed at 5.625% (Level 3)	944,088	619,019
Capital leases payable with interest computed at 5.929% to 9.55% (Level 3)	1,486	1,114
Letter of credit (Level 3)	—	116

At December 31, 2017, the fair value of our senior unsecured notes due 2025 was based on the present value of the notes based on our incremental borrowing rate as these notes were not available (registered) on a bond trading market as of December 31, 2017. At September 30, 2018, the fair value of our senior unsecured notes due 2025 were based on quoted bond trading market prices of those notes.

During the three and nine month periods ended September 30, 2018 and 2017, there were no transfers of financial assets or liabilities in or out of Level 1, Level 2 or Level 3 of the fair value hierarchy.

(5) Stockholders' Equity

The following table summarizes the activity in Stockholders' Equity for the nine month period ended September 30, 2018 (amounts in thousands, except share data):

	Common Stock Shares Issued	Amount	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Total Stockholders' Equity
Balances at December 31, 2017	39,623,773	$ 395	$ 227,070	$ (61,749)	$ 51,077	$ 216,793
Stock-based compensation	—	—	2,998	—	—	2,998
Cash dividends declared on common stock ($0.825 per share)	—	—	—	—	(29,514)	(29,514)
Issuance of common stock, net of forfeitures	125,776	1	(110)	—	—	(109)
Repurchase of 36,929 shares of restricted common stock	—	—	—	(1,323)	—	(1,323)
Net income	—	—	—	—	51,563	51,563
Balances at September 30, 2018	39,749,549	396	229,958	(63,072)	73,126	240,408

(6) Stock-Based Compensation

We account for our stock-based compensation plans 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). Shares available for future stock-based payment awards under our 2016 Stock-Based Incentive Compensation Plan were 1,733,999 shares as of September 30, 2018.

Non-vested Stock

The following table summarizes our non-vested stock activity for the nine months ended September 30, 2018:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested stock at December 31, 2017	445,964	$ 19.70
Granted	143,121	$ 37.10
Vested	(178,212)	$ 20.53

Forfeited	(27,345)	$ 19.39
Non-vested stock at September 30, 2018	383,528	$ 25.83

As of September 30, 2018, we had unrecognized compensation expense of approximately $6.6 million related to non-vested stock that we expect to be recognized over a weighted-average period of approximately 2.2 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, 2018 and 2017 (amounts in thousands):

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Compensation expense	$ 917	$ 720	$2,998	$2,614

(7) Income per Share

Income per common share for the three and nine months ended September 30, 2018 and 2017 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 0.7% of total outstanding shares for each of the three months ended September 30, 2018 and 2017, 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, 2018 and 2017 (amounts in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Basic net income per share:				
Net income	$21,314	$8,462	$51,563	$23,730
Weighted average number of common shares outstanding	35,719	35,543	35,649	35,494
Net income per share of common stock – basic	$0.60	$0.24	$1.45	$0.67
Diluted net income per share:				
Net income	$21,314	$8,462	$51,563	$23,730
Weighted average number of common shares outstanding	35,719	35,543	35,649	35,494
Effect of dilutive securities:				
Effect of dilutive non-vested restricted stock	207	172	255	162
Weighted average number of common shares outstanding – diluted	35,926	35,715	35,904	35,656
Net income per share of common stock – diluted	$0.59	$0.24	$1.44	$0.67
Common shares excluded from the denominator as anti-dilutive:				
Non-vested restricted stock	21	—	7	—

(8) Senior Secured Credit Facility

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

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

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

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

As of September 30, 2018, we were in compliance with our financial covenants under the Amended and Restated Credit Agreement. At September 30, 2018, we had $219.0 million of borrowings outstanding under the Credit Facility and could borrow up to $523.3 million and remain in compliance with the debt covenants under the Credit Facility. At October 18, 2018, we had $532.4 million of available borrowings under our Credit Facility, net of a $7.7 million outstanding letter of credit.

(9) Senior Unsecured Notes

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

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

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

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

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

The indenture governing the New Notes contains certain covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to: (i) incur additional indebtedness, assume a guarantee or issue preferred stock; (ii) pay dividends or make other equity distributions or payments to or affecting our subsidiaries; (iii) purchase or redeem our capital stock; (iv) make certain investments; (v) create liens; (vi) sell or dispose of assets or engage in mergers or consolidations; (vii) engage in certain transactions with subsidiaries or affiliates; (viii) enter into sale-leaseback transactions; and (ix) engage in certain business activities. Each of the covenants is subject to exceptions and qualifications. As of September 30, 2018, we were in compliance with these covenants.

