

H&E Equipment Services, Inc.

Form 10-Q

November 03, 2011

**Table of Contents**

**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, 2011.**

**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**  
(State or Other Jurisdiction of Incorporation or Organization)

**81-0553291**  
(I.R.S. Employer Identification No.)

**11100 Mead Road, Suite 200,  
Baton Rouge, Louisiana**  
(Address of Principal Executive Offices)

**70816**  
(ZIP Code)

**(225) 298-5200**  
(Registrant's Telephone Number, Including Area Code)

**None**  
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No p

As of October 31, 2011, there were 35,086,534 shares of H&E Equipment Services, Inc. common stock, \$0.01 par value, outstanding.

---

**H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES**  
**TABLE OF CONTENTS**  
**SEPTEMBER 30, 2011**

	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	<b>4</b>
<u>Item 1. Financial Statements:</u>	
<u>Condensed Consolidated Balance Sheets as of September 30, 2011 (Unaudited) and December 31, 2010</u>	4
<u>Condensed Consolidated Statements of Operations (Unaudited) for the Three and Nine Months Ended September 30, 2011 and 2010</u>	5
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the Three and Nine Months Ended September 30, 2011 and 2010</u>	6
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	34
<u>Item 4. Controls and Procedures</u>	34
<b><u>PART II. OTHER INFORMATION</u></b>	<b>35</b>
<u>Item 1. Legal Proceedings</u>	35
<u>Item 1A. Risk Factors</u>	35
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	35
<u>Item 3. Defaults upon Senior Securities</u>	35
<u>Item 4. (Removed and Reserved)</u>	35
<u>Item 5. Other Information</u>	35
<u>Item 6. Exhibits</u>	36
<u>Signatures</u>	37
<u>EX-10.1</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	
<u>EX-101 LABELS LINKBASE DOCUMENT</u>	
<u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>	

**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 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, as well as the depth and duration of the recent macroeconomic downturn and related decreases in construction and industrial activities, which may continue to significantly affect our revenues and operating results;

- the impact of conditions in the global credit markets and their effect on construction spending and the economy in general;

- relationships with new equipment suppliers;

- increased maintenance and repair costs as we age our fleet and decreases in our equipment's residual value;

- our indebtedness;

- the 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, 2010.

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.

## Edgar Filing: H&E Equipment Services, Inc. - Form 10-Q

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, 2010, 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](http://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)

	<b>Balances at</b>	
	<b>September</b>	<b>December</b>
	<b>30,</b>	<b>31,</b>
	<b>2011</b>	<b>2010</b>
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
Cash	\$ 4,894	\$ 29,149
Receivables, net of allowance for doubtful accounts of \$5,512 and \$6,004, respectively	99,737	99,139
Inventories, net of reserves for obsolescence of \$1,109 and \$1,105, respectively	77,272	72,156
Prepaid expenses and other assets	5,501	8,679
Rental equipment, net of accumulated depreciation of \$273,269 and \$254,662, respectively	447,425	426,637
Property and equipment, net of accumulated depreciation and amortization of \$61,107 and \$53,941, respectively	59,584	57,186
Deferred financing costs, net of accumulated amortization of \$11,497 and \$10,456, respectively	5,986	7,027
Intangible assets, net of accumulated amortization of \$697 and \$3,050, respectively	92	429
Goodwill	34,019	34,019
Total assets	\$ 734,510	\$ 734,421
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Liabilities:</b>		
Amounts due on senior secured credit facility	\$ 13,580	\$ 58,437
Accounts payable	60,086	75,058
Manufacturer flooring plans payable	62,911	35,999
Accrued expenses payable and other liabilities	31,298	250,000
Senior unsecured notes	250,000	250,000
Capital leases payable	2,643	2,754
Deferred income taxes	55,988	55,919
Deferred compensation payable	1,992	2,004
Total liabilities	478,498	480,171
<b>Commitments and contingent liabilities</b>		
<b>Stockholders equity:</b>		
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; 38,808,941 and 38,699,666 shares issued at September 30, 2011 and December 31, 2010, respectively, and 35,086,534 and 35,029,804 shares outstanding at September 30,	387	386

Edgar Filing: H&E Equipment Services, Inc. - Form 10-Q

2011 and December 31, 2010, respectively		
Additional paid-in capital	210,362	209,111
Treasury stock at cost, 3,722,407 and 3,669,862 shares of common stock held at September 30, 2011 and December 31, 2010, respectively	(56,884)	(56,330)
Retained earnings	102,147	101,083
Total stockholders' equity	256,012	254,250
Total liabilities and stockholders' equity	\$ 734,510	\$ 734,421

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 OPERATIONS**  
**(Unaudited)**

(Amounts in thousands, except per share amounts)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Revenues:				
Equipment rentals	\$ 61,190	\$ 48,272	\$ 165,440	\$ 126,400
New equipment sales	46,543	47,697	133,629	103,952
Used equipment sales	27,172	14,700	65,655	46,062
Parts sales	24,647	22,599	71,166	65,013
Services revenues	14,191	12,412	40,072	36,466
Other	10,546	8,164	27,570	21,643
<b>Total revenues</b>	<b>184,289</b>	<b>153,844</b>	<b>503,532</b>	<b>399,536</b>
Cost of revenues:				
Rental depreciation	22,076	19,628	64,146	58,260
Rental expense	12,176	10,552	34,484	29,171
New equipment sales	41,123	42,979	118,271	93,992
Used equipment sales	20,824	11,083	50,444	35,690
Parts sales	18,073	16,710	52,174	47,804
Services revenues	5,451	5,177	15,499	13,805
Other	10,825	9,795	31,862	26,630
<b>Total cost of revenues</b>	<b>130,548</b>	<b>115,924</b>	<b>366,880</b>	<b>305,352</b>
<b>Gross profit</b>	<b>53,741</b>	<b>37,920</b>	<b>136,652</b>	<b>94,184</b>
Selling, general and administrative expenses	39,042	36,594	114,681	109,233
Gain on sales of property and equipment, net	372	125	521	324
<b>Income (loss) from operations</b>	<b>15,071</b>	<b>1,451</b>	<b>22,492</b>	<b>(14,725)</b>
Other income (expense):				
Interest expense	(7,222)	(7,287)	(21,607)	(21,781)
Other, net	118	10	626	166
<b>Total other expense, net</b>	<b>(7,104)</b>	<b>(7,277)</b>	<b>(20,981)</b>	<b>(21,615)</b>
<b>Income (loss) before provision for income taxes</b>	<b>7,967</b>	<b>(5,826)</b>	<b>1,511</b>	<b>(36,340)</b>
Provision (benefit) for income taxes	3,119	(2,046)	447	(13,389)
<b>Net income (loss)</b>	<b>\$ 4,848</b>	<b>\$ (3,780)</b>	<b>\$ 1,064</b>	<b>\$ (22,951)</b>

Edgar Filing: H&E Equipment Services, Inc. - Form 10-Q

Net income (loss) per common share:				
Basic	\$ 0.14	\$ (0.11)	\$ 0.03	\$ (0.66)
Diluted	\$ 0.14	\$ (0.11)	\$ 0.03	\$ (0.66)
Weighted average common shares outstanding:				
Basic	34,804	34,700	34,743	34,656
Diluted	34,860	34,700	34,884	34,656

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

5

---

**Table of Contents**

**H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**  
**(Amounts in thousands)**

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2011</b>	<b>2010</b>
Cash flows from operating activities:		
Net income (loss)	\$ 1,064	\$ (22,951)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization on property and equipment	9,310	9,946
Depreciation on rental equipment	64,146	58,260
Amortization of loan discounts and deferred financing costs	1,042	1,060
Amortization of intangible assets	337	435
Provision for losses on accounts receivable	2,186	2,425
Provision for inventory obsolescence	170	192
Decrease in deferred income taxes	69	(11,443)
Stock-based compensation expense	994	741
Gain on sales of property and equipment, net	(521)	(324)
Gain on sales of rental equipment, net	(14,103)	(9,327)
Changes in operating assets and liabilities:		
Receivables, net	(2,784)	(28,390)
Inventories, net	(32,985)	(24,092)
Prepaid expenses and other assets	3,177	(2,246)
Accounts payable	1,649	33,076
Manufacturer flooring plans payable	(12,147)	(17,365)
Accrued expenses payable and other liabilities	(4,700)	(4,039)
Deferred compensation payable	(12)	47
Net cash provided by (used in) operating activities	16,892	(13,995)
Cash flows from investing activities:		
Purchases of property and equipment	(11,950)	(3,262)
Purchases of rental equipment	(90,669)	(31,942)
Proceeds from sales of property and equipment	763	434
Proceeds from sales of rental equipment	47,537	34,705
Net cash used in investing activities	(54,319)	(65)
Cash flows from financing activities:		
Excess tax benefit from stock-based awards	257	
Purchases of treasury stock	(554)	(212)
Borrowings on senior secured credit facility	352,711	
Payments on senior secured credit facility	(339,131)	
Payments on deferred financing costs		(2,888)
Payments of capital lease obligations	(111)	(1,320)

Edgar Filing: H&E Equipment Services, Inc. - Form 10-Q

Net cash provided by (used in) financing activities	13,172	(4,420)
Net decrease in cash	(24,255)	(18,480)
Cash, beginning of period	29,149	45,336
Cash, end of period	\$ 4,894	\$ 26,856

**Table of Contents**

**H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**  
**(Unaudited)**  
**(Amounts in thousands)**

	<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
Supplemental schedule of noncash investing and financing activities:		
Noncash asset purchases:		
Assets transferred from new and used inventory to rental fleet	\$ 27,699	\$ 26,415
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 25,793	\$ 25,925
Income taxes paid, net of refunds received	\$ (1,635)	\$ 64

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

**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 Holdings, 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, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011, 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, 2010, from which the balance sheet amounts as of December 31, 2010 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 service 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, 2010. During the three and nine month periods ended September 30, 2011, there were no significant changes to those accounting policies.

*Use of Estimates*

We prepare our condensed 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



**Table of Contents**

basis based on information currently available, and changes in facts and circumstances may cause us to revise these estimates.

*Recent Accounting Pronouncements*

In October 2009, the FASB issued ASU 2009-13, *Multiple-Deliverable Revenue Arrangements* (amendments to ASC 605, *Revenue Recognition*) ( ASU 2009-13 ). ASU 2009-13 addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and requires entities to allocate revenue in an arrangement containing more than one unit of accounting using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. We adopted the provisions of ASU 2009-13 effective January 1, 2011, and such adoption did not have a material impact on our condensed consolidated financial statements.

In December 2010, the FASB issued updated accounting guidance related to the calculation of the carrying amount of a reporting unit when performing the first step of a goodwill impairment test. More specifically, this update requires an entity to use an equity premise when performing the first step of a goodwill impairment test and if a reporting unit has a zero or negative carrying amount, the entity must assess and consider qualitative factors and whether it is more likely than not that a goodwill impairment exists. The new accounting guidance became effective for us on January 1, 2011 for impairment tests performed during fiscal 2011. We plan to adopt the new disclosures in conjunction with our annual impairment test as of October 1, 2011, or sooner if triggering events occurred and indicated that a goodwill impairment test should be performed. However, as we currently do not have any reporting units with a zero or negative carrying amount, we do not expect the application of this guidance to have an impact on our consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, *Intangibles Goodwill and Other (Topic 350) Testing Goodwill for Impairment* ( ASU 2011-08 ), to allow entities to first use a qualitative approach to test goodwill for impairment. ASU 2011-08 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, the currently prescribed two-step goodwill impairment test must be performed. Otherwise, the two-step goodwill impairment test is not required. Entities are not required to perform the qualitative assessment and are permitted to skip the qualitative assessment for any reporting unit in any period and proceed directly to Step 1 of the two-step goodwill impairment test. ASU 2011-08 is effective for us in fiscal 2012 and earlier adoption is permitted. Adoption of this guidance is not expected to have a material effect on the Company's consolidated financial statements.

