

H&E Equipment Services, Inc.  
Form 10-Q  
July 30, 2015  
**Table of Contents**

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

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2015.**

.. **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)**  
**(225) 298-5200**

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

**(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 July 24, 2015, there were 35,254,249 shares of H&E Equipment Services, Inc. common stock, \$0.01 par value, outstanding.



Table of Contents

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

**TABLE OF CONTENTS**

**June 30, 2015**

	<b>Page</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	<b>4</b>
<u>Item 1. Financial Statements:</u>	
<u>Condensed Consolidated Balance Sheets as of June 30, 2015 (Unaudited) and December 31, 2014</u>	4
<u>Condensed Consolidated Statements of Income (Unaudited) for the Three and Six Months Ended June 30, 2015 and 2014</u>	5
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the Six Months Ended June 30, 2015 and 2014</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>	23
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	36
<u>Item 4. Controls and Procedures</u>	36
<b><u>PART II. OTHER INFORMATION</u></b>	<b>37</b>
<u>Item 1. Legal Proceedings</u>	37
<u>Item 1A. Risk Factors</u>	37
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	37
<u>Item 3. Defaults upon Senior Securities</u>	37
<u>Item 4. Mine Safety Disclosures</u>	37
<u>Item 5. Other Information</u>	37
<u>Item 6. Exhibits</u>	38
<u>Signatures</u>	39

**Table of Contents**

**Forward-Looking Statements**

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

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

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

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

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

relationships with equipment suppliers;

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

our indebtedness;

risks associated with the expansion of our business;

our possible inability to integrate any businesses we acquire;

competitive pressures;

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

other factors discussed under **Risk Factors** in our Annual Report on Form 10-K for the year ended December 31, 2014.

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, 2014, as well as other reports and registration statements filed by us with the SEC. All of our annual, quarterly and current reports, and any amendments thereto, filed with or furnished to the SEC are available on our Internet website under the Investor Relations link. For more information about us and the announcements we make from time to time, visit our Internet website at [www.he-equipment.com](http://www.he-equipment.com).

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

(Amounts in thousands, except share amounts)

	<b>Balances at</b>	
	<b>June 30, 2015</b>	<b>December 31, 2014</b>
	<b>(Unaudited)</b>	
<b>ASSETS</b>		
Cash	\$ 11,861	\$ 15,861
Receivables, net of allowance for doubtful accounts of \$3,237 and \$3,288, respectively	147,808	164,335
Inventories, net of reserves for obsolescence of \$738 and \$647, respectively	139,663	133,987
Prepaid expenses and other assets	15,245	9,146
Rental equipment, net of accumulated depreciation of \$383,127 and \$351,841, respectively	895,982	889,706
Property and equipment, net of accumulated depreciation and amortization of \$97,870 and \$88,376, respectively	110,569	109,908
Deferred financing costs, net of accumulated amortization of \$11,622 and \$11,111, respectively	4,878	4,664
Goodwill	31,197	31,197
<b>Total assets</b>	<b>\$ 1,357,203</b>	<b>\$ 1,358,804</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>Liabilities:</b>		
Amounts due on senior secured credit facility	\$ 257,118	\$ 259,919
Accounts payable	63,846	53,341
Manufacturer flooring plans payable	72,855	93,600
Accrued expenses payable and other liabilities	58,660	60,548
Senior unsecured notes (net of unaccreted discount of \$1,202 and \$1,286, respectively)	628,798	628,714
Capital leases payable	2,005	2,099
Deferred income taxes	136,972	125,110
Deferred compensation payable	2,140	2,106
<b>Total liabilities</b>	<b>1,222,394</b>	<b>1,225,437</b>

**Commitments and Contingencies**

**Stockholders equity:**

Preferred stock, \$0.01 par value, 25,000,000 shares authorized; no shares issued		
Common stock, \$0.01 par value, 175,000,000 shares authorized; 39,129,190 and 39,100,021 shares issued at June 30, 2015 and December 31, 2014, respectively, and 35,254,638 and 35,232,032 shares outstanding at June 30, 2015 and December 31, 2014, respectively	390	390
Additional paid-in capital	219,854	218,349
Treasury stock at cost, 3,874,552 and 3,867,989 shares of common stock held at June 30, 2015 and December 31, 2014, respectively	(59,935)	(59,935)
Retained deficit	(25,500)	(25,437)
<b>Total stockholders equity</b>	<b>134,809</b>	<b>133,367</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 1,357,203</b>	<b>\$ 1,358,804</b>

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



**Table of Contents**

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

(Unaudited)

(Amounts in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
<b>Revenues:</b>				
Equipment rentals	\$ 108,628	\$ 98,814	\$ 210,017	\$ 185,038
New equipment sales	64,376	90,581	108,913	160,128
Used equipment sales	28,932	31,397	54,002	60,742
Parts sales	28,347	28,371	55,432	54,173
Services revenues	15,769	16,102	30,725	29,750
Other	16,308	15,113	30,681	27,776
<b>Total revenues</b>	<b>262,360</b>	<b>280,378</b>	<b>489,770</b>	<b>517,607</b>
<b>Cost of revenues:</b>				
Rental depreciation	40,214	35,449	80,158	68,447
Rental expense	17,701	15,581	33,312	29,805
New equipment sales	56,749	79,413	96,068	141,147
Used equipment sales	19,613	21,056	36,499	41,474
Parts sales	20,607	20,041	40,126	38,323
Services revenues	5,158	5,767	10,435	10,508
Other	15,914	14,003	30,428	26,051
<b>Total cost of revenues</b>	<b>175,956</b>	<b>191,310</b>	<b>327,026</b>	<b>355,755</b>
<b>Gross profit</b>	<b>86,404</b>	<b>89,068</b>	<b>162,744</b>	<b>161,852</b>
Selling, general and administrative expenses	54,414	51,883	107,880	100,739
Gain on sales of property and equipment, net	972	757	1,430	1,420
<b>Income from operations</b>	<b>32,962</b>	<b>37,942</b>	<b>56,294</b>	<b>62,533</b>
<b>Other income (expense):</b>				
Interest expense	(13,749)	(12,922)	(27,194)	(25,572)
Other, net	228	344	582	650
<b>Total other expense, net</b>	<b>(13,521)</b>	<b>(12,578)</b>	<b>(26,612)</b>	<b>(24,922)</b>
<b>Income before income taxes</b>	<b>19,441</b>	<b>25,364</b>	<b>29,682</b>	<b>37,611</b>

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

Provision for income taxes	7,961	9,638	12,116	14,449
Net income	\$ 11,480	\$ 15,726	\$ 17,566	\$ 23,162
Net income per common share:				
Basic	\$ 0.33	\$ 0.45	\$ 0.50	\$ 0.66
Diluted	\$ 0.33	\$ 0.45	\$ 0.50	\$ 0.66
Weighted average common shares outstanding:				
Basic	35,238	35,111	35,232	35,110
Diluted	35,314	35,235	35,300	35,227
Dividends declared per share	\$ 0.25	\$	\$ 0.50	\$

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

Table of Contents

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

(Unaudited)

(Amounts in thousands)

	<b>Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 17,566	\$ 23,162
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization of property and equipment	11,654	9,718
Depreciation of rental equipment	80,158	68,447
Amortization of deferred financing costs	511	497
Accretion of note discount, net of premium amortization	84	84
Provision for losses on accounts receivable	1,393	1,374
Provision for inventory obsolescence	99	63
Increase in deferred income taxes	11,862	12,249
Stock-based compensation expense	1,505	1,619
Gain from sales of property and equipment, net	(1,430)	(1,420)
Gain from sales of rental equipment, net	(16,774)	(18,172)
<b>Changes in operating assets and liabilities:</b>		
Receivables	15,134	(13,940)
Inventories	(47,927)	(76,555)
Prepaid expenses and other assets	(6,099)	(2,781)
Accounts payable	10,505	27,420
Manufacturer flooring plans payable	(20,745)	3,080
Accrued expenses payable and other liabilities	(1,888)	2,975
Deferred compensation payable	34	33
Net cash provided by operating activities	55,642	37,853
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(12,872)	(10,572)
Purchases of rental equipment	(71,919)	(161,579)
Proceeds from sales of property and equipment	1,987	1,541
Proceeds from sales of rental equipment	44,411	52,546
Net cash used in investing activities	(38,393)	(118,064)
<b>Cash flows from financing activities:</b>		
Excess tax deficiency from stock-based awards		(24)
Borrowings on senior secured credit facility	506,455	590,249

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

Payments on senior secured credit facility	(509,256)	(519,941)
Payments of deferred financing costs	(725)	(794)
Dividends paid	(17,629)	(708)
Payments of capital lease obligations	(94)	(88)
Net cash provided by (used in) financing activities	(21,249)	68,694
Net decrease in cash	(4,000)	(11,517)
Cash, beginning of period	15,861	17,607
Cash, end of period	\$ 11,861	\$ 6,090

Table of Contents

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

**(Unaudited)**

**(Amounts in thousands)**

	<b>Six Months Ended June 30,</b>	
	<b>2015</b>	<b>2014</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	\$ 42,152	\$ 37,428
<b>Supplemental disclosures of cash flow information:</b>		
<b>Cash paid during the period for:</b>		
Interest	\$ 26,714	\$ 24,968
Income taxes paid, net of refunds received	\$ 375	\$ 2,634

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

**Table of Contents**

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

**Basis of Presentation**

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

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such regulations. In the opinion of management, all adjustments (consisting of all normal and recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015, 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, 2014, from which the consolidated balance sheet amounts as of December 31, 2014 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 services 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, 2014. During the six month period ended June 30, 2015, there were no significant changes to those accounting policies.

