

H&E Equipment Services, Inc.

Form 10-Q

November 03, 2011

**Table of Contents**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549**

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2011.**

☐ **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 ☒ 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 o No p

As of October 31, 2011, there were 35,086,534 shares of H&E Equipment Services, Inc. common stock, \$0.01 par value, outstanding.

---

**H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES**  
**TABLE OF CONTENTS**  
**SEPTEMBER 30, 2011**

|  | <b>Page</b>   |
|--|---------------|
| <b><u>PART I. FINANCIAL INFORMATION</u></b>  | <b>4</b>      |
| <u>Item 1. Financial Statements:</u>   |               |
| <u>Condensed Consolidated Balance Sheets as of September 30, 2011 (Unaudited) and December 31, 2010</u>                            | 4             |
| <u>Condensed Consolidated Statements of Operations (Unaudited) for the Three and Nine Months Ended September 30, 2011 and 2010</u> | 5             |
| <u>Condensed Consolidated Statements of Cash Flows (Unaudited) for the Three and Nine Months Ended September 30, 2011 and 2010</u> | 6             |
| <u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>  | 8             |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                               | 21            |
| <u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>  | 34            |
| <u>Item 4. Controls and Procedures</u>   | 34            |
| <br><b><u>PART II. OTHER INFORMATION</u></b>   | <br><b>35</b> |
| <u>Item 1. Legal Proceedings</u>   | 35            |
| <u>Item 1A. Risk Factors</u>   | 35            |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>   | 35            |
| <u>Item 3. Defaults upon Senior Securities</u>   | 35            |
| <u>Item 4. (Removed and Reserved)</u>  | 35            |
| <u>Item 5. Other Information</u>   | 35            |
| <u>Item 6. Exhibits</u>  | 36            |
| <br><u>Signatures</u>  | <br>37        |
| <u>EX-10.1</u>   |               |
| <u>EX-31.1</u>   |               |
| <u>EX-31.2</u>   |               |
| <u>EX-32.1</u>   |               |
| <u>EX-101 INSTANCE DOCUMENT</u>  |               |
| <u>EX-101 SCHEMA DOCUMENT</u>  |               |
| <u>EX-101 CALCULATION LINKBASE DOCUMENT</u>  |               |
| <u>EX-101 LABELS LINKBASE DOCUMENT</u>   |               |
| <u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>   |               |

**Table of Contents**

**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, 2010.

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.

## Edgar Filing: H&E Equipment Services, Inc. - Form 10-Q

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, 2010, 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](http://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)

|   | <b>Balances at</b>                                |                                  |
|---|---|----------------------------------|
|   | <b>September<br/>30,<br/>2011<br/>(Unaudited)</b> | <b>December<br/>31,<br/>2010</b> |
| <b>ASSETS</b>   |   |                                  |
| Cash  | \$ 4,894  | \$ 29,149                        |
| Receivables, net of allowance for doubtful accounts of \$5,512 and \$6,004, respectively  | 99,737  | 99,139                           |
| Inventories, net of reserves for obsolescence of \$1,109 and \$1,105, respectively  | 77,272  | 72,156                           |
| Prepaid expenses and other assets   | 5,501   | 8,679                            |
| Rental equipment, net of accumulated depreciation of \$273,269 and \$254,662, respectively  | 447,425   | 426,637                          |
| Property and equipment, net of accumulated depreciation and amortization of \$61,107 and \$53,941, respectively   | 59,584  | 57,186                           |
| Deferred financing costs, net of accumulated amortization of \$11,497 and \$10,456, respectively  | 5,986   | 7,027                            |
| Intangible assets, net of accumulated amortization of \$697 and \$3,050, respectively   | 92  | 429                              |
| Goodwill  | 34,019  | 34,019                           |
| Total assets  | \$ 734,510  | \$ 734,421                       |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>  |   |                                  |
| <b>Liabilities:</b>   |   |                                  |
| Amounts due on senior secured credit facility   | \$ 13,580   | \$ 58,437                        |
| Accounts payable  | 60,086  | 75,058                           |
| Manufacturer flooring plans payable   | 62,911  | 35,999                           |
| Accrued expenses payable and other liabilities  | 31,298  | 250,000                          |
| Senior unsecured notes  | 250,000   | 2,754                            |
| Capital leases payable  | 2,643   | 55,919                           |
| Deferred income taxes   | 55,988  | 1,992                            |
| Deferred compensation payable   | 1,992   | 2,004                            |
| Total liabilities   | 478,498   | 480,171                          |
| <b>Commitments and contingent liabilities</b>   |   |                                  |
| <b>Stockholders equity:</b>   |   |                                  |
| 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; 38,808,941 and 38,699,666 shares issued at September 30, 2011 and December 31, 2010, respectively, and 35,086,534 and 35,029,804 shares outstanding at September 30, | 387   | 386                              |

