H&E Equipment Services, Inc.
Form 10-Q
May 10, 2007

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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 March 31, 2007

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)

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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer o Accelerated filer o Non-Accelerated filer þ

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 May 8, 2007: 38,176,339

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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 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;
- 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;
- competitive pressures;
- compliance with laws and regulations, including those relating to environmental matters and corporate governance matters; and
- other factors discussed under Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2006 or elsewhere in this Quarterly Report on Form 10-Q.

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, 2006, as well as other reports and registration statements filed by us with the SEC. All of our annual, quarterly and current reports and amendments thereto, filed with the SEC are available on our website under the Investor Relations link. For more information about us and the announcements we make from time to time, visit our 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 March 31, 2007 (Unaudited)	Balances at December 31, 2006
ASSETS		
Cash and cash equivalents	$ 12,708	$ 9,303
Receivables, net of allowance for doubtful accounts of $2,962 and $2,852, respectively	112,203	107,760
Inventories, net of reserve for obsolescence of $1,168 and $1,326, respectively	137,284	126,737
Prepaid expenses and other assets	8,237	6,122
Rental equipment, net of accumulated depreciation of $164,830 and $158,822, respectively	440,507	440,454
Property and equipment, net of accumulated depreciation of $28,651 and $27,112, respectively	29,621	29,663
Deferred financing costs and other intangible assets, net of accumulated amortization of $5,427 and $5,086, respectively	9,348	9,330
Goodwill	30,573	30,573
Total assets	$ 780,481	$ 759,942
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Amounts due on senior secured credit facility	$ 5,103	$ 9,134
Accounts payable	73,523	61,486
Manufacturer flooring plans payable	142,812	148,028
Accrued expenses payable and other liabilities	33,393	33,150
Related party obligation	596	653
Notes payable	2,006	2,354
Senior secured notes, net of original issue discount of $22 and $23, respectively	4,478	4,477
Senior unsecured notes	250,000	250,000
Deferred income taxes	19,106	11,805
Deferred compensation payable	1,824	3,271
Total liabilities	532,841	524,358
Commitments and contingencies		
Stockholders equity:		
Preferred stock, $0.01 par value, 25,000,000 shares authorized; no shares issued at March 31, 2007 and December 31, 2006, respectively		
	382	382

Common stock, $0.01 par value, 175,000,000 shares authorized; 38,192,094 shares issued at March 31, 2007 and December 31, 2006, and 38,176,339 and 38,192,094 shares outstanding at March 31, 2007 and December 31, 2006, respectively		
Additional paid-in capital	204,992	204,638
Treasury stock at cost, 15,755 shares of common stock held at March 31, 2007 and no shares held at December 31, 2006, respectively	(432)	
Retained earnings	42,698	30,564
Total stockholders equity	247,640	235,584
Total liabilities and stockholders equity	$ 780,481	$ 759,942

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 March 31, 2007	Three Months Ended March 31, 2006
Revenues:		
Equipment rentals	$ 63,201	$ 53,995
New equipment sales	67,770	55,715
Used equipment sales	30,940	31,654
Parts sales	23,136	19,313
Services revenues	14,623	12,334
Other	10,066	9,199
Total revenues	209,736	182,210
Cost of revenues:		
Rental depreciation	21,343	16,860
Rental expense	10,787	10,612
New equipment sales	58,974	48,561
Used equipment sales	22,520	23,799
Parts sales	16,269	13,524
Services revenues	5,140	4,567
Other	8,992	8,264
Total cost of revenues	144,025	126,187
Gross profit	65,711	56,023
Selling, general and administrative expenses	37,155	41,043
Gain on sales of property and equipment, net	308	99
Income from operations	28,864	15,079
Other income (expense):		
Interest expense	(8,703)	(10,167)
Other, net	137	75
Total other expense, net	(8,566)	(10,092)
Income before provision for income taxes	20,298	4,987
Provision for income taxes	8,164	1,067
Net income	$ 12,134	$ 3,920
Net income per common share:		
Basic	$ 0.32	$ 0.12

Diluted	$ 0.32	$ 0.12
Weighted average common shares outstanding:		
Basic	38,087	33,458
Diluted	38,114	33,462

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)

