H&E Equipment Services, Inc.
Form 10-Q
November 06, 2008

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

FORM 10-Q

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

For the quarterly period ended September 30, 2008

o **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	**81-0553291**
(State of Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
11100 Mead Road, Suite 200	
Baton Rouge, Louisiana	**70816**
(Address of Principal Executive Offices)	(ZIP Code)

(225) 298-5200
(Registrant s Telephone Number, Including Area Code)
None
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o
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 o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No þ
Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Number of shares of common stock outstanding as of the close of business on November 4, 2008: 34,706,913

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SEPTEMBER 30, 2008

Forward-Looking Statements

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

Forward-looking statements are only predictions and are not guarantees of performance. These statements are based on our management s beliefs and assumptions, which in turn are based on currently available information. Important assumptions relating to the forward-looking statements include, among others, assumptions regarding demand for our products, the expansion of product offerings geographically or through new applications, the timing and cost of planned capital expenditures, competitive conditions and general economic conditions. These assumptions could prove inaccurate. Forward-looking statements also involve known and unknown risks and uncertainties, which could cause actual results that 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 activity in the markets where we operate in North America and, in particular, the conditions in our Mid-Atlantic, Southern California and Florida regions as well as the impact of the current conditions of the capital markets and its effect on construction activity and the economy in general;

- relationships with new equipment suppliers;

- increased maintenance and repair costs;

- our indebtedness;

- the risks associated with the expansion of our business;

- our possible inability to integrate any businesses we acquire;

- competitive pressures;

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

- other factors discussed under Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2007 and under Item IA Risk Factors in our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2008.

Except as required by applicable law, including the securities laws of the United States and the rules and regulations of the Securities and Exchange Commission (SEC), we are under no obligation to publicly update or revise any forward-looking statements after we file this Quarterly Report on Form 10-Q, whether as a result of any new information, future events or otherwise. Investors, potential investors and other readers are urged to consider the above mentioned factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results or performance. For a more detailed discussion of some of the foregoing risk and uncertainties, see Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2007, and Item 1A - Risk Factors in our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2008, as well as other reports and registration statements filed by us with the SEC. All of our annual, quarterly and current reports and any amendments thereto, filed with or furnished to the SEC are available on our Internet website under the Investor Relations link. For more information about us and the announcements we make from time to time, visit our Internet website at *www.he-equipment.com*.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	Balances at	
	September 30, 2008 (Unaudited)	**December 31, 2007**
ASSETS		
Cash	$ 13,207	$ 14,762
Receivables, net of allowance for doubtful accounts of $4,648 and $4,413, respectively	143,023	151,148
Inventories, net of reserves for obsolescence of $989 and $992, respectively	120,199	143,789
Prepaid expenses and other assets	10,076	6,111
Rental equipment, net of accumulated depreciation of $202,131 and $186,630, respectively	582,347	577,628
Property and equipment, net of accumulated depreciation and amortization of $33,919 and $26,591, respectively	53,013	45,414
Deferred financing costs, net of accumulated amortization of $7,308 and $6,216, respectively	7,287	8,628
Intangible assets, net of accumulated amortization of $1,784 and $1,046, respectively	8,534	10,642
Goodwill	58,873	54,731
Total assets	$ 996,559	$ 1,012,853
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Amounts due on senior secured credit facility	$ 106,302	$ 120,553
Accounts payable	83,207	84,895
Manufacturer flooring plans payable	141,341	162,939
Accrued expenses payable and other liabilities	43,611	48,957
Related party obligation	215	413
Notes payable	1,966	1,987
Senior unsecured notes	250,000	250,000
Capital lease payable	2,328	2,411
Deferred income taxes	75,165	50,681
Deferred compensation payable	1,992	1,939
Total liabilities	706,127	724,775
Commitments and contingent liabilities		
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; 38,288,389 and 38,192,094 shares issued at September 30, 2008 and December 31, 2007, respectively, and 34,706,913 and 37,467,848 shares outstanding at September 30, 2008 and December 31, 2007, respectively	383	382
Additional paid-in capital	206,936	205,937
Treasury stock at cost, 3,581,476 and 724,246 shares of common stock held at September 30, 2008 and December 31, 2007, respectively	(56,008)	(13,431)
Retained earnings	139,121	95,190
Total stockholders equity	290,432	288,078
Total liabilities and stockholders equity	$ 996,559	$ 1,012,853

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

H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(Amounts in thousands, except per share amounts)

