

H&E Equipment Services, Inc.
Form 10-Q
August 06, 2010

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**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 June 30, 2010.

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
(Do not check if a smaller reporting company)

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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 August 2, 2010, there were 35,035,023 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 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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H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share amounts)

	Balances at	
	June 30,	December
	2010	31,
	(Unaudited)	2009
ASSETS		
Cash	\$ 47,220	\$ 45,336
Receivables, net of allowance for doubtful accounts of \$5,661 and \$5,736, respectively	79,164	72,001
Inventories, net of reserves for obsolescence of \$860 and \$824, respectively	84,615	94,987
Prepaid expenses and other assets	9,173	6,999
Rental equipment, net of accumulated depreciation of \$240,641 and \$224,881, respectively	406,831	437,407
Property and equipment, net of accumulated depreciation and amortization of \$48,252 and \$42,086, respectively	60,233	65,802
Deferred financing costs, net of accumulated amortization of \$9,759 and \$9,050, respectively	4,836	5,545
Intangible assets, net of accumulated amortization of \$2,788 and \$2,492, respectively	692	988
Goodwill	34,019	34,019
Total assets	\$ 726,783	\$ 763,084
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Accounts payable	\$ 39,782	\$ 28,866
Manufacturer flooring plans payable	77,346	92,868
Accrued expenses payable and other liabilities	35,174	37,271
Notes payable	706	1,929
Senior unsecured notes	250,000	250,000
Capital lease payable	2,119	2,181
Deferred income taxes	59,705	69,146
Deferred compensation payable	1,973	1,941
Total liabilities	466,805	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 38,525,633 shares issued at June 30, 2010 and December 31, 2009, respectively,	386	385

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and 35,045,754 and 34,904,597 shares outstanding at June 30, 2010 and December 31, 2009, respectively

Additional paid-in capital	208,512	208,072
Treasury stock at cost, 3,653,912 shares of common stock held at June 30, 2010 and 3,621,091 shares of common stock held at December 31, 2009, respectively	(56,292)	(56,118)
Retained earnings	107,372	126,543
Total stockholders' equity	259,978	278,882
Total liabilities and stockholders' equity	\$ 726,783	\$ 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 June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Revenues:				
Equipment rentals	\$ 41,675	\$ 50,077	\$ 78,128	\$ 105,561
New equipment sales	28,962	59,268	56,255	123,325
Used equipment sales	17,931	20,463	31,362	36,556
Parts sales	22,782	26,335	42,414	52,358
Services revenues	12,571	15,482	24,054	30,939
Other	7,085	8,616	13,479	17,698
Total revenues	131,006	180,241	245,692	366,437
Cost of revenues:				
Rental depreciation	19,353	22,899	38,632	46,684
Rental expense	9,372	10,902	18,619	22,232
New equipment sales	26,103	51,655	51,013	106,970
Used equipment sales	13,862	16,725	24,607	29,413
Parts sales	16,847	18,865	31,094	37,387
Services revenues	4,252	5,710	8,628	11,413
Other	8,838	8,979	16,835	17,552
Total cost of revenues	98,627	135,735	189,428	271,651
Gross profit	32,379	44,506	56,264	94,786
Selling, general and administrative expenses	36,765	36,122	72,639	75,269
Gain on sales of property and equipment, net	135	201	199	183
Income (loss) from operations	(4,251)	8,585	(16,176)	19,700
Other income (expense):				
Interest expense	(7,203)	(8,011)	(14,494)	(16,192)
Other, net	106	180	156	395
Total other expense, net	(7,097)	(7,831)	(14,338)	(15,797)
Income (loss) before provision for income taxes	(11,348)	754	(30,514)	3,903
Provision (benefit) for income taxes	(4,255)	491	(11,343)	1,462
Net income (loss)	\$ (7,093)	\$ 263	\$ (19,171)	\$ 2,441

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Net income (loss) per common share:				
Basic	\$ (0.20)	\$ 0.01	\$ (0.55)	\$ 0.07
Diluted	\$ (0.20)	\$ 0.01	\$ (0.55)	\$ 0.07
Weighted average common shares outstanding:				
Basic	34,642	34,596	34,634	34,588
Diluted	34,642	34,596	34,634	34,595

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)

	Six Months Ended	
	June 30,	
	2010	2009
Cash flows from operating activities:		
Net income (loss)	\$ (19,171)	\$ 2,441
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization on property and equipment	6,707	5,552
Depreciation on rental equipment	38,632	46,684
Amortization of loan discounts and deferred financing costs	710	709
Amortization of intangible assets	295	296
Provision for losses on accounts receivable	1,518	2,053
Provision for inventory obsolescence	70	39
Increase (decrease) in deferred income taxes	(9,441)	1,331
Stock-based compensation expense	440	417
Gain on sales of property and equipment, net	(199)	(183)
Gain on sales of rental equipment, net	(5,951)	(6,638)
Changes in operating assets and liabilities:		
Receivables, net	(8,681)	50,886
Inventories, net	(3,282)	(3,979)
Prepaid expenses and other assets	(2,174)	3,885
Accounts payable	10,916	(55,837)
Manufacturer flooring plans payable	(15,522)	(22,403)
Accrued expenses payable and other liabilities	(2,094)	(7,422)
Deferred compensation payable	32	33
Net cash provided by (used in) operating activities	(7,195)	17,864
Cash flows from investing activities:		
Purchases of property and equipment	(1,179)	(12,394)
Purchases of rental equipment	(11,537)	(4,877)
Proceeds from sales of property and equipment	240	316
Proceeds from sales of rental equipment	23,016	28,367
Net cash provided by investing activities	10,540	11,412
Cash flows from financing activities:		
Purchases of treasury stock	(176)	(107)
Borrowings on senior secured credit facility		387,311
Payments on senior secured credit facility		(418,655)
Payments of related party obligation		(150)
Payments of capital lease obligation	(62)	(59)

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Principal payments on notes payable	(1,223)	(14)
Net cash used in financing activities	(1,461)	(31,674)
Net increase (decrease) in cash	1,884	(2,398)
Cash, beginning of period	45,336	11,266
Cash, end of period	\$ 47,220	\$ 8,868

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

	Six Months Ended June 30,	
	2010	2009
Supplemental schedule of noncash investing and financing activities:		
Noncash asset purchases:		
Assets transferred from new and used inventory to rental fleet	\$ 13,584	\$ 6,481
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 14,088	\$ 15,678
Income taxes paid, net of refunds received	\$ 64	\$ 259

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 six month periods ended June 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 six month periods ended June 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

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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 not yet been codified in the Accounting Standards Codification (ASC). 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 requires entities to allocate revenue in an arrangement 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 are currently evaluating the impact, if any, the adoption of this statement will have 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):

	June 30, 2010	
	Carrying Amount	Fair Value
Manufacturer flooring plans payable with interest computed at 6.75%	\$ 77,346	\$ 66,914
Senior unsecured notes with interest compounded at 8.375%	250,000	237,500
Notes payable to lenders with interest computed at 9.55%	706	408
Capital lease payable with interest computed at 5.929%	2,119	1,876
Letters of credit		120
	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

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Equity**

The following table summarizes the activity in Stockholders' Equity for the six month period ended June 30, 2010 (amounts in thousands, except share data):

	Common Stock		Additional Paid-in Capital	Treasury Stock	Retained Earnings	Total Stockholders Equity
	Shares Issued	Amount				
Balances at December 31, 2009	38,525,688	\$ 385	\$ 208,072	\$ (56,118)	\$ 126,543	\$ 278,882
Stock-based compensation			440			440
Issuance of common stock	173,978	1				1
Repurchase of 18,344 shares of restricted common stock				(174)		(174)
Net loss					(19,171)	(19,171)
Balances at June 30, 2010	38,699,666	\$ 386	\$ 208,512	\$ (56,292)	\$ 107,372	\$ 259,978

(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 June 30, 2010.

Non-vested Stock

The following table summarizes our non-vested stock activity for the six month period ended June 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	(14,477)	\$ 7.87
Non-vested stock at June 30, 2010	341,074	\$ 8.56

As of June 30, 2010, we had unrecognized compensation expense of \$2.4 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 and six month period ended June 30,

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2010 and 2009 (amounts in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Compensation expense	\$ 227	\$ 133	\$ 431	\$ 372

Stock Options

At June 30, 2010, we had no unrecognized compensation expense related to prior stock option awards. The following table summarizes compensation expense included in selling, general and administrative expenses in the accompanying condensed consolidated statements of operations for the three and six month periods ended June 30, 2010 and 2009 (amounts in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2010	2009	2010	2009
Compensation expense	\$ 4	\$ 5	\$ 9	\$ 45
		10		

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The following table represents stock option activity for the six month period ended June 30, 2010:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Contractual Life In Years
Outstanding options at December 31, 2009	51,000	\$ 24.80	
Granted			
Exercised			
Canceled, forfeited or expired			
Outstanding options at June 30, 2010	51,000	\$ 24.80	6.0
Options exercisable at June 30, 2010	51,000	\$ 24.80	6.0

The closing price of our common stock on June 30, 2010 was \$7.49. All options outstanding at June 30, 2010 have grant date fair values which exceed the June 30, 2010 closing stock price.

