

H&E Equipment Services, Inc.  
Form 10-Q  
November 01, 2013  
[Table of Contents](#)

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

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2013.**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number: 000-51759**

**H&E Equipment Services, Inc.**

**(Exact Name of Registrant as Specified in Its Charter)**

<b>Delaware</b> <b>(State or Other Jurisdiction of</b>	<b>81-0553291</b> <b>(I.R.S. Employer</b>
<b>Incorporation or Organization)</b>	<b>Identification No.)</b>
<b>7500 Pecue Lane,</b> <b>Baton Rouge, Louisiana</b> <b>(Address of Principal Executive Offices)</b>	<b>70809</b> <b>(ZIP Code)</b>
<b>(225) 298-5200</b>	
<b>(Registrant's Telephone Number, Including Area Code)</b>	

None

**(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)**

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large Accelerated Filer  Accelerated Filer

Non-Accelerated Filer  Smaller Reporting Company

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

As of October 25, 2013, there were 35,204,112 shares of H&E Equipment Services, Inc. common stock, \$0.01 par value, outstanding.

**Table of Contents**

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

**TABLE OF CONTENTS**

**September 30, 2013**

	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	<b>4</b>
<u>Item 1. Financial Statements:</u>	
<u>Condensed Consolidated Balance Sheets as of September 30, 2013 (Unaudited) and December 31, 2012</u>	4
<u>Condensed Consolidated Statements of Income (Unaudited) for the Three and Nine Months Ended September 30, 2013 and 2012</u>	5
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the Nine Months Ended September 30, 2013 and 2012</u>	6
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	22
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	36
<u>Item 4. Controls and Procedures</u>	37
<b><u>PART II. OTHER INFORMATION</u></b>	<b>37</b>
<u>Item 1. Legal Proceedings</u>	37
<u>Item 1A. Risk Factors</u>	37
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	37
<u>Item 3. Defaults upon Senior Securities</u>	38
<u>Item 4. Mine Safety Disclosures</u>	38
<u>Item 5. Other Information</u>	38
<u>Item 6. Exhibits</u>	38
<u>Signatures</u>	39

## Table of Contents

### **Forward-Looking Statements**

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

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

general economic conditions and construction and industrial activity in the markets where we operate in North America, as well as the depth and duration of the recent macroeconomic downturn and related decreases in construction and industrial activities, which may 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 equipment suppliers;

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

our indebtedness;

risks associated with the expansion of our business;

our possible inability to integrate any businesses we acquire;

competitive pressures;

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

other factors discussed under **Risk Factors** in our Annual Report on Form 10-K for the year ended December 31, 2012.

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

For a more detailed discussion of some of the foregoing risks and uncertainties, see Item 1A **Risk Factors** in our Annual Report on Form 10-K for the year ended December 31, 2012, as well as other reports and registration statements filed by us with the SEC. All of our annual, quarterly and current reports, and any amendments thereto, filed with or furnished to the SEC are available on our Internet website under the Investor Relations link. For more information about us and the announcements we make from time to time, visit our Internet website at [www.he-equipment.com](http://www.he-equipment.com).

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(Amounts in thousands, except share amounts)

	<b>Balances at</b>	
	<b>September 30, 2013</b>	<b>December 31, 2012</b>
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
Cash	\$ 6,666	\$ 8,894
Receivables, net of allowance for doubtful accounts of \$3,820 and \$4,593, respectively	141,469	141,667
Inventories, net of reserves for obsolescence of \$706 and \$618, respectively	117,529	79,970
Prepaid expenses and other assets	6,456	5,207
Rental equipment, net of accumulated depreciation of \$305,270 and \$296,920, respectively	672,057	583,349
Property and equipment, net of accumulated depreciation and amortization of \$75,499 and \$68,101, respectively	94,471	86,189
Deferred financing costs, net of accumulated amortization of \$9,909 and \$9,423, respectively	4,957	5,049
Goodwill	31,416	32,074
Total assets	\$ 1,075,021	\$ 942,399
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Liabilities:</b>		
Amounts due on senior secured credit facility	\$ 135,080	\$ 157,719
Accounts payable	52,624	36,119
Manufacturer flooring plans payable	49,709	50,839
Dividends payable	633	1,488
Accrued expenses payable and other liabilities	45,876	50,522
Senior unsecured notes	628,504	521,065
Capital leases payable	2,321	2,447
Deferred income taxes	78,468	71,589
Deferred compensation payable	2,024	1,975
Total liabilities	995,239	893,763
<b>Commitments and Contingencies</b>		
<b>Stockholders equity:</b>		

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

Preferred stock, \$0.01 par value, 25,000,000 shares authorized; no shares issued		
Common stock, \$0.01 par value, 175,000,000 shares authorized; 39,023,594 and 38,917,619 shares issued at September 30, 2013 and December 31, 2012, respectively and 35,204,112 and 35,141,870 shares outstanding at September 30, 2013 and December 31, 2012, respectively	389	388
Additional paid-in capital	215,346	212,850
Treasury stock at cost, 3,819,482 and 3,775,749 shares of common stock held at September 30, 2013 and December 31, 2012, respectively	(58,468)	(57,578)
Retained deficit	(77,485)	(107,024)
Total stockholders' equity	79,782	48,636
Total liabilities and stockholders' equity	\$ 1,075,021	\$ 942,399

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

**Table of Contents**

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

(Unaudited)

(Amounts in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
<b>Revenues:</b>				
Equipment rentals	\$ 89,420	\$ 77,808	\$ 248,518	\$ 207,941
New equipment sales	90,220	49,009	216,979	154,710
Used equipment sales	36,779	24,990	103,589	75,100
Parts sales	26,571	26,058	77,971	74,161
Services revenues	13,729	14,436	42,050	41,615
Other	13,730	12,208	39,070	33,671
<b>Total revenues</b>	<b>270,449</b>	<b>204,509</b>	<b>728,177</b>	<b>587,198</b>
<b>Cost of revenues:</b>				
Rental depreciation	31,527	27,150	89,679	74,727
Rental expense	13,550	12,579	41,401	36,375
New equipment sales	80,659	43,367	193,453	136,945
Used equipment sales	27,086	18,399	74,006	53,426
Parts sales	19,123	19,092	56,660	53,826
Services revenues	4,943	5,615	15,743	15,907
Other	13,261	11,384	37,043	32,183
<b>Total cost of revenues</b>	<b>190,149</b>	<b>137,586</b>	<b>507,985</b>	<b>403,389</b>
<b>Gross profit</b>	<b>80,300</b>	<b>66,923</b>	<b>220,192</b>	<b>183,809</b>
Selling, general and administrative expenses	46,977	42,402	140,347	124,504
Gain on sales of property and equipment, net	609	514	1,715	1,478
<b>Income from operations</b>	<b>33,932</b>	<b>25,035</b>	<b>81,560</b>	<b>60,783</b>
<b>Other income (expense):</b>				
Interest expense	(13,193)	(9,825)	(38,550)	(23,668)
Loss on early extinguishment of debt		(10,180)		(10,180)
Other, net	237	243	945	751
<b>Total other expense, net</b>	<b>(12,956)</b>	<b>(19,762)</b>	<b>(37,605)</b>	<b>(33,097)</b>
<b>Income before income taxes</b>	<b>20,976</b>	<b>5,273</b>	<b>43,955</b>	<b>27,686</b>



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

Provision for income taxes	7,023	1,564	14,416	9,554
Net income	\$ 13,953	\$ 3,709	\$ 29,539	\$ 18,132
Net income per common share:				
Basic	\$ 0.40	\$ 0.11	\$ 0.84	\$ 0.52
Diluted	\$ 0.40	\$ 0.11	\$ 0.84	\$ 0.52
Weighted average common shares outstanding:				
Basic	35,099	34,958	35,022	34,867
Diluted	35,169	34,974	35,130	34,963
Dividends declared per common share outstanding	\$	\$ 7.00	\$	\$ 7.00

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>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 29,539	\$ 18,132
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization on property and equipment	12,355	9,997
Depreciation on rental equipment	89,679	74,727
Amortization of deferred financing costs	826	1,076
Accretion of note discount, net of premium amortization	189	
Amortization of intangible assets		66
Provision for losses on accounts receivable	2,348	2,565
Provision for inventory obsolescence	208	124
Increase in deferred income taxes	6,879	7,460
Stock-based compensation expense	2,109	1,223
Loss on early extinguishment of debt		10,180
Gain on sales of property and equipment, net	(1,715)	(1,478)
Gain on sales of rental equipment, net	(27,771)	(20,842)
Writedown of goodwill for tax-deductible goodwill in excess of book goodwill	657	1,458
<b>Changes in operating assets and liabilities:</b>		
Receivables, net	(2,150)	(21,128)
Inventories, net	(72,897)	(72,334)
Prepaid expenses and other assets	(1,249)	115
Accounts payable	16,504	12,702
Manufacturer flooring plans payable	(1,130)	(1,393)
Accrued expenses payable and other liabilities	(4,644)	(925)
Deferred compensation payable	49	(48)
<b>Net cash provided by operating activities</b>	<b>49,786</b>	<b>21,677</b>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(20,734)	(27,011)
Purchases of rental equipment	(197,763)	(212,337)
Proceeds from sales of property and equipment	1,812	1,861
Proceeds from sales of rental equipment	82,277	65,003
<b>Net cash used in investing activities</b>	<b>(134,408)</b>	<b>(172,484)</b>

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

Cash flows from financing activities:

Purchases of treasury stock	(890)	(694)
Excess tax benefit from stock-based awards	387	293
Borrowings on senior secured credit facility	827,539	776,171
Payments on senior secured credit facility	(850,178)	(661,501)
Principal payments on senior unsecured notes		(257,576)
Proceeds from issuance of senior unsecured notes	107,250	530,000
Payments of deferred financing costs	(733)	(12,352)
Dividends paid	(855)	(244,381)
Payments of capital lease obligations	(126)	(118)
Net cash provided by financing activities	82,394	129,842
Net decrease in cash	(2,228)	(20,965)
Cash, beginning of period	8,894	24,215
Cash, end of period	\$ 6,666	\$ 3,250

Table of Contents

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

(Unaudited)

(Amounts in thousands)

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2013</b>	<b>2012</b>
<b>Supplemental schedule of noncash investing and financing activities:</b>		
<b>Noncash asset purchases:</b>		
Assets transferred from new and used inventory to rental fleet	\$ 35,130	\$ 27,610
<b>Supplemental disclosures of cash flow information:</b>		
<b>Cash paid during the period for:</b>		
Interest	\$ 47,616	\$ 27,868
Income taxes paid, net of refunds received	\$ 1,863	\$ 334

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

**Table of Contents**

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

**Basis of Presentation**

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

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such regulations. In the opinion of management, all adjustments (consisting of all normal and recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013, 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, 2012, from which the consolidated balance sheet amounts as of December 31, 2012 were derived.

