

H&E Equipment Services, Inc.  
Form 10-Q  
July 31, 2014  
Table of Contents

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

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2014.**

**¨ 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)**

<b>Delaware</b> <b>(State or Other Jurisdiction of</b>	<b>81-0553291</b> <b>(I.R.S. Employer</b>
<b>Incorporation or Organization)</b>	<b>Identification No.)</b>
<b>7500 Pecue Lane,</b> <b>Baton Rouge, Louisiana</b> <b>(Address of Principal Executive Offices)</b>	<b>70809</b> <b>(ZIP Code)</b>
<b>(225) 298-5200</b>	
<b>(Registrant's Telephone Number, Including Area Code)</b>	
<b>None</b>	
<b>(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)</b>	

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

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

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

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

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

As of July 24, 2014, there were 35,209,010 shares of H&E Equipment Services, Inc. common stock, \$0.01 par value, outstanding.

Table of Contents

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

**TABLE OF CONTENTS**

**June 30, 2014**

	<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 June 30, 2014 (Unaudited) and December 31, 2013</u>	4
<u>Condensed Consolidated Statements of Income (Unaudited) for the Three and Six Months Ended June 30, 2014 and 2013</u>	5
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the Six Months Ended June 30, 2014 and 2013</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>	22
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	36
<u>Item 4. Controls and Procedures</u>	36
<b><u>PART II. OTHER INFORMATION</u></b>	<b>37</b>
<u>Item 1. Legal Proceedings</u>	37
<u>Item 1A. Risk Factors</u>	37
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	37
<u>Item 3. Defaults upon Senior Securities</u>	37
<u>Item 4. Mine Safety Disclosures</u>	37
<u>Item 5. Other Information</u>	37
<u>Item 6. Exhibits</u>	38
<u>Signatures</u>	39

**Table of Contents**

**Forward-Looking Statements**

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

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

general economic conditions and construction and industrial activity in the markets where we operate in North America;

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

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

relationships with equipment suppliers;

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

our indebtedness;

risks associated with the expansion of our business;

our possible inability to integrate any businesses we acquire;

competitive pressures;

compliance with laws and regulations, including those relating to environmental matters and corporate governance matters; and

other factors discussed under **Risk Factors** in our Annual Report on Form 10-K for the year ended December 31, 2013.

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

For a more detailed discussion of some of the foregoing risks and uncertainties, see Item 1A **Risk Factors** in our Annual Report on Form 10-K for the year ended December 31, 2013, 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)

	Balances at	
	June 30, 2014	December 31, 2013
	(Unaudited)	
<b>ASSETS</b>		
Cash	\$ 6,090	\$ 17,607
Receivables, net of allowance for doubtful accounts of \$3,193 and \$3,651, respectively	144,536	131,970
Inventories, net of reserves for obsolescence of \$623 and \$647, respectively	150,704	111,640
Prepaid expenses and other assets	8,805	6,024
Rental equipment, net of accumulated depreciation of \$325,610 and \$309,944, respectively	784,896	688,710
Property and equipment, net of accumulated depreciation and amortization of \$82,220 and \$75,994, respectively	99,236	98,503
Deferred financing costs, net of accumulated amortization of \$10,674 and \$10,176, respectively	4,986	4,689
Goodwill	31,197	31,197
Total assets	\$ 1,230,450	\$ 1,090,340
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Liabilities:</b>		
Amounts due on senior secured credit facility	\$ 172,768	\$ 102,460
Accounts payable	95,198	67,779
Manufacturer flooring plans payable	52,142	49,062
Dividends payable		633
Accrued expenses payable and other liabilities	57,414	54,439
Senior unsecured notes (net of unaccreted discount of \$1,370 and \$1,454, respectively)	628,630	628,546
Capital leases payable	2,190	2,278
Deferred income taxes	100,540	88,291
Deferred compensation payable	2,073	2,040
Total liabilities	1,110,955	995,528

**Commitments and Contingencies****Stockholders equity:**

Preferred stock, \$0.01 par value, 25,000,000 shares authorized; no shares issued		
Common stock, \$0.01 par value, 175,000,000 shares authorized; 39,033,974 and 39,023,594 shares issued at June 30, 2014 and December 31, 2013, respectively, and 35,209,415 and 35,200,398 shares outstanding at June 30, 2014 and December 31, 2013, respectively	390	389
Additional paid-in capital	217,370	215,775
Treasury stock at cost, 3,824,559 and 3,823,196 shares of common stock held at June 30, 2014 and December 31, 2013, respectively	(58,468)	(58,468)
Retained deficit	(39,797)	(62,884)
Total stockholders equity	119,495	94,812
Total liabilities and stockholders equity	\$ 1,230,450	\$ 1,090,340

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



**Table of Contents**

**H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited)

(Amounts in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<b>Revenues:</b>				
Equipment rentals	\$ 98,814	\$ 83,728	\$ 185,038	\$ 159,098
New equipment sales	90,581	73,436	160,128	126,759
Used equipment sales	31,397	34,661	60,742	66,810
Parts sales	28,371	26,448	54,173	51,400
Services revenues	16,102	13,770	29,750	28,321
Other	15,113	13,297	27,776	25,340
<b>Total revenues</b>	<b>280,378</b>	<b>245,340</b>	<b>517,607</b>	<b>457,728</b>
<b>Cost of revenues:</b>				
Rental depreciation	35,449	30,020	68,447	58,152
Rental expense	15,581	14,248	29,805	27,851
New equipment sales	79,413	65,055	141,147	112,794
Used equipment sales	21,056	24,172	41,474	46,920
Parts sales	20,041	19,233	38,323	37,537
Services revenues	5,767	5,057	10,508	10,800
Other	14,003	12,143	26,051	23,782
<b>Total cost of revenues</b>	<b>191,310</b>	<b>169,928</b>	<b>355,755</b>	<b>317,836</b>
<b>Gross profit</b>	<b>89,068</b>	<b>75,412</b>	<b>161,852</b>	<b>139,892</b>
Selling, general and administrative expenses	51,883	47,106	100,739	93,370
Gain on sales of property and equipment, net	757	606	1,420	1,106
<b>Income from operations</b>	<b>37,942</b>	<b>28,912</b>	<b>62,533</b>	<b>47,628</b>
<b>Other income (expense):</b>				
Interest expense	(12,922)	(13,085)	(25,572)	(25,357)
Other, net	344	201	650	708
<b>Total other expense, net</b>	<b>(12,578)</b>	<b>(12,884)</b>	<b>(24,922)</b>	<b>(24,649)</b>
<b>Income before income taxes</b>	<b>25,364</b>	<b>16,028</b>	<b>37,611</b>	<b>22,979</b>

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

Provision for income taxes	9,638	5,219	14,449	7,393
Net income	\$ 15,726	\$ 10,809	\$ 23,162	\$ 15,586
Net income per common share:				
Basic	\$ 0.45	\$ 0.31	\$ 0.66	\$ 0.45
Diluted	\$ 0.45	\$ 0.31	\$ 0.66	\$ 0.44
Weighted average common shares outstanding:				
Basic	35,111	34,988	35,110	34,982
Diluted	35,235	35,122	35,227	35,109

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

Table of Contents

**H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

(Amounts in thousands)

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 23,162	\$ 15,586
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization on property and equipment	9,718	8,077
Depreciation on rental equipment	68,447	58,152
Amortization of deferred financing costs	497	557
Accretion of note discount, net of premium amortization	84	147
Provision for losses on accounts receivable	1,374	1,573
Provision for inventory obsolescence	63	94
Increase in deferred income taxes	12,249	3,058
Stock-based compensation expense	1,619	1,604
Gain on sales of property and equipment, net	(1,420)	(1,106)
Gain on sales of rental equipment, net	(18,172)	(18,179)
Writedown of goodwill for tax-deductible goodwill in excess of book goodwill		439
<b>Changes in operating assets and liabilities:</b>		
Receivables	(13,940)	6,164
Inventories	(76,555)	(94,625)
Prepaid expenses and other assets	(2,781)	(3,268)
Accounts payable	27,420	40,685
Manufacturer flooring plans payable	3,080	5,531
Accrued expenses payable and other liabilities	2,975	4,306
Deferred compensation payable	33	33
<b>Net cash provided by operating activities</b>	<b>37,853</b>	<b>28,828</b>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(10,572)	(12,332)
Purchases of rental equipment	(161,579)	(121,010)
Proceeds from sales of property and equipment	1,541	1,191
Proceeds from sales of rental equipment	52,546	50,002
<b>Net cash used in investing activities</b>	<b>(118,064)</b>	<b>(82,149)</b>
<b>Cash flows from financing activities:</b>		

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

Purchases of treasury stock		(410)
Excess tax benefit (deficiency) from stock-based awards	(24)	227
Borrowings on senior secured credit facility	590,249	533,898
Payments on senior secured credit facility	(519,941)	(591,101)
Proceeds from issuance of senior unsecured notes		107,250
Payments of deferred financing costs	(794)	(735)
Dividends paid	(708)	(398)
Payments of capital lease obligations	(88)	(83)
Net cash provided by financing activities	68,694	48,648
Net decrease in cash	(11,517)	(4,673)
Cash, beginning of period	17,607	8,894
Cash, end of period	\$ 6,090	\$ 4,221

Table of Contents

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

**(Unaudited)**

**(Amounts in thousands)**

	<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>
<b>Supplemental schedule of noncash investing and financing activities:</b>		
<b>Noncash asset purchases:</b>		
Assets transferred from new and used inventory to rental fleet	\$ 37,428	\$ 32,282
<b>Supplemental disclosures of cash flow information:</b>		
<b>Cash paid during the period for:</b>		
Interest	\$ 24,968	\$ 23,699
Income taxes paid, net of refunds received	\$ 2,634	\$ 1,212

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 Holding, Inc., H&E Equipment Services (California), LLC and H&E Equipment Services (Mid-Atlantic), Inc., collectively referred to herein as we or us or our or the Company.

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such regulations. In the opinion of management, all adjustments (consisting of all normal and recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014, 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, 2013, from which the consolidated balance sheet amounts as of December 31, 2013 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, 2013. During the six month period ended June 30, 2014, there were no significant changes to those accounting policies.