*Use of Estimates*

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

---

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

In April 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* ( ASU 2014-08 ) which amended the FASB s guidance for reporting discontinued operations and disposals of components of an entity under Accounting Standards Codification Subtopic 250-20. The guidance as amended by ASU 2014-08 raises the threshold for a disposal to qualify as a discontinued operation by requiring that a disposal representing a strategic shift that has (or will have) a major effect on an entity s financial results or a business activity classified as held for sale be reported as such. The amendments also expand the disclosure requirements regarding the assets, liabilities, revenues and expenses of discontinued operations and add new disclosure requirements for individually significant dispositions that do not qualify as discontinued operations. The amendments became effective for us on January 1, 2015. The implementation of the amended guidance did not have a material impact on the Company s consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* ( ASU 2014-09 ). ASU 2014-09 requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In doing so, entities will need to use more judgment and make more estimates than under current guidance. These judgments and estimates may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 also requires an entity to disclose sufficient qualitative and quantitative information surrounding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. This ASU supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance throughout the Industry Topics of the Codification, and further permits the use of either a retrospective or cumulative effect transition method. This guidance will be effective for the Company for our 2017 fiscal year. However, on July 9, 2015, the FASB decided to delay the effective date of the new revenue standard by one year, but reporting entities may choose to adopt the standard as of the original effective date. We are currently in the process of evaluating the impact of the adoption of ASU 2014-09 on the Company s consolidated financial statements and have not yet determined the method by which we will adopt ASU 2014-09.

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

In February 2015, FASB issued ASU No. 2015-02, *Consolidation (Topic 810)*. The amendments in this update are effective for fiscal years and interim periods within those fiscal years, beginning after December 15, 2015. The amendments in this update simplify the codification and reduce the number of consolidation models and place more emphasis on the risk of loss when determining controlling financial interests. Early adoption is permitted, but not required. The objective of this standard is to reduce cost and complexity and alleviate uncertainty while maintaining or improving the usefulness of information provided to the users of financial statements. The adoption of this standard is not expected to impact our financial position or results of operations.



In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs* ( ASU 2015-03 ), which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. The guidance in the new standard is limited to the presentation of debt issuance costs and does not affect the recognition and measurement of debt issuance costs. Costs associated with revolving debt arrangements are not within the scope of the new guidance. ASU 2015-03 is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted for financial statements that have not been previously issued and will be applied on a retrospective basis. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

**Table of Contents**

In April 2015, the FASB issued ASU No. 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement* (ASU 2015-05). The FASB decided to add guidance to Subtopic 350-40, Intangibles—Goodwill and Other—Internal Use Software, to help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement. The amendments in this update provide guidance to customers about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, then the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a cloud computing arrangement does not include a software license, the customer should account for the arrangement as a service contract. ASU 2015-05 is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

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

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

- Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 Quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly
- Level 3 Unobservable inputs for which little or no market data exists, therefore requiring a company to develop its own assumptions

The carrying value of financial instruments reported in the accompanying condensed consolidated balance sheets for cash, accounts receivable, accounts payable and accrued expenses payable and other liabilities approximate fair value due to the immediate or short-term nature or maturity of these financial instruments. The fair value of our letter of credit is based on fees currently charged for similar agreements. The carrying amounts and fair values of our other financial instruments subject to fair value disclosures as of June 30, 2015 and December 31, 2014 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>June 30, 2015</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>
Manufacturer flooring plans payable with interest computed at 5.25% (Level 3)	\$ 72,855	\$ 64,303
Senior unsecured notes with interest computed at 7.0% (Level 1)	628,798	648,405
Capital leases payable with interest computed at 5.929% to 9.55% (Level 3)	2,005	1,394
Letter of credit (Level 3)		145

	<b>December 31, 2014</b>	
	<b>Carrying Amount</b>	<b>Fair Value</b>
Manufacturer flooring plans payable with interest computed at 5.00% (Level 3)	\$ 93,600	\$ 82,021
Senior unsecured notes with interest computed at 7.0% (Level 1)	628,714	648,113
Capital leases payable with interest computed at 5.929% to 9.55% (Level 3)	2,099	1,495
Letter of credit (Level 3)		130

During the six month periods ended June 30, 2015 and 2014, 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.

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

The following table summarizes the activity in Stockholders' Equity for the six month period ended June 30, 2015 (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, 2014	39,100,021	\$ 390	\$ 218,349	\$ (59,935)	\$ (25,437)	\$ 133,367
Stock-based compensation			1,505			1,505
Cash dividends on common stock (\$0.50 per share)					(17,629)	(17,629)
Issuance of common stock	29,169					
Net income					17,566	17,566
Balances at June 30, 2015	39,129,190	\$ 390	\$ 219,854	\$ (59,935)	\$ (25,500)	\$ 134,809

**(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 3,508,830 shares as of June 30, 2015.

*Non-vested Stock*

The following table summarizes our non-vested stock activity for the six months ended June 30, 2015:

	Number of	Weighted
	Shares	Average Grant
		Date Fair Value
Non-vested stock at December 31, 2014	148,398	\$ 27.11
Granted	29,169	\$ 19.20
Vested	(31,029)	\$ 19.52
Forfeited	(6,563)	\$ 29.86
Non-vested stock at June 30, 2015	139,975	\$ 27.02

As of June 30, 2015, we had unrecognized compensation expense of approximately \$2.1 million related to non-vested stock that we expect to be recognized over a weighted-average period of approximately 1.9 years. The following table summarizes compensation expense related to non-vested stock, which is included in selling, general and administrative expenses in the accompanying condensed consolidated statements of income for the three and six months ended June 30, 2015 and 2014 (amounts in thousands):

	For the Three Months Ended		For the Six Months Ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Compensation expense	\$ 484	\$ 811	\$ 1,505	\$ 1,619

**Table of Contents***Stock Options*

At June 30, 2015, there is no unrecognized compensation expense as all stock option awards have fully vested. The following table represents stock option activity for the six months ended June 30, 2015:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Contractual Life In Years
Outstanding options at December 31, 2014	51,000	\$ 17.80	
Granted			
Exercised			
Canceled, forfeited or expired			
Outstanding options at June 30, 2015	51,000	\$ 17.80	1.0
Options exercisable at June 30, 2015	51,000	\$ 17.80	1.0

The aggregate intrinsic value of our outstanding and exercisable options at June 30, 2015 was approximately \$0.5 million.

**(6) Income per Share**

Income per common share for the three and six months ended June 30, 2015 and 2014 are based on the weighted average number of common shares outstanding during the period. The effects of potentially dilutive securities that are anti-dilutive are not included in the computation of dilutive income per share. We include all common shares granted under our incentive compensation plan which remain unvested ( restricted common shares ) and contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid ( participating securities ), in the number of shares outstanding in our basic and diluted EPS calculations using the two-class method. All of our restricted common shares are currently participating securities.

Under the two-class method, earnings per common share are computed by dividing the sum of distributed earnings allocated to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of common shares outstanding for the period. In applying the two-class method, distributed and undistributed earnings are allocated to both common shares and restricted common shares based on the total weighted average shares outstanding during the period. The number of restricted common shares outstanding was only 0.4% of total outstanding shares and, consequently, was immaterial to the basic and diluted EPS calculations. Therefore, use of the two-class method had no impact on our basic and diluted EPS calculations for the periods presented. The following table sets forth the computation of basic and diluted net income per common share for the three and six months ended June 30, 2015 and 2014 (amounts in thousands, except per share amounts):

Three Months Ended	Six Months Ended June 30,
-----------------------	------------------------------

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

	<b>June 30,</b>			
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Basic net income per share:</b>				
Net income	\$ 11,480	\$ 15,726	\$ 17,566	\$ 23,162
Weighted average number of common shares of outstanding	35,238	35,111	35,232	35,110
Net income per share of common stock basic	\$ 0.33	\$ 0.45	\$ 0.50	\$ 0.66
<b>Diluted net income per share:</b>				
Net income	\$ 11,480	\$ 15,726	\$ 17,566	\$ 23,162
Weighted average number of common shares of outstanding	35,238	35,111	35,232	35,110
<b>Effect of dilutive securities:</b>				
Effect of dilutive stock options	20	24	20	23
Effect of dilutive non-vested restricted stock	56	100	48	94
Weighted average number of common shares of outstanding diluted	35,314	35,235	35,300	35,227
Net income per share of common stock diluted	\$ 0.33	\$ 0.45	\$ 0.50	\$ 0.66
<b>Common shares excluded from the denominator as anti-dilutive:</b>				
Stock options				
Non-vested restricted stock				

---

**Table of Contents**

**(7) Senior Secured Credit Facility**

We and our subsidiaries are parties to a \$602.5 million senior secured credit facility (the Credit Facility ) with General Electric Capital Corporation as agent, and the lenders named therein (the Lenders ).