Edgar Filing: H&E Equipment Services, Inc. - Form 10-Q

2011 and December 31, 2010, respectively

|  |            |            |
|--|------------|------------|
| Additional paid-in capital   | 210,362    | 209,111    |
| Treasury stock at cost, 3,722,407 and 3,669,862 shares of common stock held at<br>September 30, 2011 and December 31, 2010, respectively | (56,884)   | (56,330)   |
| Retained earnings  | 102,147    | 101,083    |
| Total stockholders' equity   | 256,012    | 254,250    |
| Total liabilities and stockholders' equity   | \$ 734,510 | \$ 734,421 |

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

4

---



**Table of Contents**

**H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(Unaudited)**

(Amounts in thousands, except per share amounts)

|   | <b>Three Months Ended<br/>September 30,</b> |             | <b>Nine Months Ended<br/>September 30,</b> |             |
|---|---|-------------|--|-------------|
|   | <b>2011</b>                                 | <b>2010</b> | <b>2011</b>                                | <b>2010</b> |
| Revenues:                                       |   |             |  |             |
| Equipment rentals                               | \$ 61,190                                   | \$ 48,272   | \$ 165,440                                 | \$ 126,400  |
| New equipment sales                             | 46,543                                      | 47,697      | 133,629                                    | 103,952     |
| Used equipment sales                            | 27,172                                      | 14,700      | 65,655                                     | 46,062      |
| Parts sales                                     | 24,647                                      | 22,599      | 71,166                                     | 65,013      |
| Services revenues                               | 14,191                                      | 12,412      | 40,072                                     | 36,466      |
| Other   | 10,546                                      | 8,164       | 27,570                                     | 21,643      |
| Total revenues                                  | 184,289                                     | 153,844     | 503,532                                    | 399,536     |
| Cost of revenues:                               |   |             |  |             |
| Rental depreciation                             | 22,076                                      | 19,628      | 64,146                                     | 58,260      |
| Rental expense                                  | 12,176                                      | 10,552      | 34,484                                     | 29,171      |
| New equipment sales                             | 41,123                                      | 42,979      | 118,271                                    | 93,992      |
| Used equipment sales                            | 20,824                                      | 11,083      | 50,444                                     | 35,690      |
| Parts sales                                     | 18,073                                      | 16,710      | 52,174                                     | 47,804      |
| Services revenues                               | 5,451                                       | 5,177       | 15,499                                     | 13,805      |
| Other   | 10,825                                      | 9,795       | 31,862                                     | 26,630      |
| Total cost of revenues                          | 130,548                                     | 115,924     | 366,880                                    | 305,352     |
| Gross profit                                    | 53,741                                      | 37,920      | 136,652                                    | 94,184      |
| Selling, general and administrative expenses    | 39,042                                      | 36,594      | 114,681                                    | 109,233     |
| Gain on sales of property and equipment, net    | 372   | 125         | 521  | 324         |
| Income (loss) from operations                   | 15,071                                      | 1,451       | 22,492                                     | (14,725)    |
| Other income (expense):                         |   |             |  |             |
| Interest expense                                | (7,222)                                     | (7,287)     | (21,607)                                   | (21,781)    |
| Other, net                                      | 118   | 10          | 626  | 166         |
| Total other expense, net                        | (7,104)                                     | (7,277)     | (20,981)                                   | (21,615)    |
| Income (loss) before provision for income taxes | 7,967                                       | (5,826)     | 1,511                                      | (36,340)    |
| Provision (benefit) for income taxes            | 3,119                                       | (2,046)     | 447  | (13,389)    |
| Net income (loss)                               | \$ 4,848                                    | \$ (3,780)  | \$ 1,064                                   | \$ (22,951) |

Edgar Filing: H&E Equipment Services, Inc. - Form 10-Q

Net income (loss) per common share:

|       |         |           |         |           |
|-------|---------|-----------|---------|-----------|
| Basic | \$ 0.14 | \$ (0.11) | \$ 0.03 | \$ (0.66) |
|-------|---------|-----------|---------|-----------|

|         |         |           |         |           |
|---------|---------|-----------|---------|-----------|
| Diluted | \$ 0.14 | \$ (0.11) | \$ 0.03 | \$ (0.66) |
|---------|---------|-----------|---------|-----------|

