

H&E Equipment Services, Inc.
Form 10-Q
May 05, 2011

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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 March 31, 2011.

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

For the transition period from _____ to _____

Commission file number: 000-51759

H&E Equipment Services, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of Incorporation or Organization)

81-0553291

(I.R.S. Employer Identification No.)

**11100 Mead Road, Suite 200,
Baton Rouge, Louisiana**

(Address of Principal Executive Offices)

70816

(ZIP Code)

(225) 298-5200

(Registrant's Telephone Number, Including Area Code)

None

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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As of May 2, 2011, there were 35,028,170 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 marketing applications, the timing and cost of planned capital expenditures, competitive conditions and general economic conditions. These assumptions could prove inaccurate. Forward-looking statements also involve known and unknown risks and uncertainties, which could cause actual results to differ materially from those contained in any forward-looking statement. Many of these factors are beyond our ability to control or predict. Such factors include, but are not limited to, the following:

- general economic conditions and construction and industrial activity in the markets where we operate in North America, as well as the depth and duration of the recent macroeconomic downturn and related decreases in construction and industrial activities, which may 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 equipment suppliers;

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

- our indebtedness;

- the risks associated with the expansion of our business;

- our possible inability to integrate any businesses we acquire;

- competitive pressures;

- compliance with laws and regulations, including those relating to environmental matters and corporate governance matters; and

- other factors discussed under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2010.

Except as required by applicable law, including the securities laws of the United States and the rules and regulations of the Securities and Exchange Commission (SEC), we are under no obligation to publicly update or revise any forward-looking statements after we file this Quarterly Report on Form 10-Q, whether as a result of any new information, future events or otherwise. Investors, potential investors and other readers are urged to consider the above mentioned factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. Although we believe that the expectations reflected in the

forward-looking statements are reasonable, we cannot guarantee future results or performance.

For a more detailed discussion of some of the foregoing risks and uncertainties, see Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010, as well as other reports and registration statements filed by us with the SEC. All of our annual, quarterly and current reports, and any amendments thereto, filed with or furnished to the SEC are available on our Internet website under the Investor Relations link. For more information about us and the announcements we make from time to time, visit our Internet website at www.he-equipment.com.

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements.**

H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share amounts)

	Balances at	
	March 31, 2011 (Unaudited)	December 31, 2010
ASSETS		
Cash	\$ 9,148	\$ 29,149
Receivables, net of allowance for doubtful accounts of \$5,866 and \$6,004, respectively	83,706	99,139
Inventories, net of reserves for obsolescence of \$1,171 and \$1,105, respectively	89,550	72,156
Prepaid expenses and other assets	12,110	8,679
Rental equipment, net of accumulated depreciation of \$264,691 and \$254,662, respectively	426,524	426,637
Property and equipment, net of accumulated depreciation and amortization of \$56,730 and \$53,941, respectively	57,458	57,186
Deferred financing costs, net of accumulated amortization of \$10,803 and \$10,456, respectively	6,680	7,027
Intangible assets, net of accumulated amortization of \$3,175 and \$3,050, respectively	305	429
Goodwill	34,019	34,019
Total assets	\$ 719,500	\$ 734,421
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Accounts payable	\$ 59,968	\$ 58,437
Manufacturer flooring plans payable	73,742	75,058
Accrued expenses payable and other liabilities	30,456	35,999
Senior unsecured notes	250,000	250,000
Capital leases payable	2,718	2,754
Deferred income taxes	52,581	55,919
Deferred compensation payable	1,960	2,004
Total liabilities	471,425	480,171
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 shares issued at March 31, 2011 and December 31, 2010 and 35,028,170 and 35,029,804 shares outstanding at March 31, 2011 and December 31, 2010, respectively	386	386
Additional paid-in capital	209,409	209,111

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Treasury stock at cost, 3,671,496 and 3,669,862 shares of common stock held at March 31, 2011 and December 31, 2010, respectively	(56,330)	(56,330)
Retained earnings	94,610	101,083
Total stockholders' equity	248,075	254,250
Total liabilities and stockholders' equity	\$ 719,500	\$ 734,421

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

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Table of Contents**H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****(Amounts in thousands, except per share amounts)**

	Three Months Ended March 31,	
	2011	2010
Revenues:		
Equipment rentals	\$ 48,478	\$ 36,453
New equipment sales	29,173	27,293
Used equipment sales	15,417	13,431
Parts sales	21,577	19,632
Services revenues	12,637	11,483
Other	7,626	6,394
Total revenues	134,908	114,686
Cost of revenues:		
Rental depreciation	20,563	19,279
Rental expense	10,739	9,247
New equipment sales	26,030	24,910
Used equipment sales	11,562	10,745
Parts sales	15,840	14,247
Services revenues	4,911	4,376
Other	10,147	7,997
Total cost of revenues	99,792	90,801
Gross profit	35,116	23,885
Selling, general and administrative expenses	38,093	35,874
Gain on sales of property and equipment, net	97	64
Loss from operations	(2,880)	(11,925)
Other income (expense):		
Interest expense	(7,207)	(7,291)
Other, net	323	50
Total other expense, net	(6,884)	(7,241)
Loss before income taxes	(9,764)	(19,166)
Benefit for income taxes	(3,291)	(7,088)

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Net loss	\$ (6,473)	\$ (12,078)
Net loss per common share:		
Basic	\$ (0.19)	\$ (0.35)
Diluted	\$ (0.19)	\$ (0.35)
Weighted average common shares outstanding:		
Basic	34,700	34,625
Diluted	34,700	34,625