All significant intercompany accounts and transactions have been eliminated in these condensed consolidated financial statements. Business combinations accounted for as purchases are included in the condensed consolidated financial statements from their respective dates of acquisition.

The nature of our business is such that short-term obligations are typically met by cash flows generated from long-term assets. Consequently, and consistent with industry practice, the accompanying condensed consolidated balance sheets are presented on an unclassified basis.

**Nature of Operations**

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

**(2) Significant Accounting Policies**

We describe our significant accounting policies in note 2 of the notes to consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2012. During the nine month period ended September 30, 2013, there were no significant changes to those accounting policies.

*Use of Estimates*

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

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

There are no recent accounting pronouncements that are expected to affect the Company's financial reporting.

**(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 that 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>September 30, 2013</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>
Manufacturer flooring plans payable with interest computed at 5.25%	\$ 49,709	\$ 41,684
Senior unsecured notes with interest computed at 7.0% <sup>(1)</sup>	630,000	670,950
Capital lease payable with interest computed at 5.929% to 9.55%	2,321	1,763
Letters of credit		146
	<b>December 31, 2012</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>
Manufacturer flooring plans payable with interest computed at 5.25%	\$ 50,839	\$ 44,232
Senior unsecured notes with interest computed at 7.0% <sup>(1)</sup>	530,000	564,450
Capital lease payable with interest computed at 5.929% to 9.55%	2,447	1,919
Letters of credit		162

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

**(4) Stockholders' Equity**

The following table summarizes the activity in Stockholders' Equity for the nine month period ended September 30, 2013 (amounts in thousands, except share data):

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

	<b>Common Stock Shares Issued</b>	<b>Common Stock Amount</b>	<b>Additional Paid-in Capital</b>	<b>Treasury Stock</b>	<b>Retained Deficit</b>	<b>Total Stockholders Equity</b>
Balances at December 31, 2012	38,917,619	\$ 388	\$ 212,850	\$ (57,578)	\$ (107,024)	\$ 48,636
Stock-based compensation			2,109			2,109
Tax benefits associated with stock-based awards			387			387
Issuance of common stock	105,975	1				1
Repurchases of 40,109 shares of restricted common stock				(890)		(890)
Net income					29,539	29,539
Balances at September 30, 2013	39,023,594	\$ 389	\$ 215,346	\$ (58,468)	\$ (77,485)	\$ 79,782



**Table of Contents****(5) Stock-Based Compensation**

We account for our stock-based compensation plan using the fair value recognition provisions of ASC 718, *Stock Compensation* ( ASC 718 ). Under the provisions of ASC 718, stock-based compensation is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the requisite employee service period (generally the vesting period of the grant). Shares available for future stock-based payment awards under our 2006 Stock-Based Incentive Compensation Plan were 3,614,426 shares as of September 30, 2013.

*Non-vested Stock*

The following table summarizes our non-vested stock activity for the nine month period ended September 30, 2013:

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Non-vested stock at December 31, 2012	230,415	\$ 13.65
Granted	86,911	\$ 21.83
Vested	(122,121)	\$ 12.37
Forfeited	(3,624)	\$ 14.12
Non-vested stock at September 30, 2013	191,581	\$ 18.17

As of September 30, 2013, we had unrecognized compensation expense of approximately \$3.4 million related to non-vested stock (including \$0.6 million related to expected dividends payable upon, and conditioned on, the vesting of non-vested stock) that we expect to be recognized over a weighted-average period of 2.1 years. The following table summarizes compensation expense related to non-vested stock, which is included in selling, general and administrative expenses in the accompanying condensed consolidated statements of income for the three and nine months ended September 30, 2013 and 2012 (amounts in thousands):

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
Compensation expense	\$ 505	\$ 426	\$ 2,109	\$ 1,223

*Stock Options*

At September 30, 2013, there is no unrecognized compensation expense as all stock option awards have fully vested. The following table represents stock option activity for the nine month period ended September 30, 2013:

<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Contractual Life In Years</b>
-----------------------------	--	---

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

Outstanding options at December 31, 2012	51,000	\$	17.80	
Granted				
Exercised				
Canceled, forfeited or expired				
Outstanding options at September 30, 2013	51,000	\$	17.80	2.8
Options exercisable at September 30, 2013	51,000	\$	17.80	2.8

The aggregate intrinsic value of our outstanding and exercisable options at September 30, 2013 was approximately \$0.4 million.

**Table of Contents****(6) Income per Share**

Income per common share for the three and nine month periods ended September 30, 2013 and 2012 are based on the weighted average number of common shares outstanding during the period. The effects of potentially dilutive securities that are anti-dilutive are not included in the computation of dilutive income per share. The following table sets forth the computation of basic and diluted net income per common share for the three and nine months ended September 30, 2013 and 2012 (amounts in thousands, except per share amounts):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
<b>Basic net income per share:</b>				
Net income	\$ 13,953	\$ 3,709	\$ 29,539	\$ 18,132
Weighted average number of shares of common stock outstanding	35,099	34,958	35,022	34,867
Net income per share of common stock basic	\$ 0.40	\$ 0.11	\$ 0.84	\$ 0.52
<b>Diluted net income per share:</b>				
Net income	\$ 13,953	\$ 3,709	\$ 29,539	\$ 18,132
Weighted average number of shares of common stock outstanding	35,099	34,958	35,022	34,867
<b>Effect of dilutive securities:</b>				
Effect of dilutive non-vested restricted stock	70	16	108	96
Weighted average number of shares of common stock outstanding diluted	35,169	34,974	35,130	34,963
Net income per share of common stock diluted	\$ 0.40	\$ 0.11	\$ 0.84	\$ 0.52
<b>Common shares excluded from the denominator as anti-dilutive:</b>				
Stock options		51		51
Non-vested restricted stock	1	86		20

**(7) Senior Unsecured Notes**

On February 4, 2013, the Company closed on its offering of \$100 million aggregate principal amount of 7% senior notes due 2022 (the "Add-on Notes") in an unregistered offering through a private placement. The Add-on Notes were priced at 108.5% of the principal amount. Net proceeds from the offering of the Add-on Notes, including accrued interest from August 20, 2012, totaled approximately \$110.4 million. The Company used the proceeds from the offering to repay indebtedness outstanding under its Senior Secured Credit Facility (the "Credit Facility") and for the payment of fees and expenses related to the offering. In connection with the offering, on January 29, 2013, the Company amended its Credit Facility to permit the issuance of the Add-on Notes.

The Add-on Notes bear interest at a rate of 7% per year and mature on September 1, 2022. Interest on the Add-on Notes accrues from August 20, 2012 and is payable on each March 1 and September 1, commencing March 1, 2013. No principal payments are due until maturity.

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

The Add-on Notes are our senior unsecured obligations and rank (i) equally in right of payment to all of our existing and future senior indebtedness and (ii) senior to any of our subordinated indebtedness. The Add-on Notes are unconditionally guaranteed on a senior unsecured basis by all of our current and future significant domestic restricted subsidiaries. In addition, the Add-on Notes are effectively subordinated to all of our and the guarantors existing and future secured indebtedness, including the Credit Facility, to the extent of the assets securing such indebtedness, and are structurally subordinated to all of the liabilities and preferred stock of any of our subsidiaries that do not guarantee the Add-on Notes. The Add-on Notes were issued as additional notes under an indenture dated as of August 20, 2012 pursuant to which the Company previously issued \$530 million aggregate principal amount of 7% senior notes due 2022 (the New Notes ). The Add-on Notes have identical terms to, rank equally with, and form a part of a single class of securities with the New Notes.

**Table of Contents**

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

On April 1, 2013, the Company launched an offer to exchange the New and Add-on Notes and guarantees for registered, publicly tradable notes and guarantees that have terms identical in all material respects to the New and Add-on Notes (except that the exchange notes will not contain any transfer restrictions). This exchange offer closed on April 30, 2013.

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

Aggregate principal amount issued on August 20, 2012	\$ 530,000
Initial purchasers' discount	(9,275)
Accretion of discount through December 31, 2012	340
Balance at December 31, 2012	521,065
Aggregate principal amount issued on February 4, 2013	100,000
Premium on notes issued	8,500
Initial purchaser's discount	(1,250)
Accretion of discount through September 30, 2013	780
Amortization of note premium through September 30, 2013	(591)
Balance at September 30, 2013	\$ 628,504

**(8) Segment Information**

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues:				
Equipment rentals	\$ 89,420	\$ 77,808	\$ 248,518	\$ 207,941
New equipment sales	90,220	49,009	216,979	154,710
Used equipment sales	36,779	24,990	103,589	75,100

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

Parts sales	26,571	26,058	77,971	74,161
Services revenues	13,729	14,436	42,050	41,615
<b>Total segmented revenues</b>	<b>256,719</b>	<b>192,301</b>	<b>689,107</b>	<b>553,527</b>
Non-segmented revenues	13,730	12,208	39,070	33,671
<b>Total revenues</b>	<b>\$ 270,449</b>	<b>\$ 204,509</b>	<b>\$ 728,177</b>	<b>\$ 587,198</b>
<b>Gross Profit:</b>				
Equipment rentals	\$ 44,343	\$ 38,079	\$ 117,438	\$ 96,839
New equipment sales	9,561	5,642	23,526	17,765
Used equipment sales	9,693	6,591	29,583	21,674
Parts sales	7,448	6,966	21,311	20,335
Services revenues	8,786	8,821	26,307	25,708
<b>Total segmented gross profit</b>	<b>79,831</b>	<b>66,099</b>	<b>218,165</b>	<b>182,321</b>
<b>Non-segmented gross profit</b>	<b>469</b>	<b>824</b>	<b>2,027</b>	<b>1,488</b>
<b>Total gross profit</b>	<b>\$ 80,300</b>	<b>\$ 66,923</b>	<b>\$ 220,192</b>	<b>\$ 183,809</b>

**Table of Contents**

	<b>Balances at</b>	
	<b>September 30,</b>	<b>December 31,</b>
	<b>2013</b>	<b>2012</b>
<b>Segment identified assets:</b>		
Equipment sales	\$ 98,754	\$ 64,441
Equipment rentals	672,057	583,349
Parts and services	18,775	15,529
<b>Total segment identified assets</b>	<b>789,586</b>	<b>663,319</b>
Non-segment identified assets	285,435	279,080
<b>Total assets</b>	<b>\$ 1,075,021</b>	<b>\$ 942,399</b>

The Company operates primarily in the United States and our sales to international customers for the three and nine month periods ended September 30, 2013 were 1.7% and 1.4%, respectively, of total revenues compared to 0.9% and 2.8% for the three and nine month periods ended September 30, 2012, respectively. No one customer accounted for more than 10% of our revenues on an overall or segment basis for any of the periods presented.