The following table summarizes non-vested stock option activity for the six month period ended June 30, 2010:

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested stock options at December 31, 2009	2,000	\$ 26.27
Granted		
Vested	2,000	\$ 26.27
Forfeited		

Non-vested stock options at June 30, 2010

(6) Earnings (Loss) per Share

Earnings (loss) per common share for the three and six month periods ended June 30, 2010 and 2009 are based on the weighted average number of common shares outstanding during the period. The effects of potentially dilutive securities that are anti-dilutive are not included in the computation of dilutive income (loss) per share. The following table sets forth the computation of basic and diluted net income (loss) per common share for the three and six month periods ended June 30, 2010 and 2009 (amounts in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2010	2009	2010	2009
Basic net income per share:				
Net income (loss)	\$ (7,093)	\$ 263	\$(19,171)	\$ 2,441
Weighted average number of shares of common stock outstanding	34,642	34,596	34,634	34,588
Net income (loss) per share of common stock basic	\$ (0.20)	\$ 0.01	\$ (0.55)	\$ 0.07

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Diluted net income (loss) per share:				
Net income (loss)	\$ (7,093)	\$ 263	\$ (19,171)	\$ 2,441
Weighted average number of shares of common stock outstanding	34,642	34,596	34,634	34,588
Effect of dilutive securities:				
Effect of dilutive stock options				
Effect of dilutive non-vested restricted stock				7
Weighted average number of shares of common stock outstanding diluted				
	34,642	34,596	34,634	34,595
Net income (loss) per share of common stock diluted	\$ (0.20)	\$ 0.01	\$ (0.55)	\$ 0.07
Common shares excluded from the denominator as anti-dilutive:				
Stock options	51	51	51	51
Non-vested restricted stock	242	167	253	130

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

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
Revenues:				
Equipment rentals	\$ 41,675	\$ 50,077	\$ 78,128	\$ 105,561
New equipment sales	28,962	59,268	56,255	123,325
Used equipment sales	17,931	20,463	31,362	36,556
Parts sales	22,782	26,335	42,414	52,358
Services revenues	12,571	15,482	24,054	30,939
Total segmented revenues	123,921	171,625	232,213	348,739
Non-segmented revenues	7,085	8,616	13,479	17,698
Total revenues	\$ 131,006	\$ 180,241	\$ 245,692	\$ 366,437
Gross Profit (Loss):				
Equipment rentals	\$ 12,950	\$ 16,276	\$ 20,877	\$ 36,645
New equipment sales	2,859	7,613	5,242	16,355
Used equipment sales	4,069	3,738	6,755	7,143
Parts sales	5,935	7,470	11,320	14,971
Services revenues	8,319	9,772	15,426	19,526
Total segmented gross profit	34,132	44,869	59,620	94,640
Non-segmented gross profit (loss)	(1,753)	(363)	(3,356)	146
Total gross profit	\$ 32,379	\$ 44,506	\$ 56,264	\$ 94,786

	Balances at	
	June 30,	December
	2010	31,
		2009
Segment identified assets:		
Equipment sales	\$ 69,050	\$ 81,022
Equipment rentals	406,831	437,407
Parts and services	15,565	13,964
Total segment identified assets	491,446	532,393

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Non-segment identified assets	235,337	230,691
Total assets	\$ 726,783	\$ 763,084

The Company operates primarily in the United States and our sales to international customers for the three and six month periods ended June 30, 2010 were 1.4% and 1.9%, respectively, of total revenues compared to 7.5% and 4.3% for the three and six month periods ended June 30, 2009. No one customer accounted for more than 10% of our revenues on an overall or segment basis for any of the periods presented.

Table of Contents**(8) Condensed Consolidating Financial Information of Guarantor Subsidiaries**

All of the indebtedness of H&E Equipment Services, Inc. is guaranteed by GNE Investments, Inc. and its wholly-owned subsidiary Great Northern Equipment, Inc., H&E Finance Corp., H&E Equipment Services (California), LLC, H&E California Holdings, Inc. and H&E Equipment Services (Mid-Atlantic), Inc. The guarantor subsidiaries are all wholly-owned and the guarantees, made on a joint and several basis, are full and unconditional (subject to subordination provisions and subject to a standard limitation which provides that the maximum amount guaranteed by each guarantor will not exceed the maximum amount that can be guaranteed without making the guarantee void under fraudulent conveyance laws). There are no restrictions on H&E Equipment Services, Inc.'s ability to obtain funds from the guarantor subsidiaries by dividend or loan.

The condensed consolidating financial statements of H&E Equipment Services, Inc. and its subsidiaries are included below. The financial statements for H&E Finance Corp. are not included within the consolidating financial statements because H&E Finance Corp. has no assets or operations. The condensed consolidating balance sheet amounts as of December 31, 2009 included herein were derived from our annual audited consolidated financial statements and related notes in our Annual Report on Form 10-K for the year ended December 31, 2009.

CONDENSED CONSOLIDATING BALANCE SHEET

	As of June 30, 2010			
	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Assets:				
Cash	\$ 47,220	\$	\$	\$ 47,220
Receivables, net	70,235	8,929		79,164
Inventories, net	69,281	15,334		84,615
Prepaid expenses and other assets	8,920	253		9,173
Rental equipment, net	320,741	86,090		406,831
Property and equipment, net	50,056	10,177		60,233
Deferred financing costs, net	4,836			4,836
Intangible assets, net		692		692
Investment in guarantor subsidiaries	(12,643)		12,643	
Goodwill	4,493	29,526		34,019
Total assets	\$ 563,139	\$ 151,001	\$ 12,643	\$ 726,783
Liabilities and Stockholders Equity:				
Accounts payable	\$ 38,753	\$ 1,029	\$	\$ 39,782
Manufacturer flooring plans payable	77,239	107		77,346
Accrued expenses payable and other liabilities	33,243	1,931		35,174
Intercompany balances	(157,752)	157,752		
Notes payable		706		706
Senior unsecured notes	250,000			250,000
Capital lease payable		2,119		2,119
Deferred income taxes	59,705			59,705
Deferred compensation payable	1,973			1,973
Total liabilities	303,161	163,644		466,805
Stockholders' equity (deficit)	259,978	(12,643)	12,643	259,978

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Total liabilities and stockholders equity	\$ 563,139	\$ 151,001	\$ 12,643	\$ 726,783
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Table of Contents**CONDENSED CONSOLIDATING BALANCE SHEET**

	As of December 31, 2009			
	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Assets:				
Cash	\$ 45,326	\$ 10	\$	\$ 45,336
Receivables, net	58,405	13,596		72,001
Inventories, net	72,508	22,479		94,987
Prepaid expenses and other assets	6,876	123		6,999
Rental equipment, net	346,107	91,300		437,407
Property and equipment, net	54,672	11,130		65,802
Deferred financing costs, net	5,545			5,545
Intangible assets, net		988		988
Investment in guarantor subsidiaries	(4,537)		4,537	
Goodwill	4,493	29,526		34,019
Total assets	\$ 589,395	\$ 169,152	\$ 4,537	\$ 763,084
Liabilities and Stockholders Equity:				
Accounts payable	\$ 28,866	\$	\$	\$ 28,866
Manufacturer flooring plans payable	92,868			92,868
Accrued expenses payable and other liabilities	35,689	1,582		37,271
Intercompany balances	(169,213)	169,213		
Notes payable	1,216	713		1,929
Senior unsecured notes	250,000			250,000
Capital lease payable		2,181		2,181
Deferred income taxes	69,146			69,146
Deferred compensation payable	1,941			1,941
Total liabilities	310,513	173,689		484,202
Stockholders equity (deficit)	278,882	(4,537)	4,537	278,882
Total liabilities and stockholders equity	\$ 589,395	\$ 169,152	\$ 4,537	\$ 763,084

Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**

	Three Months Ended June 30, 2010			
	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Revenues:				
Equipment rentals	\$ 32,760	\$ 8,915	\$	\$ 41,675
New equipment sales	25,054	3,908		28,962
Used equipment sales	15,573	2,358		17,931
Parts sales	19,453	3,329		22,782
Services revenues	11,181	1,390		12,571
Other	5,812	1,273		7,085
Total revenues	109,833	21,173		131,006
Cost of revenues:				
Rental depreciation	15,227	4,126		19,353
Rental expense	7,582	1,790		9,372
New equipment sales	22,450	3,653		26,103
Used equipment sales	12,126	1,736		13,862
Parts sales	14,363	2,484		16,847
Services revenues	3,820	432		4,252
Other	6,912	1,926		8,838
Total cost of revenues	82,480	16,147		98,627
Gross profit (loss):				
Equipment rentals	9,951	2,999		12,950
New equipment sales	2,604	255		2,859
Used equipment sales	3,447	622		4,069
Parts sales	5,090	845		5,935
Services revenues	7,361	958		8,319
Other	(1,100)	(653)		(1,753)
Gross profit	27,353	5,026		32,379
Selling, general and administrative expenses	30,522	6,243		36,765
Equity in loss of guarantor subsidiaries	(3,486)		3,486	
Gain on sales of property and equipment, net	92	43		135
Loss from operations	(6,563)	(1,174)	3,486	(4,251)
Other income (expense):				
Interest expense	(4,894)	(2,309)		(7,203)
Other, net	109	(3)		106
Total other expense, net	(4,785)	(2,312)		(7,097)

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Loss before income taxes	(11,348)	(3,486)	3,486	(11,348)
Income tax benefit	(4,255)			(4,255)
Net loss	\$ (7,093)	\$ (3,486)	\$ 3,486	\$ (7,093)

Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**

	Three Months Ended June 30, 2009			
	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Revenues:				
Equipment rentals	\$ 40,956	\$ 9,121	\$	\$ 50,077
New equipment sales	48,480	10,788		59,268
Used equipment sales	17,651	2,812		20,463
Parts sales	22,393	3,942		26,335
Services revenues	13,572	1,910		15,482
Other	7,065	1,551		8,616
Total revenues	150,117	30,124		180,241
Cost of revenues:				
Rental depreciation	18,378	4,521		22,899
Rental expense	8,808	2,094		10,902
New equipment sales	42,276	9,379		51,655
Used equipment sales	14,253	2,472		16,725
Parts sales	16,039	2,826		18,865
Services revenues	5,083	627		5,710
Other	7,107	1,872		8,979
Total cost of revenues	111,944	23,791		135,735
Gross profit (loss):				
Equipment rentals	13,770	2,506		16,276
New equipment sales	6,204	1,409		7,613
Used equipment sales	3,398	340		3,738
Parts sales	6,354	1,116		7,470
Services revenues	8,489	1,283		9,772
Other	(42)	(321)		(363)
Gross profit	38,173	6,333		44,506
Selling, general and administrative expenses	30,215	5,907		36,122
Equity in loss of guarantor subsidiaries	(2,631)		2,631	
Gain on sales of property and equipment, net	158	43		201
Income from operations	5,485	469	2,631	8,585
Other income (expense):				
Interest expense	(4,903)	(3,108)		(8,011)
Other, net	172	8		180
Total other expense, net	(4,731)	(3,100)		(7,831)