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

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

	Three Months Ended March 31,	
	2011	2010
Cash flows from operating activities:		
Net loss	\$ (6,473)	\$ (12,078)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization on property and equipment	3,132	3,432
Depreciation on rental equipment	20,563	19,279
Amortization of loan discounts and deferred financing costs	347	355
Amortization of intangible assets	124	148
Provision for losses on accounts receivable	846	580
Provision for inventory obsolescence	89	61
Decrease in deferred income taxes	(3,338)	(5,100)
Stock-based compensation expense	298	209
Gain on sales of property and equipment, net	(97)	(64)
Gain on sales of rental equipment, net	(3,523)	(2,569)
Changes in operating assets and liabilities:		
Receivables, net	14,587	730
Inventories, net	(32,838)	2,158
Prepaid expenses and other assets	(3,431)	(2,835)
Accounts payable	1,531	5,165
Manufacturer flooring plans payable	(1,316)	(12,809)
Accrued expenses payable and other liabilities	(5,543)	(7,138)
Deferred compensation payable	(44)	16
Net cash used in operating activities	(15,086)	(10,460)
Cash flows from investing activities:		
Purchases of property and equipment	(3,434)	(670)
Purchases of rental equipment	(13,401)	(167)
Proceeds from sales of property and equipment	127	76
Proceeds from sales of rental equipment	11,829	10,893
Net cash provided by (used in) investing activities	(4,879)	10,132
Cash flows from financing activities:		
Borrowings on senior secured credit facility	16,923	
Payments on senior secured credit facility	(16,923)	
Payments of capital lease obligation	(36)	(34)
Principal payments on notes payable		(1,216)

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Net cash used in financing activities	(36)	(1,250)
Net decrease in cash	(20,001)	(1,578)
Cash, beginning of period	29,149	45,336
Cash, end of period	\$ 9,148	\$ 43,758

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

	Three Months Ended March 31,	
	2011	2010
Supplemental schedule of noncash investing and financing activities:		
Noncash asset purchases:		
Assets transferred from new and used inventory to rental fleet	\$ 15,355	\$ 5,955
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 12,109	\$ 12,174
Income taxes paid, net of refunds received	\$ (2,021)	\$ (38)

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

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H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Organization and Nature of Operations

Basis of Presentation

Our condensed consolidated financial statements include the financial position and results of operations of H&E Equipment Services, Inc. and its wholly-owned subsidiaries H&E Finance Corp., GNE Investments, Inc., Great Northern Equipment, Inc., H&E California Holdings, Inc., H&E Equipment Services (California) LLC and H&E Equipment Services (Mid-Atlantic), Inc., collectively referred to herein as we or us or our or the Company.

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such regulations. In the opinion of management, all adjustments (consisting of all normal and recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011, and therefore, the results and trends in these interim condensed consolidated financial statements may not be the same for the entire year. These interim condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and related notes in our Annual Report on Form 10-K for the year ended December 31, 2010, from which the balance sheet amounts as of December 31, 2010 were derived.

All significant intercompany accounts and transactions have been eliminated in these condensed consolidated financial statements. Business combinations accounted for as purchases are included in the condensed consolidated financial statements from their respective dates of acquisition.

The nature of our business is such that short-term obligations are typically met by cash flows generated from long-term assets. Consequently, and consistent with industry practice, the accompanying condensed consolidated balance sheets are presented on an unclassified basis.

Nature of Operations

As one of the largest integrated equipment services companies in the United States focused on heavy construction and industrial equipment, we rent, sell and provide parts and service support for four core categories of specialized equipment: (1) hi-lift or aerial work platform equipment; (2) cranes; (3) earthmoving equipment; and (4) industrial lift trucks. By providing equipment sales, rental, on-site parts, and repair and maintenance functions under one roof, we are a one-stop provider for our customers varied equipment needs. This full-service approach provides us with multiple points of customer contact, enables us to maintain a high quality rental fleet, as well as an effective distribution channel for fleet disposal and provides cross-selling opportunities among our new and used equipment sales, rental, parts sales and service operations.

(2) Significant Accounting Policies

We describe our significant accounting policies in note 2 of the notes to consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2010. During the three month period ended March 31, 2011, there were no significant changes to those accounting policies.

Use of Estimates

We prepare our condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, which requires management to use its judgment to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. These assumptions and estimates could have a material effect on our condensed

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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.

Recent Accounting Pronouncements

In October 2009, the FASB issued ASU 2009-13, *Multiple-Deliverable Revenue Arrangements* (amendments to ASC 605, *Revenue Recognition*) (ASU 2009-13). ASU 2009-13 addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and requires entities to allocate revenue in an arrangement containing more than one unit of accounting using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. We adopted the provisions of ASU 2009-13 effective January 1, 2011, and such adoption did not have a material impact on our condensed consolidated financial statements for the quarter ended March 31, 2011.

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

(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 carrying amount for our senior secured credit facility approximates fair value because the underlying instrument includes provisions to adjust our interest rates based on current market rates. 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):

	March 31, 2011	
	Carrying Amount	Fair Value
Manufacturer flooring plans payable with interest computed at 7.00%	\$ 73,742	\$ 59,025
Senior unsecured notes with interest compounded at 8.375%	250,000	262,500
Capital lease payable with interest computed at 5.929% to 9.55%	2,718	2,177
Letters of credit		192
	December 31, 2010	
	Carrying Amount	Fair Value
Manufacturer flooring plans payable with interest computed at 7.00%	\$ 75,058	\$ 63,105
Senior unsecured notes with interest compounded at 8.375%	250,000	251,250
Capital lease payable with interest computed at 5.929% to 9.55%	2,754	2,199
Letters of credit		216

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The following table summarizes the activity in Stockholders Equity for the three month period ended March 31, 2011 (amounts in thousands, except share data):

	Common Stock		Additional	Treasury	Retained	Total
	Shares	Amount	Paid-in	Stock	Earnings	Stockholders
	Issued		Capital			Equity
Balances at						
December 31, 2010	38,699,666	\$ 386	\$ 209,111	\$ (56,330)	\$ 101,083	\$ 254,250
Stock-based						
compensation			298			298
Net loss					(6,473)	(6,473)
Balances at						
March 31, 2011	38,699,666	\$ 386	\$ 209,409	\$ (56,330)	\$ 94,610	\$ 248,075

(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 March 31, 2011.