**(3) Fair Value of Financial Instruments**

The carrying value of financial instruments reported in our 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 determination of the fair value of our letters 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 have been calculated based upon market quotes and present value calculations based on our current estimated incremental borrowing rates for similar types of borrowing arrangements, which are presented in the table below (amounts in thousands):

	<b>September 30, 2011</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>
Manufacturer flooring plans payable with interest computed at 7.00%	\$ 62,911	\$ 50,941
Senior unsecured notes with interest compounded at 8.375%	250,000	250,000
Capital leases payable with interest computed at 5.929% to 9.55%	2,643	2,251
Letters of credit		192
	<b>December 31, 2010</b>	
	<b>Carrying</b>	<b>Fair</b>



Edgar Filing: H&E Equipment Services, Inc. - Form 10-Q

	<b>Amount</b>	<b>Value</b>
Manufacturer flooring plans payable with interest computed at 7.00%	\$ 75,058	\$ 63,105
Senior unsecured notes with interest compounded at 8.375%	250,000	251,250
Capital leases payable with interest computed at 5.929% to 9.55%	2,754	2,199
Letters of credit		216

9

---

**Table of Contents****(4) Stockholders Equity**

The following table summarizes the activity in Stockholders Equity for the nine month period ended September 30, 2011 (amounts in thousands, except share data):

	Common Stock		Additional	Treasury	Retained	Total
	Shares	Amount	Paid-in	Stock	Earnings	Stockholders
	Issued		Capital			Equity
Balances at						
December 31, 2010	38,699,666	\$ 386	\$ 209,111	\$ (56,330)	\$ 101,083	\$ 254,250
Stock-based						
compensation			994			994
Tax benefits associated						
with stock-based awards			257			257
Issuance of common						
stock	109,275	1				1
Repurchase of 42,016						
shares of restricted						
common stock				(554)		(554)
Net income					1,064	1,064
Balances at						
September 30, 2011	38,808,941	\$ 387	\$ 210,362	\$ (56,884)	\$ 102,147	\$ 256,012

**(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 3,829,079 shares as of September 30, 2011.

*Non-vested Stock*

The following table summarizes our non-vested stock activity for the nine month period ended September 30, 2011:

	Number of		Weighted
	Shares		Average
			Grant Date
			Fair
			Value
Non-vested stock at December 31, 2010	329,937	\$	8.57
Granted	109,275	\$	14.46
Vested	(148,252)	\$	8.69
Forfeited	(10,529)	\$	9.37
Non-vested stock at September 30, 2011	280,431	\$	10.77

As of September 30, 2011, we had unrecognized compensation expense of approximately \$2.4 million related to non-vested stock that we expect to be recognized over a weighted-average period of 2.2 years. The following table

Edgar Filing: H&E Equipment Services, Inc. - Form 10-Q

summarizes compensation expense related to non-vested stock, which is included in selling, general and administrative expenses in the accompanying condensed consolidated statements of operations for the three and nine months ended September 30, 2011 and 2010 (amounts in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Compensation expense	\$ 334	\$ 301	\$ 994	\$ 732

*Stock Options*

At September 30, 2011, there is no unrecognized compensation expense as all stock option awards have fully vested. The following table summarizes compensation expense included in selling, general and administrative expenses in the accompanying condensed consolidated statements of operations for the three and nine months ended September 30, 2011 and 2010 (amounts in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Compensation expense	\$	\$	\$	\$ 9

---

**Table of Contents**

The following table represents stock option activity for the nine month period ended September 30, 2011:

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Contractual Life In Years</b>
Outstanding options at December 31, 2010	51,000	\$ 24.80	
Granted			
Exercised			
Canceled, forfeited or expired			
Outstanding options at September 30, 2011	51,000	\$ 24.80	4.8
Options exercisable at September 30, 2011	51,000	\$ 24.80	4.8

The closing price of our common stock on September 30, 2011 was \$8.25. All options outstanding at September 30, 2011 have grant date fair values which exceed the September 30, 2011 closing stock price.

**(6) Income (Loss) per Share**

Income (loss) per common share for the three and nine month periods ended September 30, 2011 and 2010 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 (loss) per share. The following table sets forth the computation of basic and diluted net income (loss) per common share for the three and nine month periods ended September 30, 2011 and 2010 (amounts in thousands, except per share amounts):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Basic net income (loss) per share:				
Net income (loss)	\$ 4,848	\$ (3,780)	\$ 1,064	\$ (22,951)
Weighted average number of shares of common stock outstanding	34,804	34,700	34,743	34,656
Net income (loss) per share of common stock basic	\$ 0.14	\$ (0.11)	\$ 0.03	\$ (0.66)
Diluted net income (loss) per share:				
Net income (loss)	\$ 4,848	\$ (3,780)	\$ 1,064	\$ (22,951)
Weighted average number of shares of common stock outstanding	34,804	34,700	34,743	34,656
Effect of dilutive securities:				
Effect of dilutive stock options				
Effect of dilutive non-vested restricted stock	56		141	
Weighted average number of shares of common stock outstanding diluted	34,860	34,700	34,884	34,656
Net income (loss) per share of common stock diluted	\$ 0.14	\$ (0.11)	\$ 0.03	\$ (0.66)

Common shares excluded from the denominator as anti-dilutive:

Stock options	51	51	51	51
Non-vested restricted stock	52	167		224

**(7) Segment Information**

We have identified five reportable segments: equipment rentals, new equipment sales, used equipment sales, parts sales and service 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.

**Table of Contents**

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):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Revenues:				
Equipment rentals	\$ 61,190	\$ 48,272	\$ 165,440	\$ 126,400
New equipment sales	46,543	47,697	133,629	103,952
Used equipment sales	27,172	14,700	65,655	46,062
Parts sales	24,647	22,599	71,166	65,013
Services revenues	14,191	12,412	40,072	36,466
Total segmented revenues	173,743	145,680	475,962	377,893
Non-segmented revenues	10,546	8,164	27,570	21,643
Total revenues	\$ 184,289	\$ 153,844	\$ 503,532	\$ 399,536
Gross Profit (Loss):				
Equipment rentals	\$ 26,938	\$ 18,092	\$ 66,810	\$ 38,969
New equipment sales	5,420	4,718	15,358	9,960
Used equipment sales	6,348	3,617	15,211	10,372
Parts sales	6,574	5,889	18,992	17,209
Services revenues	8,740	7,235	24,573	22,661
Total segmented gross profit	54,020	39,551	140,944	99,171
Non-segmented gross loss	(279)	(1,631)	(4,292)	(4,987)
Total gross profit	\$ 53,741	\$ 37,920	\$ 136,652	\$ 94,184

	<b>Balances at</b>	
	<b>September 30, 2011</b>	<b>December 31, 2010</b>
Segment identified assets:		
Equipment sales	\$ 63,142	\$ 57,540
Equipment rentals	447,425	426,637
Parts and services	14,129	14,617
Total segment identified assets	524,696	498,794
Non-segment identified assets	209,814	235,627
Total assets	\$ 734,510	\$ 734,421

The Company operates primarily in the United States and our sales to international customers for the three and nine month periods ended September 30, 2011 were 1.5% and 2.4%, respectively, of total revenues compared to 1.8% and 2.5% for the three and nine month periods ended September 30, 2010. No one customer accounted for more than 10% of our revenues on an overall or segment basis for any of the periods presented.



**Table of Contents****(8) 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 Finance Corp., H&E Equipment Services (California), LLC, H&E California Holdings, Inc. and H&E Equipment Services (Mid-Atlantic), Inc. 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 condensed 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 condensed consolidating financial statements because H&E Finance Corp. has no assets or operations. The condensed consolidating balance sheet amounts as of December 31, 2010 included herein were derived from our annual audited consolidated financial statements and related notes in our Annual Report on Form 10-K for the year ended December 31, 2010.

**CONDENSED CONSOLIDATING BALANCE SHEET**

	<b>As of September 30, 2011</b>			
	<b>H&amp;E Equipment Services, Inc.</b>	<b>Guarantor Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
		<b>(Amounts in thousands)</b>		
<b>Assets:</b>				
Cash	\$ 4,894	\$	\$	\$ 4,894
Receivables, net	86,197	13,540		99,737
Inventories, net	64,045	13,227		77,272
Prepaid expenses and other assets	5,349	152		5,501
Rental equipment, net	360,530	86,895		447,425
Property and equipment, net	49,097	10,487		59,584
Deferred financing costs, net	5,986			5,986
Intangible assets, net		92		92
Investment in guarantor subsidiaries	(24,328)		24,328	
Goodwill	4,493	29,526		34,019
<b>Total assets</b>	<b>\$ 556,263</b>	<b>\$ 153,919</b>	<b>\$ 24,328</b>	<b>\$ 734,510</b>
<b>Liabilities and Stockholders Equity:</b>				
Amounts due on senior secured credit facility	\$ 13,580	\$	\$	\$ 13,580
Accounts payable	56,614	3,472		60,086
Manufacturer flooring plans payable	62,791	120		62,911
Accrued expenses payable and other liabilities	30,397	901		31,298
Intercompany balances	(171,111)	171,111		
Senior unsecured notes	250,000			250,000
Capital lease payable		2,643		2,643
Deferred income taxes	55,988			55,988
Deferred compensation payable	1,992			1,992
<b>Total liabilities</b>	<b>300,251</b>	<b>178,247</b>		<b>478,498</b>



Edgar Filing: H&E Equipment Services, Inc. - Form 10-Q

Stockholders' equity (deficit)	256,012	(24,328)	24,328	256,012
Total liabilities and stockholders' equity	\$ 556,263	\$ 153,919	\$ 24,328	\$ 734,510

13

---

**Table of Contents****CONDENSED CONSOLIDATING BALANCE SHEET**

	<b>As of December 31, 2010</b>				
	<b>H&amp;E Equipment Services, Inc.</b>	<b>Guarantor Subsidiaries</b>		<b>Elimination</b>	<b>Consolidated</b>
		<b>(Amounts in thousands)</b>			
<b>Assets:</b>					
Cash	\$ 29,149	\$	\$	\$	\$ 29,149
Receivables, net	87,629	11,510			99,139
Inventories, net	57,698	14,458			72,156
Prepaid expenses and other assets	8,479	200			8,679
Rental equipment, net	339,644	86,993			426,637
Property and equipment, net	47,301	9,885			57,186
Deferred financing costs, net	7,027				7,027
Intangible assets, net		429			429
Investment in guarantor subsidiaries	(18,509)			18,509	
Goodwill	4,493	29,526			34,019
<b>Total assets</b>	<b>\$ 526,911</b>	<b>\$ 153,001</b>	<b>\$ 18,509</b>	<b>\$</b>	<b>\$ 734,421</b>
<b>Liabilities and Stockholders Equity:</b>					
Accounts payable	\$ 55,482	\$ 2,955	\$	\$	\$ 58,437
Manufacturer flooring plans payable	74,882	176			75,058
Accrued expenses payable and other liabilities	34,896	1,103			35,999
Intercompany balances	(164,522)	164,522			
Senior unsecured notes	250,000				250,000
Capital lease payable		2,754			2,754
Deferred income taxes	55,919				55,919
Deferred compensation payable	2,004				2,004
<b>Total liabilities</b>	<b>308,661</b>	<b>171,510</b>	<b>18,509</b>	<b>\$</b>	<b>480,171</b>
Stockholders equity (deficit)	254,250	(18,509)		18,509	254,250
<b>Total liabilities and stockholders equity</b>	<b>\$ 562,911</b>	<b>\$ 153,001</b>	<b>\$ 18,509</b>	<b>\$</b>	<b>\$ 734,421</b>