*Use of Estimates*

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

---

**Table of Contents***Recent Accounting Pronouncements*

In April 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* ( ASU 2014-08 ) which amended the FASB s guidance for reporting discontinued operations and disposals of components of an entity under Accounting Standards Codification Subtopic 250-20. The guidance as amended by ASU 2014-08 raises the threshold for a disposal to qualify as a discontinued operation by requiring that a disposal representing a strategic shift that has (or will have) a major effect on an entity s financial results or a business activity classified as held for sale be reported as such. The amendments also expand the disclosure requirements regarding the assets, liabilities, revenues and expenses of discontinued operations and add new disclosure requirements for individually significant dispositions that do not qualify as discontinued operations. The amendments are effective prospectively for fiscal years beginning after December 15, 2014, and interim reporting periods within those years (early adoption is permitted only for disposals that have not been previously reported). The implementation of the amended guidance is not expected to have a material impact on the Company s consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* ( ASU 2014-09 ). ASU 2014-09 requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In doing so, entities will need to use more judgment and make more estimates than under current guidance. These judgments and estimates may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 also requires an entity to disclose sufficient qualitative and quantitative information surrounding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. This ASU supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance throughout the Industry Topics of the Codification, and further permits the use of either a retrospective or cumulative effect transition method. This guidance will be effective for the Company for our 2017 fiscal year. We are currently in the process of evaluating the impact of the adoption of ASU 2014-09 on the Company s consolidated financial statements.

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

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

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



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

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

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

The carrying value of financial instruments reported in the accompanying condensed consolidated balance sheets for cash, accounts receivable, accounts payable and accrued expenses payable and other liabilities approximate fair value due to the immediate or short-term nature or maturity of these financial instruments. The fair value of our letter of credit is based on fees currently charged for similar agreements. The carrying amounts and fair values of our other financial instruments subject to fair value disclosures as of June 30, 2014 and December 31, 2013 are presented in the table below (amounts in thousands) and have been calculated based upon market quotes and present value calculations based on market rates.

**Table of Contents**

	<b>June 30, 2014</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>
Manufacturer flooring plans payable with interest computed at 5.25% (Level 3)	\$ 52,142	\$ 46,021
Senior unsecured notes with interest computed at 7.0% <sup>(1)</sup> (Level 1)	630,000	696,150
Capital leases payable with interest computed at 5.929% to 9.55% (Level 3)	2,190	1,594
Letter of credit (Level 3)		130
	<b>December 31, 2013</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>
Manufacturer flooring plans payable with interest computed at 5.25% (Level 3)	\$ 49,062	\$ 42,686
Senior unsecured notes with interest computed at 7.0% <sup>(1)</sup> (Level 1)	630,000	686,700
Capital leases payable with interest computed at 5.929% to 9.55% (Level 3)	2,278	1,717
Letter of credit (Level 3)		146

(1) Amounts shown based on aggregate amounts outstanding for the periods presented.

**(4) Stockholders Equity**

The following table summarizes the activity in Stockholders Equity for the six month period ended June 30, 2014 (amounts in thousands, except share data):

	<b>Common Stock</b>			<b>Treasury Stock</b>	<b>Retained Earnings (Deficit)</b>	<b>Total Stockholders Equity</b>
	<b>Shares Issued</b>	<b>Amount</b>	<b>Additional Paid-in Capital</b>			
Balances at December 31, 2013	39,023,594	\$ 389	\$ 215,775	\$ (58,468)	\$ (62,884)	\$ 94,812
Stock-based compensation			1,619			1,619
Cash dividend on common stock (\$7.00 per share)					(75)	(75)
Excess tax deficiency from stock-based awards			(24)			(24)
Issuance of common stock	10,380	1				1
Net income					23,162	23,162
Balances at June 30, 2014	39,033,974	\$ 390	\$ 217,370	\$ (58,468)	\$ (39,797)	\$ 119,495

**(5) Stock-Based Compensation**

We account for our stock-based compensation plan using the fair value recognition provisions of Accounting Standards Codification 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 3,604,046 shares as of June 30, 2014.

*Non-vested Stock*

The following table summarizes our non-vested stock activity for the six months ended June 30, 2014:

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Non-vested stock at December 31, 2013	187,867	\$ 18.21
Granted	10,380	\$ 28.91
Vested	(10,380)	\$ 28.91
Forfeited	(1,363)	\$ 18.72
Non-vested stock at June 30, 2014	186,504	\$ 18.20

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

As of June 30, 2014, we had unrecognized compensation expense of approximately \$1.7 million related to non-vested stock that we expect to be recognized over a weighted-average period of approximately 1.7 years. The following table summarizes compensation expense related to non-vested stock, which is included in selling, general and administrative expenses in the accompanying condensed consolidated statements of income for the three and six months ended June 30, 2014 and 2013 (amounts in thousands):

**Table of Contents**

	<b>For the Three Months Ended June 30,</b>		<b>For the Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Compensation expense	\$ 811	\$ 665	\$ 1,619	\$ 1,604

*Stock Options*

At June 30, 2014, there is no unrecognized compensation expense as all stock option awards have fully vested. The following table represents stock option activity for the six months ended June 30, 2014:

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Contractual Life In Years</b>
Outstanding options at December 31, 2013	51,000	\$ 17.80	
Granted			
Exercised			
Canceled, forfeited or expired			
Outstanding options at June 30, 2014	51,000	\$ 17.80	2.0
Options exercisable at June 30, 2014	51,000	\$ 17.80	2.0

The aggregate intrinsic value of our outstanding and exercisable options at June 30, 2014 was approximately \$1.9 million.

**(6) Income per Share**

Income per common share for the three and six months ended June 30, 2014 and 2013 are based on the weighted average number of common shares outstanding during the period. The effects of potentially dilutive securities that are anti-dilutive are not included in the computation of dilutive income per share. The following table sets forth the computation of basic and diluted net income per common share for the three and six month periods ended June 30, 2014 and 2013 (amounts in thousands, except per share amounts):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
Basic net income per share:				
Net income	\$ 15,726	\$ 10,809	\$ 23,162	\$ 15,586
	35,111	34,988	35,110	34,982

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

Weighted average number of shares of common stock outstanding					
Net income per share of common stock	basic	\$ 0.45	\$ 0.31	\$ 0.66	\$ 0.45
Diluted net income per share:					
Net income		\$ 15,726	\$ 10,809	\$ 23,162	\$ 15,586
Weighted average number of shares of common stock outstanding					
		35,111	34,988	35,110	34,982
Effect of dilutive securities:					
Effect of dilutive stock options		24	35	23	35
Effect of dilutive non-vested restricted stock		100	99	94	92
Weighted average number of shares of common stock outstanding diluted					
		35,235	35,122	35,227	35,109
Net income per share of common stock	diluted	\$ 0.45	\$ 0.31	\$ 0.66	\$ 0.44
Common shares excluded from the denominator as anti-dilutive:					
Stock options					
Non-vested restricted stock					

**Table of Contents****(7) Senior Unsecured Notes**

The following table reconciles our Senior Secured Notes to our condensed consolidated balance sheets (amounts in thousands):

Balance at December 31, 2012	\$ 521,065
Aggregate principal amount issued on February 4, 2013	100,000
Premium on notes issued	8,500
Initial purchaser's discount	(1,250)
Accretion of discount through December 31, 2013	1,044
Amortization of note premium through December 31, 2013	(813)
Balance at December 31, 2013	\$ 628,546
Accretion of discount through June 30, 2014	527
Amortization of note premium through June 30, 2014	(443)
Balance at June 30, 2014	\$ 628,630

**(8) Senior Secured Credit Facility**

We and our subsidiaries are parties to a senior secured credit facility (the Credit Facility) with General Electric Capital Corporation as agent, and the lenders named therein.

On May 21, 2014, we amended, extended and restated our existing \$402.5 million senior secured credit facility with General Electric Capital Corporation by entering into the Fourth Amended and Restated Credit Agreement (the Amended and Restated Credit Agreement) by and among the Company, Great Northern Equipment, Inc., H&E Equipment Services (California), LLC, the other credit parties named therein, the lenders named therein, General Electric Capital Corporation, as administrative agent, Bank of America, N.A. as co-syndication agent and documentation agent, Wells Fargo Capital Finance, LLC, as co-syndication agent and Deutsche Bank Securities Inc. as joint lead arranger and joint bookrunner.

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

holders of the restricted stock of the Company with respect to such special dividend that was otherwise payable following the applicable vesting dates in May and July 2014 and 2015).

At June 30, 2014, the interest rate on the Credit Facility was based on LIBOR plus 200 basis points. The weighted average interest rate at June 30, 2014 was approximately 2.5%. At June 30, 2014, we had \$223.2 million of available borrowings under our Credit Facility, net of \$6.5 million of outstanding letters of credit.



**Table of Contents****(9) Segment Information**

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
<b>Revenues:</b>				
Equipment rentals	\$ 98,814	\$ 83,728	\$ 185,038	\$ 159,098
New equipment sales	90,581	73,436	160,128	126,759
Used equipment sales	31,397	34,661	60,742	66,810
Parts sales	28,371	26,448	54,173	51,400
Services revenues	16,102	13,770	29,750	28,321
<b>Total segmented revenues</b>	<b>265,265</b>	<b>232,043</b>	<b>489,831</b>	<b>432,388</b>
Non-segmented revenues	15,113	13,297	27,776	25,340
<b>Total revenues</b>	<b>\$ 280,378</b>	<b>\$ 245,340</b>	<b>\$ 517,607</b>	<b>\$ 457,728</b>
<b>Gross Profit:</b>				
Equipment rentals	\$ 47,784	\$ 39,460	\$ 86,786	\$ 73,095
New equipment sales	11,168	8,381	18,981	13,965
Used equipment sales	10,341	10,489	19,268	19,890
Parts sales	8,330	7,215	15,850	13,863
Services revenues	10,335	8,713	19,242	17,521
<b>Total segmented gross profit</b>	<b>87,958</b>	<b>74,258</b>	<b>160,127</b>	<b>138,334</b>
Non-segmented gross profit	1,110	1,154	1,725	1,558
<b>Total gross profit</b>	<b>\$ 89,068</b>	<b>\$ 75,412</b>	<b>\$ 161,852</b>	<b>\$ 139,892</b>

	Balances at	
	June 30, 2014	December 31, 2013
<b>Segment identified assets:</b>		
Equipment sales	\$ 130,800	\$ 95,392

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

Equipment rentals	784,896	688,710
Parts and services	19,904	16,248
Total segment identified assets	935,600	800,350
Non-segment identified assets	294,850	289,990
Total assets	\$ 1,230,450	\$ 1,090,340

The Company operates primarily in the United States and our sales to international customers for the three and six month periods ended June 30, 2014 were 1.5% and 1.6%, respectively, of total revenues compared to 0.7% and 1.2% for the three and six month periods ended June 30, 2013, respectively. No one customer accounted for more than 10% of our revenues on an overall or segment basis for any of the periods presented.

