H&E Equipment Services, Inc.
Form 10-Q
August 07, 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 June 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 (State of Other Jurisdiction of Incorporation or Organization)	**81-0553291** (I.R.S. Employer Identification No.)
11100 Mead Road, Suite 200 **Baton Rouge, Louisiana** (Address of Principal Executive Offices)	**70816** (ZIP Code)

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

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

Yes 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 August 4, 2008: 35,380,446

H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES
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JUNE 30, 2008

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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 substantial leverage;
- the risks associated with the expansion of our business;
- our possible inability to integrate any businesses we acquire, including our recently completed acquisition of J.W. Burress, Incorporated (Burress);
- 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 this 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 this 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*.

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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	
	June 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Cash	$ 8,420	$ 14,762
Receivables, net of allowance for doubtful accounts of $4,773 and $4,413, respectively	147,506	151,148
Inventories, net of reserves for obsolescence of $1,005 and $992, respectively	144,806	143,789
Prepaid expenses and other assets	6,031	6,111
Rental equipment, net of accumulated depreciation of $196,304 and $186,630, respectively	578,427	577,628
Property and equipment, net of accumulated depreciation and amortization of $31,449 and $26,591, respectively	50,938	45,414
Deferred financing costs, net of accumulated amortization of $6,944 and $6,216, respectively	7,651	8,628
Intangible assets, net of accumulated amortization of $2,514 and $1,046, respectively	9,174	10,642
Goodwill	58,873	54,731
Total assets	$ 1,011,826	$ 1,012,853
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Amounts due on senior secured credit facility	$ 112,593	$ 120,553
Accounts payable	94,880	84,895
Manufacturer flooring plans payable	152,540	162,939
Accrued expenses payable and other liabilities	48,160	48,957
Related party obligation	283	413
Notes payable	1,973	1,987
Senior unsecured notes	250,000	250,000
Capital lease payable	2,356	2,411
Deferred income taxes	65,166	50,681
Deferred compensation payable	1,958	1,939
Total liabilities	729,909	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 June 30, 2008 and December 31, 2007, respectively, and 35,380,446 and 37,467,848 shares outstanding at June 30, 2008 and December 31, 2007, respectively	383	382
Additional paid-in capital	206,524	205,937
Treasury stock at cost, 2,907,943 and 724,246 shares of common stock held at June 30, 2008 and December 31, 2007, respectively	(46,507)	(13,431)
Retained earnings	121,517	95,190
Total stockholders equity	281,917	288,078
Total liabilities and stockholders equity	$ 1,011,826	$ 1,012,853

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

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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,	
	2008	**2007**	**2008**	**2007**
Revenues:				
Equipment rentals	$ 75,234	$ 69,572	$ 146,445	$ 132,773
New equipment sales	99,985	78,465	176,338	146,235
Used equipment sales	47,152	34,747	88,563	65,687
Parts sales	29,247	23,951	58,161	47,087
Services revenues	17,730	15,099	34,318	29,722
Other	13,296	11,311	24,585	21,377
Total revenues	282,644	233,145	528,410	442,881
Cost of revenues:				
Rental depreciation	26,048	22,321	52,476	43,664
Rental expense	12,130	11,842	23,946	22,629
New equipment sales	87,164	68,378	152,710	127,352
Used equipment sales	36,463	26,354	67,382	48,874
Parts sales	20,740	17,060	41,006	33,329
Services revenues	6,283	5,628	12,424	10,768
Other	13,253	10,352	25,179	19,344
Total cost of revenues	202,081	161,935	375,123	305,960
Gross profit	80,563	71,210	153,287	136,921
Selling, general and administrative expenses	45,857	38,360	92,541	75,515
Gain on sales of property and equipment, net	157	39	296	347
Income from operations	34,863	32,889	61,042	61,753
Other income (expense):				
Interest expense	(9,531)	(8,887)	(19,698)	(17,590)
Other, net	265	386	481	523
Total other expense, net	(9,266)	(8,501)	(19,217)	(17,067)
Income before provision for income taxes	25,597	24,388	41,825	44,686
Provision for income taxes	9,479	9,162	15,498	17,326
Net income	$ 16,118	$ 15,226	$ 26,327	$ 27,360

Net income per common share:								
Basic	$	0.45	$	0.40	$	0.72	$	0.72
Diluted	$	0.45	$	0.40	$	0.72	$	0.72
Weighted average common shares outstanding:								
Basic		35,986		38,095		36,335		38,088
Diluted		35,988		38,161		36,339		38,159