Non-vested Stock

The following table summarizes our non-vested stock activity for the three months ended March 31, 2011:

	Number of	Weighted
	Shares	Average
		Grant Date
		Fair
		Value
Non-vested stock at December 31, 2010	329,937	\$ 8.57
Granted		
Vested		
Forfeited	(1,634)	\$ 8.57
Non-vested stock at March 31, 2011	328,303	\$ 8.57

As of March 31, 2011, we had unrecognized compensation expense of \$1.5 million related to non-vested stock that we expect to be recognized over a weighted-average period of 1.8 years. The following table summarizes compensation expense related to non-vested stock, which is included in selling, general and administrative expenses in the accompanying condensed consolidated statements of operations for the three months ended March 31, 2011 and 2010 (amounts in thousands):

For the Three Months	
Ended	
March 31,	
2011	2010

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Compensation expense	\$ 298	\$ 204
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Stock Options

At March 31, 2011, there is no unrecognized compensation expense as all stock option awards have fully vested. The following table summarizes compensation expense included in selling, general and administrative expenses in the accompanying condensed consolidated statements of operations for the three months ended March 31, 2011 and 2010 (amounts in thousands):

		For the Three Months Ended March 31,	
		2011	2010
Compensation expense	10	\$	\$ 5

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The following table represents stock option activity for the three months ended March 31, 2011:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Contractual Life In Years
Outstanding options at December 31, 2010	51,000	\$ 24.80	
Granted			
Exercised			
Canceled, forfeited or expired			
Outstanding options at March 31, 2011	51,000	\$ 24.80	5.3
Options exercisable at March 31, 2011	51,000	\$ 24.80	5.3

The closing price of our common stock on March 31, 2011 was \$19.53. All options outstanding at March 31, 2011 have grant date fair values which exceed the March 31, 2011 closing stock price.

(6) Loss per Share

Earnings (loss) per common share for the three months ended March 31, 2011 and 2010 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 loss per common share for the three month periods ended March 31, 2011 and 2010 (amounts in thousands, except per share amounts):

	Three Months Ended March 31,	
	2011	2010
Basic net loss per share:		
Net loss	\$ (6,473)	\$ (12,078)
Weighted average number of common shares outstanding	34,700	34,625
Net loss per common share basic	\$ (0.19)	(0.35)
Diluted net loss per share:		
Net loss	\$ (6,473)	\$ (12,078)
Weighted average number of common shares outstanding	34,700	34,625
Effect of dilutive securities:		
Effect of dilutive stock options		
Effect of dilutive non-vested stock		
Weighted average number of common shares outstanding diluted	34,700	34,625
Net income (loss) per common share diluted	\$ (0.19)	\$ (0.35)
Common shares excluded from the denominator as anti-dilutive:		
Stock options	51	51
Non-vested restricted stock	328	272

(7) Segment Information

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):

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	Three Months Ended March 31,	
	2011	2010
Revenues:		
Equipment rentals	\$ 48,478	\$ 36,453
New equipment sales	29,173	27,293
Used equipment sales	15,417	13,431
Parts sales	21,577	19,632
Services revenues	12,637	11,483
Total segmented revenues	127,282	108,292
Non-segmented revenues	7,626	6,394
Total revenues	\$ 134,908	\$ 114,686
Gross Profit (Loss):		
Equipment rentals	\$ 17,176	\$ 7,927
New equipment sales	3,143	2,383
Used equipment sales	3,855	2,686
Parts sales	5,737	5,385
Services revenues	7,726	7,107
Total segmented gross profit	37,637	25,488
Non-segmented gross profit (loss)	(2,521)	(1,603)
Total gross profit	\$ 35,116	\$ 23,885
	Balances at	
	March 31, 2011	December 31, 2010
Segment identified assets:		
Equipment sales	\$ 72,904	\$ 57,540
Equipment rentals	426,524	426,637
Parts and services	16,646	14,617
Total segment identified assets	516,074	498,794
Non-segment identified assets	203,426	235,627
Total assets	\$ 719,500	\$ 734,421

The Company operates primarily in the United States and our sales to international customers for the three month periods ended March 31, 2011 and 2010 were approximately 1.9% and 2.5% of total revenues, respectively. No one customer accounted for more than 10% of our revenues on an overall or segment basis for any of the periods presented.

(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 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., the subsidiary co-issuer, are not included within the condensed consolidating financial statements because H&E Finance Corp. has no assets or operations. The condensed consolidating balance sheet amounts as of December 31, 2010 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, 2010.

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	As of March 31, 2011			
	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Assets:				
Cash	\$ 9,148	\$	\$	\$ 9,148
Receivables, net	71,937	11,769		83,706
Inventories, net	73,057	16,493		89,550
Prepaid expenses and other assets	11,943	167		12,110
Rental equipment, net	342,003	84,521		426,524
Property and equipment, net	47,729	9,729		57,458
Deferred financing costs, net	6,680			6,680
Intangible assets, net		305		305
Investment in guarantor subsidiaries	(22,223)		22,223	
Goodwill	4,493	29,526		34,019
Total assets	\$ 544,767	\$ 152,510	\$ 22,223	\$ 719,500
Liabilities and Stockholders Equity:				
Accounts payable	\$ 56,701	\$ 3,267		\$ 59,968
Manufacturer flooring plans payable	73,619	123		73,742
Accrued expenses payable and other liabilities	29,437	1,019		30,456
Intercompany balances	(167,606)	167,606		
Senior unsecured notes	250,000			250,000
Capital lease payable		2,718		2,718
Deferred income taxes	52,581			52,581
Deferred compensation payable	1,960			1,960
Total liabilities	296,692	174,733		471,425
Stockholders equity (deficit)	248,075	(22,223)	22,223	248,075
Total liabilities and stockholders equity	\$ 544,767	\$ 152,510	\$ 22,223	\$ 719,500