**(10) Condensed Consolidating Financial Information of Guarantor Subsidiaries**

All of the indebtedness of H&E Equipment Services, Inc. is guaranteed by GNE Investments, Inc. and its wholly-owned subsidiary Great Northern Equipment, Inc., H&E Equipment Services (California), LLC, H&E California Holding, Inc., H&E Equipment Services (Mid-Atlantic), Inc. and H&E Finance Corp. The guarantor subsidiaries are all wholly-owned and the guarantees, made on a joint and several basis, are full and unconditional (subject to subordination provisions and subject to a standard limitation

**Table of Contents**

which provides that the maximum amount guaranteed by each guarantor will not exceed the maximum amount that can be guaranteed without making the guarantee void under fraudulent conveyance laws). There are no restrictions on H&E Equipment Services, Inc.'s ability to obtain funds from the guarantor subsidiaries by dividend or loan.

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

**CONDENSED CONSOLIDATING BALANCE SHEET**

	As of June 30, 2014			
	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
<b>Assets:</b>				
Cash	\$ 6,090	\$	\$	\$ 6,090
Receivables, net	124,738	19,798		144,536
Inventories, net	136,967	13,737		150,704
Prepaid expenses and other assets	8,600	205		8,805
Rental equipment, net	664,076	120,820		784,896
Property and equipment, net	86,754	12,482		99,236
Deferred financing costs, net	4,986			4,986
Investment in guarantor subsidiaries	186,443		(186,443)	
Goodwill	1,671	29,526		31,197
<b>Total assets</b>	<b>\$ 1,220,325</b>	<b>\$ 196,568</b>	<b>\$ (186,443)</b>	<b>\$ 1,230,450</b>
<b>Liabilities and Stockholders' Equity:</b>				
Amounts due on senior secured credit facility	\$ 172,768	\$	\$	\$ 172,768
Accounts payable	87,916	7,282		95,198
Manufacturer flooring plans payable	52,142			52,142
Accrued expenses payable and other liabilities	56,738	676		57,414
Dividends payable	23	(23)		
Senior unsecured notes	628,630			628,630
Capital lease payable		2,190		2,190
Deferred income taxes	100,540			100,540
Deferred compensation payable	2,073			2,073
<b>Total liabilities</b>	<b>1,100,830</b>	<b>10,125</b>		<b>1,110,955</b>
Stockholders' equity	119,495	186,443	(186,443)	119,495
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,220,325</b>	<b>\$ 196,568</b>	<b>\$ (186,443)</b>	<b>\$ 1,230,450</b>



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

	<b>As of December 31, 2013</b>			
	<b>H&amp;E Equipment Services</b>	<b>Guarantor Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>(Amounts in thousands)</b>			
<b>Assets:</b>				
Cash	\$ 17,607	\$	\$	\$ 17,607
Receivables, net	114,525	17,445		131,970
Inventories, net	102,125	9,515		111,640
Prepaid expenses and other assets	5,853	171		6,024
Rental equipment, net	582,721	105,989		688,710
Property and equipment, net	85,826	12,677		98,503
Deferred financing costs, net	4,689			4,689
Investment in guarantor subsidiaries	165,703		(165,703)	
Goodwill	1,671	29,526		31,197
<b>Total assets</b>	<b>\$ 1,080,720</b>	<b>\$ 175,323</b>	<b>\$ (165,703)</b>	<b>\$ 1,090,340</b>
<b>Liabilities and Stockholders Equity:</b>				
Amount due on senior secured credit facility	\$ 102,460	\$	\$	\$ 102,460
Accounts payable	60,787	6,992		67,779
Manufacturer flooring plans payable	49,062			49,062
Dividends payable	656	(23)		633
Accrued expenses payable and other liabilities	54,066	373		54,439
Senior unsecured notes	628,546			628,546
Capital leases payable		2,278		2,278
Deferred income taxes	88,291			88,291
Deferred compensation payable	2,040			2,040
<b>Total liabilities</b>	<b>985,908</b>	<b>9,620</b>		<b>995,528</b>
Stockholders equity	94,812	165,703	(165,703)	94,812
<b>Total liabilities and stockholders equity</b>	<b>\$ 1,080,720</b>	<b>\$ 175,323</b>	<b>\$ (165,703)</b>	<b>\$ 1,090,340</b>

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

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

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

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

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

	<b>Three Months Ended June 30, 2013</b>			
	<b>H&amp;E Equipment Guarantor</b>			
	<b>Services</b>	<b>Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>(Amounts in thousands)</b>			
<b>Revenues:</b>				
Equipment rentals	\$ 69,370	\$ 14,358	\$	\$ 83,728
New equipment sales	66,481	6,955		73,436
Used equipment sales	30,227	4,434		34,661
Parts sales	22,631	3,817		26,448
Services revenues	11,845	1,925		13,770
Other	10,995	2,302		13,297
<b>Total revenues</b>	<b>211,549</b>	<b>33,791</b>		<b>245,340</b>
<b>Cost of revenues:</b>				
Rental depreciation	24,684	5,336		30,020
Rental expense	11,613	2,635		14,248
New equipment sales	58,780	6,275		65,055
Used equipment sales	21,163	3,009		24,172
Parts sales	16,491	2,742		19,233
Services revenues	4,365	692		5,057
Other	9,835	2,308		12,143
<b>Total cost of revenues</b>	<b>146,931</b>	<b>22,997</b>		<b>169,928</b>
<b>Gross profit (loss):</b>				
Equipment rentals	33,073	6,387		39,460
New equipment sales	7,701	680		8,381
Used equipment sales	9,064	1,425		10,489
Parts sales	6,140	1,075		7,215
Services revenues	7,480	1,233		8,713
Other	1,160	(6)		1,154
<b>Gross profit</b>	<b>64,618</b>	<b>10,794</b>		<b>75,412</b>
Selling, general and administrative expenses	39,301	7,805		47,106
Equity in earnings of guarantor subsidiaries	417		(417)	
Gain on sales of property and equipment, net	521	85		606
<b>Income from operations</b>	<b>26,255</b>	<b>3,074</b>	<b>(417)</b>	<b>28,912</b>
<b>Other income (expense):</b>				
Interest expense	(10,414)	(2,671)		(13,085)
Other, net	187	14		201



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

Total other expense, net	(10,227)	(2,657)		(12,884)
Income before income taxes	16,028	417	(417)	16,028
Income tax expense	5,219			5,219
Net income	\$ 10,809	\$ 417	\$ (417)	\$ 10,809

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

	<b>Six Months Ended June 30, 2014</b>			
	<b>H&amp;E Equipment Guarantor</b>			
	<b>Services</b>	<b>Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>(Amounts in thousands)</b>			
<b>Revenues:</b>				
Equipment rentals	\$ 157,173	\$ 27,865	\$	\$ 185,038
New equipment sales	141,811	18,317		160,128
Used equipment sales	47,636	13,106		60,742
Parts sales	46,947	7,226		54,173
Services revenues	25,427	4,323		29,750
Other	23,136	4,640		27,776
<b>Total revenues</b>	<b>442,130</b>	<b>75,477</b>		<b>517,607</b>
<b>Cost of revenues:</b>				
Rental depreciation	57,823	10,624		68,447
Rental expense	24,951	4,854		29,805
New equipment sales	124,759	16,388		141,147
Used equipment sales	31,968	9,506		41,474
Parts sales	33,288	5,035		38,323
Services revenues	8,918	1,590		10,508
Other	21,379	4,672		26,051
<b>Total cost of revenues</b>	<b>303,086</b>	<b>52,669</b>		<b>355,755</b>
<b>Gross profit (loss):</b>				
Equipment rentals	74,399	12,387		86,786
New equipment sales	17,052	1,929		18,981
Used equipment sales	15,668	3,600		19,268
Parts sales	13,659	2,191		15,850
Services revenues	16,509	2,733		19,242
Other	1,757	(32)		1,725
<b>Gross profit</b>	<b>139,044</b>	<b>22,808</b>		<b>161,852</b>
Selling, general and administrative expenses	84,970	15,769		100,739
Equity in earnings of guarantor subsidiaries	1,813		(1,813)	
Gain on sales of property and equipment, net	1,155	265		1,420
<b>Income from operations</b>	<b>57,042</b>	<b>7,304</b>	<b>(1,813)</b>	<b>62,533</b>
<b>Other income (expense):</b>				
Interest expense	(19,985)	(5,587)		(25,572)
Other, net	554	96		650

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

Total other expense, net	(19,431)	(5,491)		(24,922)
Income before income taxes	37,611	1,813	(1,813)	37,611
Income tax expense	14,449			14,449
Net income	\$ 23,162	\$ 1,813	\$ (1,813)	\$ 23,162

