H&E Equipment Services, Inc.
Form 10-Q
May 06, 2009

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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, 2009.

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

For the transition period from to

Commission file number: 000-51759

H&E Equipment Services, Inc.
(Exact Name of Registrant as Specified in Its Charter)

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes þ No o

Indicate by check mark whether the registrant 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	Smaller reporting company o

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

As of May 4, 2009, there were 34,691,488 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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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 current macroeconomic downturn and the impact of current conditions in the global credit markets and its 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, 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, 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	
	March 31, 2009 (Unaudited)	December 31, 2008
ASSETS		
Cash	$ 10,836	$ 11,266
Receivables, net of allowance for doubtful accounts of $5,915 and $5,524, respectively	109,867	150,293
Inventories, net of reserves for obsolescence of $929 and $920, respectively	134,903	129,240
Prepaid expenses and other assets	10,000	11,722
Rental equipment, net of accumulated depreciation of $218,552 and $210,961, respectively	526,230	554,457
Property and equipment, net of accumulated depreciation and amortization of $37,748 and $35,187, respectively	62,389	58,122
Deferred financing costs, net of accumulated amortization of $7,986 and $7,631, respectively	6,609	6,964
Intangible assets, net of accumulated amortization of $2,048 and $1,900, respectively	1,431	1,579
Goodwill	42,991	42,991
Total assets	$ 905,256	$ 966,634
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Amounts due on senior secured credit facility	$ 67,936	$ 76,325
Accounts payable	60,956	93,667
Manufacturer flooring plans payable	113,686	127,690
Accrued expenses payable and other liabilities	37,728	47,206
Related party obligation	75	145
Notes payable	1,952	1,959
Senior unsecured notes	250,000	250,000
Capital lease payable	2,271	2,300
Deferred income taxes	76,032	75,109
Deferred compensation payable	2,042	2,026
Total liabilities	612,678	676,427
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; 38,287,848 shares issued at March 31, 2009 and December 31, 2008 and 34,691,488 and 34,706,372 shares outstanding at March 31, 2009 and December 31, 2008, respectively	383	383
Additional paid-in capital	207,625	207,346
Treasury stock at cost, 3,596,360 shares of common stock held at March 31, 2009 and 3,581,476 shares of common stock held at December 31, 2008, respectively	(56,094)	(56,008)
Retained earnings	140,664	138,486
Total stockholders equity	292,578	290,207
Total liabilities and stockholders equity	$ 905,256	$ 966,634

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, 2009	Three Months Ended March 31, 2008
Revenues:		
Equipment rentals	$ 55,484	$ 71,211
New equipment sales	64,057	76,353
Used equipment sales	16,093	41,411
Parts sales	26,023	28,914
Services revenues	15,457	16,588
Other	9,082	11,289
Total revenues	186,196	245,766
Cost of revenues:		
Rental depreciation	23,785	26,428
Rental expense	11,330	11,816
New equipment sales	55,315	65,546
Used equipment sales	12,688	30,919
Parts sales	18,522	20,266
Services revenues	5,703	6,141
Other	8,573	11,926
Total cost of revenues	135,916	173,042
Gross profit	50,280	72,724
Selling, general and administrative expenses	39,147	46,684
Gain (loss) on sales of property and equipment, net	(18)	139
Income from operations	11,115	26,179
Other income (expense):		
Interest expense	(8,181)	(10,167)
Other, net	215	216
Total other expense, net	(7,966)	(9,951)
Income before income taxes	3,149	16,228
Provision for income taxes	971	6,019
Net income	$ 2,178	$ 10,209

Net income per common share:		
Basic	$ 0.06	$ 0.28
Diluted	$ 0.06	$ 0.28
Weighted average common shares outstanding:		
Basic	34,581	36,684
Diluted	34,597	36,684

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, 2009	Three Months Ended March 31, 2008
Cash flows from operating activities:		
Net income	$ 2,178	$ 10,209
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization on property and equipment	2,795	2,821
Depreciation on rental equipment	23,785	26,428
Amortization of loan discounts and deferred financing costs	355	365
Amortization of intangible assets	148	713
Provision for losses on accounts receivable	1,232	647
Provision for inventory obsolescence	34	16
Provision for deferred income taxes	923	5,455
Stock-based compensation expense	279	316
(Gain) loss on sales of property and equipment, net	18	(139)
Gain on sales of rental equipment, net	(3,101)	(9,885)
Changes in operating assets and liabilities:		
Receivables, net	39,194	15,927
Inventories, net	(9,898)	(23,235)
Prepaid expenses and other assets	1,722	(1,060)
Accounts payable	(32,711)	(18,370)
Manufacturer flooring plans payable	(14,004)	(22,013)
Accrued expenses payable and other liabilities	(9,473)	(6,174)
Deferred compensation payable	16	36
Net cash provided by (used in) operating activities	3,492	(17,943)
Cash flows from investing activities:		
Purchases of property and equipment	(7,123)	(3,172)
Purchases of rental equipment	(1,538)	(22,649)
Proceeds from sales of property and equipment	43	406
Proceeds from sales of rental equipment	13,282	34,263
Net cash provided by investing activities	4,664	8,848
Cash flows from financing activities:		
Excess tax benefit (deficiency) from stock-based awards		(44)
Purchases of treasury stock	(86)	(19,473)
Borrowings on senior secured credit facility	220,835	294,974
Payments on senior secured credit facility	(229,224)	(268,943)
Payments of related party obligation	(75)	(75)

Payments of capital lease obligation	(29)	(27)
Principal payments on notes payable	(7)	(7)
Net cash provided by (used in) financing activities	(8,586)	6,405
Net decrease in cash	(430)	(2,690)
Cash, beginning of period	11,266	14,762
Cash, end of period	$ 10,836	$ 12,072

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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, 2009	2008
Supplemental schedule of noncash investing and financing activities:		
Noncash asset purchases:		
Assets transferred from new and used inventory to rental fleet	$ 4,201	$ 25,346
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 13,117	$ 15,098
Income taxes paid, net of refunds received	$ (354)	$

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 months ended March 31, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009, 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, 2008, from which the balance sheet amounts as of December 31, 2008 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, 2008. During the three month period ended March 31, 2009, 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 2009

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141 (revised 2007), Business Combinations (SFAS 141R), which replaces SFAS No. 141 (SFAS 141). This Statement retains the fundamental requirements in SFAS 141 that the acquisition method of accounting (which SFAS 141 called the purchase method) be used for all business combinations. SFAS 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. Previously, under SFAS 141, changes in valuation allowances, as a result of income from acquisitions, for certain deferred tax assets would serve to reduce goodwill whereas under SFAS 141R, 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 allowance is reversed. Additionally, under SFAS 141R, transaction related expenses, which were previously capitalized as direct costs of the acquisition, will be expensed as incurred under SFAS 141R. We will apply the provisions of SFAS 141R prospectively to business combinations consummated after January 1, 2009. The impact that SFAS 141R may have on our financial condition, results of operations or cash flows will depend upon the nature, terms and size of the acquisition and changes to the valuation allowances.

In February 2008, the FASB issued FASB Staff Position FAS 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2). FSP 157-2 permitted a one-year deferral for the implementation of the provisions of SFAS No. 157, Fair Value Measurements (SFAS 157), with regard to certain non-financial assets and non-financial liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). FSP 157-2 became effective for us on January 1, 2009 and did not have a material impact on our condensed consolidated financial statements.

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 SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142). The intent of FSP 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS 141R and other generally accepted accounting principles. FSP 142-3 became effective for us on January 1, 2009 and did not have a material impact on our condensed consolidated financial statements.

Accounting Pronouncements Not Yet Adopted

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS 162). SFAS 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. SFAS 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. Because SFAS 162 applies only to establishing hierarchy, it will not have a material impact on our financial position, results of operations, or cash flows.

In January 2009, the FASB released Proposed Staff Position SFAS 107-b and Accounting Principles Board (APB) Opinion No. 28-a, Interim Disclosures about Fair Value of Financial Instruments (SFAS 107-b and APB 28-a, respectively). This proposal amends FASB Statement No. 107, Disclosures about Fair Values of Financial Instruments, to require disclosures about fair value of financial instruments in interim financial statements as well as in annual financial statements. The proposal also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in all interim financial statements. This proposal is effective for interim periods ending after June 15, 2009, but early adoption is permitted for interim periods ending after March 15, 2009. SFAS 107-b and APB 28-a are not expected to have a material impact on our financial position, results of operations, or cash flows.

In March 2009, the FASB released Proposed Staff Position SFAS 157-e, Determining Whether a Market Is Not Active and a Transaction Is Not Distressed (SFAS 157-e). This proposal provides additional guidance in determining whether a market for a financial asset is not active and a transaction is not distressed for fair value measurement purposes as defined in SFAS 157. SFAS

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157-e is effective for interim periods ending after June 15, 2009, but early adoption is permitted for interim periods ending after March 15, 2009. SFAS 157-e is not expected to have a material impact on our financial position, results of operations, cash flows, or disclosures.

(3) Stockholders Equity

The following table summarizes the activity in Stockholders Equity for the three month period ended March 31, 2009 (amounts in thousands, except share data):

	Common Stock					
	Shares Issued	Amount	Additional Paid-in Capital	Stock Treasury	Earnings Retained	Total Stockholders Equity
Balances at December 31, 2008	38,287,848	$ 383	$ 207,346	$ (56,008)	$ 138,486	$ 290,207
Stock-based compensation			279			279
Surrender of 14,884 shares[(1)]				(86)		(86)
Net income					2,178	2,178
Balances at March 31, 2009	38,287,848	$ 383	$ 207,625	$ (56,094)	$ 140,664	$ 292,578

(1) On February 22, 2009, 40,650 shares of non-vested stock that were issued in 2006 subsequently vested pursuant to the terms of the respective grant agreements. In accordance with the provisions of our 2006 Stock-Based Incentive Compensation Plan, holders of those vested shares returned 14,884 common shares to the Company as payment for their respective

employee withholding taxes. This resulted in an addition of 14,884 shares to Treasury Stock.

(4) Stock-Based Compensation

We account for our stock-based compensation plan using the fair value recognition provisions of Statement of Financial Accounting Standard No. 123 (revised) (SFAS 123R), Share-Based Payment. Under the provisions of SFAS 123R, stock-based compensation is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the requisite employee service period (generally the vesting period of the grant). Shares available for future stock-based payment awards under our Stock Incentive Plan were 4,350,172 shares as of March 31, 2009.

Non-vested Stock

The following table summarizes our non-vested stock activity for the three months ended March 31, 2009:

	Number of Shares	**Weighted Average Grant Date Fair Value**
Non-vested stock at December 31, 2008	136,404	$ 15.77
Granted		
Vested	(40,650)	$ 24.60
Forfeited		
Non-vested stock at March 31, 2009	95,754	$ 12.02

As of March 31, 2009, we have unrecognized compensation expense of $0.8 million related to non-vested stock that we expect to be recognized over a weighted-average period of 2.3 years. The following table summarizes compensation expense related to non-vested stock, which is included in selling, general and administrative expenses in the accompanying condensed consolidated statements of income for the three months ended March 31, 2009 and 2008 (amounts in thousands):

	For the Three Months Ended March 31,	
	2009	2008
Compensation expense	$ 239	$ 250

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Stock Options

At March 31, 2009, there was approximately $26,000 of unrecognized compensation expense related to stock option awards that are expected to be recognized over a weighted-average period of 1.2 years. The following table summarizes compensation expense included in selling, general and administrative expenses in the accompanying condensed consolidated statements of income for the three months ended March 31, 2009 and 2008 (amounts in thousands):

	For the Three Months Ended March 31,	
	2009	2008
Compensation expense	$ 40	$ 66

The following table represents stock option activity for the three months ended March 31, 2009:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Contractual Life In Years
Outstanding options at December 31, 2008	51,000	$ 24.80	
Granted			
Exercised			
Canceled, forfeited or expired			
Outstanding options at March 31, 2009	51,000	$ 24.80	7.0
Options exercisable at March 31, 2009	47,000	$ 24.67	6.9

The closing price of our common stock on March 31, 2009 was $6.55. All options outstanding at March 31, 2009 have grant date fair values which exceed the March 31, 2009 closing stock price.

The following table summarizes non-vested stock option activity for the three months ended March 31, 2009:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested stock options at December 31, 2008	19,000	$ 24.95
Granted		
Vested	(15,000)	$ 24.60
Forfeited		
Non-vested stock options at March 31, 2009	4,000	$ 26.27

(5) Closed Branch Facility Charges

We continuously monitor and identify branch facilities with revenues and operating margins that consistently fall below Company performance standards. Once identified, we continue to monitor these branches to determine if operating performance can be improved or if the performance is attributable to economic factors unique to the particular market with unfavorable long-term