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Revenues:				
Equipment rentals	$ 78,181	$ 75,598	$ 224,626	$ 208,371
New equipment sales	97,797	94,675	274,135	240,910
Used equipment sales	39,873	44,503	128,436	110,190
Parts sales	30,951	26,716	89,112	73,803
Services revenues	18,333	16,877	52,651	46,599
Other	13,512	12,218	38,097	33,595
Total revenues	278,647	270,587	807,057	713,468
Cost of revenues:				
Rental depreciation	26,362	24,468	78,838	68,132
Rental expense	12,514	11,173	36,460	33,802
New equipment sales	84,739	81,523	237,449	208,875
Used equipment sales	30,578	33,730	97,960	82,604
Parts sales	21,809	18,895	62,815	52,224
Services revenues	6,592	6,131	19,016	16,899
Other	13,556	10,768	38,735	30,112
Total cost of revenues	196,150	186,688	571,273	492,648
Gross profit	82,497	83,899	235,784	220,820
Selling, general and administrative expenses	45,556	41,609	138,097	117,124
Gain on sales of property and equipment, net	219	97	515	444
Income from operations	37,160	42,387	98,202	104,140
Other income (expense):				
Interest expense	(9,495)	(9,007)	(29,193)	(26,597)
Loss on early extinguishment of debt		(325)		(325)
Other, net	250	293	731	816
Total other expense, net	(9,245)	(9,039)	(28,462)	(26,106)
Income before provision for income taxes	27,915	33,348	69,740	78,034
Provision for income taxes	10,311	13,154	25,809	30,480
Net income	$ 17,604	$ 20,194	$ 43,931	$ 47,554

Net income per common share:				
Basic	$ 0.50	$ 0.53	$ 1.22	$ 1.25
Diluted	$ 0.50	$ 0.53	$ 1.22	$ 1.25
Weighted average common shares outstanding:				
Basic	35,075	38,095	35,912	38,090
Diluted	35,090	38,095	35,918	38,090

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

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

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Cash flows from operating activities:		
Net income	$ 43,931	$ 47,554
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization on property and equipment	8,329	6,110
Depreciation on rental equipment	78,838	68,132
Amortization of loan discounts and deferred financing costs	1,093	1,019
Amortization of intangible assets	2,108	270
Provision for losses on accounts receivable	1,743	1,712
Provision for inventory obsolescence	39	61
Provision for deferred income taxes	24,484	28,897
Stock-based compensation expense	1,043	938
Loss on early extinguishment of debt		325
Gain on sales of property and equipment, net	(515)	(444)
Gain on sales of rental equipment, net	(28,121)	(25,594)
Changes in operating assets and liabilities, net of impact of acquisition:		
Receivables, net	7,792	(32,498)
Inventories, net	(17,817)	(53,719)
Prepaid expenses and other assets	(3,807)	(1,963)
Accounts payable	(1,688)	38,684
Manufacturer flooring plans payable	(21,598)	(7,317)
Accrued expenses payable and other liabilities	(308)	5,817
Deferred compensation payable	53	(1,368)
Net cash provided by operating activities	95,599	76,616
Cash flows from investing activities:		
Acquisition of business, net of cash acquired	(10,461)	(99,848)
Purchases of property and equipment	(16,526)	(12,325)
Purchases of rental equipment	(113,316)	(128,202)
Proceeds from sales of property and equipment	1,113	651
Proceeds from sales of rental equipment	99,237	91,626
Net cash used in investing activities	(39,953)	(148,098)
Cash flows from financing activities:		
Excess tax benefit (deficiency) from stock-based awards	(44)	44
Purchases of treasury stock	(42,577)	(432)
Borrowings on senior secured credit facility	810,223	754,616
Payments on senior secured credit facility	(824,474)	(681,964)

Principal payment of senior secured notes		(4,478)
Principal payment of senior subordinated notes		(278)
Payments of deferred financing costs		(547)
Payments of related party obligation	(225)	(225)
Payments of capital lease obligation	(83)	(2,280)
Principal payments on notes payable	(21)	(361)
Net cash provided by (used in) financing activities	(57,201)	64,095
Net decrease in cash	(1,555)	(7,387)
Cash, beginning of period	14,762	9,303
Cash, end of period	$ 13,207	$ 1,916

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

	Nine Months Ended September 30,	
	2008	**2007**
Supplemental schedule of noncash investing and financing activities:		
Noncash asset purchases:		
Assets transferred from new and used inventory to rental fleet	$ 41,357	$ 59,324
Capital lease obligation incurred	$	$ 4,698
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 33,386	$ 28,594
Income taxes, net of refunds received	$ 1,659	$ 1,873

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

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

(1) Organization and Nature of Operations

Basis of Presentation

Our condensed consolidated financial statements include the financial position and results of operations of H&E Equipment Services, Inc. and its wholly-owned subsidiaries H&E Finance Corp., GNE Investments, Inc., Great Northern Equipment, Inc., H&E California Holdings, Inc., H&E Equipment Services (California) LLC and H&E Equipment Services (Mid-Atlantic), Inc.