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

	<b>Six Months Ended June 30, 2013</b>			
	<b>H&amp;E Equipment Guarantor</b>			
	<b>Services</b>	<b>Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>(Amounts in thousands)</b>			
<b>Revenues:</b>				
Equipment rentals	\$ 132,279	\$ 26,819	\$	\$ 159,098
New equipment sales	113,753	13,006		126,759
Used equipment sales	55,753	11,057		66,810
Parts sales	43,946	7,454		51,400
Services revenues	24,613	3,708		28,321
Other	20,932	4,408		25,340
<b>Total revenues</b>	<b>391,276</b>	<b>66,452</b>		<b>457,728</b>
<b>Cost of revenues:</b>				
Rental depreciation	47,707	10,445		58,152
Rental expense	22,891	4,960		27,851
New equipment sales	101,174	11,620		112,794
Used equipment sales	38,820	8,100		46,920
Parts sales	32,158	5,379		37,537
Services revenues	9,506	1,294		10,800
Other	19,257	4,525		23,782
<b>Total cost of revenues</b>	<b>271,513</b>	<b>46,323</b>		<b>317,836</b>
<b>Gross profit (loss):</b>				
Equipment rentals	61,681	11,414		73,095
New equipment sales	12,579	1,386		13,965
Used equipment sales	16,933	2,957		19,890
Parts sales	11,788	2,075		13,863
Services revenues	15,107	2,414		17,521
Other	1,675	(117)		1,558
<b>Gross profit</b>	<b>119,763</b>	<b>20,129</b>		<b>139,892</b>
Selling, general and administrative expenses	77,782	15,588		93,370
Equity in loss of guarantor subsidiaries	(399)		399	
Gain on sales of property and equipment, net	947	159		1,106
<b>Income from operations</b>	<b>42,529</b>	<b>4,700</b>	<b>399</b>	<b>47,628</b>
<b>Other income (expense):</b>				
Interest expense	(20,217)	(5,140)		(25,357)
Other, net	667	41		708

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

Total other expense, net	(19,550)	(5,099)		(24,649)
Income (loss) before income taxes	22,979	(399)	399	22,979
Income tax expense	7,393			7,393
Net income (loss)	\$ 15,586	\$ (399)	\$ 399	\$ 15,586

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

	<b>Six Months Ended June 30, 2014</b>			
	<b>H&amp;E Equipment Services</b>	<b>Guarantor Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>(Amounts in thousands)</b>			
<b>Cash flows from operating activities:</b>				
Net income	\$ 23,162	\$ 1,813	\$ (1,813)	\$ 23,162
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization on property and equipment	8,547	1,171		9,718
Depreciation on rental equipment	57,823	10,624		68,447
Amortization of deferred financing costs	497			497
Accretion of note discount, net of premium amortization	84			84
Provision for losses on accounts receivable	1,157	217		1,374
Provision for inventory obsolescence	63			63
Increase in deferred income taxes	12,249			12,249
Stock-based compensation expense	1,619			1,619
Gain on sales of property and equipment, net	(1,155)	(265)		(1,420)
Gain on sales of rental equipment, net	(14,627)	(3,545)		(18,172)
Equity in earnings of guarantor subsidiaries	(1,813)		1,813	
<b>Changes in operating assets and liabilities:</b>				
Receivables	(11,370)	(2,570)		(13,940)
Inventories	(67,639)	(8,916)		(76,555)
Prepaid expenses and other assets	(2,747)	(34)		(2,781)
Accounts payable	27,130	290		27,420
Manufacturer flooring plans payable	3,080			3,080
Accrued expenses payable and other liabilities	2,672	303		2,975
Deferred compensation payable	33			33
<b>Net cash provided by (used in) operating activities</b>	<b>38,765</b>	<b>(912)</b>		<b>37,853</b>
<b>Cash flows from investing activities:</b>				
Purchases of property and equipment	(9,596)	(976)		(10,572)
Purchases of rental equipment	(132,476)	(29,103)		(161,579)
Proceeds from sales of property and equipment	1,276	265		1,541
Proceeds from sales of rental equipment	40,659	11,887		52,546
Investment in subsidiaries	(18,927)		18,927	
<b>Net cash used in investing activities</b>	<b>(119,064)</b>	<b>(17,927)</b>	<b>18,927</b>	<b>(118,064)</b>
<b>Cash flows from financing activities:</b>				
Excess tax deficiency from stock-based awards	(24)			(24)

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

Borrowings on senior secured credit facility	590,249			590,249
Payments on senior secured credit facility	(519,941)			(519,941)
Payments of deferred financing costs	(794)			(794)
Dividends paid	(708)			(708)
Payments on capital lease obligations		(88)		(88)
Capital contributions		18,927	(18,927)	
Net cash provided by financing activities	68,782	18,839	(18,927)	68,694
Net decrease in cash	(11,517)			(11,517)
Cash, beginning of period	17,607			17,607
Cash, end of period	\$ 6,090	\$	\$	\$ 6,090

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

	<b>Six Months Ended June 30, 2013</b>			
	<b>H&amp;E Equipment Services</b>	<b>Guarantor Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>(Amounts in thousands)</b>			
<b>Cash flows from operating activities:</b>				
Net income (loss)	\$ 15,586	\$ (399)	\$ 399	\$ 15,586
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization on property and equipment	7,083	994		8,077
Depreciation on rental equipment	47,707	10,445		58,152
Amortization of deferred financing costs	557			557
Accretion of note discount, net of premium amortization	147			147
Provision for losses on accounts receivable	1,175	398		1,573
Provision for inventory obsolescence	94			94
Increase in deferred income taxes	3,058			3,058
Stock-based compensation expense	1,604			1,604
Gain on sales of property and equipment, net	(947)	(159)		(1,106)
Gain on sales of rental equipment, net	(15,237)	(2,942)		(18,179)
Writedown of goodwill for tax-deductible goodwill in excess of book goodwill	439			439
Equity in loss of guarantor subsidiaries	399		(399)	
Changes in operating assets and liabilities:				
Receivables	6,551	(387)		6,164
Inventories	(88,421)	(6,204)		(94,625)
Prepaid expenses and other assets	(3,223)	(45)		(3,268)
Accounts payable	36,999	3,686		40,685
Manufacturer flooring plans payable	5,979	(448)		5,531
Accrued expenses payable and other liabilities	3,838	468		4,306
Deferred compensation payable	33			33
Net cash provided by operating activities	23,421	5,407		28,828
<b>Cash flows from investing activities:</b>				
Purchases of property and equipment	(11,532)	(800)		(12,332)
Purchases of rental equipment	(101,801)	(19,209)		(121,010)
Proceeds from sales of property and equipment	979	212		1,191
Proceeds from sales of rental equipment	41,368	8,634		50,002
Investment in subsidiaries	(5,848)		5,848	
Net cash used in investing activities	(76,834)	(11,163)	5,848	(82,149)
<b>Cash flows from financing activities:</b>				



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

Purchases of treasury stock	(410)			(410)
Excess tax benefit from stock-based awards	227			227
Borrowings on senior secured credit facility	533,898			533,898
Payments on senior secured credit facility	(591,101)			(591,101)
Proceeds from issuance of unsecured notes	107,250			107,250
Payments of deferred financing costs	(735)			(735)
Dividends paid	(389)	(9)		(398)
Payments on capital lease obligations		(83)		(83)
Capital contributions		5,848	(5,848)	
Net cash provided by financing activities	48,740	5,756	(5,848)	48,648
Net decrease in cash	(4,673)			(4,673)
Cash, beginning of period	8,894			8,894
Cash, end of period	\$ 4,221	\$	\$	\$ 4,221

---

**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 June 30, 2014, and its results of operations for the three and six month periods ended June 30, 2014, 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, 2013. 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, 2013.

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

As of July 24, 2014, we operated 69 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 53 years. H&E Equipment Services L.L.C. ( *H&E LLC* ) was formed in June 2002 through the business combination of Head & Engquist Equipment, LLC ( *Head & Engquist* ), a wholly-owned subsidiary of Gulf Wide Industries, L.L.C. ( *Gulf Wide* ), and ICM Equipment Company L.L.C. ( *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.

Prior to our initial public offering in February 2006, our business was conducted through H&E LLC. In connection with our initial public offering, we converted H&E LLC into H&E Equipment Services, Inc. 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 L.L.C. ( 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 H&E Holdings no longer existed under operation of law pursuant to the reincorporation merger.

*Critical Accounting Policies*

Item 7, included in Part II of our Annual Report on Form 10-K for the year ended December 31, 2013, 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 quarter ended June 30, 2014. 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, 2013 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 services 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 8 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 six month period ended June 30, 2014, approximately 35.8% of our total revenues were attributable to equipment rentals, 30.9% of our total revenues were attributable to new equipment sales, 11.7% were attributable to used equipment sales, 10.5% were attributable to parts sales, 5.7% were attributable to our services revenues and 5.4% 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 well as in the petrochemical and energy sectors. As a

**Table of Contents**

result, our total revenues are affected by several 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 services 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.

Our non-segmented revenues 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. We recognize non-segmented other revenues at the time of billing and after the related services have been provided.



## **Table of Contents**

### ***Principal Costs and Expenses***

Our largest expenses are the costs to purchase the new equipment we sell, 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 six month period ended June 30, 2014, our total cost of revenues was approximately \$355.8 million. Our operating expenses consist principally of selling, general and administrative expenses. For the six month period ended June 30, 2014, our selling, general and administrative expenses were \$100.7 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 income are not generally allocated to our reportable segments.

We are also subject to federal and state income taxes. Future income tax examinations by state and federal agencies could result in additional income tax expense based on probable outcomes of such matters.

### ***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 equipment 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 types of equipment are depreciated over a three year estimated useful life. We periodically evaluate the appropriateness of remaining depreciable lives assigned to rental equipment.

*Rental Expense.* Rental expense represents the costs (excluding depreciation) 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, legal and professional fees, rent and other occupancy costs, 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, including aggregate amounts outstanding under our revolving senior secured credit facility (the Credit Facility ), senior unsecured notes due 2022 and our capital lease obligations, as well as our extinguished senior unsecured notes due 2016 (the Old Notes ) for the periods during which such Old Notes were outstanding. Interest expense also includes interest on our outstanding manufacturer flooring 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.

**Table of Contents****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 the Credit Facility as the primary sources of funds to purchase inventory and to fund working capital and capital expenditures, growth and expansion opportunities (see also *Liquidity and Capital Resources* below). Our management of our working capital is closely tied to operating cash flows, as working capital can be significantly impacted by, among other things, our accounts receivable activities, the level of new and used equipment inventories, which may increase or decrease in response to current and expected demand, and the size and timing of our trade accounts payable payment cycles.