**Table of Contents****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****Three Months Ended September 30, 2011**

	<b>H&amp;E Equipment Services, Inc.</b>	<b>Guarantor Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>(Amounts in thousands)</b>			
<b>Revenues:</b>				
Equipment rentals	\$ 48,565	\$ 12,625	\$	\$ 61,190
New equipment sales	42,175	4,368		46,543
Used equipment sales	22,471	4,701		27,172
Parts sales	20,935	3,712		24,647
Services revenues	12,411	1,780		14,191
Other	8,610	1,936		10,546
<b>Total revenues</b>	<b>155,167</b>	<b>29,122</b>		<b>184,289</b>
<b>Cost of revenues:</b>				
Rental depreciation	17,328	4,748		22,076
Rental expense	9,520	2,656		12,176
New equipment sales	37,193	3,930		41,123
Used equipment sales	16,882	3,942		20,824
Parts sales	15,416	2,657		18,073
Services revenues	4,786	665		5,451
Other	8,580	2,245		10,825
<b>Total cost of revenues</b>	<b>109,705</b>	<b>20,843</b>		<b>130,548</b>
<b>Gross profit (loss):</b>				
Equipment rentals	21,717	5,221		26,938
New equipment sales	4,982	438		5,420
Used equipment sales	5,589	759		6,348
Parts sales	5,519	1,055		6,574
Services revenues	7,625	1,115		8,740
Other	30	(309)		(279)
<b>Gross profit</b>	<b>45,462</b>	<b>8,279</b>		<b>53,741</b>
Selling, general and administrative expenses	32,217	6,825		39,042
Equity in loss of guarantor subsidiaries	(759)		759	
Gain on sales of property and equipment, net	250	122		372
<b>Income from operations</b>	<b>12,736</b>	<b>1,576</b>	<b>759</b>	<b>15,071</b>
<b>Other income (expense):</b>				
Interest expense	(4,870)	(2,352)		(7,222)
Other, net	101	17		118

Edgar Filing: H&E Equipment Services, Inc. - Form 10-Q

Total other expense, net	(4,769)	(2,335)		(7,104)
Income (loss) before income taxes	7,967	(759)	759	7,967
Income tax expense	3,119			3,119
Net income (loss)	\$ 4,848	\$ (759)	\$ 759	\$ 4,848

15

---

**Table of Contents****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**

Three Months Ended September 30, 2010

	<b>H&amp;E Equipment Services, Inc.</b>	<b>Guarantor Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
	(Amounts in thousands)			
Revenues:				
Equipment rentals	\$ 37,617	\$ 10,655	\$	\$ 48,272
New equipment sales	44,125	3,572		47,697
Used equipment sales	13,034	1,666		14,700
Parts sales	19,055	3,544		22,599
Services revenues	10,951	1,461		12,412
Other	6,732	1,432		8,164
<b>Total revenues</b>	<b>131,514</b>	<b>22,330</b>		<b>153,844</b>
Cost of revenues:				
Rental depreciation	15,229	4,399		19,628
Rental expense	8,371	2,181		10,552
New equipment sales	39,841	3,138		42,979
Used equipment sales	9,839	1,244		11,083
Parts sales	14,115	2,595		16,710
Services revenues	4,623	554		5,177
Other	7,639	2,156		9,795
<b>Total cost of revenues</b>	<b>99,657</b>	<b>16,267</b>		<b>115,924</b>
Gross profit (loss):				
Equipment rentals	14,017	4,075		18,092
New equipment sales	4,284	434		4,718
Used equipment sales	3,195	422		3,617
Parts sales	4,940	949		5,889
Services revenues	6,328	907		7,235
Other	(907)	(724)		(1,631)
<b>Gross profit</b>	<b>31,857</b>	<b>6,063</b>		<b>37,920</b>
Selling, general and administrative expenses	30,331	6,263		36,594
Equity in loss of guarantor subsidiaries	(2,620)		2,620	
Gain on sales of property and equipment, net	108	17		125
<b>Loss from operations</b>	<b>(986)</b>	<b>(183)</b>	<b>2,620</b>	<b>1,451</b>
Other income (expense):				
Interest expense	(4,845)	(2,442)		(7,287)
Other, net	5	5		10

Edgar Filing: H&E Equipment Services, Inc. - Form 10-Q

Total other expense, net	(4,840)	(2,437)		(7,277)
Loss before income taxes	(5,826)	(2,620)	2,620	(5,826)
Income tax benefit	(2,046)			(2,046)
Net loss	\$ (3,780)	\$ (2,620)	\$ 2,620	\$ (3,780)

**Table of Contents****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**

Nine Months Ended September 30, 2011

	<b>H&amp;E Equipment Services, Inc.</b>	<b>Guarantor Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>(Amounts in thousands)</b>			
Revenues:				
Equipment rentals	\$ 132,313	\$ 33,127	\$	\$ 165,440
New equipment sales	118,099	15,530		133,629
Used equipment sales	54,294	11,361		65,655
Parts sales	60,234	10,932		71,166
Services revenues	35,189	4,883		40,072
Other	22,532	5,038		27,570
<b>Total revenues</b>	<b>422,661</b>	<b>80,871</b>		<b>503,532</b>
Cost of revenues:				
Rental depreciation	50,317	13,829		64,146
Rental expense	27,595	6,889		34,484
New equipment sales	104,488	13,783		118,271
Used equipment sales	41,058	9,386		50,444
Parts sales	44,250	7,924		52,174
Services revenues	13,784	1,715		15,499
Other	25,128	6,734		31,862
<b>Total cost of revenues</b>	<b>306,620</b>	<b>60,260</b>		<b>366,880</b>
Gross profit (loss):				
Equipment rentals	54,401	12,409		66,810
New equipment sales	13,611	1,747		15,358
Used equipment sales	13,236	1,975		15,211
Parts sales	15,984	3,008		18,992
Services revenues	21,405	3,168		24,573
Other	(2,596)	(1,696)		(4,292)
<b>Gross profit</b>	<b>116,041</b>	<b>20,611</b>		<b>136,652</b>
Selling, general and administrative expenses	95,057	19,624		114,681
Equity in loss of guarantor subsidiaries	(5,819)		5,819	
Gain on sales of property and equipment, net	378	143		521
<b>Income from operations</b>	<b>15,543</b>	<b>1,130</b>	<b>5,819</b>	<b>22,492</b>
Other income (expense):				
Interest expense	(14,629)	(6,978)		(21,607)
Other, net	597	29		626

Edgar Filing: H&E Equipment Services, Inc. - Form 10-Q

Total other expense, net	(14,032)	(6,949)		(20,981)
Income (loss) before income taxes	1,511	(5,819)	5,819	1,511
Income tax benefit	447			447
Net income (loss)	\$ 1,064	\$ (5,819)	\$ 5,819	\$ 1,064

17

---



**Table of Contents****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**

Nine Months Ended September 30, 2010

	<b>H&amp;E Equipment Services, Inc.</b>	<b>Guarantor Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>(Amounts in thousands)</b>			
<b>Revenues:</b>				
Equipment rentals	\$ 99,849	\$ 26,551	\$	\$ 126,400
New equipment sales	93,221	10,731		103,952
Used equipment sales	39,658	6,404		46,062
Parts sales	54,942	10,071		65,013
Services revenues	32,020	4,446		36,466
Other	17,634	4,009		21,643
<b>Total revenues</b>	<b>337,324</b>	<b>62,212</b>		<b>399,536</b>
<b>Cost of revenues:</b>				
Rental depreciation	45,631	12,629		58,260
Rental expense	23,458	5,713		29,171
New equipment sales	84,247	9,745		93,992
Used equipment sales	30,824	4,866		35,690
Parts sales	40,420	7,384		47,804
Services revenues	12,320	1,485		13,805
Other	20,852	5,778		26,630
<b>Total cost of revenues</b>	<b>257,752</b>	<b>47,600</b>		<b>305,352</b>
<b>Gross profit (loss):</b>				
Equipment rentals	30,760	8,209		38,969
New equipment sales	8,974	986		9,960
Used equipment sales	8,834	1,538		10,372
Parts sales	14,522	2,687		17,209
Services revenues	19,700	2,961		22,661
Other	(3,218)	(1,769)		(4,987)
<b>Gross profit</b>	<b>79,572</b>	<b>14,612</b>		<b>94,184</b>
Selling, general and administrative expenses	91,114	18,119		109,233
Equity in loss of guarantor subsidiaries	(10,726)		10,726	
Gain on sales of property and equipment, net	264	60		324
<b>Loss from operations</b>	<b>(22,004)</b>	<b>(3,447)</b>	<b>10,726</b>	<b>(14,725)</b>
<b>Other income (expense):</b>				
Interest expense	(14,494)	(7,287)		(21,781)
Other, net	158	8		166

Edgar Filing: H&E Equipment Services, Inc. - Form 10-Q

Total other expense, net	(14,336)	(7,279)		(21,615)
Loss before income taxes	(36,340)	(10,726)	10,726	(36,340)
Income tax benefit	(13,389)			(13,389)
Net loss	\$ (22,951)	\$ (10,726)	\$ 10,726	\$ (22,951)

18

---

**Table of Contents****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**

Nine Months Ended September 30, 2011

	<b>H&amp;E Equipment Services, Inc.</b>	<b>Guarantor Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>(Amounts in thousands)</b>			
Cash flows from operating activities:				
Net income (loss)	\$ 1,064	\$ (5,819)	\$ 5,819	\$ 1,064
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization on property and equipment	7,948	1,362		9,310
Depreciation on rental equipment	50,317	13,829		64,146
Amortization of loan discounts and deferred financing costs	1,042			1,042
Amortization of intangible assets		337		337
Provision for losses on accounts receivable	2,849	(663)		2,186
Provision for inventory obsolescence	170			170
Provision for deferred income taxes	69			69
Stock-based compensation expense	994			994
Gain on sales of property and equipment, net	(378)	(143)		(521)
Gain on sales of rental equipment, net	(12,121)	(1,982)		(14,103)
Equity in loss of guarantor subsidiaries	5,819		(5,819)	
Changes in operating assets and liabilities:				
Receivables, net	(1,417)	(1,367)		(2,784)
Inventories, net	(29,242)	(3,743)		(32,985)
Prepaid expenses and other assets	3,129	48		3,177
Accounts payable	1,132	517		1,649
Manufacturer flooring plans payable	(12,091)	(56)		(12,147)
Accrued expenses payable and other liabilities	(4,498)	(202)		(4,700)
Intercompany balances	(6,589)	6,589		
Deferred compensation payable	(12)			(12)
Net cash provided by operating activities	8,185	8,707		16,892
Cash flows from investing activities:				
Purchases of property and equipment	(9,982)	(1,968)		(11,950)
Purchases of rental equipment	(73,897)	(16,772)		(90,669)
Proceeds from sales of property and equipment	616	147		763
Proceeds from sales of rental equipment	37,540	9,997		47,537
Net cash used in investing activities	(45,723)	(8,596)		(54,319)
Cash flows from financing activities:				
Excess tax benefit from stock-based awards	257			257
Purchases of treasury stock	(554)			(554)
Borrowings on senior secured credit facility	352,711			352,711

Edgar Filing: H&E Equipment Services, Inc. - Form 10-Q

Payments on senior secured credit facility	(339,131)			(339,131)
Payments on capital lease obligations		(111)		(111)
Net cash provided by (used in) financing activities	13,283	(111)		13,172
Net decrease in cash	(24,255)			(24,255)
Cash, beginning of period	29,149			29,149
Cash, end of period	\$ 4,894	\$	\$	\$ 4,894