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

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

The consolidating financial statements of H&E Equipment Services, Inc. and its subsidiaries are included below. The financial statements for H&E Finance Corp. are not included within the consolidating financial statements because H&E Finance Corp. has no assets or operations. The condensed consolidating balance sheet amounts as of December 31, 2012 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, 2012.

Table of Contents**CONDENSED CONSOLIDATING BALANCE SHEET**

	As of September 30, 2013			
	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
<b>Assets:</b>				
Cash	\$ 6,666	\$	\$	\$ 6,666
Receivables, net	123,064	18,405		141,469
Inventories, net	109,287	8,242		117,529
Prepaid expenses and other assets	6,297	159		6,456
Rental equipment, net	565,138	106,919		672,057
Property and equipment, net	82,480	11,991		94,471
Deferred financing costs, net	4,957			4,957
Investment in guarantor subsidiaries	168,698		(168,698)	
Goodwill	1,890	29,526		31,416
<b>Total assets</b>	<b>\$ 1,068,477</b>	<b>\$ 175,242</b>	<b>\$ (168,698)</b>	<b>\$ 1,075,021</b>
<b>Liabilities and Stockholders Equity:</b>				
Amounts due on senior secured credit facility	\$ 135,080	\$	\$	\$ 135,080
Accounts payable	49,667	2,957		52,624
Manufacturer flooring plans payable	49,707	2		49,709
Accrued expenses payable and other liabilities	44,589	1,287		45,876
Dividends payable	656	(23)		633
Senior unsecured notes	628,504			628,504
Capital lease payable		2,321		2,321
Deferred income taxes	78,468			78,468
Deferred compensation payable	2,024			2,024
<b>Total liabilities</b>	<b>988,695</b>	<b>6,544</b>		<b>995,239</b>
Stockholders equity( de	79,782	168,698	(168,698)	79,782
<b>Total liabilities and stockholders equity</b>	<b>\$ 1,068,477</b>	<b>\$ 175,242</b>	<b>\$ (168,698)</b>	<b>\$ 1,075,021</b>



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

	<b>As of December 31, 2012</b>			
	<b>H&amp;E Equipment Guarantor</b>			
	<b>Services</b>	<b>Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>(Amounts in thousands)</b>			
<b>Assets:</b>				
Cash	\$ 8,894	\$	\$	\$ 8,894
Receivables, net	125,345	16,322		141,667
Inventories, net	71,407	8,563		79,970
Prepaid expenses and other assets	5,107	100		5,207
Rental equipment, net	485,177	98,172		583,349
Property and equipment, net	74,264	11,925		86,189
Deferred financing costs, net	5,049			5,049
Investment in guarantor subsidiaries	160,005		(160,005)	
Goodwill	2,548	29,526		32,074
<b>Total assets</b>	<b>\$ 937,796</b>	<b>\$ 164,608</b>	<b>\$ (160,005)</b>	<b>\$ 942,399</b>
<b>Liabilities and Stockholders Equity:</b>				
Amount due on senior secured credit facility	\$ 157,719	\$	\$	\$ 157,719
Accounts payable	34,786	1,333		36,119
Manufacturer flooring plans payable	50,389	450		50,839
Dividends payable	1,488			1,488
Accrued expenses payable and other liabilities	50,149	373		50,522
Senior unsecured notes	521,065			521,065
Capital leases payable		2,447		2,447
Deferred income taxes	71,589			71,589
Deferred compensation payable	1,975			1,975
<b>Total liabilities</b>	<b>889,160</b>	<b>4,603</b>		<b>893,763</b>
Stockholders equity	48,636	160,005	(160,005)	48,636
<b>Total liabilities and stockholders equity</b>	<b>\$ 937,796</b>	<b>\$ 164,608</b>	<b>\$ (160,005)</b>	<b>\$ 942,399</b>

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

	<b>Three Months Ended September 30, 2013</b>			
	<b>H&amp;E Equipment Guarantor</b>			
	<b>Services</b>	<b>Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>(Amounts in thousands)</b>			
<b>Revenues:</b>				
Equipment rentals	\$ 73,537	\$ 15,883	\$	\$ 89,420
New equipment sales	81,547	8,673		90,220
Used equipment sales	31,934	4,845		36,779
Parts sales	23,111	3,460		26,571
Services revenues	11,692	2,037		13,729
Other	11,300	2,430		13,730
<b>Total revenues</b>	<b>233,121</b>	<b>37,328</b>		<b>270,449</b>
<b>Cost of revenues:</b>				
Rental depreciation	26,079	5,448		31,527
Rental expense	10,995	2,555		13,550
New equipment sales	72,790	7,869		80,659
Used equipment sales	23,712	3,374		27,086
Parts sales	16,681	2,442		19,123
Services revenues	4,177	766		4,943
Other	10,739	2,522		13,261
<b>Total cost of revenues</b>	<b>165,173</b>	<b>24,976</b>		<b>190,149</b>
<b>Gross profit (loss):</b>				
Equipment rentals	36,463	7,880		44,343
New equipment sales	8,757	804		9,561
Used equipment sales	8,222	1,471		9,693
Parts sales	6,430	1,018		7,448
Services revenues	7,515	1,271		8,786
Other	561	(92)		469
<b>Gross profit</b>	<b>67,948</b>	<b>12,352</b>		<b>80,300</b>
Selling, general and administrative expenses	38,525	8,452		46,977
Equity in earnings of guarantor subsidiaries	1,328		(1,328)	
Gain on sales of property and equipment, net	457	152		609
<b>Income from operations</b>	<b>31,208</b>	<b>4,052</b>	<b>(1,328)</b>	<b>33,932</b>
<b>Other income (expense):</b>				
Interest expense	(10,457)	(2,736)		(13,193)
Other, net	225	12		237

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

Total other expense, net	(10,232)	(2,724)		(12,956)
Income before income taxes	20,976	1,328	(1,328)	20,976
Income tax expense	7,023			7,023
Net income	\$ 13,953	\$ 1,328	\$ (1,328)	\$ 13,953

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

	<b>Three Months Ended September 30, 2012</b>			
	<b>H&amp;E Equipment Services</b>		<b>Guarantor Subsidiaries</b>	
	<b>Services</b>	<b>Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>(Amounts in thousands)</b>			
<b>Revenues:</b>				
Equipment rentals	\$ 63,607	\$ 14,201	\$	\$ 77,808
New equipment sales	45,514	3,495		49,009
Used equipment sales	21,222	3,768		24,990
Parts sales	22,369	3,689		26,058
Services revenues	12,441	1,995		14,436
Other	9,943	2,265		12,208
<b>Total revenues</b>	<b>175,096</b>	<b>29,413</b>		<b>204,509</b>
<b>Cost of revenues:</b>				
Rental depreciation	21,912	5,238		27,150
Rental expense	10,083	2,496		12,579
New equipment sales	40,295	3,072		43,367
Used equipment sales	15,713	2,686		18,399
Parts sales	16,448	2,644		19,092
Services revenues	4,921	694		5,615
Other	9,024	2,360		11,384
<b>Total cost of revenues</b>	<b>118,396</b>	<b>19,190</b>		<b>137,586</b>
<b>Gross profit (loss):</b>				
Equipment rentals	31,612	6,467		38,079
New equipment sales	5,219	423		5,642
Used equipment sales	5,509	1,082		6,591
Parts sales	5,921	1,045		6,966
Services revenues	7,520	1,301		8,821
Other	919	(95)		824
<b>Gross profit</b>	<b>56,700</b>	<b>10,223</b>		<b>66,923</b>
Selling, general and administrative expenses	34,350	8,052		42,402
Equity in loss of guarantor subsidiaries	(228)		228	
Gain on sales of property and equipment, net	341	173		514
<b>Income from operations</b>	<b>22,463</b>	<b>2,344</b>	<b>228</b>	<b>25,035</b>
<b>Other income (expense):</b>				
Interest expense	(7,238)	(2,587)		(9,825)
Loss on early extinguishment of debt	(10,180)			(10,180)
Other, net	228	15		243

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

Total other expense, net	(17,190)	(2,572)		(19,762)
Income (loss) before income taxes	5,273	(228)	228	5,273
Income tax expense	1,564			1,564
Net income (loss)	\$ 3,709	\$ (228)	\$ 228	\$ 3,709

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

Nine Months Ended September 30, 2013

**H&E Equipment Guarantor**

	<b>Services</b>	<b>Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>(Amounts in thousands)</b>			

<b>Revenues:</b>				
Equipment rentals	\$ 205,816	\$ 42,702	\$	\$ 248,518
New equipment sales	195,300	21,679		216,979
Used equipment sales	87,687	15,902		103,589
Parts sales	67,057	10,914		77,971
Services revenues	36,305	5,745		42,050
Other	32,232	6,838		39,070
<b>Total revenues</b>	<b>624,397</b>	<b>103,780</b>		<b>728,177</b>
<b>Cost of revenues:</b>				
Rental depreciation	73,785	15,894		89,679
Rental expense	33,886	7,515		41,401
New equipment sales	173,964	19,489		193,453
Used equipment sales	62,533	11,473		74,006
Parts sales	48,840	7,820		56,660
Services revenues	13,683	2,060		15,743
Other	29,996	7,047		37,043
<b>Total cost of revenues</b>	<b>436,687</b>	<b>71,298</b>		<b>507,985</b>
<b>Gross profit (loss):</b>				
Equipment rentals	98,145	19,293		117,438
New equipment sales	21,336	2,190		23,526
Used equipment sales	25,154	4,429		29,583
Parts sales	18,217	3,094		21,311
Services revenues	22,622	3,685		26,307
Other	2,236	(209)		2,027
<b>Gross profit</b>	<b>187,710</b>	<b>32,482</b>		<b>220,192</b>
Selling, general and administrative expenses	116,306	24,041		140,347
Equity in earnings of guarantor subsidiaries	929		(929)	
Gain on sales of property and equipment, net	1,404	311		1,715
<b>Income from operations</b>	<b>73,737</b>	<b>8,752</b>	<b>(929)</b>	<b>81,560</b>
<b>Other income (expense):</b>				
Interest expense	(30,674)	(7,876)		(38,550)
Other, net	892	53		945

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

Total other expense, net	(29,782)	(7,823)		(37,605)
Income before income taxes	43,955	929	(929)	43,955
Income tax expense	14,416			14,416
Net income	\$ 29,539	\$ 929	\$ (929)	\$ 29,539

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

Nine Months Ended September 30, 2012

**H&E Equipment Guarantor**

	Services	Subsidiaries	Elimination	Consolidated
(Amounts in thousands)				