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Cash flows from operating activities:		
Net income	$ 12,134	$ 3,920
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation on property and equipment	1,914	1,569
Depreciation on rental equipment	21,343	16,860
Amortization of loan discounts and deferred financing costs	330	713
Amortization of other intangible assets	12	11
Provision for losses on accounts receivable	513	538
Provision for inventory obsolescence	16	
Provision for deferred income taxes	7,345	666
Stock-based compensation expense	310	104
Excess tax benefits from stock-based awards	(44)	
Gain on sales of property and equipment, net	(308)	(99)
Gain on sales of rental equipment, net	(8,142)	(6,897)
Changes in operating assets and liabilities, net of impact of acquisition:		
Receivables, net	(4,956)	11,040
Inventories	(39,152)	(35,248)
Prepaid expenses and other assets	(2,473)	(3,365)
Accounts payable	12,037	(2,792)
Manufacturer flooring plans payable	(5,216)	24,229
Accrued expenses payable and other liabilities	260	9,925
Deferred compensation payable	(1,447)	(8,620)
Net cash provided by (used in) operating activities	(5,524)	12,554
Cash flows from investing activities:		
Acquisition of businesses, net of cash acquired		(56,869)
Purchases of property and equipment	(1,966)	(5,599)
Purchases of rental equipment	(12,746)	(55,004)
Proceeds from sales of property and equipment	403	208
Proceeds from sales of rental equipment	28,080	24,608
Net cash provided by (used in) investing activities	13,771	(92,656)
Cash flows from financing activities:		
Proceeds from issuance of common stock, net of issue costs		207,018
Excess tax benefits from stock-based awards	44	
Purchase of treasury stock	(432)	
Borrowings on senior secured credit facility	207,125	295,429
Payments on senior secured credit facility	(211,156)	(401,880)

Payments of deferred financing costs		(190)
Payments of related party obligation	(75)	(75)
Principal payments of notes payable	(348)	(59)
Net cash provided by (used in) financing activities	(4,842)	100,243
Net increase in cash and cash equivalents	3,405	20,141
Cash, beginning of period	9,303	5,627
Cash and cash equivalents, end of period	$ 12,708	$ 25,768

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

	Three Months Ended March 31, 2007	2006
Supplemental schedule of noncash investing activities:		
Noncash asset purchases:		
Assets transferred from new and used inventory to rental fleet	$ 28,589	$ 17,787
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 12,155	$ 3,192
Income taxes	$ 207	$ 7

As of March 31, 2007 and 2006, we had $142.8 million and $118.0 million, respectively, in manufacturer flooring plans payable outstanding, which are used to finance purchases of inventory and rental equipment.

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

In connection with our initial public offering of common stock in February 2006 (see note 3 to the condensed consolidated financial statements), we converted H&E Equipment Services L.L.C. (H&E LLC), a Louisiana limited liability company and the wholly-owned operating subsidiary of H&E Holding L.L.C. (Holdings), into H&E Equipment Services, Inc., a Delaware corporation. Prior to our initial public offering, our business was conducted through H&E LLC. In order to have an operating Delaware corporation as the issuer of our initial public offering, immediately prior to the closing of the initial public offering, on February 3, 2006, H&E LLC and Holdings merged with and into us (H&E Equipment Services, Inc.), with us surviving the reincorporation merger as the operating company. Effective February 3, 2006, H&E LLC and Holdings no longer existed. In these transactions (collectively, the Reorganization Transactions), holders of preferred limited liability company interests and holders of common limited liability company interests in H&E Holdings received shares of our common stock. All references to common stock share and per share amounts included in our condensed consolidated statements of operations for the three months ended March 31, 2007 and 2006 have been retroactively adjusted to reflect the Reorganization Transactions as if the Reorganization Transactions had taken place as of the beginning of the earliest period presented.

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. and H&E Equipment Services (California) LLC, collectively referred to herein as we or us or our or the Company.

The accompanying unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to such regulations. In the opinion of management, all adjustments (consisting of all normal and recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007, 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, 2006, from which the balance sheet amounts as of December 31, 2006 were derived.

The nature of our business is such that short-term obligations are typically met by cash flows generated from long-term assets. Consequently, 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 an extremely 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 1 of the notes to consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2006. At March 31, 2007, a portion of our available cash on hand 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 amounts of assets and liabilities and related disclosures at the date of the 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 financial statements. Actual results may differ materially from those estimates. We review our estimates on an ongoing basis based on information currently available, and changes in facts and circumstances may cause us to revise these estimates.