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

The Amended and Restated Credit Agreement, among other things, (i) extends the maturity date of the Credit Facility from February 29, 2017 to May 21, 2019, (ii) increases the uncommitted incremental revolving capacity from \$130 million to \$150 million, (iii) permits a like-kind exchange program under Section 1031 of the Internal Revenue Code of 1986, as amended, (iv) provides that the unused commitment fee margin will be either 0.50%, 0.375% or 0.25%, depending on the ratio of the average of the daily closing balances of the aggregate revolving loans, swing line loans and letters of credit outstanding during each month to the aggregate commitments for the revolving loans, swing line loans and letters of credit, (v) lowers the interest rate (a) in the case of index rate revolving loans, to the index rate plus an applicable margin of 0.75% to 1.25% depending on the leverage ratio and (b) in the case of LIBOR revolving loans, to LIBOR plus an applicable margin of 1.75% to 2.25%, depending on the leverage ratio, (vi) lowers the margin applicable to the letter of credit fee to between 1.75% and 2.25%, depending on the leverage ratio, and (vii) permits, under certain conditions, for the payment of dividends and/or stock repurchases or redemptions on the capital stock of the Company of up to \$75 million per calendar year and further additionally permits the payment of the special cash dividend of \$7.00 per share previously declared by the Company on August 20, 2012 to the holders of outstanding restricted stock of the Company following the declared payment date with such permission not tied to the vesting of such restricted stock (which includes the Company's payment in June 2014 of all amounts that remained payable to the holders of the restricted stock of the Company with respect to such special dividend that was otherwise payable following the applicable vesting dates in May and July 2014 and 2015).

On February 5, 2015, we entered into an amendment of the Credit Facility which, among other things, increased the total amount of revolving loan commitments under the Amended and Restated Credit Agreement from \$402.5 million to \$602.5 million.

As of June 30, 2015, we were in compliance with our financial covenants under the Credit Facility. At June 30, 2015, the Company could borrow up to an additional \$338.1 million and remain in compliance with the debt covenants under the Company's Credit Facility.

At June 30, 2015, the interest rate on the Credit Facility was based on a 3.25% U.S. Prime Rate plus 100 basis points and LIBOR plus 200 basis points. The weighted average interest rate at June 30, 2015 was approximately 2.8%. At July 24, 2015, we had \$356.1 million of available borrowings under our Credit Facility, net of \$7.2 million of outstanding letters of credit.

**(8) Senior Unsecured Notes**

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



Balance at December 31, 2013	\$ 628,546
Accretion of discount through December 31, 2014	1,055
Amortization of note premium through December 31, 2014	(887)
Balance at December 31, 2014	\$ 628,714
Accretion of discount through June 30, 2015	528
Amortization of note premium through June 30, 2015	(444)
Balance at June 30, 2015	\$ 628,798

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
<b>Segment Revenues:</b>				
Equipment rentals	\$ 108,628	\$ 98,814	\$ 210,017	\$ 185,038
New equipment sales	64,376	90,581	108,913	160,128
Used equipment sales	28,932	31,397	54,002	60,742
Parts sales	28,347	28,371	55,432	54,173
Services revenues	15,769	16,102	30,725	29,750
<b>Total segmented revenues</b>	<b>246,052</b>	<b>265,265</b>	<b>459,089</b>	<b>489,831</b>
Non-segmented revenues	16,308	15,113	30,681	27,776
<b>Total revenues</b>	<b>\$ 262,360</b>	<b>\$ 280,378</b>	<b>\$ 489,770</b>	<b>\$ 517,607</b>
<b>Segment Gross Profit:</b>				
Equipment rentals	\$ 50,713	\$ 47,784	\$ 96,547	\$ 86,786
New equipment sales	7,627	11,168	12,845	18,981
Used equipment sales	9,319	10,341	17,503	19,268
Parts sales	7,740	8,330	15,306	15,850
Services revenues	10,611	10,335	20,290	19,242
<b>Total segmented gross profit</b>	<b>86,010</b>	<b>87,958</b>	<b>162,491</b>	<b>160,127</b>
Non-segmented gross profit	394	1,110	253	1,725
<b>Total gross profit</b>	<b>\$ 86,404</b>	<b>\$ 89,068</b>	<b>\$ 162,744</b>	<b>\$ 161,852</b>

	Balances at	
	June 30, 2015	December 31, 2014
Segment identified assets:		

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

Equipment sales	\$ 117,349	\$ 114,664
Equipment rentals	895,982	889,706
Parts and services	22,314	19,324
<b>Total segment identified assets</b>	<b>1,035,645</b>	<b>1,023,694</b>
Non-segment identified assets	321,558	335,110
<b>Total assets</b>	<b>\$ 1,357,203</b>	<b>\$ 1,358,804</b>

The Company operates primarily in the United States and our sales to international customers for the three and six month periods ended June 30, 2015 were 0.6% and 0.7%, respectively, of total revenues compared to 1.5% and 1.6% for the three and six month periods ended June 30, 2014, respectively. No one customer accounted for more than 10% of our revenues on an overall or segment basis for any of the periods presented.

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

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

**Table of Contents**

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

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

**CONDENSED CONSOLIDATING BALANCE SHEET**

	As of June 30, 2015			
	H&E Equipment Guarantor			
	Services	Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
<b>Assets:</b>				
Cash	\$ 11,861	\$	\$	\$ 11,861
Receivables, net	129,965	17,843		147,808
Inventories, net	121,960	17,703		139,663
Prepaid expenses and other assets	15,036	209		15,245
Rental equipment, net	746,760	149,222		895,982
Property and equipment, net	98,575	11,994		110,569
Deferred financing costs, net	4,878			4,878
Investment in guarantor subsidiaries	220,016		(220,016)	
Goodwill	1,671	29,526		31,197
<b>Total assets</b>	<b>\$ 1,350,722</b>	<b>\$ 226,497</b>	<b>\$ 220,016</b>	<b>\$ 1,357,203</b>
<b>Liabilities and Stockholders Equity:</b>				
Amounts due on senior secured credit facility	\$ 257,118	\$	\$	\$ 257,118
Accounts payable	58,696	5,150		63,846
Manufacturer flooring plans payable	72,855			72,855
Accrued expenses payable and other liabilities	59,309	(649)		58,660
Dividends payable	25	(25)		
Senior unsecured notes	628,798			628,798
Capital leases payable		2,005		2,005
Deferred income taxes	136,972			136,972
Deferred compensation payable	2,140			2,140
<b>Total liabilities</b>	<b>1,215,913</b>	<b>6,481</b>		<b>1,222,394</b>
Stockholders' equity	134,809	220,016	(220,016)	134,809
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,350,722</b>	<b>\$ 226,497</b>	<b>\$ (220,016)</b>	<b>\$ 1,357,203</b>

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

	<b>As of December 31, 2014</b>			
	<b>H&amp;E Equipment Guarantor</b>			
	<b>Services</b>	<b>Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>(Amounts in thousands)</b>			
<b>Assets:</b>				
Cash	\$ 15,861	\$	\$	\$ 15,861
Receivables, net	137,197	27,138		164,335
Inventories, net	123,410	10,577		133,987
Prepaid expenses and other assets	9,027	119		9,146
Rental equipment, net	748,353	141,353		889,706
Property and equipment, net	98,279	11,629		109,908
Deferred financing costs, net	4,664			4,664
Investment in guarantor subsidiaries	216,540		(216,540)	
Goodwill	1,671	29,526		31,197
<b>Total assets</b>	<b>\$ 1,355,002</b>	<b>\$ 220,342</b>	<b>\$ (216,540)</b>	<b>\$ 1,358,804</b>
<b>Liabilities and Stockholders Equity:</b>				
Amount due on senior secured credit facility	\$ 259,919	\$	\$	\$ 259,919
Accounts payable	50,661	2,680		53,341
Manufacturer flooring plans payable	93,600			93,600
Dividends payable	23	(23)		
Accrued expenses payable and other liabilities	61,502	(954)		60,548
Senior unsecured notes	628,714			628,714
Capital leases payable		2,099		2,099
Deferred income taxes	125,110			125,110
Deferred compensation payable	2,106			2,106
<b>Total liabilities</b>	<b>1,221,635</b>	<b>3,802</b>		<b>1,225,437</b>
<b>Stockholders equity</b>	<b>133,367</b>	<b>216,540</b>	<b>(216,540)</b>	<b>133,367</b>
<b>Total liabilities and stockholders equity</b>	<b>\$ 1,355,002</b>	<b>\$ 220,342</b>	<b>\$ (216,540)</b>	<b>\$ 1,358,804</b>

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

	<b>Three Months Ended June 30, 2015</b>			
	<b>H&amp;E Equipment Guarantor</b>			
	<b>Services</b>	<b>Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>(Amounts in thousands)</b>			
<b>Revenues:</b>				
Equipment rentals	\$ 89,590	\$ 19,038	\$	\$ 108,628
New equipment sales	61,564	2,812		64,376
Used equipment sales	23,909	5,023		28,932
Parts sales	24,303	4,044		28,347
Services revenues	13,218	2,551		15,769
Other	13,149	3,159		16,308
<b>Total revenues</b>	<b>225,733</b>	<b>36,627</b>		<b>262,360</b>
<b>Cost of revenues:</b>				
Rental depreciation	33,542	6,672		40,214
Rental expense	14,736	2,965		17,701
New equipment sales	54,234	2,515		56,749
Used equipment sales	16,389	3,224		19,613
Parts sales	17,697	2,910		20,607
Services revenues	4,332	826		5,158
Other	12,848	3,066		15,914
<b>Total cost of revenues</b>	<b>153,778</b>	<b>22,178</b>		<b>175,956</b>
<b>Gross profit:</b>				
Equipment rentals	41,312	9,401		50,713
New equipment sales	7,330	297		7,627
Used equipment sales	7,520	1,799		9,319
Parts sales	6,606	1,134		7,740
Services revenues	8,886	1,725		10,611
Other	301	93		394
<b>Gross profit</b>	<b>71,955</b>	<b>14,449</b>		<b>86,404</b>
Selling, general and administrative expenses	45,350	9,064		54,414
Equity in earnings of guarantor subsidiaries	1,982		(1,982)	
Gain on sales of property and equipment, net	860	112		972
<b>Income from operations</b>	<b>29,447</b>	<b>5,497</b>	<b>(1,982)</b>	<b>32,962</b>
<b>Other income (expense):</b>				
Interest expense	(10,199)	(3,550)		(13,749)
Other, net	193	35		228