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Income (loss) before provision for income taxes	754	(2,631)	2,631	754
Provision for income taxes	491			491
Net income (loss)	\$ 263	\$ (2,631)	\$ 2,631	\$ 263

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Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**

	Six Months Ended June 30, 2010			
	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Revenues:				
Equipment rentals	\$ 62,231	\$ 15,897	\$	\$ 78,128
New equipment sales	49,096	7,159		56,255
Used equipment sales	26,624	4,738		31,362
Parts sales	35,888	6,526		42,414
Services revenues	21,069	2,985		24,054
Other	10,902	2,577		13,479
Total revenues	205,810	39,882		245,692
Cost of revenues:				
Rental depreciation	30,404	8,228		38,632
Rental expense	15,087	3,532		18,619
New equipment sales	44,406	6,607		51,013
Used equipment sales	20,985	3,622		24,607
Parts sales	26,305	4,789		31,094
Services revenues	7,697	931		8,628
Other	13,213	3,622		16,835
Total cost of revenues	158,097	31,331		189,428
Gross profit (loss):				
Equipment rentals	16,740	4,137		20,877
New equipment sales	4,690	552		5,242
Used equipment sales	5,639	1,116		6,755
Parts sales	9,583	1,737		11,320
Services revenues	13,372	2,054		15,426
Other	(2,311)	(1,045)		(3,356)
Gross profit	47,713	8,551		56,264
Selling, general and administrative expenses	60,782	11,857		72,639
Equity in loss of guarantor subsidiaries	(8,106)		8,106	
Gain on sales of property and equipment, net	156	43		199
Loss from operations	(21,019)	(3,263)	8,106	(16,176)
Other income (expense):				
Interest expense	(9,649)	(4,845)		(14,494)
Other, net	154	2		156
Total other expense, net	(9,495)	(4,843)		(14,338)

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Loss before income taxes	(30,514)	(8,106)	8,106	(30,514)
Income tax benefit	(11,343)			(11,343)
Net loss	\$ (19,171)	\$ (8,106)	\$ 8,106	\$ (19,171)

Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**

	Six Months Ended June 30, 2009			
	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Revenues:				
Equipment rentals	\$ 87,729	\$ 17,832	\$	\$ 105,561
New equipment sales	103,554	19,771		123,325
Used equipment sales	31,568	4,988		36,556
Parts sales	44,654	7,704		52,358
Services revenues	27,180	3,759		30,939
Other	14,756	2,942		17,698
Total revenues	309,441	56,996		366,437
Cost of revenues:				
Rental depreciation	37,710	8,974		46,684
Rental expense	18,205	4,027		22,232
New equipment sales	89,939	17,031		106,970
Used equipment sales	25,054	4,359		29,413
Parts sales	31,844	5,543		37,387
Services revenues	10,136	1,277		11,413
Other	14,041	3,511		17,552
Total cost of revenues	226,929	44,722		271,651
Gross profit (loss):				
Equipment rentals	31,814	4,831		36,645
New equipment sales	13,615	2,740		16,355
Used equipment sales	6,514	629		7,143
Parts sales	12,810	2,161		14,971
Services revenues	17,044	2,482		19,526
Other	715	(569)		146
Gross profit	82,512	12,274		94,786
Selling, general and administrative expenses	62,691	12,578		75,269
Equity in loss of guarantor subsidiaries	(6,311)		6,311	
Gain (loss) on sales of property and equipment, net	239	(56)		183
Income (loss) from operations	13,749	(360)	6,311	19,700
Other income (expense):				
Interest expense	(10,214)	(5,978)		(16,192)
Other, net	368	27		395

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Total other expense, net	(9,846)	(5,951)		(15,797)
Income (loss) before provision for income taxes	3,903	(6,311)	6,311	3,903
Provision for income taxes	1,462			1,462
Net income (loss)	\$ 2,441	\$ (6,311)	\$ 6,311	\$ 2,441

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Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**

	Six Months Ended June 30, 2010			
	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Cash flows from operating activities:				
Net loss	\$ (19,171)	\$ (8,106)	\$ 8,106	\$ (19,171)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization on property and equipment	5,713	994		6,707
Depreciation on rental equipment	30,404	8,228		38,632
Amortization of loan discounts and deferred financing costs	710			710
Amortization of intangible assets		295		295
Provision for losses on accounts receivable	1,518			1,518
Provision for inventory obsolescence	70			70
Decrease in deferred income taxes	(9,441)			(9,441)
Stock-based compensation expense	440			440
(Gain) loss on sales of property and equipment, net	(156)	(43)		(199)
Gain on sales of rental equipment, net	(4,846)	(1,105)		(5,951)
Equity in loss of guarantor subsidiaries	8,106		(8,106)	
Changes in operating assets and liabilities:				
Receivables, net	(13,348)	4,667		(8,681)
Inventories, net	(6,686)	3,404		(3,282)
Prepaid expenses and other assets	(2,044)	(130)		(2,174)
Accounts payable	9,887	1,029		10,916
Manufacturer flooring plans payable	(15,629)	107		(15,522)
Accrued expenses payable and other liabilities	(2,444)	350		(2,094)
Intercompany balances	11,461	(11,461)		
Deferred compensation payable	32			32
Net cash used in operating activities	(5,424)	(1,771)		(7,195)
Cash flows from investing activities:				
Purchases of property and equipment	(1,124)	(55)		(1,179)
Purchases of rental equipment	(8,953)	(2,584)		(11,537)
Proceeds from sales of property and equipment	183	57		240
Proceeds from sales of rental equipment	18,604	4,412		23,016
Net cash provided by investing activities	8,710	1,830		10,540
Cash flows from financing activities:				
Purchases of treasury stock	(176)			(176)
Payments on capital lease obligations		(62)		(62)
Principal payments of notes payable	(1,216)	(7)		(1,223)

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Net cash used in financing activities	(1,392)	(69)	(1,461)
Net increase (decrease) in cash	1,894	(10)	1,884
Cash, beginning of period	45,326	10	45,336
Cash, end of period	\$ 47,220	\$	\$ 47,220

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Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**

	Six Months Ended June 30, 2009			
	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Cash flows from operating activities:				
Net income (loss)	\$ 2,441	\$ (6,311)	\$ 6,311	\$ 2,441
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation on property and equipment	4,471	1,081		5,552
Depreciation on rental equipment	37,710	8,974		46,684
Amortization of loan discounts and deferred financing costs	709			709
Amortization of intangible assets		296		296
Provision for losses on accounts receivable	1,788	265		2,053
Provision for inventory obsolescence	39			39
Provision for deferred income taxes	1,331			1,331
Stock-based compensation expense	417			417
Gain on sales of property and equipment, net	(239)	56		(183)
Gain on sales of rental equipment, net	(6,032)	(606)		(6,638)
Equity in loss of guarantor subsidiaries	6,311		(6,311)	
Changes in operating assets and liabilities:				
Receivables, net	38,403	12,483		50,886
Inventories, net	(688)	(3,291)		(3,979)
Prepaid expenses and other assets	3,889	(4)		3,885
Accounts payable	(55,942)	105		(55,837)
Manufacturer flooring plans payable	(22,403)			(22,403)
Accrued expenses payable and other liabilities	(7,701)	279		(7,422)
Intercompany balances	5,289	(5,289)		
Deferred compensation payable	33			33
Net cash provided by operating activities	9,826	8,038		17,864
Cash flows from investing activities:				
Purchases of property and equipment	(12,023)	(371)		(12,394)
Purchases of rental equipment	6,401	(11,278)		(4,877)
Proceeds from sales of property and equipment	228	88		316
Proceeds from sales of rental equipment	24,783	3,584		28,367
Net cash provided by (used in) investing activities	19,389	(7,977)		11,412
Cash flows from financing activities:				
Purchase of treasury stock	(107)			(107)
Borrowings on senior secured credit facility	387,311			387,311
Payments on senior secured credit facility	(418,655)			(418,655)
Payments of related party obligation	(150)			(150)

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Payments on capital lease obligation		(59)		(59)
Principal payments of notes payable	(8)	(6)		(14)
Net cash used in financing activities	(31,609)	(65)		(31,674)
Net decrease in cash	(2,394)	(4)		(2,398)
Cash, beginning of period	11,251	15		11,266
Cash, end of period	\$ 8,857	\$ 11	\$	\$ 8,868

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Table of Contents**(9) Subsequent Event**

We and our subsidiaries are parties to a \$320.0 million senior secured credit facility with General Electric Capital Corporation as administrative agent, and the lenders named therein. On July 29, 2010, we amended and restated the credit facility to, among other things, (i) extend the maturity date of the credit facility from August 4, 2011 to July 29, 2015, (ii) add a financial covenant requiring maintenance of a maximum total leverage ratio of 5.0 to 1.0, which is tested if excess availability is less than \$40.0 million (as adjusted if the incremental facility is exercised), (iii) modify the existing financial covenant requiring maintenance of a fixed charge coverage ratio so that the excess availability level at which such ratio is tested increases from excess availability of less than \$25.0 million to excess availability of less than \$40.0 million (as adjusted if the incremental facility is exercised), (iv) require a daily sweep of cash from the Company's blocked accounts in the event that excess availability is less than \$65.0 million (as adjusted if the incremental facility is exercised) and (v) increases the unused commitment fee from .25% to .50%. The amended and restated credit facility also increases the interest rate (a) in the case of index rate revolving loans, to the index rate plus an applicable margin of 1.50% to 2.25% depending on the leverage ratio and (b) in the case of LIBOR revolving loans, to LIBOR plus an applicable margin of 2.50% to 3.25%, depending on the leverage ratio.

