

H&E Equipment Services, Inc.

Form 10-Q

November 04, 2009

**Table of Contents**

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

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2009.**

**OR**

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

**For the transition period from to**

**Commission file number: 000-51759**

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

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**

(State or Other Jurisdiction of  
Incorporation or Organization)

**81-0553291**

(I.R.S. Employer Identification No.)

**11100 Mead Road, Suite 200**

**Baton Rouge, Louisiana**

(Address of Principal Executive Offices)

**70816**

(ZIP Code)

**(225) 298-5200**

(Registrant's Telephone Number, Including Area Code)

**None**

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

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

Yes  No

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

Yes  No

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

Large Accelerated Filer  Accelerated Filer

Non-Accelerated Filero

Smaller Reporting

Company

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

(Do not check if a 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 November 2, 2009, there were 34,908,871 shares of H&E Equipment Services, Inc. common stock, \$0.01 par value, outstanding.

---

**H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES**  
**TABLE OF CONTENTS**  
**September 30, 2009**

	<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, 2009 (Unaudited) and December 31, 2008</u>	4
<u>Condensed Consolidated Statements of Operations (Unaudited) for the Three and Nine Months Ended September 30, 2009 and 2008</u>	5
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the Nine Months Ended September 30, 2009 and 2008</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>	24
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	37
<u>Item 4. Controls and Procedures</u>	38
<b><u>PART II. OTHER INFORMATION</u></b>	<b>38</b>
<u>Item 1. Legal Proceedings</u>	38
<u>Item 1A. Risk Factors</u>	38
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	39
<u>Item 3. Defaults upon Senior Securities</u>	39
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	39
<u>Item 5. Other Information</u>	39
<u>Item 6. Exhibits</u>	39
<u>Signatures</u>	40
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	

**Table of Contents**

**Forward-Looking Statements**

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

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

- general economic conditions and construction and industrial activity in the markets where we operate in North America, as well as the current macroeconomic downturn and the impact of current conditions in the global credit markets and its effect on construction spending and the economy in general;

- relationships with new equipment suppliers;

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

- our indebtedness;

- the risks associated with the expansion of our business;

- our possible inability to integrate any businesses we acquire;

- competitive pressures;

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

- other factors discussed under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2008.

Except as required by applicable law, including the securities laws of the United States and the rules and regulations of the Securities and Exchange Commission (SEC), we are under no obligation to publicly update or revise any forward-looking statements after we file this Quarterly Report on Form 10-Q, whether as a result of any new information, future events or otherwise. Investors, potential investors and other readers are urged to consider the above mentioned factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results or performance. For a more detailed discussion of some of the foregoing risk and uncertainties, see Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2008, as well as other reports and registration statements filed by us with the

SEC. All of our annual, quarterly and current reports, and any amendments thereto, filed with or furnished to the SEC are available on our Internet website under the Investor Relations link. For more information about us and the announcements we make from time to time, visit our Internet website at [www.he-equipment.com](http://www.he-equipment.com).

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.**

**H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Amounts in thousands, except share amounts)

	Balances at	
	September 30, 2009 (Unaudited)	December 31, 2008
<b>ASSETS</b>		
Cash	\$ 8,699	\$ 11,266
Receivables, net of allowance for doubtful accounts of \$5,905 and \$5,524, respectively	89,722	150,293
Inventories, net of reserves for obsolescence of \$870 and \$920, respectively	109,544	129,240
Prepaid expenses and other assets	7,068	11,722
Rental equipment, net of accumulated depreciation of \$217,798 and \$210,961, respectively	460,459	554,457
Property and equipment, net of accumulated depreciation and amortization of \$39,847 and \$35,187, respectively	64,437	58,122
Deferred financing costs, net of accumulated amortization of \$8,695 and \$7,631, respectively	5,900	6,964
Intangible assets, net of accumulated amortization of \$2,344 and \$1,900, respectively	1,135	1,579
Goodwill	42,991	42,991
Total assets	\$ 789,955	\$ 966,634

**LIABILITIES AND STOCKHOLDERS EQUITY****Liabilities:**

Amounts due on senior secured credit facility	\$ 3,020	\$ 76,325
Accounts payable	28,063	93,667
Manufacturer flooring plans payable	99,992	127,690
Accrued expenses payable and other liabilities	35,357	47,206
Related party obligation		145
Notes payable	1,937	1,959
Senior unsecured notes	250,000	250,000
Capital lease payable	2,211	2,300
Deferred income taxes	76,543	75,109
Deferred compensation payable	1,926	2,026
Total liabilities	499,049	676,427

**Commitments and contingent liabilities****Stockholders equity:**

Preferred stock, \$0.01 par value, 25,000,000 shares authorized; no shares issued

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

Common stock, \$0.01 par value, 175,000,000 shares authorized; 38,525,688 and 38,287,848 shares issued at September 30, 2009 and December 31, 2008, respectively, and 34,920,251 and 34,706,372 shares outstanding at September 30, 2009 and December 31, 2008, respectively	385	383
Additional paid-in capital	207,989	207,346
Treasury stock at cost, 3,605,437 and 3,581,476 shares of common stock held at September 30, 2009 and December 31, 2008, respectively	(56,115)	(56,008)
Retained earnings	138,647	138,486
Total stockholders' equity	290,906	290,207
Total liabilities and stockholders' equity	\$ 789,955	\$ 966,634

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



**Table of Contents**

**H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

(Amounts in thousands, except per share amounts)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Revenues:				
Equipment rentals	\$ 45,108	\$ 78,181	\$ 150,669	\$ 224,626
New equipment sales	48,685	97,797	172,010	274,135
Used equipment sales	32,698	39,873	69,254	128,436
Parts sales	25,786	30,951	78,144	89,112
Services revenues	15,225	18,333	46,164	52,651
Other	8,126	13,512	25,824	38,097
<b>Total revenues</b>	<b>175,628</b>	<b>278,647</b>	<b>542,065</b>	<b>807,057</b>
Cost of revenues:				
Rental depreciation	21,105	26,362	67,789	78,838
Rental expense	10,209	12,514	32,441	36,460
New equipment sales	43,549	84,739	150,519	237,449
Used equipment sales	27,069	30,578	56,482	97,960
Parts sales	18,952	21,809	56,339	62,815
Services revenues	5,646	6,592	17,059	19,016
Other	9,131	13,556	26,683	38,735
<b>Total cost of revenues</b>	<b>135,661</b>	<b>196,150</b>	<b>407,312</b>	<b>571,273</b>
<b>Gross profit</b>	<b>39,967</b>	<b>82,497</b>	<b>134,753</b>	<b>235,784</b>
Selling, general and administrative expenses	35,073	45,556	110,342	138,097
Gain on sales of property and equipment, net	289	219	472	515
<b>Income from operations</b>	<b>5,183</b>	<b>37,160</b>	<b>24,883</b>	<b>98,202</b>
Other income (expense):				
Interest expense	(7,847)	(9,495)	(24,039)	(29,193)
Other, net	123	250	518	731
<b>Total other expense, net</b>	<b>(7,724)</b>	<b>(9,245)</b>	<b>(23,521)</b>	<b>(28,462)</b>
<b>Income (loss) before provision (benefit) for income taxes</b>	<b>(2,541)</b>	<b>27,915</b>	<b>1,362</b>	<b>69,740</b>
Provision (benefit) for income taxes	(261)	10,311	1,201	25,809
<b>Net income (loss)</b>	<b>\$ (2,280)</b>	<b>\$ 17,604</b>	<b>\$ 161</b>	<b>\$ 43,931</b>

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

Net income (loss) per common share:				
Basic	\$ (0.07)	\$ 0.50	\$	\$ 1.22
Diluted	\$ (0.07)	\$ 0.50	\$	\$ 1.22
Weighted average common shares outstanding:				
Basic	34,625	35,075	34,601	35,912
Diluted	34,625	35,090	34,638	35,918

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

5

---

**Table of Contents**

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

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>
Cash flows from operating activities:		
Net income	\$ 161	\$ 43,931
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization on property and equipment	8,250	8,329
Depreciation on rental equipment	67,789	78,838
Amortization of loan discounts and deferred financing costs	1,064	1,093
Amortization of intangible assets	444	2,108
Provision for losses on accounts receivable	2,761	1,743
Provision for inventory obsolescence	47	39
Provision for deferred income taxes	1,434	24,484
Stock-based compensation expense	645	1,043
Gain on sales of property and equipment, net	(472)	(515)
Gain on sales of rental equipment, net	(12,023)	(28,121)
Changes in operating assets and liabilities:		
Receivables, net	57,810	7,792
Inventories, net	10,685	(17,817)
Prepaid expenses and other assets	4,654	(3,807)
Accounts payable	(65,604)	(1,688)
Manufacturer flooring plans payable	(27,698)	(21,598)
Accrued expenses payable and other liabilities	(11,844)	(308)
Deferred compensation payable	(100)	53
Net cash provided by operating activities	38,003	95,599
Cash flows from investing activities:		
Acquisition of business, net of cash acquired		(10,461)
Purchases of property and equipment	(15,428)	(16,526)
Purchases of rental equipment	(10,222)	(113,316)
Proceeds from sales of property and equipment	1,335	1,113
Proceeds from sales of rental equipment	57,418	99,237
Net cash provided by (used in) investing activities	33,103	(39,953)
Cash flows from financing activities:		
Excess tax deficiency from stock-based awards		(44)
Purchases of treasury stock	(107)	(42,577)
Borrowings on senior secured credit facility	534,373	810,223
Payments on senior secured credit facility	(607,678)	(824,474)
Payments of related party obligation	(150)	(225)

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

Payments of capital lease obligation	(89)	(83)
Principal payments on notes payable	(22)	(21)
Net cash used in financing activities	(73,673)	(57,201)
Net decrease in cash	(2,567)	(1,555)
Cash, beginning of period	11,266	14,762
Cash, end of period	\$ 8,699	\$ 13,207

**Table of Contents**

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

	<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>
Supplemental schedule of noncash investing and financing activities:		
Noncash asset purchases:		
Assets transferred from new and used inventory to rental fleet	\$ 8,964	\$ 41,357
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 28,408	\$ 33,386
Income taxes, net of refunds received	\$ 275	\$ 1,659

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

**Table of Contents**

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

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

**Basis of Presentation**

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

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such regulations. In the opinion of management, all adjustments (consisting of all normal and recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009, 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, 2008, from which the balance sheet amounts as of December 31, 2008 were derived.

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

We have evaluated all subsequent events through November 4, 2009, the date the condensed consolidated financial statements were issued.

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

**Nature of Operations**

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

**(2) Significant Accounting Policies**

We describe our significant accounting policies in note 2 of the notes to consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2008.

*Use of Estimates*

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

**Table of Contents**

amounts of revenues and expenses during the reported period. These assumptions and estimates could have a material effect on our condensed consolidated financial statements. Actual results may differ materially from those estimates. We review our estimates on an ongoing basis based on information currently available, and changes in facts and circumstances may cause us to revise these estimates.

*Subsequent Events*

Pursuant to Financial Accounting Standards Board Accounting Standards Codification 855-10, we have evaluated all events or transactions that occurred from September 30, 2009 through November 4, 2009, the date our condensed consolidated financial statements were issued. We did not have any material recognizable subsequent events during this period.