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

Total other expense, net	(10,006)	(3,515)		(13,521)
Income before income taxes	19,441	1,982	(1,982)	19,441
Income tax expense	7,961			7,961
Net income	\$ 11,480	\$ 1,982	\$ (1,982)	\$ 11,480

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

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



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

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

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

	<b>Six Months Ended June 30, 2015</b>			
	<b>H&amp;E Equipment Guarantor</b>			
	<b>Services</b>	<b>Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>(Amounts in thousands)</b>			
<b>Revenues:</b>				
Equipment rentals	\$ 174,502	\$ 35,515	\$	\$ 210,017
New equipment sales	99,346	9,567		108,913
Used equipment sales	43,949	10,053		54,002
Parts sales	48,086	7,346		55,432
Services revenues	26,073	4,652		30,725
Other	24,902	5,779		30,681
<b>Total revenues</b>	<b>416,858</b>	<b>72,912</b>		<b>489,770</b>
<b>Cost of revenues:</b>				
Rental depreciation	67,042	13,116		80,158
Rental expense	27,596	5,716		33,312
New equipment sales	87,553	8,515		96,068
Used equipment sales	30,171	6,328		36,499
Parts sales	34,887	5,239		40,126
Services revenues	8,908	1,527		10,435
Other	24,555	5,873		30,428
<b>Total cost of revenues</b>	<b>280,712</b>	<b>46,314</b>		<b>327,026</b>
<b>Gross profit (loss):</b>				
Equipment rentals	79,864	16,683		96,547
New equipment sales	11,793	1,052		12,845
Used equipment sales	13,778	3,725		17,503
Parts sales	13,199	2,107		15,306
Services revenues	17,165	3,125		20,290
Other	347	(94)		253
<b>Gross profit</b>	<b>136,146</b>	<b>26,598</b>		<b>162,744</b>
Selling, general and administrative expenses	91,157	16,723		107,880
Equity in earnings of guarantor subsidiaries	3,359		(3,359)	
Gain on sales of property and equipment, net	1,075	355		1,430
<b>Income from operations</b>	<b>49,423</b>	<b>10,230</b>	<b>(3,359)</b>	<b>56,294</b>
<b>Other income (expense):</b>				
Interest expense	(20,238)	(6,956)		(27,194)
Other, net	497	85		582

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

Total other expense, net	(19,741)	(6,871)		(26,612)
Income before income taxes	29,682	3,359	(3,359)	29,682
Income tax expense	12,116			12,116
Net income	\$ 17,566	\$ 3,359	\$ (3,359)	\$ 17,566

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

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

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

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

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

	<b>Six Months Ended June 30, 2015</b>			
	<b>H&amp;E Equipment Services</b>		<b>Guarantor Subsidiaries</b>	
	<b>Services</b>	<b>Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>(Amounts in thousands)</b>			
<b>Cash flows from operating activities:</b>				
Net income	\$ 17,566	\$ 3,359	\$ (3,359)	\$ 17,566
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>				
Depreciation and amortization on property and equipment	10,216	1,438		11,654
Depreciation of rental equipment	67,042	13,116		80,158
Amortization of deferred financing costs	511			511
Accretion of note discount, net of premium amortization	84			84
Provision for losses on accounts receivable	1,225	168		1,393
Provision for inventory obsolescence	99			99
Increase in deferred income taxes	11,862			11,862
Stock-based compensation expense	1,505			1,505
Gain from sales of property and equipment, net	(1,075)	(355)		(1,430)
Gain from sales of rental equipment, net	(13,060)	(3,714)		(16,774)
Equity in earnings of guarantor subsidiaries	(3,359)		3,359	
<b>Changes in operating assets and liabilities:</b>				
Receivables	6,007	9,127		15,134
Inventories	(36,533)	(11,394)		(47,927)
Prepaid expenses and other assets	(6,009)	(90)		(6,099)
Accounts payable	8,035	2,470		10,505
Manufacturer flooring plans payable	(20,745)			(20,745)
Accrued expenses payable and other liabilities	(2,193)	305		(1,888)
Deferred compensation payable	34			34
<b>Net cash provided by operating activities</b>	<b>41,212</b>	<b>14,430</b>		<b>55,642</b>
<b>Cash flows from investing activities:</b>				
Purchases of property and equipment	(11,000)	(1,872)		(12,872)
Purchases of rental equipment	(49,051)	(22,868)		(71,919)
Proceeds from sales of property and equipment	1,563	424		1,987
Proceeds from sales of rental equipment	34,546	9,865		44,411
Investment in subsidiaries	(117)		117	
<b>Net cash used in investing activities.</b>	<b>(24,059)</b>	<b>(14,451)</b>	<b>117</b>	<b>(38,393)</b>
<b>Cash flows from financing activities:</b>				
Borrowings on senior secured credit facility	506,455			506,455
Payments on senior secured credit facility	(509,256)			(509,256)

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

Payments of deferred financing costs	(725)			(725)
Dividends paid	(17,627)	(2)		(17,629)
Payments on capital lease obligations		(94)		(94)
Capital contributions		117	(117)	
Net cash provided by (used in) financing activities	(21,153)	21	(117)	(21,249)
Net decrease in cash	(4,000)			(4,000)
Cash, beginning of period	15,861			15,861
Cash, end of period	\$ 11,861	\$	\$	\$ 11,861

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

	<b>Six Months Ended June 30, 2014</b>			
	<b>H&amp;E Equipment Guarantor</b>			
	<b>Services</b>	<b>Subsidiaries</b>	<b>Elimination</b>	<b>Consolidated</b>
	<b>(Amounts in thousands)</b>			
<b>Cash flows from operating activities:</b>				
Net income	\$ 23,162	\$ 1,813	\$ (1,813)	\$ 23,162
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Depreciation and amortization on property and equipment	8,547	1,171		9,718
Depreciation of rental equipment	57,823	10,624		68,447
Amortization of deferred financing costs	497			497
Accretion of note discount, net of premium amortization	84			84
Provision for losses on accounts receivable	1,157	217		1,374
Provision for inventory obsolescence	63			63
Increase in deferred income taxes	12,249			12,249
Stock-based compensation expense	1,619			1,619
Gain from sales of property and equipment, net	(1,155)	(265)		(1,420)
Gain from sales of rental equipment, net	(14,627)	(3,545)		(18,172)
Equity in earnings of guarantor subsidiaries	(1,813)		1,813	
<b>Changes in operating assets and liabilities:</b>				
Receivables	(11,370)	(2,570)		(13,940)
Inventories	(67,639)	(8,916)		(76,555)
Prepaid expenses and other assets	(2,747)	(34)		(2,781)
Accounts payable	27,130	290		27,420
Manufacturer flooring plans payable	3,080			3,080
Accrued expenses payable and other liabilities	2,672	303		2,975
Deferred compensation payable	33			33
<b>Net cash provided by (used in) operating activities</b>	<b>38,765</b>	<b>(912)</b>		<b>37,853</b>
<b>Cash flows from investing activities:</b>				
Purchases of property and equipment	(9,596)	(976)		(10,572)
Purchases of rental equipment	(132,476)	(29,103)		(161,579)
Proceeds from sales of property and equipment	1,276	265		1,541
Proceeds from sales of rental equipment	40,659	11,887		52,546
Investment in subsidiaries	(18,927)		18,927	
<b>Net cash used in investing activities.</b>	<b>(119,064)</b>	<b>(17,927)</b>	<b>18,927</b>	<b>(118,064)</b>
<b>Cash flows from financing activities:</b>				
Excess tax deficiency from stock-based awards	(24)			(24)
Borrowings on senior secured credit facility	590,249			590,249



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

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

---

**Table of Contents**

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

The following discussion summarizes the financial position of H&E Equipment Services, Inc. and its subsidiaries as of June 30, 2015, and its results of operations for the three and six month periods ended June 30, 2015, 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, 2014. 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, 2014.

**Overview**

**Background**

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

As of July 24, 2015, we operated 71 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 54 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 H&E Equipment Services, Inc., which survived 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, 2014, 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 six months ended June 30, 2015. These policies include, among others, revenue recognition, the adequacy of the allowance for doubtful accounts, the propriety of our estimated useful life of rental equipment and property and equipment, the potential impairment of long-lived assets including goodwill and intangible assets, obsolescence reserves on inventory, the allocation of purchase price related to business combinations, reserves for claims, including self-insurance reserves, and deferred income taxes, including the valuation of any related deferred tax assets.

## **Table of Contents**

Information regarding our other significant accounting policies is included in note 2 to our consolidated financial statements in Item 8 of Part II of our Annual Report on Form 10-K for the year ended December 31, 2014 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) a percentage of original equipment cost, and (2) the number of rental equipment units available for rent), rental rate trends and targets, rental equipment dollar utilization and maintenance and repair costs, which we closely monitor. We maintain fleet quality through regional quality control managers and our parts and services operations.