Recent Accounting Pronouncements

In 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 (SFAS 109). FIN 48 clarifies the application of SFAS 109 by defining criteria 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 cumulative effect of applying the provisions of FIN 48 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, have analyzed 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 incur interest income, interest expense, or penalties related to unrecognized income tax benefits, such items are recorded in Other income or expense. We did not incur any income tax related interest income, interest expense or penalties related to FIN 48 for the three months ended March 31, 2007.

As of January 1, 2007, 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 the 2007 effective income tax rate. There was no change in the unrecognized tax benefit for the three months ended March 31, 2007. At this time we do not expect to recognize significant increases or decreases in unrecognized tax benefits during the year ending December 31, 2007 related to FIN 48.

Our U.S. tax returns for 2003 and subsequent years remain subject to examination by tax authorities. We are also subject to examination in various state jurisdictions for 2002 and subsequent years.

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this Statement does not require any new fair value measurements. SFAS 157 is effective for fiscal years beginning after December 15, 2007. Management is currently assessing the impact of adopting SFAS 157 but does not expect that it will have a material effect on our financial position, cash flows or results of operations.

In February 2007, the FASB issued Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 provides that companies may elect to measure specified financial instruments and warranty and insurance contracts at fair value on a contract-by-contract basis, with changes in fair value recognized in earnings each reporting period. The election, called the fair value option, will enable some companies to reduce the variability in reported earnings caused by measuring related assets and liabilities differently. Companies may elect fair-value measurement when an eligible asset or liability is initially recognized or when an event, such as a business combination, triggers a new basis of accounting for that asset or liability. The election is irrevocable for every contract chosen to be measured at fair value and must be applied to an entire contract, not to only specified risks, specific cash flows, or portions of that contract. SFAS 159 is effective as of the beginning of a company s first fiscal year that begins after November 15, 2007. Retrospective application is not allowed. Companies are permitted to elect fair-value measurement for any eligible item within SFAS 159 s scope at the date they initially adopt SFAS 159. The adjustment to reflect the difference between the fair value and the current carrying amount of the assets and liabilities for which a company elects fair-value measurement is reported as a cumulative-effect adjustment to the opening balance of retained earnings upon adoption. Management is evaluating the impact of adopting SFAS 159 and currently does not believe that the election of fair value measurement pursuant to SFAS 159 will have a material impact on our financial position, cash flows or results of operations.

(3) Initial Public Offering and Use of Proceeds

We completed an initial public offering of our common stock, par value $.01 per share, on February 3, 2006. In the offering, we sold 12,578,125 shares for an aggregate offering price of $226.4 million. Net proceeds to us, after deducting underwriting discounts and commissions and offering expenses, totaled approximately $207.0 million. Aggregate underwriting discounts and commissions totaled approximately $15.9 million and aggregate offering expenses totaled approximately $3.5 million.

We used the net offering proceeds to us of $207.0 million as follows:

$56.9 million to complete our acquisition of Eagle High Reach Equipment, Inc. and all of the equity interests of its subsidiary, Eagle High Reach Equipment, LLC (together, Eagle), on February 28, 2006 (for information on the Eagle acquisition, see note 4 to the condensed consolidated financial statements);

$30.3 million to purchase rental equipment under operating leases;

$8.6 million to pay deferred compensation owed to one of our current executives and a former executive; and

$96.6 million to repay outstanding principal indebtedness under our senior secured credit facility.

Additionally, we paid $8.0 million to Bruckmann, Rosser, Sherill & Co., L.L.C. (an affiliate of Bruckmann, Rosser, Sherill & Co., L.P. and Bruckmann, Rosser, Sherill & Co. II, L.P., two of our principal stockholders) in connection with the termination of a management services agreement. The remaining net proceeds of approximately $6.6 million were used for general corporate purposes.

(4) Acquisition

We completed, effective as of February 28, 2006, the acquisition of all of the capital stock of Eagle High Reach Equipment, Inc. (now known as H&E California Holdings, Inc.) and all of the equity interests of its subsidiary, Eagle High Reach Equipment, LLC (now known as H&E Equipment Services (California) LLC) for an estimated consideration of approximately $66.3 million, consisting of cash paid of $59.9 million, liabilities assumed of $3.6 million, liabilities incurred of $2.2 million, and transaction costs of $0.6 million. The Eagle purchase price was determined based on the expected cash flows from the Eagle business and negotiation with the sellers. The purchase price was funded out of the proceeds from our recently completed initial public offering (see note 3 to the condensed consolidated financial statements for further information on our initial public offering). Prior to the acquisition Eagle was a privately-held construction and industrial equipment rental company. Eagle serves the southern California construction and industrial markets out of four locations. This acquisition marks our initial entry into the southern California market and is consistent with our business strategy. For further information on our business strategy, see Item 1 of Part I of our Annual Report on Form 10-K for the year ended December 31, 2006.

The Eagle 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 an estimate of their fair values as determined by a valuation performed by an independent national firm. 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 the acquisition was recognized given the expected contribution of Eagle to the overall corporate strategy. We estimate that approximately $9.9 million of the goodwill acquired will be tax deductible. Our operating results for the three month periods ended March 31, 2007 and 2006 include the operating results of Eagle since the date of acquisition, February 28, 2006.

The following table summarizes our purchase price allocation based on fair values of the Eagle assets acquired and liabilities assumed in February 2006 (amounts in thousands):

Cash	$ 32
Receivables	7,300
Inventories	915
Rental equipment	32,235
Property and equipment	3,154
Prepaid expenses and other assets	654
Goodwill	22,001
Accounts payable	(483)
Accrued expenses payable and other liabilities	(2,349)
Deferred income taxes	(2,192)
Notes payable	(755)
Net assets acquired	$ 60,512

The following table contains unaudited pro forma condensed consolidated statements of income information for the three month periods ended March 31, 2007 and 2006, as if the Eagle transaction had occurred at the beginning of each respective period presented (amounts in thousands except per share data):

	Three Months Ended March 31,	
	2007	2006
Total revenues	$209,736	$187,538
Gross profit	65,711	59,496
Operating income	28,864	14,353
Net income	$ 12,134	$ 3,713
Basic net income per common share	$ 0.32	$ 0.11
Diluted net income per common share	$ 0.32	$ 0.11

The pro forma information above is presented for illustrative purposes only and may not be indicative of the results of operations that would have actually occurred had the Eagle transaction occurred as presented. Further, the above pro forma amounts do not consider any potential synergies or integration costs that may result from the transaction. In addition, future results may vary significantly from the results reflected in such pro forma information.

(5) Stockholders Equity

The following table summarizes the activity in Stockholders Equity for the three month period ended March 31, 2007 (amounts in thousands, except share data):

	Common Stock		Additional Paid-in			Total Stockholders
	Shares Issued	Amount	Capital	Treasury Stock	Retained Earnings	Equity
Balances at December 31, 2006	38,192,094	$ 382	$ 204,638	$	$ 30,564	$ 235,584
Stock-based compensation			310			310
Tax benefits associated with stock-based awards			44			44
				(432)		(432)

Surrender of 15,755 shares											
Net income									12,134		12,134
Balances at March 31, 2007	38,192,094	$	382	$	204,992	$	(432)	$	42,698	$	247,640

On February 22, 2007, 40,650 shares of non-vested stock that was issued in 2006 vested. In accordance with the provisions of our 2006 Stock-Based Incentive Compensation Plan, holders of those vested shares returned 15,755 common shares to the Company in payment of related employee withholding taxes. This resulted in the recognition of Treasury Stock for those 15,755 shares. There were no stock-based awards granted during the three month period ended March 31, 2007.

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(6) Earnings per Share

Earnings per common share for the three months ended March 31, 2007 and 2006 are based on the weighted average number of common shares outstanding during the period and have been retroactively adjusted to reflect the Reorganization Transactions as if the Reorganization Transactions had occurred at the beginning of the earliest period presented. The following table sets forth the computation of basic and diluted net income per common share for the three months ended March 31, 2007 and 2006 (amounts in thousands, except per share amounts):

	Three Months Ended March 31,	
	2007	**2006**
Basic net income per share:		
Net income	$ 12,134	$ 3,920
Weighted average number of common shares outstanding	38,087	33,458
Net income per common share basic	$ 0.32	$ 0.12
Diluted net income per share:		
Net income	$ 12,134	$ 3,920
Weighted average number of common shares outstanding	38,087	33,458
Effect of dilutive securities:		
Non-vested stock	27	4
Weighted average number of shares outstanding diluted	38,114	33,462
Net income per common share diluted	$ 0.32	$ 0.12
Common shares excluded from the denominator as anti-dilutive:		
Stock options	45	

(7) Segment Information

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

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