

H&E Equipment Services, Inc.
Form 10-Q
November 01, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013.

.. **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	81-0553291 (I.R.S. Employer
Incorporation or Organization)	Identification No.)
7500 Pecue Lane, Baton Rouge, Louisiana (Address of Principal Executive Offices)	70809 (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 No

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 No

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 Accelerated Filer

Non-Accelerated Filer 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 No

As of October 25, 2013, there were 35,204,112 shares of H&E Equipment Services, Inc. common stock, \$0.01 par value, outstanding.

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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 marketing 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 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 equipment suppliers;

increased maintenance and repair costs as we age our fleet and decreases in our equipment's residual value;

our indebtedness;

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, 2012.

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, 2012, 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.

Table of Contents**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, 2013	December 31, 2012
	(Unaudited)	
ASSETS		
Cash	\$ 6,666	\$ 8,894
Receivables, net of allowance for doubtful accounts of \$3,820 and \$4,593, respectively	141,469	141,667
Inventories, net of reserves for obsolescence of \$706 and \$618, respectively	117,529	79,970
Prepaid expenses and other assets	6,456	5,207
Rental equipment, net of accumulated depreciation of \$305,270 and \$296,920, respectively	672,057	583,349
Property and equipment, net of accumulated depreciation and amortization of \$75,499 and \$68,101, respectively	94,471	86,189
Deferred financing costs, net of accumulated amortization of \$9,909 and \$9,423, respectively	4,957	5,049
Goodwill	31,416	32,074
Total assets	\$ 1,075,021	\$ 942,399
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Amounts due on senior secured credit facility	\$ 135,080	\$ 157,719
Accounts payable	52,624	36,119
Manufacturer flooring plans payable	49,709	50,839
Dividends payable	633	1,488
Accrued expenses payable and other liabilities	45,876	50,522
Senior unsecured notes	628,504	521,065
Capital leases payable	2,321	2,447
Deferred income taxes	78,468	71,589
Deferred compensation payable	2,024	1,975
Total liabilities	995,239	893,763
Commitments and Contingencies		
Stockholders equity:		

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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; 39,023,594 and 38,917,619 shares issued at September 30, 2013 and December 31, 2012, respectively and 35,204,112 and 35,141,870 shares outstanding at September 30, 2013 and December 31, 2012, respectively	389	388
Additional paid-in capital	215,346	212,850
Treasury stock at cost, 3,819,482 and 3,775,749 shares of common stock held at September 30, 2013 and December 31, 2012, respectively	(58,468)	(57,578)
Retained deficit	(77,485)	(107,024)
Total stockholders' equity	79,782	48,636
Total liabilities and stockholders' equity	\$ 1,075,021	\$ 942,399

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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Revenues:				
Equipment rentals	\$ 89,420	\$ 77,808	\$ 248,518	\$ 207,941
New equipment sales	90,220	49,009	216,979	154,710
Used equipment sales	36,779	24,990	103,589	75,100
Parts sales	26,571	26,058	77,971	74,161
Services revenues	13,729	14,436	42,050	41,615
Other	13,730	12,208	39,070	33,671
Total revenues	270,449	204,509	728,177	587,198
Cost of revenues:				
Rental depreciation	31,527	27,150	89,679	74,727
Rental expense	13,550	12,579	41,401	36,375
New equipment sales	80,659	43,367	193,453	136,945
Used equipment sales	27,086	18,399	74,006	53,426
Parts sales	19,123	19,092	56,660	53,826
Services revenues	4,943	5,615	15,743	15,907
Other	13,261	11,384	37,043	32,183
Total cost of revenues	190,149	137,586	507,985	403,389
Gross profit	80,300	66,923	220,192	183,809
Selling, general and administrative expenses	46,977	42,402	140,347	124,504
Gain on sales of property and equipment, net	609	514	1,715	1,478
Income from operations	33,932	25,035	81,560	60,783
Other income (expense):				
Interest expense	(13,193)	(9,825)	(38,550)	(23,668)
Loss on early extinguishment of debt		(10,180)		(10,180)
Other, net	237	243	945	751
Total other expense, net	(12,956)	(19,762)	(37,605)	(33,097)
Income before income taxes	20,976	5,273	43,955	27,686

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Provision for income taxes	7,023	1,564	14,416	9,554
Net income	\$ 13,953	\$ 3,709	\$ 29,539	\$ 18,132
Net income per common share:				
Basic	\$ 0.40	\$ 0.11	\$ 0.84	\$ 0.52
Diluted	\$ 0.40	\$ 0.11	\$ 0.84	\$ 0.52
Weighted average common shares outstanding:				
Basic	35,099	34,958	35,022	34,867
Diluted	35,169	34,974	35,130	34,963
Dividends declared per common share outstanding	\$	\$ 7.00	\$	\$ 7.00

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,	
	2013	2012
Cash flows from operating activities:		
Net income	\$ 29,539	\$ 18,132
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization on property and equipment	12,355	9,997
Depreciation on rental equipment	89,679	74,727
Amortization of deferred financing costs	826	1,076
Accretion of note discount, net of premium amortization	189	
Amortization of intangible assets		66
Provision for losses on accounts receivable	2,348	2,565
Provision for inventory obsolescence	208	124
Increase in deferred income taxes	6,879	7,460
Stock-based compensation expense	2,109	1,223
Loss on early extinguishment of debt		10,180
Gain on sales of property and equipment, net	(1,715)	(1,478)
Gain on sales of rental equipment, net	(27,771)	(20,842)
Writedown of goodwill for tax-deductible goodwill in excess of book goodwill	657	1,458
Changes in operating assets and liabilities:		
Receivables, net	(2,150)	(21,128)
Inventories, net	(72,897)	(72,334)
Prepaid expenses and other assets	(1,249)	115
Accounts payable	16,504	12,702
Manufacturer flooring plans payable	(1,130)	(1,393)
Accrued expenses payable and other liabilities	(4,644)	(925)
Deferred compensation payable	49	(48)
Net cash provided by operating activities	49,786	21,677
Cash flows from investing activities:		
Purchases of property and equipment	(20,734)	(27,011)
Purchases of rental equipment	(197,763)	(212,337)
Proceeds from sales of property and equipment	1,812	1,861
Proceeds from sales of rental equipment	82,277	65,003
Net cash used in investing activities	(134,408)	(172,484)

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Cash flows from financing activities:

Purchases of treasury stock	(890)	(694)
Excess tax benefit from stock-based awards	387	293
Borrowings on senior secured credit facility	827,539	776,171
Payments on senior secured credit facility	(850,178)	(661,501)
Principal payments on senior unsecured notes		(257,576)
Proceeds from issuance of senior unsecured notes	107,250	530,000
Payments of deferred financing costs	(733)	(12,352)