The credit facility, as amended and restated, continues to provide, among other things, a \$320.0 million senior secured asset based revolver, including a \$30.0 million letter of credit facility, a \$130.0 million incremental facility and a guaranty by the Company and each of its subsidiaries of the obligations under the credit facility. In addition, the borrowers under the credit facility remain the same and the credit facility remains secured by substantially all of the assets of the Company and its subsidiaries.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion summarizes the financial position of H&E Equipment Services, Inc. and its subsidiaries as of June 30, 2010, and its results of operations for the three and six month periods ended June 30, 2010, and should be read in conjunction with (i) the unaudited condensed consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q and (ii) the audited consolidated financial statements and accompanying notes to our Annual Report on Form 10-K for the year ended December 31, 2009. The following discussion contains, in addition to historical information, forward-looking statements that include risks and uncertainties (see discussion of Forward-Looking Statements included elsewhere in this Quarterly Report on Form 10-Q). Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those factors set forth under Item 1A Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2009.

Overview**Background**

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 rental, sales, on-site parts, 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.

As of August 2, 2010, we operated 68 full-service facilities throughout the Intermountain, Southwest, Gulf Coast, West Coast, Southeast and Mid-Atlantic regions of the United States. Our work force includes distinct, focused sales forces for our new and used equipment sales and rental operations, highly-skilled service technicians, product specialists and regional managers. We focus our sales and rental activities on, and organize our personnel principally by, our four core equipment categories. We believe this allows us to provide specialized equipment knowledge, improve the effectiveness of our rental and sales force and strengthen our customer relationships. In addition, we have branch managers at each location who are responsible for managing their assets and financial results. We believe this fosters accountability in our business, and strengthens our local and regional relationships.

Through our predecessor companies, we have been in the equipment services business for approximately 49 years. H&E Equipment Services L.L.C. (H&E LLC) was formed in June 2002 through the business combination of Head & Engquist, a wholly-owned subsidiary of Gulf Wide, and ICM. Head & Engquist, founded in 1961, and ICM, founded in 1971, were two leading regional, integrated equipment services companies operating in contiguous geographic markets. In the June 2002 transaction, Head & Engquist

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and ICM were merged with and into Gulf Wide, which was renamed H&E LLC. Prior to the combination, Head & Engquist operated 25 facilities in the Gulf Coast region, and ICM operated 16 facilities in the Intermountain region of the United States.

In connection with our initial public offering in February 2006, we converted H&E LLC into H&E Equipment Services, Inc. Prior to our initial public offering, our business was conducted through H&E LLC. In order to have an operating Delaware corporation as the issuer for our initial public offering, H&E Equipment Services, Inc. was formed as a Delaware corporation and wholly-owned subsidiary of H&E Holdings, and immediately prior to the closing of our initial public offering, on February 3, 2006, H&E LLC and H&E Holdings merged with and into us (H&E Equipment Services, Inc.), with us surviving the reincorporation merger as the operating company. Effective February 3, 2006, H&E LLC and H&E Holdings no longer existed under operation of law pursuant to the merger reincorporation.

Critical Accounting Policies

Item 7, included in Part II of our Annual Report on Form 10-K for the year ended December 31, 2009, presents the accounting policies and related estimates that we believe are the most critical to understanding our consolidated financial statements, financial condition, and results of operations and cash flows, and which require complex management judgment and assumptions, or involve uncertainties. There have been no changes to these critical accounting policies and estimates during the three and six month periods ended June 30, 2010. These policies include, among others, revenue recognition, the adequacy of the allowance for doubtful accounts, the propriety of our estimated useful life of rental equipment and property and equipment, the potential impairment of long-lived assets including goodwill and intangible assets, obsolescence reserves on inventory, the allocation of purchase price related to business combinations, reserves for claims, including self-insurance reserves, and deferred income taxes, including the valuation of any related deferred tax assets.

Information regarding our other significant accounting policies is included in note 2 to our consolidated financial statements in Item 8 of Part II of our Annual Report on Form 10-K for the year ended December 31, 2009 and in note 2 to the condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

Business Segments

We have five reportable segments because we derive our revenues from five principal business activities: (1) equipment rentals; (2) new equipment sales; (3) used equipment sales; (4) parts sales; and (5) repair and maintenance services. These segments are based upon how we allocate resources and assess performance. In addition, we also have non-segmented revenues and costs that relate to equipment support activities.

Equipment Rentals. Our rental operation primarily rents our four core types of construction and industrial equipment. We have a well-maintained rental fleet and our own dedicated sales force, focused by equipment type. We actively manage the size, quality, age and composition of our rental fleet based on our analysis of key measures such as time utilization (equipment usage based on the number of rental equipment units available for rent), rental rate trends and targets, and equipment demand, which we closely monitor. We maintain fleet quality through regional quality control managers and our parts and services operations.

New Equipment Sales. Our new equipment sales operation sells new equipment in all four core product categories. We have a retail sales force focused by equipment type that is separate from our rental sales force. Manufacturer purchase terms and pricing are managed by our product specialists.

Used Equipment Sales. Our used equipment sales are generated primarily from sales of used equipment from our rental fleet, as well as from sales of inventoried equipment that we acquire through trade-ins from our equipment customers and through selective purchases of high quality used equipment. Used equipment is sold by our dedicated retail sales force. Our used equipment sales are an effective way for us to manage the size and composition of our rental fleet and provide a profitable distribution channel for disposal of rental equipment.

Parts Sales. Our parts business sells new and used parts for the equipment we sell, and also provides parts to our own rental fleet. To a lesser degree, we also sell parts for equipment produced by manufacturers whose

products we neither rent nor sell. In order to provide timely parts and service support to our customers as well as our own rental fleet, we maintain an extensive parts inventory.

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Services. Our services operation provides maintenance and repair services for our customers' equipment and to our own rental fleet at our facilities as well as at our customers' locations. As the authorized distributor for numerous equipment manufacturers, we are able to provide service to that equipment that will be covered under the manufacturer's warranty.

Our non-segmented revenues and costs relate to equipment support activities that we provide, such as transportation, hauling, parts freight and damage waivers, and are not generally allocated to reportable segments. For additional information about our business segments, see note 7 to the condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

Revenue Sources

We generate all of our revenues from our five business segments and our non-segmented equipment support activities. Equipment rentals and new equipment sales account for more than half of our total revenues. For the six month period ended June 30, 2010, approximately 31.8% of our total revenues were attributable to equipment rentals, 22.9% of our total revenues were attributable to new equipment sales, 12.7% were attributable to used equipment sales, 17.3% were attributable to parts sales, 9.8% were attributable to our services revenues and 5.5% were attributable to non-segmented other revenues.

The equipment that we sell, rent and service is principally used in the construction industry, as well as by companies for commercial and industrial uses such as plant maintenance and turnarounds. As a result, our total revenues are affected by several factors including, but not limited to, the demand for and availability of rental equipment, rental rates and other competitive factors, the demand for new and used equipment, the level of construction and industrial activities, spending levels by our customers, adverse weather conditions and general economic conditions. For a discussion of the impact of seasonality on our revenues, see *Seasonality* below.

Equipment Rentals. Revenues from equipment rentals depend on rental rates. Because rental rates are impacted by competition in specific regions and markets, we continuously monitor and adjust rental rates. Equipment rental revenue is also impacted by the availability of equipment and by time utilization (equipment usage based on the number of rental equipment units available for rent). We generate reports on, among other things, time utilization, demand pricing (rental rate pricing based on physical utilization), and rental rate trends on a piece-by-piece basis for our rental fleet. We recognize revenues from equipment rentals in the period earned on a straight-line basis, over the contract term, regardless of the timing of billing to customers.

New Equipment Sales. We seek to optimize revenues from new equipment sales by selling equipment through a professional in-house retail sales force focused by product type. While sales of new equipment are impacted by the availability of equipment from the manufacturer, we believe our status as a leading distributor for some of our key suppliers improves our ability to obtain equipment. New equipment sales are an important component of our integrated model due to customer interaction and service contact and new equipment sales also lead to future parts and services revenues. We recognize revenue from the sale of new equipment at the time of delivery to, or pick-up by, the customer and when all obligations under the sales contract have been fulfilled and collectibility is reasonably assured.

Used Equipment Sales. We generate the majority of our used equipment sales revenues by selling equipment from our rental fleet through our existing branch network and, to a lesser extent through other means, including equipment auctions. The remainder of used equipment sales revenues comes from the sale of inventoried equipment that we acquire through trade-ins from our equipment customers and selective purchases of high-quality used equipment. Our policy is not to offer specified price trade-in arrangements on equipment for sale. Sales of our rental fleet equipment allow us to manage the size, quality, composition and age of our rental fleet, and provide a profitable distribution channel for disposal of rental equipment. We recognize revenue for the sale of used equipment at the time of delivery to, or pick-up by, the customer and when all obligations under the sales contract have been fulfilled and collectibility is reasonably assured.

Parts Sales. We generate revenues from the sale of new and used parts for equipment that we rent or sell, as well as for other makes of equipment. Our product support sales representatives are instrumental in generating our parts revenues. They are product specialists and receive performance incentives for achieving certain sales levels. Most of our parts sales come from our extensive in-house parts inventory. Our parts sales provide us with a relatively stable revenue stream that tends to be less sensitive to the economic cycles that generally affect our rental and equipment sales operations. We recognize revenues from parts sales at the time of delivery to, or pick-up by, the customer and

when all obligations under the sales contract have been fulfilled and collectibility is reasonably assured.

Services. We derive our services revenues from maintenance and repair services to customers for their owned equipment. In

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addition to repair and maintenance on an as-needed or scheduled basis, we also provide ongoing preventive maintenance services to industrial customers. Our after-market services provide a high-margin, relatively stable source of revenue through changing economic cycles. We recognize services revenues at the time such services are rendered and collectibility is reasonably assured.

Non-Segmented Other Revenues. Our non-segmented other revenues consist of billings to customers for equipment support and activities including: transportation, hauling, parts freight and loss damage waiver charges. We recognize non-segmented other revenues at the time of billing and after the services have been provided.

Principal Costs and Expenses

Our largest expenses are the costs to purchase the new equipment we sell, the costs associated with the used equipment we sell, rental expenses, rental depreciation and costs associated with parts sales and services, all of which are included in cost of revenues. For the six month period ended June 30, 2010, our total cost of revenues was approximately \$189.4 million. Our operating expenses consist principally of selling, general and administrative expenses. For the six month period ended June 30, 2010, our selling, general and administrative expenses were approximately \$72.6 million. In addition, we have interest expense related to our debt instruments. We are also subject to federal and state income taxes. Operating expenses and all other income and expense items below the gross profit line of our condensed consolidated statements of operations are not generally allocated to our reportable segments.