<b>Revenues:</b>				
Equipment rentals	\$ 170,492	\$ 37,449	\$	\$ 207,941
New equipment sales	137,915	16,795		154,710
Used equipment sales	60,960	14,140		75,100
Parts sales	63,120	11,041		74,161
Services revenues	35,926	5,689		41,615
Other	27,595	6,076		33,671
<b>Total revenues</b>	<b>496,008</b>	<b>91,190</b>		<b>587,198</b>
<b>Cost of revenues:</b>				
Rental depreciation	60,264	14,463		74,727
Rental expense	29,181	7,194		36,375
New equipment sales	121,950	14,995		136,945
Used equipment sales	42,798	10,628		53,426
Parts sales	45,935	7,891		53,826
Services revenues	13,930	1,977		15,907
Other	25,702	6,481		32,183
<b>Total cost of revenues</b>	<b>339,760</b>	<b>63,629</b>		<b>403,389</b>
<b>Gross profit (loss):</b>				
Equipment rentals	81,047	15,792		96,839
New equipment sales	15,965	1,800		17,765
Used equipment sales	18,162	3,512		21,674
Parts sales	17,185	3,150		20,335
Services revenues	21,996	3,712		25,708
Other	1,893	(405)		1,488
<b>Gross profit</b>	<b>156,248</b>	<b>27,561</b>		<b>183,809</b>
Selling, general and administrative expenses	102,625	21,879		124,504
Equity in loss of guarantor subsidiaries	(1,077)		1,077	
Gain on sales of property and equipment, net	1,127	351		1,478
<b>Income from operations</b>	<b>53,673</b>	<b>6,033</b>	<b>1,077</b>	<b>60,783</b>
<b>Other income (expense):</b>				
Interest expense	(16,512)	(7,156)		(23,668)
Loss on early extinguishment of debt	(10,180)			(10,180)
Other, net	705	46		751



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

Total other expense, net	(25,987)	(7,110)		(33,097)
Income (loss) before income taxes	27,686	(1,077)	1,077	27,686
Income tax expense	9,554			9,554
Net income (loss)	\$ 18,132	\$ (1,077)	\$ 1,077	\$ 18,132

**Table of Contents****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****Nine Months Ended September 30, 2013**

	<b>H&amp;E Equipment Services</b>	<b>Guarantor Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>(Amounts in thousands)</b>			

<b>Cash flows from operating activities:</b>				
Net income	\$ 29,539	\$ 929	\$ (929)	\$ 29,539
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization on property and equipment	10,840	1,515		12,355
Depreciation on rental equipment	73,785	15,894		89,679
Amortization of deferred financing costs	826			826
Accretion of note discount, net of premium amortization	189			189
Provision for losses on accounts receivable	1,884	464		2,348
Provision for inventory obsolescence	208			208
Increase in deferred income taxes	6,879			6,879
Stock-based compensation expense	2,109			2,109
Gain on sales of property and equipment, net	(1,404)	(311)		(1,715)
Gain on sales of rental equipment, net	(23,383)	(4,388)		(27,771)
Writedown of goodwill for tax-deductible goodwill in excess of book goodwill	657			657
Equity in earnings of guarantor subsidiaries	(929)		929	
Changes in operating assets and liabilities:				
Receivables, net	397	(2,547)		(2,150)
Inventories, net	(68,876)	(4,021)		(72,897)
Prepaid expenses and other assets	(1,190)	(59)		(1,249)
Accounts payable	14,880	1,624		16,504
Manufacturer flooring plans payable	(682)	(448)		(1,130)
Accrued expenses payable and other liabilities	(5,558)	914		(4,644)
Deferred compensation payable	49			49
 Net cash provided by operating activities	 40,220	 9,566		 49,786
 <b>Cash flows from investing activities:</b>				
Purchases of property and equipment	(19,093)	(1,641)		(20,734)
Purchases of rental equipment	(168,466)	(29,297)		(197,763)
Proceeds from sales of property and equipment	1,441	371		1,812
Proceeds from sales of rental equipment	68,891	13,386		82,277
Investment in subsidiaries	(7,764)		7,764	
 Net cash used in investing activities	 (124,991)	 (17,181)	 7,764	 (134,408)
 <b>Cash flows from financing activities:</b>				

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

Purchases of treasury stock	(890)			(890)
Excess tax benefit (deficiency) from stock-based awards	387			387
Borrowings on senior secured credit facility	827,539			827,539
Payments on senior secured credit facility	(850,178)			(850,178)
Proceeds from issuance of unsecured notes	107,250			107,250
Payments of deferred financing costs	(733)			(733)
Dividends paid	(832)	(23)		(855)
Payments on capital lease obligations		(126)		(126)
Capital contributions		7,764	(7,764)	
Net cash provided by financing activities	82,543	7,615	(7,764)	82,394
Net decrease in cash	(2,228)			(2,228)
Cash, beginning of period	8,894			8,894
Cash, end of period	\$ 6,666	\$	\$	\$ 6,666

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

Nine Months Ended September 30, 2012

	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			

Cash flows from operating activities:				
Net income (loss)	\$ 18,132	\$ (1,077)	\$ 1,077	\$ 18,132
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization on property and equipment	8,605	1,392		9,997
Depreciation on rental equipment	60,264	14,463		74,727
Amortization of loan discounts and deferred financing costs	1,076			1,076
Amortization of intangible assets		66		66
Provision for losses on accounts receivable	1,820	745		2,565
Provision for inventory obsolescence	124			124
Increase in deferred income taxes	7,460			7,460
Stock-based compensation expense	1,223			1,223
Loss on early extinguishment of debt	10,180			10,180
Gain on sales of property and equipment, net	(1,127)	(351)		(1,478)
Gain on sales of rental equipment, net	(17,341)	(3,501)		(20,842)
Writedown of goodwill for tax-deductible goodwill in excess of book goodwill	1,458			1,458
Equity in loss of guarantor subsidiaries	1,077		(1,077)	
Changes in operating assets and liabilities:				
Receivables, net	(16,477)	(4,651)		(21,128)
Inventories, net	(62,853)	(9,481)		(72,334)
Prepaid expenses and other assets	105	10		115
Accounts payable	11,389	1,313		12,702
Manufacturer flooring plans payable	(1,704)	311		(1,393)
Accrued expenses payable and other liabilities	(1,042)	117		(925)
Deferred compensation payable	(48)			(48)
Net cash provided by (used in) operating activities	22,321	(644)		21,677
Cash flows from investing activities:				
Purchases of property and equipment	(24,543)	(2,468)		(27,011)
Purchases of rental equipment	(176,019)	(36,318)		(212,337)
Proceeds from sales of property and equipment	1,608	253		1,861
Proceeds from sales of rental equipment	51,483	13,520		65,003
Investment in subsidiaries	(25,775)		25,775	
Net cash used in investing activities	(173,246)	(25,013)	25,775	(172,484)

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

Cash flows from financing activities:				
Purchases of treasury stock	(694)			(694)
Excess tax benefit from stock-based awards	293			293
Dividends paid	(244,381)			(244,381)
Principal payments on senior unsecured notes	(257,576)			(257,576)
Proceeds from issuance of senior unsecured notes	530,000			530,000
Borrowings on senior secured credit facility	776,171			776,171
Payments on senior secured credit facility	(661,501)			(661,501)
Payments of deferred financing costs	(12,352)			(12,352)
Payments on capital lease obligations		(118)		(118)
Capital contributions		25,775	(25,775)	
Net cash provided by financing activities	129,960	25,657	(25,775)	129,842
Net decrease in cash	(20,965)			(20,965)
Cash, beginning of period	24,215			24,215
Cash, end of period	\$ 3,250	\$	\$	\$ 3,250

---

**Table of Contents**

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

The following discussion summarizes the financial position of H&E Equipment Services, Inc. and its subsidiaries as of September 30, 2013, and its results of operations for the three and nine month periods ended September 30, 2013, 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, 2012. 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, 2012.

**Overview**

**Background**

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

As of October 25, 2013, we operated 68 full-service facilities throughout the Intermountain, Southwest, Gulf Coast, West Coast, Southeast and Mid-Atlantic regions of the United States. Our work force includes distinct, focused sales forces for our new and used equipment sales and rental operations, highly skilled service technicians, product specialists and regional managers. We focus our sales and rental activities on, and organize our personnel principally by, our four core equipment categories. We believe this allows us to provide specialized equipment knowledge, improve the effectiveness of our rental and sales force and strengthen our customer relationships. In addition, we have branch managers for each location who are responsible for managing their assets and financial results. We believe this fosters accountability in our business and strengthens our local and regional relationships.

Through our predecessor companies, we have been in the equipment services business for approximately 52 years. H&E Equipment Services L.L.C. ( *H&E LLC* ) was formed in June 2002 through the business combination of Head & Engquist Equipment, LLC ( *Head & Engquist* ), a wholly-owned subsidiary of Gulf Wide Industries, L.L.C. ( *Gulf Wide* ), and ICM Equipment Company L.L.C. ( *ICM* ). Head & Engquist, founded in 1961, and ICM, founded in 1971, were two leading regional, integrated equipment service companies operating in contiguous geographic markets. In the June 2002 transaction, Head & Engquist and ICM were merged with and into Gulf Wide, which was renamed H&E LLC. Prior to the combination, Head & Engquist operated 25 facilities in the Gulf Coast region, and ICM operated 16 facilities in the Intermountain region of the United States.

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 L.L.C. ( Holdings ), and immediately prior to the closing of our initial public offering, on February 3, 2006, H&E LLC and Holdings merged with and into us (H&E Equipment Services, Inc.), with us surviving the reincorporation merger as the operating company. Effective February 3, 2006, H&E LLC and Holdings no longer existed under operation of law pursuant to the reincorporation merger.

*Critical Accounting Policies*

Item 7, included in Part II of our Annual Report on Form 10-K for the year ended December 31, 2012, presents the accounting policies and related estimates that we believe are the most critical to understanding our consolidated financial statements, financial condition, and results of operations and cash flows, and which require complex management judgment and assumptions, or involve uncertainties. There have been no changes to these critical accounting policies and estimates during the three and nine month periods ended September 30, 2013. 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, 2012 and in note 2 to the condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

### ***Business Segments***

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

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

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

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

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

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



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

For additional information about our business segments, see note 8 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 nine month period ended September 30, 2013, approximately 34.1% of our total revenues were attributable to equipment rentals, 29.8% of our total revenues were attributable to new equipment sales, 14.2% were attributable to used equipment sales, 10.7% were attributable to parts sales, 5.8% were attributable to our services revenues and 5.4% were attributable to non-segmented other revenues.

## **Table of Contents**

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.