**Rental Fleet**

A substantial portion of our overall value is in our rental fleet equipment. The net book value of our rental equipment at June 30, 2014 was \$784.9 million, or approximately 63.8% of our total assets. Our rental fleet as of June 30, 2014 consisted of 24,302 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 \$1.1 billion. As of June 30, 2014, 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	16,154	66.5%	\$ 690.0	61.8%	37.5
Cranes	424	1.7%	133.1	11.9%	36.4
Earthmoving	2,278	9.4%	206.6	18.5%	20.0
Industrial Lift Trucks	758	3.1%	29.9	2.7%	25.8
Other	4,688	19.3%	57.3	5.1%	21.3
<b>Total</b>	<b>24,302</b>	<b>100.0%</b>	<b>\$ 1,116.9</b>	<b>100.0%</b>	<b>32.3</b>

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 approximately \$116.1 million, or 11.6%, for the six month period ended June 30, 2014. The average age of our rental fleet equipment decreased by approximately 2.6 months for the six months ended June 30, 2014.

Our average rental rates for the six month period ended June 30, 2014 were 0.9% higher than in the six month period ended June 30, 2013. Our average rental rates for the three month period ended June 30, 2014 were 2.1% higher than

in the three month period ended June 30, 2013 and 1.8% higher than the three month period ended March 31, 2014 (see further discussion on rental rates in Results of Operations below).

The rental equipment mix among our four core product lines for the six months ended June 30, 2014 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 under the heading Forward-Looking Statements, and in Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2013.

*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.

**Table of Contents**

*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.* 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, particularly in the winter months.

We believe that our integrated business tempers the effects of downturns in a particular segment. For a discussion of seasonality, see *Seasonality* on page 36 of this Quarterly Report on Form 10-Q.

**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 six months ended June 30, 2014 and 2013. The period-to-period comparisons of our financial results are not necessarily indicative of future results.

***Three Months Ended June 30, 2014 Compared to the Three Months Ended June 30, 2013******Revenues.***

	<b>Three Months Ended June 30,</b>		<b>Total</b>	<b>Total</b>
	<b>2014</b>	<b>2013</b>	<b>Dollar Increase (Decrease)</b>	<b>Percentage Increase (Decrease)</b>
	<b>(in thousands, except percentages)</b>			
<b>Segment Revenues:</b>				
Equipment rentals	\$ 98,814	\$ 83,728	\$ 15,086	18.0%
New equipment sales	90,581	73,436	17,145	23.3%
Used equipment sales	31,397	34,661	(3,264)	(9.4)%
Parts sales	28,371	26,448	1,923	7.3%
Services revenues	16,102	13,770	2,332	16.9%
Non-Segmented revenues	15,113	13,297	1,816	13.7%
<b>Total revenues</b>	<b>\$ 280,378</b>	<b>\$ 245,340</b>	<b>\$ 35,038</b>	<b>14.3%</b>

*Total Revenues.* Our total revenues were \$280.4 million for the three month period ended June 30, 2014 compared to \$245.3 million for the three month period ended June 30, 2013, an increase of approximately \$35.0 million, or 14.3%. Revenues for all reportable segments are further discussed below.

*Equipment Rental Revenues.* Our revenues from equipment rentals for the three month period ended June 30, 2014 increased \$15.1 million, or 18.0%, to \$98.8 million from \$83.7 million in the three month period ended June 30, 2013. Rental revenues from aerial work platforms increased \$8.2 million, while rental revenues from earthmoving

equipment increased \$2.5 million. Rental revenues from cranes increased \$0.9 million, and rental revenues from other equipment and lift trucks increased \$3.2 million and \$0.3 million, respectively. Our average rental rates for the three month period ended June 30, 2014 increased 2.1% compared to the same three month period last year and increased 1.8% from the first quarter ended March 31, 2014.

Rental equipment dollar utilization (annual rental revenues divided by the average original rental fleet equipment costs) for the three month period ended June 30, 2014 improved to 36.3% compared to 35.8% in the three month period ended June 30, 2013, an increase of 0.5%. The increase in comparative rental equipment dollar utilization was primarily driven by a 2.1% increase in average rental rates and the mix of equipment rented, combined with an improvement in rental equipment time utilization. Rental equipment time utilization as a percentage of original equipment cost was 72.7% for the three month period ended June 30, 2014 compared to 71.0% in the three month period ended June 30, 2013, an increase of 1.7%. Rental equipment time utilization based on the number of rental equipment units available for rent was 67.0% for the three month period ended June 30, 2014 compared to 66.3% in the same period last year, an increase of 0.7%. The increase in equipment rental time utilization based on original equipment cost and based on the number of units available for rent is largely reflective of increased demand for rental equipment.

**Table of Contents**

*New Equipment Sales Revenues.* Our new equipment sales for the three month period ended June 30, 2014 increased \$17.1 million, or 23.3%, to \$90.6 million from \$73.4 million for the three month period ended June 30, 2013. Sales of new cranes increased approximately \$8.0 million and sales of new aerial work platform equipment increased \$6.4 million, while sales of new earthmoving equipment increased \$3.2 million. Partially offsetting these increases were a \$0.3 million decrease in new lift truck sales and a \$0.1 million decrease in new other equipment sales.

*Used Equipment Sales Revenues.* Our used equipment sales decreased \$3.3 million, or 9.4%, to \$31.4 million for the three month period ended June 30, 2014, from \$34.7 million for the same three month period in 2013. Sales of used crane equipment decreased \$5.1 million and sales of used aerial work platform equipment decreased \$1.9 million, while sales of used lift trucks decreased \$0.2 million. Offsetting these decreases were an increase in used earthmoving equipment sales of \$3.7 million and a \$0.1 million increase in used general equipment sales.

*Parts Sales Revenues.* Our parts sales increased approximately \$1.9 million, or 7.3%, to \$28.4 million for the three month period ended June 30, 2014 from approximately \$26.4 million for the same three month period in 2013. 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 June 30, 2014 increased \$2.3 million, or 16.9%, to \$16.1 million from \$13.8 million for the same three month period last year. The increase in services revenues was due to higher demand for services compared to last year.

*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 June 30, 2014, our other revenues were approximately \$15.1 million, an increase of \$1.8 million, or 13.7%, from \$13.3 million in the same three month period in 2013. The increase was primarily due to an increase in hauling revenues and higher damage waiver income associated with equipment rentals.

**Gross Profit.**

	<b>Three Months Ended June 30,</b>		<b>Total Dollar Change Increase (Decrease)</b>	<b>Total Percentage Change Increase (Decrease)</b>
	<b>2014</b>	<b>2013</b>		
	<b>(in thousands, except percentages)</b>			
<b>Segment Gross Profit:</b>				
Equipment rentals	\$ 47,784	\$ 39,460	\$ 8,324	21.1%
New equipment sales	11,168	8,381	2,787	33.3%
Used equipment sales	10,341	10,489	(148)	(1.4)%
Parts sales	8,330	7,215	1,115	15.5%
Services revenues	10,335	8,713	1,622	18.6%
Non-Segmented revenues	1,110	1,154	(44)	(3.8)%
<b>Total gross profit</b>	<b>\$ 89,068</b>	<b>\$ 75,412</b>	<b>\$ 13,656</b>	<b>18.1%</b>

*Total Gross Profit.* Our total gross profit was \$89.1 million for the three month period ended June 30, 2014 compared to \$75.4 million for the same three month period in 2013, an increase of \$13.7 million, or 18.1%. Total gross profit

margin for the three month periods ended June 30, 2014 was 31.8%, an increase of 1.1% from 30.7% during the same three month period last year. Gross profit 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 June 30, 2014 increased \$8.3 million, or 21.1%, to \$47.8 million from \$39.5 million in the same three month period in 2013. The increase in equipment rentals gross profit was the result of a \$15.1 million increase in rental revenues, which was partially offset by a \$1.3 million increase in rental expenses and a \$5.4 million increase in rental equipment depreciation expense. The increase in rental expenses and rental equipment depreciation expense was due to a larger fleet size in 2014 compared to 2013. As a percentage of equipment rental revenues, rental expenses were 15.8% for the three month period ended June 30, 2014 compared to 17.0% for the same period last year. This percentage decrease was primarily attributable to the increase in comparative rental revenues. Depreciation expense was 35.9% of equipment rental revenues for each of the three month periods ended June 30, 2014 and 2013.

---

**Table of Contents**

Gross profit margin on equipment rentals for the three month period ended June 30, 2014 was approximately 48.4%, a 1.3% increase compared to a gross profit margin of 47.1% for the same period in 2013. This increase in gross profit margin was primarily due to the increase in equipment rental revenues and the decrease in rental expenses as a percentage of equipment rental revenues.

*New Equipment Sales Gross Profit.* Our new equipment sales gross profit for the three month period ended June 30, 2014 increased \$2.8 million, or 33.3%, to \$11.2 million compared to \$8.4 million for the same three month period in 2013 on a total new equipment sales increase of \$17.1 million. Gross profit margin on new equipment sales for the three month period ended June 30, 2014 was 12.3%, an increase of 0.9% from 11.4% in the same three month period in 2013, primarily reflecting higher margins on sales of new cranes in the current year period.

*Used Equipment Sales Gross Profit.* Our used equipment sales gross profit for the three month period ended June 30, 2014 decreased approximately \$0.1 million, or 1.4%, to \$10.3 million from \$10.5 million in the same period in 2013 on a used equipment sales decrease of \$3.3 million. Gross profit margin on used equipment sales for the three month period ended June 30, 2014 was 32.9%, up 2.6% from 30.3% for the same three month period in 2013, primarily as a result of higher margins on sales of used cranes, aerial work platform equipment and earthmoving equipment. Our used equipment sales from the rental fleet, which comprised approximately 88.4% and 79.7% of our used equipment sales for the three month periods ended June 30, 2014 and 2013, respectively, were approximately 154.7% and 154.0% of net book value for the three month periods ended June 30, 2014 and 2013, respectively.

*Parts Sales Gross Profit.* For the three month period ended June 30, 2014, our parts sales revenue gross profit increased \$1.1 million, or 15.5%, to \$8.3 million from \$7.2 million for the same three month period in 2013 on a \$1.9 million increase in parts sales revenues. Gross profit margin for the three month period ended June 30, 2014 was 29.4%, an increase of 2.1% from 27.3% in the same three month period in 2012, as a result of higher margins on other equipment parts sales and the mix of parts sold.