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

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

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

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

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

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

***Revenue Sources***

We generate all of our total revenues from our five business segments and our non-segmented equipment support activities. Equipment rentals and new equipment sales account for more than half of our total revenues. For the six month period ended June 30, 2015, approximately 42.9% of our total revenues were attributable to equipment rentals, 22.2% of our total revenues were attributable to new equipment sales, 11.0% were attributable to used equipment sales, 11.3% were attributable to parts sales, 6.3% were attributable to our services revenues and 6.3% 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

## **Table of Contents**

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 as equipment usage based on: (1) a percentage of original equipment cost, and (2) the number of rental equipment units available for rent), 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 other 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.

***Principal Costs and Expenses***

Our largest expenses are the costs to purchase the new equipment we sell, the costs associated with the used equipment we sell, rental expenses, rental depreciation and costs associated with parts sales and services, all of which are included in cost of revenues. For the six month period ended June 30, 2015, our total cost of revenues was approximately \$327.0 million. Our operating expenses consist principally of selling, general and administrative expenses. For the six month period ended June 30, 2015, our selling, general

## **Table of Contents**

and administrative expenses were \$107.9 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. 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.

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

A substantial portion of our overall value is in our rental fleet equipment. The net book value of our rental equipment at June 30, 2015 was \$896.0 million, or approximately 66.0% of our total assets. Our rental fleet as of June 30, 2015 consisted of 26,689 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 \$1.3 billion. As of June 30, 2015, 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	17,691	66.3%	\$ 783.6	61.2%	36.6
Cranes	435	1.6%	145.7	11.4%	38.8
Earthmoving	2,771	10.4%	256.3	20.0%	20.0
Industrial Lift Trucks	846	3.2%	31.5	2.4%	28.6
Other	4,946	18.5%	64.1	5.0%	24.0
<b>Total</b>	<b>26,689</b>	<b>100.0%</b>	<b>\$ 1,281.2</b>	<b>100.0%</b>	<b>32.3</b>

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

The original acquisition cost of our gross rental fleet increased by approximately \$38.1 million, or 3.1%, for the six month period ended June 30, 2015. The average age of our rental fleet equipment increased by approximately 0.6 months for the six months ended June 30, 2015.

Our average rental rates for the six month period ended June 30, 2015 were 1.8% higher than in the six month period ended June 30, 2014. Our average rental rates for the three month period ended June 30, 2015 were 0.9% higher than in the three month period ended June 30, 2014 and approximately 0.1% higher than the three month period ended March 31, 2015 (see further discussion on rental rates in Results of Operations below).

The rental equipment mix among our four core product lines for the six months ended June 30, 2015 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, 2014.

*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.

**Table of Contents**

*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.

*Regional and Industry-Specific Activity and Trends.* Expenditures by our customers may be impacted by the overall level of construction activity in the markets and regions in which they operate, the price of oil and other commodities and other general economic trends impacting the industries in which our customers and end users operate. As our customers adjust their activity and spending levels in response to these external factors, our rentals and sales of equipment to those customers will be impacted. For example, high levels of industrial activity in our Gulf Coast and Intermountain regions have been a meaningful driver of recent growth in our revenues. The recent decline and volatility in oil and natural gas prices, and uncertainty regarding future price levels, may cause our customers in those markets to adjust their activity and spending levels.

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

**Results of Operations**

The tables included in the period-to-period comparisons below provide summaries of our revenues and gross profits for our business segments and non-segmented revenues for the three and six months ended June 30, 2015 and 2014. The period-to-period comparisons of our financial results are not necessarily indicative of future results.

***Three Months Ended June 30, 2015 Compared to the Three Months Ended June 30, 2014******Revenues.***

	<b>Three Months Ended June 30,</b>		<b>Total Dollar Increase (Decrease)</b>	<b>Total Percentage Increase (Decrease)</b>
	<b>2015</b>	<b>2014</b>	<b>(Decrease)</b>	<b>(Decrease)</b>
	<b>(in thousands, except percentages)</b>			
<b>Segment Revenues:</b>				
Equipment rentals	\$ 108,628	\$ 98,814	\$ 9,814	9.9%
New equipment sales	64,376	90,581	(26,205)	(28.9)%
Used equipment sales	28,932	31,397	(2,465)	(7.9)%
Parts sales	28,347	28,371	(24)	%
Services revenues	15,769	16,102	(333)	(2.1)%
Non-Segmented revenues	16,308	15,113	1,195	7.9%
<b>Total revenues</b>	<b>\$ 262,360</b>	<b>\$ 280,378</b>	<b>\$ (18,018)</b>	<b>(6.4)%</b>

*Total Revenues.* Our total revenues were \$262.4 million for the three month period ended June 30, 2015 compared to \$280.4 million for the three month period ended June 30, 2014, a decrease of \$18.0 million, or 6.4%. Revenues for all 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 June 30, 2015 increased \$9.8 million, or 9.9%, to \$108.6 million from \$98.8 million in the three month period ended June 30, 2014. Rental revenues from aerial work platforms increased \$5.7 million, while rental revenues from earthmoving equipment increased \$4.4 million. Other equipment rental revenues decreased \$0.3 million. Rental revenues from cranes and lift trucks were unchanged from last year. Our average rental rates for the three month period ended June 30, 2015 increased 0.9% compared to the same three month period last year and increased approximately 0.1% from the three month period ended March 31, 2015.

Rental equipment dollar utilization (annual rental revenues divided by the average original rental fleet equipment costs) for the three month period ended June 30, 2015 was 34.2% compared to 36.3% in the three month period ended June 30, 2014, a decrease of 2.1%. The decrease in comparative rental equipment dollar utilization was the result of a decrease in rental equipment time utilization, which was partially offset by a 0.9% increase in average rental rates. Rental equipment time utilization as a percentage of original equipment cost was 70.3% for the three month period ended June 30, 2015 compared to 72.7% in the three month period ended June 30, 2014, a decrease of 2.4%. The decrease in equipment rental time utilization based on original equipment cost is largely reflective of unusually inclement weather conditions in many of our regions during the second quarter combined with decreased rental activity among

**Table of Contents**

the Company's customers operating in the Company's oil and gas markets. Our rental equipment time utilization based on the number of rental equipment units available for rent was 67.7% for the three month period ended June 30, 2015, compared to 67.0% in the same period last year, an increase of 0.7%.

*New Equipment Sales Revenues.* Our new equipment sales for the three month period ended March 31, 2015 decreased \$26.2 million, or 28.9%, to \$64.4 million from \$90.6 million for the three month period ended June 30, 2014, primarily as a result of a \$26.4 million decrease in new crane sales. The decrease in new crane sales is due primarily to decreased demand for new cranes within the Company's oil and gas markets. Sales of new aerial work platform equipment decreased approximately \$6.3 million. Partially offsetting these decreases were a \$5.3 million increase in sales of new earthmoving equipment and a \$1.1 million increase in new other equipment sales.

*Used Equipment Sales Revenues.* Our used equipment sales decreased \$2.5 million, or 7.9%, to \$28.9 million for the three month period ended June 30, 2015, from \$31.4 million for the same three month period in 2014. Sales of used aerial work platform equipment decreased \$1.8 million and sales of used cranes decreased \$0.8 million, while sales of used earthmoving equipment decreased \$0.6 million. Used lift truck sales decreased \$0.1 million. Partially offsetting these decreases was a \$0.8 million increase in used other equipment sales. The overall decrease in used equipment sales is largely due to the Company having a younger fleet, resulting in less equipment being at an age at which it is typically sold in the normal fleet life cycle.

*Parts Sales Revenues.* Our parts sales were approximately \$28.4 million in each of the three month periods ended June 30, 2015 and 2014.

*Services Revenues.* Our services revenues for the three month period ended June 30, 2015 decreased \$0.3 million, or 2.1%, to \$15.8 million from \$16.1 million for the same three month period last year. The decrease in services revenues was due primarily to services revenues mix.

*Non-Segmented Other Revenues.* Our non-segmented other revenues consisted primarily of equipment support activities including transportation, hauling, parts freight and damage waiver charges. For the three month period ended June 30, 2015, our other revenues were \$16.3 million, an increase of \$1.2 million, or 7.9%, from \$15.1 million in the same three month period in 2014. The increase was primarily due to an increase in hauling revenues and higher damage waiver income associated with our increased equipment rental activity.