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

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

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

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

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

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

***Principal Costs and Expenses***

Our largest expenses are the costs to purchase the new equipment we sell, the costs associated with the used equipment we sell, rental expenses, rental depreciation and costs associated with parts sales and services, all of which are included in cost of revenues. For the nine month period ended September 30, 2013, our total cost of revenues was approximately \$508.0 million. Our operating expenses consist principally of selling, general and administrative expenses. For the nine month period ended September 30, 2013, our selling, general and administrative expenses were \$140.3 million. In addition, we have interest expense related to our debt instruments. Operating expenses and all other income and expense items below the gross profit line of our consolidated statements of income are not generally allocated to our reportable segments.

## **Table of Contents**

We are also subject to federal and state income taxes. Our Federal Tax Returns for the tax years 2005 through 2009 were recently examined by the Internal Revenue Service ( IRS ) following the Company's filing of amended returns for those tax years pursuant to which the Company claimed a net operating loss carryback. In February 2013, the IRS concluded its examination of those tax returns and determined that no material adjustments were required. Future income tax examinations by state and federal agencies could result in additional income tax expense based on the probable outcomes of such matters.

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

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

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

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

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

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

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

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

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

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

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

Interest expense for the periods presented represents the interest on our outstanding debt instruments, including aggregate amounts outstanding under our revolving senior secured credit facility (the Credit Facility ), senior

unsecured notes due 2022 and our capital lease obligations, as well as our extinguished senior unsecured notes due 2016 for the periods during which such debt was outstanding. Interest expense also includes interest on our outstanding manufacturer flooring plans payable which are used to finance inventory and rental equipment purchases. Non-cash interest expense related to the amortization cost of deferred financing costs is also included in interest expense.

***Principal Cash Flows***

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

**Table of Contents**

of our working capital is closely tied to operating cash flows, as working capital can be significantly impacted by, among other things, our accounts receivable activities, the level of new and used equipment inventories, which may increase or decrease in response to current and expected demand, and the size and timing of our trade accounts payable payment cycles.

**Rental Fleet**

A substantial portion of our overall value is in our rental fleet equipment. The net book value of our rental equipment at September 30, 2013 was \$672.1 million, or approximately 62.5% of our total assets. Our rental fleet as of September 30, 2013 consisted of 22,441 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 \$978.9 million. As of September 30, 2013, our rental fleet composition was as follows (dollars in millions):

	Units	% of Total Units	Original Acquisition Cost	% of Original Acquisition Cost	Average Age in Months
Hi-Lift or Aerial Work Platforms	14,867	66.2%	\$ 586.9	59.9%	42.0
Cranes	396	1.8%	118.9	12.1%	39.8
Earthmoving	2,153	9.6%	193.5	19.8%	19.1
Industrial Lift Trucks	730	3.3%	29.2	3.0%	24.6
Other	4,295	19.1%	50.4	5.2%	20.0
Total	22,441	100.0%	\$ 978.9	100.0%	35.0

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 sales are influenced by used equipment pricing at the retail and secondary auction market levels, and the capital expenditures to acquire new rental fleet equipment. In making equipment acquisition decisions, we evaluate current economic and market conditions, competition, manufacturers' availability, pricing and return on investment over the estimated useful life of the specific equipment, among other things. As a result of our in-house service capabilities and extensive maintenance program, we believe our rental fleet is well-maintained.

The original acquisition cost of our gross rental fleet increased by approximately \$95.9 million, or 10.9%, for the nine month period ended September 30, 2013. The average age of our rental fleet equipment decreased by approximately 3.0 months for the nine months ended September 30, 2013.

Our average rental rates for the nine month period ended September 30, 2013 were 7.4% higher than in the nine month period ended September 30, 2012. Our average rental rates for the three month period ended September 30, 2013 were 5.2% higher than in the three month period ended September 30, 2012 and 0.7% higher than the three month period ended June 30, 2013 (see further discussion on rental rates in Results of Operations below).

The rental equipment mix among our four core product lines for the nine months ended September 30, 2013 was largely consistent with that of the prior year comparable period as a percentage of total units available for rent and as a percentage of original acquisition cost.

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

We are subject to a number of external factors that may adversely affect our businesses. These factors, and other factors, are discussed below and under the heading Forward-Looking Statements, and in Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012.

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

**Table of Contents**

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

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

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

**Results of Operations**

The tables included in the period-to-period comparisons below provide summaries of our revenues and gross profits for our business segments and non-segmented revenues for the three and nine months ended September 30, 2013 and 2012. The period-to-period comparisons of our financial results are not necessarily indicative of future results.

***Three Months Ended September 30, 2013 Compared to the Three Months Ended September 30, 2012******Revenues.***

	<b>Three Months Ended September 30,</b>		<b>Total Dollar</b>	<b>Total Percentage</b>
	<b>2013</b>	<b>2012</b>	<b>Increase (Decrease)</b>	<b>Increase (Decrease)</b>
	<b>(in thousands, except percentages)</b>			
<b>Segment Revenues:</b>				
Equipment rentals	\$ 89,420	\$ 77,808	\$ 11,612	14.9%
New equipment sales	90,220	49,009	41,211	84.1%
Used equipment sales	36,779	24,990	11,789	47.2%
Parts sales	26,571	26,058	513	2.0%
Services revenues	13,729	14,436	(707)	(4.9)%
Non-Segmented revenues	13,730	12,208	1,522	12.5%
<b>Total revenues</b>	<b>\$ 270,449</b>	<b>\$ 204,509</b>	<b>\$ 65,940</b>	<b>32.2%</b>

*Total Revenues.* Our total revenues were \$270.4 million for the three month period ended September 30, 2013 compared to \$204.5 million for the three month period ended September 30, 2012, an increase of \$65.9 million, or 32.2%. Revenues for all reportable segments are further discussed below.

*Equipment Rental Revenues.* Our revenues from equipment rentals for the three month period ended September 30, 2013 increased \$11.6 million, or 14.9%, to \$89.4 million from \$77.8 million in the three month period ended September 30, 2012. Rental revenues from aerial work platforms increased \$7.8 million, while rental revenues from



earthmoving equipment increased \$3.7 million. Rental revenues from lift trucks increased \$0.2 million . Rental revenues from cranes decreased approximately \$0.1 million. Our average rental rates for the three month period ended September 30, 2013 increased 5.2% compared to the same three month period last year and increased 0.7% from the quarter ended June 30, 2013.

Rental equipment dollar utilization (annual rental revenues divided by the average original rental fleet equipment costs) for each of the three month periods ended September 30, 2013 and 2012 was 36.7%. Current period rental equipment dollar utilization was impacted by a 5.2% increase in average rental rates and the mix of equipment rented, which was largely offset by a 2.3% decrease in rental equipment time utilization based on the number of rental equipment units available for rent. Rental equipment time utilization based on the number of rental equipment units available for rent was 66.6% for the three month period ended September 30, 2013 compared to 68.9% in the same period last year. Rental equipment time utilization as a percentage of original equipment cost was 72.3% for the three month period ended September 30, 2013 compared to 72.9% in the three month period ended September 30, 2012, a decrease of 0.6%. The decrease in equipment rental time utilization based on the number of units available for rent and based on original equipment cost is reflective of the 12.4% growth in our rental fleet size from \$871.0 million at September 30, 2012 to \$978.9 million at September 30, 2013.

**Table of Contents**

*New Equipment Sales Revenues.* Our new equipment sales for the three month period ended September 30, 2013 increased \$41.2 million, or 84.1 %, to \$90.2 million from \$49.0 million for the three month period ended September 30, 2012. Sales of new cranes increased \$27.3 million and sales of new earthmoving equipment increased \$10.5 million. Sales of new aerial work platform equipment increased \$3.5 million and new lift trucks increased \$0.3 million. Partially offsetting these increases was a \$0.4 million decrease in other new equipment sales.

*Used Equipment Sales Revenues.* Our used equipment sales increased \$11.8 million, or 47.2%, to \$36.8 million for the three month period ended September 30, 2013, from \$25.0 million for the same three month period in 2012. Sales of used aerial work platform equipment increased \$8.0 million, while sales of used cranes and used earthmoving equipment increased \$2.5 million and \$0.7 million, respectively. Sales of used other equipment increased \$0.7 million. Partially offsetting these increases was a \$0.1 million decrease in sales of used lift trucks.

*Parts Sales Revenues.* Our parts sales increased \$0.5 million, or 2.0%, to \$26.6 million for the three month period ended September 30, 2013 from \$26.1 million for the same three month period in 2012. The increase in parts revenues was due to higher demand for parts compared to last year.

*Services Revenues.* Our services revenues for the three month period ended September 30, 2013 decreased \$0.7 million, or 4.9%, to \$13.7 million from \$14.4 million for the same three month period last year. The decline in services revenues was primarily due to a decrease in contract services revenues.

*Non-Segmented Other Revenues.* Our non-segmented other revenues consisted primarily of equipment support activities including transportation, hauling, parts freight and damage waiver charges. For the three month period ended September 30, 2013, our other revenues were \$13.7 million, an increase of \$1.5 million, or 12.5%, from \$12.2 million in the same three month period in 2012. The increase was primarily due to an increase in the volume of these services in conjunction with the related improvements of our equipment rentals and sales business activities.

**Gross Profit.**

	<b>Three Months Ended September 30,</b>		<b>Total Dollar Change Increase (Decrease)</b>	<b>Total Percentage Change Increase (Decrease)</b>
	<b>2013</b>	<b>2012</b>		
	<b>(in thousands, except percentages)</b>			
<b>Segment Gross Profit:</b>				
Equipment rentals	\$ 44,343	\$ 38,079	\$ 6,264	16.5%
New equipment sales	9,561	5,642	3,919	69.5%
Used equipment sales	9,693	6,591	3,102	47.1%
Parts sales	7,448	6,966	482	6.9%
Services revenues	8,786	8,821	(35)	(0.4)%
Non-Segmented revenues	469	824	(355)	(43.1)%
 Total gross profit	 \$ 80,300	 \$ 66,923	 \$ 13,377	 20.0%

*Total Gross Profit.* Our total gross profit was \$80.3 million for the three month period ended September 30, 2013 compared to \$66.9 million for the same three month period in 2012, an increase of \$13.4 million, or 20.0%. Total

gross profit margin for the three month periods ended September 30, 2013 and 2012 was 29.7% and 32.7%, respectively. Gross margins were impacted by revenue mix with a significant increase in new equipment sales for the three month period ended September 30, 2013 compared to the same three month period last year. Gross profit and gross margin for all reportable segments are further described below.