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 nine months ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008, 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, 2007, from which the balance sheet amounts as of December 31, 2007 included herein were derived.

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

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

Nature of Operations

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

(2) Significant Accounting Policies

We describe our significant accounting policies in note 2 of the notes to consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2007.

Use of Estimates

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

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

amounts of assets and liabilities and related disclosures at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reported period. These assumptions and estimates could have a material effect on our 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.

Recently Adopted Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in accordance with FASB Statement No. 109 (FAS 109). FIN 48 clarifies the application of FAS 109 by prescribing the recognition threshold that an individual tax position must meet for any part of the benefit of that position to be recognized in the financial statements. Additionally, FIN 48 provides guidance on the measurement, derecognition, classification and disclosure of tax positions, along with accounting for the related interest and penalties. The issuance of FASB Staff Position No. FIN 48-1, Definition of Settlement in FASB Interpretation No. 48, in May 2007 amends FIN 48 to provide guidance on how an enterprise should determine whether a tax position is effectively settled for the purposes of recognizing previously unrecognized tax benefits.

FIN 48 provides that the cumulative effect of applying the provisions is reported as an adjustment to opening retained earnings in the period of adoption. We adopted the provisions of FIN 48 as of January 1, 2007, and in so doing, we analyzed our filing positions in all of the federal and state jurisdictions where we are required to file income tax returns, as well as all open tax years in these jurisdictions. The cumulative effect of applying this interpretation did not result in any adjustment to our retained earnings as of January 1, 2007.

Consistent with our historical financial reporting, to the extent we generate or incur interest income, interest expense or penalties related to unrecognized income tax benefits, such items are recorded in Other income or expense in our consolidated statement of operations. We did not generate or incur any income tax related interest income, interest expense or penalties related to FIN 48 for the three and nine month periods ended September 30, 2008 or 2007.

As of January 1, 2007, the adoption date, we had an unrecognized tax benefit of $6.2 million. The net impact of recording this liability was a reclass between deferred income tax liabilities and deferred income tax assets, resulting in no adjustment to retained earnings. If recognized, there would be no impact to our effective income tax rate. There was no change in the unrecognized tax benefit during the 2007 fiscal year ended December 31, 2007 or during the three and nine month periods ended September 30, 2008. At this time, we do not expect to recognize significant increases or decreases in unrecognized tax benefits during the next twelve months related to FIN 48.

Our U.S. federal tax returns for 2005 and subsequent years remain open to potential examination by tax authorities. The Company is currently under a limited scope examination by the Internal Revenue Service (the IRS) for the Company s 2006 Federal Tax Return. We currently do not expect any material adjustments as a result of the IRS examination. We are also open to potential examination in various state jurisdictions for 2003 and subsequent years.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. In February 2008, the FASB issued FASB Staff Position FAS 157-2 Effective Date of FASB Statement No.157 (FSP 157-2). FSP 157-2 delays the effective date of FAS 157 by one year for certain non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). All valuation adjustments pursuant to FAS 157 are to be recognized as cumulative-effect adjustments to the opening balance of retained earnings for the fiscal year in which FAS 157 is initially applied. We adopted the provisions of FAS 157 as of January 1, 2008, except as it applies to those nonfinancial assets and nonfinancial liabilities for which the effective date has been delayed by one year. The adoption of FAS 157 did not have a material effect on our financial position or results of operations. We are currently evaluating the impact that FAS 157 may have on our future consolidated financial statements related to non-financial assets and liabilities.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115 (FAS 159). FAS 159 provides an entity the option to report selected financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are

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

reported in earnings at each subsequent reporting date. The fair value option: (i) may be applied instrument by instrument, with a few exceptions, such as investments accounted for by the equity method; (ii) is irrevocable (unless a new election date occurs); and (iii) is applied only to entire instruments and not to portions of instruments. On January 1, 2008, we adopted the provisions of FAS 159. We did not elect to measure any financial instruments or any other items at fair value as permitted by FAS 159 and consequently, the adoption of FAS 159 did not have a material effect on our financial position or results of operations.