Weighted average common shares outstanding:

|       |        |        |        |        |
|-------|--------|--------|--------|--------|
| Basic | 34,804 | 34,700 | 34,743 | 34,656 |
|-------|--------|--------|--------|--------|

|         |        |        |        |        |
|---------|--------|--------|--------|--------|
| Diluted | 34,860 | 34,700 | 34,884 | 34,656 |
|---------|--------|--------|--------|--------|

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

**Table of Contents**

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

|  | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|--|-------------|
|  | <b>2011</b>                                | <b>2010</b> |
| Cash flows from operating activities:  |  |             |
| Net income (loss)  | \$ 1,064                                   | \$ (22,951) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |  |             |
| Depreciation and amortization on property and equipment  | 9,310                                      | 9,946       |
| Depreciation on rental equipment   | 64,146                                     | 58,260      |
| Amortization of loan discounts and deferred financing costs  | 1,042                                      | 1,060       |
| Amortization of intangible assets  | 337  | 435         |
| Provision for losses on accounts receivable  | 2,186                                      | 2,425       |
| Provision for inventory obsolescence   | 170  | 192         |
| Decrease in deferred income taxes  | 69   | (11,443)    |
| Stock-based compensation expense   | 994  | 741         |
| Gain on sales of property and equipment, net   | (521)                                      | (324)       |
| Gain on sales of rental equipment, net   | (14,103)                                   | (9,327)     |
| Changes in operating assets and liabilities:   |  |             |
| Receivables, net   | (2,784)                                    | (28,390)    |
| Inventories, net   | (32,985)                                   | (24,092)    |
| Prepaid expenses and other assets  | 3,177                                      | (2,246)     |
| Accounts payable   | 1,649                                      | 33,076      |
| Manufacturer flooring plans payable  | (12,147)                                   | (17,365)    |
| Accrued expenses payable and other liabilities   | (4,700)                                    | (4,039)     |
| Deferred compensation payable  | (12)                                       | 47          |
| Net cash provided by (used in) operating activities  | 16,892                                     | (13,995)    |
| Cash flows from investing activities:  |  |             |
| Purchases of property and equipment  | (11,950)                                   | (3,262)     |
| Purchases of rental equipment  | (90,669)                                   | (31,942)    |
| Proceeds from sales of property and equipment  | 763  | 434         |
| Proceeds from sales of rental equipment  | 47,537                                     | 34,705      |
| Net cash used in investing activities  | (54,319)                                   | (65)        |
| Cash flows from financing activities:  |  |             |
| Excess tax benefit from stock-based awards   | 257  |             |
| Purchases of treasury stock  | (554)                                      | (212)       |
| Borrowings on senior secured credit facility   | 352,711                                    |             |
| Payments on senior secured credit facility   | (339,131)                                  |             |
| Payments on deferred financing costs   |  | (2,888)     |
| Payments of capital lease obligations  | (111)                                      | (1,320)     |

Edgar Filing: H&E Equipment Services, Inc. - Form 10-Q

|   |          |           |
|---|----------|-----------|
| Net cash provided by (used in) financing activities | 13,172   | (4,420)   |
| Net decrease in cash                                | (24,255) | (18,480)  |
| Cash, beginning of period                           | 29,149   | 45,336    |
| Cash, end of period                                 | \$ 4,894 | \$ 26,856 |

**Table of Contents**

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

|  | <b>Nine Months Ended<br/>September 30,</b> |             |
|--|--|-------------|
|  | <b>2011</b>                                | <b>2010</b> |
| Supplemental schedule of noncash investing and financing activities: |  |             |
| Noncash asset purchases:   |  |             |
| Assets transferred from new and used inventory to rental fleet       | \$ 27,699                                  | \$ 26,415   |
| Supplemental disclosures of cash flow information:                   |  |             |
| Cash paid during the period for:                                     |  |             |
| Interest   | \$ 25,793                                  | \$ 25,925   |
| Income taxes paid, net of refunds received                           | \$ (1,635)                                 | \$ 64       |

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

**Table of Contents**

**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 months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011, 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, 2010, from which the balance sheet amounts as of December 31, 2010 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 work 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, 2010. During the three and nine month periods ended September 30, 2011, 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 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



**Table of Contents**

basis based on information currently available, and changes in facts and circumstances may cause us to revise these estimates.

*Recent Accounting Pronouncements*

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. We adopted the provisions of ASU 2009-13 effective January 1, 2011, and such adoption did not have a material impact on our condensed consolidated financial statements.

In December 2010, the FASB issued updated accounting guidance related to the calculation of the carrying amount of a reporting unit when performing the first step of a goodwill impairment test. More specifically, this update requires an entity to use an equity premise when performing the first step of a goodwill impairment test and if a reporting unit has a zero or negative carrying amount, the entity must assess and consider qualitative factors and whether it is more likely than not that a goodwill impairment exists. The new accounting guidance became effective for us on January 1, 2011 for impairment tests performed during fiscal 2011. We plan to adopt the new disclosures in conjunction with our annual impairment test as of October 1, 2011, or sooner if triggering events occurred and indicated that a goodwill impairment test should be performed. However, as we currently do not have any reporting units with a zero or negative carrying amount, we do not expect the application of this guidance to have an impact on our consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, *Intangibles Goodwill and Other (Topic 350) Testing Goodwill for Impairment* ( ASU 2011-08 ), to allow entities to first use a qualitative approach to test goodwill for impairment. ASU 2011-08 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, the currently prescribed two-step goodwill impairment test must be performed. Otherwise, the two-step goodwill impairment test is not required. Entities are not required to perform the qualitative assessment and are permitted to skip the qualitative assessment for any reporting unit in any period and proceed directly to Step 1 of the two-step goodwill impairment test. ASU 2011-08 is effective for us in fiscal 2012 and earlier adoption is permitted. Adoption of this guidance is not expected to have a material effect on the Company's 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):

|   | <b>September 30, 2011</b>  |                       |
|---|----------------------------|-----------------------|
|   | <b>Carrying<br/>Amount</b> | <b>Fair<br/>Value</b> |
| Manufacturer flooring plans payable with interest computed at 7.00% | \$ 62,911                  | \$ 50,941             |
| Senior unsecured notes with interest compounded at 8.375%           | 250,000                    | 250,000               |
| Capital leases payable with interest computed at 5.929% to 9.55%    | 2,643                      | 2,251                 |
| Letters of credit   |                            | 192                   |
|   |                            |                       |
|   | <b>December 31, 2010</b>   |                       |
|   | <b>Carrying</b>            | <b>Fair</b>           |



Edgar Filing: H&E Equipment Services, Inc. - Form 10-Q

|   | <b>Amount</b> | <b>Value</b> |
|---|---------------|--------------|
| Manufacturer flooring plans payable with interest computed at 7.00% | \$ 75,058     | \$ 63,105    |
| Senior unsecured notes with interest compounded at 8.375%           | 250,000       | 251,250      |
| Capital leases payable with interest computed at 5.929% to 9.55%    | 2,754         | 2,199        |
| Letters of credit   |               | 216          |

9

---

**Table of Contents****(4) Stockholders Equity**

The following table summarizes the activity in Stockholders Equity for the nine month period ended September 30, 2011 (amounts in thousands, except share data):

|  | <b>Common Stock<br/>Shares<br/>Issued</b> | <b>Common Stock<br/>Amount</b> | <b>Additional<br/>Paid-in<br/>Capital</b> | <b>Treasury<br/>Stock</b> | <b>Retained<br/>Earnings</b> | <b>Total<br/>Stockholders<br/>Equity</b> |
|--|---|--------------------------------|---|---------------------------|------------------------------|--|
| Balances at<br>December 31, 2010                             | 38,699,666                                | \$ 386                         | \$ 209,111                                | \$ (56,330)               | \$ 101,083                   | \$ 254,250                               |
| Stock-based<br>compensation                                  |   |                                | 994                                       |                           |                              | 994                                      |
| Tax benefits associated<br>with stock-based awards           |   |                                | 257                                       |                           |                              | 257                                      |
| Issuance of common<br>stock                                  | 109,275                                   | 1                              |   |                           |                              | 1  |
| Repurchase of 42,016<br>shares of restricted<br>common stock |   |                                |   | (554)                     |                              | (554)                                    |
| Net income   |   |                                |   |                           | 1,064                        | 1,064                                    |
| Balances at<br>September 30, 2011                            | 38,808,941                                | \$ 387                         | \$ 210,362                                | \$ (56,884)               | \$ 102,147                   | \$ 256,012                               |

**(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 3,829,079 shares as of September 30, 2011.

*Non-vested Stock*

The following table summarizes our non-vested stock activity for the nine month period ended September 30, 2011:

|  | <b>Number of<br/>Shares</b> | <b>Weighted<br/>Average<br/>Grant Date<br/>Fair<br/>Value</b> |
|--|-----------------------------|---|
| Non-vested stock at December 31, 2010  | 329,937                     | \$ 8.57   |
| Granted                                | 109,275                     | \$ 14.46  |
| Vested                                 | (148,252)                   | \$ 8.69   |
| Forfeited                              | (10,529)                    | \$ 9.37   |
| Non-vested stock at September 30, 2011 | 280,431                     | \$ 10.77  |

As o