19

---

**Table of Contents****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**

Nine Months Ended September 30, 2010

	<b>H&amp;E Equipment Services</b>	<b>Guarantor Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>(Amounts in thousands)</b>			
Cash flows from operating activities:				
Net loss	\$ (22,951)	\$ (10,726)	\$ 10,726	\$ (22,951)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization on property and equipment	8,385	1,561		9,946
Depreciation on rental equipment	45,631	12,629		58,260
Amortization of loan discounts and deferred financing costs	1,060			1,060
Amortization of intangible assets		435		435
Provision for losses on accounts receivable	2,519	(94)		2,425
Provision for inventory obsolescence	192			192
Decrease in deferred income taxes	(11,443)			(11,443)
Stock-based compensation expense	741			741
Gain on sales of property and equipment, net	(264)	(60)		(324)
Gain on sales of rental equipment, net	(7,860)	(1,467)		(9,327)
Equity in loss of guarantor subsidiaries	10,726		(10,726)	
Changes in operating assets and liabilities:				
Receivables, net	(30,617)	2,227		(28,390)
Inventories, net	(24,063)	(29)		(24,092)
Prepaid expenses and other assets	(2,139)	(107)		(2,246)
Accounts payable	28,967	4,109		33,076
Manufacturer flooring plans payable	(17,729)	364		(17,365)
Accrued expenses payable and other liabilities	(4,246)	207		(4,039)
Intercompany balances	9,545	(9,545)		
Deferred compensation payable	47			47
Net cash used in operating activities	(13,499)	(496)		(13,995)
Cash flows from investing activities:				
Purchases of property and equipment	(2,876)	(386)		(3,262)
Purchases of rental equipment	(27,022)	(4,920)		(31,942)
Proceeds from sales of property and equipment	359	75		434
Proceeds from sales of rental equipment	28,884	5,821		34,705
Net cash provided by (used in) investing activities	(655)	590		(65)
Cash flows from financing activities:				
Purchases of treasury stock	(212)			(212)
Payments of deferred financing costs	(2,888)			(2,888)
Payments on capital lease obligations	(1,216)	(104)		(1,320)

Edgar Filing: H&E Equipment Services, Inc. - Form 10-Q

Net cash used in financing activities	(4,316)	(104)	(4,420)
Net decrease in cash	(18,470)	(10)	(18,480)
Cash, beginning of period	45,326	10	45,336
Cash, end of period	\$ 26,856	\$	\$ 26,856

20

---

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion summarizes the financial position of H&E Equipment Services, Inc. and its subsidiaries as of September 30, 2011, and its results of operations for the three and nine month periods ended September 30, 2011, and should be read in conjunction with (i) the unaudited condensed consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q and (ii) the audited consolidated financial statements and accompanying notes to our Annual Report on Form 10-K for the year ended December 31, 2010. The following discussion contains, in addition to historical information, forward-looking statements that include risks and uncertainties (see discussion of *Forward-Looking Statements* included elsewhere in this Quarterly Report on Form 10-Q). Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those factors set forth under Item 1A *Risk Factors* of our Annual Report on Form 10-K for the year ended December 31, 2010.

**Overview**

**Background**

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

As of October 31, 2011, we operated 65 full-service facilities throughout the Intermountain, Southwest, Gulf Coast, West Coast, Southeast and Mid-Atlantic regions of the United States. Our work force includes distinct, focused sales forces for our new and used equipment sales and rental operations, highly skilled service technicians, product specialists and regional managers. We focus our sales and rental activities on, and organize our personnel principally by, our four core equipment categories. We believe this allows us to provide specialized equipment knowledge, improve the effectiveness of our rental and sales force and strengthen our customer relationships. In addition, we have branch managers for each location who are responsible for managing their assets and financial results. We believe this fosters accountability in our business, and strengthens our local and regional relationships.

Through our predecessor companies, we have been in the equipment services business for approximately 50 years. H&E Equipment Services L.L.C. ( *H&E LLC* ) was formed in June 2002 through the business combination of Head & Engquist, a wholly-owned subsidiary of Gulf Wide, and ICM. Head & Engquist, founded in 1961, and ICM, founded in 1971, were two leading regional, integrated equipment service companies operating in contiguous geographic markets. In the June 2002 transaction, Head & Engquist and ICM were merged with and into Gulf Wide, which was renamed H&E LLC. Prior to the combination, Head & Engquist operated 25 facilities in the Gulf Coast region, and ICM operated 16 facilities in the Intermountain region of the United States.

In connection with our initial public offering in February 2006, we converted H&E LLC into H&E Equipment Services, Inc. Prior to our initial public offering, our business was conducted through H&E LLC. In order to have an operating Delaware corporation as the issuer for our initial public offering, H&E Equipment Services, Inc. was formed as a Delaware corporation and wholly-owned subsidiary of H&E Holdings, and immediately prior to the closing of our initial public offering, on February 3, 2006, H&E LLC and H&E Holdings merged with and into us (H&E Equipment Services, Inc.), with us surviving the reincorporation merger as the operating company. Effective February 3, 2006, H&E LLC and Holdings no longer existed under operation of law pursuant to the merger reincorporation.

*Critical Accounting Policies*

Item 7, included in Part II of our Annual Report on Form 10-K for the year ended December 31, 2010, presents the accounting policies and related estimates that we believe are the most critical to understanding our consolidated financial statements, financial condition, and results of operations and cash flows, and which require complex

management judgment and assumptions, or involve uncertainties. There have been no changes to these critical accounting policies and estimates during the three and nine month periods ended September 30, 2011. These policies include, among others, revenue recognition, the adequacy of the allowance for doubtful accounts, the propriety of our estimated useful life of rental equipment and property and equipment, the potential impairment of long-lived assets including goodwill and intangible assets, obsolescence reserves on inventory, the allocation of purchase price related to business combinations, reserves for claims, including self-insurance reserves, and deferred income taxes, including the valuation of any related deferred tax assets.



## **Table of Contents**

Information regarding our other significant accounting policies is included in note 2 to our consolidated financial statements in Item 8 of Part II of our Annual Report on Form 10-K for the year ended December 31, 2010 and in note 2 to the condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

### ***Business Segments***

We have five reportable segments because we derive our revenues from five principal business activities: (1) equipment rentals; (2) new equipment sales; (3) used equipment sales; (4) parts sales; and (5) repair and maintenance services. These segments are based upon how we allocate resources and assess performance. In addition, we also have non-segmented revenues and costs that relate to equipment support activities.

*Equipment Rentals.* Our rental operation primarily rents our four core types of construction and industrial equipment. We have a well-maintained rental fleet and our own dedicated sales force, focused by equipment type. We actively manage the size, quality, age and composition of our rental fleet based on our analysis of key measures such as time utilization (which we analyze as equipment usage based on: (1) the number of rental equipment units available for rent, and (2) as a percentage of original equipment cost), rental rate trends and targets, rental equipment dollar utilization and maintenance and repair costs, which we closely monitor. We maintain fleet quality through regional quality control managers and our parts and services operations.

*New Equipment Sales.* Our new equipment sales operation sells new equipment in all of our four core product categories. We have a retail sales force focused by equipment type that is separate from our rental sales force. Manufacturer purchase terms and pricing are managed by our product specialists.

*Used Equipment Sales.* Our used equipment sales are generated primarily from sales of used equipment from our rental fleet, as well as from sales of inventoried equipment that we acquire through trade-ins from our equipment customers and through selective purchases of high quality used equipment. Used equipment is sold by our dedicated retail sales force. Our used equipment sales are an effective way for us to manage the size and composition of our rental fleet and provide a profitable distribution channel for disposal of rental equipment.

*Parts Sales.* Our parts business sells new and used parts for the equipment we sell and also provides parts to our own rental fleet. To a lesser degree, we also sell parts for equipment produced by manufacturers whose products we neither rent nor sell. In order to provide timely parts and service support to our customers as well as our own rental fleet, we maintain an extensive parts inventory.

*Services.* Our services operation provides maintenance and repair services for our customers' equipment and to our own rental fleet at our facilities as well as at our customers' locations. As the authorized distributor for numerous equipment manufacturers, we are able to provide service to that equipment that will be covered under the manufacturer's warranty.

Our non-segmented revenues and costs relate to equipment support activities that we provide, such as transportation, hauling, parts freight and damage waivers, and are not generally allocated to reportable segments.

For additional information about our business segments, see note 7 to the condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

### ***Revenue Sources***

We generate all of our total revenues from our five business segments and our non-segmented equipment support activities. Equipment rentals and new equipment sales account for more than half of our total revenues. For the nine months ended September 30, 2011, 32.9% of our total revenues were attributable to equipment rentals, 26.5% of our total revenues were attributable to new equipment sales, 13.0% were attributable to used equipment sales, 14.1% were attributable to parts sales, 8.0% were attributable to our services revenues and 5.5% were attributable to non-segmented other revenues.

The equipment that we sell, rent and service is principally used in the construction industry, as well as by companies for commercial and industrial uses such as plant maintenance and turnarounds. As a result, our total revenues are affected by several



**Table of Contents**

factors including, but not limited to, the demand for and availability of rental equipment, rental rates and other competitive factors, the demand for new and used equipment, the level of construction and industrial activities, spending levels by our customers, adverse weather conditions and general economic conditions. For a discussion of the impact of seasonality on our revenues, see *Seasonality* below.

*Equipment Rentals.* Our rental operation primarily rents our four core types of construction and industrial equipment. We have a well-maintained rental fleet and our own dedicated sales force, focused by equipment type. We actively manage the size, quality, age and composition of our rental fleet based on our analysis of key measures such as time utilization (which we analyze: (1) as equipment usage based on the number of rental equipment units available for rent and (2) as a percentage of original equipment cost), rental rate trends and targets, rental equipment dollar utilization and maintenance and repair costs, which we closely monitor. We maintain fleet quality through regional quality control managers and our parts and services operations. We recognize revenue from equipment rentals in the period earned on a straight-line basis, over the contract term, regardless of the timing of the billing to customers.

*New Equipment Sales.* We seek to optimize revenues from new equipment sales by selling equipment through a professional in-house retail sales force focused by product type. While sales of new equipment are impacted by the availability of equipment from the manufacturer, we believe our status as a leading distributor for some of our key suppliers improves our ability to obtain equipment. New equipment sales are an important component of our integrated model due to customer interaction and service contact and new equipment sales also lead to future parts and service revenues. We recognize revenue from the sale of new equipment at the time of delivery to, or pick-up by, the customer and when all obligations under the sales contract have been fulfilled and collectibility is reasonably assured.

*Used Equipment Sales.* We generate the majority of our used equipment sales revenues by selling equipment from our rental fleet. The remainder of our used equipment sales revenues comes from the sale of inventoried equipment that we acquire through trade-ins from our equipment customers and selective purchases of high-quality used equipment. Our policy is not to offer specified price trade-in arrangements on equipment for sale. Sales of our rental fleet equipment allow us to manage the size, quality, composition and age of our rental fleet, and provide us with a profitable distribution channel for the disposal of rental equipment. We recognize revenue for the sale of used equipment at the time of delivery to, or pick-up by, the customer and when all obligations under the sales contract have been fulfilled and collectibility is reasonably assured.