*Services Revenues Gross Profit.* For the three month period ended June 30, 2014, our services revenues gross profit increased \$1.6 million, or 18.6%, to \$10.3 million from \$8.7 million for the same three month period in 2013 on a \$2.3 million increase in services revenues. Gross profit margin for the three month period ended June 30, 2014 was 64.2%, up 0.9% from 63.3% in the same three month period in 2013, as a result of services revenues mix.

*Non-Segmented Other Revenues Gross Profit.* Our non-segmented other revenues gross profit decreased less than \$0.1 million, or 3.8%, to \$1.1 million for the three month period ended June 30, 2014 from \$1.2 million for the same period in 2013. Gross margin for the three month period ended June 30, 2014 was 7.3% compared to a gross margin of 8.7% in the same three month period last year, primarily reflective of lower margins on hauling and other transportations costs.

*Selling, General and Administrative Expenses.* SG&A expenses increased \$4.8 million, or 10.1%, to \$51.9 million for the three month period ended June 30, 2014 compared to \$47.1 million for the three month period ended June 30, 2013. The net increase in SG&A expenses was attributable to several factors. Employee salaries and wages and related employee expenses increased approximately \$2.8 million as a result of higher salaries, wages and payroll taxes stemming primarily from an increase in commission and incentive pay that resulted from higher rental and new equipment sales revenues. Liability insurance costs increased \$0.4 million and legal and professional fees increased \$0.4 million. Facility and utility related expenses increased \$0.5 million and depreciation expense increased \$0.2 million. Supplies expense and other overhead costs increased \$0.4 million. Stock-based compensation expense was \$0.8 million and \$0.9 million for the three month periods ended June 30, 2014 and 2013, respectively. Of the \$4.8 million increase in SG&A expenses, approximately \$0.6 million was attributable to branches opened since December 31, 2012 with less than three full months of operations (or no operations) in the second quarter of 2013. As



a percentage of total revenues, SG&A expenses were 18.5% for the three month period ended June 30, 2014, a decrease of 0.7% from 19.2% for the same three month period in 2013, primarily as a result of the current year increase in total revenues.

**Other Income (Expense).** For the three month period ended June 30, 2014, our net other expenses decreased \$0.3 million to \$12.6 million compared to \$12.9 million for the same three month period in 2013. The decrease was the result of a \$0.2 million decrease in interest expense to \$12.9 million for the three month period ended June 30, 2014 compared to \$13.1 million for the same three month period in 2013 and a \$0.1 million increase in miscellaneous other income. The decrease in interest expense is primarily the result of a \$0.2 million increase in expense related to manufacturing flooring plans used to finance inventory purchases.

**Income Taxes.** We recorded income tax expense of \$9.6 million for the three month period ended June 30, 2014 compared to income tax expense of \$5.2 million for the three month period ended June 30, 2013. Our effective income tax rate was 38.0% for the three month period ended June 30, 2014 compared to 32.6% for the same three month period last year. The increase in our effective

**Table of Contents**

tax rate is primarily due to a decrease in permanent differences in the relation to current year pre-tax income. We also recorded a reduction of book goodwill of approximately \$0.2 million for the three month period ended June 30, 2013 for tax benefits realized from tax-deductible goodwill in excess of book goodwill. Based on available evidence, both positive and negative, we believe it is more likely than not that our deferred tax assets at June 30, 2014 are fully realizable through future reversals of existing taxable temporary differences and future taxable income, and are not subject to any limitations.

**Six Months Ended June 30, 2014 Compared to the Six Months Ended June 30, 2013****Revenues.**

	<b>Six Months Ended June 30,</b>		<b>Total Dollar Increase (Decrease)</b>	<b>Total Percentage Increase (Decrease)</b>
	<b>2014</b>	<b>2013</b>		
	<b>(in thousands, except percentages)</b>			
<b>Segment Revenues:</b>				
Equipment rentals	\$ 185,038	\$ 159,098	\$ 25,940	16.3%
New equipment sales	160,128	126,759	33,369	26.3%
Used equipment sales	60,742	66,810	(6,068)	(9.1)%
Parts sales	54,173	51,400	2,773	5.4%
Services revenues	29,750	28,321	1,429	5.0%
Non-Segmented revenues	27,776	25,340	2,436	9.6%
 Total revenues	 \$ 517,607	 \$ 457,728	 \$ 59,879	 13.1%

*Total Revenues.* Our total revenues were \$517.6 million for the six month period ended June 30, 2014 compared to \$457.7 million for the six month period ended June 30, 2013, an increase of \$59.9 million, or 13.1%. Revenues for all reportable segments are further discussed below.

*Equipment Rental Revenues.* Our revenues from equipment rentals for the six month period ended June 30, 2014 increased \$25.9 million, or 16.3%, to \$185.0 million from \$159.1 million in the six month period ended June 30, 2013. Rental revenues from aerial work platforms increased \$15.5 million, while rental revenues from earthmoving equipment increased \$4.7 million. Rental revenues from other equipment increased approximately \$3.5 million and rental revenues from cranes increased \$1.6 million. Lift truck rental revenues increased \$0.5 million. Our average rental rates for the six month period ended June 30, 2014 increased 0.9% compared to the same six month period last year.

Rental equipment dollar utilization (annual rental revenues divided by the average original rental fleet equipment costs) for the six month period ended June 30, 2014 improved to 35.3% from 34.9% in the six month period ended June 30, 2013, an increase of 0.4%. The increase in comparative rental equipment dollar utilization was primarily driven by an increase in rental equipment time utilization combined with a 0.9% increase in average rental rates. Rental equipment time utilization as a percentage of original equipment cost was approximately 71.0% for the six month period ended June 30, 2014 compared to 69.5% in the six month period ended June 30, 2013, an increase of 1.5%. Rental equipment time utilization based on the number of rental equipment units available for rent was 65.8% for the six month period ended June 30, 2014 compared to 65.0% in the same period last year, an increase of 0.8%.

The increase in equipment rental time utilization based on original equipment cost and based on the number of units available for rent is reflective of increased equipment rental demand.

*New Equipment Sales Revenues.* Our new equipment sales for the six month period ended June 30, 2014 increased approximately \$33.4 million, or 26.3%, to \$160.1 million from \$126.8 million for the six month period ended June 30, 2013. Sales of new cranes increased \$20.6 million and sales of new earthmoving equipment increased \$6.9 million. Sales of new aerial work platform equipment increased \$6.6 million. New other equipment sales decreased \$0.7 million and sales of new lift trucks decreased approximately \$0.1 million.

*Used Equipment Sales Revenues.* Our used equipment sales decreased \$6.1 million, or 9.1%, to \$60.7 million for the six month period ended June 30, 2014, from \$66.8 million for the same six month period in 2013. The decrease in used equipment sales was primarily driven by a \$10.6 million decrease in used crane sales. Used aerial work platform equipment sales decreased \$0.2 million. Offsetting these decreases were an increase in sales of used earthmoving equipment of \$4.6 million and a \$0.2 million increase in used lift truck sales.

*Parts Sales Revenues.* Our parts sales increased \$2.8 million, or 5.4%, to \$54.2 million for the six month period ended June 30, 2014 from approximately \$51.4 million for the same six month period in 2013. The increase in parts revenues was due to higher demand for parts compared to the same period last year.

**Table of Contents**

*Services Revenues.* Our services revenues for the six month period ended June 30, 2014 increased \$1.4 million, or 5.0%, to approximately \$29.8 million from \$28.3 million for the same six month period last year. The increase in services revenues was primarily due to higher demand for services compared to last year.

*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 six month period ended June 30, 2014, our non-segmented other revenues were \$27.8 million, an increase of approximately \$2.4 million, or 9.6%, from \$25.3 million in the same six month period in 2013. The increase was primarily due to an increase in hauling revenues and higher damage waiver income associated with equipment rentals.

**Gross Profit.**

	<b>Six Months Ended June 30,</b>		<b>Total Dollar Change Increase (Decrease)</b>	<b>Total Percentage Change Increase (Decrease)</b>
	<b>2014</b>	<b>2013</b>		
	<b>(in thousands, except percentages)</b>			
<b>Segment Gross Profit:</b>				
Equipment rentals	\$ 86,786	\$ 73,095	\$ 13,691	18.7%
New equipment sales	18,981	13,965	5,016	35.9%
Used equipment sales	19,268	19,890	(622)	(3.1)%
Parts sales	15,850	13,863	1,987	14.3%
Services revenues	19,242	17,521	1,721	9.8%
Non-Segmented revenues	1,725	1,558	167	10.7%
<b>Total gross profit</b>	<b>\$ 161,852</b>	<b>\$ 139,892</b>	<b>\$ 21,960</b>	<b>15.7%</b>

*Total Gross Profit.* Our total gross profit was \$161.9 million for the six month period ended June 30, 2014 compared to \$139.9 million for the same six month period in 2013, an increase of \$22.0 million, or 15.7%. Total gross profit margin for the six month period ended June 30, 2014 was 31.3%, an increase of 0.7% from the 30.6% gross profit margin for the same six month period in 2013. Gross profit and gross margin for all reportable segments are further described below:

*Equipment Rentals Gross Profit.* Our gross profit from equipment rentals for the six month period ended June 30, 2014 increased \$13.7 million, or 18.7%, to \$86.8 million from \$73.1 million in the same six month period in 2013. The increase in equipment rentals gross profit was the result of a \$25.9 million increase in rental revenues for the six month period ended June 30, 2014, which was partially offset by a \$2.0 million increase in rental expenses and a \$10.3 million increase in rental equipment depreciation expense. The increase in rental expenses and rental equipment depreciation expense was due to a larger fleet size in 2014 compared to 2013. As a percentage of equipment rental revenues, rental expenses were 16.1% for the six month period ended June 30, 2014 compared to 17.5% for the same period last year. This percentage decrease was primarily attributable to the increase in comparative rental revenues. Depreciation expense was 37.0% of equipment rental revenues for the six month period ended June 30, 2014 compared to 36.6% for the same period in 2013. The percentage increase in depreciation expense as a percentage of equipment rental revenues is primarily due to an increase in the volume of rental purchase option arrangements.

