H&E Equipment Services, Inc.
Form 10-Q
July 30, 2015
**Table of Contents**

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D. C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2015.**

¨ **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 x 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 x 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 x | 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 x

As of July 24, 2015, there were 35,254,249 shares of H&E Equipment Services, Inc. common stock, $0.01 par value, outstanding.

**H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES**

**TABLE OF CONTENTS**

**June 30, 2015**


| | Page |
|---|---|
| **PART I. FINANCIAL INFORMATION** | 4 |
| Item 1. Financial Statements: | |
| Condensed Consolidated Balance Sheets as of June 30, 2015 (Unaudited) and December 31, 2014 | 4 |
| Condensed Consolidated Statements of Income (Unaudited) for the Three and Six Months Ended June 30, 2015 and 2014 | 5 |
| Condensed Consolidated Statements of Cash Flows (Unaudited) for the Six Months Ended June 30, 2015 and 2014 | 6 |
| Notes to Condensed Consolidated Financial Statements (Unaudited) | 8 |
| Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations | 23 |
| Item 3. Quantitative and Qualitative Disclosures About Market Risk | 36 |
| Item 4. Controls and Procedures | 36 |
| **PART II. OTHER INFORMATION** | 37 |
| Item 1. Legal Proceedings | 37 |
| Item 1A. Risk Factors | 37 |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds | 37 |
| Item 3. Defaults upon Senior Securities | 37 |
| Item 4. Mine Safety Disclosures | 37 |
| Item 5. Other Information | 37 |
| Item 6. Exhibits | 38 |
| Signatures | 39 |

Table of Contents

## 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 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;
- the pace of economic recovery in areas affecting our business (although we have experienced an upturn in our business activities from the most recent economic downturn and related decreases in construction and industrial activities, there is no certainty this trend will continue; if the pace of the recovery slows or construction and industrial activities decline, our revenues and operating results may be severely affected);
- the impact of conditions in the global credit 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, 2014.

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, 2014, 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.

Table of Contents

**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 June 30, 2015 (Unaudited) | Balances at December 31, 2014 |
|---|---|---|
| **ASSETS** | | |
| Cash | $ 11,861 | $ 15,861 |
| Receivables, net of allowance for doubtful accounts of $3,237 and $3,288, respectively | 147,808 | 164,335 |
| Inventories, net of reserves for obsolescence of $738 and $647, respectively | 139,663 | 133,987 |
| Prepaid expenses and other assets | 15,245 | 9,146 |
| Rental equipment, net of accumulated depreciation of $383,127 and $351,841, respectively | 895,982 | 889,706 |
| Property and equipment, net of accumulated depreciation and amortization of $97,870 and $88,376, respectively | 110,569 | 109,908 |
| Deferred financing costs, net of accumulated amortization of $11,622 and $11,111, respectively | 4,878 | 4,664 |
| Goodwill | 31,197 | 31,197 |
| Total assets | $ 1,357,203 | $ 1,358,804 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| **Liabilities:** | | |
| Amounts due on senior secured credit facility | $ 257,118 | $ 259,919 |
| Accounts payable | 63,846 | 53,341 |
| Manufacturer flooring plans payable | 72,855 | 93,600 |
| Accrued expenses payable and other liabilities | 58,660 | 60,548 |
| Senior unsecured notes (net of unaccreted discount of $1,202 and $1,286, respectively) | 628,798 | 628,714 |
| Capital leases payable | 2,005 | 2,099 |
| Deferred income taxes | 136,972 | 125,110 |
| Deferred compensation payable | 2,140 | 2,106 |
| Total liabilities | 1,222,394 | 1,225,437 |