*Parts Sales.* We generate revenues from the sale of new and used parts for equipment that we rent or sell, as well as for other makes of equipment. Our product support sales representatives are instrumental in generating our parts revenues. They are product specialists and receive performance incentives for achieving certain sales levels. Most of our parts sales come from our extensive in-house parts inventory. Our parts sales provide us with a relatively stable revenue stream that is generally less sensitive to the economic cycles that tend to affect our rental and equipment sales operations. We recognize revenues from parts sales at the time of delivery to, or pick-up by, the customer and when all obligations under the sales contract have been fulfilled and collectibility is reasonably assured.

*Services.* We derive our services revenues from maintenance and repair services to customers for their owned equipment. In addition to repair and maintenance on an as-needed or scheduled basis, we also provide ongoing preventative maintenance services to industrial customers. Our after-market service provides a high-margin, relatively stable source of revenue through changing economic cycles. We recognize services revenues at the time services are rendered and collectibility is reasonably assured.

*Non-Segmented Other Revenues.* Our non-segmented other revenue consists of billings to customers for equipment support and activities including: transportation, hauling, parts freight, environmental fees and loss damage waiver charges. We recognize non-segmented other revenues at the time of billing and after the related services have been provided.

***Principal Costs and Expenses***

Our largest expenses are the costs to purchase the new equipment we sell and rent, the costs associated with the used equipment we sell, rental expenses, rental depreciation and costs associated with parts sales and services, all of which are included in cost of revenues. For the nine months ended September 30, 2011, our total cost of revenues was \$366.9 million. Our operating expenses consist principally of selling, general and administrative expenses. For the nine months ended September 30, 2011, our selling, general and administrative expenses were \$114.7 million. In

addition, we have interest expense related to our debt instruments. Operating expenses and all other income and expense items below the gross profit line of our consolidated statements of operations are not generally allocated to our reportable segments.

## **Table of Contents**

We are also subject to federal and state income taxes. We have been notified by the Internal Revenue Service ( IRS ) that our Federal Tax Returns for the tax years 2005, 2006, 2007, 2008 and 2009 have been selected for examination. We currently do not expect any material adjustment resulting from the IRS examination.

### ***Cost of Revenues:***

*Rental Depreciation.* Depreciation of rental equipment represents the depreciation costs attributable to rental equipment. Estimated useful lives vary based upon type of equipment. Generally, we depreciate cranes and aerial work platforms over a ten year estimated useful life, earthmoving over a five year estimated useful life with a 25% salvage value, and industrial lift-trucks over a seven year estimated useful life. Attachments and other smaller type equipment are depreciated over a three year estimated useful life.

*Rental Expense.* Rental expense represents the costs associated with rental equipment, including, among other things, the cost of servicing and maintaining our rental equipment, property taxes on our fleet and other miscellaneous costs of rental equipment.

*New Equipment Sales.* Cost of new equipment sold primarily consists of the equipment cost of the new equipment that is sold, net of any amount of credit given to the customer towards the equipment for trade-ins.

*Used Equipment Sales.* Cost of used equipment sold consists of the net book value of rental equipment for used equipment sold from our rental fleet, the equipment costs for used equipment we purchase for sale or the trade-in value of used equipment that we obtain from customers in equipment sales transactions.

*Parts Sales.* Cost of parts sales represents costs attributable to the sale of parts directly to customers.

*Services Support.* Cost of services revenues represents costs attributable to service provided for the maintenance and repair of customer-owned equipment and equipment then on-rent by customers.

*Non-Segmented Other.* These expenses include costs associated with providing transportation, hauling, parts freight, and damage waiver including, among other items, drivers wages, fuel costs, shipping costs, and our costs related to damage waiver policies.

### ***Selling, General and Administrative Expenses:***

Our selling, general and administrative ( SG&A ) expenses include sales and marketing expenses, payroll and related benefit costs, insurance expenses, professional fees, property and other taxes, administrative overhead, depreciation associated with property and equipment (other than rental equipment) and amortization expense associated with intangible assets. These expenses are not generally allocated to our reportable segments.

### ***Interest Expense:***

Interest expense for the periods presented represents the interest on our outstanding debt instruments. Interest expense also includes interest on our outstanding manufacturer financing plans payable which are used to finance inventory and rental equipment purchases. Non-cash interest expense related to the amortization cost of deferred financing costs is also included in interest expense.

### ***Principal Cash Flows***

We generate cash primarily from our operating activities and historically, we have used cash flows from operating activities, manufacturer floor plan financings and available borrowings under our revolving senior secured credit facility as the primary sources of funds to purchase our inventory and to fund working capital and capital expenditures (see also Liquidity and Capital Resources below).

### ***Rental Fleet***

A significant portion of our overall value is in our rental fleet equipment. The net book value of rental equipment at September 30, 2011 was \$447.4 million, or approximately 60.9% of our total assets. Our rental fleet, as of September 30, 2011, consisted of

**Table of Contents**

approximately 17,233 units having an original acquisition cost (which we define as the cost originally paid to manufacturers or the original amount financed under operating leases) of approximately \$726.1 million. As of September 30, 2011, our rental fleet composition was as follows (dollars in millions):

	Units	% of Total Units	Original Acquisition Cost	% of Original Acquisition Cost	Average Age in Months
Hi-Lift or Aerial Work Platforms	12,187	70.7%	\$ 437.0	60.2%	49.8
Cranes	357	2.1%	93.1	12.8%	40.1
Earthmoving	1,788	10.4%	151.8	20.9%	27.5
Industrial Lift Trucks	552	3.2%	19.2	2.6%	28.7
Other	2,349	13.6%	25.0	3.5%	24.7
Total	17,233	100.0%	\$ 726.1	100.0%	43.2

Determining the optimal age and mix for our rental fleet equipment is subjective and requires considerable estimates and judgments by management. We constantly evaluate the mix, age and quality of the equipment in our rental fleet in response to current economic and market conditions, competition and customer demand. The mix and age of our rental fleet, as well as our cash flows, are impacted by sales of equipment from the rental fleet, which are influenced by used equipment pricing at the retail and secondary auction market levels, and the capital expenditures to acquire new rental fleet equipment. In making equipment acquisition decisions, we evaluate current economic and market conditions, competition, manufacturers' availability, pricing and return on investment over the estimated useful life of the specific equipment, among other things. As a result of our in-house service capabilities and extensive maintenance program, we believe our rental fleet is well-maintained.

The original acquisition cost of our gross rental fleet increased by \$41.0 million, or 6.0%, for the nine month period ended September 30, 2011, primarily in response to improved equipment time utilization from the increase in demand. The average age of our rental fleet equipment increased approximately 0.1 months for the nine months ended September 30, 2011.

Our average rental rates for the nine months ended September 30, 2011 were 4.9% higher than the comparative nine month period ended September 30, 2010. On a sequential basis, our average rental rates for the three month period ended September 30, 2011 increased 4.1% compared to the three month period ended June 30, 2011.

The rental equipment mix among our four core product lines for the nine months ended September 30, 2011 was largely consistent with that of the prior year comparable period as a percentage of total units available for rent and as a percentage of original acquisition cost.

***Principal External Factors that Affect our Businesses***

We are subject to a number of external factors that may adversely affect our businesses. These factors, and other factors, are discussed below and in Item 1A – Risk Factors – of our Annual Report on Form 10-K for the year ended December 31, 2010:

*Economic downturns.* The demand for our products is dependent on the general economy, the stability of the global credit markets, the industries in which our customers operate or serve, and other factors. Downturns in the general economy or in the construction and manufacturing industries, as well as adverse credit market conditions, can cause demand for our products to materially decrease. The recent macroeconomic downturn, including current conditions in the global credit markets, is a principal factor currently affecting our business.

*Spending levels by customers.* Rentals and sales of equipment to the construction industry and to industrial companies constitute a significant portion of our total revenues. As a result, we depend upon customers in these businesses and their ability and willingness to make capital expenditures to rent or buy specialized equipment. Accordingly, our business is impacted by fluctuations in customers' spending levels on capital expenditures and

by the availability of credit to those customers.

*Adverse weather conditions.* Adverse weather in a geographic region in which we operate may depress demand for equipment in that region. Our equipment is primarily used outdoors and, as a result, prolonged adverse weather conditions may prohibit our customers from continuing their work projects. Adverse weather also has a seasonal impact in parts of our Intermountain region, primarily in the winter months.

**Table of Contents**

We believe that our integrated business tempers the effects of downturns in a particular segment. For a discussion of the impact of seasonality, see *Seasonality* below.

**Results of Operations**

The tables included in the period-to-period comparisons below provide summaries of our revenues and gross profits for our business segments and non-segmented revenues for the three and nine month periods ended September 30, 2011 and 2010. The period-to-period comparisons of our financial results are not necessarily indicative of future results.

During the years ended December 31, 2010 and 2009, our revenues and gross profits/margins were negatively impacted by lower customer demand resulting from several factors, including: (i) the decline in construction and industrial activities; (ii) the recent macroeconomic downturn; and (iii) unfavorable credit markets affecting end-user access to capital. Although our total gross profit margins have slowly trended downward since the year ended December 31, 2006, the rate of total gross profit margin decline was the most significant during the year ended December 31, 2009 and in the first quarter of 2010, as a result of the above factors. However, during the second, third and fourth quarters of 2010, as well the first three quarters of 2011, our operating segments generally realized either higher gross profit margins or improvements in the rate of gross profit margin decline on a year-over-year comparative quarterly basis. We cannot forecast with certainty whether these gross profit margin improvements during the recent quarters are indicative of a favorable trend in our business, nor can we forecast whether, or to what extent, we may experience any further declines, or whether our responses to ongoing or future unfavorable business conditions will be meaningful in mitigating or reversing the gross profit margin declines for the foreseeable future.

Further deterioration or a continuation of current levels in the non-residential construction industry and the industrial sectors we serve could result in declining revenues and gross profits/margins and may have a material adverse effect on our financial position, results of operations and cash flows in the future. During the recent economic downturn, we proactively responded to these unfavorable business factors through various operational and strategic measures, including closing underperforming branches and redeploying rental fleet assets to existing branches with higher demand or to branches in new markets where demand is higher; minimizing rental fleet capital expenditures; reducing headcount; implementing cost reduction measures throughout the Company; and using some of the excess cash flow resulting from our planned reduction in capital expenditures to repay outstanding debt. We believe that these measures strengthened our balance sheet by improving our cash position. We will continue to evaluate and respond to business conditions as appropriate. While we cannot predict the timing, duration or the impact of an economic recovery and/or improved conditions within the construction and industrial sectors, we believe that our efforts have positioned us to take advantage of future opportunities when a prolonged economic and business recovery occurs.

***Three Months Ended September 30, 2011 Compared to the Three Months Ended September 30, 2010******Revenues.***

	<b>Three Months Ended September 30,</b>		<b>Total Dollar</b>	<b>Total Percentage</b>
	<b>2011</b>	<b>2010</b>	<b>Increase (Decrease)</b>	<b>Increase (Decrease)</b>
	<b>(in thousands, except percentages)</b>			
Segment Revenues:				
Equipment rentals	\$ 61,190	\$ 48,272	\$ 12,918	26.8%
New equipment sales	46,543	47,697	(1,154)	(2.4)%
Used equipment sales	27,172	14,700	12,472	84.8%
Parts sales	24,647	22,599	2,048	9.1%
Services revenues	14,191	12,412	1,779	14.3%
Non-Segmented revenues	10,546	8,164	2,382	29.2%
Total revenues	\$ 184,289	\$ 153,844	\$ 30,445	19.8%



*Total Revenues.* Our total revenues were \$184.3 million for the three month period ended September 30, 2011 compared to \$153.8 million for the same three month period in 2010, an increase of approximately \$30.4 million, or 19.8%. Revenues for our reportable segments and non-segmented revenues are further discussed below.