Cost of Revenues:

Rental Depreciation. Depreciation of rental equipment represents the depreciation costs attributable to rental equipment. Estimated useful lives vary based upon type of equipment. Generally, we depreciate cranes and aerial work platforms over a ten year estimated useful life, earthmoving equipment over a five year estimated useful life with an estimated 25% salvage value, and industrial lift-trucks over a seven year estimated useful life. Attachments and other smaller type equipment are depreciated over a three year estimated useful life.

Rental Expense. Rental expense represents the costs associated with rental equipment, including, among other things, the cost of servicing and maintaining our rental equipment, property taxes on our fleet and other miscellaneous costs of rental equipment.

New Equipment Sales. Cost of new equipment sold primarily consists of the equipment cost of the new equipment that is sold, net of any amount of credit given to the customer towards the equipment for trade-ins.

Used Equipment Sales. Cost of used equipment sold consists of the net book value of rental equipment for used equipment sold from our rental fleet, the equipment costs for used equipment we purchase for sale or the trade-in value of used equipment that we obtain from customers in equipment sales transactions.

Parts Sales. Cost of parts sales represents costs attributable to the sale of parts directly to customers.

Services Support. Cost of services revenues represents costs attributable to service provided for the maintenance and repair of customer-owned equipment and equipment then on-rent by customers.

Non-Segmented Other. These expenses include costs associated with providing transportation, hauling, parts freight, and damage waiver including, among other items, drivers wages, fuel costs, shipping costs, and our costs related to damage waiver policies.

Selling, General and Administrative Expenses:

Our selling, general and administrative (SG&A) expenses include sales and marketing expenses, payroll and related benefit costs, insurance expense, professional fees, property and other taxes, administrative overhead, depreciation associated with property and equipment (other than rental equipment) and amortization expense associated with intangible assets. These expenses are not generally allocated to our reportable segments.

Interest Expense:

Interest expense for the periods presented represents the interest on our outstanding debt instruments. Interest expense also includes non-cash interest expense related to the amortization cost of deferred financing costs.

Table of Contents**Principal Cash Flows**

We generate cash primarily from our operating activities and historically, we have used cash flows from operating activities, manufacturer floor plan financings and available borrowings under our revolving senior secured credit facility as the primary sources of funds to purchase our inventory and to fund working capital and capital expenditures (see also *Liquidity and Capital Resources* below).

Rental Fleet

A significant portion of our overall value is in our rental fleet equipment. The net book value of rental equipment at June 30, 2010 was \$406.8 million, or approximately 56.0% of our total assets. Our rental fleet, as of June 30, 2010, consisted of approximately 15,554 units having an original acquisition cost (which we define as the cost originally paid to manufacturers or the original amount financed under operating leases) of approximately \$657.7 million. As of June 30, 2010, our rental fleet composition was as follows (dollars in millions):

	Units	% of Total Units	Original Acquisition Cost	% of Original Acquisition Cost	Average Age in Months
Hi-Lift or Aerial Work Platforms	12,070	77.6%	\$ 404.3	61.5%	46.3
Cranes	351	2.3%	79.2	12.0%	36.4
Earthmoving	1,498	9.6%	142.2	21.6%	31.1
Industrial Lift Trucks	440	2.8%	17.5	2.7%	36.6
Other	1,195	7.7%	14.5	2.2%	31.8
Total	15,554	100.0%	\$ 657.7	100.0%	43.2

Determining the optimal age and mix for our rental fleet equipment is subjective and requires considerable estimates and judgments by management. We constantly evaluate the mix, age and quality of the equipment in our rental fleet in response to current economic and market conditions, competition and customer demand. The mix and age of our rental fleet, as well as our cash flows, are impacted by sales of equipment from the rental fleet, which are influenced by used equipment pricing at the retail and secondary auction market levels, and the capital expenditures to acquire new rental fleet equipment. In making equipment acquisition decisions, we evaluate current economic and market conditions, competition, manufacturers' availability, pricing and return on investment over the estimated useful life of the specific equipment, among other things. As a result of our in-house service capabilities and extensive maintenance program, we believe our rental fleet is well-maintained.

On average, we increased the overall average age of our rental fleet equipment by approximately 3.2 months for the six month period ended June 30, 2010. The original acquisition cost of our overall gross rental fleet decreased by approximately \$17.4 million, or approximately 2.6%, for the six month period ended June 30, 2010, mostly due to a planned elimination of rental fleet growth capital expenditures and selective fleet replacement expenditures during the period in response to a challenging economic environment and credit market conditions (see also *Liquidity and Capital Resources* below).

Our average rental rates for the six month period ended June 30, 2010 were 11.5% lower than the comparative six month period ended June 30, 2009 (see further discussion on rental rates in *Results of Operations* below). The rental equipment mix among our four core product lines for the six month period ended June 30, 2010 was largely consistent with that of the prior year comparable period as a percentage of total units available for rent and as a percentage of original acquisition cost, except for the impact of the sale of our Yale lift trucks to Arnold Machinery Company on July 31, 2009, as further described in our Annual Report on Form 10-K for the year ended December 31, 2009 (the *Arnold Transaction*), which resulted in an approximately 5.0% shift in rental fleet composition from lift trucks to primarily aerial work platform equipment.

Principal External Factors that Affect our Businesses

We are subject to a number of external factors that may adversely affect our businesses. These factors, and other factors, are discussed below and in Item 1A Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2009:

Economic downturns. The demand for our products is dependent on the general economy, the stability of the global credit markets, the industries in which our customers operate or serve, and other factors. Downturns in the general economy or in

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the construction and manufacturing industries, as well as adverse credit market conditions, can cause demand for our products to materially decrease. The recent macroeconomic downturn, including recent conditions in the global credit markets, is a principal factor currently affecting our business.

Spending levels by customers. Rentals and sales of equipment to the construction industry and to industrial companies constitute a significant portion of our total revenues. As a result, we depend upon customers in these businesses and their ability and willingness to make capital expenditures to rent or buy specialized equipment. Accordingly, our business is impacted by fluctuations in customers' spending levels on capital expenditures and by the availability of credit to those customers.

Adverse weather. Adverse weather in any geographic region in which we operate may depress demand for equipment in that region. Our equipment is primarily used outdoors and, as a result, prolonged adverse weather conditions may prohibit our customers from continuing their work projects. The adverse weather also has a seasonal impact in parts of our Intermountain region, primarily in the winter months.

We believe that our integrated business tempers the effects of downturns in a particular segment. For a discussion of seasonality, see *Seasonality* below.

Results of Operations

The tables included in the period-to-period comparisons below provide summaries of our revenues and gross profits for our business segments and non-segmented revenues for the three and six month periods ended June 30, 2010 and 2009. The period-to-period comparisons of our financial results are not necessarily indicative of future results. The revenue and gross profit/margin period-to-period comparisons below for the three and six month periods ended June 30, 2010 and 2009 have been negatively impacted in the most recent year by lower customer demand resulting from several factors, including: (i) the decline in construction and industrial activities; (ii) the recent macroeconomic downturn; and (iii) unfavorable credit markets affecting end-user access to capital. Although our total gross profit margins have slowly trended downward since the year ended December 31, 2006, the rate of total gross profit margin decline has been the most significant in the year ended December 31, 2009, as further described in our Annual Report on Form 10-K, and in the first quarter of fiscal 2010, as further described in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010, as a result of the above factors.

During the second quarter of fiscal 2010, our operating segments realized either higher gross profit margins or improvements in the rate of gross profit margin decline on a year-over-year comparative basis. Our time utilization on rental equipment improved during the second quarter on a sequential basis and continues to improve during the early stages of the third quarter. However, we cannot forecast whether these gross profit margin improvements during the second quarter are indicative of the beginnings of a favorable trend in our business, nor can we forecast whether, or to what extent, we may experience any further declines, or whether our responses to unfavorable business conditions will be meaningful in mitigating or reversing the gross profit margin declines for the foreseeable future. Continued weakness or further deterioration in the non-residential construction and industrial sectors could result in continuing declining revenues and gross profits/margins and may have a material adverse effect on our financial position, results of operations and cash flows in the future. We have proactively responded to these unfavorable business factors through various operational and strategic measures, including closing underperforming branches and redeploying rental fleet assets to existing branches with higher demand or to branches in new markets where demand is higher; minimizing capital expenditures; reducing headcount; implementing cost reduction measures throughout the Company; and using some of the excess cash flow resulting from our planned reduction in capital expenditures to repay outstanding debt. We believe that these measures strengthen our balance sheet by improving our cash position. We will continue to evaluate and respond to business conditions as appropriate. While we cannot predict the timing or impact of an economic recovery and/or substantially improved conditions within the construction and industrial sectors, we believe that our efforts position us to take advantage of future opportunities when an economic and business recovery occurs.

In 2008, we began the initial design implementation phases of a new enterprise resource planning (ERP) system to further enhance operating efficiencies and provide more effective management of our business operations. On February 1, 2010, we implemented the new enterprise resource planning (ERP) system in 14 of the Company's

branches, as well as in the Company's centralized corporate accounting operations. Subsequently, on April 1, 2010, we implemented the new ERP in 26 branches. On June 1, 2010, we completed the ERP implementation in our remaining 27 branches.

decreased approximately \$0.3 million. These decreases were partially offset by an increase in sales of used earthmoving equipment of \$0.7 million.

Parts Sales Revenues. Our parts sales decreased approximately \$3.5 million, or 13.5%, to \$22.8 million for the three month period ended June 30, 2010 from \$26.3 million for the same three month period in 2009. The decline in parts revenues was due to a decrease in customer demand for parts due to the decline in construction and industrial activity in the past year.

Services Revenues. Our services revenues for the three month period ended June 30, 2010 decreased \$2.9 million, or 18.8%, to \$12.6 million from \$15.5 million for the same three month period last year. The decline in service revenues was largely due to a decrease in demand for services due to the decline in construction and industrial activity in the past year.