Recently Issued Accounting Pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinations (FAS 141R), which replaces Statement of Financial Accounting Standards No. 141 (FAS 141). This Statement retains the fundamental requirements in FAS 141 that the acquisition method of accounting (which FAS 141 called the purchase method) be used for all business combinations. FAS 141R also establishes principles and requirements for how the acquirer: (i) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; (ii) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (iii) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. FAS 141R is effective as of the beginning of an entity s fiscal year that begins after December 15, 2008. We are currently evaluating the impact FAS 141R will have upon adoption on our accounting for acquisitions. However, previously any changes in valuation allowances, as a result of income from acquisitions, for certain deferred tax assets would serve to reduce goodwill whereas under the new standard any changes in the valuation allowance related to income from acquisitions currently or in prior periods will serve to reduce income taxes in the period in which the reserve is reversed. Additionally, under FAS 141R, transaction related expenses, which were previously capitalized as direct costs of the acquisition, will be expensed as incurred as transaction costs are not considered an element of the fair value of the company acquired under the new guidance. Depending upon the size, nature and complexity of a future acquisition transaction, such transaction costs could be material to our results of operations under FAS 141R.

In April 2008, the FASB issued FASB Staff Position 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, Goodwill and Other Intangible Assets (FAS 142). The intent of FSP 142-3 is to improve the consistency between the useful life of a recognized intangible assets under FAS 142 and the period of expected cash flows used to measure the fair value of the asset under FAS 141R and other U.S. generally accepted accounting principles. FSP 142-3 is effective for our interim and annual financial statements beginning in fiscal 2009 and early adoption is prohibited. We do not expect the adoption of FSP 142-3 will have a material impact on our financial statements.

In May 2008, the FASB issued Statement of Financial Accounting Standards No. 162, The Hierarchy of Generally Accepted Accounting Principles (FAS 162). FAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with accounting principles generally accepted in the United States of America. FAS 162 will be effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. We do not expect the adoption of FAS 162 to have a material impact on our financial statements.

(3) Acquisitions

We completed, effective as of September 1, 2007, and funded on September 4, 2007, the acquisition of all of the outstanding capital stock of J.W. Burress, Incorporated (Burress) for an estimated total consideration of approximately $149.6 million, consisting of cash paid of $108.3 million, liabilities assumed of $38.9 million and transaction costs of approximately $2.4 million. The Burress purchase price was funded from available cash on hand and borrowings under our senior secured credit facility. Prior to the acquisition, Burress was a privately-held company operating primarily as a distributor in the construction and industrial equipment markets out of 12 locations in four states in the Mid-Atlantic region of the United States. We had no material relationship with Burress prior to the acquisition. The name of Burress was changed to H&E Equipment Services (Mid-Atlantic), Inc., effective September 4, 2007. This acquisition marks our initial entry into three of the four Mid-Atlantic states that Burress operates in and is consistent with our business strategy.

The Burress acquisition has been accounted for using the purchase method of accounting. The aggregate purchase price has been allocated to the assets acquired and liabilities assumed based on an estimate of their fair values. The excess of the purchase price over the fair value of the net identifiable tangible and intangible assets acquired has been allocated to goodwill. Goodwill generated from

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

the acquisition was recognized given the expected contribution of Burress to our overall corporate strategy. We expect that all of the $28.3 million of the recorded goodwill acquired, together with the value of certain other intangible assets, will be amortized over a 15-year period for tax purposes and ratably tax deductible over that period.

The purchase price of Burress, among other things, was based on a multiple of historical adjusted EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization). Among the items specifically excluded from the purchase price calculation was EBITDA derived from Burress distribution relationship with Hitachi. Upon the consummation of the acquisition, the Burress shareholders received notification from John Deere Construction & Forestry Company (John Deere), Hitachi s North American representative, of termination of the Hitachi dealer agreement (the Termination Letter). Pursuant to the Termination Letter, all Hitachi related manufacturer flooring plans payable totaling approximately $9.2 million became due. The possibility that the Hitachi relationship would be terminated was anticipated by the Company and Burress at the time the parties entered into the acquisition agreement and the amount of the outstanding Hitachi manufacturer flooring plans payable was included in the calculation of the purchase price. We paid the approximate $9.2 million of payables during September 2007 with funds available under our senior secured credit facility. Additionally, certain Hitachi rental fleet, new equipment inventory and parts inventory were to be returned to John Deere or other designated Hitachi dealerships pursuant to the terms of the Termination Letter. We have returned all such Hitachi rental fleet, new equipment inventory and parts inventory to John Deere pursuant to the termination notification and all related credits have been issued by John Deere. Upon our return of the aforementioned equipment to John Deere, approximately $3.2 million of manufacturer flooring plans payable associated with that equipment was canceled and credits were issued for the returned equipment.

Pursuant to the terms of the acquisition agreement, the Burress shareholders would have been entitled to receive additional consideration of approximately $15.1 million payable over three years if the consent of Hitachi, meeting the requirements of the acquisition agreement, had been obtained on or before December 29, 2007. However, the consent of Hitachi was not obtained on or before that date; accordingly, the Burress shareholders will not be entitled to any additional consideration related to the previous distribution relationship with Hitachi.