*Equipment Rental Revenues.* Our revenues from equipment rentals for the three month period ended September 30, 2011

**Table of Contents**

increased \$12.9 million, or 26.8%, to \$61.2 million from \$48.3 million in the same three month period in 2010. Rental revenues from aerial work platforms and earthmoving equipment increased \$8.4 million and \$1.2 million, respectively, while rental revenues from cranes and other equipment increased \$1.1 million and \$1.9 million, respectively. Lift truck rental revenues increased \$0.4 million. Our average rental rates for the three month period ended September 30, 2011 increased 8.9% compared to the same three month period in 2010. On a sequential basis, our average rental rates for the three month period ended September 30, 2011 increased 4.1% compared to the three month period ended June 30, 2011.

Rental equipment dollar utilization (annual rental revenues divided by the average original rental fleet equipment costs) for the three month period ended September 30, 2011 improved to approximately 33.7% compared to 29.2% for the same three month period in 2010, an increase of 4.5%. The increase in comparative rental equipment dollar utilization was the result of a 6.6% increase in rental equipment time utilization (equipment usage based on the number of rental equipment units available for rent), combined with an 8.9% increase in average rental rates in the comparative period. On a sequential basis, average rental rates for the three month period ended September 30, 2011 increased 4.1% compared to the prior three month period ended June 30, 2011. Rental equipment time utilization based on the number of rental equipment units available for rent was 68.9% for the three month period ended September 30, 2011 compared to 62.3% for the same three month period in 2010. Rental equipment time utilization as a percentage of original equipment cost was 71.8% for the three months ended September 30, 2011 compared to 65.9% for the same three month period in 2010, an increase of 5.9%.

*New Equipment Sales Revenues.* Our new equipment sales for the three month period ended September 30, 2011 decreased approximately \$1.2 million, or 2.4%, to \$46.5 million from approximately \$47.7 million for the comparable period in 2010. Sales of new cranes decreased \$0.5 million and sales of aerial work platform equipment decreased \$1.4 million. Sales of new lift trucks decreased \$0.3 million. These decreases were partially offset by an increase in new earthmoving equipment and other equipment of \$0.4 million and \$0.6 million, respectively.

*Used Equipment Sales Revenues.* Our used equipment sales increased \$12.5 million, or 84.8%, to \$27.2 million for the three month period ended September 30, 2011, from \$14.7 million for the same three month period in 2010. Sales of used earthmoving equipment and used cranes increased \$8.6 million and \$1.8 million, respectively, while sales of used aerial work platform equipment increased \$1.5 million. Sales of used lift trucks and other equipment each increased approximately \$0.3 million.

*Parts Sales Revenues.* Our parts sales increased \$2.0 million, or 9.1%, to \$24.6 million for the three month period ended September 30, 2011 from \$22.6 million for the same three month period in 2010. The increase in parts revenues was due to higher demand for parts compared to last year.

*Services Revenues.* Our services revenues for the three month period ended September 30, 2011 increased \$1.8 million, or 14.3%, to \$14.2 million from \$12.4 million for the same three month period last year. The increase in service revenues was largely due to an increase in demand for services in conjunction with the improvements in our rental and sales businesses.

*Non-Segmented Other Revenues.* Our non-segmented other revenues consisted primarily of equipment support activities including transportation, hauling, parts freight and damage waiver charges. For the three month period ended September 30, 2011, our other revenues were approximately \$10.5 million, an increase of \$2.4 million, or 29.2%, from \$8.2 million in the same three month period in 2010. The increase was primarily due to an increase in the volume of these services in conjunction with the related improvements of our primary business activities.

**Gross Profit.**

	<b>Three Months Ended September 30,</b>		<b>Total Dollar Change Increase</b>	<b>Total Percentage Change Increase</b>
	<b>2011</b>	<b>2010</b>		
	<b>(in thousands, except percentages)</b>			
Segment Gross Profit (Loss):				
Equipment rentals	\$ 26,938	\$ 18,092	\$ 8,846	48.9%

Edgar Filing: H&E Equipment Services, Inc. - Form 10-Q

New equipment sales	5,420	4,718	702	14.9%
Used equipment sales	6,348	3,617	2,731	75.5%
Parts sales	6,574	5,889	685	11.6%
Services revenues	8,740	7,235	1,505	20.8%
Non-Segmented revenues	(279)	(1,631)	1,352	82.9%
Total gross profit	\$ 53,741	\$ 37,920	\$ 15,821	41.7%

27

---

**Table of Contents**

*Total Gross Profit.* Our total gross profit was \$53.7 million for the three month period ended September 30, 2011 compared to \$37.9 million for the same three month period in 2010, an increase of \$15.8 million, or 41.7%. Total gross profit margin for the three month period ended September 30, 2011 was 29.2%, an increase of 4.6% from the 24.6% gross profit margin for the same three month period in 2010. Gross profit (loss) and gross margin for all reportable segments are further described below:

*Equipment Rentals Gross Profit.* Our gross profit from equipment rentals for the three month period ended September 30, 2011 increased \$8.8 million, or 48.9%, to \$26.9 million from \$18.1 million in the same three month period in 2010. The increase in equipment rentals gross profit was the net result of a \$12.9 million increase in rental revenues for the three month period ended September 30, 2011, which was partially offset by a \$1.6 million net increase in rental expenses and an approximately \$2.5 million increase in rental equipment depreciation expense. The increase in rental expenses and rental equipment depreciation expense was primarily due to a larger fleet size in 2011 compared to 2010. As a percentage of equipment rental revenues, rental expenses were 19.9% for the three month period ended September 30, 2011 compared to 21.9% for the same three month period in 2010 and depreciation expense was 36.1% for the three month period ended September 30, 2011 compared to 40.7% for the same three month period in 2010.

Gross profit margin for the three month period ended September 30, 2011 was approximately 44.0%, up 6.5% from 37.5% in the same three month period in 2010. This gross profit margin improvement was primarily due to the increase in comparative rental revenues resulting from improved utilization and higher average rental rates, combined with the decreases in depreciation expenses and rental expenses as a percentage of equipment rental revenues for the three month period ended September 30, 2011 compared to the same period last year.

*New Equipment Sales Gross Profit.* Our new equipment sales gross profit for the three month period ended September 30, 2011 increased \$0.7 million, or 14.9%, to \$5.4 million compared to \$4.7 million for the same three month period in 2010 on a total new equipment sales decrease of \$1.2 million. Gross profit margin on new equipment sales for the three month period ended September 30, 2011 was 11.6%, an increase of approximately 1.7% from 9.9% in the same three month period in 2010, reflecting primarily improved margins on new crane sales in the current year period.

*Used Equipment Sales Gross Profit.* Our used equipment sales gross profit for the three month period ended September 30, 2011 increased \$2.7 million, or 75.5%, to \$6.3 million from \$3.6 million for the same three month period in 2010 on a used equipment sales increase of \$12.5 million. Gross profit margin for the three month period ended September 30, 2011 was 23.4%, down 1.2% from 24.6% in the same three month period in 2010, primarily as a result of the mix of used equipment sold. Our used equipment sales from the rental fleet, which comprised approximately 76.0% and 79.5% of our used equipment sales for the three month periods ended September 30, 2011 and 2010, respectively, were approximately 140.1% of net book value for the three month period ended September 30, 2011 compared to 140.6% for the same three month period in 2010.

*Parts Sales Gross Profit.* For the three month period ended September 30, 2011, our parts sales revenue gross profit increased approximately \$0.7 million, or 11.6%, to \$6.6 million from \$5.9 million for the same three month period in 2010 on a \$2.0 million increase in parts sales revenues. Gross profit margin for the three month period ended September 30, 2011 was 26.7%, an increase of 0.6% from 26.1% in the same three month period in 2010, as a result of the mix of parts sold.

*Services Revenues Gross Profit.* For the three month period ended September 30, 2011, our services revenues gross profit increased \$1.5 million, or 20.8%, to \$8.7 million from \$7.2 million for the same three month period in 2010. Gross profit margin for the three month period ended September 30, 2011 was 61.6%, up 3.3% from 58.3% in the same three month period in 2010 as a result of service revenues mix.

*Non-Segmented Other Revenues Gross Loss.* Our non-segmented other revenues realized a gross loss of \$0.3 million for the three month period ended September 30, 2011 compared to a gross loss of \$1.6 million for the same three month period in 2010. On a gross margin basis, the margin of gross loss improved to a gross loss margin of 2.6% from 20.0%, primarily reflective of the \$2.4 million improvement in non-segmented other revenues.

*Selling, General and Administrative Expenses.* SG&A expenses increased approximately \$2.4 million, or 6.7%, to \$39.0 million for the three month period ended September 30, 2011 compared to \$36.6 million for the same three

month period in 2010. The net increase in SG&A expenses was attributable to several factors. Employee salaries and wages and related employee expenses increased \$1.9 million as a result of higher salaries, wages and payroll taxes primarily from an increase from commission and incentive pay that resulted from higher rental and sales revenues. Stock-based compensation expense was \$0.3 million each of the three month periods ended September 30, 2011 and 2010. Other outside services costs increased \$0.6 million. As a percent of total revenues, SG&A expenses were 21.2% for the three months ended September 30, 2011, a decrease of 2.6% from 23.8% for the same three month

**Table of Contents**

period in 2010, primarily as a result of the current year increase in total revenues.

**Other Income (Expense).** For the three month period ended September 30, 2011, our net other expenses decreased \$0.2 million to \$7.1 million compared to \$7.3 million for the same three month period in 2010. Interest expense was \$7.2 million for the three month period ended September 30, 2011 compared to \$7.3 million for the same period in 2010. Miscellaneous other income increased \$0.1 million compared to the three month period ended September 30, 2010.

**Income Taxes.** We recorded income tax expense of \$3.1 million for the three month period ended September 30, 2011 compared to an income tax benefit of \$2.0 million for the three month period ended September 30, 2010. Our effective income tax rate for the three month period ended September 30, 2011 was 39.1% compared to 35.1% for the same three month period in 2010. The increase in our effective tax rate was primarily the result of an increase to unrecognized tax benefits. The amount of unrecognized tax benefits increased by \$0.1 million from \$6.5 million to \$6.6 million during the three month period ended September 30, 2011. Based on available evidence, both positive and negative, we believe it is more likely than not that our deferred tax assets at September 30, 2011 are fully realizable through future reversals of existing taxable temporary differences and future taxable income, and are not subject to any limitations.

**Nine Months Ended September 30, 2011 Compared to the Nine Months Ended September 30, 2010  
Revenues.**

	Nine Months Ended September 30, 2011	September 30, 2010	Total Dollar Increase	Total Percentage Increase
	(in thousands, except percentages)			
Segment Revenues:				
Equipment rentals	\$ 165,440	\$ 126,400	\$ 39,040	30.9%
New equipment sales	133,629	103,952	29,677	28.5%
Used equipment sales	65,655	46,062	19,593	42.5%
Parts sales	71,166	65,013	6,153	9.5%
Services revenues	40,072	36,466	3,606	9.9%
Non-Segmented revenues	27,570	21,643	5,927	27.4%
Total revenues	\$ 503,532	\$ 399,536	\$ 103,996	26.0%

**Total Revenues.** Our total revenues were \$503.5 million for the nine month period ended September 30, 2011 compared to \$399.5 million for the same nine month period in 2010, an increase of \$104.0 million, or 26.0%. Revenues for all reportable segments and non-segmented revenues increased and are further discussed below.

**Equipment Rental Revenues.** Our revenues from equipment rentals for the nine month period ended September 30, 2011 increased \$39.0 million, or 30.9%, to \$165.4 million from \$126.4 million in the same nine month period in 2010. Rental revenues from aerial work platforms and earthmoving equipment increased \$24.5 million and \$5.8 million, respectively, while rental revenues from cranes and other equipment increased \$3.4 million and \$4.1 million, respectively. Lift truck rental revenues increased \$1.2 million. Our average rental rates for the nine month period ended September 30, 2011 increased 4.9% compared to the same nine month period in 2010.