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

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

Pursuant to a registration rights agreement entered into between us, the guarantors of the New Notes and the initial purchasers of the New Notes, we agreed to make an offer to exchange (the “Exchange Offer”) the New Notes and guarantees for registered, publicly tradable notes and guarantees that have terms identical in all material respects to the New Notes (except that the exchange notes will not contain any transfer restrictions) within a certain period of time following the completion of the offering. On January 17, 2018, the Company filed a registration statement on Form S-4 with respect to an offer to exchange the New and Add-on Notes and guarantees for registered, publicly tradable notes and guarantees that have terms identical in all material respects to the New and Add-on Notes (except that the exchange notes do not contain any transfer restrictions). This exchange offer closed on March 27, 2018.

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

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

Balance at December 31, 2017	$944,088
Accretion of discount through September 30, 2018	1,154
Amortization of note premium through September 30, 2018	(797)
Additional deferred financing costs on New Notes	(97)
Amortization of deferred financing costs through September 30, 2018	236
Balance at September 30, 2018	$944,584

(10) 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.

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,	
	2018	2017	2018	2017
Segment Revenues:				
Equipment rentals	$156,037	$125,616	$429,227	$351,303
New equipment sales	68,233	48,940	183,265	128,883
Used equipment sales	30,294	22,250	87,287	75,219
Parts sales	31,484	29,534	89,916	86,259
Services revenues	16,426	16,097	48,250	47,121
Total segmented revenues	302,474	242,437	837,945	688,785
Non-segmented revenues	19,667	16,725	55,042	46,568
Total revenues	$322,141	$259,162	$892,987	$735,353
Segment Gross Profit:				
Equipment rentals	$78,041	$62,373	$210,246	$166,783
New equipment sales	7,839	5,331	20,800	14,443
Used equipment sales	9,782	7,134	28,066	23,240
Parts sales	8,355	7,957	24,239	23,524
Services revenues	10,798	10,530	31,820	31,223
Total segmented gross profit	114,815	93,325	315,171	259,213
Non-segmented gross profit (loss)	(85)	701	247	(175)
Total gross profit	$114,730	$94,026	$315,418	$259,038

	Balances at September 30, 2018	December 31, 2017
Segment identified assets:		
Equipment sales	$93,860	$58,125
Equipment rentals	1,153,244	904,824
Parts and services	19,392	16,879
Total segment identified assets	1,266,496	979,828
Non-segment identified assets	457,480	487,889
Total assets	$1,723,976	$1,467,717

The Company operates primarily in the United States and our sales to international customers for the three month periods ended September 30, 2018 and 2017 were 0.1% and 0.1%, respectively, of total revenues. Our sales to international customers for the nine month periods ended September 30, 2018 and 2017 were 0.2% and 0.3%, respectively. No one customer accounted for more than 10% of our revenues on an overall or segment basis for any of the periods presented.

(11) 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, 2018			
	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Assets:				
Cash	$5,088	$—	$—	$5,088
Receivables, net	152,395	38,910	—	191,305
Inventories, net	97,099	16,153	—	113,252
Prepaid expenses and other assets	9,228	140	—	9,368
Rental equipment, net	989,228	164,016	—	1,153,244
Property and equipment, net	96,063	17,340	—	113,403
Deferred financing costs, net	3,188	—	—	3,188
Investment in guarantor subsidiaries	259,298	—	(259,298)	—
Intangible assets, net	29,285	—	—	29,285
Goodwill	76,317	29,526	—	105,843
Total assets	$1,717,189	$266,085	$(259,298)	$1,723,976
Liabilities and Stockholders' Equity:				
Amounts due on senior secured credit facility	$219,018	$—	$—	$219,018
Accounts payable	77,385	7,380	—	84,765
Manufacturer flooring plans payable	25,833	639	—	26,472
Accrued expenses payable and other liabilities	63,550	(1,959)	—	61,591
Dividends payable	155	(51)	—	104
Senior unsecured notes	944,584	—	—	944,584
Capital leases payable	—	778	—	778
Deferred income taxes	144,288	—	—	144,288
Deferred compensation payable	1,968	—	—	1,968
Total liabilities	1,476,781	6,787	—	1,483,568
Stockholders' equity	240,408	259,298	(259,298)	240,408
Total liabilities and stockholders' equity	$1,717,189	$266,085	$(259,298)	$1,723,976

CONDENSED CONSOLIDATING BALANCE SHEET

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

CONDENSED CONSOLIDATING STATEMENT OF INCOME

	Three Months Ended September 30, 2018			
	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Revenues:				
Equipment rentals	$133,023	$ 23,014	$ —	$ 156,037
New equipment sales	48,861	19,372	—	68,233
Used equipment sales	23,868	6,426	—	30,294
Parts sales	27,054	4,430	—	31,484
Services revenues	14,048	2,378	—	16,426
Other	16,494	3,173	—	19,667
Total revenues	263,348	58,793	—	322,141
Cost of revenues:				
Rental depreciation	47,142	7,918	—	55,060
Rental expense	19,527	3,409	—	22,936
New equipment sales	43,187	17,207	—	60,394
Used equipment sales	15,692	4,820	—	20,512
Parts sales	20,029	3,100	—	