*Equipment Rentals Gross Profit.* Our gross profit from equipment rentals for the three month period ended September 30, 2013 increased \$6.3 million, or 16.5%, to \$44.3 million from \$38.1 million for the same three month period in 2012. The increase in equipment rentals gross profit was the result of a \$11.6 million increase in rental revenues for the three month period ended September 30, 2013, which was partially offset by a \$1.0 million increase in rental expenses and a \$4.4 million increase in rental equipment depreciation expense. The increase in rental expenses and rental equipment depreciation expense was due to a larger fleet size in 2013 compared to 2012. As a percentage of equipment rental revenues, rental expenses were 15.2% for the three month period ended September 30, 2013 compared to 16.2% for the same period last year, a decrease of 1.0%, primarily as a result of the increase in comparative rental revenues. Depreciation expense was 35.3% for the three month period ended September 30, 2013 compared to 34.9% for the same period in 2012, an increase of 0.4%. The increase in depreciation expense as a percentage of equipment rental revenues is primarily due to a younger fleet and an increase in original equipment replacement cost.

Gross profit margin on equipment rentals for the three month period ended September 30, 2013 was approximately 49.6%, an increase of 0.7% from a gross profit margin of 48.9% for the same period in 2012. This increase in gross profit margin was primarily due to the increase in comparative equipment rental revenues, the improvement in rental rates and lower rental expenses as a percentage of equipment rental revenues.

---

**Table of Contents**

***New Equipment Sales Gross Profit.*** Our new equipment sales gross profit for the three month period ended September 30, 2013 increased \$3.9 million, or 69.5%, to approximately \$9.6 million compared to \$5.6 million for the same three month period in 2012 on a total new equipment sales increase of \$41.2 million. Gross profit margin on new equipment sales for the three month period ended September 30, 2013 was 10.6%, a decrease of 0.9% from 11.5% in the same three month period in 2012, primarily reflecting lower margins on sales of new earthmoving equipment in the current year period resulting from a few large volume package deals in the three months ended September 30, 2013 that typically carry lower margins than smaller or individual sales of new earthmoving equipment.

***Used Equipment Sales Gross Profit.*** Our used equipment sales gross profit for the three month period ended September 30, 2013 increased \$3.1 million, or 47.1%, to \$9.7 million from \$6.6 million in the same period in 2012 on a used equipment sales increase of \$11.8 million. Gross profit margin on used equipment sales for the three month period ended September 30, 2013 was 26.3% compared to 26.4% for the same three month period in 2012. Our used equipment sales from our rental fleet, which comprised approximately 87.8% and 81.7% of our used equipment sales for the three month periods ended September 30, 2013 and 2012, respectively, were approximately 142.3% and 146.5% of net book value for the three month periods ended September 30, 2013 and 2012, respectively.

***Parts Sales Gross Profit.*** For the three month period ended September 30, 2013, our parts sales revenue gross profit increased approximately \$0.5 million, or 6.9%, to \$7.4 million from \$7.0 million for the same three month period in 2012 on a \$0.5 million increase in parts sales revenues. Gross profit margin on parts sales for the three month period ended September 30, 2013 was 28.0%, an increase of 1.3% from 26.7% in the same three month period in 2012, as a result of the mix of parts sold.

***Services Revenues Gross Profit.*** For the three month period ended September 30, 2013, our services revenues gross profit was \$8.8 million, the same as for the same three month period in 2012, on a \$0.7 million decrease in services revenues. Gross profit margin on services revenues for the three month period ended September 30, 2013 was 64.0%, an increase of 2.9% from 61.1% in the same three month period in 2012, as a result of services revenues mix.

***Non-Segmented Other Revenues Gross Profit.*** Our non-segmented other revenues realized a gross profit of approximately \$0.5 million for the three month period ended September 30, 2013 compared to a gross profit of \$0.8 million for the same period in 2012, a decrease of approximately \$0.3 million, or 43.1%. On a gross margin basis, gross profit margin on non-segmented other revenues for the three month period ended September 30, 2013 was 3.4% compared to a gross profit margin of 6.7% in the same three month period last year, primarily reflective of higher hauling costs as a percentage of hauling revenues.

***Selling, General and Administrative Expenses.*** SG&A expenses increased \$4.6 million, or 10.8%, to \$47.0 million for the three month period ended September 30, 2013 compared to \$42.4 million for the three month period ended September 30, 2012. The net increase in SG&A expenses was attributable to several factors. Employee salaries and wages and related employee expenses increased approximately \$2.7 million as a result of higher salaries, wages and payroll taxes stemming primarily from an increase in commission and incentive pay that resulted from higher rental and sales revenues, and higher health insurance costs from increases in the number of employees compared to last year and in costs per claim. Stock-based compensation expense was \$0.5 million and \$0.4 million for the three month periods ended September 30, 2013 and 2012, respectively. Legal and other professional fees increased \$0.7 million and liability insurance costs increased \$0.4 million for the three month period ended September 30, 2013 compared to the same period last year. Depreciation expense increased \$0.5 million and general corporate overhead expenses increased \$0.3 million for the three month period ended September 30, 2013 compared to the same period in 2012. Of the total \$4.6 million increase in SG&A expenses, approximately \$1.0 million was attributable to start-up locations that have opened since September 30, 2012. As a percentage of total revenues, SG&A expenses were 17.4% for the

three month period ended September 30, 2013, a decrease of 3.3% from 20.7% for the same three month period in 2012, primarily as a result of the current year increase in total revenues.

***Other Income (Expense)***. For the three month period ended September 30, 2013, our net other expenses decreased \$6.8 million to \$13.0 million compared to \$19.8 million for the same three month period in 2012. Included in other income (expense) for the three month period ended September 30, 2012 is a \$10.2 million loss on the early extinguishment of debt, as discussed in the Loss on Early Extinguishment of Debt section on page 30 of this Quarterly Report on Form 10-Q. Interest expense increased \$3.4 million to \$13.2 million for the three month period ended September 30, 2013 compared to \$9.8 million for the same three month period in 2012. The increase in interest expense is the result of a \$3.0 million increase in expense related to our senior unsecured notes and a \$0.5 million increase in interest expense related the Credit Facility. The increase in interest expense on our senior unsecured notes is primarily due

**Table of Contents**

to an increase in the aggregate principal amount of these notes from \$250 million to \$630 million, which was partially offset by the lower interest rate on the current notes. The increase in interest expense related to the Credit Facility is largely due to an increase in the average amount of borrowings under the Credit Facility during the three month period ended September 30, 2013 compared to the same period last year. These increases were partially offset by a \$0.2 million decrease in interest expense related to manufacturing flooring plans used to finance inventory purchases.

**Loss on Early Extinguishment of Debt.** We recorded a one-time loss of approximately \$10.2 million, or approximately \$7.2 million after-tax, on the early extinguishment of debt in the three month period ended September 30, 2012. This one-time loss reflects our payment of \$5.0 million of tender premiums associated with our repurchase of our \$250 million aggregate principal amount of 8 3/8% Senior Notes due 2016 (the Old Notes), our payment of \$2.6 million to redeem the remaining untendered Old Notes, and our write off of approximately \$2.6 million of unamortized deferred financing costs of the Old Notes. For additional information on the transaction, please refer to footnote 8 of our Annual Report on Form 10-K for the year ended December 31, 2012.

**Income Taxes.** We recorded income tax expense of \$7.0 million for the three month period ended September 30, 2013 compared to income tax expense of \$1.6 million for the three month period ended September 30, 2012. Our effective income tax rate was 33.5% for the three month period ended September 30, 2013 compared to 29.7% for the three month period ended September 30, 2012. The lower effective income tax rate for the three month period ended September 30, 2012 was primarily due to a downward adjustment to the estimated annual effective tax rate for 2012 based on lower expected book income in relation to favorable permanent differences. We also recorded a reduction of book goodwill of approximately \$0.2 million for the three month period ended September 30, 2013 for tax benefits realized from tax-deductible goodwill in excess of book goodwill. Based on available evidence, both positive and negative, we believe it is more likely than not that our deferred tax assets at September 30, 2013 are fully realizable through future reversals of existing taxable temporary differences and future taxable income, and are not subject to any limitations.

**Nine Months Ended September 30, 2013 Compared to the Nine Months Ended September 30, 2012****Revenues.**

	<b>Nine Months Ended September 30, 2013      2012</b>		<b>Total Dollar Increase</b>	<b>Total Percentage Increase</b>
	<b>(in thousands, except percentages)</b>			
<b>Segment Revenues:</b>				
Equipment rentals	\$ 248,518	\$ 207,941	\$ 40,577	19.5%
New equipment sales	216,979	154,710	62,269	40.3%
Used equipment sales	103,589	75,100	28,489	37.9%
Parts sales	77,971	74,161	3,810	5.1%
Services revenues	42,050	41,615	435	1.1%
Non-Segmented revenues	39,070	33,671	5,399	16.0%
 Total revenues	 \$ 728,177	 \$ 587,198	 \$ 140,979	 24.0%

**Total Revenues.** Our total revenues were \$728.2 million for the nine month period ended September 30, 2013 compared to \$587.2 million for the nine month period ended September 30, 2012, an increase of \$141.0 million, or

24.0%. Revenues increased in all of our reportable segments and in non-segmented revenues, and are further discussed below.

*Equipment Rental Revenues.* Our revenues from equipment rentals for the nine month period ended September 30, 2013 increased \$40.6 million, or 19.5%, to \$248.5 million from \$207.9 million for the nine month period ended September 30, 2012. Rental revenues from aerial work platforms increased \$27.0 million, while rental revenues from earthmoving equipment increased \$8.4 million. Rental revenues from other equipment increased approximately \$2.6 million and rental revenues from cranes increased \$1.4 million. Lift truck rental revenues increased \$1.2 million. Our average rental rates for the nine month period ended September 30, 2013 increased 7.4% compared to the same nine month period last year.

Rental equipment dollar utilization (annual rental revenues divided by the average original rental fleet equipment costs) for the nine month period ended September 30, 2013 improved to 35.5% compared to 35.0% in the nine month period ended September 30, 2012, an increase of 0.5%. The increase in comparative rental equipment dollar utilization was primarily driven by a 7.4% increase in average rental rates and the mix of equipment rented, which was partially offset by a 2.2% decrease in rental equipment time utilization based on the number of rental equipment units available for rent. Rental equipment time utilization based on the number of rental equipment units available for rent was 65.5% for the nine month period ended September 30, 2013 compared to 67.7% in the same period last year, a decrease of 2.2%. Rental equipment time utilization as a percentage of original equipment cost was 70.4% for

**Table of Contents**

the nine month period ended September 30, 2013 compared to 72.0% in the nine month period ended September 30, 2012, a decrease of 1.6%. The decrease in equipment rental time utilization based on the number of units available for rent and based on original equipment cost is reflective of the 12.4% growth in our rental fleet size from \$871.0 million at September 30, 2012 to \$978.9 million at September 30, 2013.

*New Equipment Sales Revenues.* Our new equipment sales for the nine month period ended September 30, 2013 increased \$62.3 million, or 40.3%, to \$217.0 million from \$154.7 million for the nine month period ended September 30, 2012. Sales of new cranes increased \$43.1 million and sales of new earthmoving equipment increased \$12.7 million. Sales of new aerial work platform equipment increased \$5.0 million and sales of new lift trucks and new other equipment increased \$0.9 million and \$0.6 million, respectively.