Gross profit margin on equipment rentals for the six month period ended June 30, 2014 was approximately 46.9%, up 1.0% from 45.9% for the same period in 2013. This gross profit margin improvement was primarily due to the increase in comparative rental revenues resulting from higher average rental rates and the increase in time utilization for the six month period ended June 30, 2014 compared to the six month period ended June 30, 2013, combined with the decrease in rental expenses as a percentage of equipment rental revenues.

*New Equipment Sales Gross Profit.* Our new equipment sales gross profit for the six month period ended June 30, 2014 increased \$5.0 million, or 35.9%, to \$19.0 million compared to \$14.0 million for the same six month period in 2013 on a total new equipment sales increase of \$33.4 million. Gross profit margin on new equipment sales for the six month period ended June 30, 2014 was 11.9%, an increase of 0.9% from 11.0% in the same six month period in 2013, primarily reflecting higher margins on new crane and earthmoving equipment sales.

*Used Equipment Sales Gross Profit.* Our used equipment sales gross profit for the six month period ended June 30, 2014 decreased \$0.6 million, or 3.1%, to \$19.3 million from \$19.9 million in the same period in 2013 on a used equipment sales decrease of \$6.1 million. Gross profit margin on used equipment sales for the six month period ended June 30, 2014 was 31.7%, up approximately 1.9% from 29.8% for the same six month period in 2013, primarily as a result of higher margins on sales of used cranes and aerial

---

**Table of Contents**

work platform equipment. Our used equipment sales from the rental fleet, which comprised approximately 86.5% and 74.8% of our used equipment sales for the six month periods ended June 30, 2014 and 2013, respectively, were approximately 152.9% and 157.1% of net book value for the six month periods ended June 30, 2014 and 2013, respectively.

**Parts Sales Gross Profit.** For the six month period ended June 30, 2014, our parts sales revenue gross profit increased approximately \$2.0 million, or 14.3%, to \$15.9 million from \$13.9 million for the same six month period in 2013 on a \$2.8 million increase in parts sales revenues. Gross profit margin for the six month period ended June 30, 2014 was 29.3%, an increase of 2.3% from 27.0% in the same six month period in 2013, as a result of the mix of parts sold and pricing on other equipment parts.

**Services Revenues Gross Profit.** For the six month period ended June 30, 2014, our services revenues gross profit increased \$1.7 million, or 9.8%, to \$19.2 million from \$17.5 million for the same six month period in 2013 on a \$1.4 million increase in services revenues. Gross profit margin for the six month period ended June 30, 2014 was 64.7%, up approximately 2.8% from 61.9% in the same six month period in 2013, as a result of services revenues mix.

**Non-Segmented Other Revenues Gross Profit.** Our non-segmented other revenues gross profit increased \$0.2 million, or 10.7%, to \$1.7 million for the six month period ended June 30, 2014 from approximately \$1.6 million for the same period in 2013. Gross margin for the six month period ended June 30, 2014 was 6.2% compared to a gross margin of 6.1% in the same six month period last year.

**Selling, General and Administrative Expenses.** SG&A expenses increased approximately \$7.4 million, or 7.9%, to approximately \$100.7 million for the six month period ended June 30, 2014 compared to \$93.4 million for the six month period ended June 30, 2013. The net increase in SG&A expenses was attributable to several factors. Employee salaries and wages and related employee expenses increased approximately \$4.2 million as a result of higher salaries, wages and payroll taxes stemming primarily from an increase in commission and incentive pay that resulted from higher rental and new equipment sales revenues. Liability insurance costs increased \$0.7 million and depreciation expense increased \$0.5 million. Promotional expenses increased \$0.4 million and legal and professional fees increased \$0.5 million. Facility and utility related expenses increased \$0.8 million. Stock-based compensation expense was \$1.6 million for each of the six month periods ended June 30, 2014 and 2013. Of the \$7.4 million increase in SG&A expenses, approximately \$1.2 million was attributable to branches opened since December 31, 2012 with less than six full months of operations (or no operations) in the first six months of 2013. As a percentage of total revenues, SG&A expenses were 19.5% for the six month period ended June 30, 2014, a decrease of 0.9% from 20.4% for the same six month period in 2013, primarily as a result of the current year increase in total revenues.

**Other Income (Expense).** For the six month period ended June 30, 2014, our net other expenses increased approximately \$0.3 million to \$24.9 million compared to \$24.6 million for the same six month period in 2013. The increase was the result of a \$0.2 million increase in interest expense to \$25.6 million for the six month period ended June 30, 2014 compared to \$25.4 million for the same six month period in 2013 and a \$0.1 million decrease in miscellaneous other income. The increase in interest expense is the net result of an approximately \$0.7 million increase in expense related to our senior unsecured notes and a \$0.4 million decrease in interest expense related to manufacturing flooring plans used to finance inventory purchases. The increase in interest expense on our senior unsecured notes is primarily due to the increase in the aggregate principal amount of these notes from \$530 million to \$630 million on February 4, 2013.

**Income Taxes.** We recorded income tax expense of approximately \$14.4 million for the six month period ended June 30, 2014 compared to income tax expense of \$7.4 million for the six month period ended June 30, 2013. Our effective income tax rate was 38.4% for the six month period ended June 30, 2014 compared to 32.2% for the same

six month period last year. The increase in our effective tax rate is primarily due to a decrease in permanent differences in the relation to current year pre-tax income. We also recorded a reduction of book goodwill of approximately \$0.4 million for the six month period ended June 30, 2013 for tax benefits realized from tax-deductible goodwill in excess of book goodwill. Based on available evidence, both positive and negative, we believe it is more likely than not that our deferred tax assets at June 30, 2014 are fully realizable through future reversals of existing taxable temporary differences and future taxable income, and are not subject to any limitations.

### **Liquidity and Capital Resources**

*Cash flow from operating activities.* For the six month period ended June 30, 2014, the cash provided by our operating activities was \$37.8 million. Our reported net income of \$23.2 million, which, when adjusted for non-cash income and expense items, such as depreciation and amortization, deferred income taxes, net amortization (accretion) of note discount (premium), provision for losses on accounts receivable, provision for inventory obsolescence, stock-based compensation expense and net gains on the sale of long-lived

---

**Table of Contents**

assets, provided positive cash flows of \$97.6 million. These cash flows from operating activities were also positively impacted by a \$27.4 million increase in accounts payable and a \$3.1 million increase in manufacturing flooring plans payable. Also increasing our operating cash flows was a \$3.0 million increase in accrued expenses payable and other liabilities. Offsetting these positive cash flows was an increase of \$76.6 million in inventories as a result of increasing demand and improving sales of new equipment. Also decreasing our operating cash flows was a \$13.9 million increase in receivables and a \$2.8 million increase in prepaid expenses and other assets.

For the six month period ended June 30, 2013, the cash provided by our operating activities was \$28.8 million. Our reported net income of approximately \$15.6 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, provision for inventory obsolescence, stock-based compensation expense, writedown of goodwill for tax-deductible goodwill in excess of book goodwill and net gains on the sale of long-lived assets, provided positive cash flows of \$70.0 million. These cash flows from operating activities were also positively impacted by a \$40.7 million increase in accounts payable and a \$5.5 million increase in manufacturing flooring plans payable. Also increasing our operating cash flows were a \$6.2 million decrease in net accounts receivables and a \$4.3 million increase in accrued expenses payable and other liabilities. Offsetting these positive cash flows was an increase of \$94.6 million in net inventories as a result of increasing demand and improving sales of new and used equipment. Also decreasing our operating cash flows was a \$3.3 million increase in prepaid expenses and other assets.

*Cash flow from investing activities.* For the six month period ended June 30, 2014, cash provided by our investing activities was exceeded by cash used in our investing activities, resulting in net cash used in our investing activities of \$118.1 million. This was a result of purchases of rental and non-rental equipment totaling \$172.2 million, which was partially offset by proceeds from the sale of rental and non-rental equipment of approximately \$54.1 million.

For the six month period ended June 30, 2013, cash provided by our investing activities was exceeded by cash used in our investing activities, resulting in net cash used in our investing activities of approximately \$82.1 million. This was a result of purchases of rental and non-rental equipment totaling \$133.3 million, which was partially offset by proceeds from the sale of rental and non-rental equipment of approximately \$51.2 million.

*Cash flow from financing activities.* For the six month period ended June 30, 2014, cash provided by our financing activities was \$68.7 million. Net borrowings under the Credit Facility totaled approximately \$70.3 million. Partially offsetting these positive cash flows were deferred financing costs of \$0.8 million. As more fully described in our Quarterly Report on Form 10-Q for the three months ended September 30, 2012, the Company on September 19, 2012 paid a one-time special dividend of \$7.00 per share on the then-outstanding common stock and dividends on nonvested stock at that time were to be paid upon vesting of those shares. On June 6, 2014, the Company paid all remaining dividends on those shares of common stock totaling \$0.7 million.

For the six month period ended June 30, 2013, cash provided by our financing activities was approximately \$48.6 million. Net proceeds from our 7% senior notes due 2022 issued on February 4, 2013 (the Add-on Notes ) were approximately \$107.3 million. Net borrowings under the Credit Facility totaled \$57.2 million and excess tax benefits realized from stock-based awards totaled \$0.2 million. Partially offsetting these positive cash flows were payments of deferred financing costs of \$0.7 million and dividends paid of \$0.4 million. Additionally, purchases of treasury stock totaled \$0.4 million.

***Senior Secured Credit Facility***

We and our subsidiaries are parties to a senior secured Credit Facility with General Electric Capital Corporation as agent, and the lenders named therein.



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

On May 21, 2014, we amended, extended and restated its existing \$402.5 million senior secured credit facility with General Electric Capital Corporation by entering into the Fourth Amended and Restated Credit Agreement (the Amended and Restated Credit Agreement ) by and among the Company, Great Northern Equipment, Inc., H&E Equipment Services (California), LLC, the other credit parties named therein, the lenders named therein, General Electric Capital Corporation, as administrative agent, Bank of America, N.A. as co-syndication agent and documentation agent, Wells Fargo Capital Finance, LLC, as co-syndication agent and Deutsche Bank Securities Inc. as joint lead arranger and joint bookrunner.