In connection with the Burress acquisition, we entered into a Second Amended and Restated Credit Agreement on September 1, 2007, by and among the Company, Great Northern Equipment, Inc., GNE Investments, Inc., H&E Finance Corp., H&E Equipment Services (California), LLC, H&E California Holdings, Inc., J.W. Burress, Incorporated, General Electric Capital Corporation, as Agent, and the Lenders (as defined therein) amending and restating our Amended and Restated Credit Agreement, dated as of August 4, 2006, and pursuant to which, among other things, (i) the principal amount of availability of the credit facility was increased from $250.0 million to $320.0 million, (ii) an incremental facility, at Agent s and Company s mutual agreement, in an aggregate amount of up to $130.0 million at any time after the closing of the amendment, subject to existing and/or new lender approval, was added, and (iii) Burress was added as a guarantor. We paid $0.4 million to the lenders and also incurred approximately $0.1 million in other transaction costs in connection with the transaction.

The following table summarizes the final purchase price allocation of the Burress acquisition based on estimated fair values of the Burress assets acquired and liabilities assumed on September 1, 2007 (amounts in thousands):

Receivables	$ 15,833
Inventories	23,740
Rental equipment	62,354
Property and equipment	7,277
Prepaid expenses and other assets	382
Intangible assets (a)	11,688
Goodwill	28,300
Accounts payable	(8,758)
Manufacturer flooring plans payable	(19,787)

Accrued expenses payable and other liabilities	(5,693)
Capital leases (b)	(4,698)
Net assets acquired (c)	$ 110,638

(a) Amount represents certain intangible assets acquired relating to the Burress acquisition. See note 4 to the condensed consolidated financial statements for further details regarding these intangible assets.

(b) Represents the present value of our obligations under various capital leases assumed on the date of acquisition. Subsequent to the acquisition date and during our third quarter ended September 30, 2007, we paid approximately $3.2 million to purchase

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all vehicles previously held under capital leases. The accompanying condensed consolidated balance sheets reflect the incremental cost basis of the vehicles, net of accumulated depreciation, from the lease buyouts in property and equipment and appropriately reflect no obligation under those vehicle leases. Additionally, Burress previously leased four branch facility locations under capital leases. On August 31, 2007, three of those capital leases related to Burress branch facility locations were amended and these amendments resulted in a lease classification change, pursuant to Statement on

Financial Accounting Standard No. 13, Accounting for Leases, from capital leases to operating leases as of September 1, 2007, the acquisition date. Therefore, the accompanying condensed consolidated balance sheet as of September 30, 2008 reflects the one remaining capital lease obligation on a Burress branch facility for approximately $2.3 million.

(c) The net assets acquired of $110.6 million in the above final purchase price allocation represents an increase of approximately $5.1 million from the net assets acquired of $105.5 million as previously disclosed in our Quarterly Report on Form 10-Q for the three months ended June 30, 2008. The $5.1 million third quarter increase in the net assets acquired represents, as previously disclosed, the amount due the Burress shareholders as of June 30, 2008, which was paid during the three month period ended September 30, 2008, related to Hitachi equipment and parts inventories returned by the Company to John Deere or their designated Hitachi dealerships as discussed above. These amounts were previously withheld from the seller s proceeds on the acquisition date pending acceptance from John Deere for the returned equipment and parts and agreement by the Company and the Burress shareholders of the amounts owed.

(4) Goodwill and Intangible Assets

Goodwill

The change in the carrying amount of goodwill for each of our reporting units for the nine months ended September 30, 2008 is as follows (amounts in thousands):

Reporting Unit	Balance at December 31, 2007	Additions	Balance at September 30, 2008
Equipment Rentals Component 1	$ 8,972	$	$ 8,972
Equipment Rentals Component 2	19,213	1,214	20,427
New Equipment Sales	7,828	939	8,767
Used Equipment Sales	6,113	599	6,712
Parts Sales	6,125	755	6,880
Service Revenues	6,480	635	7,115
Totals	$ 54,731	$ 4,142	$ 58,873

The additions above are a result of adjustments to the Burress purchase price allocation related to the Burress acquisition since December 31, 2007 (see note 3 to the condensed consolidated financial statements for further information regarding the Burress acquisition and related purchase price allocation).

We review the valuation of goodwill in accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (FAS 142). Under the provisions of FAS 142, goodwill is required to be tested for impairment annually in lieu of being amortized. Our annual goodwill impairment testing date is October 1. Goodwill is required to be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying value. As more fully discussed in note 4 to our Form 10-Q for the three months ended June 30, 2008, we performed an interim goodwill impairment test as of June 30, 2008, which resulted in no impairment charge for any of our six reporting units.