*Used Equipment Sales Revenues.* Our used equipment sales increased \$28.5 million, or 37.9%, to \$103.6 million for the nine month period ended September 30, 2013, from \$75.1 million for the same nine month period in 2012. Sales of used aerial work platform equipment increased \$17.6 million, while sales of used cranes and used other equipment increased \$13.9 million and \$1.5 million, respectively. Offsetting these increases were decreases in sales of used earthmoving equipment and used lift trucks of \$4.0 million and \$0.5 million, respectively.

*Parts Sales Revenues.* Our parts sales increased \$3.8 million, or 5.1%, to \$78.0 million for the nine month period ended September 30, 2013 from \$74.2 million for the same nine month period in 2012. The increase in parts revenues was due to higher demand for parts compared to last year.

*Services Revenues.* Our services revenues for the nine month period ended September 30, 2013 increased \$0.4 million, or 1.1%, to approximately \$42.1 million from \$41.6 million for the same nine month period last year. The increase in services revenues was largely driven by the \$1.3 million increase in services revenues in the first quarter of 2013, which was partially offset by declines in services revenues in the second and third quarters of 2013.

*Non-Segmented Other Revenues.* Our non-segmented other revenues consisted primarily of equipment support activities including transportation, hauling, parts freight and damage waiver charges. For the nine month period ended September 30, 2013, our other revenues were approximately \$39.1 million, an increase of \$5.4 million, or 16.0%, from \$33.7 million in the same nine month period in 2012. The increase was primarily due to an increase in the volume of these services in conjunction with the related improvements of our equipment rentals and sales business activities.

**Gross Profit.**

	<b>Nine Months Ended September 30,</b>		<b>Total Dollar Change</b>	<b>Total Percentage Change</b>
	<b>2013</b>	<b>2012</b>	<b>Increase</b>	<b>Increase</b>
	<b>(in thousands, except percentages)</b>			
<b>Segment Gross Profit:</b>				
Equipment rentals	\$ 117,438	\$ 96,839	\$ 20,599	21.3%
New equipment sales	23,526	17,765	5,761	32.4%
Used equipment sales	29,583	21,674	7,909	36.5%
Parts sales	21,311	20,335	976	4.8%
Services revenues	26,307	25,708	599	2.3%



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

Non-Segmented revenues	2,027	1,488	539	36.2%
Total gross profit	\$ 220,192	\$ 183,809	\$ 36,383	19.8%

*Total Gross Profit.* Our total gross profit was \$220.2 million for the nine month period ended September 30, 2013 compared to \$183.8 million for the same nine month period in 2012, an increase of \$36.4 million, or 19.8%. Total gross profit margin for the nine month period ended September 30, 2013 was 30.2%, a decrease of 1.1% from the 31.3% gross profit margin for the same nine month period in 2012. Gross margins were impacted by our revenue mix with a significant increase in new equipment sales for the nine month period ended September 30, 2013 compared to the same nine month period last year. Gross profit and gross margin for all reportable segments are further described below:

*Equipment Rentals Gross Profit.* Our gross profit from equipment rentals for the nine month period ended September 30, 2013 increased \$20.6 million, or 21.3%, to \$117.4 million from \$96.8 million for the same nine month period in 2012. The increase in equipment rentals gross profit was the result of a \$40.6 million increase in rental revenues for the nine month period ended September 30, 2013, which was partially offset by a \$5.0 million increase in rental expenses and a \$15.0 million increase in rental equipment depreciation expense. The increases in rental expenses and rental equipment depreciation expense were due to a larger fleet size in

---

**Table of Contents**

2013 as compared to 2012. As a percentage of equipment rental revenues, rental expenses were 16.7% for the nine month period ended September 30, 2013 compared to 17.5% for the same period last year. This percentage decrease was primarily attributable to the increase in comparative rental revenues. Depreciation expense was 36.1% for the nine month period ended September 30, 2013 compared to 35.9% for the same period in 2012, an increase of approximately 0.2%. The increase in depreciation expense as a percentage of equipment rental revenues is primarily due to a younger fleet and an increase in original equipment replacement cost.

Gross profit margin on equipment rentals for the nine month period ended September 30, 2013 was approximately 47.3%, up 0.7% from 46.6% for the same period in 2012. This gross profit margin improvement was primarily due to the increase in comparative rental revenues resulting from higher average rental rates, combined with the decrease in rental expenses as a percentage of equipment rental revenues. The improvement in gross profit margin was partially offset by a slight increase in depreciation expense as a percentage of equipment rental revenues.

*New Equipment Sales Gross Profit.* Our new equipment sales gross profit for the nine month period ended September 30, 2013 increased approximately \$5.8 million, or 32.4%, to \$23.5 million compared to \$17.8 million for the same nine month period in 2012 on an increase in total new equipment sales of \$62.3 million. Gross profit margin on new equipment sales for the nine month period ended September 30, 2013 was 10.8%, a decrease of 0.7% from 11.5% for the same nine month period in 2012, primarily reflecting lower margins on new crane sales due to the mix of cranes sold in the nine month period ended September 30, 2013 compared to the same period in 2012.

*Used Equipment Sales Gross Profit.* Our used equipment sales gross profit for the nine month period ended September 30, 2013 increased \$7.9 million, or 36.5%, to \$29.6 million from \$21.7 million in the same period in 2012 on an increase in used equipment sales of \$28.5 million. Gross profit margin on used equipment sales for the nine month period ended September 30, 2013 was 28.6%, down 0.3% from 28.9% for the same nine month period in 2012, primarily as a result of the mix of used equipment sold. Our used equipment sales from the rental fleet, which comprised approximately 79.4% and 86.6% of our used equipment sales for the nine month periods ended September 30, 2013 and 2012, respectively, were approximately 151.0% and 147.2% of net book value for the nine month periods ended September 30, 2013 and 2012, respectively.

*Parts Sales Gross Profit.* For the nine month period ended September 30, 2013, our parts sales revenue gross profit increased approximately \$1.0 million, or 4.8%, to \$21.3 million from \$20.3 million for the same nine month period in 2012 on a \$3.8 million increase in parts sales revenues. Gross profit margin on parts sales for the nine month period ended September 30, 2013 was 27.3%, a decrease of 0.1% from 27.4% in the same nine month period in 2012, as a result of the mix of parts sold.

*Services Revenues Gross Profit.* For the nine month period ended September 30, 2013, our services revenues gross profit increased \$0.6 million, or 2.3%, to \$26.3 million from \$25.7 million for the same nine month period in 2012 on a \$0.4 million increase in services revenues. Gross profit margin on services revenues for the nine month period ended September 30, 2013 was 62.6%, up 0.8% from 61.8% in the same nine month period in 2012, as a result of service revenues mix.

*Non-Segmented Other Revenues Gross Profit.* Our non-segmented other revenues gross profit improved to \$2.0 million for the nine month period ended September 30, 2013 compared to a gross profit of \$1.5 million for the same period in 2012, an increase of \$0.5 million, or 36.2%. On a gross margin basis, gross profit margin on non-segmented other revenues for the nine month period ended September 30, 2013 was 5.2% compared to a gross profit margin of 4.5% in the same nine period last year, primarily reflective of the \$5.4 million improvement in comparative non-segmented other revenues.

***Selling, General and Administrative Expenses.*** SG&A expenses increased \$15.8 million, or 12.7%, to \$140.3 million for the nine month period ended September 30, 2013 compared to \$124.5 million for the nine month period ended September 30, 2012. The net increase in SG&A expenses was attributable to several factors. Employee salaries and wages and related employee expenses increased approximately \$10.2 million as a result of higher salaries, wages and payroll taxes stemming primarily from an increase in commission and incentive pay that resulted from higher rental and sales revenues, and higher health insurance costs due to increases in the number of employees compared to last year and in costs per claim. Stock-based compensation expenses were \$2.1 million and \$1.2 million for the nine month periods ended September 30, 2013 and 2012, respectively. Professional fees increased \$1.6 million and liability insurance costs increased \$0.7 million. Depreciation expense increased \$1.6 million and general corporate overhead expenses increased approximately \$1.8 million. Of the total \$15.8 million increase in SG&A expenses, approximately \$3.5 million was attributable to start-up locations that have opened since September 30, 2012. As a percentage of total revenues, SG&A expenses were 19.3% for the nine month period ended September 30, 2013, a decrease of 1.9% from 21.2% for the same nine month period in 2012, primarily as a result of the current year increase in total revenues.

---

**Table of Contents**

**Other Income (Expense).** For the nine month period ended September 30, 2013, our net other expenses increased \$4.5 million to approximately \$37.6 million compared to \$33.1 million for the same nine month period in 2012. Included in other income (expense) for the nine month period ended September 30, 2012 is a \$10.2 million loss on the early extinguishment of debt, as discussed in the *Loss on Early Extinguishment of Debt* section on page 33 of this Quarterly Report on Form 10-Q. Interest expense increased \$14.9 million to \$38.6 million for the nine month period ended September 30, 2013 compared to \$23.7 million for the same nine month period in 2012. The increase in interest expense is the net result of a \$13.8 million increase in expense related to our senior unsecured notes and a \$1.6 million increase in interest expense related to the Credit Facility. The increase in interest expense on our senior unsecured notes is primarily due to an increase in the aggregate principal amount of these notes from \$250 million to \$630 million, which was partially offset by the lower interest rate on the current notes. The increase in interest expense related to the Credit Facility is largely due to an increase in the average amount of borrowings under the Credit Facility during the current year nine month period compared to the same period last year. These increases were partially offset by a \$0.5 million decrease in interest expense related to manufacturing flooring plans used to finance inventory purchases. Other income increased approximately \$0.2 million.

**Loss on Early Extinguishment of Debt.** We recorded a one-time loss of approximately \$10.2 million, or approximately \$7.2 million after-tax, on the early extinguishment of debt in the nine month period ended September 30, 2012. This one-time loss reflects our payment of \$5.0 million of tender premiums associated with our repurchase of the Old Notes, our payment of \$2.6 million to redeem the remaining untendered Old Notes, and our write off of approximately \$2.6 million of unamortized deferred financing costs of the Old Notes. For additional information on the transaction, please refer to footnote 8 of our Annual Report on Form 10-K for the year ended December 31, 2012.