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Non-Segmented Other Revenues. Our non-segmented other revenues consisted primarily of equipment support activities including transportation, hauling, parts freight and damage waiver charges. For the three month period ended June 30, 2010, our other revenues were \$7.1 million, a decrease of \$1.5 million, or 17.8%, from \$8.6 million in the same three month period in 2009. The decrease was primarily due to a decrease in the volume of these services in conjunction with the decline of our primary business activities.

Gross Profit.

	Three Months Ended June 30,		Total Dollar Change Increase (Decrease)	Total Percentage Change Increase (Decrease)
	2010	2009		
	(in thousands, except percentages)			
Segment Gross Profit (Loss):				
Equipment rentals	\$ 12,950	\$ 16,276	\$ (3,326)	(20.4)%
New equipment sales	2,859	7,613	(4,754)	(62.4)%
Used equipment sales	4,069	3,738	331	8.9%
Parts sales	5,935	7,470	(1,535)	(20.6)%
Services revenues	8,319	9,772	(1,453)	(14.9)%
Non-Segmented revenues	(1,753)	(363)	(1,390)	(382.9)%
Total gross profit	\$ 32,379	\$ 44,506	\$ (12,127)	(27.3)%

Total Gross Profit. Our total gross profit was \$32.4 million for the three month period ended June 30, 2010 compared to \$44.5 million for the same three month period in 2009, a decrease of \$12.1 million, or 27.3%. Total gross profit margin was 24.7% for both three month periods ended June 30, 2010 and 2009. Gross profit (loss) and gross margin for all reportable segments are further described below:

Equipment Rentals Gross Profit. Our gross profit from equipment rentals for the three month period ended June 30 2010 decreased \$3.3 million, or 20.4%, to approximately \$13.0 million from \$16.3 million in the same three month period in 2009. The decrease in equipment rentals gross profit is the net result of an \$8.4 million decrease in rental revenues for the three month period ended June 30, 2010, which was partially offset by a \$1.5 million net decrease in rental expenses and a \$3.5 million decrease in rental equipment depreciation expense. The net decrease in rental expenses and rental equipment depreciation expense was primarily due to a smaller fleet size in 2010 compared to 2009. As a percentage of equipment rental revenues, maintenance and repair costs were 14.9% for the three month period ended June 30, 2010 compared to 15.4% for the same three month period in 2009 and depreciation expense was 46.4% for the three month period ended June 30, 2010 compared to 45.7% for the same three month period in 2009.

Gross profit margin for the three month period ended June 30, 2010 was 31.1%, down 1.4% from 32.5% in the same three month period in 2009. This gross profit margin decline was primarily due to the 9.3% decline in our average rental rates and the product mix of equipment rented, combined with the current year increase in depreciation expenses as a percentage of equipment rental revenues, which was partially offset by the current year decrease in maintenance and repair costs as a percentage of equipment rental revenues.

New Equipment Sales Gross Profit. Our new equipment sales gross profit for the three month period ended June 30, 2010 decreased approximately \$4.7 million, or 62.4%, to \$2.9 million compared to \$7.6 million for the same three month period in 2009 on a total new equipment sales decline of \$30.3 million. Gross profit margin on new equipment sales for the three month period ended June 30, 2010 was 9.9%, a decrease of 2.9% from 12.8% in the same three month period in 2009, reflecting lower demand for new equipment and lower margins on new crane sales.

Used Equipment Sales Gross Profit. Our used equipment sales gross profit for the three month period ended June 30, 2010 increased \$0.3 million, or 8.9%, to approximately \$4.0 million from \$3.7 million for the same three month period in 2009 on a used equipment sales decrease of \$2.5 million. Gross profit margin for the three month period ended June 30, 2010 was 22.7%, up 4.4% from 18.3% in the same three month period in 2009, as a result of the impact of pass thru s of trade-in inventory in the prior year period. Our used equipment sales from the rental fleet, which comprised approximately 67.6% and 73.7% of our used equipment sales for the three month periods ended June 30, 2010 and 2009, respectively, were approximately 138.7% of net book value for the three month period ended June 30, 2010 compared to 130.6% for the same three month period in 2009.

Parts Sales Gross Profit. For the three month period ended June 30, 2010, our parts sales gross profit decreased \$1.5 million, or 20.6%, to \$5.9 million from approximately \$7.4 million for the same three month period in 2009 on an approximately \$3.5 million

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decline in parts sales revenues. Gross profit margin for the three month period ended June 30, 2010 was 26.1%, a decrease of 2.3% from 28.4% in the same three month period in 2009, as a result of the mix of parts sold.

Services Revenues Gross Profit. For the three month period ended June 30, 2010, our services revenues gross profit decreased \$1.5 million, or 14.9%, to \$8.3 million from \$9.8 million for the same three month period in 2009 on a \$2.9 million decline in services revenues. Gross profit margin for the three month period ended June 30, 2010 was 66.2%, up 3.1% from 63.1% in the same three month period in 2009 due to revenue mix.

Non-Segmented Other Revenues Gross Loss. For the three month period ended June 30, 2010, our non-segmented other revenues realized a gross loss of approximately \$1.8 million compared to a gross loss of \$0.4 million for the same three month period in 2009, a \$1.4 million increase in gross loss, as a result of declines in transportation, hauling and freight revenues and service related revenues associated with lower revenues in our primary business activities.

Selling, General and Administrative Expenses. SG&A expenses increased approximately \$0.7 million, or 1.8%, to \$36.8 million for the three month period ended June 30, 2010 compared to \$36.1 million for the same three month period in 2009. The net increase in SG&A expenses was attributable to several factors. Depreciation expense increased \$0.8 million, primarily related to the depreciation of the ERP system, which was substantially complete and ready for its intended use in January 2010. Other corporate overhead expenses increased \$0.2 million and legal and professional fees increased by \$0.2 million. Partially offsetting these SG&A increases was a \$0.5 million decrease in employee salaries and wages and related employee expenses, resulting from lower commissions and incentive based pay. Stock-based compensation expense was \$0.2 million and \$0.1 million for the three month periods ended June 30, 2010 and 2009, respectively. As a percent of total revenues, SG&A expenses were 28.1% for the three month period ended June 30, 2010, an increase of 8.1% from 20.0% for the same three month period in 2009, reflecting the higher depreciation expense described above, the fixed cost nature of certain SG&A expenses and the 27.3% decline in comparative total revenues.

Other Income (Expense). For the three month period ended June 30, 2010, our net other expenses decreased approximately \$0.7 million to \$7.1 million compared to \$7.8 million for the same three month period in 2009. The decrease was the net result of a \$0.8 million decrease in interest expense to \$7.2 million for the three month period ended June 30, 2010 compared to \$8.0 million for the same three month period in 2009, which was partially offset by a \$0.1 million decrease in other income. The decrease in interest expense was due to several factors. Comparative interest expense incurred on our senior secured credit facility was approximately \$0.2 million lower in the three month period ended June 30, 2010 compared to the same period in 2009. We had no borrowings under our senior secured credit facility for the three month period ended June 30, 2010, but incurred approximately \$0.4 million in interest costs related to the amortization of deferred financing costs, commitment fees and letter of credit fees. For the three month period ended June 30, 2009, we incurred approximately \$0.6 million in interest expense related to the senior secured credit facility for borrowings under the facility, amortization of deferred financing costs, commitment fees and letter of credit fees. Additionally, interest expense on our manufacturing flooring plan payables used to finance inventory purchases decreased approximately \$0.5 million in the most recent year period, as a result of lower outstanding balances on those manufacturing flooring plan payables in the most recent year period and lower average interest rates, reflecting the decline in the prime interest rate since the prior year.

Income Taxes. We recorded an income tax benefit of approximately \$4.3 million for the three month period ended June 30, 2010 compared to income tax expense of \$0.5 million for the three month period ended June 30, 2009. Our effective income tax rate for the six month period ended June 30, 2010 was approximately 37.5% compared to 65.1% for the same three month period in 2009. The higher effective income tax rate in the three month period ended June 30, 2009 was the result of the decrease of a permanent benefit related to tax deductible goodwill amortization, for which no deferred taxes can be recognized until realized, in accordance with ASC 740. Based on available evidence, both positive and negative, we believe it is more likely than not that our deferred tax assets at June 30, 2010 are fully realizable through future reversals of existing taxable temporary differences and future taxable income, and are not subject to any limitations.

used cranes decreased \$4.5 million and \$0.3 million, respectively. Used lift truck sales decreased \$0.5 million and other used equipment sales decreased approximately \$0.4 million. Sales of used earthmoving equipment increased \$0.5 million.

Parts Sales Revenues. Our parts sales decreased \$9.9 million, or 19.0%, to \$42.4 million for the six month period ended June 30, 2010 from approximately \$52.3 million for the same six month period in 2009. The decline in parts revenues was due to a decrease in customer demand for parts due to the decline in construction and industrial activity in the past year.

Services Revenues. Our services revenues for the six month period ended June 30, 2010 decreased \$6.9 million, or 22.3%, to approximately \$24.0 million from \$30.9 million for the same six month period last year. The decline in service revenues was largely due to a decrease in demand for services due to the decline in construction and industrial activity in the past year.

Non-Segmented Other Revenues. Our non-segmented other revenues consisted primarily of equipment support activities including

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transportation, hauling, parts freight and damage waiver charges. For the six month period ended June 30, 2010, our other revenues were \$13.5 million, a decrease of \$4.2 million, or 23.8%, from \$17.7 million in the same six month period in 2009. The decrease was primarily due to a decrease in the volume of these services in conjunction with the decline of our primary business activities.

Gross Profit.