Table of Contents**CONDENSED CONSOLIDATING BALANCE SHEET**

	As of December 31, 2010			
	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Assets:				
Cash	\$ 29,149	\$	\$	\$ 29,149
Receivables, net	87,629	11,510		99,139
Inventories, net	57,698	14,458		72,156
Prepaid expenses and other assets	8,479	200		8,679
Rental equipment, net	339,644	86,993		426,637
Property and equipment, net	47,301	9,885		57,186
Deferred financing costs, net	7,027			7,027
Intangible assets, net		429		429
Investment in guarantor subsidiaries	(18,509)		18,509	
Goodwill	4,493	29,526		34,019
Total assets	\$ 526,911	\$ 153,001	\$ 18,509	\$ 734,421
Liabilities and Stockholders Equity:				
Accounts payable	\$ 55,482	\$ 2,955	\$	\$ 58,437
Manufacturer flooring plans payable	74,882	176		75,058
Accrued expenses payable and other liabilities	34,896	1,103		35,999
Intercompany balances	(164,522)	164,522		
Senior unsecured notes	250,000			250,000
Capital lease payable		2,754		2,754
Deferred income taxes	55,919			55,919
Deferred compensation payable	2,004			2,004
Total liabilities	308,661	171,510		480,171
Stockholders equity (deficit)	254,250	(18,509)	18,509	254,250
Total liabilities and stockholders equity	\$ 562,911	\$ 153,001	\$ 18,509	\$ 734,421

Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****Three Months Ended March 31, 2011**

	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Revenues:				
Equipment rentals	\$ 39,073	\$ 9,405	\$	\$ 48,478
New equipment sales	24,654	4,519		29,173
Used equipment sales	12,320	3,097		15,417
Parts sales	18,309	3,268		21,577
Services revenues	11,145	1,492		12,637
Other	6,218	1,408		7,626
Total revenues	111,719	23,189		134,908
Cost of revenues:				
Rental depreciation	16,108	4,455		20,563
Rental expense	8,733	2,006		10,739
New equipment sales	22,020	4,010		26,030
Used equipment sales	9,116	2,446		11,562
Parts sales	13,463	2,377		15,840
Services revenues	4,406	505		4,911
Other	7,974	2,173		10,147
Total cost of revenues	81,820	17,972		99,792
Gross profit (loss):				
Equipment rentals	14,232	2,944		17,176
New equipment sales	2,634	509		3,143
Used equipment sales	3,204	651		3,855
Parts sales	4,846	891		5,737
Services revenues	6,739	987		7,726
Other	(1,756)	(765)		(2,521)
Gross profit	29,899	5,217		35,116
Selling, general and administrative expenses	31,438	6,655		38,093
Equity in loss of guarantor subsidiaries	(3,714)		3,714	
Gain on sales of property and equipment, net	93	4		97
Loss from operations	(5,160)	(1,434)	3,714	(2,880)
Other income (expense):				
Interest expense	(4,921)	(2,286)		(7,207)
Other, net	317	6		323
Total other expense, net	(4,604)	(2,280)		(6,884)

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Loss before income taxes	(9,764)	(3,714)	3,714	(9,764)
Income tax benefit	(3,291)			(3,291)
Net loss	\$ (6,473)	\$ (3,714)	\$ 3,714	\$ (6,473)

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

	Three Months Ended March 31, 2010			
		H&E	Guarantor	
	Services	Equipment	Elimination	Consolidated
		Subsidiaries		
		(Amounts in thousands)		
Revenues:				
Equipment rentals	\$ 29,471	\$ 6,982	\$	\$ 36,453
New equipment sales	24,042	3,251		27,293
Used equipment sales	11,051	2,380		13,431
Parts sales	16,435	3,197		19,632
Services revenues	9,888	1,595		11,483
Other	5,090	1,304		6,394
Total revenues	95,977	18,709		114,686
Cost of revenues:				
Rental depreciation	15,177	4,102		19,279
Rental expense	7,505	1,742		9,247
New equipment sales	21,956	2,954		24,910
Used equipment sales	8,859	1,886		10,745
Parts sales	11,942	2,305		14,247
Services revenues	3,877	499		4,376
Other	6,301	1,696		7,997
Total cost of revenues	75,617	15,184		90,801
Gross profit (loss):				
Equipment rentals	6,789	1,138		7,927
New equipment sales	2,086	297		2,383
Used equipment sales	2,192	494		2,686
Parts sales	4,493	892		5,385
Services revenues	6,011	1,096		7,107
Other	(1,211)	(392)		(1,603)
Gross profit	20,360	3,525		23,885
Selling, general and administrative expenses	30,260	5,614		35,874
Equity in loss of guarantor subsidiaries	(4,620)		4,620	
Gain on sales of property and equipment, net	64			64
Loss from operations	(14,456)	(2,089)	4,620	(11,925)
Other income (expense):				
Interest expense	(4,755)	(2,536)		(7,291)
Other, net	45	5		50
Total other expense, net	(4,710)	(2,531)		(7,241)

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Loss before income taxes	(19,166)	(4,620)	4,620	(19,166)
Income tax benefit	(7,088)			(7,088)
Net loss	\$ (12,078)	\$ (4,620)	\$ 4,620	\$ (12,078)

Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****Three Months Ended March 31, 2011**