*Accounting Pronouncements Adopted in Fiscal Year 2009*

In December 2007, the Financial Accounting Standards Board ( FASB ) issued guidance now codified as FASB Accounting Standards Codification ( ASC ) Topic 805, *Business Combinations* ( ASC 805 ). ASC 805 replaces prior guidance on business combinations and establishes principles and requirements for how the acquirer: (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Previously, under prior guidance, changes in valuation allowances, as a result of income from acquisitions, for certain deferred tax assets would serve to reduce goodwill whereas under ASC 805, any changes in the valuation allowance related to income from acquisitions currently or in prior periods will serve to reduce income taxes in the period in which the allowance is reversed. Under ASC 805 transaction related expenses, which were previously capitalized as direct costs of the acquisition, will be expensed as incurred. We will apply the provisions of ASC 805 prospectively to business combinations consummated after January 1, 2009. The impact that ASC 805 may have on our financial condition, results of operations or cash flows will depend upon the nature, terms and size of the acquisition and changes to the valuation allowances.

In April 2009, the FASB issued updated guidance related to business combinations, which is now codified as FASB ASC 805-20, *Business Combinations – Identifiable Assets, Liabilities and Any Noncontrolling Interest* ( ASC 805-20 ). ASC 805-20 amends and clarifies ASC 805 to address application issues regarding initial recognition and measurement, subsequent measurement and accounting and disclosure of assets and liabilities arising from contingencies in a business combination. In circumstances where the acquisition date fair value for a contingency cannot be determined during the measurement period and it is concluded that it is probable that an asset or liability exists as of the acquisition date and the amount can be reasonably estimated, a contingency is recognized as of the acquisition date based on the estimated amount. ASC 805-20 is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The impact that ASC 805-20 may have on our financial condition, results of operations or cash flows will depend upon the nature of the related acquisition contingency.

In February 2008, the FASB issued updated guidance related to fair value measurements, which is included in the Codification in ASC 820-10, *Fair Value Measurements and Disclosures – Overall Implementation Guidance and Illustrations*. The updated guidance provided a one year deferral of the effective date of ASC 820-10 for non-financial assets and non-financial liabilities, except those that are recognized or disclosed in the financial statements at fair value at least annually. We adopted the provisions of ASC 820-10 for non-financial assets and non-financial liabilities effective January 1, 2009, and such adoption did not have a material impact on our condensed consolidated results of operations or financial condition.

Effective April 1, 2009, we adopted FASB ASC 820-10-65, *Fair Value Measurements and Disclosures – Overall Transition and Open Effective Date Information* ( ASC 820-10-65 ). ASC 820-10-65 provides additional guidance for estimating fair value in accordance with ASC 820-10 when the volume and level of activity for an asset or liability have significantly decreased. ASC 820-10-65 also includes guidance on identifying circumstances that indicate a transaction is not orderly. The adoption of ASC 820-10-65 did not have an impact on our condensed consolidated results of operations or financial condition.

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

Effective July 1, 2009, we adopted FASB Accounting Standards Update ( ASU ) No. 2009-05, *Fair Value Measurements and Disclosures (Topic 820)* ( ASU 2009-05 ). ASU 2009-05 provided amendments to ASC 820-10, *Fair Value Measurements and Disclosures - Overall*, for the fair value measurement of liabilities. ASU 2009-05 provides clarification that in circumstances in which a quoted price in an active market for the identical liability is not available, a reporting entity is required to measure fair value using certain techniques. ASU 2009-05 also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of a liability.



**Table of Contents**

ASU 2009-05 also clarifies that both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements. Adoption of ASU 2009-05 did not have a material impact on our condensed consolidated results of operations or financial condition.

In April 2008, the FASB issued updated guidance now codified as FASB ASC 350-30, *Determination of the Useful Life of Intangible Assets* ( ASC 350-30 ). ASC 350-30 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under ASC 350-10, *Goodwill and Other Intangible Assets*. The intent of ASC 350-30 is to improve the consistency between the useful life of a recognized intangible asset under ASC 350-10 and the period of expected cash flows used to measure the fair value of the asset under ASC 350-10 and other generally accepted accounting principles. Our adoption of ASC 350-30 effective January 1, 2009 did not have a material impact on our condensed consolidated financial statements.

Effective April 1, 2009, we adopted FASB ASC 825-10-65, *Financial Instruments Overall Transition and Open Effective Date Information* ( ASC 825-10-65 ). ASC 825-10-65 amends ASC 825-10 to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements and also amends ASC 270-10 to require those disclosures in all interim financial statements. See note 3 to the condensed consolidated financial statements included herein for these related disclosures.

Effective April 1, 2009, we adopted FASB ASC 855-10, *Subsequent Events Overall* ( ASC 855-10 ), which establishes general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, this statement sets forth (1) the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; (2) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements; and (3) the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. The adoption of ASC 855-10 did not have a material effect on our condensed consolidated financial statements. See note 1 to the condensed consolidated financial statements included herein for disclosure required under ASC 855-10.

In June 2009, the FASB issued guidance now codified as FASB ASC Topic 105, *Generally Accepted Accounting Principles* ( ASC 105 ) as the single source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with U.S. GAAP, aside from those issued by the SEC. ASC 105 does not change current U.S. GAAP, but is intended to simplify user access to all authoritative U.S. GAAP by providing all authoritative literature related to a particular topic in one place. ASC 105 became effective for us in our third quarter ending September 30, 2009. The adoption of ASC 105 did not have a material impact on our financial position, results of operations or cash flows, but does impact our financial reporting process by eliminating all references to pre-codification standards.

*Accounting Pronouncements Not Yet Adopted*

In June 2009, the FASB issued Statement of FAS No. 167, *Amendments to FASB Interpretation No. 46(R)*, which has not yet been codified in the ASC. This guidance is a revision to pre-existing guidance pertaining to the consolidation and disclosures of variable interest entities. Specifically, it changes how a reporting entity determines when or if an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity's purpose and design and the reporting entity's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance. This guidance will require a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. A reporting entity will be required to disclose how its involvement with a variable interest entity affects the reporting entity's financial statements. This guidance will be effective at the start of a reporting entity's first fiscal year beginning after November 15, 2009. Early application is not permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements, if any, upon adoption.

In October 2009, the FASB issued ASU 2009-13, *Multiple-Deliverable Revenue Arrangements* (amendments to FASB ASC Topic 605, *Revenue Recognition*) ( ASU 2009-13 ). ASU 2009-13 requires entities to allocate revenue in

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

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

Pursuant to our adoption of ASC 825-10-65, the following information provides additional disclosures concerning our financial instruments.

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

	<b>September 30, 2009</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>
Manufacturer flooring plans payable with interest computed at 7.00%	\$ 99,992	\$ 84,873
Senior unsecured notes with interest compounded at 8.375%	250,000	232,500
Notes payable to lenders with interest computed at 7.25% to 9.55%	1,937	1,432
Capital lease payable with interest computed at 5.929%	2,211	2,011
Letters of credit		118

	<b>December 31, 2008</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>
Manufacturer flooring plans payable with interest computed at 7.25%	\$127,690	\$105,053
Senior unsecured notes with interest compounded at 8.375%	250,000	132,500
Notes payable to lenders with interest computed at 7.25% to 9.55%	1,959	1,249
Capital lease payable with interest computed at 5.929%	2,300	2,210
Letters of credit		87

**(4) Stockholders Equity**

The following table summarizes the activity in Stockholders Equity for the nine month period ended September 30, 2009 (amounts in thousands, except share data):

	<b>Common Stock</b>		<b>Additional</b>		<b>Retained</b>	<b>Total</b>
	<b>Shares Issued</b>	<b>Amount</b>	<b>Paid-in Capital</b>	<b>Treasury Stock</b>	<b>Earnings</b>	<b>Stockholders Equity</b>
Balances at						
December 31, 2008	38,287,848	\$ 383	\$ 207,346	\$ (56,008)	\$ 138,486	\$ 290,207
Stock-based compensation			643			643
Surrendered shares				(107)		(107)
Issuance of non-vested common stock	237,840	2				2
Net income					161	161
Balances at						
September 30, 2009	38,525,688	\$ 385	\$ 207,989	\$ (56,115)	\$ 138,647	\$ 290,906



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

We account for our stock-based compensation plan using the fair value recognition provisions of FASB ASC Topic 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). There were 4,112,332 shares of common stock available for future stock-based payment awards under our Stock Incentive Plan as of September 30, 2009.

*Non-vested Restricted Stock*

The following table summarizes our non-vested stock activity for the nine months ended September 30, 2009:

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Non-vested restricted stock at December 31, 2008	136,404	\$ 15.77
Granted	237,840	\$ 6.64
Vested	(72,569)	\$ 19.07
Forfeited	(6,798)	\$ 7.75
Non-vested restricted stock at September 30, 2009	294,877	\$ 7.78

On June 1 and June 2, 2009, we issued non-vested restricted stock grants for 227,260 shares and 10,580 shares, respectively. Compensation expense was determined based on the \$6.62 and \$7.09 quoted market price of our common stock on the June 1, 2009 and June 2, 2009 grant dates, respectively, applied to the total number of shares that were anticipated to fully vest. As of September 30, 2009, we have unrecognized compensation expense of \$2.0 million related to non-vested restricted stock that is expected to be recognized over a weighted-average period of 2.4 years. The following table summarizes compensation expense included in selling, general and administrative expenses in the accompanying condensed consolidated statements of operations for the three and nine month periods ended September 30, 2009 and 2008 (amounts in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Compensation expense	\$ 220	\$ 344	\$ 594	\$ 845

*Stock Options*

At September 30, 2009, there was \$15,000 of unrecognized compensation expense related to stock option awards that is expected to be recognized over a weighted-average period of 1.0 years. The following table summarizes compensation expense included in selling, general and administrative expenses in the accompanying condensed consolidated statements of operations for the three and nine month periods ended September 30, 2009 and 2008 (amounts in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2009	2008	2009	2008
Compensation expense	\$ 6	\$ 68	\$ 51	\$ 198

**Table of Contents**

The following table represents stock option activity for the nine months ended September 30, 2009:

	<b>Number of Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Contractual Life in Years</b>
Outstanding options at December 31, 2008	51,000	\$ 24.80	
Granted			
Exercised			
Canceled, forfeited or expired			
Outstanding options at September 30, 2009	51,000	\$ 24.80	6.5
Options exercisable at September 30, 2009	49,000	\$ 24.74	6.5

The closing price of our common stock on September 30, 2009 was \$11.33. All options outstanding at September 30, 2009 have grant date fair values which exceed the September 30, 2009 closing stock price.

The following table summarizes non-vested stock option activity for the nine months ended September 30, 2009:

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Non-vested stock options at December 31, 2008	19,000	\$ 24.95
Granted		
Vested	(17,000)	\$ 24.80
Forfeited		
Non-vested stock options at September 30, 2009	2,000	\$ 26.27

**(6) Closed Branch Facility Charges**

We continuously monitor and identify branch facilities with revenues and operating margins that consistently fall below Company performance standards. Once identified, we continue to monitor these branches to determine if operating performance can be improved or if the performance is attributable to economic factors unique to the particular market with unfavorable long-term prospects. If necessary, branches with unfavorable long-term prospects are closed and the rental fleet and new and used equipment inventories are deployed to more profitable branches within our geographic footprint where demand is higher.