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Intangible Assets

The gross carrying value and accumulated amortization of the major classes of intangible assets are as follows (amounts in thousands):

Acquired Intangible Asset	Gross Carrying Amount	Weighted-Average Amortization Period (in Years)	Balances at September 30, 2008 Accumulated Amortization	Balances at September 30, 2008 Net Carrying Amount
Trade name	$ 1,370	1.0	$ 1,370	$
Non-compete agreements	788	4.0	213	575
Customer relationships	9,530	6.0	1,571	7,959
Total	$ 11,688	5.3	$ 3,154	$ 8,534

Amortization expense for the trade name intangible asset and the non-compete agreements is computed over the estimated useful life of the intangible assets acquired on a straight-line basis. Amortization expense for the customer relationships intangible asset is computed over the estimated useful life of the asset acquired based on the relative annual contribution to estimated Adjusted Earnings Before Interest, Taxes and Amortization. Amortization expense on the above intangible assets for the three and nine month periods ended September 30, 2008 was approximately $0.6 million and $2.1 million, respectively, compared to $0.3 million for the same periods last year. Last year s expense includes one month of amortization from the acquisition date, September 1, 2007.

(5) Stockholders Equity

The following table summarizes the activity in Stockholders Equity for the nine month period ended September 30, 2008 (amounts in thousands, except share data):

	Common Stock Shares Issued	Common Stock Amount	Additional Paid-in Capital	Treasury Stock	Retained Earnings	Total Stockholders Equity
Balances at December 31, 2007	38,192,094	$ 382	$ 205,937	$ (13,431)	$ 95,190	$ 288,078
Stock-based compensation			1,043			1,043
Income tax deficiency from stock-based compensation			(44)			(44)
Surrender of 13,436 shares(1)				(215)		(215)
Repurchases of 2,843,794 shares of common stock(2)				(42,362)		(42,362)
Issuance of common stock(3)	96,295	1				1

Net income					43,931	43,931
Balances at September 30, 2008	38,288,389	$ 383	$ 206,936	$ (56,008)	$ 139,121	$ 290,432

(1) On February 22, 2008, 40,650 shares of non-vested stock that were issued in 2006 subsequently vested pursuant to the terms of the respective grant agreements. In accordance with the provisions of our 2006 Stock-Based Incentive Compensation Plan, holders of those vested shares returned 13,436 shares of common stock to the Company as payment for their respective employee withholding taxes. This resulted in the recognition of Treasury Stock for those 13,436 shares.

(2) On November 8, 2007, the Company announced that our Board of Directors authorized a stock repurchase program, under which the

Company may purchase, from time to time, in open market transactions at prevailing prices or through privately negotiated transactions as conditions permit, up to $100 million of the Company s outstanding common stock. See also note 7 to the condensed consolidated financial statements for further information on our stock repurchase program.

(3) See also note 6 to the condensed consolidated financial statements regarding 2008 stock award grants.

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(6) Stock-Based Compensation

We account for our stock-based compensation plan using the fair value recognition provisions of Statement of Financial Accounting Standard No. 123 (revised) (FAS 123(R)) Share-Based Payment. Under the provisions of FAS 123(R), stock-based compensation is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the requisite employee service period (generally the vesting period of the grant). Shares available for future stock-based payment awards under our Stock Incentive Plan were 4,328,363 shares as of September 30, 2008.

Non-vested Stock

The following table summarizes our non-vested stock activity for the nine months ended September 30, 2008:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested stock at December 31, 2007	81,300	$ 24.60
Granted	96,295	$ 12.02
Vested	(40,650)	$ 24.60
Forfeited		
Non-vested stock at September 30, 2008	136,945	$ 15.75

As shown above, we issued non-vested stock grants for 96,295 shares on June 30, 2008. Compensation expense was determined based on the $12.02 market price of our common stock at the date of grant applied to the total number of shares that were anticipated to fully vest. As of September 30, 2008, we have unrecognized compensation expense of approximately $1.4 million related to non-vested stock. The following table summarizes compensation expense included in selling, general and administrative expenses in the accompanying condensed consolidated statements of income for the three and nine month periods ended September 30, 2008 and 2007 (amounts in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
Compensation expense	$344	$250	$845	$750

Stock Options

At September 30, 2008, there was $0.1 million of unrecognized compensation expense related to stock option awards that are expected to be recognized over a weighted-average period of 0.8 years. The following table summarizes compensation expense included in selling, general and administrative expenses in the accompanying condensed consolidated statements of income for the three and nine month periods ended September 30, 2008 and 2007 (amounts in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2008	2007	2008	2007
Compensation expense	$ 68	$ 67	$198	$188

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The following table represents stock option activity for the nine months ended September 30, 2008:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Contractual Life in Years
Outstanding options at December 31, 2007	51,000	$24.80	8.3
Granted			
Exercised			
Canceled, forfeited or expired			
Outstanding options at September 30, 2008	51,000	$24.80	7.6
Options exercisable at September 30, 2008	32,000	$24.70	7.5

The closing price of our common stock on September 30, 2008 was $9.66. All options outstanding at September 30, 2008 have grant date fair values which exceed the September 30, 2008 closing stock price.