**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; 39,129,190 and 39,100,021 shares issued at June 30, 2015 and December 31, 2014, respectively, and 35,254,638 and 35,232,032 shares outstanding at June 30, 2015 and December 31, 2014, respectively | 390 | 390 |
| Additional paid-in capital | 219,854 | 218,349 |
| Treasury stock at cost, 3,874,552 and 3,867,989 shares of common stock held at June 30, 2015 and December 31, 2014, respectively | (59,935) | (59,935) |
| Retained deficit | (25,500) | (25,437) |
| Total stockholders equity | 134,809 | 133,367 |
| Total liabilities and stockholders equity | $ 1,357,203 | $ 1,358,804 |

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

4

Table of Contents

**H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

**(Unaudited)**

**(Amounts in thousands, except per share amounts)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Revenues: | | | | |
| Equipment rentals | $ 108,628 | $ 98,814 | $ 210,017 | $ 185,038 |
| New equipment sales | 64,376 | 90,581 | 108,913 | 160,128 |
| Used equipment sales | 28,932 | 31,397 | 54,002 | 60,742 |
| Parts sales | 28,347 | 28,371 | 55,432 | 54,173 |
| Services revenues | 15,769 | 16,102 | 30,725 | 29,750 |
| Other | 16,308 | 15,113 | 30,681 | 27,776 |
| Total revenues | 262,360 | 280,378 | 489,770 | 517,607 |
| Cost of revenues: | | | | |
| Rental depreciation | 40,214 | 35,449 | 80,158 | 68,447 |
| Rental expense | 17,701 | 15,581 | 33,312 | 29,805 |
| New equipment sales | 56,749 | 79,413 | 96,068 | 141,147 |
| Used equipment sales | 19,613 | 21,056 | 36,499 | 41,474 |
| Parts sales | 20,607 | 20,041 | 40,126 | 38,323 |
| Services revenues | 5,158 | 5,767 | 10,435 | 10,508 |
| Other | 15,914 | 14,003 | 30,428 | 26,051 |
| Total cost of revenues | 175,956 | 191,310 | 327,026 | 355,755 |
| Gross profit | 86,404 | 89,068 | 162,744 | 161,852 |
| Selling, general and administrative expenses | 54,414 | 51,883 | 107,880 | 100,739 |
| Gain on sales of property and equipment, net | 972 | 757 | 1,430 | 1,420 |
| Income from operations | 32,962 | 37,942 | 56,294 | 62,533 |
| Other income (expense): | | | | |
| Interest expense | (13,749) | (12,922) | (27,194) | (25,572) |
| Other, net | 228 | 344 | 582 | 650 |
| Total other expense, net | (13,521) | (12,578) | (26,612) | (24,922) |
| Income before income taxes | 19,441 | 25,364 | 29,682 | 37,611 |

| | | | | |
|---|---|---|---|---|
| Provision for income taxes | 7,961 | 9,638 | 12,116 | 14,449 |
| Net income | $ 11,480 | $ 15,726 | $ 17,566 | $ 23,162 |
| Net income per common share: | | | | |
| Basic | $ 0.33 | $ 0.45 | $ 0.50 | $ 0.66 |
| Diluted | $ 0.33 | $ 0.45 | $ 0.50 | $ 0.66 |
| Weighted average common shares outstanding: | | | | |
| Basic | 35,238 | 35,111 | 35,232 | 35,110 |
| Diluted | 35,314 | 35,235 | 35,300 | 35,227 |
| Dividends declared per share | $ 0.25 | $ | $ 0.50 | $ |