During the nine months ended September 30, 2009, we closed or consolidated four branches. Under FASB ASC Topic 420, *Exit or Disposal Cost Obligations*, exit costs include, but are not limited to, the following: (a) one-time termination benefits; (b) contract termination costs, including costs that will continue to be incurred under operating leases that have no future economic benefit; and (c) other associated costs. A liability for costs associated with an exit or disposal activity is recognized and measured at its fair value in the period in which the liability is incurred, except for one-time termination benefits that are incurred over time. In connection with these branch closings, we recorded charges of approximately \$0.2 million and \$0.5 million, respectively, for the three and nine month periods ended September 30, 2009. These charges consist primarily of the writeoff of leasehold improvements and the estimated costs that will continue to be incurred under operating leases that have no future economic benefit to the Company. These estimated lease costs represent the fair value of the liability at the cease-use date. The fair value of the liability

is determined based on the present value of remaining lease rentals, reduced by estimated sublease rentals that could be reasonably obtained for the property even if the Company does not intend to enter into a sublease. Although we do not expect to incur material charges for branch closures occurring prior to September 30, 2009, additional charges are possible to the extent that actual future settlements differ from our estimates of such costs.

**(7) Earnings (Loss) Per Share**

Basic earnings (loss) per common share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the reported period. Diluted earnings per share reflects the potential dilution that could occur upon vesting of restricted stock or exercise of stock options into common stock. The potential dilution that could occur upon the vesting of restricted stock or exercise of stock options into common stock is not included in the computation of diluted loss per share. The

**Table of Contents**

following table sets forth the computation of basic and diluted net income (loss) per common share for the three and nine month periods ended September 30, 2009 and 2008 (amounts in thousands, except per share amounts):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Basic net income (loss) per share:				
Net income (loss)	\$ (2,280)	\$ 17,604	\$ 161	\$ 43,931
Weighted average number of shares of common stock outstanding	34,625	35,075	34,601	35,912
Net income (loss) per share of common stock basic	\$ (0.07)	\$ 0.50	\$	\$ 1.22
Diluted net income (loss) per share:				
Net income (loss)	\$ (2,280)	\$ 17,604	\$ 161	\$ 43,931
Weighted average number of shares of common stock outstanding	34,625	35,075	34,601	35,912
Effect of dilutive securities:				
Effect of dilutive stock options				
Effect of dilutive non-vested stock		15	37	6
Weighted average number of shares of common stock outstanding diluted	34,625	35,090	34,638	35,918
Net income (loss) per share of common stock diluted	\$ (0.07)	\$ 0.50	\$	\$ 1.22
Common shares excluded from the denominator as anti-dilutive:				
Stock options	51	51	51	51
Non-vested restricted stock	291	96	61	32

**(8) Senior Secured Credit Facility**

In accordance with our Second Amended and Restated Credit Agreement, as amended, or the senior secured credit facility, we may borrow up to \$320.0 million depending upon the availability of borrowing base collateral consisting of eligible trade receivables, inventories, property and equipment, and other assets. Additionally, upon the appropriate lender approval, the Company has access to an incremental facility in an aggregate amount of up to \$130.0 million during the term of the senior secured credit facility, which matures August 4, 2011. If at any time an event of default exists, the interest rate on the senior secured credit facility will increase by 2.0% per annum. We are also required to pay a commitment fee equal to 0.25% per annum in respect of undrawn commitments.

At September 30, 2009, the interest rate on the senior secured credit facility was LIBOR plus 150 basis points, or approximately 2.77%. The senior secured credit facility is senior to all other outstanding debt, secured by all assets of the Company (except for equipment that is collateralized under manufacturer flooring plan arrangements) and is guaranteed by the Company's domestic subsidiaries (see note 10 to the condensed consolidated financial statements). The balance outstanding on the senior secured credit facility as of September 30, 2009 was approximately \$3.0 million. Additional borrowings available under the terms of the senior secured credit facility as of September 30, 2009, net of approximately \$7.8 million of standby letters of credit outstanding, totaled \$309.2 million. The average interest rate on our outstanding borrowings for the three and nine month periods ended September 30, 2009 was approximately 2.35% and 2.33%, respectively. As of September 30, 2009, we were in compliance with our financial



covenant under the senior secured credit facility.

**(9) 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):

**Table of Contents**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Revenues:				
Equipment rentals	\$ 45,108	\$ 78,181	\$ 150,669	\$ 224,626
New equipment sales	48,685	97,797	172,010	274,135
Used equipment sales	32,698	39,873	69,254	128,436
Parts sales	25,786	30,951	78,144	89,112
Services revenues	15,225	18,333	46,164	52,651
<b>Total segmented revenues</b>	<b>167,502</b>	<b>265,135</b>	<b>516,241</b>	<b>768,960</b>
Non-segmented revenues	8,126	13,512	25,824	38,097
<b>Total revenues</b>	<b>\$ 175,628</b>	<b>\$ 278,647</b>	<b>\$ 542,065</b>	<b>\$ 807,057</b>
Gross profit (loss):				
Equipment rentals	\$ 13,794	\$ 39,305	\$ 50,439	\$ 109,328
New equipment sales	5,136	13,058	21,491	36,686
Used equipment sales	5,629	9,295	12,772	30,476
Parts sales	6,834	9,142	21,805	26,297
Services revenues	9,579	11,741	29,105	33,635
<b>Total segmented gross profit</b>	<b>40,972</b>	<b>82,541</b>	<b>135,612</b>	<b>236,422</b>
Non-segmented gross loss	(1,005)	(44)	(859)	(638)
<b>Total gross profit</b>	<b>\$ 39,967</b>	<b>\$ 82,497</b>	<b>\$ 134,753</b>	<b>\$ 235,784</b>

	<b>Balances at</b>	
	<b>September 30, 2009</b>	<b>December 31, 2008</b>
Segment identified assets:		
Equipment sales	\$ 93,477	\$ 108,109
Equipment rentals	460,459	554,457
Parts and services	16,067	21,131
<b>Total segment identified assets</b>	<b>570,003</b>	<b>683,697</b>
Non-segment identified assets	219,952	282,937
<b>Total assets</b>	<b>\$ 789,955</b>	<b>\$ 966,634</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, 2009 were approximately 1.2% and 4.9%, respectively, of total revenues compared to 4.9% and 4.3% for the three and nine month periods ended September 30, 2008. No one customer accounted for more than 10% of our revenues on an overall or segment basis for any of the periods presented.

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

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

The condensed consolidating financial statements of H&E Equipment Services, Inc. and its subsidiaries are included below. The financial statements for H&E Finance Corp. are not included within the consolidating financial statements because H&E Finance Corp. has no assets or operations. The condensed consolidating balance sheet amounts as of December 31, 2008 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, 2008.

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

	<b>As of September 30, 2009</b>			
	<b>H&amp;E Equipment Services</b>	<b>Guarantor Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>(Amounts in thousands)</b>			
<b>Assets:</b>				
Cash	\$ 8,689	\$ 10	\$	\$ 8,699
Receivables, net	76,611	13,111		89,722
Inventories, net	81,520	28,024		109,544
Prepaid expenses and other assets	6,921	147		7,068
Rental equipment, net	354,365	106,094		460,459
Property and equipment, net	52,772	11,665		64,437
Deferred financing costs, net	5,900			5,900
Intangible assets, net		1,135		1,135
Investment in guarantor subsidiaries	(949)		949	
Goodwill	5,643	37,348		42,991
<b>Total assets</b>	<b>\$ 591,472</b>	<b>\$ 197,534</b>	<b>\$ 949</b>	<b>\$ 789,955</b>
<b>Liabilities and Stockholders Equity (Deficit):</b>				
Amount due on senior secured credit facility	\$ 3,020	\$	\$	\$ 3,020
Accounts payable	27,561	502		28,063
Manufacturer flooring plans payable	99,992			99,992
Accrued expenses payable and other liabilities	33,912	1,445		35,357
Intercompany balances	(193,609)	193,609		
Notes payable	1,221	716		1,937
Senior unsecured notes	250,000			250,000
Capital lease payable		2,211		2,211
Deferred income taxes	76,543			76,543
Deferred compensation payable	1,926			1,926
<b>Total liabilities</b>	<b>300,566</b>	<b>198,483</b>		<b>499,049</b>
Stockholders equity (deficit)	290,906	(949)	949	290,906
<b>Total liabilities and stockholders equity</b>	<b>\$ 591,472</b>	<b>\$ 197,534</b>	<b>\$ 949</b>	<b>\$ 789,955</b>

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

	<b>As of December 31, 2008</b>			
	<b>H&amp;E Equipment Services</b>	<b>Guarantor Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>(Amounts in thousands)</b>			
<b>Assets:</b>				
Cash	\$ 11,251	\$ 15	\$	\$ 11,266
Receivables, net	124,757	25,536		150,293
Inventories, net	103,540	25,700		129,240
Prepaid expenses and other assets	11,467	255		11,722
Rental equipment, net	453,320	101,137		554,457
Property and equipment, net	45,517	12,605		58,122
Deferred financing costs, net	6,964			6,964
Intangible assets, net		1,579		1,579
Investment in guarantor subsidiaries	8,448		(8,448)	
Goodwill	5,643	37,348		42,991
Total assets	\$ 770,907	\$ 204,175	\$ (8,448)	\$ 966,634
<b>Liabilities and Stockholders Equity:</b>				
Amount due on senior secured credit facility	\$ 76,325	\$	\$	\$ 76,325
Accounts payable	93,667			93,667
Manufacturer flooring plans payable	127,690			127,690
Accrued expenses payable and other liabilities	45,965	1,241		47,206
Intercompany balances	(191,461)	191,461		
Related party obligation	145			145
Notes payable	1,234	725		1,959
Senior unsecured notes	250,000			250,000
Capital lease payable		2,300		2,300
Deferred income taxes	75,109			75,109
Deferred compensation payable	2,026			2,026
Total liabilities	480,700	195,727		676,427
Stockholders equity	290,207	8,448	(8,448)	290,207
Total liabilities and stockholders equity	\$ 770,907	\$ 204,175	\$ (8,448)	\$ 966,634

**Table of Contents****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****Three Months Ended September 30, 2009**

	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	<b>(Amounts in thousands)</b>			
<b>Revenues:</b>				
Equipment rentals	\$ 35,724	\$ 9,384	\$	\$ 45,108
New equipment sales	37,087	11,598		48,685
Used equipment sales	30,338	2,360		32,698
Parts sales	21,503	4,283		25,786
Services revenues	13,441	1,784		15,225
Other	6,516	1,610		8,126
<b>Total revenues</b>	<b>144,609</b>	<b>31,019</b>		<b>175,628</b>
<b>Cost of revenues:</b>				
Rental depreciation	16,425	4,680		21,105
Rental expense	8,142	2,067		10,209
New equipment sales	32,944	10,605		43,549
Used equipment sales	25,014	2,055		27,069
Parts sales	15,835	3,117		18,952
Services revenues	5,026	620		5,646
Other	7,077	2,054		9,131
<b>Total cost of revenues</b>	<b>110,463</b>	<b>25,198</b>		<b>135,661</b>
<b>Gross profit (loss):</b>				
Equipment rentals	11,157	2,637		13,794
New equipment sales	4,143	993		5,136
Used equipment sales	5,324	305		5,629
Parts sales	5,668	1,166		6,834
Services revenues	8,415	1,164		9,579
Other	(561)	(444)		(1,005)
<b>Gross profit</b>	<b>34,146</b>	<b>5,821</b>		<b>39,967</b>
Selling, general and administrative expenses	29,137	5,936		35,073
Equity in loss of guarantor subsidiaries	(3,086)		3,086	
Gain on sales of property and equipment, net	180	109		289
<b>Income (loss) from operations</b>	<b>2,103</b>	<b>(6)</b>	<b>3,086</b>	<b>5,183</b>
<b>Other income (expense):</b>				
Interest expense	(4,729)	(3,118)		(7,847)
Other, net	85	38		123
<b>Total other expense, net</b>	<b>(4,644)</b>	<b>(3,080)</b>		<b>(7,724)</b>