**Gross Profit.**

	<b>Three Months Ended June 30,</b>		<b>Total Dollar Change Increase (Decrease)</b>	<b>Total Percentage Change Increase (Decrease)</b>
	<b>2015</b>	<b>2014</b>		
	<b>(in thousands, except percentages)</b>			
<b>Segment Gross Profit:</b>				
Equipment rentals	\$ 50,713	\$ 47,784	\$ 2,929	6.1%
New equipment sales	7,627	11,168	(3,541)	(31.7)%
Used equipment sales	9,319	10,341	(1,022)	(9.9)%
Parts sales	7,740	8,330	(590)	(7.1)%
Services revenues	10,611	10,335	276	2.7%

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

Non-Segmented revenues	394	1,110	(716)	(64.5)%
Total gross profit	\$ 86,404	\$ 89,068	\$ (2,664)	(3.0)%

*Total Gross Profit.* Our total gross profit was \$86.4 million for the three month period ended June 30, 2015 compared to \$89.1 million for the same three month period in 2014, a decrease of \$2.7 million, or 3.0%. Total gross profit margin for the three month period ended June 30, 2015 was 32.9%, an increase of 1.1% from the 31.8% gross profit margin for the same three month period in 2014. 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 June 30, 2015 increased \$2.9 million, or 6.1%, to \$50.7 million from \$47.8 million in the same three month period in 2014. The increase in equipment rentals gross profit was the result of a \$9.8 million increase in rental revenues for the three month period ended June 30, 2015, which was partially offset by a \$2.1 million increase in rental expenses and a \$4.8 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 2015 compared to 2014. Our fleet size as measured by original equipment cost increased \$164.3 million, or 14.7%, from June 30, 2014 to June 30, 2015. Gross profit margin on equipment rentals for the three month period ended June 30, 2015 was approximately 46.7% compared to 48.4% for the same period in 2014, a decrease of 1.7%, which resulted from higher rental expenses and depreciation

---

**Table of Contents**

expenses. As a percentage of equipment rental revenues, rental expenses were 16.3% for the three month period ended June 30, 2015 compared to 15.8% for the same period last year, an increase of 0.5%. Depreciation expense was 37.0% of equipment rental revenues for the three month period ended June 30, 2015 compared to 35.9% for the same period in 2014, an increase of 1.1%. The percentage increase in rental depreciation expense as a percentage of rental revenues was due to a larger fleet size and a higher original equipment cost of fleet composition compared to last year.

*New Equipment Sales Gross Profit.* Our new equipment sales gross profit for the three month period ended June 30, 2015 decreased \$3.5 million, or 31.7%, to \$7.6 million compared to \$11.2 million for the same three month period in 2014 on a total new equipment sales decrease of \$26.2 million. Gross profit margin on new equipment sales for the three month period ended June 30, 2015 was 11.8%, a decrease of 0.5% from 12.3% in the same three month period in 2014, reflecting a higher relative percentage of new earthmoving equipment sales in the current period (with lower gross margins) combined with a lower relative percentage of new crane sales (with higher gross margins) compared to the mix in the same period last year.

*Used Equipment Sales Gross Profit.* Our used equipment sales gross profit for the three month period ended June 30, 2015 decreased \$1.0 million, or 9.9%, to \$9.3 million from \$10.3 million in the same period in 2014 on a used equipment sales decrease of \$2.5 million. Gross profit margin on used equipment sales for the three month period ended June 30, 2015 was 32.2%, down 0.7% from 32.9% for the same three month period in 2014, primarily as a result of the mix of used equipment sold and lower used crane gross margins. Our used equipment sales from the rental fleet, which comprised approximately 82.1% and 88.4% of our used equipment sales for the three month periods ended June 30, 2015 and 2014, respectively, were approximately 159.3% and 154.7% of net book value for the three month periods ended June 31, 2015 and 2014, respectively.

*Parts Sales Gross Profit.* For the three month period ended June 30, 2015, our parts sales gross profit decreased approximately \$0.6 million, or 7.1%, to approximately \$7.7 million from \$8.3 million for the same three month period in 2014 on a \$24,000 decrease in parts sales revenues. Gross profit margin for the three month period ended June 30, 2015 was 27.3%, a decrease of 2.1% from 29.4% in the same three month period in 2014, as a result of the mix of parts sold.

*Services Revenues Gross Profit.* For the three month period ended June 30, 2015, our services revenues gross profit increased \$0.3 million, or 2.7%, to \$10.6 million from \$10.3 million for the same three month period in 2014 on a \$0.3 million decrease in services revenues. Gross profit margin for the three month period ended June 30, 2015 was 67.3%, an increase of 3.1% from 64.2% in the same three month period in 2014, as a result of services revenues mix.

*Non-Segmented Other Revenues Gross Profit.* Our non-segmented other revenues gross profit decreased approximately \$0.7 million, or 64.5%, to a gross profit of \$0.4 million for the three month period ended June 30, 2015 compared to \$1.1 million gross profit for the same period in 2014 on a \$1.2 million increase in non-segmented other revenues. Gross margin for the three month period ended June 30, 2015 was 2.4% compared to a gross margin of 7.3% in the same three month period last year, a decrease of 4.9%, primarily reflective of higher hauling costs, which were impacted by higher equipment transfer costs in the current period.

*Selling, General and Administrative Expenses ( SG&A ).* SG&A expenses increased \$2.5 million, or 4.9%, to \$54.4 million for the three month period ended June 30, 2015 compared to \$51.9 million for the three month period ended June 30, 2014. The net increase in SG&A expenses was attributable to several factors. Employee salaries, wages, payroll taxes and related employee expenses increased approximately \$0.5 million. Professional and other service fees increased \$0.6 million. Promotional and marketing related expenses increased \$0.7 million. Depreciation and software amortization expenses increased \$0.4 million and facility costs increased approximately \$0.2 million. Of the \$2.5 million increase in SG&A expenses, approximately \$0.8 million was attributable to branches opened since



April 1, 2014 with less than three full months of comparable operations in the second quarters of 2014 and 2015. As a percentage of total revenues, SG&A expenses were 20.7% for the three month period ended June 30, 2015, an increase of 2.2% from 18.5% for the same three month period in 2014, primarily as a result of the current year decrease in total revenues.

***Other Income (Expense)***. For the three month period ended June 30, 2015, our net other expenses increased approximately \$0.9 million to \$13.5 million compared to \$12.6 million for the same three month period in 2014. Interest expense was approximately \$13.7 million for the three month period ended June 30, 2015 compared to approximately \$12.9 million for the three month period ended June 30, 2014, an increase of \$0.8 million. The increase in interest expense is substantially due to higher interest costs on the Credit Facility as a result of higher average borrowings in 2015 compared to 2014 combined with increased unused commitment fees as a result of the recent amendment to the Credit Facility, which increased borrowing availability by \$200 million. Miscellaneous other income decreased \$0.1 million to \$0.2 million for the three month period ended June 30, 2015 compared to \$0.3 million for the three month period ended June 30, 2014.

**Table of Contents**

**Income Taxes.** We recorded income tax expense of approximately \$8.0 million for the three month period ended June 30, 2015 compared to income tax expense of \$9.6 million for the three month period ended June 30, 2014. Our effective income tax rate was 40.9% for the three month period ended June 30, 2015 compared to 38.0% for the same three month period last year. The increase in our effective tax rate is primarily due to a decrease in favorable permanent differences in the relation to current year pre-tax income. Based on available evidence, both positive and negative, we believe it is more likely than not that our deferred tax assets at June 30, 2015 are fully realizable through future reversals of existing taxable temporary differences and future taxable income, and are not subject to any limitations.

**Six Months Ended June 30, 2015 Compared to the Six Months Ended June 30, 2014****Revenues.**

	<b>Six Months Ended June 30,</b>		<b>Total Dollar Increase (Decrease)</b>	<b>Total Percentage Increase (Decrease)</b>
	<b>2015</b>	<b>2014</b>		
	<b>(in thousands, except percentages)</b>			
<b>Segment Revenues:</b>				
Equipment rentals	\$ 210,017	\$ 185,038	\$ 24,979	13.5%
New equipment sales	108,913	160,128	(51,215)	(32.0)%
Used equipment sales	54,002	60,742	(6,740)	(11.1)%
Parts sales	55,432	54,173	1,259	2.3%
Services revenues	30,725	29,750	975	3.3%
Non-Segmented revenues	30,681	27,776	2,905	10.5%
<b>Total revenues</b>	<b>\$ 489,770</b>	<b>\$ 517,607</b>	<b>\$ (27,837)</b>	<b>(5.4)%</b>

**Total Revenues.** Our total revenues were \$489.8 million for the six month period ended June 30, 2015 compared to \$517.6 million for the six month period ended June 30, 2014, a decrease of \$27.8 million, or 5.4%. Revenues for all reportable segments are further discussed below.

**Equipment Rental Revenues.** Our revenues from equipment rentals for the six month period ended June 30, 2015 increased \$25.0 million, or 13.5%, to \$210.0 million from \$185.0 million in the six month period ended June 30, 2014. Rental revenues from aerial work platforms increased \$13.9 million, while rental revenues from earthmoving equipment increased \$9.0 million. Rental revenues from other equipment increased \$1.7 million and rental revenues from cranes increased \$0.6 million. Lift truck rental revenues decreased \$0.2 million. Our average rental rates for the six month period ended June 30, 2015 increased 1.8% compared to the same six month period last year.

Rental equipment dollar utilization (annual rental revenues divided by the average original rental fleet equipment costs) for the six month period ended June 30, 2015 was 33.3% compared to 35.3% in the six month period ended June 30, 2014, a decrease of 2.0%. The decrease in comparative rental equipment dollar utilization was the result of a decrease in rental equipment time utilization, which was partially offset by a 1.8% increase in average rental rates. Rental equipment time utilization as a percentage of original equipment cost was 68.9% for the six month period ended June 30, 2015 compared to 71.0% in the six month period ended June 30, 2014, a decrease of 2.1%. The decrease in equipment rental time utilization based on original equipment cost is largely reflective of extreme winter

weather in the first quarter of 2015 and unusually inclement weather conditions in the second quarter of 2015 in many of our regions combined with decreased rental activity among the Company's customers operating in the oil and gas markets. Rental equipment time utilization based on the number of rental equipment units available for rent was 65.9% for the six month period ended June 30, 2015, compared to 65.8% in the same period last year, an increase of 0.1%.