Rental equipment dollar utilization (annual rental revenues divided by the average original rental fleet equipment costs) for the nine month period ended September 30, 2011 improved to 30.9% compared to 25.5% for the same nine month period in 2010, an increase of 5.4%. The increase in comparative rental equipment dollar utilization was the net result of a 10.1% increase in rental equipment time utilization (equipment usage based on the number of rental equipment units available for rent), combined with a 4.9% increase in average rental rates in the comparative period. Rental equipment time utilization based on the number of rental equipment units available for rent was 65.7% for the nine month period ended September 30, 2011 compared to 55.6% for the same nine month period in 2010. Rental equipment time utilization as a percentage of original equipment cost was 68.9% for the nine months ended

September 30, 2011 compared to 58.4% for the same nine month period in 2010, an increase of 10.5%.

*New Equipment Sales Revenues.* Our new equipment sales for the nine month period ended September 30, 2011 increased \$29.7 million, or 28.5%, to \$133.6 million from approximately \$104.0 million for the comparable period in 2010. Sales of new cranes and earthmoving equipment increased \$14.3 million and \$14.6 million, respectively, while sales of new other equipment increased \$2.7 million. These increases were partially offset by a decrease in new aerial work platform equipment and new lift truck sales of \$0.8 million and \$1.2 million, respectively.

**Table of Contents**

*Used Equipment Sales Revenues.* Our used equipment sales increased \$19.6 million, or 42.5%, to \$65.7 million for the nine month period ended September 30, 2011, from \$46.1 million for the same nine month period in 2010. Sales of used earthmoving equipment and aerial work platform equipment increased \$12.9 million and \$3.9 million, respectively. Used crane sales increased \$2.8 million and used lift truck sales increased \$0.2 million. Used other equipment sales decreased \$0.2 million.

*Parts Sales Revenues.* Our parts sales increased approximately \$6.2 million, or 9.5%, to \$71.2 million for the nine month period ended September 30, 2011 from \$65.0 million for the same nine month period in 2010. The increase in parts revenues was due to higher demand for parts compared to last year.

*Services Revenues.* Our services revenues for the nine month period ended September 30, 2011 increased \$3.6 million, or 9.9%, to \$40.1 million from approximately \$36.5 million for the same nine month period last year. The increase in service revenues was largely due to an increase in demand for services in conjunction with the improvements in our rental and sales businesses.

*Non-Segmented Other Revenues.* Our non-segmented other revenues consisted primarily of equipment support activities including transportation, hauling, parts freight and damage waiver charges. For the nine month period ended September 30, 2011, our other revenues were \$27.6 million, an increase of \$5.9 million, or 27.4%, from \$21.6 million in the same nine month period in 2010. The increase was primarily due to an increase in the volume of these services in conjunction with the related improvements of our primary business activities.

**Gross Profit.**

	<b>Nine Months Ended</b>		<b>Total</b>	<b>Total</b>
	<b>September 30,</b>	<b>September 30,</b>	<b>Dollar</b>	<b>Percentage</b>
	<b>2011</b>	<b>2010</b>	<b>Change</b>	<b>Change</b>
	<b>(in thousands, except percentages)</b>			
Segment Gross Profit (Loss):				
Equipment rentals	\$ 66,810	\$ 38,969	\$ 27,841	71.4%
New equipment sales	15,358	9,960	5,398	54.2%
Used equipment sales	15,211	10,372	4,839	46.7%
Parts sales	18,992	17,209	1,783	10.4%
Services revenues	24,573	22,661	1,912	8.4%
Non-Segmented revenues	(4,292)	(4,987)	695	13.9%
<b>Total gross profit</b>	<b>\$ 136,652</b>	<b>\$ 94,184</b>	<b>\$ 42,468</b>	<b>45.1%</b>

*Total Gross Profit.* Our total gross profit was \$136.7 million for the nine month period ended September 30, 2011 compared to \$94.2 million for the same nine month period in 2010, an increase of \$42.5 million, or 45.1%. Total gross profit margin for the nine month period ended September 30, 2011 was 27.1%, an increase of 3.5% from the 23.6% gross profit margin for the same nine month period in 2010. Gross profit (loss) and gross margin for all reportable segments are further described below:

*Equipment Rentals Gross Profit.* Our gross profit from equipment rentals for the nine month period ended September 30, 2011 increased \$27.8 million, or 71.4%, to \$66.8 million from \$39.0 million in the same nine month period in 2010. The increase in equipment rentals gross profit was the net result of a \$39.0 million increase in rental revenues for the nine month period ended September 30, 2011, which was partially offset by a \$5.3 million net increase in rental expenses and a \$5.9 million increase in rental equipment depreciation expense. The increase in rental expenses and rental equipment depreciation expense was primarily due to a larger fleet size in 2011 compared to 2010. As a percentage of equipment rental revenues, rental expenses were 20.8% for the nine month period ended September 30, 2011 compared to 23.1% for the same nine month period in 2010 and depreciation expense was approximately 38.8% for the nine month period ended September 30, 2011 compared to 46.1% for the same nine month period in 2010. These percentage decreases were primarily attributable to the increase in comparative rental



revenues.

Gross profit margin for the nine month period ended September 30, 2011 was 40.4%, up 9.5% from 30.9% in the same nine month period in 2010. This gross profit margin improvement was primarily due to the increase in comparative rental revenues resulting from improved utilization and higher average rental rates, combined with the decreases in depreciation and rental expenses as a percentage of equipment rental revenues for the nine months ended September 30, 2011 compared to the same period last year.

*New Equipment Sales Gross Profit.* Our new equipment sales gross profit for the nine month period ended September 30, 2011 increased \$5.4 million, or 54.2%, to \$15.4 million compared to \$10.0 million for the same nine month period in 2010 on a total new

**Table of Contents**

equipment sales increase of \$29.7 million. Gross profit margin on new equipment sales for the nine month period ended September 30, 2011 was 11.5%, an increase of 2.0% from 9.5% in the same nine month period in 2010, primarily reflecting improved margins on new crane sales in the current year period.

*Used Equipment Sales Gross Profit.* Our used equipment sales gross profit for the nine month period ended September 30, 2011 increased \$4.8 million, or 46.7%, to \$15.2 million from approximately \$10.4 million for the same nine month period in 2010 on a used equipment sales increase of \$19.6 million. Gross profit margin for the nine month period ended September 30, 2011 was 23.2%, up 0.6% from 22.6% in the same nine month period in 2010. Our used equipment sales from the rental fleet, which comprised approximately 72.4% and 75.3% of our used equipment sales for the nine month periods ended September 30, 2011 and 2010, respectively, were approximately 142.2% of net book value for the nine month period ended September 30, 2011 compared to 136.8% for the same nine month period in 2010.

*Parts Sales Gross Profit.* For the nine month period ended September 30, 2011, our parts sales revenue gross profit increased \$1.8 million, or 10.4%, to \$19.0 million from \$17.2 million for the same nine month period in 2010 on a \$6.2 million increase in parts sales revenues. Gross profit margin was 26.7% for both nine month periods ended September 30, 2011 and 2010.

*Services Revenues Gross Profit.* For the nine month period ended September 30, 2011, our services revenues gross profit increased \$1.9 million, or 8.4%, to \$24.6 million from \$22.7 million for the same nine month period in 2010 on a \$3.6 million increase in services revenues. Gross profit margin for the nine month period ended September 30, 2011 was 61.3%, down approximately 0.9% from 62.2% in the same nine month period in 2010 primarily as a result of service revenues mix.

*Non-Segmented Other Revenues Gross Loss.* Our non-segmented other revenues realized a gross loss of approximately \$4.3 million for the nine month period ended September 30, 2011 compared to a gross loss of \$5.0 million for the same nine month period in 2010. On a gross margin basis, the margin of gross loss improved to a gross loss margin of 15.6% from 23.0%, primarily reflective of the \$5.9 million improvement in non-segmented other revenues.

*Selling, General and Administrative Expenses.* SG&A expenses increased approximately \$5.5 million, or 5.0%, to \$114.7 million for the nine month period ended September 30, 2011 compared to \$109.2 million for the same nine month period in 2010. The net increase in SG&A expenses was attributable to several factors. Employee salaries and wages and related employee expenses increased \$5.2 million as a result higher salaries, wages and payroll taxes from increased employee headcount combined with increased commission and incentive pay that resulted from higher rental and sales revenues, which was partially offset by lower health insurance and workers compensation costs as a result of favorable claims experience in the nine month period ended September 30, 2011 compared to the same prior year period. Stock-based compensation expense was \$1.0 million and \$0.7 million for the nine month periods ended September 30, 2011 and 2010, respectively. Other outside services costs increased \$0.8 million. Fuel and utility costs increased \$0.6 million and marketing related costs increased \$0.8 million. These increases were partially offset by a \$1.2 million decrease in professional fees resulting primarily from data conversion costs and other consulting fees incurred last year related to our enterprise resource planning system implementation. General liability insurance costs decreased \$0.4 million. As a percent of total revenues, SG&A expenses were 22.8% for the nine months ended September 30, 2011, a decrease of 4.5% from 27.3% for the same nine month period in 2010, primarily as a result of the nine month period ended September 30, 2011 increase in total revenues compared to the same period last year.

*Other Income (Expense).* For the nine month period ended September 30, 2011, our net other expenses decreased approximately \$0.6 million to \$21.0 million compared to \$21.6 million for the same nine month period in 2010. The decrease was the result of a \$0.2 million decrease in interest expense to \$21.6 million for the nine month period ended September 30, 2011 compared to \$21.8 million for the same nine month period in 2010. Miscellaneous other income increased approximately \$0.5 million compared to the nine month period ended September 30, 2010.

*Income Taxes.* We recorded income tax expense of \$0.4 million for the nine month period ended September 30, 2011 compared to an income tax benefit of approximately \$13.4 million for the nine month period ended September 30, 2010. Our effective income tax rate for the nine month period ended September 30, 2011 was 29.6% compared to 36.8% for the same nine month period in 2010. The decrease in our effective tax rate was primarily the

result of a favorable increase in permanent differences related to tax deductible goodwill. The amount of unrecognized tax benefits increased by \$0.1 million from \$6.5 million to \$6.6 million for the nine month period ended September 30, 2011. Based on available evidence, both positive and negative, we believe it is more likely than not that our deferred tax assets at September 30, 2011 are fully realizable through future reversals of existing taxable temporary differences and future taxable income, and are not subject to any limitations.

**Table of Contents****Liquidity and Capital Resources**

*Cash flow from operating activities.* For the nine month period ended September 30, 2011, our cash provided by our operating activities was \$16.9 million. Our reported net income of \$1.1 million, which, when adjusted for non-cash income and expense items, such as depreciation and amortization, deferred income taxes, provision for losses on accounts receivable, stock-based compensation expense and net gains on the sale of long-lived assets, provided positive cash flows of \$64.7 million. These cash flows from operating activities were also positively impacted by a \$3.2 million decrease in prepaid expenses and other assets and a \$1.6 million decrease in accounts payable. Offsetting these positive cash flows were an increase of \$33.0 million in net inventories, a \$12.1 million decrease in manufacturing flooring plans payable, a \$4.7 million decrease in accrued expenses payable and other liabilities and a \$2.8 million decrease in net receivables.