The following table summarizes non-vested stock option activity for the nine months ended September 30, 2008:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested stock options at December 31, 2007	36,000	$24.88
Granted		
Vested	(17,000)	$24.80
Forfeited		
Non-vested stock options at September 30, 2008	19,000	$24.95

(7) Purchases of Company Common Stock

On November 8, 2007, our Board of Directors authorized a stock repurchase program, under which the Company may purchase, from time to time, in open market transactions at prevailing prices or through privately negotiated transactions as conditions permit, up to $100 million of the Company s outstanding common stock through December 31, 2008, unless extended or shortened by the Board of Directors. The Company s management determines the timing and amount of stock repurchase based on market conditions and other factors. Repurchases of our common stock are funded with working capital and/or available borrowings under our existing senior secured credit facility. On November 7, 2007, we amended the Second Amended and Restated Credit Agreement to permit the stock repurchase program, subject to certain restrictions.

During the nine month period ended September 30, 2008, we repurchased 2,843,794 shares of our common stock totaling approximately $42.4 million (including trade commissions of approximately $0.1 million) under the stock repurchase program. Purchases of our common stock are accounted for as treasury stock in the accompanying condensed consolidated balance sheets using the cost method. Repurchased stock is included in authorized shares, but is not included in shares outstanding.

(8) Earnings per Share

Earnings per share of common stock for the three and nine month periods ended September 30, 2008 and 2007 are based on the weighted average number of shares of common stock outstanding during the respective periods. The following table sets forth the computation of basic and diluted net income per common share for the three and nine month periods ended September 30, 2008 and 2007 (amounts in thousands, except per share amounts):

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Basic net income per share:				
Net income	$ 17,604	$ 20,194	$ 43,931	$ 47,554
Weighted average number of shares of common stock outstanding	35,075	38,095	35,912	38,090
Net income per share of common stock basic	$ 0.50	$ 0.53	$ 1.22	$ 1.25
Diluted net income per share:				
Net income	$ 17,604	$ 20,194	$ 43,931	$ 47,554
Weighted average number of shares of common stock outstanding	35,075	38,095	35,912	38,090
Effect of dilutive securities:				
Effect of dilutive stock options				
Effect of dilutive non-vested stock	15		6	
Weighted average number of shares of common stock outstanding diluted	35,090	38,095	35,918	38,090
Net income per share of common stock diluted	$ 0.50	$ 0.53	$ 1.22	$ 1.25
Common shares excluded from the denominator as anti-dilutive:				
Stock options	51	132	51	132
Non-vested restricted stock	96		32	41

(9) Senior Secured Credit Facility

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

At September 30, 2008, the interest rate on the senior secured credit facility was LIBOR plus 125 basis points, or 4.31%. The senior secured credit facility is senior to all other outstanding debt, secured by substantially all the assets of the Company and is guaranteed by the Company s domestic subsidiaries (see note 11 to the condensed consolidated financial statements). The balance outstanding on the senior secured credit facility as of September 30, 2008 was approximately $106.3 million. Additional borrowings available under the terms of the senior secured credit facility as of September 30, 2008, net of $7.0 million of standby letters of credit outstanding, totaled $206.7 million. The average interest rate on our outstanding net borrowings during the nine month period ended September 30, 2008 was approximately 4.90%. As of September 30, 2008, we were in compliance with our financial covenant under the senior secured credit facility. As of November 4, 2008, we had $207.4 million of available borrowings under our senior secured credit facility, net of $7.0 million of outstanding letters of credit.