*New Equipment Sales Revenues.* Our new equipment sales for the six month period ended June 30, 2015 decreased \$51.2 million, or 32.0%, to \$108.9 million from \$160.1 million for the six month period ended June 30, 2014, primarily as a result of a \$50.4 million decrease in new crane sales. The decrease in new crane sales is due primarily to decreased demand for new cranes among the Company's customers operating in the oil and gas markets. Sales of new aerial work platform equipment decreased \$6.8 million and sales of new lift trucks decreased approximately \$0.2 million. Partially offsetting these decreases were increases in new earthmoving equipment and new other equipment sales of \$3.2 million and \$3.1 million, respectively.

*Used Equipment Sales Revenues.* Our used equipment sales decreased \$6.7 million, or 11.1%, to \$54.0 million for the six month period ended June 30, 2015, from \$60.7 million for the same six month period in 2014. Sales of used aerial work platform equipment decreased \$4.8 million and sales of used cranes decreased \$2.2 million, while sales of used earthmoving equipment decreased \$1.1 million.

**Table of Contents**

Used other equipment sales and used lift truck sales increased \$0.6 million and \$0.3 million, respectively. The overall decrease in used equipment sales is largely due to the Company having a younger fleet compared to last year, resulting in less equipment being at an age at which it is typically sold in the normal fleet life cycle.

*Parts Sales Revenues.* Our parts sales increased approximately \$1.3 million, or 2.3%, to \$55.4 million for the six month period ended June 30, 2015 from \$54.2 million for the same six month period in 2014. The increase in parts revenues was due to higher demand for parts in the first quarter of this year compared to same period last year.

*Services Revenues.* Our services revenues for the six month period ended June 30, 2015 increased \$1.0 million, or 3.3%, to \$30.7 million from approximately \$29.8 million for the same six month period last year. The increase in services revenues was due to higher demand for services in the first quarter of this year compared to the same period last year.

*Non-Segmented Other Revenues.* Our non-segmented other revenues consisted primarily of equipment support activities including transportation, hauling, parts freight and damage waiver charges. For the six month period ended June 30, 2015, our other revenues were \$30.7 million, an increase of \$2.9 million, or 10.5%, from \$27.8 million in the same six month period in 2014. The increase was primarily due to an increase in hauling revenues and higher damage waiver income associated with our increased equipment rental activity.

**Gross Profit.**

	<b>Six Months Ended June 30,</b>		<b>Total Dollar Change Increase (Decrease)</b>	<b>Total Percentage Change Increase (Decrease)</b>
	<b>2015</b>	<b>2014</b>		
	<b>(in thousands, except percentages)</b>			
<b>Segment Gross Profit:</b>				
Equipment rentals	\$ 96,547	\$ 86,786	\$ 9,761	11.2%
New equipment sales	12,845	18,981	(6,136)	(32.3)%
Used equipment sales	17,503	19,268	(1,765)	(9.2)%
Parts sales	15,306	15,850	(544)	(3.4)%
Services revenues	20,290	19,242	1,048	5.4%
Non-Segmented revenues	253	1,725	(1,472)	(85.3)%
 Total gross profit	 \$ 162,744	 \$ 161,852	 \$ 892	 0.6%

*Total Gross Profit.* Our total gross profit was approximately \$162.7 million for the six month period ended June 30, 2015 compared to \$161.9 million for the same six month period in 2014, an increase of approximately \$0.9 million, or 0.6%. Total gross profit margin for the six month period ended June 30, 2015 was 33.2%, an increase of 1.9% from the 31.3% gross profit margin for the same six month period in 2014. 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 six month period ended June 30, 2015 increased \$9.8 million, or 11.2%, to \$96.5 million from \$86.8 million in the same six month period in 2014. The increase in equipment rentals gross profit was the result of a \$25.0 million increase in rental revenues for the six

month period ended June 30, 2015, which was partially offset by a \$3.5 million increase in rental expenses and an \$11.7 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 2015 compared to 2014. Our fleet size as measured by original equipment cost increased \$164.3 million, or 14.7%, from June 30, 2014 to June 30, 2015. Gross profit margin on equipment rentals for the six month period ended June 30, 2015 was approximately 46.0% compared to 46.9% for the same period in 2014, a decrease of 0.9%. As a percentage of equipment rental revenues, rental expenses were 15.9% for the six month period ended June 30, 2015 compared to 16.1% for the same period last year, a decrease of 0.2%. This percentage decrease was primarily attributable to the increase in comparative rental revenues. Depreciation expense was 38.2% of equipment rental revenues for the six month period ended June 30, 2015 compared to 37.0% for the same period in 2014, an increase of 1.2%. The percentage increase in rental depreciation expense as a percentage of rental revenues was due to a larger fleet size and a higher original equipment cost of fleet composition compared to last year.

*New Equipment Sales Gross Profit.* Our new equipment sales gross profit for the six month period ended June 30, 2015 decreased \$6.1 million, or 32.3%, to approximately \$12.8 million compared to \$19.0 million for the same six month period in 2014 on a total new equipment sales decrease of \$51.2 million. Gross profit margin on new equipment sales for the six month period ended June 30, 2015 was 11.8%, a decrease of approximately 0.1% from 11.9% in the same six month period in 2014.

---

**Table of Contents**

**Used Equipment Sales Gross Profit.** Our used equipment sales gross profit for the six month period ended June 30, 2015 decreased \$1.8 million, or 9.2%, to \$17.5 million from \$19.3 million in the same period in 2014 on a used equipment sales decrease of \$6.7 million. Gross profit margin on used equipment sales for the six month period ended June 30, 2015 was 32.4%, up 0.7% from 31.7% for the same six month period in 2014, primarily as a result of higher gross margins on used aerial work platform equipment and used earthmoving equipment. Our used equipment sales from the rental fleet, which comprised approximately 82.2% and 86.5% of our used equipment sales for the six month periods ended June 30, 2015 and 2014, respectively, were approximately 160.7% and 152.9% of net book value for the six month periods ended June 31, 2015 and 2014, respectively.

**Parts Sales Gross Profit.** For the six month period ended June 30, 2015, our parts sales revenue gross profit decreased approximately \$0.5 million, or 3.4%, to \$15.3 million from approximately \$15.9 million for the same six month period in 2014 on a \$1.3 million increase in parts sales revenues. Gross profit margin for the six month period ended June 30, 2015 was 27.6%, a decrease of 1.7% from 29.3% in the same six month period in 2014, as a result of the mix of parts sold.

**Services Revenues Gross Profit.** For the six month period ended June 30, 2015, our services revenues gross profit increased approximately \$1.0 million, or 5.4%, to \$20.3 million from \$19.2 million for the same six month period in 2014 on a \$1.0 million increase in services revenues. Gross profit margin for the six month period ended June 30, 2015 was 66.0%, up 1.3% from 64.7% in the same six month period in 2014, as a result of services revenues mix.

**Non-Segmented Other Revenues Gross Profit.** Our non-segmented other revenues gross profit decreased approximately \$1.5 million, or 85.3%, to a gross profit of approximately \$0.3 million for the six month period ended June 30, 2015, compared to \$1.7 million in gross profit for the same period in 2014, on a \$2.9 million increase in non-segmented other revenues. Gross margin for the six month period ended June 30, 2015 was 0.8% compared to a gross margin of 6.2% in the same six month period last year, a decrease of 5.4%, primarily reflective of higher costs and lower margins on hauling revenues.

**Selling, General and Administrative Expenses.** SG&A expenses increased approximately \$7.1 million, or 7.1%, to \$107.9 million for the six month period ended June 30, 2015, compared to \$100.7 million for the six month period ended June 30, 2014. The net increase in SG&A expenses was attributable to several factors. Employee salaries, wages, payroll taxes and related employee expenses increased approximately \$2.4 million primarily as a result of a larger workforce. Professional and other service fees increased \$1.8 million. Depreciation and software amortization expense increased \$0.6 million. Facility costs increased \$0.5 million. Leasing costs increased \$0.4 million while promotional and marketing related expenses increased \$0.4 million. Liability insurance costs increased approximately \$0.2 million and supplies expense increased \$0.2 million. Of the \$7.1 million increase in SG&A expenses, approximately \$1.3 million was attributable to branches opened since January 1, 2014 with less than six full months of comparable operations (or no operations) in the first and second quarters of 2014 and 2015. As a percentage of total revenues, SG&A expenses were 22.0% for the six month period ended June 30, 2015, an increase of 2.5% from 19.5% for the same six month period in 2014, primarily as a result of the current year decrease in total revenues.

**Other Income (Expense).** For the six month period ended June 30, 2015, our net other expenses increased \$1.7 million to \$26.6 million compared to \$24.9 million for the same six month period in 2014. Interest expense was approximately \$27.2 million for the six month period ended June 30, 2015 compared to \$25.6 million for the six month period ended June 30, 2014, an increase of \$1.6 million. The increase in interest expense is substantially due to higher interest costs on the Credit Facility (as defined below) as a result of higher average borrowings in 2015 compared to 2014, combined with increased unused commitment fees as a result of the February 2015 amendment to the Credit Facility, which increased borrowing availability by \$200 million. Miscellaneous other income decreased \$0.1 million to \$0.6 million for the six month period ended June 30, 2015, compared to \$0.7 million for the six month

period ended June 30, 2014.

***Income Taxes.*** We recorded income tax expense of \$12.1 million for the six month period ended June 30, 2015 compared to income tax expense of \$14.4 million for the six month period ended June 30, 2014. Our effective income tax rate was 40.8% for the six month period ended June 30, 2015 compared to 38.4% for the same six month period last year. The increase in our effective tax rate is primarily due to a decrease in favorable permanent differences in the relation to current year pre-tax income. Based on available evidence, both positive and negative, we believe it is more likely than not that our deferred tax assets at June 30, 2015 are fully realizable through future reversals of existing taxable temporary differences and future taxable income, and are not subject to any limitations.