	Six Months Ended		Total Dollar Change Decrease	Total Percentage
	June 30, 2010	2009		Change Decrease
	(in thousands, except percentages)			
Segment Gross Profit (Loss):				
Equipment rentals	\$ 20,877	\$ 36,645	\$ (15,768)	(43.0)%
New equipment sales	5,242	16,355	(11,113)	(67.9)%
Used equipment sales	6,755	7,143	(388)	(5.4)%
Parts sales	11,320	14,971	(3,651)	(24.4)%
Services revenues	15,426	19,526	(4,100)	(21.0)%
Non-Segmented revenues	(3,356)	146	(3,502)	(2,398.6)%
Total gross profit	\$ 56,264	\$ 94,786	\$ (38,522)	(40.6)%

Total Gross Profit. Our total gross profit was \$56.3 million for the six month period ended June 30, 2010 compared to \$94.8 million for the same six month period in 2009, a decrease of \$38.5 million, or 40.6%. Total gross profit margin for the six month period ended June 30, 2010 was approximately 22.9%, a decrease of 3.0% from the 25.9% gross profit margin for the same six month period in 2009. Gross profit (loss) and gross margin for all reportable segments are further described below:

Equipment Rentals Gross Profit. Our gross profit from equipment rentals for the six month period ended June 30 2010 decreased approximately \$15.7 million, or 43.0%, to \$20.9 million from \$36.6 million in the same six month period in 2009. The decrease in equipment rentals gross profit is the net result of a \$27.4 million decrease in rental revenues for the six month period ended June 30, 2010, which was partially offset by a \$3.6 million net decrease in rental expenses and a \$8.1 million decrease in rental equipment depreciation expense. The net decrease in rental expenses and rental equipment depreciation expense was primarily due to a smaller fleet size in 2010 compared to 2009. As a percentage of equipment rental revenues, maintenance and repair costs were approximately 16.3% for the six month period ended June 30, 2010 compared to 15.1% for the same six month period in 2009 and depreciation expense was 49.4% for the six month period ended June 30, 2010 compared to 44.2% for the same six month period in 2009. These percentage increases were primarily attributable to the decline in comparative rental revenues.

Gross profit margin for the six month period ended June 30, 2010 was 26.7%, down 8.0% from 34.7% in the same six month period in 2009. This gross profit margin decline was primarily due to the 11.5% decline in our average rental rates and the product mix of equipment rented, combined with the current year increase in rental and depreciation expenses as a percentage of equipment rental revenues.

New Equipment Sales Gross Profit. Our new equipment sales gross profit for the six month period ended June 30, 2010 decreased \$11.1 million, or 67.9%, to \$5.2 million compared to approximately \$16.3 million for the same six month period in 2009 on a total new equipment sales decline of \$67.1 million. Gross profit margin on new equipment sales for the six month period ended June 30, 2010 was 9.3%, a decrease of 4.0% from 13.3% in the same six month period in 2009, reflecting lower demand for new equipment and lower margins on new crane sales.

Used Equipment Sales Gross Profit. Our used equipment sales gross profit for the six month period ended June 30, 2010 decreased \$0.4 million, or 5.4%, to approximately \$6.7 million from \$7.1 million for the same six month period in 2009 on a used equipment sales decrease of \$5.2 million. Gross profit margin for the six month period ended June 30, 2010 was 21.5%, up 2.0% from 19.5% in the same six month period in 2009, as a result of the impact of pass thru s of trade-in inventory in the prior year second quarter. Our used equipment sales from the rental fleet, which comprised approximately 73.4% and 77.6% of our used equipment sales for the six month periods ended June 30, 2010 and 2009, respectively, were approximately 134.9% of net book value for the six month period ended June 30, 2010 compared to 130.5% for the same three month period in 2009.

Parts Sales Gross Profit. For the six month period ended June 30, 2010, our parts sales revenue gross profit decreased \$3.7 million, or 24.4%, to \$11.3 million from \$15.0 million for the same six month period in 2009 on a \$9.9 million decline in parts sales revenues. Gross profit margin for the six month period ended June 30, 2010 was 26.7%, a decrease of 1.9% from 28.6% in the same six month period in 2009, as a result of the mix of parts sold.

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Services Revenues Gross Profit. For the six month period ended June 30, 2010, our services revenues gross profit decreased \$4.1 million, or 21.0%, to \$15.4 million from \$19.5 million for the same six month period in 2009 on a \$6.9 million decline in services revenues. Gross profit margin for the six month period ended June 30, 2010 was 64.1%, up 1.0% from 63.1% in the same six month period in 2009 due to revenue mix.

Non-Segmented Other Revenues Gross Profit (Loss). For the six month period ended June 30, 2010, our non-segmented other revenues realized a gross loss of approximately \$3.4 million, a decrease of \$3.5 million compared to a gross profit of \$0.1 million for the same six month period in 2009, as a result of declines in transportation, hauling and freight revenues and service related revenues associated with lower revenues in our primary business activities.

Selling, General and Administrative Expenses. SG&A expenses decreased approximately \$2.6 million, or 3.5%, to \$72.6 million for the six month period ended June 30, 2010 compared to approximately \$75.2 million for the same six month period in 2009. The net decrease in SG&A expenses was attributable to several factors. Employee salaries and wages and related employee expenses decreased \$4.4 million as a result of cost control measures instituted by the Company, including workforce headcount reductions since the beginning of 2009, combined with lower commissions that resulted from lower rental and sales revenues. Bad debt expense decreased \$0.6 million as a result of some deterioration in our accounts receivable agings in the first quarter of last year combined with lower receivables in the current year period compared to last year as a result of lower revenues. Other corporate overhead expenses decreased \$0.4 million. These decreases were partially offset by a \$1.1 million increase in legal and professional fees resulting primarily from data conversion costs and other consulting fees related to our ERP system implementation. Additionally, depreciation expense increased \$1.6 million, primarily related to the depreciation of the ERP system, which was substantially complete and ready for its intended use in January 2010. Stock-based compensation expense was \$0.4 million in each of the six month periods ended June 30, 2010 and 2009. As a percent of total revenues, SG&A expenses were 29.6% for the six month period ended June 30, 2010, an increase of 9.1% from 20.5% for the same six month period in 2009, reflecting the higher depreciation expense described above, the fixed cost nature of certain SG&A expenses and the 33.0% decline in comparative total revenues.

Other Income (Expense). For the six month period ended June 30, 2010, our net other expenses decreased approximately \$1.5 million to \$14.3 million compared to \$15.8 million for the same six month period in 2009. The decrease was the net result of a \$1.7 million decrease in interest expense to \$14.5 million for the six month period ended June 30, 2010 compared to \$16.2 million for the same six month period in 2009, which was partially offset by a \$0.2 million decrease in other income. The decrease in interest expense was due to several factors. Comparative interest expense incurred on our senior secured credit facility was approximately \$0.7 million lower in the six month period ended June 30, 2010 compared to the same period in 2009. We had no borrowings under our senior secured credit facility for the six month period ended June 30, 2010, but incurred approximately \$0.8 million in interest costs related to the amortization of deferred financing costs, commitment fees and letter of credit fees. For the six month period ended June 30, 2009, we incurred approximately \$1.5 million in interest expense related to the senior secured credit facility for borrowings under the facility, amortization of deferred financing costs, commitment fees and letter of credit fees. Additionally, interest expense on our manufacturing flooring plan payables used to finance inventory purchases decreased approximately \$1.0 million in the most recent year period, as a result of lower outstanding balances on those manufacturing flooring plan payables in the most recent year period and lower average interest rates, reflecting the decline in the prime interest rate since the prior year.

Income Taxes. We recorded an income tax benefit of approximately \$11.3 million for the six month period ended June 30, 2010 compared to income tax expense of \$1.5 million for the six month period ended June 30, 2009. Our effective income tax rate for the six month period ended June 30, 2010 was approximately 37.2% compared to 37.5% for the same six month period in 2009. Based on available evidence, both positive and negative, we believe it is more likely than not that our deferred tax assets at June 30, 2010 are fully realizable through future reversals of existing taxable temporary differences and future taxable income, and are not subject to any limitations.

Liquidity and Capital Resources

Cash flow from operating activities. For the six month period ended June 30, 2010, our cash provided by our operating activities was exceeded by our cash used in our operating activities, resulting in net cash used in our

operating activities of approximately \$7.2 million. Our reported net loss of \$19.2 million, which, when adjusted for non-cash income and expense items, such as depreciation and amortization, deferred income taxes, provision for losses on accounts receivable, stock-based compensation expense and net gains on the sale of long-lived assets, provided positive cash flows of approximately \$13.6 million. These cash flows from operating activities were also positively impacted by an increase of \$10.9 million in accounts payable. Offsetting these positive cash flows were a \$15.5 million decrease in manufacturing flooring plans payable, an \$8.7 million increase net accounts receivable, a \$3.3 million

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increase in net inventories, a \$2.2 million increase in prepaid expenses and other assets and a \$2.1 million decrease in accrued expenses payable and other liabilities.

Our cash provided by operating activities for the six month period ended June 30, 2009 was \$17.9 million. Our reported net income of \$2.4 million, which, when adjusted for non-cash income and expense items, such as depreciation and amortization, deferred income taxes, provision for losses on accounts receivable, stock-based compensation expense, and net gains on the sale of long-lived assets, provided positive cash flows of approximately \$52.7 million. These cash flows from operating activities were also positively impacted by a decrease of \$50.9 million in net accounts receivable and a \$3.9 million decrease in prepaid expenses and other assets. Partially offsetting these positive cash flows were increases in our inventories of \$4.0 million, a decrease of \$55.8 million in accounts payable, a \$22.4 million decrease in manufacturing flooring plans payable, and a \$7.4 million decrease in accrued expenses and other liabilities.

Cash flow from investing activities. For the six month period ended June 30, 2010, cash provided by our investing activities was \$10.5 million. This was a net result of proceeds from the sale of rental and non-rental equipment of \$23.3 million and purchases of rental and non-rental equipment totaling \$12.7 million.

For the six month period ended June 30, 2009, cash provided by our investing activities was \$11.4 million. This is a net result of proceeds from the sale of rental and non-rental equipment of \$28.7 million, which was partially offset by purchases of rental and non-rental equipment totaling \$17.3 million.

Cash flow from financing activities. For the six month period ended June 30, 2010, cash used in our financing activities was approximately \$1.5 million, representing payments of our notes payable and capital lease obligation and purchases of treasury stock of \$1.2 million, \$0.1 million and \$0.2 million, respectively.