(10) Segment Information

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues:				
Equipment rentals	$ 78,181	$ 75,598	$ 224,626	$ 208,371
New equipment sales	97,797	94,675	274,135	240,910
Used equipment sales	39,873	44,503	128,436	110,190
Parts sales	30,951	26,716	89,112	73,803
Services revenues	18,333	16,877	52,651	46,599
Total segmented revenues	265,135	258,369	768,960	679,873
Non-segmented revenues	13,512	12,218	38,097	33,595
Total revenues	$ 278,647	$ 270,587	$ 807,057	$ 713,468
Gross Profit:				
Equipment rentals	$ 39,305	$ 39,957	$ 109,328	$ 106,437
New equipment sales	13,058	13,152	36,686	32,035
Used equipment sales	9,295	10,773	30,476	27,586
Parts sales	9,142	7,821	26,297	21,579
Services revenues	11,741	10,746	33,635	29,700
Total segmented gross profit	82,541	82,449	236,422	217,337
Non-segmented gross profit (loss)	(44)	1,450	(638)	3,483
Total gross profit	$ 82,497	$ 83,899	$ 235,784	$ 220,820

	Balances at	
	September 30, 2008	December 31, 2007
Segment identified assets:		
Equipment sales	$ 95,766	$ 117,920
Equipment rentals	582,347	577,628
Parts and services	24,433	25,869
Total segment identified assets	702,546	721,417
Non-segment identified assets	294,013	291,436
Total assets	$ 996,559	$ 1,012,853

The Company operates primarily in the United States and our sales to international customers for the three and nine month periods ended September 30, 2008 were 4.9% and 4.3%, respectively, of total revenues compared to 1.7% and 1.2% for the three and nine month periods ended September 30, 2007. No one customer accounted for more than 10% of our revenues on an overall or segment basis for any of the periods presented.

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(11) Condensed Consolidating Financial Information of Guarantor Subsidiaries

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

The condensed consolidating financial statements of H&E Equipment Services, Inc. and its subsidiaries are included below. The financial statements for H&E Finance Corp., the subsidiary co-issuer, are not included within the consolidating financial statements because H&E Finance Corp. has no assets or operations. The financial statements of H&E Equipment Services (Mid-Atlantic), Inc., are included from the date of our acquisition of Burress on September 1, 2007. The condensed consolidating balance sheet amounts as of December 31, 2007 included herein were derived from our annual audited consolidated financial statements and related notes in our Annual Report on Form 10-K for the year ended December 31, 2007.

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CONDENSED CONSOLIDATING BALANCE SHEET

	As of September 30, 2008			
	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Assets:				
Cash	$ 13,124	$ 83	$	$ 13,207
Receivables, net	117,825	25,198		143,023
Inventories, net	85,673	34,526		120,199
Prepaid expenses and other assets	9,935	141		10,076
Rental equipment, net	480,115	102,232		582,347
Property and equipment, net	40,078	12,935		53,013
Deferred financing costs, net	7,287			7,287
Intangible assets, net		8,534		8,534
Investment in guarantor subsidiaries	9,334		(9,334)	
Goodwill	8,571	50,302		58,873
Total assets	$ 771,942	$ 233,951	$ (9,334)	$ 996,559
Liabilities and Stockholders Equity:				
Amount due on senior secured credit facility	$ 106,302	$	$	$ 106,302
Accounts payable	83,995	(788)		83,207
Manufacturer flooring plans payable	141,341			141,341
Accrued expenses payable and other liabilities	42,285	1,326		43,611
Intercompany balances	(221,023)	221,023		
Related party obligation	215			215
Notes payable	1,238	728		1,966
Senior unsecured notes	250,000			250,000
Capital lease payable		2,328		2,328
Deferred income taxes	75,165			75,165
Deferred compensation payable	1,992			1,992
Total liabilities	481,510	224,617		706,127
Stockholders equity	290,432	9,334	(9,334)	290,432
Total liabilities and stockholders equity	$ 771,942	$ 233,951	$ (9,334)	$ 996,559

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CONDENSED CONSOLIDATING BALANCE SHEET

	As of December 31, 2007			
	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Assets:				
Cash	$ 12,005	$ 2,757	$	$ 14,762
Receivables, net	131,085	20,063		151,148
Inventories, net	118,912	24,877		143,789
Prepaid expenses and other assets	5,528	583		6,111
Rental equipment, net	453,465	124,163		577,628
Property and equipment, net	31,557	13,857		45,414
Deferred financing costs, net	8,628			8,628
Intangible assets, net	10,642			10,642
Investment in guarantor subsidiaries	14,026		(14,026)	
Goodwill	8,571	46,160		54,731
Total assets	$ 794,419	$ 232,460	$ (14,026)	$ 1,012,853
Liabilities and Stockholders Equity:				
Amount due on senior secured credit facility	$ 130,205	$ (9,652)	$	$ 120,553
Accounts payable	83,677	1,218		84,895
Manufacturer flooring plans payable	156,937	6,002		162,939
Accrued expenses payable and other liabilities	45,603	3,354		48,957
Intercompany balances	(214,364)	214,364		
Related party obligation	413			413