---

**Table of Contents****Liquidity and Capital Resources**

*Cash flow from operating activities.* For the six month period ended June 30, 2015, the cash provided by our operating activities was \$55.6 million. Our reported net income of \$17.6 million, which, when adjusted for non-cash income and expense items, such as depreciation and amortization, deferred income taxes, net amortization (accretion) of note discount (premium), provision for losses on accounts receivable, provision for inventory obsolescence, stock-based compensation expense and net gains on the sale of long-lived assets, provided positive cash flows of \$106.6 million. These cash flows from operating activities were also positively impacted by a \$15.1 million decrease in receivables and a \$10.5 million increase in accounts payable. Partially offsetting these positive cash flows were a \$47.9 million increase in inventories and a \$20.7 million decrease in manufacturing flooring plans payable. Also decreasing our operating cash flows were a \$6.1 million increase in prepaid expenses and other assets and a \$1.9 million decrease in accrued expenses payable and other liabilities.

For the six month period ended June 30, 2014, the cash provided by our operating activities was \$37.8 million. Our reported net income of \$23.2 million, which, when adjusted for non-cash income and expense items, such as depreciation and amortization, deferred income taxes, net amortization (accretion) of note discount (premium), provision for losses on accounts receivable, provision for inventory obsolescence, stock-based compensation expense and net gains on the sale of long-lived assets, provided positive cash flows of \$97.6 million. These cash flows from operating activities were also positively impacted by a \$27.4 million increase in accounts payable and a \$3.1 million increase in manufacturing flooring plans payable. Also increasing our operating cash flows was a \$3.0 million increase in accrued expenses payable and other liabilities. Offsetting these positive cash flows was an increase of \$76.6 million in inventories as a result of increasing demand and improving sales of new equipment during the period. Also decreasing our operating cash flows was a \$13.9 million increase in receivables and a \$2.8 million increase in prepaid expenses and other assets.

*Cash flow from investing activities.* For the six month period ended June 30, 2015, cash provided by our investing activities was exceeded by cash used in our investing activities, resulting in net cash used in our investing activities of \$38.4 million. This was a result of purchases of rental and non-rental equipment totaling \$84.8 million, which was partially offset by proceeds from the sale of rental and non-rental equipment of approximately \$46.4 million.

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

*Cash flow from financing activities.* For the six month period ended June 30, 2015, cash provided by our financing activities was exceeded by our cash used in our financing activities, resulting in net cash used in our financing activities of \$21.2 million. Net payments under the Credit Facility were \$2.8 million. Deferred financing costs paid totaled \$0.7 million and dividends totaling \$17.6 million, or \$0.50 per common share, were paid during the six month period ended June 30, 2015. Payments of capital lease obligations were \$0.1 million.

For the six month period ended June 30, 2014, cash provided by our financing activities was \$68.7 million. Net borrowings under the Credit Facility totaled approximately \$70.3 million. Partially offsetting these positive cash flows were deferred financing costs of \$0.8 million. As more fully described in our Quarterly Report on Form 10-Q for the three months ended September 30, 2012, the Company on September 19, 2012 paid a one-time special dividend of \$7.00 per share on the then-outstanding common stock and dividends on nonvested stock at that time were to be paid upon vesting of those shares. On June 6, 2014, the Company paid all remaining dividends on those shares of common stock totaling \$0.7 million. Payments of capital lease obligations were \$0.1 million.



***Senior Secured Credit Facility***

We and our subsidiaries are parties to a \$602.5 million senior secured credit facility (the Credit Facility ) with General Electric Capital Corporation as agent, and the lenders named therein.

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

The Amended and Restated Credit Agreement, among other things, (i) extends the maturity date of the Credit Facility from February 29, 2017 to May 21, 2019, (ii) increases the uncommitted incremental revolving capacity from \$130 million to \$150 million,

---

**Table of Contents**

(iii) permits a like-kind exchange program under Section 1031 of the Internal Revenue Code of 1986, as amended, (iv) provides that the unused commitment fee margin will be either 0.50%, 0.375% or 0.25%, depending on the ratio of the average of the daily closing balances of the aggregate revolving loans, swing line loans and letters of credit outstanding during each month to the aggregate commitments for the revolving loans, swing line loans and letters of credit, (v) lowers the interest rate (a) in the case of index rate revolving loans, to the index rate plus an applicable margin of 0.75% to 1.25% depending on the leverage ratio and (b) in the case of LIBOR revolving loans, to LIBOR plus an applicable margin of 1.75% to 2.25%, depending on the leverage ratio, (vi) lowers the margin applicable to the letter of credit fee to between 1.75% and 2.25%, depending on the leverage ratio, and (vii) permits, under certain conditions, for the payment of dividends and/or stock repurchases or redemptions on the capital stock of the Company of up to \$75 million per calendar year and further additionally permits the payment of the special cash dividend of \$7.00 per share previously declared by the Company on August 20, 2012 to the holders of outstanding restricted stock of the Company following the declared payment date with such permission not tied to the vesting of such restricted stock (which includes the Company's payment in June 2014 of all amounts that remained payable to the holders of the restricted stock of the Company with respect to such special dividend that was otherwise payable following the applicable vesting dates in May and July 2014 and 2015).

On February 5, 2015, we entered into an amendment to the Credit Facility which, among other things, increased the total amount of revolving loan commitments under the Amended and Restated Credit Agreement from \$402.5 million to \$602.5 million.

At June 30, 2015, the Company could borrow up to an additional \$338.1 million and remain in compliance with the debt covenants under the Company's Credit Facility. At June 30, 2015, the interest rate on the Credit Facility was based on LIBOR plus 200 basis points. The weighted average interest rate at June 30, 2015, 2014 was approximately 2.8%. At July 24, 2015, we had \$356.1 million of available borrowings under our Credit Facility, net of \$7.2 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 six month period ended June 30, 2015 were approximately \$114.1 million, including approximately \$42.2 million of non-cash transfers from new and used equipment to rental fleet inventory. Our gross property and equipment capital expenditures for the six month period ended June 30, 2015 were \$12.9 million. In response to changing economic conditions, we believe we have the flexibility to modify our capital expenditures by adjusting them (either up or down) to match our actual performance.

To service our debt, we will require a significant amount of cash. Our ability to pay interest and principal on our indebtedness (including the New Notes and the Add-on Notes, the Credit Facility and our other indebtedness), will depend upon our future operating performance and the availability of borrowings under the Credit Facility and/or other debt and equity financing alternatives available to us, which will be affected by prevailing economic conditions and conditions in the global credit and capital markets, as well as financial, business and other factors, some of which

are beyond our control. Based on our current level of operations and given the current state of the capital markets, we believe our cash flow from operations, available cash and available borrowings under the Credit Facility will be adequate to meet our future liquidity needs for the foreseeable future. As of July 24, 2015, we had \$356.1 million of available borrowings under the Credit Facility, net of \$7.2 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.

## **Table of Contents**

### **Quarterly Dividend**

On each of February 13, 2015 and May 18, 2015, the Company announced a quarterly dividend of \$0.25 per share to stockholders of record, which were paid on March 9, 2015 and June 9, 2015, respectively, totaling \$17.6 million.

On July 27, 2015, the Company's Board of Directors declared a quarterly dividend of \$0.275 per share, an increase of \$0.025 compared to last quarter, to be paid on September 9, 2015 to stockholders of record as of the close of business on August 24, 2015.

The Company intends to continue to pay regular quarterly cash dividends; however, the declaration of any subsequent dividends is discretionary and will be subject to a final determination by the Board of Directors each quarter after its review of, among other things, business and market conditions.

### **Seasonality**

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

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

### **Contractual and Commercial Commitments**

There have been no material changes from the information included in our Annual Report on Form 10-K for the year ended December 31, 2014.

### **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, 2014.

### **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 June 30, 2015, we had total borrowings outstanding under the Credit Facility of approximately \$257.1 million. A 1.0% increase in the interest rate on the Credit Facility would result in approximately a \$2.6 million increase in interest expense on an annualized basis. At July 24, 2015, we had \$356.1 million of available borrowings under the Credit Facility, net of \$7.2 million of outstanding letters of credit. We did not have significant exposure to changing interest rates as of June 30, 2015 on the fixed-rate New Notes and Add-on Notes. Historically, we have not engaged in derivatives or other financial instruments for trading, speculative

or hedging purposes, though we may do so from time to time if such instruments are available to us on acceptable terms and prevailing market conditions are accommodating.

**Item 4. Controls and Procedures**

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

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

Our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively) have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our principal executive officer and principal financial officer have concluded that, as of June 30, 2015, our current disclosure controls and procedures were effective.

**Table of Contents**

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 June 30, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings.**

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

**Item 1A. Risk Factors.**

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A - Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2014, 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, 2014.

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

None.

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

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.

**Table of Contents**

**Item 6. Exhibits.**

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



Table of Contents

**SIGNATURES**

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

H&E EQUIPMENT SERVICES, INC.

Dated: July 30, 2015

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

Chief Executive Officer

(Principal Executive Officer)

Dated: July 30, 2015

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

Chief Financial Officer and Secretary

(Principal Financial and Accounting Officer)

**Table of Contents**

**EXHIBIT INDEX**

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