	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Cash flows from operating activities:				
Net loss	\$ (6,473)	\$ (3,714)	\$ 3,714	\$ (6,473)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization on property and equipment	2,577	555		3,132
Depreciation on rental equipment	16,108	4,455		20,563
Amortization of loan discounts and deferred financing costs	347			347
Amortization of intangible assets		124		124
Provision for losses on accounts receivable	901	(55)		846
Provision for inventory obsolescence	89			89
Decrease in deferred income taxes	(3,338)			(3,338)
Stock-based compensation expense	298			298
Gain on sales of property and equipment, net	(93)	(4)		(97)
Gain on sales of rental equipment, net	(2,867)	(656)		(3,523)
Equity in loss of guarantor subsidiaries	3,714		(3,714)	
Changes in operating assets and liabilities:				
Receivables, net	14,791	(204)		14,587
Inventories, net	(28,137)	(4,701)		(32,838)
Prepaid expenses and other assets	(3,464)	33		(3,431)
Accounts payable	1,219	312		1,531
Manufacturer flooring plans payable	(1,263)	(53)		(1,316)
Accrued expenses payable and other liabilities	(5,459)	(84)		(5,543)
Intercompany balances	(3,084)	3,084		
Deferred compensation payable	(44)			(44)
Net cash used in operating activities	(14,178)	(908)		(15,086)
Cash flows from investing activities:				
Purchases of property and equipment	(3,035)	(399)		(3,434)
Purchases of rental equipment	(12,447)	(954)		(13,401)
Proceeds from sales of property and equipment	123	4		127
Proceeds from sales of rental equipment	9,536	2,293		11,829
Net cash used in investing activities	(5,823)	944		(4,879)
Cash flows from financing activities:				
Borrowings on senior secured credit facility	16,923			16,923
Payments on senior secured credit facility	(16,923)			(16,923)
Payments on capital lease obligations		(36)		(36)

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Net cash used in financing activities		(36)		(36)
Net decrease in cash	(20,001)			(20,001)
Cash, beginning of period	29,149			29,149
Cash, end of period	\$ 9,148	\$	\$	\$ 9,148

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Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS****Three Months Ended March 31, 2010**

	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Cash flows from operating activities:				
Net loss	\$ (12,078)	\$ (4,620)	\$ 4,620	\$ 12,078
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation on property and equipment	2,916	516		3,432
Depreciation on rental equipment	15,177	4,102		19,279
Amortization of loan discounts and deferred financing costs	355			355
Amortization of intangible assets		148		148
Provision for losses on accounts receivable	580			580
Provision for inventory obsolescence	61			61
Provision for deferred income taxes	(5,100)			(5,100)
Stock-based compensation expense	209			209
(Gain) loss on sales of property and equipment, net	(163)	99		(64)
Gain on sales of rental equipment, net	(2,074)	(495)		(2,569)
Equity in loss of guarantor subsidiaries	4,620		(4,620)	
Changes in operating assets and liabilities:				
Receivables, net	(902)	1,632		730
Inventories, net	1,810	348		2,158
Prepaid expenses and other assets	(2,690)	(145)		(2,835)
Accounts payable	4,383	782		5,165
Manufacturer flooring plans payable	(12,820)	11		(12,809)
Accrued expenses payable and other liabilities	147	(7,285)		(7,138)
Intercompany balances	(3,774)	3,774		
Deferred compensation payable	16			16
Net cash used in operating activities	(9,327)	(1,133)		(10,460)
Cash flows from investing activities:				
Purchases of property and equipment	(631)	(39)		(670)
Purchases of rental equipment	(3)	(164)		(167)
Proceeds from sales of property and equipment	126	(50)		76
Proceeds from sales of rental equipment	8,773	2,120		10,893
Net cash provided by investing activities	8,265	1,867		10,132
Cash flows from financing activities:				
Payments on capital lease obligations	(3)	(31)		(34)
Principal payments of notes payable	(503)	(713)		(1,216)
Net cash used in financing activities	(506)	(744)		(1,250)

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Net decrease in cash	(1,568)	(10)	(1,578)
Cash, beginning of period	45,326	10	45,336
Cash, end of period	\$ 43,758	\$	\$ 43,758

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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 March 31, 2011, and its results of operations for the three month period ended March 31, 2011, 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, 2010. 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, 2010.

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 May 2, 2011, we operated 67 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 for 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 50 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 service companies operating in contiguous geographic markets. In the June 2002 transaction, Head & Engquist 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 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, 2010, 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 quarter ended March 31, 2011. 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.

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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, 2010 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 (which we analyze as equipment usage based on: (1) the number of rental equipment units available for rent, and (2) as a percentage of original equipment cost), rental rate trends and targets, rental equipment dollar utilization and maintenance and repair costs, 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 of our 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.

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 total 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 three months ended March 31, 2011, 35.9% of our total revenues were attributable to equipment rentals, 21.6% of our total revenues were attributable to new equipment sales, 11.4% were attributable to used equipment sales, 16.0% were attributable to parts sales, 9.4% were attributable to our services revenues and 5.7% 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.

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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 (which we analyze: (1) as equipment usage based on the number of rental equipment units available for rent and (2) as a percentage of original equipment cost), rental rate trends and targets, rental equipment dollar utilization and maintenance and repair costs, which we closely monitor. We maintain fleet quality through regional quality control managers and our parts and services operations. We recognize revenue from equipment rentals in the period earned on a straight-line basis, over the contract term, regardless of the timing of the 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 service 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. The remainder of our 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 us with a profitable distribution channel for the 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 is generally less sensitive to the economic cycles that tend to 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 addition to repair and maintenance on an as-needed or scheduled basis, we also provide ongoing preventative maintenance services to industrial customers. Our after-market service provides a high-margin, relatively stable source of revenue through changing economic cycles. We recognize services revenues at the time services are rendered and collectibility is reasonably assured.

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

Principal Costs and Expenses

Our largest expenses are the costs to purchase the new equipment we sell and rent, 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 three months ended March 31, 2011, our total cost of revenues was \$99.8 million. Our operating expenses consist principally of selling, general and administrative expenses. For the three months ended March 31, 2011, our selling, general and administrative expenses were \$38.1 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 consolidated statements of income 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.

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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 over a five year estimated useful life with a 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 expenses, 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 interest on our outstanding manufacturer flooring plans payable which are used to finance inventory and rental equipment purchases. Non-cash interest expense related to the amortization cost of deferred financing costs is also included in interest expense.

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).

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A significant portion of our overall value is in our rental fleet equipment. The net book value of rental equipment at March 31, 2011 was \$426.5 million, or approximately 59.3% of our total assets. Our rental fleet, as of March 31, 2011, consisted of approximately 16,397 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 \$699.7 million. As of March 31, 2011, 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	12,044	73.5%	\$ 416.4	59.5%	48.5
Cranes	356	2.2%	88.2	12.6%	39.0
Earthmoving	1,745	10.6%	157.7	22.5%	30.3
Industrial Lift Trucks	510	3.1%	18.4	2.7%	30.6
Other	1,742	10.6%	19.0	2.7%	24.2
Total	16,397	100.0%	\$ 699.7	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.

The original acquisition cost of our gross rental fleet increased by \$14.6 million, or 2.1%, for the three months ended March 31, 2011, primarily in response to improved equipment time utilization. The average age of our rental fleet equipment increased 0.1 months for the three months ended March 31, 2011.

Our average rental rates for the three months ended March 31, 2011 were 1.1% lower than the comparative three month period ended March 31, 2010. On a sequential basis, our average rental rates for the three month period ended March 31, 2011 decreased 2.1% compared to the three month period ended December 31, 2010.

The rental equipment mix among our four core product lines for the three months ended March 31, 2011 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.

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, 2010:

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 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 current 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.

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Adverse weather. Adverse weather in a 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. 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 months ended March 31, 2011 and 2010. The period-to-period comparisons of our financial results are not necessarily indicative of future results.

During the years ended December 31, 2010 and 2009, our revenues and gross profits/margins were negatively impacted 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 was the most significant during the year ended December 31, 2009 and in the first quarter of 2010, as a result of the above factors. However, during the second, third and fourth quarters of 2010, as well the first quarter of 2011, our operating segments generally realized either higher gross profit margins or improvements in the rate of gross profit margin decline on a year-over-year comparative quarterly basis. We cannot forecast with certainty whether these gross profit margin improvements during the recent quarters 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 ongoing or future unfavorable business conditions will be meaningful in mitigating or reversing the gross profit margin declines for the foreseeable future.

Further deterioration or a continuation of current levels in the non-residential construction industry and the industrial sectors we serve 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. During the recent economic downturn, we 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 rental fleet 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 strengthened 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, duration or the impact of an economic recovery and/or improved conditions within the construction and industrial sectors, we believe that our efforts have positioned us to take advantage of future opportunities when a prolonged economic and business recovery occurs.

Table of Contents**Three Months Ended March 31, 2011 Compared to the Three Months Ended March 31, 2010 Revenues.**

	Three Months Ended		Total Dollar Increase	Total Percentage Increase
	March 31, 2011	2010		
	(in thousands, except percentages)			
Segment Revenues:				
Equipment rentals	\$ 48,478	\$ 36,453	\$ 12,025	33.0%
New equipment sales	29,173	27,293	1,880	6.9%
Used equipment sales	15,417	13,431	1,986	14.8%
Parts sales	21,577	19,632	1,945	9.9%
Services revenues	12,637	11,483	1,154	10.0%
Non-Segmented revenues	7,626	6,394	1,232	19.3%
Total revenues	\$ 134,908	\$ 114,686	20,222	17.6%

Total Revenues. Our total revenues were \$134.9 million for the three month period ended March 31, 2011 compared to \$114.7 million for the same three month period in 2010, an increase of \$20.2 million, or 17.6%. Revenues for all reportable segments and non-segmented revenues increased and are further discussed below.

Equipment Rental Revenues. Our revenues from equipment rentals for the three month period ended March 31, 2011 increased \$12.0 million, or 33.0%, to \$48.5 million from \$36.5 million in the same three month period in 2010. Rental revenues from aerial work platforms and earthmoving equipment increased \$7.0 million and \$2.3 million, respectively, while rental revenues from cranes and other equipment increased \$1.0 million and \$1.4 million, respectively. Lift truck rental revenues increased \$0.3 million. Our average rental rates for the three month period ended March 31, 2011 declined 1.1% compared to the same three month period in 2010.

Rental equipment dollar utilization (annual rental revenues divided by the average original rental fleet equipment costs) for the three month period ended March 31, 2011 improved to approximately 27.9% compared to 22.0% for the same three month period in 2010, an increase of 5.9%. The increase in comparative rental equipment dollar utilization was the net result of an 11.3% increase in rental equipment time utilization (equipment usage based on the number of rental equipment units available for rent), which was partially offset by the 1.1% decrease in average rental rates in the comparative period. Rental equipment time utilization based on the number of rental equipment units available for rent was 61.0% for the three month period ended March 31, 2011 compared to 49.7% for the same three month period in 2010. Rental equipment time utilization as a percentage of original equipment cost was 64.9% for the three months ended March 31, 2011 compared to 51.2% for the same three month period in 2010, an increase of 13.7%.

New Equipment Sales Revenues. Our new equipment sales for the three month period ended March 31, 2011 increased \$1.9 million, or 6.9%, to \$29.2 million from \$27.3 million for the comparable period in 2010. Sales of new earthmoving equipment increased \$6.8 million and sales of new other equipment increased \$0.9 million. These increases were partially offset by decreases in new crane sales of \$5.4 million and new aerial work platform sales and new lift truck sales of \$0.2 million each.