The Amended and Restated Credit Agreement, among other things, (i) extends the maturity date of the credit facility from February 29, 2017 to May 21, 2019, (ii) increases the uncommitted incremental revolving capacity from \$130 million to \$150 million, (iii) permits a like-kind exchange program under Section 1031 of the Internal Revenue Code of 1986, as amended, (iv) provides that the unused commitment fee margin will be either 0.50%, 0.375% or 0.25%, depending on the ratio of the average of the daily closing balances of the aggregate revolving loans, swing line loans and letters of credit outstanding during each month to the aggregate

**Table of Contents**

commitments for the revolving loans, swing line loans and letters of credit, (v) lowers the interest rate (a) in the case of index rate revolving loans, to the index rate plus an applicable margin of 0.75% to 1.25% depending on the leverage ratio and (b) in the case of LIBOR revolving loans, to LIBOR plus an applicable margin of 1.75% to 2.25%, depending on the leverage ratio, (vi) lowers the margin applicable to the letter of credit fee to between 1.75% and 2.25%, depending on the leverage ratio, and (vii) permits, under certain conditions, for the payment of dividends and/or stock repurchases or redemptions on the capital stock of the Company of up to \$75 million per calendar year and further additionally permits the payment of the special cash dividend of \$7.00 per share previously declared by the Company on August 20, 2012 to the holders of outstanding restricted stock of the Company following the declared payment date with such permission not tied to the vesting of such restricted stock (which includes the Company's payment in June 2014 of all amounts that remained payable to the holders of the restricted stock of the Company with respect to such special dividend that was otherwise payable following the applicable vesting dates in May and July 2014 and 2015).

At June 30, 2014, the interest rate on the Credit Facility was based on LIBOR plus 200 basis points. The weighted average interest rate at June 30, 2014 was approximately 2.5%. At July 24, 2014, we had \$203.3 million of available borrowings under our Credit Facility, net of \$6.5 million of outstanding letters of credit.

***Senior Unsecured Notes***

On August 20, 2012, the Company closed on its offering of \$530 million aggregate principal amount of its 7% senior notes due 2022 (the New Notes) in an unregistered offering. The New Notes and related guarantees were offered in a private placement solely to qualified institutional buyers in reliance on Rule 144A under the Securities Act of 1933, as amended (the Securities Act), or outside the United States to persons other than U.S. persons in compliance with Regulation S under the Securities Act.

Net proceeds to the Company from the sale of the New Notes totaled approximately \$520.7 million. The Company used a portion of the net proceeds from the sale of the New Notes to repurchase \$158.7 million of the \$250 million aggregate principal amount of its 8 3/8% senior notes due 2016 (the Old Notes) in early settlement of a tender offer and consent solicitation (the Tender Offer) that the Company launched on August 6, 2012. Holders who tendered their Old Notes prior to the early tender deadline received \$1,031.67 per \$1,000 principal amount of Old Notes tendered, plus accrued and unpaid interest to the date of repurchase. Having received the requisite consents from the holders of the Old Notes in the Tender Offer, the Company, certain of its subsidiaries and The Bank of New York Mellon Trust Company, N.A., as trustee, executed a supplemental indenture amending the indenture relating to the Old Notes. Also on August 20, 2012, the Company satisfied and discharged its obligations under the indenture relating to the Old Notes and issued a notice of redemption for the remaining outstanding principal amount of the Old Notes. On September 19, 2012, the Company redeemed the remaining \$91.3 million principal amount outstanding of the Old Notes at a redemption price equal to 102.792% of the aggregate principal amount of the Old Notes being redeemed, plus accrued and unpaid interest on the Old Notes to the redemption date.

The Company used the remaining net proceeds of the offering of the New Notes to pay on September 19, 2012 a special, one-time cash dividend. Actual dividends paid totaled approximately \$244.4 million, representing \$7.00 per share paid on 34,911,455 outstanding shares of Common Stock of the Company. Dividends on 232,431 outstanding shares of non-vested common stock totaling approximately \$1.5 million, net of estimated forfeitures, are to be paid upon vesting of those shares pursuant to their respective stock awards' terms and conditions.

In connection with the above transactions, the Company recorded a one-time loss on the early extinguishment of debt of approximately \$10.2 million, or approximately \$6.6 million after-tax, reflecting payment of \$5.0 million of tender premiums and \$2.6 million to redeem the Old Notes that remained outstanding following completion of the Tender

Offer, combined with the write-off of approximately \$2.6 million of unamortized deferred financing costs related to the Old Notes. Transaction costs incurred in connection with the offering of the New Notes totaled approximately \$1.7 million.

The New Notes were issued at par and require semiannual interest payments on March 1 and September 1 of each year, commencing on March 1, 2013. No principal payments are due until maturity (September 1, 2022).

The New Notes are redeemable, in whole or in part, at any time on or after September 1, 2017 at specified redemption prices plus accrued and unpaid interest to the date of redemption. We may redeem up to 35% of the aggregate principal amount of the New Notes before September 1, 2015 with the net cash proceeds from certain equity offerings. We may also redeem the New Notes prior to September 1, 2017 at a specified make-whole redemption price plus accrued and unpaid interest to the date of redemption.

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

## **Table of Contents**

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

On February 4, 2013, the Company closed on its offering of \$100 million aggregate principal amount of Add-on Notes in an unregistered offering through a private placement. The Add-on Notes were priced at 108.5% of the principal amount. Net proceeds from the offering of the Add-on Notes, including accrued interest from August 20, 2012 totaled approximately \$110.4 million. The Company used the proceeds from the offering to repay indebtedness outstanding under its Credit Facility and for the payment of fees and expenses related to the offering.

The Add-on Notes were issued as additional notes under an indenture dated as of August 20, 2012, pursuant to which the Company previously issued the New Notes as described above. The Add-on Notes have identical terms to, rank equally with and form a part of a single class of securities with the New Notes.

In order to satisfy our obligations under two separate registration rights agreements, one entered into between the Company, the guarantors of the New Notes and the initial purchasers of the New Notes, and the other entered into between the Company, the guarantors of the Add-on Notes and the initial purchaser of the Add-on Notes, we commenced an offering on April 1, 2013 to exchange the New Notes and guarantees and the Add-on Notes and guarantees for registered, publicly tradable notes and guarantees that have terms identical in all material respects to the New Notes and the Add-on Notes (except that the exchange notes will not contain any transfer restrictions). This exchange offer closed on April 30, 2013.

## ***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 the Credit Facility. Our principal uses of cash have been to fund operating activities and working capital (including new and used equipment inventories), 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 and seek to open new start-up locations. 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 six month period ended June 30, 2014 were \$199.0 million, including \$37.4 million of non-cash transfers from new and used equipment to rental fleet inventory. Our gross property and equipment capital expenditures for the six month period ended June 30, 2014 were \$10.6 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 New Notes and the Add-on Notes, the Credit Facility and our other indebtedness), will depend upon our future operating performance and the availability of borrowings under the 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 the Credit Facility will be adequate to meet our future liquidity needs for the foreseeable future. As of July 24, 2014, we had \$203.3 million of available borrowings under the Credit Facility, net of \$6.5 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 effected 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 Credit Facility and the indenture governing the New Notes and the Add-on Notes, 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.

### ***Quarterly Dividends***

On July 28, 2014, the Company announced a dividend of \$0.25 per share to stockholders of record as of the close of business on August 25, 2014, payable on September 9, 2014. The Company intends to pay regular quarterly cash dividends; however, the declaration of any subsequent dividends is discretionary and will be subject to a final determination by the Board of Directors each quarter after its review of, among other things, business and market conditions.

## **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 is 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. Adverse weather has a seasonal impact in parts of the markets we serve, including our Intermountain region, particularly in the winter months.

Equipment sales cycles are also subject to some seasonality with the peak selling period during the spring season and extending through the summer. Parts and services activities are typically 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, 2013.

### **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, 2013.

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

Our earnings may be affected by changes in interest rates since interest expense on the Credit Facility is currently calculated based upon the index rate plus an applicable margin of 0.75% to 1.25%, depending on the leverage ratio, in the case of index rate revolving loans and LIBOR plus an applicable margin of 1.75% to 2.25%, depending on the leverage ratio, in the case of LIBOR revolving loans. At June 30, 2014, we had total borrowings outstanding under the Credit Facility of approximately \$172.8 million. A 1.0% increase in the interest rate on the Credit Facility would result in approximately a \$1.7 million increase in interest expense on an annualized basis. At July 24, 2014, we had \$203.3 million of available borrowings under the Credit Facility, net of \$6.5 million of outstanding letters of credit. We did not have significant exposure to changing interest rates as of June 30, 2014 on the fixed-rate New Notes and Add-on Notes. 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-15(e) and 15d-15(e) 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 June 30, 2014, 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 were no changes in the Company's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) that occurred during the quarter ended June 30, 2014 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.**

From time to time, we are involved in various claims and legal actions arising in the ordinary course of our business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these various matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

**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, 2013, 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, 2013.

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

None.

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

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.



**Table of Contents**

**Item 6. Exhibits.**

- 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 (filed herewith).
- 101.SCH XBRL Taxonomy Extension Schema Document (filed herewith).
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith).
- 101.DEF XBRL Taxonomy Extension Definition Linkbase Document (filed herewith).
- 101.LAB XBRL Taxonomy Extension Label Linkbase Document (filed herewith).
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document (filed 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: July 31, 2014

By: /s/ John M. Engquist  
John M. Engquist

Chief Executive Officer

(Principal Executive Officer)

Dated: July 31, 2014

By: /s/ Leslie S. Magee  
Leslie S. Magee

Chief Financial Officer and Secretary

(Principal Financial and Accounting Officer)

**Table of Contents**

**EXHIBIT INDEX**

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 (filed herewith).
101.SCH	XBRL Taxonomy Extension Schema Document (filed herewith).
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith).
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (filed herewith).
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (filed herewith).
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith).