

H&E Equipment Services, Inc.

Form 10-Q

May 07, 2010

**Table of Contents**

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

**FORM 10-Q**

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

**For the quarterly period ended March 31, 2010.**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission file number: 000-51759**

**H&E Equipment Services, Inc.**  
(Exact Name of Registrant as Specified in Its Charter)

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

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

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

**70816**  
(ZIP Code)

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

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

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

Yes  No

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

Yes  No

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

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  Smaller Reporting Company   
(Do not check if a smaller reporting company)

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

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 May 3, 2010, there were 34,897,865 shares of H&E Equipment Services, Inc. common stock, \$0.01 par value, outstanding.

---

**H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES**  
**TABLE OF CONTENTS**  
**MARCH 31, 2010**

|   | <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 March 31, 2010 (Unaudited) and December 31, 2009</u>                   | 4           |
| <u>Condensed Consolidated Statements of Operations (Unaudited) for the Three Months Ended March 31, 2010 and 2009</u> | 5           |
| <u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the Three Months Ended March 31, 2010 and 2009</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>                  | 19          |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>   | 29          |
| <u>Item 4. Controls and Procedures</u>  | 30          |
| <b><u>PART II. OTHER INFORMATION</u></b>  | <b>30</b>   |
| <u>Item 1. Legal Proceedings</u>  | 30          |
| <u>Item 1A. Risk Factors</u>  | 30          |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>  | 31          |
| <u>Item 3. Defaults upon Senior Securities</u>  | 31          |
| <u>Item 4. (Removed and Reserved)</u>   | 31          |
| <u>Item 5. Other Information</u>  | 31          |
| <u>Item 6. Exhibits</u>   | 31          |
| <u>Signatures</u>   | 32          |
| <u>EX-31.1</u>  |             |
| <u>EX-31.2</u>  |             |
| <u>EX-32.1</u>  |             |

**Table of Contents**

**Forward-Looking Statements**

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

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

- general economic conditions and construction and industrial activity in the markets where we operate in North America, as well as the depth and duration of the recent macroeconomic downturn and related decreases in construction and industrial activities, which may continue to significantly affect our revenues and operating results;
- the impact of conditions in the global credit markets and their effect on construction spending and the economy in general;
- relationships with new equipment suppliers;
- increased maintenance and repair costs as we age our fleet and decreases in our equipment's residual value;
- our indebtedness;
- the risks associated with the expansion of our business;
- our possible inability to integrate any businesses we acquire;
- competitive pressures;
- compliance with laws and regulations, including those relating to environmental matters and corporate governance matters; and
- other factors discussed under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2009.

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 risk and uncertainties, see Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2009, 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                         |                         |
|---|-------------------------------------|-------------------------|
|   | March<br>31,<br>2010<br>(Unaudited) | December<br>31,<br>2009 |
| <b>ASSETS</b>   |                                     |                         |
| Cash  | \$ 43,758                           | \$ 45,336               |
| Receivables, net of allowance for doubtful accounts of \$5,495 and \$5,736, respectively  | 70,691                              | 72,001                  |
| Inventories, net of reserves for obsolescence of \$860 and \$824, respectively  | 86,813                              | 94,987                  |
| Prepaid expenses and other assets   | 9,834                               | 6,999                   |
| Rental equipment, net of accumulated depreciation of \$232,421 and \$224,881, respectively  | 415,926                             | 437,407                 |
| Property and equipment, net of accumulated depreciation and amortization of \$45,260 and \$42,086, respectively   | 63,028                              | 65,802                  |
| Deferred financing costs, net of accumulated amortization of \$9,405 and \$9,050, respectively  | 5,190                               | 5,545                   |
| Intangible assets, net of accumulated amortization of \$2,640 and \$2,492, respectively   | 840                                 | 988                     |
| Goodwill  | 34,019                              | 34,019                  |
| Total assets  | \$ 730,099                          | \$ 763,084              |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |                                     |                         |
| <b>Liabilities:</b>   |                                     |                         |
| Accounts payable  | \$ 34,031                           | \$ 28,866               |
| Manufacturer flooring plans payable   | 80,059                              | 92,868                  |
| Accrued expenses payable and other liabilities  | 30,133                              | 37,271                  |
| Notes payable   | 710                                 | 1,929                   |
| Senior unsecured notes  | 250,000                             | 250,000                 |
| Capital lease payable   | 2,150                               | 2,181                   |
| Deferred income taxes   | 64,046                              | 69,146                  |
| Deferred compensation payable   | 1,957                               | 1,941                   |
| Total liabilities   | 463,086                             | 484,202                 |
| <b>Commitments and contingent liabilities</b>   |                                     |                         |
| <b>Stockholders equity:</b>   |                                     |                         |
| Preferred stock, \$0.01 par value, 25,000,000 shares authorized; no shares issued   |                                     |                         |
| Common stock, \$0.01 par value, 175,000,000 shares authorized; 38,525,688 shares issued at March 31, 2010 and December 31, 2009 and 34,897,865 and 34,904,597 shares outstanding at March 31, 2010 and December 31, 2009, | 385                                 | 385                     |

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

|  |            |            |
|--|------------|------------|
| respectively   |            |            |
| Additional paid-in capital   | 208,281    | 208,072    |
| Treasury stock at cost, 3,627,823 shares of common stock held at March 31,<br>2010 and 3,621,091 shares of common stock held at December 31, 2009,<br>respectively | (56,118)   | (56,118)   |
| Retained earnings  | 114,465    | 126,543    |
| Total stockholders' equity   | 267,013    | 278,882    |
| Total liabilities and stockholders' equity   | \$ 730,099 | \$ 763,084 |

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 OPERATIONS**  
**(Unaudited)**

(Amounts in thousands, except per share amounts)

|   | <b>Three Months Ended</b> |             |
|---|---------------------------|-------------|
|   | <b>March 31,</b>          |             |
|   | <b>2010</b>               | <b>2009</b> |
| Revenues:   |                           |             |
| Equipment rentals                                   | \$ 36,453                 | \$ 55,484   |
| New equipment sales                                 | 27,293                    | 64,057      |
| Used equipment sales                                | 13,431                    | 16,093      |
| Parts sales   | 19,632                    | 26,023      |
| Services revenues                                   | 11,483                    | 15,457      |
| Other   | 6,394                     | 9,082       |
| <br>  |                           |             |
| Total revenues                                      | 114,686                   | 186,196     |
| <br>  |                           |             |
| Cost of revenues:                                   |                           |             |
| Rental depreciation                                 | 19,279                    | 23,785      |
| Rental expense                                      | 9,247                     | 11,330      |
| New equipment sales                                 | 24,910                    | 55,315      |
| Used equipment sales                                | 10,745                    | 12,688      |
| Parts sales   | 14,247                    | 18,522      |
| Services revenues                                   | 4,376                     | 5,703       |
| Other   | 7,997                     | 8,573       |
| <br>  |                           |             |
| Total cost of revenues                              | 90,801                    | 135,916     |
| <br>  |                           |             |
| Gross profit  | 23,885                    | 50,280      |
| <br>  |                           |             |
| Selling, general and administrative expenses        | 35,874                    | 39,147      |
| Gain (loss) on sales of property and equipment, net | 64                        | (18)        |
| <br>  |                           |             |
| Income (loss) from operations                       | (11,925)                  | 11,115      |
| <br>  |                           |             |
| Other income (expense):                             |                           |             |
| Interest expense                                    | (7,291)                   | (8,181)     |
| Other, net  | 50                        | 215         |
| <br>  |                           |             |
| Total other expense, net                            | (7,241)                   | (7,966)     |
| <br>  |                           |             |
| Income (loss) before income taxes                   | (19,166)                  | 3,149       |
| Provision (benefit) for income taxes                | (7,088)                   | 971         |



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

|   |             |          |
|---|-------------|----------|
| Net income (loss)                           | \$ (12,078) | \$ 2,178 |
| Net income (loss) per common share:         |             |          |
| Basic                                       | \$ (0.35)   | \$ 0.06  |
| Diluted                                     | \$ (0.35)   | \$ 0.06  |
| Weighted average common shares outstanding: |             |          |
| Basic                                       | 34,625      | 34,581   |
| Diluted                                     | 34,625      | 34,597   |

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>Three Months Ended</b> |             |
|--|---------------------------|-------------|
|  | <b>March 31,</b>          |             |
|  | <b>2010</b>               | <b>2009</b> |
| Cash flows from operating activities:  |                           |             |
| Net income (loss)  | \$ (12,078)               | \$ 2,178    |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                           |             |
| Depreciation and amortization on property and equipment  | 3,432                     | 2,795       |
| Depreciation on rental equipment   | 19,279                    | 23,785      |
| Amortization of loan discounts and deferred financing costs  | 355                       | 355         |
| Amortization of intangible assets  | 148                       | 148         |
| Provision for losses on accounts receivable  | 580                       | 1,232       |
| Provision for inventory obsolescence   | 61                        | 34          |
| Increase (decrease) in deferred income taxes   | (5,100)                   | 923         |
| Stock-based compensation expense   | 209                       | 279         |
| (Gain) loss on sales of property and equipment, net  | (64)                      | 18          |
| Gain on sales of rental equipment, net   | (2,569)                   | (3,101)     |
| Changes in operating assets and liabilities:   |                           |             |
| Receivables, net   | 730                       | 39,194      |
| Inventories, net   | 2,158                     | (9,898)     |
| Prepaid expenses and other assets  | (2,835)                   | 1,722       |
| Accounts payable   | 5,165                     | (32,711)    |
| Manufacturer flooring plans payable  | (12,809)                  | (14,004)    |
| Accrued expenses payable and other liabilities   | (7,138)                   | (9,473)     |
| Deferred compensation payable  | 16                        | 16          |
| Net cash provided by (used in) operating activities  | (10,460)                  | 3,492       |
| Cash flows from investing activities:  |                           |             |
| Purchases of property and equipment  | (670)                     | (7,123)     |
| Purchases of rental equipment  | (167)                     | (1,538)     |
| Proceeds from sales of property and equipment  | 76                        | 43          |
| Proceeds from sales of rental equipment  | 10,893                    | 13,282      |
| Net cash provided by investing activities  | 10,132                    | 4,664       |
| Cash flows from financing activities:  |                           |             |
| Purchases of treasury stock  |                           | (86)        |
| Borrowings on senior secured credit facility   |                           | 220,835     |
| Payments on senior secured credit facility   |                           | (229,224)   |
| Payments of related party obligation   |                           | (75)        |
| Payments of capital lease obligation   | (31)                      | (29)        |

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

|                                       |           |           |
|---------------------------------------|-----------|-----------|
| Principal payments on notes payable   | (1,219)   | (7)       |
| Net cash used in financing activities | (1,250)   | (8,586)   |
| Net decrease in cash                  | (1,578)   | (430)     |
| Cash, beginning of period             | 45,336    | 11,266    |
| Cash, end of period                   | \$ 43,758 | \$ 10,836 |

**Table of Contents**

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

|  | <b>Three Months Ended</b> |             |
|--|---------------------------|-------------|
|  | <b>March 31,</b>          |             |
|  | <b>2010</b>               | <b>2009</b> |
| Supplemental schedule of noncash investing and financing activities: |                           |             |
| Noncash asset purchases:   |                           |             |
| Assets transferred from new and used inventory to rental fleet       | \$ 5,955                  | \$ 4,201    |
| Supplemental disclosures of cash flow information:                   |                           |             |
| Cash paid during the period for:                                     |                           |             |
| Interest   | \$ 12,174                 | \$ 13,117   |
| Income taxes paid, net of refunds received                           | \$ (38)                   | \$ (354)    |

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

**Table of Contents**

**H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**(1) Organization and Nature of Operations**

**Basis of Presentation**

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

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such regulations. In the opinion of management, all adjustments (consisting of all normal and recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010, 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, 2009, from which the balance sheet amounts as of December 31, 2009 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 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, 2009. During the three month period ended March 31, 2010, there were no significant changes to those accounting policies.

*Use of Estimates*

We prepare our condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, which requires management to use its judgment to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the condensed 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

**Table of Contents**

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.

*Accounting Pronouncements Adopted in Fiscal Year 2009*

In June 2009, the FASB issued Statement of FAS No. 167, *Amendments to FASB Interpretation No. 46(R)* ( FAS 167 ), which has not yet been codified in the Accounting Standards Codification ( ASC ). This guidance is a revision to pre-existing guidance pertaining to the consolidation and disclosure of variable interest entities. Specifically, it changes how a reporting entity determines when or if an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity's purpose and design and the reporting entity's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance. This guidance requires a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. A reporting entity is required to disclose how its involvement with a variable interest entity affects the reporting entity's financial statements. We adopted the provisions of FAS 167 effective January 1, 2010, and such adoption did not have a material impact on our condensed consolidated financial statements for the quarter ended March 31, 2010.

*Accounting Pronouncements Not Yet Adopted*

In October 2009, the FASB issued ASU 2009-13, *Multiple-Deliverable Revenue Arrangements* (amendments to ASC 605, *Revenue Recognition*) ( ASU 2009-13 ). ASU 2009-13 requires entities to allocate revenue in an arrangement using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. ASU 2009-13 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. We are currently evaluating the impact, if any, the adoption of this statement will have on our consolidated financial statements.

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

The carrying value of financial instruments reported in our accompanying condensed consolidated balance sheets for cash, accounts receivable, accounts payable and accrued expenses payable and other liabilities approximate fair value due to the immediate or short-term nature or maturity of these financial instruments. The carrying amount for our senior secured credit facility approximates fair value because the underlying instrument includes provisions to adjust our interest rates based on current market rates. The determination of the fair value of our letters of credit is based on fees currently charged for similar agreements. The carrying amounts and fair values of our other financial instruments subject to fair value disclosures have been calculated based upon market quotes and present value calculations based on our current estimated incremental borrowing rates for similar types of borrowing arrangements, which are presented in the table below (amounts in thousands):

|   | <b>March 31, 2010</b>      |                       |
|---|----------------------------|-----------------------|
|   | <b>Carrying<br/>Amount</b> | <b>Fair<br/>Value</b> |
| Manufacturer flooring plans payable with interest computed at 6.75% | \$ 80,059                  | \$ 69,035             |
| Senior unsecured notes with interest compounded at 8.375%           | 250,000                    | 242,500               |
| Notes payable to lenders with interest computed at 7.25% to 9.55%   | 710                        | 443                   |
| Capital lease payable with interest computed at 5.929%              | 2,150                      | 1,893                 |
| Letters of credit   |                            | 120                   |
|   |                            |                       |
|   | <b>December 31, 2009</b>   |                       |
|   | <b>Carrying<br/>Amount</b> | <b>Fair<br/>Value</b> |
| Manufacturer flooring plans payable with interest computed at 6.75% | \$ 92,868                  | \$ 82,082             |
| Senior unsecured notes with interest compounded at 8.375%           | 250,000                    | 247,500               |

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

|   |       |       |
|---|-------|-------|
| Notes payable to lenders with interest computed at 7.25% to 9.55% . | 1,929 | 1,476 |
| Capital lease payable with interest computed at 5.929%              | 2,181 | 1,944 |
| Letters of credit   |       | 98    |

9

---

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

The following table summarizes the activity in Stockholders' Equity for the three month period ended March 31, 2010 (amounts in thousands, except share data):

|                                  | Common Stock |        | Additional | Treasury    | Retained   | Total        |
|----------------------------------|--------------|--------|------------|-------------|------------|--------------|
|                                  | Shares       | Amount | Paid-in    | Stock       | Earnings   | Stockholders |
|                                  | Issued       |        | Capital    |             |            | Equity       |
| Balances at<br>December 31, 2009 | 38,525,688   | \$ 385 | \$ 208,072 | \$ (56,118) | \$ 126,543 | \$ 278,882   |
| Stock-based<br>compensation      |              |        | 209        |             |            | 209          |
| Net loss                         |              |        |            |             | (12,078)   | (12,078)     |
| Balances at March 31,<br>2010    | 38,525,688   | \$ 385 | \$ 208,281 | \$ (56,118) | \$ 114,465 | \$ 267,013   |

**(5) Stock-Based Compensation**

We account for our stock-based compensation plan using the fair value recognition provisions of ASC 718, *Stock Compensation* (ASC 718). Under the provisions of ASC 718, stock-based compensation is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the requisite employee service period (generally the vesting period of the grant). Shares available for future stock-based payment awards under our Stock Incentive Plan were 4,112,332 shares as of March 31, 2010.

*Non-vested Stock*

The following table summarizes our non-vested stock activity for the three months ended March 31, 2010:

|                                       | Number of<br>Shares | Weighted<br>Average<br>Grant Date<br>Fair<br>Value |
|---------------------------------------|---------------------|--|
| Non-vested stock at December 31, 2009 | 279,223             | \$ 7.79  |
| Granted                               |                     |  |
| Vested                                |                     |  |
| Forfeited                             | (6,732)             | \$ 7.96  |
| Non-vested stock at March 31, 2010    | 272,491             | \$ 7.79  |

As of March 31, 2010, we had unrecognized compensation expense of \$1.4 million related to non-vested stock that we expect to be recognized over a weighted-average period of 1.9 years. The following table summarizes compensation expense related to non-vested stock, which is included in selling, general and administrative expenses in the accompanying condensed consolidated statements of income for the three months ended March 31, 2010 and 2009 (amounts in thousands):

For the Three Months  
Ended  
March 31,



|                      |        |        |
|----------------------|--------|--------|
|                      | 2010   | 2009   |
| Compensation expense | \$ 204 | \$ 239 |
| <i>Stock Options</i> |        |        |

At March 31, 2010, there was approximately \$4,000 of unrecognized compensation expense related to stock option awards that are expected to be recognized over a weighted-average period of 0.3 years. The following table summarizes compensation expense included in selling, general and administrative expenses in the accompanying condensed consolidated statements of income for the three months ended March 31, 2010 and 2009 (amounts in thousands):

|                      |  |  |       |
|----------------------|--|--|-------|
|                      |  | For the Three Months<br>Ended<br>March 31, |       |
|                      |  | 2010                                       | 2009  |
| Compensation expense |  | \$ 5                                       | \$ 40 |

**Table of Contents**

The following table represents stock option activity for the three months ended March 31, 2010:

|  | <b>Number<br/>of<br/>Shares</b> | <b>Weighted<br/>Average<br/>Exercise Price</b> | <b>Weighted<br/>Average<br/>Contractual<br/>Life<br/>In Years</b> |
|--|---------------------------------|--|---|
| Outstanding options at December 31, 2009 | 51,000                          | \$ 24.80                                       |   |
| Granted                                  |                                 |  |   |
| Exercised                                |                                 |  |   |
| Canceled, forfeited or expired           |                                 |  |   |
| Outstanding options at March 31, 2010    | 51,000                          | \$ 24.80                                       | 6.0   |
| Options exercisable at March 31, 2010    | 49,000                          | \$ 24.75                                       | 6.0   |

The closing price of our common stock on March 31, 2010 was \$10.78. All options outstanding at March 31, 2010 have grant date fair values which exceed the March 31, 2010 closing stock price.

The following table summarizes non-vested stock option activity for the three months ended March 31, 2010:

|   | <b>Number<br/>of<br/>Shares</b> | <b>Weighted<br/>Average<br/>Grant Date Fair<br/>Value</b> |
|---|---------------------------------|---|
| Non-vested stock options at December 31, 2009 | 2,000                           | \$ 26.27  |
| Granted                                       |                                 |   |
| Vested  |                                 |   |
| Forfeited                                     |                                 |   |
| Non-vested stock options at March 31, 2010    | 2,000                           | \$ 26.27  |

**(6) Earnings per Share**

Earnings per common share for the three months ended March 31, 2010 and 2009 are based on the weighted average number of common shares outstanding during the period. The effects of potentially dilutive securities that are anti-dilutive are not included in the computation of dilutive income (loss) per share. The following table sets forth the computation of basic and diluted net income (loss) per common share for the three month periods ended March 31, 2010 and 2009 (amounts in thousands, except per share amounts):

|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2010</b>                             | <b>2009</b> |
| Basic net income per share:                          |   |             |
| Net income (loss)                                    | \$ (12,078)                             | \$ 2,178    |
| Weighted average number of common shares outstanding | 34,625                                  | 34,581      |
| Net income (loss) per common share basic             | \$ (0.35)                               | \$ 0.06     |
| Diluted net income (loss) per share:                 |   |             |

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

|   |  |             |          |
|---|--|-------------|----------|
| Net income (loss)   |  | \$ (12,078) | \$ 2,178 |
| Weighted average number of common shares outstanding          |  | 34,625      | 34,581   |
| Effect of dilutive securities:                                |  |             |          |
| Effect of dilutive stock options                              |  |             |          |
| Effect of dilutive non-vested stock                           |  |             | 16       |
| Weighted average number of common shares outstanding diluted  |  | 34,625      | 34,597   |
| Net income (loss) per common share diluted                    |  | \$ (0.35)   | \$ 0.06  |
| Common shares excluded from the denominator as anti-dilutive: |  |             |          |
| Stock options   |  | 51          | 51       |
| Non-vested restricted stock                                   |  | 272         | 96       |

**(7) Segment Information**

We have identified five reportable segments: equipment rentals, new equipment sales, used equipment sales, parts sales and service revenues. These segments are based upon how management of the Company allocates resources and assesses performance. Non-segmented revenues and non-segmented costs relate to equipment support activities including transportation, hauling, parts

**Table of Contents**

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):

|                                   | <b>Three Months Ended<br/>March 31,</b> |             |
|-----------------------------------|---|-------------|
|                                   | <b>2010</b>                             | <b>2009</b> |
| Revenues:                         |   |             |
| Equipment rentals                 | \$ 36,453                               | \$ 55,484   |
| New equipment sales               | 27,293                                  | 64,057      |
| Used equipment sales              | 13,431                                  | 16,093      |
| Parts sales                       | 19,632                                  | 26,023      |
| Services revenues                 | 11,483                                  | 15,457      |
| Total segmented revenues          | 108,292                                 | 177,114     |
| Non-segmented revenues            | 6,394                                   | 9,082       |
| Total revenues                    | \$ 114,686                              | \$ 186,196  |
| Gross Profit (Loss):              |   |             |
| Equipment rentals                 | \$ 7,927                                | \$ 20,369   |
| New equipment sales               | 2,383                                   | 8,742       |
| Used equipment sales              | 2,686                                   | 3,405       |
| Parts sales                       | 5,385                                   | 7,501       |
| Services revenues                 | 7,107                                   | 9,754       |
| Total segmented gross profit      | 25,488                                  | 49,771      |
| Non-segmented gross profit (loss) | (1,603)                                 | 509         |
| Total gross profit                | \$ 23,885                               | \$ 50,280   |

|                                 | <b>Balances at</b>            |                                  |
|---------------------------------|-------------------------------|----------------------------------|
|                                 | <b>March<br/>31,<br/>2010</b> | <b>December<br/>31,<br/>2009</b> |
| Segment identified assets:      |                               |                                  |
| Equipment sales                 | \$ 73,073                     | \$ 81,022                        |
| Equipment rentals               | 415,925                       | 437,407                          |
| Parts and services              | 13,740                        | 13,964                           |
| Total segment identified assets | 502,738                       | 532,393                          |
| Non-segment identified assets   | 227,361                       | 230,691                          |
| Total assets                    | \$ 730,099                    | \$ 763,084                       |

The Company operates primarily in the United States and our sales to international customers for the three month periods ended March 31, 2010 and 2009 were approximately 2.5% and 1.2% of total revenues, respectively. No one customer accounted for more than 10% of our revenues on an overall or segment basis for any of the periods presented.

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

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

The condensed consolidating financial statements of H&E Equipment Services, Inc. and its subsidiaries are included below. The financial statements for H&E Finance Corp. are not included within the consolidating financial statements because H&E Finance Corp. has no assets or operations. The condensed consolidating balance sheet amounts as of December 31, 2009 included herein were derived from our annual audited consolidated financial statements and related notes in our Annual Report on Form 10-K for the year ended December 31, 2009.

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

|   | <b>As of March 31, 2010</b>               |                                   |                    |                     |
|---|---|-----------------------------------|--------------------|---------------------|
|   | <b>H&amp;E<br/>Equipment<br/>Services</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Elimination</b> | <b>Consolidated</b> |
|   | <b>(Amounts in thousands)</b>             |                                   |                    |                     |
| <b>Assets:</b>                                    |   |                                   |                    |                     |
| Cash  | \$ 43,758                                 | \$                                | \$                 | \$ 43,758           |
| Receivables, net                                  | 58,727                                    | 11,964                            |                    | 70,691              |
| Inventories, net                                  | 65,697                                    | 21,116                            |                    | 86,813              |
| Prepaid expenses and other assets                 | 9,566                                     | 268                               |                    | 9,834               |
| Rental equipment, net                             | 329,174                                   | 86,752                            |                    | 415,926             |
| Property and equipment, net                       | 52,424                                    | 10,604                            |                    | 63,028              |
| Deferred financing costs, net                     | 5,190                                     |                                   |                    | 5,190               |
| Intangible assets, net                            |   | 840                               |                    | 840                 |
| Investment in guarantor subsidiaries              | (9,157)                                   |                                   | 9,157              |                     |
| Goodwill  | 4,493                                     | 29,526                            |                    | 34,019              |
| <b>Total assets</b>                               | <b>\$ 559,872</b>                         | <b>\$ 161,070</b>                 | <b>\$ 9,157</b>    | <b>\$ 730,099</b>   |
| <b>Liabilities and Stockholders Equity:</b>       |   |                                   |                    |                     |
| Accounts payable                                  | \$ 33,249                                 | \$ 782                            |                    | \$ 34,031           |
| Manufacturer flooring plans payable               | 80,048                                    | 11                                |                    | 80,059              |
| Accrued expenses payable and other liabilities    | 35,836                                    | (5,703)                           |                    | 30,133              |
| Intercompany balances                             | (172,987)                                 | 172,987                           |                    |                     |
| Notes payable                                     | 710                                       |                                   |                    | 710                 |
| Senior unsecured notes                            | 250,000                                   |                                   |                    | 250,000             |
| Capital lease payable                             |   | 2,150                             |                    | 2,150               |
| Deferred income taxes                             | 64,046                                    |                                   |                    | 64,046              |
| Deferred compensation payable                     | 1,957                                     |                                   |                    | 1,957               |
| <b>Total liabilities</b>                          | <b>292,859</b>                            | <b>170,227</b>                    |                    | <b>463,086</b>      |
| Stockholders' equity (deficit)                    | 267,013                                   | (9,157)                           | 9,157              | 267,013             |
| <b>Total liabilities and stockholders' equity</b> | <b>\$ 559,872</b>                         | <b>\$ 161,070</b>                 | <b>\$ 9,157</b>    | <b>\$ 730,099</b>   |

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

|  | <b>As of December 31, 2009</b>            |                                   |                    |                     |
|--|---|-----------------------------------|--------------------|---------------------|
|  | <b>H&amp;E<br/>Equipment<br/>Services</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Elimination</b> | <b>Consolidated</b> |
|  | <b>(Amounts in thousands)</b>             |                                   |                    |                     |
| <b>Assets:</b>                                   |   |                                   |                    |                     |
| Cash   | \$ 45,326                                 | \$ 10                             | \$                 | \$ 45,336           |
| Receivables, net                                 | 58,405                                    | 13,596                            |                    | 72,001              |
| Inventories, net                                 | 72,508                                    | 22,479                            |                    | 94,987              |
| Prepaid expenses and other assets                | 6,876                                     | 123                               |                    | 6,999               |
| Rental equipment, net                            | 346,107                                   | 91,300                            |                    | 437,407             |
| Property and equipment, net                      | 54,672                                    | 11,130                            |                    | 65,802              |
| Deferred financing costs, net                    | 5,545                                     |                                   |                    | 5,545               |
| Intangible assets, net                           |   | 988                               |                    | 988                 |
| Investment in guarantor subsidiaries             | (4,537)                                   |                                   | (4,537)            |                     |
| Goodwill   | 4,493                                     | 29,526                            |                    | 34,019              |
| <b>Total assets</b>                              | <b>\$ 589,395</b>                         | <b>\$ 169,152</b>                 | <b>\$ (4,537)</b>  | <b>\$ 763,084</b>   |
| <b>Liabilities and Stockholders Equity:</b>      |   |                                   |                    |                     |
| Accounts payable                                 | \$ 28,866                                 | \$                                | \$                 | \$ 28,866           |
| Manufacturer flooring plans payable              | 92,868                                    |                                   |                    | 92,868              |
| Accrued expenses payable and other liabilities   | 35,689                                    | 1,582                             |                    | 37,271              |
| Intercompany balances                            | (169,213)                                 | 169,213                           |                    |                     |
| Notes payable                                    | 1,216                                     | 713                               |                    | 1,929               |
| Senior unsecured notes                           | 250,000                                   |                                   |                    | 250,000             |
| Capital lease payable                            |   | 2,181                             |                    | 2,181               |
| Deferred income taxes                            | 69,146                                    |                                   |                    | 69,146              |
| Deferred compensation payable                    | 1,941                                     |                                   |                    | 1,941               |
| <b>Total liabilities</b>                         | <b>310,513</b>                            | <b>173,689</b>                    |                    | <b>484,202</b>      |
| Stockholders equity (deficit)                    | 278,882                                   | (4,537)                           | 4,537              | 278,882             |
| <b>Total liabilities and stockholders equity</b> | <b>\$ 589,395</b>                         | <b>\$ 169,152</b>                 | <b>\$ 4,537</b>    | <b>\$ 763,084</b>   |

**Table of Contents****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****Three Months Ended March 31, 2010**

|  | <b>H&amp;E<br/>Equipment<br/>Services</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Elimination</b> | <b>Consolidated</b> |
|--|---|-----------------------------------|--------------------|---------------------|
|  | <b>(Amounts in thousands)</b>             |                                   |                    |                     |
| <b>Revenues:</b>                             |   |                                   |                    |                     |
| Equipment rentals                            | \$ 29,471                                 | \$ 6,982                          | \$                 | \$ 36,453           |
| New equipment sales                          | 24,042                                    | 3,251                             |                    | 27,293              |
| Used equipment sales                         | 11,051                                    | 2,380                             |                    | 13,431              |
| Parts sales                                  | 16,435                                    | 3,197                             |                    | 19,632              |
| Services revenues                            | 9,888                                     | 1,595                             |                    | 11,483              |
| Other  | 5,090                                     | 1,304                             |                    | 6,394               |
| <b>Total revenues</b>                        | <b>95,977</b>                             | <b>18,709</b>                     |                    | <b>114,686</b>      |
| <b>Cost of revenues:</b>                     |   |                                   |                    |                     |
| Rental depreciation                          | 15,177                                    | 4,102                             |                    | 19,279              |
| Rental expense                               | 7,505                                     | 1,742                             |                    | 9,247               |
| New equipment sales                          | 21,956                                    | 2,954                             |                    | 24,910              |
| Used equipment sales                         | 8,859                                     | 1,886                             |                    | 10,745              |
| Parts sales                                  | 11,942                                    | 2,305                             |                    | 14,247              |
| Services revenues                            | 3,877                                     | 499                               |                    | 4,376               |
| Other  | 6,301                                     | 1,696                             |                    | 7,997               |
| <b>Total cost of revenues</b>                | <b>75,617</b>                             | <b>15,184</b>                     |                    | <b>90,801</b>       |
| <b>Gross profit (loss):</b>                  |   |                                   |                    |                     |
| Equipment rentals                            | 6,789                                     | 1,138                             |                    | 7,927               |
| New equipment sales                          | 2,086                                     | 297                               |                    | 2,383               |
| Used equipment sales                         | 2,192                                     | 494                               |                    | 2,686               |
| Parts sales                                  | 4,493                                     | 892                               |                    | 5,385               |
| Services revenues                            | 6,011                                     | 1,096                             |                    | 7,107               |
| Other  | (1,211)                                   | (392)                             |                    | (1,603)             |
| <b>Gross profit</b>                          | <b>20,360</b>                             | <b>3,525</b>                      |                    | <b>23,885</b>       |
| Selling, general and administrative expenses | 30,260                                    | 5,614                             |                    | 35,874              |
| Equity in loss of guarantor subsidiaries     | (4,620)                                   |                                   | 4,620              |                     |
| Gain on sales of property and equipment, net | 64  |                                   |                    | 64                  |
| <b>Loss from operations</b>                  | <b>(14,456)</b>                           | <b>(2,089)</b>                    | <b>4,620</b>       | <b>(11,925)</b>     |
| <b>Other income (expense):</b>               |   |                                   |                    |                     |
| Interest expense                             | (4,755)                                   | (2,536)                           |                    | (7,291)             |
| Other, net                                   | 45  | 5                                 |                    | 50                  |
| <b>Total other expense, net</b>              | <b>(4,710)</b>                            | <b>(2,531)</b>                    |                    | <b>(7,241)</b>      |



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

|                          |             |            |          |             |
|--------------------------|-------------|------------|----------|-------------|
| Loss before income taxes | (19,166)    | (4,620)    | 4,620    | (19,166)    |
| Income tax benefit       | (7,088)     |            |          | (7,088)     |
| Net loss                 | \$ (12,078) | \$ (4,620) | \$ 4,620 | \$ (12,078) |

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

Three Months Ended March 31, 2009

|  | <b>H&amp;E<br/>Equipment<br/>Services</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Elimination</b> | <b>Consolidated</b> |
|--|---|-----------------------------------|--------------------|---------------------|
|  | <b>(Amounts in thousands)</b>             |                                   |                    |                     |
| <b>Revenues:</b>                             |   |                                   |                    |                     |
| Equipment rentals                            | \$ 46,773                                 | \$ 8,711                          | \$                 | \$ 55,484           |
| New equipment sales                          | 55,073                                    | 8,984                             |                    | 64,057              |
| Used equipment sales                         | 13,917                                    | 2,176                             |                    | 16,093              |
| Parts sales                                  | 22,261                                    | 3,762                             |                    | 26,023              |
| Services revenues                            | 13,608                                    | 1,849                             |                    | 15,457              |
| Other  | 7,692                                     | 1,390                             |                    | 9,082               |
| <b>Total revenues</b>                        | <b>159,324</b>                            | <b>26,872</b>                     |                    | <b>186,196</b>      |
| <b>Cost of revenues:</b>                     |   |                                   |                    |                     |
| Rental depreciation                          | 19,333                                    | 4,452                             |                    | 23,785              |
| Rental expense                               | 9,397                                     | 1,933                             |                    | 11,330              |
| New equipment sales                          | 47,662                                    | 7,653                             |                    | 55,315              |
| Used equipment sales                         | 10,800                                    | 1,888                             |                    | 12,688              |
| Parts sales                                  | 15,806                                    | 2,716                             |                    | 18,522              |
| Services revenues                            | 5,053                                     | 650                               |                    | 5,703               |
| Other  | 6,934                                     | 1,639                             |                    | 8,573               |
| <b>Total cost of revenues</b>                | <b>114,985</b>                            | <b>20,931</b>                     |                    | <b>135,916</b>      |
| <b>Gross profit:</b>                         |   |                                   |                    |                     |
| Equipment rentals                            | 18,043                                    | 2,326                             |                    | 20,369              |
| New equipment sales                          | 7,411                                     | 1,331                             |                    | 8,742               |
| Used equipment sales                         | 3,117                                     | 288                               |                    | 3,405               |
| Parts sales                                  | 6,455                                     | 1,046                             |                    | 7,501               |
| Services revenues                            | 8,555                                     | 1,199                             |                    | 9,754               |
| Other  | 758                                       | (249)                             |                    | 509                 |
| <b>Gross profit</b>                          | <b>44,339</b>                             | <b>5,941</b>                      |                    | <b>50,280</b>       |
| Selling, general and administrative expenses | 32,476                                    | 6,671                             |                    | 39,147              |
| Equity in loss of guarantor subsidiaries     | (3,679)                                   |                                   | 3,679              |                     |
| Gain on sales of property and equipment, net | 81  | (99)                              |                    | (18)                |
| <b>Income (loss) from operations</b>         | <b>8,265</b>                              | <b>(829)</b>                      | <b>3,679</b>       | <b>11,115</b>       |
| <b>Other income (expense):</b>               |   |                                   |                    |                     |
| Interest expense                             | (5,311)                                   | (2,870)                           |                    | (8,181)             |
| Other, net                                   | 195                                       | 20                                |                    | 215                 |
| <b>Total other expense, net</b>              | <b>(5,116)</b>                            | <b>(2,850)</b>                    |                    | <b>(7,966)</b>      |

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

|   |          |            |          |          |
|---|----------|------------|----------|----------|
| Income (loss) before provision for income taxes | 3,149    | (3,679)    | 3,679    | 3,149    |
| Provision for income taxes                      | 971      |            |          | 971      |
| Net income (loss)                               | \$ 2,178 | \$ (3,679) | \$ 3,679 | \$ 2,178 |