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

Loss before benefit for income taxes	(2,541)	(3,086)	3,086	(2,541)
Benefit for income taxes	(261)			(261)
Net loss	\$ (2,280)	\$ (3,086)	\$ 3,086	\$ (2,280)

**Table of Contents****CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****Three Months Ended September 30, 2008**

	<b>H&amp;E Equipment Services</b>	<b>Guarantor Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>(Amounts in thousands)</b>			
<b>Revenues:</b>				
Equipment rentals	\$ 65,090	\$ 13,091	\$	\$ 78,181
New equipment sales	75,500	22,297		97,797
Used equipment sales	30,953	8,920		39,873
Parts sales	25,426	5,525		30,951
Services revenues	15,707	2,626		18,333
Other	11,310	2,202		13,512
<b>Total revenues</b>	<b>223,986</b>	<b>54,661</b>		<b>278,647</b>
<b>Cost of revenues:</b>				
Rental depreciation	21,496	4,866		26,362
Rental expense	10,228	2,286		12,514
New equipment sales	65,335	19,404		84,739
Used equipment sales	22,989	7,589		30,578
Parts sales	17,812	3,997		21,809
Services revenues	5,701	891		6,592
Other	10,737	2,819		13,556
<b>Total cost of revenues</b>	<b>154,298</b>	<b>41,852</b>		<b>196,150</b>
<b>Gross profit (loss):</b>				
Equipment rentals	33,366	5,939		39,305
New equipment sales	10,165	2,893		13,058
Used equipment sales	7,964	1,331		9,295
Parts sales	7,614	1,528		9,142
Services revenues	10,006	1,735		11,741
Other	573	(617)		(44)
<b>Gross profit</b>	<b>69,688</b>	<b>12,809</b>		<b>82,497</b>
Selling, general and administrative expenses	35,291	10,265		45,556
Equity in loss of guarantor subsidiaries	(512)		512	
Gain on sales of property and equipment, net	182	37		219
<b>Income from operations</b>	<b>34,067</b>	<b>2,581</b>	<b>512</b>	<b>37,160</b>
<b>Other income (expense):</b>				
Interest expense	(6,365)	(3,130)		(9,495)
Other, net	213	37		250
<b>Total other expense, net</b>	<b>(6,152)</b>	<b>(3,093)</b>		<b>(9,245)</b>



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

Income (loss) before provision for income taxes	27,915	(512)	512	27,915
Provision for income taxes	10,311			10,311
Net income (loss)	\$ 17,604	\$ (512)	\$ 512	\$ 17,604

19

---

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

Nine Months Ended September 30, 2009

	<b>H&amp;E Equipment Services</b>	<b>Guarantor Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>(Amounts in thousands)</b>			
<b>Revenues:</b>				
Equipment rentals	\$ 123,452	\$ 27,217	\$	\$ 150,669
New equipment sales	140,640	31,370		172,010
Used equipment sales	61,907	7,347		69,254
Parts sales	66,157	11,987		78,144
Services revenues	40,621	5,543		46,164
Other	21,273	4,551		25,824
<b>Total revenues</b>	<b>454,050</b>	<b>88,015</b>		<b>542,065</b>
<b>Cost of revenues:</b>				
Rental depreciation	54,135	13,654		67,789
Rental expense	26,347	6,094		32,441
New equipment sales	122,882	27,637		150,519
Used equipment sales	50,068	6,414		56,482
Parts sales	47,679	8,660		56,339
Services revenues	15,162	1,897		17,059
Other	21,118	5,565		26,683
<b>Total cost of revenues</b>	<b>337,391</b>	<b>69,921</b>		<b>407,312</b>
<b>Gross profit (loss):</b>				
Equipment rentals	42,970	7,469		50,439
New equipment sales	17,758	3,733		21,491
Used equipment sales	11,839	933		12,772
Parts sales	18,478	3,327		21,805
Services revenues	25,459	3,646		29,105
Other	155	(1,014)		(859)
<b>Gross profit</b>	<b>116,659</b>	<b>18,094</b>		<b>134,753</b>
Selling, general and administrative expenses	91,828	18,514		110,342
Equity in loss of guarantor subsidiaries	(9,397)		9,397	
Gain on sales of property and equipment, net	419	53		472
<b>Income (loss) from operations</b>	<b>15,853</b>	<b>(367)</b>	<b>9,397</b>	<b>24,883</b>
<b>Other income (expense):</b>				
Interest expense	(14,942)	(9,097)		(24,039)
Other, net	451	67		518
<b>Total other expense, net</b>	<b>(14,491)</b>	<b>(9,030)</b>		<b>(23,521)</b>

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

Income (loss) before provision for income taxes	1,362	(9,397)	9,397	1,362
Provision for income taxes	1,201			1,201
Net income (loss)	\$ 161	\$ (9,397)	\$ 9,397	\$ 161

20

---

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

Nine Months Ended September 30, 2008

	<b>H&amp;E Equipment Services</b>	<b>Guarantor Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>(Amounts in thousands)</b>			
<b>Revenues:</b>				
Equipment rentals	\$ 191,246	\$ 33,380	\$	\$ 224,626
New equipment sales	216,000	58,135		274,135
Used equipment sales	99,730	28,706		128,436
Parts sales	72,456	16,656		89,112
Services revenues	45,172	7,479		52,651
Other	32,135	5,962		38,097
<b>Total revenues</b>	<b>656,739</b>	<b>150,318</b>		<b>807,057</b>
<b>Cost of revenues:</b>				
Rental depreciation	64,520	14,318		78,838
Rental expense	30,249	6,211		36,460
New equipment sales	186,967	50,482		237,449
Used equipment sales	73,092	24,868		97,960
Parts sales	50,934	11,881		62,815
Services revenues	16,386	2,630		19,016
Other	31,120	7,615		38,735
<b>Total cost of revenues</b>	<b>453,268</b>	<b>118,005</b>		<b>571,273</b>
<b>Gross profit (loss):</b>				
Equipment rentals	96,477	12,851		109,328
New equipment sales	29,033	7,653		36,686
Used equipment sales	26,638	3,838		30,476
Parts sales	21,522	4,775		26,297
Services revenues	28,786	4,849		33,635
Other	1,015	(1,653)		(638)
<b>Gross profit</b>	<b>203,471</b>	<b>32,313</b>		<b>235,784</b>
Selling, general and administrative expenses	110,593	27,504		138,097
Equity in loss of guarantor subsidiaries	(4,692)		4,692	
Gain on sales of property and equipment, net	404	111		515
<b>Income from operations</b>	<b>88,590</b>	<b>4,920</b>	<b>4,692</b>	<b>98,202</b>
<b>Other income (expense):</b>				
Interest expense	(19,492)	(9,701)		(29,193)
Other, net	642	89		731
<b>Total other expense, net</b>	<b>(18,850)</b>	<b>(9,612)</b>		<b>(28,462)</b>

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

Income (loss) before provision for income taxes	69,740	(4,692)	4,692	69,740
Provision for income taxes	25,809			25,809
Net income (loss)	\$ 43,931	\$ (4,692)	\$ 4,692	\$ 43,931

21

---

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

Nine Months Ended September 30, 2009

	<b>H&amp;E Equipment Services</b>	<b>Guarantor Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>(Amounts in thousands)</b>			
Cash flows from operating activities:				
Net income (loss)	\$ 161	\$ (9,397)	\$ 9,397	\$ 161
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization on property and equipment	6,600	1,650		8,250
Depreciation on rental equipment	54,135	13,654		67,789
Amortization of loan discounts and deferred financing costs	1,064			1,064
Amortization of intangible assets		444		444
Provision for losses on accounts receivable	2,360	401		2,761
Provision for inventory obsolescence	47			47
Provision for deferred income taxes	1,434			1,434
Stock-based compensation expense	645			645
Gain on sales of property and equipment, net	(419)	(53)		(472)
Gain on sales of rental equipment, net	(11,125)	(898)		(12,023)
Equity in loss of guarantor subsidiaries	9,397		(9,397)	
Changes in operating assets and liabilities:				
Receivables, net	45,786	12,024		57,810
Inventories, net	15,719	(5,034)		10,685
Prepaid expenses and other assets	4,546	108		4,654
Accounts payable	(66,106)	502		(65,604)
Manufacturer flooring plans payable	(27,698)			(27,698)
Accrued expenses payable and other liabilities	(12,048)	204		(11,844)
Intercompany balances	(2,148)	2,148		
Deferred compensation payable	(100)			(100)
Net cash provided by operating activities	22,250	15,753		38,003
Cash flows from investing activities:				
Purchases of property and equipment	(14,959)	(469)		(15,428)
Purchases of rental equipment	10,452	(20,674)		(10,222)
Proceeds from sales of property and equipment	1,523	(188)		1,335
Proceeds from sales of rental equipment	51,747	5,671		57,418
Net cash provided by (used in) investing activities	48,763	(15,660)		33,103
Cash flows from financing activities:				
Purchases of treasury stock	(107)			(107)
Borrowings on senior secured credit facility	534,373			534,373
Payments on senior secured credit facility	(607,678)			(607,678)

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

Payments of related party obligation	(150)			(150)
Payments on capital lease obligations		(89)		(89)
Principal payments of notes payable	(13)	(9)		(22)
Net cash used in financing activities	(73,575)	(98)		(73,673)
Net decrease in cash	(2,562)	(5)		(2,567)
Cash, beginning of period	11,251	15		11,266
Cash, end of period	\$ 8,689	\$ 10	\$	\$ 8,699

22

---

**Table of Contents****CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****Nine Months Ended September 30, 2008**

	<b>H&amp;E Equipment Services</b>	<b>Guarantor Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>(Amounts in thousands)</b>			
Cash flows from operating activities:				
Net income (loss)	\$ 43,931	\$ (4,692)	\$ 4,692	\$ 43,931
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation on property and equipment	6,214	2,115		8,329
Depreciation on rental equipment	64,520	14,318		78,838
Amortization of loan discounts and deferred financing costs	1,093			1,093
Amortization of intangible assets	10,642	(8,534)		2,108
Provision for losses on accounts receivable	1,743			1,743
Provision for inventory obsolescence	39			39
Provision for deferred income taxes	24,484			24,484
Stock-based compensation expense	1,043			1,043
Gain on sales of property and equipment, net	(404)	(111)		(515)
Gain on sales of rental equipment, net	(24,685)	(3,436)		(28,121)
Equity in loss of guarantor subsidiaries	4,692		(4,692)	
Changes in operating assets and liabilities:				
Receivables, net	11,517	(3,725)		7,792
Inventories, net	20,816	(38,633)		(17,817)
Prepaid expenses and other assets	(4,159)	352		(3,807)
Accounts payable	318	(2,006)		(1,688)
Manufacturer flooring plans payable	(15,596)	(6,002)		(21,598)
Accrued expenses payable and other liabilities	(3,290)	2,982		(308)
Intercompany balances	(6,659)	6,659		
Deferred compensation payable	53			53
Net cash provided by (used in) operating activities	136,312	(40,713)		95,599
Cash flows from investing activities:				
Acquisition of business, net of cash acquired		(10,461)		(10,461)
Purchases of property and equipment	(15,253)	(1,273)		(16,526)
Purchases of rental equipment	(132,960)	19,644		(113,316)
Proceeds from sales of property and equipment	922	191		1,113
Proceeds from sales of rental equipment	78,859	20,378		99,237
Net cash provided by (used in) investing activities	(68,432)	28,479		(39,953)
Cash flows from financing activities:				
	(44)			(44)



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

Excess tax benefit (deficiency) from stock-based awards				
Purchases of treasury stock	(42,577)			(42,577)
Borrowings on senior secured credit facility	810,223			810,223
Payments on senior secured credit facility	(834,126)	9,652		(824,474)
Payments of related party obligation	(225)			(225)
Payments on capital lease obligation		(83)		(83)
Principal payments of notes payable	(12)	(9)		(21)
Net cash provided by (used in) financing activities	(66,761)	9,560		(57,201)
Net increase (decrease) in cash	1,119	(2,674)		(1,555)
Cash, beginning of period	12,005	2,757		14,762
Cash, end of period	\$ 13,124	\$ 83	\$	\$ 13,207

**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, 2009, and its results of operations for the three and nine month periods ended September 30, 2009, 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, 2008. 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, 2008.

**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 November 2, 2009, we operated 63 full-service facilities throughout the Intermountain, Southwest, Gulf Coast, West Coast, Southeast and Mid-Atlantic regions of the United States. Our work force includes distinct, focused sales forces for our new and used equipment sales and rental operations, highly-skilled service technicians, product specialists and regional managers. We focus our sales and rental activities on, and organize our personnel principally by, our four core equipment categories. We believe this allows us to provide specialized equipment knowledge, improve the effectiveness of our rental and sales force and strengthen our customer relationships. In addition, we have branch managers at each location who are responsible for managing their assets and financial results. We believe this fosters accountability in our business and strengthens our local and regional relationships.

Through our predecessor companies, we have been in the equipment services business for approximately 48 years. H&E Equipment Services L.L.C. ( *H&E LLC* ) was formed in June 2002 through the business combination of Head & Engquist, a wholly-owned subsidiary of Gulf Wide, and ICM. Head & Engquist, founded in 1961, and ICM, founded in 1971, were two leading regional, integrated equipment services companies operating in contiguous geographic markets. In the June 2002 transaction, Head & Engquist and ICM were merged with and into Gulf Wide, which was renamed H&E LLC. Prior to the combination, Head & Engquist operated 25 facilities in the Gulf Coast region and ICM operated 16 facilities in the Intermountain region of the United States.

In connection with our initial public offering in February 2006, we converted H&E LLC into H&E Equipment Services, Inc. Prior to our initial public offering, our business was conducted through H&E LLC. In order to have an operating Delaware corporation as the issuer for our initial public offering, H&E Equipment Services, Inc. was formed as a Delaware corporation and wholly-owned subsidiary of H&E Holdings, and immediately prior to the closing of our initial public offering, on February 3, 2006, H&E LLC and H&E Holdings merged with and into us (H&E Equipment Services, Inc.), with us surviving the reincorporation merger as the operating company. Effective February 3, 2006, H&E LLC and H&E Holdings no longer existed under operation of law pursuant to the 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, 2008, 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 material changes to these critical accounting policies and estimates during the three and nine month periods ended September 30, 2009. 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, 2008 and in note 2 to the condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

### ***Business Segments***

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

*Equipment Rentals.* Our rental operation primarily rents our four core types of construction and industrial equipment. We have a well-maintained rental fleet and our own dedicated sales force, focused by equipment type. We actively manage the size, quality, age and composition of our rental fleet based on our analysis of key measures such as time utilization (equipment usage based on customer demand), rental rate trends and targets, and equipment demand, which we closely monitor. We maintain fleet quality through regional quality control managers and our parts and services operations.

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

*Used Equipment Sales.* Our used equipment sales are generated primarily from sales of used equipment from our rental fleet, as well as from sales of inventoried equipment that we acquire through trade-ins from our equipment customers and through selective purchases of high quality used equipment. Used equipment is sold by our dedicated retail sales force. Our used equipment sales are an effective way for us to manage the size and composition of our rental fleet and provide a profitable distribution channel for the 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 9 to the condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

### ***Revenue Sources***

We generate all of our total revenues from our five business segments and our non-segmented equipment support activities. Equipment rentals and new equipment sales account for more than half of our total revenues. For the nine months ended September 30, 2009, approximately 27.8% of our total revenues were attributable to equipment rentals, 31.7% of our total revenues were attributable to new equipment sales, 12.8% were attributable to used equipment sales, 14.4% were attributable to parts sales, 8.5% were attributable to our services revenues and 4.8% were attributable to non-segmented other revenues.

The equipment that we sell, rent and service is principally used in the construction industry, as well as by companies for commercial and industrial uses such as plant maintenance and turnarounds. As a result, our total revenues are affected by several factors including, but not limited to, the demand for and availability of rental

equipment, rental rates and other competitive factors, the demand for new and used equipment, the level of construction and industrial activities, spending levels by our customers, adverse weather conditions and general economic conditions. For a discussion of the impact of seasonality on our revenues, see [Seasonality](#) below.

**Table of Contents**

*Equipment Rentals.* Revenues from equipment rentals depend on rental rates. Because rental rates are impacted by competition in specific regions and markets, we continuously monitor and adjust our rental rates. Equipment rental revenue is also impacted by the availability of equipment and by time utilization (equipment usage based on customer demand). We generate reports on, among other things, time utilization, demand pricing (rental rate pricing based on physical utilization), and rental rate trends on a piece-by-piece basis for our rental fleet. We recognize revenues from equipment rentals in the period earned on a straight-line basis, over the contract term, regardless of the timing of billing to customers.

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

*Used Equipment Sales.* We generate the majority of our used equipment sales revenues by selling equipment from our rental fleet through our existing branch network and, to a lesser extent through other means, including equipment auctions. The remainder of used equipment sales revenues comes from the sale of inventoried equipment that we acquire through trade-ins from our equipment customers and selective purchases of high-quality used equipment. Sales of our rental fleet equipment allow us to manage the size, quality, composition and age of our rental fleet, and provide a profitable distribution channel for disposal of rental equipment. We recognize revenue for the sale of used equipment at the time of delivery to, or pick-up by, the customer and when all obligations under the sales contract have been fulfilled and collectibility is reasonably assured.

*Parts Sales.* We generate revenues from the sale of new and used parts for equipment that we rent or sell, as well as for other makes of equipment. Our product support sales representatives are instrumental in generating our parts revenues. They are product specialists and receive performance incentives for achieving certain sales levels. Most of our parts sales come from our extensive in-house parts inventory. Our parts sales provide us with a relatively stable revenue stream that is less sensitive to the economic cycles that 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 services provide a high-margin, relatively stable source of revenue through changing economic cycles. We recognize services revenues at the time such services are rendered and collectibility is reasonably assured.

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

***Principal Costs and Expenses***

Our largest expenses are the costs to purchase the new equipment we sell, the costs associated with the used equipment we sell, rental expenses, rental depreciation and costs associated with parts sales and services, all of which are included in cost of revenues. For the nine months ended September 30, 2009, our total cost of revenues was approximately \$407.3 million. Our operating expenses consist principally of selling, general and administrative expenses. For the nine months ended September 30, 2009, our selling, general and administrative expenses were approximately \$110.3 million. In addition, we have interest expense related to our debt instruments. We are also subject to federal and state income taxes. Operating expenses and all other income and expense items below the gross profit line of our condensed consolidated statements of income are not generally allocated to our reportable segments.

***Cost of Revenues:***

*Rental Depreciation.* Depreciation of rental equipment represents the depreciation costs attributable to rental equipment. Estimated useful lives vary based upon type of equipment. Generally, we depreciate cranes and aerial work platforms over a ten

**Table of Contents**

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

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

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

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

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

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

***Interest Expense:***

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

***Principal Cash Flows***

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



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

A significant portion of our overall value is in our rental fleet equipment. The net book value of rental equipment at September 30, 2009 was \$460.5 million, or approximately 58.3% of our total assets. Our rental fleet, as of September 30, 2009, consisted of approximately 16,290 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 \$694.1 million. As of September 30, 2009, our rental fleet composition was as follows (dollars in millions):

	Units	% of Total Units	Original Acquisition Cost	% of Original Acquisition Cost	Average Age in Months
Hi-Lift or Aerial Work Platforms	12,448	76.4%	\$ 420.7	60.6%	40.7
Cranes	395	2.4%	90.8	13.1%	32.2
Earthmoving	1,432	8.8%	136.6	19.7%	27.6
Industrial Lift Trucks	422	2.6%	18.5	2.7%	35.0
Other	1,593	9.8%	27.5	3.9%	28.8
Total	16,290	100.0%	\$ 694.1	100.0%	38.0

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

On average, we increased the overall average age of our rental fleet equipment by approximately 4.7 months for the nine months ended September 30, 2009. The original acquisition cost of our overall gross rental fleet decreased by \$91.5 million, or approximately 11.6%, for the nine months ended September 30, 2009, as part of a planned elimination of rental fleet growth capital expenditures and selective fleet replacement expenditures during the period in response to a challenging economic environment and global credit market conditions (see also *Liquidity and Capital Resources* below), combined with the impact from the sale of our Yale® lift truck assets on July 31, 2009 (see *Results of Operations* below for a description of the transaction).

Our average rental rates for the nine months ended September 30, 2009 were 15.1% lower than the comparative nine month period ended September 30, 2008 (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, 2009 was largely consistent with that of the prior year, as a percentage of total units available for rent and as a percentage of original acquisition cost. However, the sale of certain of our Yale® lift truck assets on July 31, 2009 did result in an approximate 3% to 5% shift in our rental fleet composition from lift trucks to primarily aerial work platform equipment as a percentage of total units available for rent and as a percentage of original acquisition cost.

**Principal External Factors that Affect our Businesses**

We are subject to a number of external factors that may adversely affect our businesses. These factors, and other factors, are discussed below and in Item 1A *Risk Factors* of our Annual Report on Form 10-K for the year ended December 31, 2008:

*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.

*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

**Table of Contents**

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

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

**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. The period-to-period comparisons of financial results are not necessarily indicative of future results. The revenue and gross margin period-to-period comparisons below have been negatively impacted in the current year by lower customer demand resulting from several factors, including: (i) the decline in construction and industrial activities; (ii) the current macroeconomic downturn; and (iii) unfavorable credit markets affecting end-user access to capital. Continued weakness or further deterioration in the non-residential construction and industrial sectors could have a material adverse effect on our financial position, results of operations and cash flows in the future. We continue to proactively respond to the economic slowdown through various operational and strategic measures, including closing underperforming branches and redeploying rental fleet assets to existing branches with higher demand or opening branches in new markets where demand is higher; minimizing capital expenditures; reducing headcount; implementing cost reduction measures throughout the Company; and using the excess cash flow resulting from our planned reduction in capital expenditures to repay outstanding debt.

Our results of operations for the three and nine months ended September 30, 2009 include the sale of a substantial portion of our Yale® lift truck assets. On July 31, 2009, the Company sold its Yale® lift truck assets in its rental fleet, new and used equipment inventories and parts inventories located in the Intermountain region of the United States to Arnold Machinery Company (the Arnold Transaction ) for total cash proceeds of approximately \$15.7 million. At the time of the sale, these Yale® lift trucks comprised approximately 71% of the total lift trucks in our rental fleet and approximately 3.5% of our total rental fleet assets (based on net book value). The Yale brand accounted for less than 5% of our total revenues in 2009 through the date of the Arnold Transaction. Details of the Arnold Transaction are presented below (amounts in thousands):

Revenues:	
New equipment sales	\$ 1,161
Used equipment sales	13,437(1)
Parts sales	1,061
Service revenues	895(2)
<b>Total revenues</b>	<b>\$ 16,554</b>
Cost of revenues:	
New equipment sales	\$ 1,125
Used equipment sales	12,830(1)
Parts sales	1,011
<b>Total cost of revenues</b>	<b>14,966</b>
<b>Gross profit</b>	<b>\$ 1,588</b>

- (1) Amounts include revenues and cost of revenues related to Yale® lift truck rental fleet assets of \$12.7 million and \$12.2 million, respectively.
- (2) Represents the recognition of deferred revenue associated with the termination of related Yale® lift truck maintenance and repair contracts.

**Table of Contents****Three Months Ended September 30, 2009 Compared to the Three Months Ended September 30, 2008 Revenues.**

	Three Months Ended		Total Dollar Decrease	Total Percentage Decrease
	September 30, 2009	September 30, 2008		
	(in thousands, except percentages)			
Segment Revenues:				
Equipment rentals	\$ 45,108	\$ 78,181	\$ (33,073)	(42.3)%
New equipment sales	48,685	97,797	(49,112)	(50.2)%
Used equipment sales	32,698	39,873	(7,175)	(18.0)%
Parts sales	25,786	30,951	(5,165)	(16.7)%
Services revenues	15,225	18,333	(3,108)	(17.0)%
Non-Segmented revenues	8,126	13,512	(5,386)	(39.9)%
Total revenues	\$ 175,628	\$ 278,647	\$ (103,019)	(37.0)%

*Total Revenues.* Our total revenues were \$175.6 million for the three months ended September 30, 2009 compared to \$278.6 million for the same period in 2008, a decrease of \$103.0 million, or 37.0%. Included in total revenues for the three months ended September 30, 2009 were revenues of \$16.6 million from the Arnold Transaction. Revenues decreased for all reportable segments as further discussed below.

*Equipment Rental Revenues.* Our revenues from equipment rentals for the three months ended September 30, 2009 decreased \$33.1 million, or 42.3%, to \$45.1 million from \$78.2 million for the same three month period in 2008. Rental revenues decreased for all four core product lines. Revenues from aerial work platforms decreased \$20.1 million, cranes decreased \$2.5 million, earthmoving equipment decreased \$6.4 million, lift trucks decreased \$2.4 million and other equipment rentals decreased \$1.7 million. These decreases were due to lower demand resulting from the factors discussed above, which negatively impacted our rental rates. Our average rental rates for the three month period ended September 30, 2009 declined 19.1% compared to the same three month period last year and declined 3.4% on a sequential basis from the three month period ended June 30, 2009.

Rental equipment dollar utilization (quarterly rental revenues divided by the average original rental fleet equipment costs) for the three months ended September 30, 2009 was approximately 25.5% in 2009 compared to 38.8% in 2008, a decrease of approximately 13.3%. The decrease in comparative rental equipment dollar utilization was the result of the 19.1% decrease in average rental rates in the comparative periods and a 13.1% decrease in rental equipment time utilization (equipment usage based on customer demand). Rental equipment time utilization was 54.3% for the three months ended September 30, 2009 compared to 67.4% for the same period in 2008 and 55.3% for the three month period ended June 30, 2009.

*New Equipment Sales Revenues.* Our new equipment sales for the three months ended September 30, 2009 decreased \$49.1 million, or 50.2%, to \$48.7 million from \$97.8 million for the comparable period in 2008. The Arnold Transaction accounted for \$1.2 million of new lift truck equipment sales revenues for the three month period ended September 30, 2009. Sales of new cranes decreased \$28.1 million, sales of new aerial work platforms decreased \$5.2 million, sales of new earthmoving equipment decreased \$11.2 million, sales of new lift trucks decreased \$3.0 million and sales of other new equipment decreased \$1.6 million. The decrease in new equipment sales reflect lower demand for these product lines.

*Used Equipment Sales Revenues.* Our used equipment sales decreased approximately \$7.2 million, or 18.0%, to \$32.7 million for the three months ended September 30, 2009, from \$39.9 million for the same period in 2008, primarily as a result of lower demand for used equipment. The Arnold Transaction accounted for \$13.4 million of used lift truck sales revenues for the three month period ended September 30, 2009. Sales of used cranes decreased \$8.7 million while sales of used aerial work platform equipment and used earthmoving equipment decreased

\$8.4 million and \$2.3 million, respectively. Inclusive of the sales revenues from the Arnold Transaction, used lift truck sales increased \$12.2 million.

*Parts Sales Revenues.* Our parts sales decreased \$5.2 million, or 16.7%, to \$25.8 million for the three months ended September 30, 2009 from \$31.0 million for the same period in 2008. Parts revenues related to the Arnold Transaction totaled \$1.1 million. The decline in parts revenues was due to a decrease in customer demand for parts due to the decline in construction and industrial activity since last year.

**Table of Contents**

*Services Revenues.* Our services revenues for the three months ended September 30, 2009 decreased approximately \$3.1 million, or 17.0%, to \$15.2 million from \$18.3 million for the same period last year. The Arnold Transaction resulted in the recognition of \$0.9 million in deferred services revenues in the current period related to the termination of related lift truck maintenance and repair contracts. The decline in service revenues was largely due to a decrease in demand for services due to the decline in construction and industrial activity since last year.

*Non-Segmented Other Revenues.* Our non-segmented other revenues consisted primarily of equipment support activities including transportation, hauling, parts freight and damage waiver charges. For the three months ended September 30, 2009, our other revenues were \$8.1 million, a decrease of \$5.4 million, or 39.9%, from \$13.5 million in the same period last year. The decrease was primarily due to a decrease in the volume of these services in conjunction with the decline of our primary business activities.

**Gross Profit (Loss).**

	<b>Three Months Ended</b>		<b>Total Dollar Decrease</b>	<b>Total Percentage Decrease</b>
	<b>September 30, 2009</b>	<b>2008</b>		
	<b>(in thousands, except percentages)</b>			
Segment Gross Profit (Loss):				
Equipment rentals	\$ 13,794	\$ 39,305	\$ (25,511)	(64.9)%
New equipment sales	5,136	13,058	(7,922)	(60.7)%
Used equipment sales	5,629	9,295	(3,666)	(39.4)%
Parts sales	6,834	9,142	(2,308)	(25.2)%
Services revenues	9,579	11,741	(2,162)	(18.4)%
Non-Segmented gross loss	(1,005)	(44)	(961)	(2,184.1)%
Total gross profit	\$ 39,967	\$ 82,497	\$ (42,530)	(51.6)%

*Total Gross Profit.* Our total gross profit was \$40.0 million for the three months ended September 30, 2009 compared to \$82.5 million for the three months ended September 30, 2008, a decrease of \$42.5 million, or 51.6%. Total gross profit margin for the three months ended September 30, 2009 was 22.8%, a decrease of 6.8% from the 29.6% gross profit margin for the same three month period in 2008. The Arnold Transaction, inclusive of the \$0.9 million of deferred services revenues recognized as discussed above, contributed \$1.6 million in total gross profit on a total gross profit margin of 9.6% for the three month period ended September 30, 2009. Gross profit (loss) and gross margin for all reportable segments are further described below:

*Equipment Rentals Gross Profit.* Our gross profit from equipment rentals for the three months ended September 30, 2009 decreased \$25.5 million, or 64.9%, to \$13.8 million from \$39.3 million in the same period in 2008. The decrease in equipment rentals gross profit is the net result of a \$33.1 million decrease in rental revenues for the three months ended September 30, 2009, which was partially offset by a \$2.3 million net decrease in rental expenses and a \$5.3 million decrease in rental equipment depreciation expense. The net decrease in rental expenses and rental equipment depreciation expense was primarily due to a smaller fleet size in 2009 compared to 2008. As a percentage of equipment rental revenues, maintenance and repair costs were 15.4% in 2009 compared to 11.9% in 2008 and depreciation expense was 46.8% in 2009 compared to 33.7% in 2008. These percentage increases are primarily attributable to the decline in comparative rental revenues.

Gross profit margin in 2009 was 30.6%, down 19.7% from 50.3% in the same period in 2008. This gross profit margin decline was primarily due to the 19.1% decline in our average rental rates and the product mix of equipment rented, combined with the increase in rental and depreciation expenses as a percentage of equipment rental revenues.

*New Equipment Sales Gross Profit.* Our new equipment sales gross profit for the three months ended September 30, 2009 decreased \$7.9 million, or 60.7%, to \$5.1 million compared to approximately \$13.0 million for the same period in 2008 on a total new equipment sales decline of \$49.1 million. Gross profit margin on new

equipment sales for the three months ended September 30, 2009 was 10.5%, down 2.9% from 13.4% in the same period last year, reflecting lower demand for new equipment and lower margins on new crane sales. The Arnold Transaction accounted for new equipment sales gross profit of \$36,000 on a gross profit margin of 3.2% for the three month period ended September 30, 2009.

*Used Equipment Sales Gross Profit.* Our used equipment sales gross profit for the three months ended September 30, 2009 decreased \$3.7 million, or 39.4%, to \$5.6 million from \$9.3 million for the same period in 2008 on a used equipment sales decrease of \$7.2 million. Gross profit margin for the three months ended September 30, 2009 was 17.2%, down 6.1% from 23.3% in the same period last year, as a result of margin contraction due to the impact of the Arnold Transaction and pricing pressures due to lower overall demand. The Arnold Transaction accounted for \$0.6 million in gross profit in the current period with a gross profit margin of



**Table of Contents**

4.5%. Used equipment sales include sales of both used inventory and rental fleet equipment. Our used equipment sales from the rental fleet, which comprised approximately 88.8% and 73.5% of our used equipment sales for the three month periods ended September 30, 2009 and 2008, respectively, were approximately 122.8% of net book value for the three months ended September 30, 2009 compared to 143.3% for the comparable period last year. Gross margin on rental fleet sales, excluding the above impact of the Arnold Transaction, was 29.5% compared to 30.2% in the same period last year.

**Parts Sales Gross Profit.** For the three months ended September 30, 2009, our parts sales gross profit decreased approximately \$2.3 million, or 25.2%, to \$6.8 million from \$9.1 million for the same period in 2008 on a \$5.2 million decline in parts sales revenues. Gross profit margin for the three months ended September 30, 2009 was 26.5%, a decrease of 3.0% from 29.5% in the same period last year, primarily as a result of the mix of parts sold and the impact of the Arnold Transaction, which accounted for approximately \$50,000 in gross profit on a gross profit margin of 4.7% in the three month period ended September 30, 2009.

**Services Revenues Gross Profit.** For the three months ended September 30, 2009, our services revenues gross profit decreased approximately \$2.1 million, or 18.4%, to \$9.6 million from \$11.7 million for the same period in 2008. Gross profit margin in 2009 was 62.9%, down 1.1% from 64.0% in the same period last year. The Arnold Transaction resulted in the recognition of \$0.9 million in deferred services revenues in the current period related to the termination of related lift truck maintenance and repair contracts.

**Non-Segmented Other Revenues Gross Loss.** For the three months ended September 30, 2009, our non-segmented other revenues realized a gross loss of \$1.0 million compared to a gross loss of \$44,000 for the three month period ended September 30, 2008, primarily as a result of declines in damage waiver income and environmental fees on equipment rentals.

**Selling, General and Administrative Expenses.** SG&A expenses decreased approximately \$10.5 million, or 23.0%, to \$35.1 million for the three months ended September 30, 2009 compared to approximately \$45.6 million for the same period last year. The net decrease in SG&A expenses was attributable to several factors. Employee salaries and wages and related employee expenses decreased \$8.5 million as a result of prior workforce reductions and other cost control measures instituted by the Company since the beginning of 2009, combined with lower incentive compensation that resulted from lower rental and sales revenues. Fuel costs and utility expenses decreased \$0.7 million, while marketing related expenses decreased \$0.7 million. Supplies and other corporate overhead costs decreased \$0.6 million. Amortization expense related to intangible assets decreased \$0.5 million. Stock-based compensation expense was \$0.2 million and \$0.4 million for the three months ended September 30, 2009 and 2008, respectively. These decreases were partially offset by an increase in legal and professional fees of \$0.7 million. As a percent of total revenues, SG&A expenses were 20.0% for the three months ended September 30, 2009, an increase of 3.7% from 16.3% in the prior year, reflecting the fixed cost nature of certain SG&A expenses and the 37.0% decline in comparative total revenues.

**Other Income (Expense).** For the three months ended September 30, 2009, our net other expenses decreased by \$1.5 million to \$7.7 million compared to approximately \$9.2 million for the same period in 2008. The decrease was substantially the result of a \$1.6 million decrease in interest expense to \$7.8 million for the three months ended September 30, 2009 compared to \$9.4 million for the same period in 2008. The decrease in interest expense was due to several factors. Comparative interest expense incurred on our senior secured credit facility was approximately \$1.1 million lower in the current year period as a result of an \$87.6 million decrease in our average borrowings under the senior secured credit facility compared to the prior year and a lower effective average interest rate on those borrowings in the current year. Additionally, other interest expense decreased \$0.5 million in the current year period, primarily due to lower interest expense incurred on our manufacturing flooring plan payables used to finance inventory purchases, resulting from lower outstanding balances on those manufacturing flooring plan payables in the current year period, and lower average interest rates, reflecting the decline in the prime interest rate since last year.

**Income Taxes.** We recognized an income tax benefit for the three months ended September 30, 2009 of approximately \$0.3 million compared to income tax expense of \$10.3 million for the three months ended September 30, 2008, a decrease of \$10.6 million. Our effective income tax rate for the three months ended September 30, 2009 was 10.3% compared to 36.9% for the same period last year. Our effective tax rate decreased as a

result of lower pre-tax income in relation to the permanent differences and the decrease of a permanent benefit related to tax deductible goodwill amortization, for which no deferred taxes can be recognized until realized, in accordance with FASB ASC Topic 740, *Income Taxes* ( ASC 740 ). Based on available evidence, both positive and negative, we believe it is more likely than not that our deferred tax assets at September 30, 2009 are fully realizable through future reversals of existing taxable temporary differences and future taxable income, and are not subject to any limitations. Due to low pre-tax income, a small change in our estimated ordinary income could produce a significant change in the annual effective tax rate, which cannot be reliably estimated. In accordance with ASC 740, the actual effective year-to-date tax rate was applied in the third quarter.

**Table of Contents****Nine Months Ended September 30, 2009 Compared to the Nine Months Ended September 30, 2008 Revenues.**

	Nine Months Ended		Total Dollar Decrease	Total Percentage Decrease
	September 30, 2009	September 30, 2008		
	(in thousands, except percentages)			
Segment Revenues:				
Equipment rentals	\$ 150,669	\$ 224,626	\$ (73,957)	(32.9)%
New equipment sales	172,010	274,135	(102,125)	(37.3)%
Used equipment sales	69,254	128,436	(59,182)	(46.1)%
Parts sales	78,144	89,112	(10,968)	(12.3)%
Services revenues	46,164	52,651	(6,487)	(12.3)%
Non-Segmented revenues	25,824	38,097	(12,273)	(32.2)%
Total revenues	\$ 542,065	\$ 807,057	\$ (264,992)	(32.8)%

*Total Revenues.* Our total revenues were \$542.1 million for the nine months ended September 30, 2009 compared to \$807.1 million for the same period in 2008, a decrease of \$265.0 million, or 32.8%. Included in total revenues for the nine months ended September 30, 2009 were revenues of \$16.6 million from the Arnold Transaction. Revenues decreased for all reportable segments as further discussed below.

*Equipment Rental Revenues.* Our revenues from equipment rentals for the nine months ended September 30, 2009 decreased approximately \$73.9 million, or 32.9%, to \$150.7 million from \$224.6 million for the same nine month period in 2008. Rental revenues decreased for all four core product lines. Revenues from aerial work platforms decreased \$46.9 million, cranes decreased \$5.2 million, earthmoving equipment decreased \$11.0 million, lift trucks decreased \$4.8 million and other equipment rentals decreased approximately \$6.0 million. These decreases were due to lower demand, which resulted in a further decline in our rental rates. Our average rental rates for the nine month period ended September 30, 2009 declined 15.1% compared to the same nine month period last year.

Rental equipment dollar utilization (quarterly rental revenues divided by the average original rental fleet equipment costs) for the nine months ended September 30, 2009 was 27.1% in 2009 compared to 37.2% in 2008, a decrease of 10.1%. The decrease in comparative rental equipment dollar utilization was the result of the 15.1% decrease in average rental rates for the comparative periods and a 11.3% decrease in rental equipment time utilization (equipment usage based on customer demand) from 66.6% in 2008 to 55.3% in 2009.

*New Equipment Sales Revenues.* Our new equipment sales for the nine months ended September 30, 2009 decreased \$102.1 million, or 37.3%, to \$172.0 million from \$274.1 million for the comparable period in 2008. The Arnold Transaction accounted for \$1.1 million of new lift truck equipment sales revenues in the current period. Sales of new cranes decreased \$44.5 million, sales of new aerial work platforms decreased \$14.2 million, sales of earthmoving equipment decreased \$30.6 million, sales of lift trucks decreased \$7.1 million and sales of other new equipment decreased \$5.7 million. The decrease in new equipment sales reflects lower demand for these product lines.

*Used Equipment Sales Revenues.* Our used equipment sales decreased \$59.2 million, or 46.1%, to approximately \$69.2 million for the nine months ended September 30, 2009, from \$128.4 million for the same period in 2008, as a result of lower demand for used equipment. The Arnold Transaction accounted for \$13.4 million of used lift truck sales revenues in the current period. Sales of used cranes decreased \$27.6 million while sales of used aerial work platform equipment and used earthmoving equipment decreased \$27.0 million and \$13.0 million, respectively. Sales of other used equipment decreased \$0.5 million in the comparable nine month period. Inclusive of the sales revenues from the Arnold Transaction, used lift truck sales increased \$8.9 million.

*Parts Sales Revenues.* Our parts sales decreased \$11.0 million, or 12.3%, to \$78.1 million for the nine months ended September 30, 2009 from \$89.1 million for the same period in 2008. Parts revenues related to the Arnold

Transaction totaled \$1.1 million. The decrease was due to a decrease in customer demand for parts due to the decline in construction and industrial activity since last year.

*Services Revenues.* Our services revenues for the nine months ended September 30, 2009 decreased \$6.5 million, or 12.3%, to \$46.2 million from \$52.7 million for the same period last year. The Arnold Transaction resulted in the recognition of \$0.9 million in deferred services revenues in the current period related to the termination of related lift truck maintenance and repair contracts. The decline was largely due to a decrease in demand for services due to the decline in construction and industrial activity since last year.

**Table of Contents**

*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 months ended September 30, 2009, our other revenues decreased \$12.3 million, or 32.2%, to \$25.8 million from \$38.1 million in the nine month period last year. The decrease was primarily due to a decrease in the volume of these services in conjunction with the decline of our primary business activities.

**Gross Profit (Loss).**

	<b>Nine Months Ended</b>		<b>Total Dollar Decrease</b>	<b>Total Percentage Decrease</b>
	<b>September 30, 2009</b>	<b>2008</b>		
	<b>(in thousands, except percentages)</b>			
Segment Gross Profit (Loss):				
Equipment rentals	\$ 50,439	\$ 109,328	\$ (58,889)	(53.9)%
New equipment sales	21,491	36,686	(15,195)	(41.4)%
Used equipment sales	12,772	30,476	(17,704)	(58.1)%
Parts sales	21,805	26,297	(4,492)	(17.1)%
Services revenues	29,105	33,635	(4,530)	(13.5)%
Non-Segmented gross loss	(859)	(638)	(221)	(34.6)%
<b>Total gross profit</b>	<b>\$ 134,753</b>	<b>\$ 235,784</b>	<b>\$ (101,031)</b>	<b>(42.8)%</b>

*Total Gross Profit.* Our total gross profit was \$134.8 million for the nine months ended September 30, 2009 compared to \$235.8 million for the nine months ended September 30, 2008, a decrease of \$101.0 million, or 42.8%. Total gross profit margin for the nine months ended September 30, 2009 was 24.9%, a decrease of 4.3% from the 29.2% gross profit margin for the same nine month period in 2008. The Arnold Transaction contributed \$1.6 million in gross profit on a total gross profit margin of 9.6% for the current period. Gross profit (loss) and gross margin for all reportable segments are further described below:

*Equipment Rentals Gross Profit.* Our gross profit from equipment rentals for the nine months ended September 30, 2009 decreased \$58.9 million, or 53.9%, to \$50.4 million from \$109.3 million in the same period in 2008. The decrease in equipment rentals gross profit is the net result of an approximately \$73.9 million decrease in rental revenues for the nine months ended September 30, 2009, which was partially offset by a \$4.0 million net decrease in rental expenses and an \$11.0 million decrease in rental equipment depreciation expense. The net decrease in rental expenses and rental equipment depreciation expense was primarily due to a smaller fleet size in 2009 compared to 2008. As a percentage of equipment rental revenues, maintenance and repair costs were 15.2% in 2009 compared to 12.2% in 2008 and depreciation expense was 45.0% in 2009 compared to 35.1% in 2008. These percentage increases are primarily attributable to the decline in comparative rental revenues.

Gross profit margin for the nine months ended September 30, 2009 was 33.5%, down 15.2% from 48.7% in the same period in 2008. This gross profit margin decline was primarily due to a 15.1% decline in our average rental rates combined with the increase in rental and depreciation expenses as a percentage of equipment rental revenues.

*New Equipment Sales Gross Profit.* Our new equipment sales gross profit for the nine months ended September 30, 2009 decreased \$15.2 million, or 41.4%, to \$21.5 million compared to \$36.7 million for the same period in 2008 on a total new equipment sales decline of \$102.1 million. Gross profit margin on new equipment sales for the nine months ended September 30, 2009 was 12.5%, a decrease of 0.9% from 13.4% in the same period last year, reflecting lower demand for new equipment and lower margins on new crane sales. The Arnold Transaction accounted for new equipment sales gross profit of \$36,000 on a gross profit margin of 3.2% in the current period.

*Used Equipment Sales Gross Profit.* Our used equipment sales gross profit for the nine months ended September 30, 2009 decreased \$17.7 million, or 58.1%, to \$12.8 million from \$30.5 million for the same period in

2008 on a used equipment sales decrease of \$59.2 million. Gross profit margin in 2009 was 18.4%, down 5.3% from 23.7% in the same period last year, as a result of the product mix of used equipment sold and margin contraction due to lower overall demand for used equipment combined with the impact of the Arnold Transaction. The Arnold Transaction accounted for \$0.6 million in gross profit with a gross profit margin of 4.5%. Our used equipment sales from the rental fleet, which comprised approximately 82.9% and 77.3% of our used equipment sales for the nine month periods ended September 30, 2009 and 2008, respectively, were approximately 126.5% of net book value for the nine months ended September 30, 2009 compared to 139.5% for the comparable period last year.

*Parts Sales Gross Profit.* For the nine months ended September 30, 2009, our parts sales revenue gross profit decreased \$4.5 million, or 17.1%, to \$21.8 million from \$26.3 million for the same period in 2008 on an \$11.0 million decline in parts sales revenues. Gross profit margin for the nine months ended September 30, 2009 was 27.9%, a decrease of 1.6% from 29.5% in the same period last

**Table of Contents**

year, as a result of the mix of parts sold and the impact of the Arnold Transaction, which accounted for approximately \$50,000 in gross profit on a gross profit margin of 4.7% in the current period.

**Services Revenues Gross Profit.** For the nine months ended September 30, 2009, our services revenues gross profit decreased \$4.5 million, or 13.5%, to \$29.1 million from \$33.6 million for the same period in 2008 on a \$6.5 million decline in services revenues. Gross profit margin in 2009 was 63.0%, down approximately 0.9% from 63.9% in the same period last year. The Arnold Transaction resulted in the recognition of \$0.9 million in deferred services revenues in the current period related to the termination of related lift truck maintenance and repair contracts.

**Non-Segmented Other Revenues Gross Loss.** For the nine months ended September 30, 2009, our non-segmented other revenues realized a gross loss of \$0.9 million, a decrease of \$0.3 million compared to a gross loss of \$0.6 million for the nine month period ended September 30, 2008, primarily as a result of declines in damage waiver income and environment fees on equipment rentals.

**Selling, General and Administrative Expenses.** SG&A expenses decreased approximately \$27.8 million, or 20.1%, to \$110.3 million for the nine months ended September 30, 2009 compared to \$138.1 million for the same period last year. The net decrease in SG&A expenses was attributable to several factors. Employee salaries and wages and related employee expenses decreased \$22.6 million as a result of prior workforce reductions and other cost control measures instituted by the Company, including a 9% workforce headcount reduction since the beginning of 2009, combined with lower commissions that resulted from lower rental and sales revenues. In addition, insurance expenses decreased approximately \$0.9 million due to lower employee counts and reduced loss exposures, while warranty related expenses decreased \$1.3 million. Fuel costs and utility expenses decreased \$1.8 million and supplies and other corporate overhead expenses decreased \$1.1 million. Amortization expense related to intangible assets decreased \$1.7 million. These decreases were partially offset by a \$1.7 million increase in legal and professional fees and a \$1.1 million increase in our reserve for bad debt expense. Stock-based compensation expense was \$0.6 million and \$1.0 million for the nine months ended September 30, 2009 and 2008, respectively. As a percent of total revenues, SG&A expenses were 20.4% for the nine months ended September 30, 2009, an increase of 3.3% from 17.1% in the prior year, reflecting the fixed cost nature of certain SG&A expenses and the 32.8% decline in comparative total revenues.

**Other Income (Expense).** For the nine months ended September 30, 2009, our net other expenses decreased by approximately \$5.0 million to \$23.5 million compared to \$28.5 million for the same period in 2008. The decrease was the result of a \$5.2 million decrease in interest expense to \$24.0 million for the nine months ended September 30, 2009 compared to \$29.2 million for the same period in 2008, which was partially offset by a \$0.2 million increase in other income. The decrease in interest expense was due to several factors. Comparative interest expense incurred on our senior secured credit facility was approximately \$3.7 million lower in the current year period largely as a result of a \$75.5 million decrease in our average borrowings under the senior secured credit facility compared to the prior year and a lower effective average interest rate on those borrowings in the current year. Additionally, interest expense on our manufacturing flooring plan payables used to finance inventory purchases decreased \$1.5 million in the current year period, as a result of lower outstanding balances on those manufacturing flooring plan payables in the current year period and lower average interest rates, reflecting the decline in the prime interest rate since last year.

**Income Taxes.** Income tax expense for the nine months ended September 30, 2009 decreased \$24.6 million to \$1.2 million compared to \$25.8 million for the nine months ended September 30, 2008. Our effective income tax rate for the nine months ended September 30, 2009 was 88.2% compared to 37.0% for the same period last year. The increase in our effective tax rate was the result of a permanent difference resulting from unrealized tax deductible goodwill amortization, for which no deferred tax benefit can be recognized in accordance with ASC 740. Based on available evidence, both positive and negative, we believe it is more likely than not that our deferred tax assets at September 30, 2009 are fully realizable through future reversals of existing taxable temporary differences and future taxable income, and are not subject to any limitations. Due to low pre-tax income, a small change in our estimated ordinary income could produce a significant change in the annual effective tax rate, which cannot be reliably estimated. In accordance with ASC 740, the actual effective year-to-date tax rate was applied in the third quarter.

**Liquidity and Capital Resources**

*Cash flow from operating activities.* Our cash provided by operating activities for the nine months ended September 30, 2009 was \$38.0 million. Our reported net income of approximately \$0.2 million, which, when adjusted for non-cash income and expense items, such as depreciation and amortization, deferred income taxes, provision for losses on accounts receivable, stock-based compensation expense, and net gains on the sale of long-lived assets, provided positive cash flows of approximately \$70.1 million. These cash flows from operating activities were also positively impacted by a decrease of \$57.8 million in net accounts receivable, a \$4.7 million



**Table of Contents**

decrease in prepaid expenses and other assets and a \$10.7 million decrease in inventories. Partially offsetting these positive cash flows were a decrease of \$65.6 million in accounts payable, a \$27.7 million decrease in manufacturing flooring plans payable, and an \$11.8 million decrease in accrued expenses and other liabilities.

Our cash provided by operating activities for the nine months ended September 30, 2008 was \$95.6 million. Our reported net income of \$43.9 million, which, when adjusted for non-cash expense items, such as depreciation and amortization, deferred income taxes, provision for losses on accounts receivable, stock-based compensation expense, and net gains on the sale of long-lived assets, provided positive cash flows of approximately \$133.0 million. These cash flows from operating activities were also positively impacted by a decrease of \$7.8 million in net accounts receivable. Partially offsetting these positive cash flows were increases in our inventories of \$17.8 million, a \$21.6 million decrease in manufacturing flooring plans payable, an increase of \$3.8 million in prepaid expenses and other assets, a \$1.7 million decrease in accounts payable and a \$0.3 million decrease in accrued expenses and other liabilities.

*Cash flow from investing activities.* For the nine months ended September 30, 2009, cash provided by our investing activities was \$33.1 million. This is a net result of proceeds from the sale of rental and non-rental equipment of \$58.8 million, which includes approximately \$13.3 million in cash proceeds related to the Arnold Transaction. Partially offsetting these cash flows were purchases of rental and non-rental equipment totaling \$25.7 million.

For the nine months ended September 30, 2008, cash used in our investing activities was approximately \$40.0 million. Approximately \$10.5 million was related to additional cash consideration paid to the Burress shareholders in connection with our acquisition of J.W. Burress, Inc. in September 2007. Also included in these investing activities were purchases of rental and non-rental equipment totaling \$129.8 million, which was partially offset by the proceeds from the sale of rental and non-rental equipment of approximately \$100.4 million.

*Cash flow from financing activities.* For the nine months ended September 30, 2009, cash used in our financing activities was approximately \$73.7 million. Our total borrowings during the period under our senior secured credit facility were \$534.4 million and total payments under the senior secured credit facility in the same period were \$607.7 million. We also made payments under our related party obligation and notes payable and capital lease obligations totaling \$0.2 million and acquired \$0.1 million of treasury stock.

For the nine months ended September 30, 2008, cash used in our financing activities was approximately \$57.2 million. Our total borrowings during the period under our senior secured credit facility were \$810.2 million and total payments under the senior secured credit facility in the same period were \$824.5 million. We purchased \$42.6 million of treasury stock, which included \$42.4 million of stock repurchases under the Company's 2008 stock repurchase program. We made payments under our related party obligation of \$0.2 million and principal payments under our other debt obligations of \$0.1 million.

***Cash Requirements Related to Operations***

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

The amount of our future capital expenditures will depend on a number of factors including general economic conditions and growth prospects. Our gross rental fleet capital expenditures for the nine months ended September 30, 2009 were approximately \$19.2 million, including approximately \$9.0 million of non-cash transfers from new and used equipment to rental fleet inventory. Our gross property and equipment capital expenditures for the nine months ended September 30, 2009 were \$11.6 million, which includes approximately \$15.0 million in the current year related to the implementation of a new enterprise resource planning system that is expected to be completed in early 2010 and subsequently deployed for use throughout the Company in three go live phases, with an expected completed implementation by the end of the 2010 second quarter.

In response to changing economic conditions, we believe we have the flexibility to modify our capital expenditures by adjusting them (either up or down) to match our actual performance. Given the challenging economic environment

in which we currently operate, as well as the global credit crisis, we expect to eliminate growth capital expenditures for the rental fleet in the near term and employ a very selective approach toward replacement rental fleet capital expenditures. This approach will allow us to generate cash flow to permit the pay down of debt and/or for other general corporate purposes.

## **Table of Contents**

On July 31, 2009, the Company sold to Arnold Machinery Company its Yale® lift truck assets in our rental fleet, new and used equipment inventories and parts inventories located in the Intermountain region of the United States, resulting in total cash proceeds of approximately \$15.7 million. At the time of the sale, these lift trucks comprised, based on net book value, approximately 71% of our total lift trucks in the rental fleet and approximately 3.5% of our total rental fleet. The Yale® brand accounted for less than 5.0% of our total revenues in 2009 through the date of the transaction.

To service our debt, we will require a significant amount of cash. Our ability to pay interest and principal on our indebtedness (including the senior unsecured notes, the senior secured credit facility and our other indebtedness), will depend upon our future operating performance and the availability of borrowings under our senior secured credit facility and/or other debt and equity financing alternatives available to us, which will be affected by prevailing economic conditions and conditions in the global credit and capital markets, as well as financial, business and other factors, some of which are beyond our control. Based on our current level of operations and given the current state of the capital markets, we believe our cash flow from operations, available cash and available borrowings under the senior secured credit facility will be adequate to meet our future liquidity needs for the foreseeable future. As of November 2, 2009, we had \$312.2 million of available borrowings under our senior secured credit facility, net of \$7.8 million of outstanding letters of credit.

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

### **Seasonality**

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

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

### **Contractual and Commercial Commitments**

There have been no material changes from the information included in our Annual Report on Form 10-K for the year ended December 31, 2008.

### **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, 2008.

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

Our earnings are affected by changes in interest rates due to the fact that interest on our senior secured credit facility is calculated based upon LIBOR plus 150 basis points. At September 30, 2009, we had \$3.0 million of outstanding borrowings under our senior secured credit facility. The interest rate in effect on those borrowings at September 30, 2009 was approximately 2.77%. A 1.0% increase in the effective interest rate on our outstanding borrowings at September 30, 2009 would increase our interest expense by approximately \$30,000 on an annualized basis. We did not have significant exposure to changing interest rates as of September 30,



**Table of Contents**

2009 on our fixed-rate senior unsecured notes or on our other notes payable. Historically, we have not engaged in derivatives or other financial instruments for trading, speculative or hedging purposes, though we may do so from time to time if such instruments are available to us on acceptable terms and prevailing market conditions are accommodating.

**Item 4. Controls and Procedures.**

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

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit 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 Rules 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, 2009, our disclosure controls and procedures were effective to provide reasonable assurance that material information required to be included in our periodic SEC reports was recorded, processed, summarized and reported within the time periods specified in rules and forms.

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 have been no changes in our internal controls over financial reporting (as defined in Exchange Act Rule 13a-15(f)) that occurred during the three month period ended September 30, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings.**

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

**Item 1A. Risk Factors.**

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A—Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2008, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

There have been no material changes with respect to the Company's risk factors previously disclosed on Form 10-K for the year ended December 31, 2008.

**Table of Contents**

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

None.

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

None.

**Item 4. Submission of Matters to a Vote of Security Holders.**

None.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

A. Exhibits

- 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).

39

---

**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 4, 2009

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

Dated: November 4, 2009

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

40

---

**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).