Used Equipment Sales Revenues. Our used equipment sales increased \$2.0 million, or 14.8%, to \$15.4 million for the three month period ended March 31, 2011, from \$13.4 million for the same three month period in 2010, indicative of an improved used equipment sales market. Sales of used aerial work platform equipment and used earthmoving equipment both increased \$1.0 million each and used lift truck sales increased \$0.5 million. Used other equipment sales decreased \$0.4 million while used crane sales decreased \$0.1 million.

Parts Sales Revenues. Our parts sales increased approximately \$1.9 million, or 9.9%, to \$21.6 million for the three month period ended March 31, 2011 from \$19.6 million for the same three month period in 2010. The increase in parts revenues was due to higher demand for parts compared to last year.

Services Revenues. Our services revenues for the three month period ended March 31, 2011 increased \$1.2 million, or 10.0%, to \$12.6 million from \$11.5 million for the same three month period last year. The increase in service revenues was largely due to an increase in demand for services in conjunction with the improvements in our rental and sales businesses.

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 March 31, 2011, our other

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revenues were \$7.6 million, an increase of \$1.2 million, or 19.3%, from \$6.4 million in the same three month period in 2010. The increase was primarily due to a increase in the volume of these services in conjunction with the related improvements of our primary business activities.

Gross Profit.

	Three Months Ended		Total Dollar Change	Total Percentage Change
	March 31,	March 31,	Increase	Increase
	2011	2010	(Decrease)	
	(in thousands, except percentages)			
Segment Gross Profit (Loss):				
Equipment rentals	\$ 17,176	\$ 7,927	\$ 9,249	116.7%
New equipment sales	3,143	2,383	760	31.9%
Used equipment sales	3,855	2,686	1,169	43.5%
Parts sales	5,737	5,385	352	6.5%
Services revenues	7,726	7,107	619	8.7%
Non-Segmented revenues	(2,521)	(1,603)	(918)	57.3%
Total gross profit	\$ 35,116	\$ 23,885	\$ 11,231	47.0%

Total Gross Profit. Our total gross profit was \$35.1 million for the three month period ended March 31, 2011 compared to \$23.9 million for the same three month period in 2010, an increase of \$11.2 million, or 47.0%. Total gross profit margin for the three month period ended March 31, 2011 was 26.0%, an increase of 5.2% from the 20.8% gross profit margin for the same three month period in 2010. 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 March 31, 2011 increased approximately \$9.3 million, or 116.7%, to \$17.2 million from \$7.9 million in the same three month period in 2010. The increase in equipment rentals gross profit was the net result of a \$12.0 million increase in rental revenues for the three month period ended March 31, 2011, which was partially offset by a \$1.5 million net increase in rental expenses and a \$1.3 million increase in rental equipment depreciation expense. The net increase in rental expenses and rental equipment depreciation expense was primarily due to a larger fleet size in 2011 compared to 2010. As a percentage of equipment rental revenues, maintenance and repair costs were 15.5% for the three month period ended March 31, 2011 compared to 17.7% for the same three month period in 2010 and depreciation expense was 42.8% for the three month period ended March 31, 2011 compared to 53.4% for the same three month period in 2010. These percentage decreases were primarily attributable to the increase in comparative rental revenues.

Gross profit margin for the three month period ended March 31, 2011 was 35.4%, up 13.7% from 21.7% in the same three month period in 2010. This gross profit margin improvement was primarily due to the increase in comparative rental revenues, combined with the current year decrease in rental and depreciation expenses as a percentage of equipment rental revenues, which was partially offset by the 1.1% decline in our average rental rates in the comparative periods.

New Equipment Sales Gross Profit. Our new equipment sales gross profit for the three month period ended March 31, 2011 increased approximately \$0.8 million, or 31.9%, to \$3.1 million compared to \$2.4 million for the same three month period in 2010 on a total new equipment sales increase of \$1.9 million. Gross profit margin on new equipment sales for the three month period ended March 31, 2011 was 10.8%, an increase of approximately 2.1% from 8.7% in the same three month period in 2010, reflecting improved margins on new crane sales in the current year period.

Used Equipment Sales Gross Profit. Our used equipment sales gross profit for the three month period ended March 31, 2011 increased \$1.2 million, or 43.5%, to \$3.9 million from \$2.7 million for the same three month period in

2010 on a used equipment sales increase of \$2.0 million. Gross profit margin for the three month period ended March 31, 2011 was 25.0%, up 5.0% from 20.0% in the same three month period in 2010. Our used equipment sales from the rental fleet, which comprised approximately 76.7% and 81.1% of our used equipment sales for the three month periods ended March 31, 2011 and 2010, respectively, were approximately 142.4% of net book value for the three month period ended March 31, 2011 compared to 130.9% for the same three month period in 2010.

Parts Sales Gross Profit. For the three month period ended March 31, 2011, our parts sales revenue gross profit increased approximately \$0.4 million, or 6.5%, to \$5.7 million from \$5.4 million for the same three month period in 2010 on a \$1.9 million increase in parts sales revenues. Gross profit margin for the three month period ended March 31, 2011 was 26.6%, a decrease of 0.8% from 27.4% in the same three month period in 2010, as a result of the mix of parts sold.

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Services Revenues Gross Profit. For the three month period ended March 31, 2011, our services revenues gross profit increased \$0.6 million, or 8.7%, to \$7.7 million from \$7.1 million for the same three month period in 2010 on a \$1.2 million incline in services revenues. Gross profit margin for the three month period ended March 31, 2011 was 61.1%, down 0.8% from 61.9% in the same three month period in 2010 as a result of service revenues mix.

Non-Segmented Other Revenues Gross Loss. For the three month period ended March 31, 2011, our non-segmented other revenues realized a gross loss of approximately \$2.5 million compared to a gross loss of \$1.6 million for the same three month period in 2010 as a result of higher hauling and freight costs resulting primarily from higher fuel costs.