**Income Taxes.** We recorded income tax expense of \$14.4 million for the nine month period ended September 30, 2013 compared to income tax expense of \$9.6 million for the nine month period ended September 30, 2012. Our effective income tax rate for the nine month period ended September 30, 2013 was 32.8%, a decrease of 1.7% compared to an effective tax rate of approximately 34.5% for the nine month period ended September 30, 2012. The decrease in the effective income tax rate is primarily due to an increase in favorable permanent differences. We also recorded a reduction of book goodwill of approximately \$0.7 million for the nine month period ended September 30, 2013 for tax benefits realized from tax-deductible goodwill in excess of book goodwill. Based on available evidence, both positive and negative, we believe it is more likely than not that our deferred tax assets at September 30, 2013 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 nine month period ended September 30, 2013, the cash provided by our operating activities was \$49.8 million. Our reported net income of approximately \$29.5 million, which, when adjusted for non-cash income and expense items, such as depreciation and amortization, deferred income taxes, provision for losses on accounts receivable, provision for inventory obsolescence, stock-based compensation expense, writedown of goodwill for tax-deductible goodwill in excess of book goodwill, and net gains on the sale of long-lived assets, provided positive cash flows of \$115.3 million. These cash flows from operating activities were also positively impacted by a \$16.5 million increase in accounts payable. Offsetting these positive cash flows was an increase of \$72.9 million in net inventories as a result of increasing demand and improving sales of new and used equipment. Also decreasing our operating cash flows were a \$2.2 million increase in net accounts receivable, a \$1.2 million increase in prepaid expenses and other assets, a \$1.1 million decrease in manufacturing flooring plans payable and a \$4.6 million decrease in accrued expenses payable and other liabilities.

For the nine month period ended September 30, 2012, the cash provided by our operating activities was \$21.7 million. Our reported net income of \$18.1 million, which, when adjusted for non-cash income and expense items, such as depreciation and amortization, loss on early extinguishment of debt, deferred income taxes, provision for losses on accounts receivable, stock-based compensation expense, writedown of goodwill for tax-deductible goodwill in excess of book goodwill, and net gains on the sale of long-lived assets, provided positive cash flows of \$104.7 million. These cash flows from operating activities were also positively impacted by a \$12.7 million increase in accounts payable and a \$0.1 million decrease in prepaid expenses and other assets. Offsetting these positive cash flows were an increase of \$72.3 million in net inventories, a \$21.1 million increase in net receivables, a \$1.4 million decrease in manufacturing flooring plans payable and a \$0.9 million decrease in accrued expenses and other liabilities.

*Cash flow from investing activities.* For the nine month period ended September 30, 2013, cash provided by our investing activities was exceeded by cash used in our investing activities, resulting in net cash used in our investing activities of approximately \$134.4 million. This was a result of purchases of rental and non-rental equipment totaling \$218.5 million, which was partially offset by proceeds from the sale of rental and non-rental equipment of \$84.1 million.

---

**Table of Contents**

For the nine month period ended September 30, 2012, cash provided by our investing activities was exceeded by our cash used in our investing activities, resulting in net cash used in our investing activities of \$172.5 million. This use of cash was a net result of purchases of rental and non-rental equipment totaling \$239.3 million, which was partially offset by proceeds from the sale of rental and non-rental equipment of approximately \$66.9 million.

*Cash flow from financing activities.* For the nine month period ended September 30, 2013, cash provided by our financing activities was \$82.4 million. Net proceeds from our 7% senior notes due 2022 issued on February 4, 2013 (the Add-on Notes ) were approximately \$107.3 million. Excess tax benefits realized from stock-based awards totaled \$0.4 million. Partially offsetting these positive cash flows were net payments under the Credit Facility of \$22.6 million, payments of deferred financing costs of \$0.7 million and dividends paid of \$0.9 million. Additionally, purchases of treasury stock totaled \$0.9 million and payments on capital leases were \$0.1 million.

For the nine month period ended September 30, 2012, cash provided by our financing activities was \$129.8 million. Gross proceeds from the issuance of our 7% senior notes due 2022 (the New Notes ) totaled \$530.0 million. Net borrowings under the Credit Facility totaled \$114.7 million. Excess tax benefits realized from stock-based awards totaled \$0.3 million. These positive cash flows were partially offset by payments of \$257.6 million on the Old Notes, a dividend payment of \$244.4 million, payments of deferred financing costs of \$12.4 million related to the first and third quarter amendments to the Credit Facility and the third quarter issuance of the New Notes. Additionally, we purchased \$0.7 million of treasury stock and made \$0.1 million of capital lease payments.

***Senior Secured Credit Facility***

We and our subsidiaries are parties to a senior secured Credit Facility with General Electric Capital Corporation as agent, and the lenders named therein. On January 29, 2013, the Company amended the Credit Facility by entering into Amendment No. 4 to the Credit Facility to permit the issuance of the Add-on Notes. As amended, the Credit Facility provides, among other things, a \$402.5 million senior secured asset based revolving facility which includes a \$30.0 million letter of credit facility, and a \$47.5 million incremental facility. The Credit Facility is secured by substantially all of the assets of the Company and its subsidiaries, and the Company and each of its subsidiaries provide a guaranty of the obligations under the Credit Facility. The Credit Facility requires us to maintain a minimum fixed charge coverage ratio in the event that our excess borrowing availability is below approximately \$50.3 million (as adjusted if the \$47.5 million incremental facility is exercised). The Credit Facility also requires us to maintain a maximum total leverage ratio of 5.0 to 1.0, which is tested if excess availability is less than approximately \$50.3 million (as adjusted if the \$47.5 million incremental facility is exercised). As of September 30, 2013, we were in compliance with our financial covenants under the Credit Facility.

At September 30, 2013, the interest rate on the Credit Facility was based on an interest rate of LIBOR plus 225 basis points and the prime rate plus 125 basis points. At October 25, 2013, we had \$283.3 million of available borrowings under our Credit Facility, net of \$6.5 million of outstanding letters of credit.

***Senior Unsecured Notes***

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

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

## **Table of Contents**

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

In connection with the above transactions, the Company recorded a one-time loss on the early extinguishment of debt of approximately \$10.2 million, or approximately \$6.6 million after-tax, reflecting payment of \$5.0 million of tender premiums and \$2.6 million to redeem the Old Notes that remained outstanding following completion of the Tender Offer, combined with the write off of approximately \$2.6 million of unamortized deferred financing costs related to the Old Notes. Transaction costs incurred in connection with the offering of the New Notes totaled approximately \$1.7 million.

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

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

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

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

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

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

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



exchange offer closed on April 30, 2013.

***Cash Requirements Related to Operations***

Our principal sources of liquidity have been from cash provided by operating activities and the sales of new, used and rental fleet equipment, proceeds from the issuance of debt, and borrowings available under the Credit Facility. Our principal uses of cash have been to fund operating activities and working capital (including new and used equipment inventories), purchases of rental fleet equipment and property and equipment, fund payments due under facility operating leases and manufacturer flooring plans payable, and to meet debt service requirements. In the future, we may pursue additional strategic acquisitions and seek to open new start-up locations. We anticipate that the above described uses will be the principal demands on our cash in the future.

## **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 nine month period ended September 30, 2013 were approximately \$232.9 million, including \$35.1 million of non-cash transfers from new and used equipment to rental fleet inventory. Our gross property and equipment capital expenditures for the nine month period ended September 30, 2013 were \$20.7 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.

To service our debt, we will require a significant amount of cash. Our ability to pay interest and principal on our indebtedness (including the New Notes and the Add-on Notes, the Credit Facility and our other indebtedness), will depend upon our future operating performance and the availability of borrowings under the Credit Facility and/or other debt and equity financing alternatives available to us, which will be affected by prevailing economic conditions and conditions in the global credit and capital markets, as well as financial, business and other factors, some of which are beyond our control. Based on our current level of operations and given the current state of the capital markets, we believe our cash flow from operations, available cash and available borrowings under the Credit Facility will be adequate to meet our future liquidity needs for the foreseeable future. As of October 25, 2013, we had \$283.3 million of available borrowings under the Credit Facility, net of \$6.5 million of outstanding letters of credit.

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

## **Seasonality**

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

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

## **Contractual and Commercial Commitments**

There have been no material changes from the information included in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2013.

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

There have been no material changes from the information included in our Annual Report on Form 10-K for the year ended December 31, 2012.

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

Our earnings may be affected by changes in interest rates since interest expense on the Credit Facility is currently calculated based upon the index rate plus an applicable margin of 1.00% to 1.50%, depending on the leverage ratio, in the case of index rate revolving loans and LIBOR plus an applicable margin of 2.00% to 2.50%, depending on the leverage ratio, in the case of LIBOR revolving loans. At September 30, 2013, we had total borrowings outstanding under the Credit Facility of \$135.1 million. A 1.0% increase in the interest rate on the Credit Facility would result in approximately a \$1.4 million increase in interest expense on an annualized basis. At October 25, 2013, we had \$283.3 million of available borrowings under the Credit Facility, net of \$6.5 million of outstanding letters of credit. We did not have significant exposure to changing interest rates as of September 30, 2013 on the fixed-

## **Table of Contents**

rate New Notes and Add-on Notes. Historically, we have not engaged in derivatives or other financial instruments for trading, speculative or hedging purposes, though we may do so from time to time if such instruments are available to us on acceptable terms and prevailing market conditions are accommodating.

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

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

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

Our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively) have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our principal executive officer and principal financial officer have concluded that, as of September 30, 2013, 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*

There were no changes in the Company's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) that occurred during the quarter ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings.**

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

### **Item 1A. Risk Factors.**

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A - Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2012, which could materially affect our business, financial condition or future results.

As of the date of this Quarterly Report on Form 10-Q, there have been no material changes with respect to the Company's risk factors previously disclosed on Form 10-K for the year ended December 31, 2012.

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

On July 1, 2013, 31,935 shares of non-vested stock that were issued in 2011 vested at \$21.74 per share. Certain holders of those vested shares returned an aggregate of 10,925 shares of common stock to the Company during the quarter ended September 30, 2013 as payment for their respective employee withholding taxes. This resulted in an addition of 10,925 shares to treasury stock.

**Table of Contents**

On July 1, 2013, 33,359 shares of non-vested stock that were issued in 2012 vested at \$21.74 per share. Certain holders of those vested shares returned an aggregate of 11,113 shares of common stock to the Company during the quarter ended September 30, 2013 as payment for their respective employee withholding taxes. This resulted in an addition of 11,113 shares to treasury stock.

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

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

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

Table of Contents

**SIGNATURES**

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

H&E EQUIPMENT SERVICES, INC.

Dated: November 1, 2013

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

Chief Executive Officer

(Principal Executive Officer)

Dated: November 1, 2013

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

Chief Financial Officer and Secretary

(Principal Financial and Accounting Officer)

**Table of Contents**

**EXHIBIT INDEX**

31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
32.1	Certification pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
101.INS	XBRL Instance Document (filed herewith).
101.SCH	XBRL Taxonomy Extension Schema Document (filed herewith).
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith).
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (filed herewith).
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (filed herewith).
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith).