

H&E Equipment Services, Inc.  
Form 10-Q  
May 01, 2014

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

**FORM 10-Q**

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

**For the quarterly period ended March 31, 2014.**

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

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

**Commission file number: 000-51759**

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

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

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

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

**7500 Pecue Lane,**  
**Baton Rouge, Louisiana**  
**(Address of Principal Executive Offices)**

**70809**  
**(ZIP Code)**

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

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

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

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

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

Large Accelerated Filer  Accelerated Filer

Non-Accelerated Filer  Smaller Reporting Company

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

Yes  No

As of April 24, 2014, there were 35,210,778 shares of H&E Equipment Services, Inc. common stock, \$0.01 par value, outstanding.

---

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

**TABLE OF CONTENTS**

**MARCH 31, 2014**

	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	4
<u>Item 1. Financial Statements:</u>	
<u>Condensed Consolidated Balance Sheets as of March 31, 2014 (Unaudited) and December 31, 2013</u>	4
<u>Condensed Consolidated Statements of Income (Unaudited) for the Three Months Ended March 31, 2014 and 2013</u>	5
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the Three Months Ended March 31, 2014 and 2013</u>	6
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	8
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	30
<u>Item 4. Controls and Procedures</u>	30
<b><u>PART II. OTHER INFORMATION</u></b>	31
<u>Item 1. Legal Proceedings</u>	31
<u>Item 1A. Risk Factors</u>	31
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
<u>Item 3. Defaults upon Senior Securities</u>	31
<u>Item 4. Mine Safety Disclosures</u>	31
<u>Item 5. Other Information</u>	31
<u>Item 6. Exhibits</u>	31
<u>Signatures</u>	32

## Forward-Looking Statements

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

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

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

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

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

relationships with equipment suppliers;

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

our indebtedness;

risks associated with the expansion of our business;

our possible inability to integrate any businesses we acquire;

competitive pressures;

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

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

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

For a more detailed discussion of some of the foregoing risks and uncertainties, see Item 1A **Risk Factors** in our Annual Report on Form 10-K for the year ended December 31, 2013, as well as other reports and registration statements filed by us with the SEC. All of our annual, quarterly and current reports, and any amendments thereto, filed with or furnished to the SEC are available on our Internet website under the Investor Relations link. For more information about us and the announcements we make from time to time, visit our Internet website at [www.he-equipment.com](http://www.he-equipment.com).

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

(Amounts in thousands, except share amounts)

	<b>Balances at</b>	
	<b>March 31, 2014</b>	<b>December 31, 2013</b>
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
Cash	\$ 4,965	\$ 17,607
Receivables, net of allowance for doubtful accounts of \$3,307 and \$3,651, respectively	137,258	131,970
Inventories, net of reserves for obsolescence of \$650 and \$647, respectively	168,784	111,640
Prepaid expenses and other assets	10,041	6,024
Rental equipment, net of accumulated depreciation of \$316,632 and \$309,944, respectively	704,237	688,710
Property and equipment, net of accumulated depreciation and amortization of \$78,919 and \$75,994, respectively	99,763	98,503
Deferred financing costs, net of accumulated amortization of \$10,444 and \$10,176, respectively	4,421	4,689
Goodwill	31,197	31,197
<b>Total assets</b>	<b>\$ 1,160,666</b>	<b>\$ 1,090,340</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Liabilities:</b>		
Amounts due on senior secured credit facility	\$ 123,967	\$ 102,460
Accounts payable	112,506	67,779
Manufacturer flooring plans payable	56,313	49,062
Dividends payable	633	633
Accrued expenses payable and other liabilities	39,082	54,439
Senior unsecured notes (net of unaccreted discount of \$1,412 and \$1,454, respectively)	628,588	628,546
Capital leases payable	2,234	2,278
Deferred income taxes	92,230	88,291
Deferred compensation payable	2,056	2,040
<b>Total liabilities</b>	<b>1,057,609</b>	<b>995,528</b>
<b>Commitments and Contingencies</b>		
<b>Stockholders equity:</b>		
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; 39,033,974 and 39,023,594 shares issued at March 31, 2014 and December 31, 2013, respectively, and 35,210,778 and 35,200,398 shares outstanding at March 31, 2014 and December 31, 2013, respectively	390	389
Additional paid-in capital	216,583	215,775
Treasury stock at cost, 3,823,196 and 3,823,196 shares of common stock held at March 31, 2014 and December 31, 2013, respectively	(58,468)	(58,468)
Retained deficit	(55,448)	(62,884)
Total stockholders' equity	103,057	94,812
Total liabilities and stockholders' equity	\$ 1,160,666	\$ 1,090,340

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

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

(Unaudited)

(Amounts in thousands, except per share amounts)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Revenues:</b>		
Equipment rentals	\$ 86,224	\$ 75,370
New equipment sales	69,547	53,323
Used equipment sales	29,345	32,149
Parts sales	25,802	24,952
Services revenues	13,648	14,551
Other	12,663	12,043
<b>Total revenues</b>	<b>237,229</b>	<b>212,388</b>
<b>Cost of revenues:</b>		
Rental depreciation	32,998	28,132
Rental expense	14,224	13,603
New equipment sales	61,734	47,739
Used equipment sales	20,418	22,748
Parts sales	18,282	18,304
Services revenues	4,741	5,743
Other	12,048	11,639
<b>Total cost of revenues</b>	<b>164,445</b>	<b>147,908</b>
Gross profit	72,784	64,480
Selling, general and administrative expenses	48,856	46,264
Gain on sales of property and equipment, net	663	500
<b>Income from operations</b>	<b>24,591</b>	<b>18,716</b>
<b>Other income (expense):</b>		
Interest expense	(12,650)	(12,272)
Other, net	306	507
<b>Total other expense, net</b>	<b>(12,344)</b>	<b>(11,765)</b>
Income before provision for income taxes	12,247	6,951
Provision for income taxes	4,811	2,174
<b>Net income</b>	<b>\$ 7,436</b>	<b>\$ 4,777</b>



Net income per common share:			
Basic		\$ 0.21	\$ 0.14
Diluted		\$ 0.21	\$ 0.14
Weighted average common shares outstanding:			
Basic		35,108	34,976
Diluted		35,218	35,097

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

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

(Unaudited)

(Amounts in thousands)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 7,436	\$ 4,777
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization of property and equipment	4,780	3,935
Depreciation of rental equipment	32,998	28,132
Amortization of deferred financing costs	268	281
Accretion of note discount, net of premium amortization	42	105
Provision for losses on accounts receivable	734	767
Provision for inventory obsolescence	63	56
Provision for deferred income taxes	3,939	649
Stock-based compensation expense	808	938
Gain from sales of property and equipment, net	(662)	(500)
Gain from sales of rental equipment, net	(8,357)	(8,498)
Writedown of goodwill for tax-deductible goodwill in excess of book goodwill		219
Changes in operating assets and liabilities:		
Receivables	(6,022)	8,775
Inventories	(82,514)	(93,459)
Prepaid expenses and other assets	(4,017)	(2,001)
Accounts payable	44,727	61,406
Manufacturer flooring plans payable	7,251	16,854
Accrued expenses payable and other liabilities	(15,357)	(13,640)
Deferred compensation payable	16	17
<b>Net cash provided by (used in) operating activities</b>	<b>(13,867)</b>	<b>8,813</b>
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(6,059)	(6,288)
Purchases of rental equipment	(39,663)	(34,100)
Proceeds from sales of property and equipment	682	521
Proceeds from sales of rental equipment	24,802	22,381
<b>Net cash used in investing activities</b>	<b>(20,238)</b>	<b>(17,486)</b>
<b>Cash flows from financing activities:</b>		
Borrowings on senior secured credit facility	266,183	240,088
Payments on senior secured credit facility	(244,676)	(343,989)

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

Proceeds from issuance of senior unsecured notes		107,250
Payments of deferred financing costs		(564)
Payments of capital lease obligations	(44)	(41)
Net cash provided by financing activities	21,463	2,744
Net decrease in cash	(12,642)	(5,929)
Cash, beginning of period	17,607	8,894
Cash, end of period	\$ 4,965	\$ 2,965

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

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

**(Unaudited)**

**(Amounts in thousands)**

	<b>Three Months Ended March 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Supplemental schedule of noncash investing and financing activities:</b>		
<b>Noncash asset purchases:</b>		
Assets transferred from new and used inventory to rental fleet	\$ 25,307	\$ 19,828
<b>Supplemental disclosures of cash flow information:</b>		
<b>Cash paid during the period for:</b>		
Interest	\$ 23,339	\$ 22,075
Income taxes paid, net of refunds received	\$ 206	\$ 386

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

---

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

**Basis of Presentation**

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

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such regulations. In the opinion of management, all adjustments (consisting of all normal and recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014, and therefore, the results and trends in these interim condensed consolidated financial statements may not be the same for the entire year. These interim condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and related notes in our Annual Report on Form 10-K for the year ended December 31, 2013, from which the consolidated balance sheet amounts as of December 31, 2013 were derived.

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

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

**Nature of Operations**

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

**(2) Significant Accounting Policies**

We describe our significant accounting policies in note 2 of the notes to consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2013. During the three month period ended March 31, 2014, there were no significant changes to those accounting policies.

*Use of Estimates*

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

*Recent Accounting Pronouncements*

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

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

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

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

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

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

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

	<b>March 31, 2014</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>
Manufacturer flooring plans payable with interest computed at 5.25% (Level 3)	\$ 56,313	\$ 49,347
Senior unsecured notes with interest computed at 7.0% <sup>(1)</sup> (Level 1)	630,000	693,000
Capital leases payable with interest computed at 5.929% to 9.55% (Level 3)	2,234	1,671
Letter of credit (Level 3)		146

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

(1) Amounts shown based on aggregate amounts outstanding for the periods presented. During 2014 and 2013, there were no transfers of financial assets or liabilities in or out of Level 1, Level 2 or Level 3 of the fair value hierarchy.



**(4) Stockholders Equity**

The following table summarizes the activity in Stockholders Equity for the three month period ended March 31, 2014 (amounts in thousands, except share data):

	Common Stock		Additional	Treasury	Retained	Total
	Shares	Amount	Paid-in	Stock	Earnings	Stockholders
	Issued		Capital		(Deficit)	Equity
Balances at December 31, 2013	39,023,594	\$ 389	\$ 215,775	\$ (58,468)	\$ (62,884)	\$ 94,812
Stock-based compensation			808			808
Issuance of common stock	10,380	1				1
Net income					7,436	7,436
Balances at March 31, 2014	39,033,974	\$ 390	\$ 216,583	\$ (58,468)	\$ (55,448)	\$ 103,057

**(5) Stock-Based Compensation**

We account for our stock-based compensation plan using the fair value recognition provisions of ASC 718, *Stock Compensation* ( ASC 718 ). Under the provisions of ASC 718, stock-based compensation is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the requisite employee service period (generally the vesting period of the grant). Shares available for future stock-based payment awards under our 2006 Stock-Based Incentive Compensation Plan were 3,604,046 shares as of March 31, 2014.

*Non-vested Stock*

The following table summarizes our non-vested stock activity for the three months ended March 31, 2014:

	Number of	Weighted
	Shares	Average Grant
		Date Fair Value
Non-vested stock at December 31, 2013	187,867	\$ 18.21
Granted	10,380	\$ 28.91
Vested	(10,380)	\$ 28.91
Forfeited		\$
Non-vested stock at March 31, 2014	187,867	\$ 18.21

As of March 31, 2014, we had unrecognized compensation expense of approximately \$2.4 million related to non-vested stock that we expect to be recognized over a weighted-average period of 1.8 years. The following table summarizes compensation expense, which is included in selling, general and administrative expenses in the accompanying condensed consolidated statements of income for the three months ended March 31, 2014 and 2013 (amounts in thousands):

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

For the Three Months Ended  
March 31,

	2014	2013
Compensation expense	\$ 808	\$ 938

*Stock Options*

At March 31, 2014, there is no unrecognized compensation expense as all stock option awards have fully vested. The following table represents stock option activity for the three months ended March 31, 2014:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Contractual Life In Years
Outstanding options at December 31, 2013	51,000	\$ 17.80	
Granted			
Exercised			
Canceled, forfeited or expired			
Outstanding options at March 31, 2014	51,000	\$ 17.80	2.3
Options exercisable at March 31, 2014	51,000	\$ 17.80	2.3

The aggregate intrinsic value of our outstanding and exercisable options at March 31, 2014 was approximately \$2.1 million.

**(6) Income per Share**

Income per common share for the three months ended March 31, 2014 and 2013 is based on the weighted average number of common shares outstanding during the period. The effects of potentially dilutive securities that are anti-dilutive are not included in the computation of dilutive income per share. The following table sets forth the computation of basic and diluted net income per common share for the three month periods ended March 31, 2014 and 2013 (amounts in thousands, except per share amounts):

	Three Months Ended March 31,	
	2014	2013
Basic net income per share:		
Net income	\$ 7,436	\$ 4,777
Weighted average number of common shares outstanding	35,108	34,976
Net income per common share basic	\$ 0.21	\$ 0.14
Diluted net income per share:		
Net income	\$ 7,436	\$ 4,777
Weighted average number of common shares outstanding	35,108	34,976
Effect of dilutive securities:		
Effect of dilutive stock options	23	14
Effect of dilutive non-vested stock	87	107
Weighted average number of common shares outstanding diluted	35,218	35,097

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

Net income per common share diluted	\$ 0.21	\$ 0.14
Common shares excluded from the denominator as anti-dilutive:		
Stock options		
Non-vested restricted stock		

**(7) Senior Unsecured Notes**

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

Balance at December 31, 2012	\$ 521,065
Aggregate principal amount issued on February 4, 2013	100,000
Premium on notes issued	8,500
Initial purchaser's discount	(1,250)
Accretion of discount through December 31, 2013	1,044
Amortization of note premium through December 31, 2013	(813)
Balance at December 31, 2013	\$ 628,546
Accretion of discount through March 31, 2014	264
Amortization of note premium through March 31, 2014	(222)
Balance at March 31, 2014	\$ 628,588

**(8) Segment Information**

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

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2014</b>	<b>2013</b>
<b>Segment Revenues:</b>		
Equipment rentals	\$ 86,224	\$ 75,370
New equipment sales	69,547	53,323
Used equipment sales	29,345	32,149
Parts sales	25,802	24,952
Services revenues	13,648	14,551
<b>Total segmented revenues</b>	<b>224,566</b>	<b>200,345</b>
Non-segmented revenues	12,663	12,043
<b>Total revenues</b>	<b>\$ 237,229</b>	<b>\$ 212,388</b>
<b>Segment Gross Profit:</b>		
Equipment rentals	\$ 39,002	\$ 33,635
New equipment sales	7,813	5,584
Used equipment sales	8,927	9,401
Parts sales	7,520	6,648
Services revenues	8,907	8,808
<b>Total segmented gross profit</b>	<b>72,169</b>	<b>64,076</b>
Non-segmented gross profit	615	404
<b>Total gross profit</b>	<b>\$ 72,784</b>	<b>\$ 64,480</b>
	<b>Balances at</b>	
	<b>March 31,</b>	<b>December 31,</b>
	<b>2014</b>	<b>2013</b>
<b>Segment identified assets:</b>		
Equipment sales	\$ 150,622	\$ 95,392
Equipment rentals	704,237	688,710
Parts and services	18,162	16,248

Total segment identified assets	873,021	800,350
Non-segment identified assets	287,645	289,990
<b>Total assets</b>	<b>\$ 1,160,666</b>	<b>\$ 1,090,340</b>

The Company operates primarily in the United States and our sales to international customers for the three month periods ended March 31, 2014 and 2013 were approximately 1.6% and 1.8% of total revenues, respectively. No one customer accounted for more than 10% of our revenues on an overall or segment basis for any of the periods presented.

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

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

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

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

### CONDENSED CONSOLIDATING BALANCE SHEET

	As of March 31, 2014			
	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
<b>Assets:</b>				
Cash	\$ 4,965	\$	\$	\$ 4,965
Receivables, net	120,742	16,516		137,258
Inventories, net	155,396	13,388		168,784
Prepaid expenses and other assets	9,820	221		10,041
Rental equipment, net	601,871	102,366		704,237
Property and equipment, net	87,071	12,692		99,763
Deferred financing costs, net	4,421			4,421
Investment in guarantor subsidiaries	165,398		(165,398)	
Goodwill	1,671	29,526		31,197
<b>Total assets</b>	<b>\$ 1,151,355</b>	<b>\$ 174,709</b>	<b>\$ (165,398)</b>	<b>\$ 1,160,666</b>
<b>Liabilities and Stockholders Equity:</b>				
Amounts due on senior secured credit facility	\$ 123,967	\$	\$	\$ 123,967
Accounts payable	105,623	6,883		112,506
Manufacturer flooring plans payable	56,357	(44)		56,313
Dividends payable	633			633
Accrued expenses payable and other liabilities	38,844	238		39,082
Senior unsecured notes	628,588			628,588
Capital lease payable		2,234		2,234
Deferred income taxes	92,230			92,230
Deferred compensation payable	2,056			2,056
<b>Total liabilities</b>	<b>1,048,298</b>	<b>9,311</b>		<b>1,057,609</b>
<b>Stockholders equity</b>	<b>103,057</b>	<b>165,398</b>	<b>(165,398)</b>	<b>103,057</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 1,151,355</b>	<b>\$ 174,709</b>	<b>\$ (165,398)</b>	<b>\$ 1,160,666</b>

---

**CONDENSED CONSOLIDATING BALANCE SHEET**

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



---

**CONDENSED CONSOLIDATING STATEMENT OF INCOME**
**Three Months Ended March 31, 2014**
**H&E Equipment Guarantor**

	Services	Subsidiaries	Elimination	Consolidated
(Amounts in thousands)				

<b>Revenues:</b>				
Equipment rentals	\$ 73,445	\$ 12,779	\$	\$ 86,224
New equipment sales	61,050	8,497		69,547
Used equipment sales	21,574	7,771		29,345
Parts sales	22,399	3,403		25,802
Services revenues	11,572	2,076		13,648
Other	10,536	2,127		12,663
<b>Total revenues</b>	<b>200,576</b>	<b>36,653</b>		<b>237,229</b>
<b>Cost of revenues:</b>				
Rental depreciation	27,785	5,213		32,998
Rental expense	11,938	2,286		14,224
New equipment sales	54,126	7,608		61,734
Used equipment sales	14,489	5,929		20,418
Parts sales	15,912	2,370		18,282
Services revenues	3,976	765		4,741
Other	9,854	2,194		12,048
<b>Total cost of revenues</b>	<b>138,080</b>	<b>26,365</b>		<b>164,445</b>
<b>Gross profit (loss):</b>				
Equipment rentals	33,722	5,280		39,002
New equipment sales	6,924	889		7,813
Used equipment sales	7,085	1,842		8,927
Parts sales	6,487	1,033		7,520
Services revenues	7,596	1,311		8,907
Other	682	(67)		615
<b>Gross profit</b>	<b>62,496</b>	<b>10,288</b>		<b>72,784</b>
Selling, general and administrative expenses	41,275	7,581		48,856
Equity in earnings of guarantor subsidiaries	199		(199)	
Gain on sales of property and equipment, net	513	150		663
<b>Income from operations</b>	<b>21,933</b>	<b>2,857</b>	<b>(199)</b>	<b>24,591</b>
<b>Other income (expense):</b>				
Interest expense	(9,951)	(2,699)		(12,650)
Other, net	265	41		306
<b>Total other expense, net</b>	<b>(9,686)</b>	<b>(2,658)</b>		<b>(12,344)</b>

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

Income before income taxes	12,247	199	(199)	12,247
Income tax expense	4,811			4,811
Net income	\$ 7,436	\$ 199	\$ (199)	\$ 7,436

---

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**
**Three Months Ended March 31, 2013**
**H&E Equipment Guarantor**  
**Services      Subsidiaries      Elimination      Consolidated**  
**(Amounts in thousands)**

<b>Revenues:</b>				
Equipment rentals	\$ 62,909	\$ 12,461	\$	\$ 75,370
New equipment sales	47,271	6,052		53,323
Used equipment sales	25,526	6,623		32,149
Parts sales	21,315	3,637		24,952
Services revenues	12,768	1,783		14,551
Other	9,938	2,105		12,043
<b>Total revenues</b>	<b>179,727</b>	<b>32,661</b>		<b>212,388</b>
<b>Cost of revenues:</b>				
Rental depreciation	23,023	5,109		28,132
Rental expense	11,279	2,324		13,603
New equipment sales	42,394	5,345		47,739
Used equipment sales	17,658	5,090		22,748
Parts sales	15,667	2,637		18,304
Services revenues	5,141	602		5,743
Other	9,422	2,217		11,639
<b>Total cost of revenues</b>	<b>124,584</b>	<b>23,324</b>		<b>147,908</b>
<b>Gross profit (loss):</b>				
Equipment rentals	28,607	5,028		33,635
New equipment sales	4,877	707		5,584
Used equipment sales	7,868	1,533		9,401
Parts sales	5,648	1,000		6,648
Services revenues	7,627	1,181		8,808
Other	516	(112)		404
<b>Gross profit</b>	<b>55,143</b>	<b>9,337</b>		<b>64,480</b>
Selling, general and administrative expenses	38,479	7,785		46,264
Equity in loss of guarantor subsidiaries	(816)		816	
Gain on sales of property and equipment, net	426	74		500
<b>Income from operations</b>	<b>16,274</b>	<b>1,626</b>	<b>816</b>	<b>18,716</b>
<b>Other income (expense):</b>				
Interest expense	(9,803)	(2,469)		(12,272)
Other, net	480	27		507
<b>Total other expense, net</b>	<b>(9,323)</b>	<b>(2,442)</b>		<b>(11,765)</b>

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

Income (loss) before income taxes	6,951	(816)	816	6,951
Income tax expense	2,174			2,174
Net income (loss)	\$ 4,777	\$ (816)	\$ 816	\$ 4,777

---

**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**
**Three Months Ended March 31, 2014**
**H&E Equipment Services    Guarantor Subsidiaries    Elimination    Consolidated**  
**(Amounts in thousands)**

<b>Cash flows from operating activities:</b>				
Net income	\$ 7,436	\$ 199	\$ (199)	\$ 7,436
<b>Adjustments to reconcile net income to net cash used in operating activities:</b>				
Depreciation and amortization on property and equipment	4,193	587		4,780
Depreciation of rental equipment	27,785	5,213		32,998
Amortization of deferred financing costs	268			268
Accretion of note discount, net of premium amortization	42			42
Provision for losses on accounts receivable	627	107		734
Provision for inventory obsolescence	63			63
Provision for deferred income taxes	3,939			3,939
Stock-based compensation expense	808			808
Gain on sales of property and equipment, net	(512)	(150)		(662)
Gain on sales of rental equipment, net	(6,547)	(1,810)		(8,357)
Equity in earnings of guarantor subsidiaries	(199)		199	
<b>Changes in operating assets and liabilities:</b>				
Receivables	(6,844)	822		(6,022)
Inventories	(75,278)	(7,236)		(82,514)
Prepaid expenses and other assets	(3,967)	(50)		(4,017)
Accounts payable	44,836	(109)		44,727
Manufacturer flooring plans payable	7,295	(44)		7,251
Accrued expenses payable and other liabilities	(15,222)	(135)		(15,357)
Deferred compensation payable	16			16
Net cash used in operating activities	(11,261)	(2,606)		(13,867)
<b>Cash flows from investing activities:</b>				
Purchases of property and equipment	(5,457)	(602)		(6,059)
Purchases of rental equipment	(36,595)	(3,068)		(39,663)
Proceeds from sales of property and equipment	532	150		682
Proceeds from sales of rental equipment	18,151	6,651		24,802
Investment in subsidiaries	504		(504)	
Net cash provided by (used in) investing activities	(22,865)	3,131	(504)	(20,238)
<b>Cash flows from financing activities:</b>				
Borrowings on senior secured credit facility	266,183			266,183
Payments on senior secured credit facility	(244,676)			(244,676)
Dividends paid	(23)	23		

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

Payments on capital lease obligations		(44)		(44)
Capital contributions		(504)	504	
Net cash provided by (used in) financing activities	21,484	(525)	504	21,463
Net decrease in cash	(12,642)			(12,642)
Cash, beginning of period	17,607			17,607
Cash, end of period	\$ 4,965	\$	\$	\$ 4,965

---

**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**
**Three Months Ended March 31, 2013**
**H&E Equipment Services      Guarantor Subsidiaries      Elimination      Consolidated**  
**(Amounts in thousands)**

<b>Cash flows from operating activities:</b>				
Net income (loss)	\$ 4,777	\$ (816)	\$ 816	\$ 4,777
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization on property and equipment	3,435	500		3,935
Depreciation on rental equipment	23,023	5,109		28,132
Amortization of deferred financing costs	281			281
Accretion of note discount, net of premium amortization	105			105
Provision for losses on accounts receivable	569	198		767
Provision for inventory obsolescence	56			56
Increase in deferred income taxes	649			649
Stock-based compensation expense	938			938
Gain on sales of property and equipment, net	(426)	(74)		(500)
Gain on sales of rental equipment, net	(6,991)	(1,507)		(8,498)
Writedown of goodwill for tax-deductible goodwill in excess of book goodwill	219			219
Equity in loss of guarantor subsidiaries	816		(816)	
Changes in operating assets and liabilities:				
Receivables	7,020	1,755		8,775
Inventories	(89,230)	(4,229)		(93,459)
Prepaid expenses and other assets	(1,944)	(57)		(2,001)
Accounts payable	57,014	4,392		61,406
Manufacturer flooring plans payable	17,198	(344)		16,854
Accrued expenses payable and other liabilities	(14,089)	449		(13,640)
Deferred compensation payable	17			17
Net cash provided by operating activities	3,437	5,376		8,813
<b>Cash flows from investing activities:</b>				
Purchases of property and equipment	(6,033)	(255)		(6,288)
Purchases of rental equipment	(30,204)	(3,896)		(34,100)
Proceeds from sales of property and equipment	447	74		521
Proceeds from sales of rental equipment	17,918	4,463		22,381
Investment in subsidiaries	5,721		(5,721)	
Net cash provided by (used in) investing activities	(12,151)	386	(5,721)	(17,486)
<b>Cash flows from financing activities:</b>				
Borrowings on senior secured credit facility	240,088			240,088

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

Payments on senior secured credit facility	(343,989)			(343,989)
Proceeds from issuance of senior unsecured notes	107,250			107,250
Payments of deferred financing costs	(564)			(564)
Payments on capital lease obligations		(41)		(41)
Capital contributions		(5,721)	5,721	
Net cash provided by (used in) financing activities	2,785	(5,762)	5,721	2,744
Net decrease in cash	(5,929)			(5,929)
Cash, beginning of period	8,894			8,894
Cash, end of period	\$ 2,965	\$	\$	\$ 2,965



---

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

The following discussion summarizes the financial position of H&E Equipment Services, Inc. and its subsidiaries as of March 31, 2014, and its results of operations for the three month period ended March 31, 2014, and should be read in conjunction with (i) the unaudited condensed consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q and (ii) the audited consolidated financial statements and accompanying notes to our Annual Report on Form 10-K for the year ended December 31, 2013. The following discussion contains, in addition to historical information, forward-looking statements that include risks and uncertainties (see discussion of *Forward-Looking Statements* included elsewhere in this Quarterly Report on Form 10-Q). Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those factors set forth under Item 1A *Risk Factors* of our Annual Report on Form 10-K for the year ended December 31, 2013.

### Overview

#### Background

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

As of April 25, 2014, we operated 69 full-service facilities throughout the Intermountain, Southwest, Gulf Coast, West Coast, Southeast and Mid-Atlantic regions of the United States. Our work force includes distinct, focused sales forces for our new and used equipment sales and rental operations, highly skilled service technicians, product specialists and regional managers. We focus our sales and rental activities on, and organize our personnel principally by, our four core equipment categories. We believe this allows us to provide specialized equipment knowledge, improve the effectiveness of our rental and sales force and strengthen our customer relationships. In addition, we have branch managers for each location who are responsible for managing their assets and financial results. We believe this fosters accountability in our business and strengthens our local and regional relationships.

Through our predecessor companies, we have been in the equipment services business for approximately 53 years. H&E Equipment Services L.L.C. ( *H&E LLC* ) was formed in June 2002 through the business combination of Head & Engquist Equipment, LLC ( *Head & Engquist* ), a wholly-owned subsidiary of Gulf Wide Industries, L.L.C. ( *Gulf Wide* ), and ICM Equipment Company L.L.C. ( *ICM* ). Head & Engquist, founded in 1961, and ICM, founded in 1971, were two leading regional, integrated equipment service companies operating in contiguous geographic markets. In the June 2002 transaction, Head & Engquist and ICM were merged with and into Gulf Wide, which was renamed H&E LLC. Prior to the combination, Head & Engquist operated 25 facilities in the Gulf Coast region, and ICM operated 16 facilities in the Intermountain region of the United States.

Prior to our initial public offering in February 2006, our business was conducted through H&E LLC. In connection with our initial public offering, we converted H&E LLC into H&E Equipment Services, Inc. In order to have an operating Delaware corporation as the issuer for our initial public offering, H&E Equipment Services, Inc. was formed as a Delaware corporation and wholly-owned subsidiary of H&E Holdings L.L.C. ( *H&E Holdings* ), and immediately prior to the closing of our initial public offering, on February 3, 2006, H&E LLC and H&E Holdings merged with and

into us (H&E Equipment Services, Inc.), with us surviving the reincorporation merger as the operating company. Effective February 3, 2006, H&E LLC and H&E Holdings no longer existed under operation of law pursuant to the reincorporation merger.

*Critical Accounting Policies*

Item 7, included in Part II of our Annual Report on Form 10-K for the year ended December 31, 2013, presents the accounting policies and related estimates that we believe are the most critical to understanding our consolidated financial statements, financial condition, and results of operations and cash flows, and which require complex management judgment and assumptions, or involve uncertainties. There have been no changes to these critical accounting policies and estimates during the quarter ended March 31, 2014. These policies include, among others, revenue recognition, the adequacy of the allowance for doubtful accounts, the propriety of our estimated useful life of rental equipment and property and equipment, the potential impairment of long-lived assets including goodwill and intangible assets, obsolescence reserves on inventory, the allocation of purchase price related to business combinations, reserves for claims, including self-insurance reserves, and deferred income taxes, including the valuation of any related deferred tax assets.

Information regarding our other significant accounting policies is included in note 2 to our consolidated financial statements in Item 8 of Part II of our Annual Report on Form 10-K for the year ended December 31, 2013 and in note 2 to the condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

### ***Business Segments***

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

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

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

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

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

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

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

For additional information about our business segments, see note 8 to the condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

***Revenue Sources***

We generate all of our total revenues from our five business segments and our non-segmented equipment support activities. Equipment rentals and new equipment sales account for more than half of our total revenues. For the three month period ended March 31, 2014, approximately 36.3% of our total revenues were attributable to equipment rentals, 29.3% of our total revenues were attributable to new equipment sales, 12.4% were attributable to used equipment sales, 10.9% were attributable to parts sales, 5.8% were attributable to our services revenues and 5.3% were attributable to non-segmented other revenues.

The equipment that we sell, rent and service is principally used in the construction industry, as well as by companies for commercial and industrial uses such as plant maintenance and turnarounds, as well as in the petrochemical and energy sectors. As a result, our total revenues are affected by several factors including, but not limited to, the demand for and availability of rental equipment, rental rates and other competitive factors, the demand for new and used equipment, the level of construction and industrial activities, spending levels by our customers, adverse weather conditions and general economic conditions. For a discussion of the impact of seasonality on our revenues, see Seasonality below.

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

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

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

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

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

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

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

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.

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

Our largest expenses are the costs to purchase the new equipment we sell, the costs associated with the used equipment we sell, rental expenses, rental depreciation and costs associated with parts sales and services, all of which are included in cost of revenues. For the three month period ended March 31, 2014, our total cost of revenues was approximately \$164.4 million. Our operating expenses consist principally of selling, general and administrative expenses. For the three month period ended March 31, 2014, our selling, general and administrative expenses were \$48.9 million. In addition, we have interest expense related to our debt instruments. Operating expenses and all other income and expense items below the gross profit line of our consolidated statements of income are not generally allocated to our reportable segments.

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

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

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

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

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

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

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

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

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

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

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

***Interest Expense:***

Interest expense for the periods presented represents the interest on our outstanding debt instruments, including aggregate amounts outstanding under our revolving senior secured credit facility (the Credit Facility ), senior unsecured notes due 2022 and our capital lease obligations, as well as our extinguished senior unsecured notes due 2016 (the Old Notes ) for the periods during which such Old Notes were outstanding. Interest expense also includes interest on our outstanding manufacturer flooring plans payable which are used to finance inventory and rental equipment purchases. Non-cash interest expense related to the amortization cost of deferred financing costs is also included in interest expense.



**Principal Cash Flows**

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

**Rental Fleet**

A substantial portion of our overall value is in our rental fleet equipment. The net book value of our rental equipment at March 31, 2014 was \$704.2 million, or approximately 60.7% of our total assets. Our rental fleet as of March 31, 2014 consisted of 22,775 units having an original acquisition cost (which we define as the cost originally paid to manufacturers or the original amount financed under operating leases) of approximately \$1.0 billion. As of March 31, 2014, our rental fleet composition was as follows (dollars in millions):

	<b>Units</b>	<b>% of Total Units</b>	<b>Original Acquisition Cost</b>	<b>% of Original Acquisition Cost</b>	<b>Average Age in Months</b>
Hi-Lift or Aerial Work Platforms	15,108	66.3%	\$ 625.6	61.1%	40.5
Cranes	407	1.8%	126.5	12.3%	36.6
Earthmoving	2,094	9.2%	190.1	18.6%	20.8
Industrial Lift Trucks	719	3.2%	28.6	2.8%	26.2
Other	4,447	19.5%	53.3	5.2%	21.2
<b>Total</b>	<b>22,775</b>	<b>100.0%</b>	<b>\$ 1,024.1</b>	<b>100.0%</b>	<b>34.4</b>

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

The original acquisition cost of our gross rental fleet increased by approximately \$23.3 million, or 2.3%, for the three months ended March 31, 2014. The average age of our rental fleet equipment decreased by approximately 0.5 months for the three months ended March 31, 2014 to 34.4 months from 34.9 months at December 31, 2013.

Our average rental rates for the three months ended March 31, 2014 were 2.5% higher than in the three months ended March 31, 2013 (see further discussion on rental rates in *Results of Operations* below).

The rental equipment mix among our four core product lines for the three months ended March 31, 2014 was largely consistent with that of the prior year comparable period as a percentage of total units available for rent and as a

percentage of original acquisition cost.

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

We are subject to a number of external factors that may adversely affect our businesses. These factors, and other factors, are discussed below and under the heading Forward-Looking Statements, and in Item 1A Risk Factors in this Annual Report on Form 10-K for the year ended December 31, 2013.

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

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

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

We believe that our integrated business tempers the effects of downturns in a particular segment. For a discussion of seasonality, see *Seasonality* on page 30 of this Quarterly Report on Form 10-Q.

## Results of Operations

The tables included in the period-to-period comparisons below provide summaries of our revenues and gross profits for our business segments and non-segmented revenues for the three months ended March 31, 2014 and 2013. The period-to-period comparisons of our financial results are not necessarily indicative of future results.

### *Three Months Ended March 31, 2014 Compared to the Three Months Ended March 31, 2013*

#### *Revenues.*

	<b>Three Months Ended March 31,</b>		<b>Total Dollar Increase (Decrease)</b>	<b>Total Percentage Increase (Decrease)</b>
	<b>2014</b>	<b>2013</b>		
	<b>(in thousands, except percentages)</b>			
<b>Segment revenues:</b>				
Equipment rentals	\$ 86,224	\$ 75,370	\$ 10,854	14.4%
New equipment sales	69,547	53,323	16,224	30.4%
Used equipment sales	29,345	32,149	(2,804)	(8.7)%
Parts sales	25,802	24,952	850	3.4%
Services revenues	13,648	14,551	(903)	(6.2)%
Non-Segmented other revenues	12,663	12,043	620	5.1%
<b>Total revenues</b>	<b>\$ 237,229</b>	<b>\$ 212,388</b>	<b>\$ 24,841</b>	<b>11.7%</b>

*Total Revenues.* Our total revenues were \$237.2 million for the three month period ended March 31, 2014 compared to \$212.4 million for the three month period ended March 31, 2013, an increase of \$24.8 million, or 11.7%. Revenues for our five reportable segments and non-segmented other revenues are further discussed below.

*Equipment Rental Revenues.* Our revenues from equipment rentals for the three month period ended March 31, 2014 increased approximately \$10.9 million, or 14.4%, to \$86.2 million from \$75.4 million in the three month period ended March 31, 2013. Rental revenues from aerial work platforms increased \$7.2 million, while rental revenues from earthmoving equipment increased \$2.2 million. Rental revenues from cranes increased \$0.7 million and rental revenues from other equipment increased approximately \$0.4 million. Lift truck rental revenues increased \$0.3 million. Our average rental rates for the three month period ended March 31, 2014 increased 2.5% compared to the same three month period last year. Our average rental rates for the three month period ended March 31, 2014 decreased 0.8% from the fourth quarter of fiscal 2013, primarily reflecting first quarter winter weather seasonality.

Rental equipment dollar utilization (annual rental revenues divided by the average original rental fleet equipment costs) for the three month period ended March 31, 2014 improved to 34.1% from 33.9% in the three month period ended March 31, 2013, an increase of 0.2%. The increase in comparative rental equipment dollar utilization was primarily driven by a 2.5% increase in average rental rates and a 0.9% increase in rental equipment time utilization based on the number of rental equipment units available for rent.

Rental equipment time utilization based on the number of rental equipment units available for rent was 64.5% for the three month period ended March 31, 2014 compared to 63.6% in the same period last year. Rental equipment time utilization as a percentage of original equipment cost was 69.2% for the three month period ended March 31, 2014 compared to 67.9% in the three month period ended March 31, 2013, an increase of 1.3%. The increase in equipment rental time utilization based on the number of units available for rent and based on original equipment cost is reflective of equipment rental increased demand.

*New Equipment Sales Revenues.* Our new equipment sales for the three month period ended March 31, 2014 increased \$16.2 million, or 30.4%, to \$69.5 million from \$53.3 million for the three month period ended March 31, 2013. Sales of new cranes increased \$12.6 million and sales of new earthmoving equipment increased \$3.7 million. Sales of new aerial work platform equipment increased \$0.2 million and sales of new lift trucks increased \$0.3 million. New other equipment sales decreased \$0.6 million.

*Used Equipment Sales Revenues.* Our used equipment sales decreased \$2.8 million, or 8.7%, to \$29.3 million for the three month period ended March 31, 2014, from \$32.1 million for the same three month period in 2013. The decrease in used equipment sales was primarily driven by a \$5.5 million decrease in used crane sales. Used other equipment sales decreased \$0.2 million. Offsetting these decreases in sales were increases in sales of used aerial work platform equipment, earthmoving equipment and lift trucks of \$1.7 million, \$0.8 million and \$0.3 million, respectively.

*Parts Sales Revenues.* Our parts sales increased approximately \$0.9 million, or 3.4%, to \$25.8 million for the three month period ended March 31, 2014 from approximately \$25.0 million for the same three month period in 2013. The increase in parts revenues was due to higher demand for parts compared to last year.

*Services Revenues.* Our services revenues for the three month period ended March 31, 2014 decreased \$0.9 million, or 6.2%, to approximately \$13.6 million from \$14.6 million for the same three month period last year. The decrease in service revenues was primarily due to a decrease in contract services revenues.

*Non-Segmented Other Revenues.* Our non-segmented other revenues consisted primarily of equipment support activities including transportation, hauling, parts freight and damage waiver charges. For the three month period ended March 31, 2014, our other revenues were approximately \$12.7 million, an increase of \$0.6 million, or 5.1%, from \$12.0 million in the same three month period in 2013. The increase was primarily due to an increase in hauling revenues and higher damage waiver income associated with equipment rentals.

**Gross Profit.**

	<b>Three Months Ended March 31,</b>		<b>Total Dollar Change Increase (Decrease)</b>	<b>Total Percentage Change Increase (Decrease)</b>
	<b>2014</b>	<b>2013</b>		
	<b>(in thousands, except percentages)</b>			
Segment Gross Profit:				
Equipment rentals	\$ 39,002	\$ 33,635	\$ 5,367	16.0%
New equipment sales	7,813	5,584	2,229	39.9%
Used equipment sales	8,927	9,401	(474)	(5.0)%
Parts sales	7,520	6,648	872	13.1%
Services revenues	8,907	8,808	99	1.1%
Non-Segmented other revenues	615	404	211	52.2%

Total gross profit	\$ 72,784	\$ 64,480	\$ 8,304	12.9%
--------------------	-----------	-----------	----------	-------

*Total Gross Profit.* Our total gross profit was \$72.8 million for the three month period ended March 31, 2014 compared to approximately \$64.5 million for the same three month period in 2013, an increase of \$8.3 million, or 12.9%. Total gross profit margin for the three month period ended March 31, 2014 was 30.7%, an increase of 0.3% from the 30.4% gross profit margin for the same three month period in 2013. Gross profit and gross margin for all reportable segments and non-segmented other revenues are further described below:

*Equipment Rentals Gross Profit.* Our gross profit from equipment rentals for the three month period ended March 31, 2014 increased \$5.4 million, or 16.0%, to \$39.0 million from \$33.6 million in the same three month period in 2013. The increase in equipment rentals gross profit was the result of a \$10.9 million increase in rental revenues for the three month period ended March 31, 2014, which was partially offset by a \$0.6 million increase in rental expenses and a \$4.9 million increase in rental equipment depreciation expense. The increase in rental expenses and rental equipment depreciation expense was due to a larger fleet size in 2014 compared to 2013. As a percentage of equipment rental revenues, rental expenses were 16.5% for the three month period ended March

31, 2014 compared to 18.1% for the same period last year. This percentage decrease was primarily attributable to the increase in comparative rental revenues. Depreciation expense was 38.3% of equipment rental revenues for the three month period ended March 31, 2014 compared to 37.3% for the same period in 2013. The 1.0% increase in depreciation expense as a percentage of equipment rental revenues is primarily due to an increase in the volume of rental purchase option arrangements.

Gross profit margin on equipment rentals for the three month period ended March 31, 2014 was approximately 45.2%, up 0.6% from 44.6% for the same period in 2013. This gross profit margin improvement was primarily due to the increase in comparative rental revenues resulting from higher average rental rates, combined with the decreases in depreciation expenses and rental expenses as a percentage of equipment rental revenues and the increase in time utilization for the three month period ended March 31, 2014 compared to the three month period ended March 31, 2013.

*New Equipment Sales Gross Profit.* Our new equipment sales gross profit for the three month period ended March 31, 2014 increased \$2.2 million, or 39.9%, to \$7.8 million compared to \$5.6 million for the same three month period in 2013 on a total new equipment sales increase of \$16.2 million. Gross profit margin on new equipment sales for the three month period ended March 31, 2014 was 11.2%, an increase of 0.7% from 10.5% in the same three month period in 2013, primarily reflecting higher margins on new crane and earthmoving equipment sales.

*Used Equipment Sales Gross Profit.* Our used equipment sales gross profit for the three month period ended March 31, 2014 decreased \$0.5 million, or 5.0%, to \$8.9 million from \$9.4 million in the same period in 2013 on a used equipment sales decrease of \$2.8 million. Gross profit margin on used equipment sales for the three month period ended March 31, 2014 was 30.4%, up 1.2% from 29.2% for the same three month period in 2013, primarily as a result of the mix of used equipment sold. Our used equipment sales from the rental fleet, which comprised approximately 84.5% and 69.6% of our used equipment sales for the three month periods ended March 31, 2014 and 2013, respectively, were approximately 150.8% and 161.2% of net book value for the three month periods ended March 31, 2014 and 2013, respectively.

*Parts Sales Gross Profit.* For the three month period ended March 31, 2014, our parts sales revenue gross profit increased approximately \$0.9 million, or 13.1%, to \$7.5 million from \$6.6 million for the same three month period in 2013 on a \$0.9 million increase in parts sales revenues. Gross profit margin for the three month period ended March 31, 2014 was 29.1%, an increase of 2.5% from 26.6% in the same three month period in 2013, as a result of the mix of parts sold and pricing on other equipment parts.

*Services Revenues Gross Profit.* For the three month period ended March 31, 2014, our services revenues gross profit increased \$0.1 million, or 1.1%, to \$8.9 million from \$8.8 million for the same three month period in 2013 on a \$0.9 million decrease in services revenues. Gross profit margin for the three month period ended March 31, 2014 was 65.3%, up 4.8% from 60.5% in the same three month period in 2013, as a result of service revenues mix.

*Non-Segmented Other Revenues Gross Profit.* Our non-segmented other revenues gross profit increased \$0.2 million, or 52.2%, to \$0.6 million for the three month period ended March 31, 2014 from \$0.4 million for the same period in 2013. On a gross margin basis, gross margin for the three month period ended March 31, 2014 was 4.9% compared to a gross margin of 3.4% in the same three month period last year, primarily reflective of improved margins on freight revenues and miscellaneous shop supplies.

*Selling, General and Administrative Expenses.* SG&A expenses increased \$2.6 million, or 5.6%, to approximately \$48.9 million for the three month period ended March 31, 2014 compared to \$46.3 million for the three month period ended March 31, 2013. The net increase in SG&A expenses was attributable to several factors. Employee salaries and wages and related employee expenses increased approximately \$1.2 million as a result of higher salaries, wages and payroll taxes stemming primarily from an increase in commission and incentive pay that resulted from higher rental

and new equipment sales revenues. Liability insurance costs increased \$0.3 million and depreciation expense increased \$0.3 million. Promotional expenses increased \$0.3 million and legal and professional fees increased \$0.2 million. Stock-based compensation expense was \$0.8 million and \$0.9 million for the three month periods ended March 31, 2014 and 2013, respectively. Of the \$2.6 million increase in SG&A expenses, approximately \$1.0 million was attributable to branches opened since December 31, 2012 with less than three full months of operations (or no operations) in the first quarter of 2013. As a percentage of total revenues, SG&A expenses were 20.6% for the three month period ended March 31, 2014, a decrease of 1.2% from 21.8% for the same three month period in 2013, primarily as a result of the current year increase in total revenues.

***Other Income (Expense).*** For the three month period ended March 31, 2014, our net other expenses increased approximately \$0.6 million to \$12.3 million compared to \$11.8 million for the same three month period in 2013. The increase was the result of a \$0.4 million increase in interest expense to \$12.7 million for the three month period ended March 31, 2014 compared to \$12.3 million for the same three month period in 2013 and a \$0.2 million decrease in miscellaneous other income. The increase in interest expense is the net result of a \$0.7 million increase in expense related to our senior unsecured notes and a \$0.2 million decrease in interest expense related to manufacturing flooring plans used to finance inventory purchases. The increase in interest expense on our senior unsecured notes is primarily due to the increase in the aggregate principal amount of these notes from \$530 million to \$630 million on February 4, 2013.



**Income Taxes.** We recorded income tax expense of \$4.8 million for the three month period ended March 31, 2014 compared to income tax expense of \$2.2 million for the three month period ended March 31, 2013. Our effective income tax rate was 39.3% for the three month period ended March 31, 2014 compared to 31.3% for the same three month period last year. The increase in our effective tax rate is primarily due to a decrease in permanent differences in the relation to current year pre-tax income. We also recorded a reduction of book goodwill of approximately \$0.2 million for the three month period ended March 31, 2013 for tax benefits realized from tax-deductible goodwill in excess of book goodwill. Based on available evidence, both positive and negative, we believe it is more likely than not that our deferred tax assets at March 31, 2014 are fully realizable through future reversals of existing taxable temporary differences and future taxable income, and are not subject to any limitations.

### **Liquidity and Capital Resources**

*Cash flow from operating activities.* For the three month period ended March 31, 2014, the cash provided by our operating activities was exceeded by our cash used in our operating activities, resulting in net cash used in our operating activities of \$13.9 million. Our reported net income of \$7.4 million, which, when adjusted for non-cash income and expense items, such as depreciation and amortization, deferred income taxes, provision for losses on accounts receivable, provision for inventory obsolescence, stock-based compensation expense and net gains on the sale of long-lived assets, provided positive cash flows of \$42.0 million. These cash flows from operating activities were also positively impacted by a \$44.7 million increase in accounts payable and a \$7.3 million increase in manufacturing flooring plans payable. Offsetting these positive cash flows was an increase of \$82.5 million in net inventories as a result of increasing demand and improving sales of new equipment. Also decreasing our operating cash flows were a \$6.0 million increase in accounts receivable, a \$15.4 million decrease in accrued expenses payable and other liabilities and a \$4.0 million increase in prepaid expenses and other assets.

For the three month period ended March 31, 2013, the cash provided by our operating activities was \$8.8 million. Our reported net income of \$4.8 million, which, when adjusted for non-cash income and expense items, such as depreciation and amortization, deferred income taxes, provision for losses on accounts receivable, provision for inventory obsolescence, stock-based compensation expense, writedown of goodwill for tax-deductible goodwill in excess of book goodwill and net gains on the sale of long-lived assets, provided positive cash flows of \$30.9 million. These cash flows from operating activities were also positively impacted by a \$61.4 million increase in accounts payable and a \$16.9 million increase in manufacturing flooring plans payable. Also increasing our operating cash flows was an \$8.8 million decrease in net accounts receivables. Offsetting these positive cash flows were an increase of \$93.5 million in net inventories as a result of increasing demand and improving sales of new and used equipment. Also decreasing our operating cash flows was a \$13.6 million decrease in accrued expenses payable and other liabilities.

*Cash flow from investing activities.* For the three months ended March 31, 2014, cash provided by our investing activities was exceeded by our cash used in our investing activities, resulting in net cash used in our investing activities of \$20.2 million. This was a net result of purchases of rental and non-rental equipment totaling \$45.7 million, which was partially offset by proceeds from the sale of rental and non-rental equipment of approximately \$25.5 million.

For the three months ended March 31, 2013, cash provided by our investing activities was exceeded by our cash used in our investing activities, resulting in net cash used in our investing activities of \$17.5 million. This was a net result of purchases of rental and non-rental equipment totaling \$40.4 million, which was partially offset by proceeds from the sale of rental and non-rental equipment of approximately \$22.9 million.

*Cash flow from financing activities.* For the three month period ended March 31, 2014, cash provided by our financing activities was approximately \$21.6 million, substantially as a result of net borrowings under the Credit Facility of \$21.5 million.

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

For the three month period ended March 31, 2013, cash provided by our financing activities was approximately \$2.7 million. Net proceeds from our 7% senior notes due 2022 issued on February 4, 2013 (the Add-on Notes ) were \$107.3 million. Net payments under the Credit Facility totaled \$103.9 million and payments of deferred financing costs totaled \$0.6 million.

---

***Senior Unsecured Notes***

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

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

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

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

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

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

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

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

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

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

In order to satisfy our obligations under two separate registration rights agreements, one entered into between the Company, the guarantors of the New Notes and the initial purchasers of the New Notes, and the other entered into between the Company, the guarantors of the Add-on Notes and the initial purchaser of the Add-on Notes, we commenced an offering on April 1, 2013 to

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

### ***Senior Secured Credit Facility***

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

As amended, the Credit Facility provides, among other things, a \$402.5 million senior secured asset based revolver which includes a \$30.0 million letter of credit facility, and, after giving effect to the increase provided for in Amendment No. 3, a \$47.5 million incremental facility. In addition, the borrowers under the Credit Facility remain the same, the Credit Facility remains secured by substantially all of the assets of the Company and its subsidiaries, and the Company and each of its subsidiaries continue to provide a guaranty of the obligations under the Credit Facility. The Credit Facility requires us to maintain a minimum fixed charge coverage ratio in the event that our excess borrowing availability is below approximately \$50.3 million (as adjusted if the \$47.5 million incremental facility is exercised). The Credit Facility also requires us to maintain a maximum total leverage ratio of 5.0 to 1.0, which is tested if excess availability is less than approximately \$50.3 million (as adjusted if the \$47.5 million incremental facility is exercised). As of March 31, 2014, we were in compliance with our financial covenants under the Credit Facility.

At March 31, 2014, the interest rate on the Credit Facility was based on LIBOR plus 225 basis points. The weighted average interest rate at March 31, 2014 was approximately 2.8%. At April 25, 2014, we had \$260.5 million of available borrowings under our Credit Facility, net of \$6.5 million of outstanding letters of credit.

### ***Cash Requirements Related to Operations***

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

The amount of our future capital expenditures will depend on a number of factors including general economic conditions and growth prospects. Our gross rental fleet capital expenditures for the three month period ended March 31, 2014 were approximately \$65.0 million, including \$25.3 million of non-cash transfers from new and used equipment to rental fleet inventory. Our gross property and equipment capital expenditures for the three month period ended March 31, 2014 were \$6.1 million. In response to changing economic conditions, we believe we have the flexibility to modify our capital expenditures by adjusting them (either up or down) to match our actual performance.

To service our debt, we will require a significant amount of cash. Our ability to pay interest and principal on our indebtedness (including the New Notes and the Add-on Notes, the Credit Facility and our other indebtedness), will depend upon our future operating performance and the availability of borrowings under the Credit Facility and/or other debt and equity financing alternatives available to us, which will be affected by prevailing economic conditions and conditions in the global credit and capital markets, as well as financial, business and other factors, some of which are beyond our control. Based on our current level of operations and given the current state of the capital markets, we believe our cash flow from operations, available cash and available borrowings under the Credit Facility will be adequate to meet our future liquidity needs for the foreseeable future. As of April 25, 2014, we had \$260.5 million of available borrowings under the Credit Facility, net of \$6.5 million of outstanding letters of credit.

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

## Seasonality

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

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

## Off-Balance Sheet Arrangements

There have been no material changes from the information included in our Annual Report on Form 10-K for the year ended December 31, 2013.

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

Our earnings may be affected by changes in interest rates since interest expense on the Credit Facility is currently calculated based upon the index rate plus an applicable margin of 1.00% to 1.50%, depending on the leverage ratio, in the case of index rate revolving loans and LIBOR plus an applicable margin of 2.00% to 2.50%, depending on the leverage ratio, in the case of LIBOR revolving loans. At March 31, 2014, we had total borrowings outstanding under the Credit Facility of approximately \$124.0 million. A 1.0% increase in the interest rate on the Credit Facility would result in approximately a \$1.2 million increase in interest expense on an annualized basis. At April 25, 2014, we had \$260.5 million of available borrowings under the Credit Facility, net of \$6.5 million of outstanding letters of credit. We did not have significant exposure to changing interest rates as of March 31, 2014 on the fixed-rate New Notes and Add-on Notes. Historically, we have not engaged in derivatives or other financial instruments for trading, speculative or hedging purposes, though we may do so from time to time if such instruments are available to us on acceptable terms and prevailing market conditions are accommodating.

## Item 4. Controls and Procedures

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

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

Our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively) have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our principal executive officer and principal financial officer have concluded that, as of March 31, 2014, our current disclosure controls and procedures were effective.

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

*Changes in Internal Control Over Financial Reporting*

There were no changes in the Company's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) that occurred during the quarter ended March 31, 2014 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



## **PART II. OTHER INFORMATION**

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

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

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

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A - Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2013, which could materially affect our business, financial condition or future results.

As of the date of this Quarterly Report on Form 10-Q, there have been no material changes with respect to the Company's risk factors previously disclosed on Form 10-K for the year ended December 31, 2013.

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

None.

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

None.

### **Item 4. Mine Safety Disclosures.**

Not applicable.

### **Item 5. Other Information.**

None.

### **Item 6. Exhibits.**

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

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

- 101.LAB XBRL Taxonomy Extension Label Linkbase Document (filed herewith).
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith).

**SIGNATURES**

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

H&E EQUIPMENT SERVICES, INC.

Dated: May 1, 2014

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

Chief Executive Officer

(Principal Executive Officer)

Dated: May 1, 2014

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

Chief Financial Officer and Secretary

(Principal Financial and Accounting Officer)

**EXHIBIT INDEX**

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