H&E Equipment Services, Inc.
Form 10-Q
November 05, 2010

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, 2010.

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 or 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes o 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	Smaller Reporting Company o

reporting company)

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

As of November 1, 2010, there were 35,033,292 shares of H&E Equipment Services, Inc. common stock, $0.01 par value, outstanding.

H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES
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SEPTEMBER 30, 2010

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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 to differ materially from those contained in any forward-looking statement. Many of these factors are beyond our ability to control or predict. Such factors include, but are not limited to, the following:

- general economic conditions and construction and industrial activity in the markets where we operate in North America, as well as the depth and duration of the recent macroeconomic downturn and related decreases in construction and industrial activities, which may continue to significantly affect our revenues and operating results;
- the impact of conditions in the global credit markets and their effect on construction spending and the economy in general;
- relationships with new equipment suppliers;
- increased maintenance and repair costs as we age our fleet and decreases in our equipment s residual value;
- 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 Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2009.

Except as required by applicable law, including the securities laws of the United States and the rules and regulations of the Securities and Exchange Commission (SEC), we are under no obligation to publicly update or revise any forward-looking statements after we file this Quarterly Report on Form 10-Q, whether as a result of any new information, future events or otherwise. Investors, potential investors and other readers are urged to consider the above mentioned factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results or performance. For a more detailed discussion of some of the foregoing risks and uncertainties, see Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2009, 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	
	September 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Cash	$ 26,856	$ 45,336
Receivables, net of allowance for doubtful accounts of $5,953 and $5,736, respectively	97,966	72,001
Inventories, net of reserves for obsolescence of $982 and $824, respectively	92,472	94,987
Prepaid expenses and other assets	9,245	6,999
Rental equipment, net of accumulated depreciation of $245,411 and $224,881, respectively	412,126	437,407
Property and equipment, net of accumulated depreciation and amortization of $51,189 and $42,086, respectively	59,008	65,802
Deferred financing costs, net of accumulated amortization of $10,109 and $9,050, respectively	7,374	5,545
Intangible assets, net of accumulated amortization of $2,927 and $2,492, respectively	552	988
Goodwill	34,019	34,019
Total assets	$ 739,618	$ 763,084
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Accounts payable	$ 61,942	$ 28,866
Manufacturer flooring plans payable	75,503	92,868
Accrued expenses payable and other liabilities	33,231	37,271
Notes payable	703	1,929
Senior unsecured notes	250,000	250,000
Capital lease payable	2,087	2,181
Deferred income taxes	57,703	69,146
Deferred compensation payable	1,988	1,941
Total liabilities	483,157	484,202
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; 38,699,666 and 38,525,688 shares issued at September 30, 2010 and December 31, 2009,	386	385

respectively, and 35,033,292 and 34,904,597 shares outstanding at September 30, 2010 and December 31, 2009, respectively		
Additional paid-in capital	208,813	208,072
Treasury stock at cost, 3,666,374 shares of common stock held at September 30, 2010 and 3,621,091 shares of common stock held at December 31, 2009, respectively	(56,330)	(56,118)
Retained earnings	103,592	126,543
Total stockholders equity	256,461	278,882
Total liabilities and stockholders equity	$ 739,618	$ 763,084

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 OPERATIONS
(Unaudited)
(Amounts in thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenues:				
Equipment rentals	$ 48,272	$ 45,108	$ 126,400	$ 150,669
New equipment sales	47,697	48,685	103,952	172,010
Used equipment sales	14,700	32,698	46,062	69,254
Parts sales	22,599	25,786	65,013	78,144
Services revenues	12,412	15,225	36,466	46,164
Other	8,164	8,126	21,643	25,824
Total revenues	153,844	175,628	399,536	542,065
Cost of revenues:				
Rental depreciation	19,628	21,105	58,260	67,789
Rental expense	10,552	10,209	29,171	32,441
New equipment sales	42,979	43,549	93,992	150,519
Used equipment sales	11,083	27,069	35,690	56,482
Parts sales	16,710	18,952	47,804	56,339
Services revenues	5,177	5,646	13,805	17,059
Other	9,795	9,131	26,630	26,683
Total cost of revenues	115,924	135,661	305,352	407,312
Gross profit	37,920	39,967	94,184	134,753
Selling, general and administrative expenses	36,594	35,073	109,233	110,342
Gain on sales of property and equipment, net	125	289	324	472
Income (loss) from operations	1,451	5,183	(14,725)	24,883
Other income (expense):				
Interest expense	(7,287)	(7,847)	(21,781)	(24,039)
Other, net	10	123	166	518
Total other expense, net	(7,277)	(7,724)	(21,615)	(23,521)
Income (loss) before provision for income taxes	(5,826)	(2,541)	(36,340)	1,362
Provision (benefit) for income taxes	(2,046)	(261)	(13,389)	1,201
Net income (loss)	$ (3,780)	$ (2,280)	$ (22,951)	$ 161

Net income (loss) per common share:				
Basic	$ (0.11)	$ (0.07)	$ (0.66)	$
Diluted	$ (0.11)	$ (0.07)	$ (0.66)	$
Weighted average common shares outstanding:				
Basic	34,700	34,625	34,656	34,601
Diluted	34,700	34,625	34,656	34,638

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)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Cash flows from operating activities:		
Net income (loss)	$ (22,951)	$ 161
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization on property and equipment	9,946	8,250
Depreciation on rental equipment	58,260	67,789
Amortization of loan discounts and deferred financing costs	1,060	1,064
Amortization of intangible assets	435	444
Provision for losses on accounts receivable	2,425	2,761
Provision for inventory obsolescence	192	47
Increase (decrease) in deferred income taxes	(11,443)	1,434
Stock-based compensation expense	741	645
Gain on sales of property and equipment, net	(324)	(472)
Gain on sales of rental equipment, net	(9,327)	(12,023)
Changes in operating assets and liabilities:		
Receivables, net	(28,390)	57,810
Inventories, net	(24,092)	10,685
Prepaid expenses and other assets	(2,246)	4,654
Accounts payable	33,076	(65,604)
Manufacturer flooring plans payable	(17,365)	(27,698)
Accrued expenses payable and other liabilities	(4,039)	(11,844)
Deferred compensation payable	47	(100)
Net cash provided by (used in) operating activities	(13,995)	38,003
Cash flows from investing activities:		
Purchases of property and equipment	(3,262)	(15,428)
Purchases of rental equipment	(31,942)	(10,222)
Proceeds from sales of property and equipment	434	1,335
Proceeds from sales of rental equipment	34,705	57,418
Net cash provided by (used in) investing activities	(65)	33,103
Cash flows from financing activities:		
Purchases of treasury stock	(212)	(107)
Borrowings on senior secured credit facility		534,373
Payments on senior secured credit facility		(607,678)
Payments of deferred financing costs	(2,888)	

Payments of related party obligation		(150)
Payments of capital lease obligation	(94)	(89)
Principal payments on notes payable	(1,226)	(22)
Net cash used in financing activities	(4,420)	(73,673)
Net decrease in cash	(18,480)	(2,567)
Cash, beginning of period	45,336	11,266
Cash, end of period	$ 26,856	$ 8,699
Supplemental schedule of noncash investing and financing activities:		
Noncash asset purchases:		
Assets transferred from new and used inventory to rental fleet	$ 26,415	$ 8,964
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 25,925	$ 28,408
Income taxes paid, net of refunds received	$ 64	$ 275

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., collectively referred to herein as we or us or our or the Company.

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such regulations. In the opinion of management, all adjustments (consisting of all normal and recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010, 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, 2009, from which the balance sheet amounts as of December 31, 2009 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, 2009. During the three and nine month periods ended September 30, 2010, there were no significant changes to those accounting policies.

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 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.

Accounting Pronouncements Adopted in Fiscal Year 2010

In June 2009, the FASB issued Statement of FAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (FAS 167), which has been codified into Accounting Standards Codification (ASC) 810: *Consolidations*. This guidance is a revision to pre-existing guidance pertaining to the consolidation and disclosure of variable interest entities. Specifically, it changes how a reporting entity determines when or if an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity s purpose and design and the reporting entity s ability to direct the activities of the other entity that most significantly impact the other entity s economic performance. This guidance requires a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. A reporting entity is required to disclose how its involvement with a variable interest entity affects the reporting entity s financial statements. We adopted the provisions of FAS 167 effective January 1, 2010, and such adoption did not have a material impact on our condensed consolidated financial statements.

Accounting Pronouncements Not Yet Adopted

In October 2009, the FASB issued ASU 2009-13, *Multiple-Deliverable Revenue Arrangements* (amendments to ASC 605, *Revenue Recognition*) (ASU 2009-13). ASU 2009-13 addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and requires entities to allocate revenue in an arrangement containing more than one unit of accounting using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. ASU 2009-13 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. We do not expect that the adoption of this statement will have a material impact on our consolidated financial statements.

(3) Fair Value of Financial Instruments

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

	September 30, 2010	
	Carrying Amount	Fair Value
Manufacturer flooring plans payable with interest computed at 6.75%	$ 75,503	$ 62,658
Senior unsecured notes with interest compounded at 8.375%	250,000	250,000
Notes payable to lenders with interest computed at 9.55%	703	350
Capital lease payable with interest computed at 5.929%	2,087	1,898
Letters of credit		220

	December 31, 2009	
	Carrying Amount	Fair Value
Manufacturer flooring plans payable with interest computed at 6.75%	$ 92,868	$ 82,082
Senior unsecured notes with interest compounded at 8.375%	250,000	247,500

Notes payable to lenders with interest computed at 7.25% to 9.55% .	1,929	1,476
Capital lease payable with interest computed at 5.929%	2,181	1,944
Letters of credit		98

(4) Stockholders Equity

The following table summarizes the activity in Stockholders Equity for the nine month period ended September 30, 2010 (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, 2009	38,525,688	$ 385	$ 208,072	$ (56,118)	$ 126,543	$ 278,882
Stock-based compensation			741			741
Issuance of common stock	173,978	1				1
Repurchase of 23,157 shares of restricted common stock				(212)		(212)
Net loss					(22,951)	(22,951)
Balances at September 30, 2010	38,699,666	$ 386	$ 208,813	$ (56,330)	$ 103,592	$ 256,461

(5) Stock-Based Compensation

We account for our stock-based compensation plan using the fair value recognition provisions of ASC 718, *Stock Compensation* (ASC 718). Under the provisions of ASC 718, stock-based compensation is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the requisite employee service period (generally the vesting period of the grant). Shares available for future stock-based payment awards under our 2006 Stock-Based Incentive Compensation Plan were 3,938,354 shares as of September 30, 2010.

Non-vested Stock

The following table summarizes our non-vested stock activity for the nine month period ended September 30, 2010:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested stock at December 31, 2009	279,223	$ 7.79
Granted	173,978	$ 9.54
Vested	(97,650)	$ 8.20
Forfeited	(22,126)	$ 8.12
Non-vested stock at September 30, 2010	333,425	$ 8.57

As of September 30, 2010, we had unrecognized compensation expense of $2.1 million related to non-vested stock that we expect to be recognized over a weighted-average period of 2.1 years. The following table summarizes compensation expense related to non-vested stock, which is included in selling, general and administrative expenses in the accompanying condensed consolidated statements of operations for the three and nine month period ended

September 30, 2010 and 2009 (amounts in thousands):