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

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

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Cash flows from operating activities:		
Net income	$ 26,327	$ 27,360
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization on property and equipment	5,538	3,946
Depreciation on rental equipment	52,476	43,664
Amortization of loan discounts and deferred financing costs	730	684
Amortization of intangible assets	1,467	12
Provision for losses on accounts receivable	1,521	1,090
Provision for inventory obsolescence	27	25
Provision for deferred income taxes	14,485	16,107
Stock-based compensation expense	631	621
Gain on sales of property and equipment, net	(296)	(347)
Gain on sales of rental equipment, net	(19,274)	(15,713)
Changes in operating assets and liabilities, net of impact of acquisition:		
Receivables, net	3,531	(7,738)
Inventories, net	(36,521)	(57,113)
Prepaid expenses and other assets	238	(2,344)
Accounts payable	9,985	32,839
Manufacturer flooring plans payable	(10,399)	3,721
Accrued expenses payable and other liabilities	(920)	4,365
Deferred compensation payable	19	(1,406)
Net cash provided by operating activities	49,565	49,773
Cash flows from investing activities:		
Acquisition of business, net of cash acquired	(5,306)	
Purchases of property and equipment	(11,748)	(5,994)
Purchases of rental equipment	(68,474)	(63,791)
Proceeds from sales of property and equipment	982	490
Proceeds from sales of rental equipment	69,939	55,343
Net cash used in investing activities	(14,607)	(13,952)
Cash flows from financing activities:		
Excess tax deficiency from stock-based awards	(44)	(44)
Purchases of treasury stock	(33,077)	(432)
Borrowings on senior secured credit facility	536,099	428,086
Payments on senior secured credit facility	(544,059)	(437,220)
Payments of deferred financing costs		(43)

Payments of related party obligation	(150)	(150)
Payments of capital lease obligation	(55)	
Principal payments on notes payable	(14)	(354)
Net cash used in financing activities	(41,300)	(10,157)
Net increase (decrease) in cash and cash equivalents	(6,342)	25,664
Cash, beginning of period	14,762	9,303
Cash and cash equivalents, end of period	$ 8,420	$ 34,967

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

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Supplemental schedule of noncash investing and financing activities:		
Noncash asset purchases:		
Assets transferred from new and used inventory to rental fleet	$ 35,465	$ 49,230
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 18,895	$ 15,261
Income taxes, net of refunds received	$ 1,280	$ 1,552

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

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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 six months ended June 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. At June 30, 2007, a portion of our available cash on hand was invested in cash equivalents whereas no portion of our available cash on hand at June 30, 2008 or at December 31, 2007 was invested in cash equivalents. We consider all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

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

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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 condensed consolidated statement of operations. We did not incur any income tax related interest income, interest expense or penalties related to FIN 48 for the three and six month periods ended June 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 six month periods ended June 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 2004 and subsequent years remain open to potential examination by tax authorities. The Company has been notified by the Internal Revenue Service (the IRS) that the Company s 2006 Federal Tax Return will be subject to a limited scope examination by the IRS. 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 (SFAS) 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 on Statement 157, 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 SFAS 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 SFAS No. 141 (revised 2007), Business Combinations (FAS 141R), which replaces SFAS 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 SFAS 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 FASB Statement 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 $103.1 million, liabilities assumed of $38.9 million, liabilities incurred of $5.2 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 (see also footnote (b) below related to amounts owed to Burress shareholders in connection with these returns). 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.

Our purchase price allocation is subject to further adjustment pending finalization of amounts due the Burress shareholders (see footnote (b) below). We expect to finalize our purchase price allocation in the third quarter of 2008. The following table summarizes the preliminary purchase price allocation 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)
Due to Burress shareholders (b)	(5,155)
Capital leases (c)	(4,698)
Net assets acquired	$ 105,483

(a) Amount represents certain intangible assets acquired relating to the Burress acquisition. See note 4 to the condensed

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

consolidated financial statements for further details regarding these intangible assets.

(b) Represents the amount payable to the Burress shareholders 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 pending acceptance from John Deere for the returned equipment and parts. The amount due the Burress shareholders is subject to agreement by both the Company and the Burress shareholders. We expect the finalization of the amounts due to the Burress shareholders to occur during the quarter ending September 30, 2008. Any adjustment to the recorded $5.2 million payable is not expected to be material. Upon agreement of the amount by both the Company and the Burress shareholders, the amount will be paid and deemed additional cash consideration paid, thereby increasing the net Burress assets acquired by the amount of the payment.

During the quarter ended June 30, 2008, we paid $5.3 million to the Burress shareholders, pursuant to the acquisition agreement, related to their Section 338 tax election. This amount was previously included in the Due to Burress shareholders amount above, but upon payment, was deemed additional cash consideration, resulting in a $5.3 million increase in the total consideration paid and total net Burress assets acquired.

(c) 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 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 June 30, 2008 reflects the one remaining capital lease obligation on a Burress branch facility for approximately

$2.4 million.