16

---

**Table of Contents****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****Three Months Ended March 31, 2010**

|  | <b>H&amp;E<br/>Equipment<br/>Services</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Elimination</b> | <b>Consolidated</b> |
|--|---|-----------------------------------|--------------------|---------------------|
|  | <b>(Amounts in thousands)</b>             |                                   |                    |                     |
| Cash flows from operating activities:  |   |                                   |                    |                     |
| Net loss   | \$ (12,078)                               | \$ (4,620)                        | \$ 4,620           | \$ 12,078           |
| Adjustments to reconcile net loss to net cash used<br>in operating activities: |   |                                   |                    |                     |
| Depreciation and amortization on property and<br>equipment                     | 2,916                                     | 516                               |                    | 3,432               |
| Depreciation on rental equipment   | 15,177                                    | 4,102                             |                    | 19,279              |
| Amortization of loan discounts and deferred<br>financing costs                 | 355                                       |                                   |                    | 355                 |
| Amortization of intangible assets  |   | 148                               |                    | 148                 |
| Provision for losses on accounts receivable                                    | 580                                       |                                   |                    | 580                 |
| Provision for inventory obsolescence   | 61  |                                   |                    | 61                  |
| Decrease in deferred income taxes  | (5,100)                                   |                                   |                    | (5,100)             |
| Stock-based compensation expense   | 209                                       |                                   |                    | 209                 |
| (Gain) loss on sales of property and equipment,<br>net                         | (163)                                     | 99                                |                    | (64)                |
| Gain on sales of rental equipment, net   | (2,074)                                   | (495)                             |                    | (2,569)             |
| Equity in loss of guarantor subsidiaries                                       | 4,620                                     |                                   | (4,620)            |                     |
| Changes in operating assets and liabilities:                                   |   |                                   |                    |                     |
| Receivables, net   | (902)                                     | 1,632                             |                    | 730                 |
| Inventories, net   | 1,810                                     | 348                               |                    | 2,158               |
| Prepaid expenses and other assets  | (2,690)                                   | (145)                             |                    | (2,835)             |
| Accounts payable   | 4,383                                     | 782                               |                    | 5,165               |
| Manufacturer flooring plans payable  | (12,820)                                  | 11                                |                    | (12,809)            |
| Accrued expenses payable and other liabilities                                 | 147                                       | (7,285)                           |                    | (7,138)             |
| Intercompany balances  | (3,774)                                   | 3,774                             |                    |                     |
| Deferred compensation payable  | 16  |                                   |                    | 16                  |
| Net cash used in operating activities  | (9,327)                                   | (1,133)                           |                    | (10,460)            |
| Cash flows from investing activities:  |   |                                   |                    |                     |
| Purchases of property and equipment  | (631)                                     | (39)                              |                    | (670)               |
| Purchases of rental equipment  | (3)                                       | (164)                             |                    | (167)               |
| Proceeds from sales of property and equipment                                  | 126                                       | (50)                              |                    | 76                  |
| Proceeds from sales of rental equipment  | 8,773                                     | 2,120                             |                    | 10,893              |
| Net cash provided by investing activities                                      | 8,265                                     | 1,867                             |                    | 10,132              |
| Cash flows from financing activities:  |   |                                   |                    |                     |
| Payments on capital lease obligations  |   | (31)                              |                    | (31)                |
| Principal payments of notes payable  | (506)                                     | (713)                             |                    | (1,219)             |

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

|                                       |           |       |           |
|---------------------------------------|-----------|-------|-----------|
| Net cash used in financing activities | (506)     | (744) | (1,250)   |
| Net increase (decrease) in cash       | (1,568)   | (10)  | (1,578)   |
| Cash, beginning of period             | 45,326    | 10    | 45,336    |
| Cash, end of period                   | \$ 43,758 | \$    | \$ 43,758 |

17

---

**Table of Contents****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****Three Months Ended March 31, 2009**

|  | <b>H&amp;E<br/>Equipment<br/>Services</b> | <b>Guarantor<br/>Subsidiaries</b> | <b>Elimination</b> | <b>Consolidated</b> |
|--|---|-----------------------------------|--------------------|---------------------|
|  | <b>(Amounts in thousands)</b>             |                                   |                    |                     |
| Cash flows from operating activities:  |   |                                   |                    |                     |
| Net income (loss)  | \$ 2,178                                  | \$ (3,679)                        | \$ 3,679           | \$ 2,178            |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |   |                                   |                    |                     |
| Depreciation on property and equipment   | 2,237                                     | 558                               |                    | 2,795               |
| Depreciation on rental equipment   | 19,333                                    | 4,452                             |                    | 23,785              |
| Amortization of loan discounts and deferred financing costs                              | 355                                       |                                   |                    | 355                 |
| Amortization of intangible assets  |   | 148                               |                    | 148                 |
| Provision for losses on accounts receivable  | 1,088                                     | 144                               |                    | 1,232               |
| Provision for inventory obsolescence   | 34  |                                   |                    | 34                  |
| Provision for deferred income taxes  | 923                                       |                                   |                    | 923                 |
| Stock-based compensation expense   | 279                                       |                                   |                    | 279                 |
| Gain on sales of property and equipment, net   | (81)                                      | 99                                |                    | 18                  |
| Gain on sales of rental equipment, net   | (775)                                     | (2,326)                           |                    | (3,101)             |
| Equity in loss of guarantor subsidiaries   | 3,679                                     |                                   | (3,679)            |                     |
| Changes in operating assets and liabilities:   |   |                                   |                    |                     |
| Receivables, net   | 28,127                                    | 11,067                            |                    | 39,194              |
| Inventories, net   | (8,008)                                   | (1,890)                           |                    | (9,898)             |
| Prepaid expenses and other assets  | 1,726                                     | (4)                               |                    | 1,722               |
| Accounts payable   | (32,711)                                  |                                   |                    | (32,711)            |
| Manufacturer flooring plans payable  | (14,004)                                  |                                   |                    | (14,004)            |
| Accrued expenses payable and other liabilities   | (9,612)                                   | 139                               |                    | (9,473)             |
| Intercompany balances  | 7,297                                     | (7,297)                           |                    |                     |
| Deferred compensation payable  | 16  |                                   |                    | 16                  |
| Net cash provided by operating activities  | 2,081                                     | 1,411                             |                    | 3,492               |
| Cash flows from investing activities:  |   |                                   |                    |                     |
| Purchases of property and equipment  | (6,935)                                   | (188)                             |                    | (7,123)             |
| Purchases of rental equipment  | 1,560                                     | (3,098)                           |                    | (1,538)             |
| Proceeds from sales of property and equipment  | 40  | 3                                 |                    | 43                  |
| Proceeds from sales of rental equipment  | 11,377                                    | 1,905                             |                    | 13,282              |
| Net cash provided by (used in) investing activities                                      | 6,042                                     | (1,378)                           |                    | 4,664               |
| Cash flows from financing activities:  |   |                                   |                    |                     |
| Purchase of treasury stock   | (86)                                      |                                   |                    | (86)                |
| Borrowings on senior secured credit facility   | 220,835                                   |                                   |                    | 220,835             |
| Payments on senior secured credit facility   | (229,224)                                 |                                   |                    | (229,224)           |

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

|                                       |           |       |    |           |
|---------------------------------------|-----------|-------|----|-----------|
| Payments of related party obligation  | (75)      |       |    | (75)      |
| Payments on capital lease obligation  |           | (29)  |    | (29)      |
| Principal payments of notes payable   | (4)       | (3)   |    | (7)       |
| Net cash used in financing activities | (8,554)   | (32)  |    | (8,586)   |
| Net decrease in cash                  | (431)     | 1     |    | (430)     |
| Cash, beginning of period             | 11,251    | 15    |    | 11,266    |
| Cash, end of period                   | \$ 10,820 | \$ 16 | \$ | \$ 10,836 |

18

---

**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 March 31, 2010, and its results of operations for the three month period ended March 31, 2010, 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, 2009. 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, 2009.

**Overview**

**Background**

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

As of May 3, 2010, we operated 67 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 at 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 49 years. H&E Equipment Services L.L.C. ( *H&E LLC* ) was formed in June 2002 through the business combination of Head & Engquist, a wholly-owned subsidiary of Gulf Wide, and ICM. Head & Engquist, founded in 1961, and ICM, founded in 1971, were two leading regional, integrated equipment services companies operating in contiguous geographic markets. In the June 2002 transaction, Head & Engquist and ICM were merged with and into Gulf Wide, which was renamed H&E LLC. Prior to the combination, Head & Engquist operated 25 facilities in the Gulf Coast region, and ICM operated 16 facilities in the Intermountain region of the United States.

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

*Critical Accounting Policies*

Item 7, included in Part II of our Annual Report on Form 10-K for the year ended December 31, 2009, 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 March 31, 2010. 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, 2009 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 (equipment usage based on the number of rental equipment units available for rent), rental rate trends and targets, and equipment demand, 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 four core product categories. We have a retail sales force focused by equipment type that is separate from our rental sales force. Manufacturer purchase terms and pricing are managed by our product specialists.

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

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

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

Our non-segmented revenues and costs relate to equipment support activities that we provide, such as transportation, hauling, parts freight and damage waivers, and are not generally allocated to reportable segments. For additional information about our business segments, see note 7 to the condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

### ***Revenue Sources***

We generate all of our 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 three months ended March 31, 2010, approximately 31.8% of our total revenues were attributable to equipment rentals, 23.8% of our total revenues were attributable to new equipment sales, 11.7% were attributable to used equipment sales, 17.1% were attributable to parts sales, 10.0% were attributable to our services revenues and 5.6% were attributable to non-segmented other revenues.

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

**Table of Contents**

*Equipment Rentals.* Revenues from equipment rentals depend on rental rates. Because rental rates are impacted by competition in specific regions and markets, we continuously monitor and adjust rental rates. Equipment rental revenue is also impacted by the availability of equipment and by time utilization (equipment usage based on the number of rental equipment units available for rent). We generate reports on, among other things, time utilization, demand pricing (rental rate pricing based on physical utilization), and rental rate trends on a piece-by-piece basis for our rental fleet. We recognize revenues from equipment rentals in the period earned on a straight-line basis, over the contract term, regardless of the timing of 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 through our existing branch network and, to a lesser extent through other means, including equipment auctions. The remainder of 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 a profitable distribution channel for 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 tends to be less sensitive to the economic cycles that generally 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 preventive maintenance services to industrial customers. Our after-market services provide a high-margin, relatively stable source of revenue through changing economic cycles. We recognize services revenues at the time such services are rendered and collectibility is reasonably assured.

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

***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 three months ended March 31, 2010, our total cost of revenues was approximately \$90.8 million. Our operating expenses consist principally of selling, general and administrative expenses. For the three months ended March 31, 2010, our selling, general and administrative expenses were approximately \$35.9 million. In addition, we have interest expense related to our debt instruments. We are also subject to federal and state income taxes. Operating expenses and all other income and expense items below the gross profit line of our condensed consolidated statements of operations are not generally allocated to our reportable segments.

***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

**Table of Contents**

year estimated useful life, earthmoving equipment over a five year estimated useful life with an estimated 25% salvage value, and industrial lift-trucks over a seven year estimated useful life. Attachments and other smaller type equipment are depreciated over a three year estimated useful life.

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

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

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

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

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

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

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

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

***Interest Expense:***

Interest expense for the periods presented represents the interest on our outstanding debt instruments. Interest expense also includes non-cash interest expense related to the amortization cost of deferred financing costs.

***Principal Cash Flows***

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

**Table of Contents****Rental Fleet**

A significant portion of our overall value is in our rental fleet equipment. The net book value of rental equipment at March 31, 2010 was \$415.9 million, or approximately 57.0% of our total assets. Our rental fleet, as of March 31, 2010, consisted of approximately 15,664 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 \$660.0 million. As of March 31, 2010, our rental fleet composition was as follows (dollars in millions):

|                                  | Units  | % of<br>Total<br>Units | Original<br>Acquisition<br>Cost | % of<br>Original<br>Acquisition<br>Cost | Average<br>Age in<br>Months |
|----------------------------------|--------|------------------------|---------------------------------|---|-----------------------------|
| Hi-Lift or Aerial Work Platforms | 12,189 | 77.8%                  | \$ 408.2                        | 61.8%                                   | 44.6                        |
| Cranes                           | 358    | 2.3%                   | 80.3                            | 12.2%                                   | 34.4                        |
| Earthmoving                      | 1,438  | 9.2%                   | 138.4                           | 21.0%                                   | 31.9                        |
| Industrial Lift Trucks           | 450    | 2.9%                   | 18.4                            | 2.8%                                    | 34.8                        |
| Other                            | 1,229  | 7.8%                   | 14.7                            | 2.2%                                    | 30.6                        |
| Total                            | 15,664 | 100.0%                 | \$ 660.0                        | 100.0%                                  | 41.8                        |

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.

On average, we increased the overall average age of our rental fleet equipment by approximately 1.8 months for the three months ended March 31, 2010. The original acquisition cost of our overall gross rental fleet decreased by \$15.1 million, or approximately 2.2%, for the three months ended March 31, 2010, mostly due to a planned elimination of rental fleet growth capital expenditures and selective fleet replacement expenditures during the period in response to a challenging economic environment and credit market conditions (see also *Liquidity and Capital Resources* below).

Our average rental rates for the three months ended March 31, 2010 were 13.9% lower than the comparative three month period ended March 31, 2009, and 2.2% lower than the previous three month period ended December 31, 2009 (see further discussion on rental rates in *Results of Operations* below). The rental equipment mix among our four core product lines for the three months ended March 31, 2010 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, except for the impact of the sale of our Yale lift trucks to Arnold Machinery Company, as further described in our Annual Report on Form 10-K for the year ended December 31, 2009 (the *Arnold Transaction*), which resulted in an approximately 5% shift in rental fleet composition from lift trucks to primarily aerial work platform equipment.

**Principal External Factors that Affect our Businesses**

We are subject to a number of external factors that may adversely affect our businesses. These factors, and other factors, are discussed below and in Item 1A *Risk Factors* of our Annual Report on Form 10-K for the year ended December 31, 2009:

*Economic downturns.* The demand for our products is dependent on the general economy, the stability of the global credit markets, the industries in which our customers operate or serve, and other factors. Downturns in the general economy or in the construction and manufacturing industries, as well as adverse credit market

conditions, can cause demand for our products to materially decrease. The recent macroeconomic downturn, including recent conditions in the global credit markets, is a principal factor currently affecting our business.

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



**Table of Contents**

impacted by fluctuations in customers' spending levels on capital expenditures and by the availability of credit to those customers.

*Adverse weather.* Adverse weather in any 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. The adverse weather also has a seasonal impact in parts of our Intermountain region, primarily 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* below.

**Results of Operations**

The tables included in the period-to-period comparisons below provide summaries of our revenues and gross profits for our business segments and non-segmented revenues for the three months ended March 31, 2010 and 2009. The period-to-period comparisons of our financial results are not necessarily indicative of future results. The revenue and gross profit/margin period-to-period comparisons below for the three month periods ended March 31, 2010 and 2009 have been negatively impacted in the most recent year by lower customer demand resulting from several factors, including: (i) the decline in construction and industrial activities; (ii) the recent macroeconomic downturn; and (iii) unfavorable credit markets affecting end-user access to capital. Although our total gross profit margins have slowly trended downward since the year ended December 31, 2006, the rate of total gross profit margin decline has been the most significant in the year ended December 31, 2009, as further described in our Annual Report on Form 10-K, and the subsequent three month period ended March 31, 2010 as a result of the above factors. Accordingly, we cannot forecast whether, or to what extent, we will continue to experience any further decline, or whether our responses to unfavorable business conditions will be meaningful in mitigating or reversing this decline. Continued weakness or further deterioration in the non-residential construction and industrial sectors could result in continuing declining revenues and gross profits/margins and may have a material adverse effect on our financial position, results of operations and cash flows in the future. We have proactively responded to these unfavorable business factors through various operational and strategic measures, including closing underperforming branches and redeploying rental fleet assets to existing branches with higher demand or to branches in new markets where demand is higher; minimizing capital expenditures; reducing headcount; implementing cost reduction measures throughout the Company; and using some of the excess cash flow resulting from our planned reduction in capital expenditures to repay outstanding debt. We believe that these measures strengthen our balance sheet by improving our cash position and reducing our leverage. We will continue to evaluate and respond to business conditions as appropriate. While we cannot predict the timing or impact of an economic recovery and/or improved conditions within the construction and industrial sectors, we believe that our efforts position us to take advantage of future opportunities when an economic and business recovery occurs.

In 2008, we began the initial design implementation phases of a new enterprise resource planning ( ERP ) system to further enhance operating efficiencies and provide more effective management of our business operations. On February 1, 2010, we implemented the new enterprise resource planning ( ERP ) system in 14 of the Company's branches, as well as in the Company's centralized corporate accounting operations. Subsequently, on April 1, 2010, we implemented the new ERP in 26 branches and our remaining 27 branches are scheduled to implement the ERP system on June 1, 2010.

***Three Months Ended March 31, 2010 Compared to the Three Months Ended March 31, 2009  
Revenues.***

|                   | <b>Three Months Ended<br/>March 31,<br/>2010</b> | <b>Three Months Ended<br/>March 31,<br/>2009</b> | <b>Total<br/>Dollar<br/>Decrease</b> | <b>Total<br/>Percentage<br/>Decrease</b> |
|-------------------|--|--|--------------------------------------|--|
|                   | <b>(in thousands, except percentages)</b>        |  |                                      |  |
| Segment Revenues: |  |  |                                      |  |
| Equipment rentals | \$ 36,453  | \$ 55,484  | \$ (19,031)                          | (34.3)%                                  |

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

|                        |            |            |             |         |
|------------------------|------------|------------|-------------|---------|
| New equipment sales    | 27,293     | 64,057     | (36,764)    | (57.4)% |
| Used equipment sales   | 13,431     | 16,093     | (2,662)     | (16.5)% |
| Parts sales            | 19,632     | 26,023     | (6,391)     | (24.6)% |
| Services revenues      | 11,483     | 15,457     | (3,974)     | (25.7)% |
| Non-Segmented revenues | 6,394      | 9,082      | (2,688)     | (29.6)% |
| Total revenues         | \$ 114,686 | \$ 186,196 | \$ (71,510) | (38.4)% |

**Table of Contents**

*Total Revenues.* Our total revenues were \$114.7 million for the three month period ended March 31, 2010 compared to \$186.2 million for the same three month period in 2009, a decrease of approximately \$71.5 million, or 38.4%. Revenues decreased for all reportable segments as further discussed below.

*Equipment Rental Revenues.* Our revenues from equipment rentals for the three month period ended March 31, 2010 decreased \$19.0 million, or 34.3%, to \$36.5 million from \$55.5 million in the same three month period in 2009. Rental revenues decreased for all four core product lines. Revenues from aerial work platforms decreased \$12.3 million, cranes decreased \$3.3 million, earthmoving equipment decreased \$1.6 million, and lift trucks decreased \$2.5 million. These decreases were due to lower demand resulting from the macroeconomic downturn and the other factors discussed above, which also negatively impacted our rental rates. Our average rental rates for the three month period ended March 31, 2010 declined 13.9% compared to the same three month period in 2009. Rental revenues from lift trucks decreased \$2.5 million, primarily as a result of the Arnold Transaction. Partially offsetting these decreases in rental revenues was a \$0.7 million increase in other equipment rentals.

Rental equipment dollar utilization (annual rental revenues divided by the average original rental fleet equipment costs) for the three month period ended March 31, 2010 was approximately 22.0% for the three month period ended March 31, 2010 compared to 28.7% for the three month period in 2009, a decrease of approximately 6.7%. The decrease in comparative rental equipment dollar utilization was the result of the 13.9% decrease in average rental rates in the comparative period and a 6.4% decrease in rental equipment time utilization (equipment usage based on the number of rental equipment units available for rent). Rental equipment time utilization was 49.7% for the three month period ended March 31, 2010 compared to 56.1% for the same three month period in 2009.

*New Equipment Sales Revenues.* Our new equipment sales for the three month period ended March 31, 2010 decreased \$36.8 million, or 57.4%, to \$27.3 million from \$64.1 million for the comparable period in 2009. Sales of new cranes decreased \$37.3 million, reflecting lower demand due to the macroeconomic downturn and the other factors discussed above. Sales of new lift trucks decreased \$1.1 million largely as a result of the Arnold Transaction, while sales of new other equipment decreased \$0.3 million. Partially offsetting these new equipment sales decreases were increases in the sales of new aerial work platforms of \$1.3 million and sales of new earthmoving equipment of \$0.6 million.

*Used Equipment Sales Revenues.* Our used equipment sales decreased approximately \$2.7 million, or 16.5%, to \$13.4 million for the three month period ended March 31, 2010, from \$16.1 million for the same three month period in 2009, primarily as a result of lower demand for used equipment. Sales of used aerial work platform equipment and used earthmoving equipment decreased \$1.9 million and \$0.2 million, respectively. Used lift truck sales decreased \$0.6 million and other used equipment sales decreased \$0.2 million. Sales of used cranes increased \$0.2 million.

*Parts Sales Revenues.* Our parts sales decreased \$6.4 million, or 24.6%, to \$19.6 million for the three month period ended March 31, 2010 from \$26.0 million for the same three month period in 2009. The decline in parts revenues was due to a decrease in customer demand for parts due to the decline in construction and industrial activity in the past year.

*Services Revenues.* Our services revenues for the three month period ended March 31, 2010 decreased \$4.0 million, or 25.7%, to \$11.5 million from \$15.5 million for the same three month period last year. The decline in service revenues was largely due to a decrease in demand for services due to the decline in construction and industrial activity in the past 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 March 31, 2010, our other revenues were \$6.4 million, a decrease of \$2.7 million, or 29.6%, from \$9.1 million in the same three month period in 2009. The decrease was primarily due to a decrease in the volume of these services in conjunction with the decline of our primary business activities.

**Gross Profit.**

| <b>Three Months Ended<br/>March 31,</b> | <b>Total<br/>Dollar<br/>Change</b> | <b>Total<br/>Percentage<br/>Change</b> |
|---|------------------------------------|--|
|---|------------------------------------|--|

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

|                              | <b>2010</b>   | <b>2009</b>   | <b>Decrease</b>                               | <b>Decrease</b> |
|------------------------------|---------------|---------------|---|-----------------|
|                              |               |               | <b>(in thousands, except<br/>percentages)</b> |                 |
| Segment Gross Profit (Loss): |               |               |   |                 |
| Equipment rentals            | \$ 7,927      | \$ 20,369     | \$ (12,442)                                   | (61.1)%         |
| New equipment sales          | 2,383         | 8,742         | (6,359)                                       | (72.7)%         |
| Used equipment sales         | 2,686         | 3,405         | (719)   | (21.1)%         |
| Parts sales                  | 5,385         | 7,501         | (2,116)                                       | (28.2)%         |
| Services revenues            | 7,107         | 9,754         | (2,647)                                       | (27.1)%         |
| Non-Segmented revenues       | (1,603)       | 509           | (2,112)                                       | (414.9)%        |
| <br>Total gross profit       | <br>\$ 23,885 | <br>\$ 50,280 | <br>\$ (26,395)                               | <br>(52.5)%     |

25

---

**Table of Contents**

**Total Gross Profit.** Our total gross profit was approximately \$23.9 million for the three month period ended March 31, 2010 compared to \$50.3 million for the same three month period in 2009, a decrease of \$26.4 million, or 52.5%. Total gross profit margin for the three month period ended March 31, 2010 was approximately 20.8%, a decrease of 6.2% from the 27.0% gross profit margin for the same three month period in 2009. Gross profit (loss) and gross margin for all reportable segments are further described below:

**Equipment Rentals Gross Profit.** Our gross profit from equipment rentals for the three month period ended March 31, 2010 decreased \$12.4 million, or 61.1%, to \$7.9 million from \$20.4 million in the same three month period in 2009. The decrease in equipment rentals gross profit is the net result of a \$19.0 million decrease in rental revenues for the three month period ended March 31, 2010, which was partially offset by a \$2.1 million net decrease in rental expenses and a \$4.5 million decrease in rental equipment depreciation expense. The net decrease in rental expenses and rental equipment depreciation expense was primarily due to a smaller fleet size in 2010 compared to 2009. As a percentage of equipment rental revenues, maintenance and repair costs were 17.7% for the three month period ended March 31, 2010 compared to 14.8% for the same three month period in 2009 and depreciation expense was 53.4% for the three month period ended March 31, 2010 compared to 42.9% for the same three month period in 2009. These percentage increases were primarily attributable to the decline in comparative rental revenues.

Gross profit margin for the three month period ended March 31, 2010 was 21.7%, down 15.0% from 36.7% in the same three month period in 2009. This gross profit margin decline was primarily due to the 13.9% decline in our average rental rates and the product mix of equipment rented, combined with the current year increase in rental and depreciation 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 March 31, 2010 decreased \$6.4 million, or 72.7%, to \$2.4 million compared to \$8.7 million for the same three month period in 2009 on a total new equipment sales decline of \$36.8 million. Gross profit margin on new equipment sales for the three month period ended March 31, 2010 was 8.7%, a decrease of 4.9% from 13.6% in the same three month period in 2009, reflecting lower demand for new equipment and lower margins on new crane sales.

**Used Equipment Sales Gross Profit.** Our used equipment sales gross profit for the three month period ended March 31, 2010 decreased \$0.7 million, or 21.1%, to \$2.7 million from \$3.4 million for the same three month period in 2009 on a used equipment sales decrease of \$2.7 million. Gross profit margin for the three month period ended March 31, 2010 was 20.0%, down 1.2% from 21.2% in the same three month period in 2009, as a result of the product mix of used equipment sold and margin contraction due to lower overall demand for used equipment. Our used equipment sales from the rental fleet, which comprised approximately 81.1% and 82.5% of our used equipment sales for the three month periods ended March 31, 2010 and 2009, respectively, were approximately 130.9% of net book value for the three month period ended March 31, 2010 compared to 130.5% for the same three month period in 2009.

**Parts Sales Gross Profit.** For the three month period ended March 31, 2010, our parts sales revenue gross profit decreased approximately \$2.1 million, or 28.2%, to \$5.4 million from \$7.5 million for the same three month period in 2009 on a \$6.4 million decline in parts sales revenues. Gross profit margin for the three month period ended March 31, 2010 was 27.4%, a decrease of 1.4% from 28.8% in the same three month period in 2009, as a result of the mix of parts sold.

**Services Revenues Gross Profit.** For the three month period ended March 31, 2010, our services revenues gross profit decreased \$2.7 million, or 27.1%, to \$7.1 million from \$9.8 million for the same three month period in 2009 on a \$4.0 million decline in services revenues. Gross profit margin for the three month period ended March 31, 2010 was 61.9%, down 1.2% from 63.1% in the same three month period in 2009.

**Non-Segmented Other Revenues Gross Profit (Loss).** For the three month period ended March 31, 2010, our non-segmented other revenues realized a gross loss of approximately \$1.6 million, a decrease of \$2.1 million compared to a gross profit of \$0.5 million for the same three month period in 2009 as a result of declines in transportation, hauling and freight revenues and service related revenues associated with lower revenues in our primary business activities.

**Selling, General and Administrative Expenses.** SG&A expenses decreased approximately \$3.2 million, or 8.2%, to \$35.9 million



**Table of Contents**

for the three month period ended March 31, 2010 compared to \$39.1 million for the same three month period in 2009. The net decrease in SG&A expenses was attributable to several factors. Employee salaries and wages and related employee expenses decreased \$3.9 million as a result of cost control measures instituted by the Company, including workforce headcount reductions since the beginning of 2009, combined with lower commissions that resulted from lower rental and sales revenues. Bad debt expense decreased \$0.6 million as a result of some deterioration in our accounts receivable agings in the first quarter of last year combined with lower receivables in the current year period compared to last year as a result of lower revenues. Other corporate overhead expenses decreased \$0.3 million. These decreases were partially offset by a \$0.8 million increase in legal and professional fees resulting primarily from data conversion costs and other consulting fees related to our ERP system implementation. Additionally, depreciation expense increased \$0.8 million, primarily related to the depreciation of the ERP system, which was substantially complete and ready for its intended use in January 2010. Stock-based compensation expense was \$0.2 million and \$0.3 million for the three month periods ended March 31, 2010 and 2009, respectively. As a percent of total revenues, SG&A expenses were 31.3% for the three months ended March 31, 2010, an increase of 10.3% from 21.0% for the same three month period in 2009, reflecting the fixed cost nature of certain SG&A expenses and the 38.4% decline in comparative total revenues.