For the nine month period ended September 30, 2010, our cash provided by our operating activities was exceeded by our cash used in our operating activities, resulting in net cash used in our operating activities of \$14.0 million. Our reported net loss of approximately \$23.0 million, which, when adjusted for non-cash income and expense items, such as depreciation and amortization, deferred income taxes, provision for losses on accounts receivable, stock-based compensation expense and net gains on the sale of long-lived assets, provided positive cash flows of approximately \$29.0 million. These cash flows from operating activities were also positively impacted by an increase of \$33.1 million in accounts payable. Offsetting these positive cash flows were a \$17.4 million decrease in manufacturing flooring plans payable, an \$28.4 million increase net accounts receivable, a \$24.1 million increase in net inventories, a \$2.2 million increase in prepaid expenses and other assets and a \$4.0 million decrease in accrued expenses payable and other liabilities.

*Cash flow from investing activities.* For the nine months ended September 30, 2011, cash provided by our investing activities was exceeded by our cash used in our investing activities, resulting in net cash used in our investing activities of approximately \$54.3 million. This was a result of purchases of rental and non-rental equipment totaling \$102.6 million, which was partially offset by proceeds from the sale of rental and non-rental equipment of approximately \$48.3 million.

For the nine month period ended September 30, 2010, our cash provided by our investing activities was exceeded by our cash used in our investing activities, resulting in net cash used in our investing activities of approximately \$0.1 million. This was a net result of purchases of rental and non-rental equipment of \$35.2 million and proceeds from the sales of rental and non-rental equipment totaling \$35.1 million.

*Cash flow from financing activities.* For the nine month period ended September 30, 2011, cash provided by our financing activities was approximately \$13.2 million, which included net borrowings under our senior secured credit facility of \$13.6 million. We purchased approximately \$0.6 million of treasury stock for the nine month period ended September 30, 2011 and recognized \$0.2 million of excess tax benefits associated with stock-based awards. Payments on capital lease obligations for the nine months ended September 30, 2011 were \$0.1 million.

For the nine month period ended September 30, 2010, cash used in our financing activities was approximately \$4.4 million, representing payments of our notes payable and capital lease obligation and purchases of treasury stock of \$1.2 million, \$0.1 million and \$0.2 million, respectively, and transactions costs of \$2.9 million associated with our amended and restated senior secured credit.

***Senior Secured Credit Facility***

We and our subsidiaries are parties to a \$320.0 million senior secured credit facility with General Electric Capital Corporation as administrative agent, and the lenders named therein. The credit facility matures on July 29, 2015. The revolving loans under the credit facility bear interest, at our option, either at (i) the index rate plus an applicable margin ranging from 1.50% to 2.25% depending on our leverage ratio or (ii) the LIBOR rate plus an applicable margin of 2.50% to 3.25% depending on our leverage ratio. The unused commitment fee under the senior secured credit facility is 0.50%.

Our senior secured credit facility requires us to maintain a minimum fixed charge coverage ratio in the event that our excess borrowing availability is below \$40.0 million (as adjusted if the incremental facility is exercised). The credit facility also requires us to maintain a maximum total leverage ratio of 5.0 to 1.0, which is tested if excess availability is less than \$40 million (as adjusted if the incremental facility is exercised). As of September 30, 2011, we

were in compliance with our financial covenants under the senior secured credit facility.

At September 30, 2011, the interest rate on the senior secured credit facility was based on a 3.25% U.S. Prime Rate plus 175 basis points, or 5.0%. At October 31, 2011, we had \$291.6 million of available borrowings under our senior secured credit facility, net of \$7.0 million of outstanding letters of credit.

**Table of Contents**

***Senior Unsecured Notes***

We currently have outstanding \$250.0 million aggregate principal amount of 8 3/8% senior unsecured notes due 2016. The senior unsecured notes are guaranteed, jointly and severally, on an unsecured senior basis by all of our existing and future domestic restricted subsidiaries.

We may redeem the senior unsecured notes at specified redemption prices plus accrued and unpaid interest and additional interest. In addition, if we experience a change of control, we will be required to make an offer to repurchase the senior unsecured notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest and additional interest.

The indenture governing our senior secured 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 consolidation; (vii) engage in certain transactions with subsidiaries or affiliates; (viii) enter into sale leaseback 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.

***Cash Requirements Related to Operations***

Our principal sources of liquidity have been from cash provided by operating activities and the sales of new, used and rental fleet equipment, proceeds from the issuance of debt, and borrowings available under our senior secured credit facility. Our principal uses of cash have been to fund operating activities and working capital, purchases of rental fleet equipment and property and equipment, fund payments due under facility operating leases and manufacturer flooring plans payable, and to meet debt service requirements. In the future, we may pursue additional strategic acquisitions. In addition, we may use cash from working capital and/or borrowings under our senior secured credit facility should we repurchase Company securities. We anticipate that the above described uses will be the principal demands on our cash in the future.

The amount of our future capital expenditures will depend on a number of factors including general economic conditions and growth prospects. Our gross rental fleet capital expenditures for the nine month period ended September 30, 2011 were approximately \$118.4 million, including approximately \$27.7 million of non-cash transfers from new and used equipment to rental fleet inventory. Our gross property and equipment capital expenditures for the nine month period ended September 30, 2011 were approximately \$12.0 million. In response to changing economic conditions, we believe we have the flexibility to modify our capital expenditures by adjusting them (either up or down) to match our actual performance.

To service our debt, we will require a significant amount of cash. Our ability to pay interest and principal on our indebtedness (including the senior unsecured notes, the senior secured credit facility and our other indebtedness), will depend upon our future operating performance and the availability of borrowings under our senior secured credit facility and/or other debt and equity financing alternatives available to us, which will be affected by prevailing economic conditions and conditions in the global credit and capital markets, as well as financial, business and other factors, some of which are beyond our control. Based on our current level of operations and given the current state of the capital markets, we believe our cash flow from operations, available cash and available borrowings under our senior secured credit facility will be adequate to meet our future liquidity needs for the foreseeable future. As of October 31, 2011, we had \$291.6 million of available borrowings under our senior secured credit facility, net of \$7.0 million of outstanding letters of credit.

We cannot provide absolute assurance that our future cash flow from operating activities will be sufficient to meet our long-term obligations and commitments. If we are unable to generate sufficient cash flow from operating activities in the future to service our indebtedness and to meet our other commitments, we will be required to adopt one or more alternatives, such as refinancing or restructuring our indebtedness, selling material assets or operations or seeking to raise additional debt or equity capital. Given current economic and market conditions, including the significant disruptions in the global capital markets, we cannot assure investors that any of these actions could be affected on a timely basis or on satisfactory terms or at all, or that these actions would enable us to continue to satisfy our capital requirements. In addition, our existing debt agreements, including the indenture governing our senior unsecured notes,

and our senior secured credit facility, as well as any future debt agreements, contain or may contain restrictive covenants, which may prohibit us from adopting any of these alternatives. Our failure to comply with these covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our debt.

## **Table of Contents**

### **Seasonality**

Although we believe our business is not materially impacted by seasonality, the demand for our rental equipment tends to be lower in the winter months. The level of equipment rental activities are directly related to commercial and industrial construction and maintenance activities. Therefore, equipment rental performance will be correlated to the levels of current construction activities. The severity of weather conditions can have a temporary impact on the level of construction activities.

Equipment sales cycles are also subject to some seasonality with the peak selling period during the spring season and extending through the summer. Typically, parts and service activities are less affected by changes in demand caused by seasonality.

### **Contractual and Commercial Commitments**

There have been no material changes from the information included in our Annual Report on Form 10-K for the year ended December 31, 2010.

### **Off-Balance Sheet Arrangements**

There have been no material changes from the information included in our Annual Report on Form 10-K for the year ended December 31, 2010.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Our earnings may be affected by changes in interest rates since interest expense on our senior secured credit facility is currently calculated based upon the index rate plus an applicable margin of 1.50% to 2.25%, depending on the leverage ratio, in the case of index rate revolving loans and LIBOR plus an applicable margin of 2.50% to 3.25%, depending on the leverage ratio, in the case of LIBOR revolving loans. At September 30, 2011, we had total borrowings under our senior secured credit facility of \$13.6 million. A 1.0% increase in the interest rate on the senior secured credit facility would result in approximately a \$0.1 million increase in interest expense on an annualized basis. At October 31, 2011, we had \$291.6 million of available borrowings under our senior secured credit facility, net of \$7.0 million of outstanding letters of credit. We did not have significant exposure to changing interest rates as of September 30, 2011 on our fixed-rate senior unsecured notes or on our other notes payable. Historically, we have not engaged in derivatives or other financial instruments for trading, speculative or hedging purposes, though we may do so from time to time if such instruments are available to us on acceptable terms and prevailing market conditions are accommodating.

### **Item 4. Controls and Procedures**

#### *Management's Quarterly Evaluation of Disclosure Controls and Procedures*

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or furnishes under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial disclosure.

Our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively) have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15e and 15d-15e promulgated under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our principal executive officer and principal financial officer have concluded that, as of September 30, 2011, our current disclosure controls and procedures were effective.

The design of any system of control is based upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated objectives under all future events, no matter how remote, or that the degree of compliance with the policies or procedures may not deteriorate. Because of its inherent limitations, disclosure controls and procedures may not prevent or detect all misstatements. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.



**Table of Contents**

*Changes in Internal Control Over Financial Reporting*

There have been no changes in the Company's internal control over financial reporting that occurred during the quarter ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings.**

We are party to various litigation matters, in most cases involving normal ordinary course and routine claims incidental to our business. We cannot estimate with certainty our ultimate legal and financial liability with respect to such pending matters. However, we believe, based on our examination of such pending matters, that our ultimate liability for such matters will not have a material adverse effect on our business, financial condition and/or operating results.

**Item 1A. Risk Factors.**

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2010, which could materially affect our business, financial condition or future results.

As of the date of this Quarterly Report on Form 10-Q, there have been no material changes with respect to the Company's risk factors previously disclosed on Form 10-K for the year ended December 31, 2010.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

**Issuer Purchases of Equity Securities**

On June 30, 2011, 25,682 shares of non-vested stock that were issued in 2008 vested at \$13.99 per share. On July 12, 2011, holders of those vested shares returned 5,290 shares of common stock to the Company as payment for their respective employee withholding taxes. This resulted in an addition of 5,290 shares to Treasury Stock.

**Item 3. Defaults upon Senior Securities.**

None.

**Item 4. (Removed and Reserved).**

**Item 5. Other Information.**

None.

**Table of Contents**

**Item 6. Exhibits.**

- 10.1 \* Form of Restricted Stock Award Agreement for Officers of H&E Equipment Services, Inc.
- 31.1\* Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2\* Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1\*\* Certification pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
  
- 101.INS\*\* XBRL Instance Document
- 101.SCH\*\* XBRL Taxonomy Extension Schema Document
- 101.CAL\*\* XBRL Taxonomy Extension Calculation Linkbase Document
- 101.LAB\*\* XBRL Taxonomy Extension Label Linkbase Document
- 101.PRE\*\* XBRL Taxonomy Extension Presentation Linkbase Document

\* - Filed herewith.

\*\* - Furnished herewith.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

H&E EQUIPMENT SERVICES, INC.

Dated: November 3, 2011

By: /s/ John M. Engquist  
John M. Engquist  
President and Chief Executive Officer  
(Principal Executive Officer)

Dated: November 3, 2011

By: /s/ Leslie S. Magee  
Leslie S. Magee  
Chief Financial Officer and Secretary  
(Principal Financial and Accounting  
Officer)

37

---

**Table of Contents**

**EXHIBIT INDEX**

10.1*	Form of Restricted Stock Award Agreement for Officers of H&E Equipment Services, Inc.
31.1*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2**	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1**	Certification pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

\* - Filed herewith.

\*\* - Furnished herewith.