Selling, General and Administrative Expenses. SG&A expenses increased approximately \$2.2 million, or 6.2%, to \$38.1 million for the three month period ended March 31, 2011 compared to \$35.9 million for the same three month period in 2010. The net increase in SG&A expenses was attributable to several factors. Employee salaries and wages and related employee expenses increased \$2.5 million as a result higher salaries, wages, payroll taxes and benefits from increased employee headcount combined with commission and incentive pay that resulted from higher rental and sales revenues. Stock-based compensation expense was \$0.3 million and \$0.2 million for the three month periods ended March 31, 2011 and 2010, respectively. Bad debt expense increased \$0.2 million and fuel and utility costs increased \$0.2 million. These increases were partially offset by a \$0.7 million decrease in professional fees resulting primarily from data conversion costs and other consulting fees incurred last year related to our enterprise resource planning system implementation. As a percent of total revenues, SG&A expenses were 28.2% for the three months ended March 31, 2011, a decrease of 3.1% from 31.3% for the same three month period in 2010, primarily as a result of the current year increase in total revenues.

Other Income (Expense). For the three month period ended March 31, 2011, our net other expenses decreased approximately \$0.4 million to \$6.9 million compared to \$7.2 million for the same three month period in 2010. The decrease was the net result of a \$0.1 million decrease in interest expense to \$7.2 million for the three month period ended March 31, 2011 compared to \$7.3 million for the same three month period in 2010. The decrease in interest expense is the net result of an approximately \$0.3 million decrease in interest expense related to manufacturing flooring plans used to finance inventory purchases and a \$0.2 million increase in interest related costs on our senior secured credit facility. Miscellaneous other income increased approximately \$0.3 million.

Income Taxes. We recorded an income tax benefit of \$3.3 million for the three month period ended March 31, 2011 compared to an income tax benefit of approximately \$7.1 million for the three month period ended March 31, 2010. Our effective income tax rate for the three month period ended March 31, 2011 was 33.7% compared to 37.0% for the same three month period in 2010. The decrease in our effective tax rate was primarily the result of an unfavorable increase in permanent differences. Based on available evidence, both positive and negative, we believe it is more likely than not that our deferred tax assets at March 31, 2011 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 three month period ended March 31, 2011, 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 \$15.1 million. Our reported net loss of \$6.5 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 \$12.0 million. These cash flows from operating activities were also positively impacted by a decrease of \$14.6 million in net accounts receivable and a \$1.5 million increase in accounts payable. Offsetting these positive cash flows were an increase of \$32.8 million in net inventories, a \$3.4 million increase in prepaid expenses and other assets, a \$1.3 million decrease in manufacturing flooring plans payable, and a \$5.5 million decrease in accrued expenses and other liabilities.

For the three month period ended March 31, 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 \$10.5 million. Our reported net loss of approximately \$12.1 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 \$4.3 million. These cash flows from operating activities were also positively impacted by a decrease of \$0.7 million in net accounts receivable, a \$2.2 million decrease in net inventories and a \$5.2 million increase in accounts payable. Offsetting these positive cash flows were an increase of \$2.8 million in prepaid expenses and

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other assets, a \$12.8 million decrease in manufacturing flooring plans payable, and a \$7.1 million decrease in accrued expenses and other liabilities.

Cash flow from investing activities. For the three months ended March 31, 2011, cash provided by our investing activities was exceeded by our cash used in our investing activities, resulting in net cash used in our investing activities of \$4.9 million. This was a net result of purchases of rental and non-rental equipment totaling \$16.8 million, which was partially offset by proceeds from the sale of rental and non-rental equipment of approximately \$11.9 million.

For the three months ended March 31, 2010, cash provided by our investing activities was \$10.1 million. This was a net result of proceeds from the sale of rental and non-rental equipment of \$11.0 million. Partially offsetting these cash flows were purchases of rental and non-rental equipment totaling approximately \$0.8 million.

Cash flow from financing activities. For the three month period ended March 31, 2011, cash used in our financing activities was approximately \$36,000, representing payments of capital lease obligations.

For the three month period ended March 31, 2010, cash used in our financing activities was approximately \$1.2 million, representing payments of our notes payable and capital lease obligation.

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. We amended and restated the credit facility on July 29, 2010, 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 0.50%.

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 May 2, 2011, we had \$307.1 million of available borrowings under our senior secured credit facility, net of \$7.0 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 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

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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 three month period ended March 31, 2011 were approximately \$28.8 million, including approximately \$15.4 million of non-cash transfers from new and used equipment to rental fleet inventory. Our gross property and equipment capital expenditures for the three month period ended March 31, 2011 were \$3.4 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.

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. As of May 2, 2011, we had \$307.1 million of available borrowings under our senior secured credit facility, net of \$7.0 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.

Contractual and Commercial Commitments

There have been no material changes from the information included in our Annual Report on Form 10-K for the year ended December 31, 2010.

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, 2010.

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 index rate plus an applicable margin of 1.50% to 2.25%, depending on the leverage ratio, in the case of index rate revolving loans and LIBOR plus an applicable margin of 2.50% to 3.25%,

depending on the leverage ratio, in the case of

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LIBOR revolving loans. At May 2, 2011, we had \$307.1 million of available borrowings under our senior secured credit facility, net of \$7.0 million of outstanding letters of credit. Further, we did not have significant exposure to changing interest rates as of March 31, 2011 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-15e and 15d-15e 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 March 31, 2011, 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

There have been no changes in the Company's internal control over financial reporting that occurred during the quarter ended March 31, 2011 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, 2010, which could materially affect our business, financial condition or future results.

As of the date of this Quarterly Report on Form 10-Q, 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, 2010.

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

None.

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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: May 5, 2011

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

Dated: May 5, 2011

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

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EXHIBIT INDEX

- 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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