**Other Income (Expense).** For the three month period ended March 31, 2010, our net other expenses decreased approximately \$0.8 million to \$7.2 million compared to \$8.0 million for the same three month period in 2009. The decrease was the net result of a \$0.9 million decrease in interest expense to \$7.3 million for the three month period ended March 31, 2010 compared to \$8.2 million for the same three month period in 2009, which was partially offset by a \$0.2 million increase in other income. The decrease in interest expense was due to several factors. Comparative interest expense incurred on our senior secured credit facility was approximately \$0.5 million lower in the three month period ended March 31, 2010 compared to the same period in 2009. We had no borrowings under our senior secured credit facility for the three month period ended March 31, 2010, but incurred approximately \$0.4 million in interest costs related to the amortization of deferred financing costs, commitment fees and letter of credit fees. For the three month period ended March 31, 2009, we incurred approximately \$0.8 million in interest expense related to the senior secured credit facility for borrowings under the facility, amortization of deferred financing costs, commitment fees and letter of credit fees. Additionally, interest expense on our manufacturing flooring plan payables used to finance inventory purchases decreased approximately \$0.4 million in the most recent year period, as a result of lower outstanding balances on those manufacturing flooring plan payables in the most recent year period and lower average interest rates, reflecting the decline in the prime interest rate since the prior year.

**Income Taxes.** We recorded an income tax benefit of approximately \$7.1 million for the three month period ended March 31, 2010 compared to income tax expense of approximately \$1.0 million for the three month period ended March 31, 2009. Our effective income tax rate for the three month period ended March 31, 2010 was approximately 37.0% compared to 30.8% for the same three month period in 2009. The increase in our effective tax rate was the result of the decrease of a permanent benefit related to tax deductible goodwill amortization, for which no deferred taxes can be recognized until realized, in accordance with ASC 740. Based on available evidence, both positive and negative, we believe it is more likely than not that our deferred tax assets at March 31, 2010 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 three month period ended March 31, 2010, our cash provided by our operating activities was exceeded by our cash used in our operating activities, resulting in net cash used in our operating activities of approximately \$10.5 million. Our reported net loss of approximately \$12.1 million, which, when adjusted for non-cash income and expense items, such as depreciation and amortization, deferred income taxes, provision for losses on accounts receivable, stock-based compensation expense and net gains on the sale of long-lived assets, provided positive cash flows of approximately \$4.3 million. These cash flows from operating activities were also positively impacted by a decrease of \$0.7 million in net accounts receivable, a \$2.2 million decrease in net inventories and a \$5.2 million increase in accounts payable. Offsetting these positive cash flows were an increase of \$2.8 million in prepaid expenses and other assets, a \$12.8 million decrease in manufacturing flooring plans payable,

and a \$7.1 million decrease in accrued expenses and other liabilities.

Our cash provided by operating activities for the three months ended March 31, 2009 was \$3.5 million. Our reported net income of \$2.2 million, which, when adjusted for non-cash income and expense items, such as depreciation and amortization, deferred income taxes, provision for losses on accounts receivable, stock-based compensation expense, and net gains on the sale of long-lived assets, provided positive cash flows of approximately \$28.6 million. These cash flows from operating activities were also positively impacted by a decrease of \$39.2 million in net accounts receivable and a \$1.7 million decrease in prepaid expenses and other assets. Partially offsetting these positive cash flows were increases in our inventories of \$9.9 million, a decrease of \$32.7 million in accounts payable,



**Table of Contents**

a \$14.0 million decrease in manufacturing flooring plans payable, and a \$9.5 million decrease in accrued expenses and other liabilities.

*Cash flow from investing activities.* For the three months ended March 31, 2010, cash provided by our investing activities was approximately \$10.1 million. This was a net result of proceeds from the sale of rental and non-rental equipment of \$11.0 million. Partially offsetting these cash flows were purchases of rental and non-rental equipment totaling \$0.8 million.

For the three months ended March 31, 2009, cash provided by our investing activities was approximately \$4.7 million. This is a net result of proceeds from the sale of rental and non-rental equipment of approximately \$13.3 million, which was partially offset by purchases of rental and non-rental equipment totaling approximately \$8.6 million.

*Cash flow from financing activities.* For the three month period ended March 31, 2010, cash used in our financing activities was approximately \$1.2 million, representing payments of our notes payable and capital lease obligation.

For the three months ended March 31, 2009, cash provided by our financing activities was offset by cash used in financing activities, resulting in net cash used of approximately \$8.6 million. Our total borrowings during the period under our senior secured credit facility were \$220.8 million and total payments under the senior secured credit facility in the same period were \$229.2 million. We also made payments under our related party obligation of \$0.1 million.

**Senior Secured Credit Facility**

We and our subsidiaries are parties to a \$320.0 million senior secured credit facility with General Electric Capital Corporation as administrative agent, and the lenders named therein, that matures on August 4, 2011. The revolving loans under this credit facility bear interest, at our option, either at the index rate or LIBOR rate, in each case plus an applicable margin ranging from 0.25% to 2.00% based on our leverage ratio.

Our senior secured credit facility requires us to maintain a minimum fixed charge coverage ratio in the event that our excess borrowing availability is below \$25 million. At May 3, 2010, we had \$312.0 million of available borrowings under our senior secured credit facility, net of \$8.0 million of outstanding letters of credit, and were in compliance with this covenant.

**Senior Unsecured Notes**

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

We may redeem (i) up to 35% of the aggregate principal amount of the senior unsecured notes using net cash proceeds from equity offerings completed on or prior to July 15, 2009 and (ii) the senior unsecured notes at any time on or after July 15, 2011 at specified redemption prices plus accrued and unpaid interest and additional interest. In addition, if we experience a change of control, we will be required to make an offer to repurchase the senior unsecured notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest and additional interest.

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

**Cash Requirements Related to Operations**

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

principal demands on our cash in the future.

## **Table of Contents**

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 three month period ended March 31, 2010 were approximately \$6.1 million, including approximately \$6.0 million of non-cash transfers from new and used equipment to rental fleet inventory. Our gross property and equipment capital expenditures for the three month period ended March 31, 2010 were \$0.7 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. Given the challenging economic environment in which we currently operate, we expect to eliminate growth capital expenditures for the rental fleet in the near term and employ a very selective approach toward replacement rental fleet capital expenditures. This approach will allow us to generate cash flow to further generate cash flow to permit the pay down of debt and/or for other general corporate purposes.

To service our debt, we will require a significant amount of cash. Our ability to pay interest and principal on our indebtedness (including the senior unsecured notes, the senior secured credit facility and our other indebtedness), will depend upon our future operating performance and the availability of borrowings under our senior secured credit facility and/or other debt and equity financing alternatives available to us, which will be affected by prevailing economic conditions and conditions in the global credit and capital markets, as well as financial, business and other factors, some of which are beyond our control. Based on our current level of operations and given the current state of the capital markets, we believe our cash flow from operations, available cash and available borrowings under our senior secured credit facility will be adequate to meet our future liquidity needs for the foreseeable future. In 2009, we fully repaid our senior secured credit facility. As of May 3, 2010, we had \$312.0 million of available borrowings under our senior secured credit facility, net of \$8.0 million of outstanding letters of credit.

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

### **Seasonality**

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

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

### **Contractual and Commercial Commitments**

There have been no material changes from the information included in our Annual Report on Form 10-K for the year ended December 31, 2009.

### **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, 2009.

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

Our earnings may be affected by changes in interest rates since interest expense on our senior secured credit facility is currently calculated based upon the prime rate plus 50 basis points for revolving credit advances under the facility and LIBOR plus 150 basis

**Table of Contents**

points for swing line loans under the facility. At March 31, 2010, we had no outstanding borrowings under our senior secured credit facility. Further, we did not have significant exposure to changing interest rates as of March 31, 2010 on our fixed-rate senior unsecured notes or on our other notes payable. Historically, we have not engaged in derivatives or other financial instruments for trading, speculative or hedging purposes, though we may do so from time to time if such instruments are available to us on acceptable terms and prevailing market conditions are accommodating.

**Item 4. Controls and Procedures***Management's Quarterly Evaluation of Disclosure Controls and Procedures*

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

Our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively) have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-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 March 31, 2010, 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.

*Changes in Internal Control Over Financial Reporting*

During the quarter ended March 31, 2010, as part of the Company's on-going ERP project, our ERP system was implemented in 14 of the Company's branches, as well as in the Company's centralized corporate accounting operations. As a result, various internal controls related to our business processes, user security, account structure, system reporting and approval procedures were modified and redesigned to conform to the new ERP system. Although management believes internal controls have been maintained or enhanced by the ERP system implemented during the quarter ended March 31, 2010, the design and operating effectiveness of the controls in the newly upgraded environments have not been completely assessed. As such, there is a risk that deficiencies may exist that have not yet been identified that could be deemed significant deficiencies or, in the aggregate, a material weakness. In 2010, management will continue its assessment of internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) relating to the new ERP system in these branches, as well as in the 26 branches for which the ERP system was implemented in April 2010 and the remaining 27 branches currently scheduled for ERP implementation on June 1, 2010. Otherwise, there were no changes in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION****Item 1. Legal Proceedings.**

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

**Item 1A. Risk Factors.**

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2009, which could

**Table of Contents**

materially affect our business, financial condition or future results.

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, 2009.

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

None.

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

None.

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

**Item 5. Other Information.**

None.

**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).

**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: May 7, 2010

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

Dated: May 7, 2010

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

32

---



**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).