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

Table of Contents

**H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited)**

**(Amounts in thousands)**

| | Six Months Ended June 30, 2015 | 2014 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 17,566 | $ 23,162 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization of property and equipment | 11,654 | 9,718 |
| Depreciation of rental equipment | 80,158 | 68,447 |
| Amortization of deferred financing costs | 511 | 497 |
| Accretion of note discount, net of premium amortization | 84 | 84 |
| Provision for losses on accounts receivable | 1,393 | 1,374 |
| Provision for inventory obsolescence | 99 | 63 |
| Increase in deferred income taxes | 11,862 | 12,249 |
| Stock-based compensation expense | 1,505 | 1,619 |
| Gain from sales of property and equipment, net | (1,430) | (1,420) |
| Gain from sales of rental equipment, net | (16,774) | (18,172) |
| Changes in operating assets and liabilities: | | |
| Receivables | 15,134 | (13,940) |
| Inventories | (47,927) | (76,555) |
| Prepaid expenses and other assets | (6,099) | (2,781) |
| Accounts payable | 10,505 | 27,420 |
| Manufacturer flooring plans payable | (20,745) | 3,080 |
| Accrued expenses payable and other liabilities | (1,888) | 2,975 |
| Deferred compensation payable | 34 | 33 |
| Net cash provided by operating activities | 55,642 | 37,853 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (12,872) | (10,572) |
| Purchases of rental equipment | (71,919) | (161,579) |
| Proceeds from sales of property and equipment | 1,987 | 1,541 |
| Proceeds from sales of rental equipment | 44,411 | 52,546 |
| Net cash used in investing activities | (38,393) | (118,064) |
| Cash flows from financing activities: | | |
| Excess tax deficiency from stock-based awards | | (24) |
| Borrowings on senior secured credit facility | 506,455 | 590,249 |

| | | |
|---|---|---|
| Payments on senior secured credit facility | (509,256) | (519,941) |
| Payments of deferred financing costs | (725) | (794) |
| Dividends paid | (17,629) | (708) |
| Payments of capital lease obligations | (94) | (88) |
| Net cash provided by (used in) financing activities | (21,249) | 68,694 |
| Net decrease in cash | (4,000) | (11,517) |
| Cash, beginning of period | 15,861 | 17,607 |
| Cash, end of period | $ 11,861 | $ 6,090 |

Table of Contents

**H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

**(Unaudited)**

**(Amounts in thousands)**

| | Six Months Ended June 30, 2015 | Six Months Ended June 30, 2014 |
|---|---|---|
| Supplemental schedule of noncash investing and financing activities: | | |
| Noncash asset purchases: | | |
| Assets transferred from new and used inventory to rental fleet | $ 42,152 | $ 37,428 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | $ 26,714 | $ 24,968 |
| Income taxes paid, net of refunds received | $ 375 | $ 2,634 |

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

7

Table of Contents

**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 six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015, 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, 2014, from which the consolidated balance sheet amounts as of December 31, 2014 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 sales, rental, on-site parts, and 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, 2014. During the six month period ended June 30, 2015, 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.

**Table of Contents**

*Recent Accounting Pronouncements*

In April 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* ( ASU 2014-08 ) which amended the FASB s guidance for reporting discontinued operations and disposals of components of an entity under Accounting Standards Codification Subtopic 250-20. The guidance as amended by ASU 2014-08 raises the threshold for a disposal to qualify as a discontinued operation by requiring that a disposal representing a strategic shift that has (or will have) a major effect on an entity s financial results or a business activity classified as held for sale be reported as such. The amendments also expand the disclosure requirements regarding the assets, liabilities, revenues and expenses of discontinued operations and add new disclosure requirements for individually significant dispositions that do not qualify as discontinued operations. The amendments became effective for us on January 1, 2015. The implementation of the amended guidance did not have a material impact on the Company s consolidated financial statements.

In May 2014, the FASB issued 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. This guidance will be effective for the Company for our 2017 fiscal year. However, on July 9, 2015, the FASB decided to delay the effective date of the new revenue standard by one year, but reporting entities may choose to adopt the standard as of the original effective date. We are currently in the process of evaluating the impact of the adoption of ASU 2014-09 on the Company s consolidated financial statements and have not yet determined the method by which we will adopt ASU 2014-09.

In June 2014, the FASB issued ASU No. 2014-12, *Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved after the Requisite Service Period* ( ASU 2014-12 ). ASU 2014-12 requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This ASU further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. ASU 2014-12 is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. The Company does not anticipate that the adoption of this standard will have a material impact on its consolidated financial statements.

In February 2015, FASB issued ASU No. 2015-02, *Consolidation (Topic 810).* The amendments in this update are effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2015. The amendments in this update simplify the codification and reduce the number of consolidation models and place more emphasis on the risk of loss when determining controlling financial interests. Early adoption is permitted, but not required. The objective of this standard is to reduce cost and complexity and alleviate uncertainty while maintaining or improving the usefulness of information provided to the users of financial statements. The adoption of this standard is not expected to impact our financial position or results of operations.

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. Costs associated with revolving debt arrangements are not within the scope of the new guidance. ASU 2015-03 is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued and will be applied on a retrospective basis. The adoption of this standard is not expected to have a material impact on the Company s consolidated financial statements.

Table of Contents

In April 2015, the FASB issued ASU No. 2015-05, *Customer s Accounting for Fees Paid in a Cloud Computing Arrangement* ( ASU 2015-05 ). The FASB decided to add guidance to Subtopic 350-40, Intangibles Goodwill and Other Internal Use Software, to help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement. The amendments in this update provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. ASU 2015-05 is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company s consolidated financial statements.

**(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 June 30, 2015 and December 31, 2014 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.

| | June 30, 2015 | |
|---|---|---|
| | Carrying Amount | Fair Value |
| Manufacturer flooring plans payable with interest computed at 5.25% (Level 3) | $ 72,855 | $ 64,303 |
| Senior unsecured notes with interest computed at 7.0% (Level 1) | 628,798 | 648,405 |
| Capital leases payable with interest computed at 5.929% to 9.55% (Level 3) | 2,005 | 1,394 |
| Letter of credit (Level 3) | | 145 |

| | December 31, 2014 | |
|---|---|---|
| | **Carrying Amount** | **Fair Value** |
| Manufacturer flooring plans payable with interest computed at 5.00% (Level 3) | $ 93,600 | $ 82,021 |
| Senior unsecured notes with interest computed at 7.0% (Level 1) | 628,714 | 648,113 |
| Capital leases payable with interest computed at 5.929% to 9.55% (Level 3) | 2,099 | 1,495 |
| Letter of credit (Level 3) | | 130 |

During the six month periods ended June 30, 2015 and 2014, 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.

Table of Contents

**(4) Stockholders Equity**

The following table summarizes the activity in Stockholders Equity for the six month period ended June 30, 2015 (amounts in thousands, except share data):

| | Common Stock Shares Issued | Common Stock Amount | Additional Paid-in Capital | Treasury Stock | Retained Earnings (Deficit) | Total Stockholders Equity |
|---|---|---|---|---|---|---|
| Balances at December 31, 2014 | 39,100,021 | $ 390 | $ 218,349 | $ (59,935) | $ (25,437) | $ 133,367 |
| Stock-based compensation | | | 1,505 | | | 1,505 |
| Cash dividends on common stock ($0.50 per share) | | | | | (17,629) | (17,629) |
| Issuance of common stock | 29,169 | | | | | |
| Net income | | | | | 17,566 | 17,566 |
| Balances at June 30, 2015 | 39,129,190 | $ 390 | $ 219,854 | $ (59,935) | $ (25,500) | $ 134,809 |

**(5) Stock-Based Compensation**

We account for our stock-based compensation plan using the fair value recognition provisions of 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 2006 Stock-Based Incentive Compensation Plan were 3,508,830 shares as of June 30, 2015.

*Non-vested Stock*

The following table summarizes our non-vested stock activity for the six months ended June 30, 2015:

| | Number of Shares | Weighted Average Grant Date Fair Value |
|---|---|---|
| Non-vested stock at December 31, 2014 | 148,398 | $ 27.11 |
| Granted | 29,169 | $ 19.20 |
| Vested | (31,029) | $ 19.52 |
| Forfeited | (6,563) | $ 29.86 |
| Non-vested stock at June 30, 2015 | 139,975 | $ 27.02 |

As of June 30, 2015, we had unrecognized compensation expense of approximately $2.1 million related to non-vested stock that we expect to be recognized over a weighted-average period of approximately 1.9 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 six months ended June 30, 2015 and 2014 (amounts in thousands):

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Compensation expense | $ 484 | $ 811 | $ 1,505 | $ 1,619 |

Table of Contents

*Stock Options*

At June 30, 2015, there is no unrecognized compensation expense as all stock option awards have fully vested. The following table represents stock option activity for the six months ended June 30, 2015:

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Contractual Life In Years |
|---|---|---|---|
| Outstanding options at December 31, 2014 | 51,000 | $ 17.80 | |
| Granted | | | |
| Exercised | | | |
| Canceled, forfeited or expired | | | |
| Outstanding options at June 30, 2015 | 51,000 | $ 17.80 | 1.0 |
| Options exercisable at June 30, 2015 | 51,000 | $ 17.80 | 1.0 |

The aggregate intrinsic value of our outstanding and exercisable options at June 30, 2015 was approximately $0.5 million.

**(6) Income per Share**

Income per common share for the three and six months ended June 30, 2015 and 2014 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 only 0.4% of total outstanding shares 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 six months ended June 30, 2015 and 2014 (amounts in thousands, except per share amounts):

| | Three Months Ended | Six Months Ended June 30, |
|---|---|---|

| | June 30, | | | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Basic net income per share: | | | | |
| Net income | $ 11,480 | $ 15,726 | $ 17,566 | $ 23,162 |
| Weighted average number of common shares of outstanding | 35,238 | 35,111 | 35,232 | 35,110 |
| Net income per share of common stock basic | $ 0.33 | $ 0.45 | $ 0.50 | $ 0.66 |
| Diluted net income per share: | | | | |
| Net income | $ 11,480 | $ 15,726 | $ 17,566 | $ 23,162 |
| Weighted average number of common shares of outstanding | 35,238 | 35,111 | 35,232 | 35,110 |
| Effect of dilutive securities: | | | | |
| Effect of dilutive stock options | 20 | 24 | 20 | 23 |
| Effect of dilutive non-vested restricted stock | 56 | 100 | 48 | 94 |
| Weighted average number of common shares of outstanding diluted | 35,314 | 35,235 | 35,300 | 35,227 |
| Net income per share of common stock diluted | $ 0.33 | $ 0.45 | $ 0.50 | $ 0.66 |
| Common shares excluded from the denominator as anti-dilutive: | | | | |
| Stock options | | | | |
| Non-vested restricted stock | | | | |

Table of Contents

**(7) Senior Secured Credit Facility**

We and our subsidiaries are parties to a $602.5 million senior secured credit facility (the Credit Facility ) with General Electric Capital Corporation as agent, 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, General Electric Capital Corporation, as administrative agent, Bank of America, N.A. as co-syndication agent and documentation agent, Wells Fargo Capital Finance, LLC, as co-syndication agent and Deutsche Bank Securities Inc. as joint lead arranger and joint bookrunner.

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 June 30, 2015, we were in compliance with our financial covenants under the Credit Facility. At June 30, 2015, the Company could borrow up to an additional $338.1 million and remain in compliance with the debt covenants under the Company s Credit Facility.

At June 30, 2015, the interest rate on the Credit Facility was based on a 3.25% U.S. Prime Rate plus 100 basis points and LIBOR plus 200 basis points. The weighted average interest rate at June 30, 2015 was approximately 2.8%. At July 24, 2015, we had $356.1 million of available borrowings under our Credit Facility, net of $7.2 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, 2013 | $ 628,546 |
| Accretion of discount through December 31, 2014 | 1,055 |
| Amortization of note premium through December 31, 2014 | (887) |
| Balance at December 31, 2014 | $ 628,714 |
| Accretion of discount through June 30, 2015 | 528 |
| Amortization of note premium through June 30, 2015 | (444) |
| Balance at June 30, 2015 | $ 628,798 |

Table of Contents

**(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.

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 June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Segment Revenues: | | | | |
| Equipment rentals | $ 108,628 | $ 98,814 | $ 210,017 | $ 185,038 |
| New equipment sales | 64,376 | 90,581 | 108,913 | 160,128 |
| Used equipment sales | 28,932 | 31,397 | 54,002 | 60,742 |
| Parts sales | 28,347 | 28,371 | 55,432 | 54,173 |
| Services revenues | 15,769 | 16,102 | 30,725 | 29,750 |
| Total segmented revenues | 246,052 | 265,265 | 459,089 | 489,831 |
| Non-segmented revenues | 16,308 | 15,113 | 30,681 | 27,776 |
| Total revenues | $ 262,360 | $ 280,378 | $ 489,770 | $ 517,607 |
| Segment Gross Profit: | | | | |
| Equipment rentals | $ 50,713 | $ 47,784 | $ 96,547 | $ 86,786 |
| New equipment sales | 7,627 | 11,168 | 12,845 | 18,981 |
| Used equipment sales | 9,319 | 10,341 | 17,503 | 19,268 |
| Parts sales | 7,740 | 8,330 | 15,306 | 15,850 |
| Services revenues | 10,611 | 10,335 | 20,290 | 19,242 |
| Total segmented gross profit | 86,010 | 87,958 | 162,491 | 160,127 |
| Non-segmented gross profit | 394 | 1,110 | 253 | 1,725 |
| Total gross profit | $ 86,404 | $ 89,068 | $ 162,744 | $ 161,852 |

| | Balances at | |
|---|---|---|
| | June 30, 2015 | December 31, 2014 |
| Segment identified assets: | | |

| | | |
|---|---|---|
| Equipment sales | $ 117,349 | $ 114,664 |
| Equipment rentals | 895,982 | 889,706 |
| Parts and services | 22,314 | 19,324 |
| Total segment identified assets | 1,035,645 | 1,023,694 |
| Non-segment identified assets | 321,558 | 335,110 |
| Total assets | $ 1,357,203 | $ 1,358,804 |

The Company operates primarily in the United States and our sales to international customers for the three and six month periods ended June 30, 2015 were 0.6% and 0.7%, respectively, of total revenues compared to 1.5% and 1.6% for the three and six month periods ended June 30, 2014, respectively. 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 June 30, 2015 | | | |
|---|---|---|---|---|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| | (Amounts in thousands) | | | |
| **Assets:** | | | | |
| Cash | $ 11,861 | $ | $ | $ 11,861 |
| Receivables, net | 129,965 | 17,843 | | 147,808 |
| Inventories, net | 121,960 | 17,703 | | 139,663 |
| Prepaid expenses and other assets | 15,036 | 209 | | 15,245 |
| Rental equipment, net | 746,760 | 149,222 | | 895,982 |
| Property and equipment, net | 98,575 | 11,994 | | 110,569 |
| Deferred financing costs, net | 4,878 | | | 4,878 |
| Investment in guarantor subsidiaries | 220,016 | | (220,016) | |
| Goodwill | 1,671 | 29,526 | | 31,197 |
| Total assets | $ 1,350,722 | $ 226,497 | $ 220,016 | $ 1,357,203 |
| **Liabilities and Stockholders Equity:** | | | | |
| Amounts due on senior secured credit facility | $ 257,118 | $ | $ | $ 257,118 |
| Accounts payable | 58,696 | 5,150 | | 63,846 |
| Manufacturer flooring plans payable | 72,855 | | | 72,855 |
| Accrued expenses payable and other liabilities | 59,309 | (649) | | 58,660 |
| Dividends payable | 25 | (25) | | |
| Senior unsecured notes | 628,798 | | | 628,798 |
| Capital leases payable | | 2,005 | | 2,005 |
| Deferred income taxes | 136,972 | | | 136,972 |
| Deferred compensation payable | 2,140 | | | 2,140 |
| Total liabilities | 1,215,913 | 6,481 | | 1,222,394 |
| Stockholders equity | 134,809 | 220,016 | (220,016) | 134,809 |
| Total liabilities and stockholders equity | $ 1,350,722 | $ 226,497 | $ (220,016) | $ 1,357,203 |

Table of Contents

**CONDENSED CONSOLIDATING BALANCE SHEET**

| | As of December 31, 2014 | | | |
|---|---|---|---|---|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| | (Amounts in thousands) | | | |
| **Assets:** | | | | |
| Cash | $ 15,861 | $ | $ | $ 15,861 |
| Receivables, net | 137,197 | 27,138 | | 164,335 |
| Inventories, net | 123,410 | 10,577 | | 133,987 |
| Prepaid expenses and other assets | 9,027 | 119 | | 9,146 |
| Rental equipment, net | 748,353 | 141,353 | | 889,706 |
| Property and equipment, net | 98,279 | 11,629 | | 109,908 |
| Deferred financing costs, net | 4,664 | | | 4,664 |
| Investment in guarantor subsidiaries | 216,540 | | (216,540) | |
| Goodwill | 1,671 | 29,526 | | 31,197 |
| Total assets | $ 1,355,002 | $ 220,342 | $ (216,540) | $ 1,358,804 |
| **Liabilities and Stockholders Equity:** | | | | |
| Amount due on senior secured credit facility | $ 259,919 | $ | $ | $ 259,919 |
| Accounts payable | 50,661 | 2,680 | | 53,341 |
| Manufacturer flooring plans payable | 93,600 | | | 93,600 |
| Dividends payable | 23 | (23) | | |
| Accrued expenses payable and other liabilities | 61,502 | (954) | | 60,548 |
| Senior unsecured notes | 628,714 | | | 628,714 |
| Capital leases payable | | 2,099 | | 2,099 |
| Deferred income taxes | 125,110 | | | 125,110 |
| Deferred compensation payable | 2,106 | | | 2,106 |
| Total liabilities | 1,221,635 | 3,802 | | 1,225,437 |
| Stockholders equity | 133,367 | 216,540 | (216,540) | 133,367 |
| Total liabilities and stockholders equity | $ 1,355,002 | $ 220,342 | $ (216,540) | $ 1,358,804 |

16

Table of Contents

## CONDENSED CONSOLIDATING STATEMENT OF INCOME

| | Three Months Ended June 30, 2015 | | | |
|---|---|---|---|---|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| | (Amounts in thousands) | | | |
| Revenues: | | | | |
| Equipment rentals | $ 89,590 | $ 19,038 | $ | $ 108,628 |
| New equipment sales | 61,564 | 2,812 | | 64,376 |
| Used equipment sales | 23,909 | 5,023 | | 28,932 |
| Parts sales | 24,303 | 4,044 | | 28,347 |
| Services revenues | 13,218 | 2,551 | | 15,769 |
| Other | 13,149 | 3,159 | | 16,308 |
| Total revenues | 225,733 | 36,627 | | 262,360 |
| Cost of revenues: | | | | |
| Rental depreciation | 33,542 | 6,672 | | 40,214 |
| Rental expense | 14,736 | 2,965 | | 17,701 |
| New equipment sales | 54,234 | 2,515 | | 56,749 |
| Used equipment sales | 16,389 | 3,224 | | 19,613 |
| Parts sales | 17,697 | 2,910 | | 20,607 |
| Services revenues | 4,332 | 826 | | 5,158 |
| Other | 12,848 | 3,066 | | 15,914 |
| Total cost of revenues | 153,778 | 22,178 | | 175,956 |
| Gross profit: | | | | |
| Equipment rentals | 41,312 | 9,401 | | 50,713 |
| New equipment sales | 7,330 | 297 | | 7,627 |
| Used equipment sales | 7,520 | 1,799 | | 9,319 |
| Parts sales | 6,606 | 1,134 | | 7,740 |
| Services revenues | 8,886 | 1,725 | | 10,611 |
| Other | 301 | 93 | | 394 |
| Gross profit | 71,955 | 14,449 | | 86,404 |
| Selling, general and administrative expenses | 45,350 | 9,064 | | 54,414 |
| Equity in earnings of guarantor subsidiaries | 1,982 | | (1,982) | |
| Gain on sales of property and equipment, net | 860 | 112 | | 972 |
| Income from operations | 29,447 | 5,497 | (1,982) | 32,962 |
| Other income (expense): | | | | |
| Interest expense | (10,199) | (3,550) | | (13,749) |
| Other, net | 193 | 35 | | 228 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Total other expense, net | | (10,006) | | (3,515) | | | | (13,521) |
| Income before income taxes | | 19,441 | | 1,982 | | (1,982) | | 19,441 |
| Income tax expense | | 7,961 | | | | | | 7,961 |
| Net income | $ | 11,480 | $ | 1,982 | $ | (1,982) | $ | 11,480 |

17

Table of Contents

## CONDENSED CONSOLIDATING STATEMENT OF INCOME

| | Three Months Ended June 30, 2014 | | | |
|---|---|---|---|---|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| | (Amounts in thousands) | | | |
| Revenues: | | | | |
| Equipment rentals | $ 83,728 | $ 15,086 | $ | $ 98,814 |
| New equipment sales | 80,760 | 9,821 | | 90,581 |
| Used equipment sales | 26,062 | 5,335 | | 31,397 |
| Parts sales | 24,549 | 3,822 | | 28,371 |
| Services revenues | 13,856 | 2,246 | | 16,102 |
| Other | 12,600 | 2,513 | | 15,113 |
| Total revenues | 241,555 | 38,823 | | 280,378 |
| Cost of revenues: | | | | |
| Rental depreciation | 30,038 | 5,411 | | 35,449 |
| Rental expense | 13,012 | 2,569 | | 15,581 |
| New equipment sales | 70,633 | 8,780 | | 79,413 |
| Used equipment sales | 17,479 | 3,577 | | 21,056 |
| Parts sales | 17,376 | 2,665 | | 20,041 |
| Services revenues | 4,942 | 825 | | 5,767 |
| Other | 11,526 | 2,477 | | 14,003 |
| Total cost of revenues | 165,006 | 26,304 | | 191,310 |
| Gross profit: | | | | |
| Equipment rentals | 40,678 | 7,106 | | 47,784 |
| New equipment sales | 10,127 | 1,041 | | 11,168 |
| Used equipment sales | 8,583 | 1,758 | | 10,341 |
| Parts sales | 7,173 | 1,157 | | 8,330 |
| Services revenues | 8,914 | 1,421 | | 10,335 |
| Other | 1,074 | 36 | | 1,110 |
| Gross profit | 76,549 | 12,519 | | 89,068 |
| Selling, general and administrative expenses | 43,695 | 8,188 | | 51,883 |
| Equity in earnings of guarantor subsidiaries | 1,613 | | (1,613) | |
| Gain on sales of property and equipment, net | 642 | 115 | | 757 |
| Income from operations | 35,109 | 4,446 | (1,613) | 37,942 |
| Other income (expense): | | | | |
| Interest expense | (10,034) | (2,888) | | (12,922) |
| Other, net | 289 | 55 | | 344 |

| | | | | |
|---|---|---|---|---|
| Total other expense, net | (9,745) | (2,833) | | (12,578) |
| Income before income taxes | 25,364 | 1,613 | (1,613) | 25,364 |
| Income tax expense | 9,638 | | | 9,638 |
| Net income | $ 15,726 | $ 1,613 | $ (1,613) | $ 15,726 |

18

Table of Contents

## CONDENSED CONSOLIDATING STATEMENT OF INCOME