For the six month period ended June 30, 2009, cash used in our financing activities was approximately \$31.7 million. Our total borrowings during the period under our senior secured credit facility were \$387.3 million and total payments under the senior secured credit facility in the same period were approximately \$418.6 million. We also made payments under our related party obligation and notes payable and capital lease obligations of \$0.2 million and acquired \$0.1 million of treasury stock.

Senior Secured Credit Facility

We and our subsidiaries are parties to a \$320.0 million senior secured credit facility with General Electric Capital Corporation as administrative agent, and the lenders named therein. On July 29, 2010, we amended and restated the credit facility to, among other things, extend the facility's maturity date to July 29, 2015. The revolving loans under the credit facility bear interest, at our option, either at (i) the index rate plus an applicable margin ranging from 1.50% to 2.25% depending on our leverage ratio or (ii) the LIBOR rate plus an applicable margin of 2.50% to 3.25% depending on our leverage ratio. The unused commitment fee under the senior secured credit facility is .50%.

Our senior secured credit facility requires us to maintain a minimum fixed charge coverage ratio in the event that our excess borrowing availability is below \$40.0 million (as adjusted if the incremental facility is exercised). The credit facility also requires us to maintain a maximum total leverage ratio of 5.0 to 1.0, which is tested if excess availability is less than \$40 million (as adjusted if the incremental facility is exercised). At August 2, 2010, we had \$312.0 million of available borrowings under our senior secured credit facility, net of \$8.0 million of outstanding letters of credit, and were in compliance with these covenants.

Senior Unsecured Notes

We currently have outstanding \$250.0 million aggregate principal amount of 8 3/8% senior unsecured notes due 2016. The senior unsecured notes are guaranteed, jointly and severally, on an unsecured senior basis by all of our existing and future domestic restricted subsidiaries.

We may redeem the senior unsecured notes at any time on or after July 15, 2011 at specified redemption prices plus accrued and unpaid interest and additional interest. In addition, if we experience a change of control, we will be required to make an offer to repurchase the senior unsecured notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest and additional interest.

The indenture governing our senior secured notes contains certain covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to: (i) incur additional indebtedness, assume a guarantee or issue preferred stock; (ii) pay dividends or make other equity distributions or payments to or affecting our subsidiaries;

(iii) purchase or redeem our capital stock; (iv) make certain investments; (v) create liens; (vi) sell or dispose of assets or engage in mergers or consolidation; (vii) engage in

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certain transactions with subsidiaries or affiliates; (viii) enter into sale leaseback transactions with subsidiaries or affiliates; (viii) enter into sale leaseback transactions; and (ix) engage in certain business activities. Each of the covenants is subject to exceptions and qualifications.

Cash Requirements Related to Operations

Our principal sources of liquidity have been from cash provided by operating activities and the sales of new, used and rental fleet equipment, proceeds from the issuance of debt, and borrowings available under our senior secured credit facility. Our principal uses of cash have been to fund operating activities and working capital, purchases of rental fleet equipment and property and equipment, fund payments due under facility operating leases and manufacturer flooring plans payable, and to meet debt service requirements. In the future, we may pursue additional strategic acquisitions. In addition, we may use cash from working capital and/or borrowings under our senior secured credit facility should we repurchase Company securities. We anticipate that the above described uses will be the principal demands on our cash in the future.

The amount of our future capital expenditures will depend on a number of factors including general economic conditions and growth prospects. Our gross rental fleet capital expenditures for the six month period ended June 30, 2010 were approximately \$25.1 million, including approximately \$14.7 million of non-cash transfers from new and used equipment to rental fleet inventory. Our gross property and equipment capital expenditures for the six month period ended June 30, 2010 were \$1.2 million.

In response to changing economic conditions, we believe we have the flexibility to modify our capital expenditures by adjusting them (either up or down) to match our actual performance. Given the challenging economic environment in which we currently operate, we expect to eliminate growth capital expenditures for the rental fleet in the near term and employ a very selective approach toward replacement rental fleet capital expenditures. This approach will allow us to generate cash flow to further generate cash flow to permit the pay down of debt and/or for other general corporate purposes.

To service our debt, we will require a significant amount of cash. Our ability to pay interest and principal on our indebtedness (including the senior unsecured notes, the senior secured credit facility and our other indebtedness), will depend upon our future operating performance and the availability of borrowings under our senior secured credit facility and/or other debt and equity financing alternatives available to us, which will be affected by prevailing economic conditions and conditions in the global credit and capital markets, as well as financial, business and other factors, some of which are beyond our control. Based on our current level of operations and given the current state of the capital markets, we believe our cash flow from operations, available cash and available borrowings under our senior secured credit facility will be adequate to meet our future liquidity needs for the foreseeable future. In 2009, we fully repaid our senior secured credit facility. As of August 2, 2010, we had \$312.0 million of available borrowings under our senior secured credit facility, net of \$8.0 million of outstanding letters of credit.

We cannot provide absolute assurance that our future cash flow from operating activities will be sufficient to meet our long-term obligations and commitments. If we are unable to generate sufficient cash flow from operating activities in the future to service our indebtedness and to meet our other commitments, we will be required to adopt one or more alternatives, such as refinancing or restructuring our indebtedness, selling material assets or operations or seeking to raise additional debt or equity capital. Given current economic and market conditions, including the significant disruptions in the global capital markets, we cannot assure investors that any of these actions could be affected on a timely basis or on satisfactory terms or at all, or that these actions would enable us to continue to satisfy our capital requirements. In addition, our existing debt agreements, including the indenture governing our senior unsecured notes, and our senior secured credit facility, as well as any future debt agreements, contain or may contain restrictive covenants, which may prohibit us from adopting any of these alternatives. Our failure to comply with these covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our debt.

Seasonality

Although we believe our business is not materially impacted by seasonality, the demand for our rental equipment tends to be lower in the winter months. The level of equipment rental activities are directly related to commercial and industrial construction and maintenance activities. Therefore, equipment rental performance will be correlated to the levels of current construction activities. The severity of weather conditions can have a temporary impact on the level

of construction activities.

Equipment sales cycles are also subject to some seasonality with the peak selling period during the spring season and extending through the summer. Typically, parts and service activities are less affected by changes in demand caused by seasonality.

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Contractual and Commercial Commitments

As of June 30, 2010, there were no material changes from the information included in our Annual Report on Form 10-K for the year ended December 31, 2009.

On July 29, 2010, we amended and restated our \$320.0 million senior secured credit facility with General Electric Capital Corporation as administrative agent, and the lenders named therein, to, among other things, extend the facility's maturity date to July 29, 2015. We have no outstanding balances under the credit facility.

Off-Balance Sheet Arrangements

There have been no material changes from the information included in our Annual Report on Form 10-K for the year ended December 31, 2009.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our earnings may be affected by changes in interest rates since interest expense on our senior secured credit facility is currently calculated based upon the prime rate plus 50 basis points for revolving credit advances under the facility and LIBOR plus 175 basis points for swing line loans under the facility. At June 30, 2010, we had no outstanding borrowings under our senior secured credit facility. Further, we did not have significant exposure to changing interest rates as of June 30, 2010 on our fixed-rate senior unsecured notes or on our other notes payable. Historically, we have not engaged in derivatives or other financial instruments for trading, speculative or hedging purposes, though we may do so from time to time if such instruments are available to us on acceptable terms and prevailing market conditions are accommodating.

Item 4. Controls and Procedures

Management's Quarterly Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or furnishes under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial disclosure.

Our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively) have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our principal executive officer and principal financial officer have concluded that, as of June 30, 2010, our current disclosure controls and procedures were effective.

The design of any system of control is based upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated objectives under all future events, no matter how remote, or that the degree of compliance with the policies or procedures may not deteriorate. Because of its inherent limitations, disclosure controls and procedures may not prevent or detect all misstatements. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Changes in Internal Control Over Financial Reporting

During the quarter ended March 31, 2010, as part of the Company's on-going ERP project, our ERP system was implemented in 14 of the Company's branches, as well as in the Company's centralized corporate accounting operations. During the quarter ended June 30, 2010, the ERP system was implemented in our 53 remaining branches and will be implemented in subsequent new branch openings. As a result, various internal controls related to our business processes, user security, account structure, system reporting and approval procedures were modified and redesigned to conform to the new ERP system. Although management believes internal controls have been maintained or enhanced by the ERP system implemented, the design and operating effectiveness of the controls in the newly upgraded environments have not been completely assessed as of June 30, 2010. As such, there is a risk that deficiencies may exist that have not yet been identified that could be deemed significant deficiencies or, in the aggregate, a material weakness. In

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2010 management will continue its assessment of internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) relating to the new ERP system. Otherwise, there were no changes in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

We are party to various litigation matters, in most cases involving normal ordinary course and routine claims incidental to our business. We cannot estimate with certainty our ultimate legal and financial liability with respect to such pending matters. However, we believe, based on our examination of such pending matters, that our ultimate liability for such matters will not have a material adverse effect on our business, financial condition and/or operating results.

Item 1A. Risk Factors.

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2009, which could materially affect our business, financial condition or future results.

There have been no material changes with respect to the Company's risk factors previously disclosed on Form 10-K for the year ended December 31, 2009.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Issuer Purchases of Equity Securities

On June 1, 2010, 65,906 shares of non-vested stock that were issued in 2009 vested at \$9.65 per share. Holders of those vested shares returned 18,344 shares of common stock to the Company as payment for their respective employee withholding taxes. This resulted in an addition of 18,344 shares to Treasury Stock.

Item 3. Defaults upon Senior Securities.

None.

Item 4. (Removed and Reserved).

Item 5. Other Information.

None.

Item 6. Exhibits.

- 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).

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SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

H&E EQUIPMENT SERVICES, INC.

Dated: August 6, 2010

By: /s/ John M. Engquist
John M. Engquist
President and Chief Executive Officer
(Principal Executive Officer)

Dated: August 6, 2010

By: /s/ Leslie S. Magee
Leslie S. Magee
Chief Financial Officer and Secretary
(Principal Financial and Accounting
Officer)

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EXHIBIT INDEX

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