

H&E Equipment Services, Inc.  
Form 10-Q  
August 02, 2012  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D. C. 20549

**FORM 10-Q**

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

**For the quarterly period ended June 30, 2012.**

.. **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)**

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**Delaware**  
(State or Other Jurisdiction of

**81-0553291**  
(I.R.S. Employer

**Incorporation or Organization)**

**Identification No.)**

**11100 Mead Road, Suite 200,**

**Baton Rouge, Louisiana**  
(Address of Principal Executive Offices)

**70816**  
(ZIP Code)

**(225) 298-5200**

**(Registrant's Telephone Number, Including Area Code)**

**None**

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

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

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

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

Large Accelerated Filer ☐

Accelerated Filer ☒

Non-Accelerated Filer ☐

Smaller Reporting Company ☐

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

As of July 27, 2012, there were 35,144,327 shares of H&E Equipment Services, Inc. common stock, \$0.01 par value, outstanding.

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**H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES**

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**June 30, 2012**

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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*, *project*, *intend*, *foresee* and similar expressions. These statements include, among others, statements regarding our expected business outlook, anticipated financial and operating results, our business strategy and means to implement the strategy, our objectives, the amount and timing of capital expenditures, the likelihood of our success in expanding our business, financing plans, budgets, working capital needs and sources of liquidity.

Forward-looking statements are only predictions and are not guarantees of performance. These statements are based on our management's beliefs and assumptions, which in turn are based on currently available information. Important assumptions relating to the forward-looking statements include, among others, assumptions regarding demand for our products, the expansion of product offerings geographically or through new marketing applications, the timing and cost of planned capital expenditures, competitive conditions and general economic conditions. These assumptions could prove inaccurate. Forward-looking statements also involve known and unknown risks and uncertainties, which could cause actual results to differ materially from those contained in any forward-looking statement. Many of these factors are beyond our ability to control or predict. Such factors include, but are not limited to, the following:

general economic conditions and construction and industrial activity in the markets where we operate in North America, as well as the depth and duration of the recent macroeconomic downturn and related decreases in construction and industrial activities, which may significantly affect our revenues and operating results;

the impact of conditions in the global credit markets and their effect on construction spending and the economy in general;

relationships with equipment suppliers;

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

our indebtedness;

risks associated with the expansion of our business;

our possible inability to integrate any businesses we acquire;

competitive pressures;

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

other factors discussed under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2011.

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

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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, 2011, as well as other reports and registration statements filed by us with the SEC. All of our annual, quarterly and current reports, and any amendments thereto, filed with or furnished to the SEC are available on our Internet website under the Investor Relations link. For more information about us and the announcements we make from time to time, visit our Internet website at [www.he-equipment.com](http://www.he-equipment.com).

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements.****H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

(Amounts in thousands, except share amounts)

|                                                                                                                                                                                                                                                                   | Balances at                     |                      |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|----------------------|
|                                                                                                                                                                                                                                                                   | June 30,<br>2012<br>(Unaudited) | December 31,<br>2011 |
| <b>ASSETS</b>                                                                                                                                                                                                                                                     |                                 |                      |
| Cash                                                                                                                                                                                                                                                              | \$ 3,692                        | \$ 24,215            |
| Receivables, net of allowance for doubtful accounts of \$5,051 and \$5,581, respectively                                                                                                                                                                          | 107,953                         | 105,339              |
| Inventories, net of reserves for obsolescence of \$741 and \$861, respectively                                                                                                                                                                                    | 109,455                         | 65,151               |
| Prepaid expenses and other assets                                                                                                                                                                                                                                 | 5,515                           | 5,223                |
| Rental equipment, net of accumulated depreciation of \$287,984 and \$281,493, respectively                                                                                                                                                                        | 518,425                         | 450,877              |
| Property and equipment, net of accumulated depreciation and amortization of \$65,431 and \$62,050, respectively                                                                                                                                                   | 75,283                          | 62,775               |
| Deferred financing costs, net of accumulated amortization of \$12,513 and \$11,844, respectively                                                                                                                                                                  | 5,754                           | 5,640                |
| Intangible assets, net of accumulated amortization of \$771 and \$722, respectively                                                                                                                                                                               | 17                              | 66                   |
| Goodwill                                                                                                                                                                                                                                                          | 33,046                          | 34,019               |
| Total assets                                                                                                                                                                                                                                                      | \$ 859,140                      | \$ 753,305           |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>                                                                                                                                                                                                                       |                                 |                      |
| <b>Liabilities:</b>                                                                                                                                                                                                                                               |                                 |                      |
| Amounts due on senior secured credit facility                                                                                                                                                                                                                     | \$ 71,263                       | \$ 16,055            |
| Accounts payable                                                                                                                                                                                                                                                  | 81,395                          | 63,006               |
| Manufacturer flooring plans payable                                                                                                                                                                                                                               | 64,050                          | 58,318               |
| Accrued expenses payable and other liabilities                                                                                                                                                                                                                    | 48,304                          | 38,490               |
| Senior unsecured notes                                                                                                                                                                                                                                            | 250,000                         | 250,000              |
| Capital leases payable                                                                                                                                                                                                                                            | 2,527                           | 2,605                |
| Deferred income taxes                                                                                                                                                                                                                                             | 60,235                          | 58,616               |
| Deferred compensation payable                                                                                                                                                                                                                                     | 1,944                           | 2,008                |
| Total liabilities                                                                                                                                                                                                                                                 | 579,718                         | 489,098              |
| <b>Commitments and Contingencies</b>                                                                                                                                                                                                                              |                                 |                      |
| <b>Stockholders' equity:</b>                                                                                                                                                                                                                                      |                                 |                      |
| Preferred stock, \$0.01 par value, 25,000,000 shares authorized; no shares issued                                                                                                                                                                                 |                                 |                      |
| Common stock, \$0.01 par value, 175,000,000 shares authorized; 38,814,509 and 38,808,941 shares issued at June 30, 2012 and December 31, 2011, respectively and 35,050,858 and 35,084,737 shares outstanding at June 30, 2012 and December 31, 2011, respectively | 387                             | 387                  |
| Additional paid-in capital                                                                                                                                                                                                                                        | 211,778                         | 210,695              |
| Treasury stock at cost, 3,763,651 and 3,724,204 shares of common stock held at June 30, 2012 and December 31, 2011, respectively                                                                                                                                  | (57,175)                        | (56,884)             |
| Retained earnings                                                                                                                                                                                                                                                 | 124,432                         | 110,009              |
| Total stockholders' equity                                                                                                                                                                                                                                        | 279,422                         | 264,207              |

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|                                            |            |            |
|--------------------------------------------|------------|------------|
| Total liabilities and stockholders' equity | \$ 859,140 | \$ 753,305 |
|--------------------------------------------|------------|------------|

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

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

(Unaudited)

(Amounts in thousands, except per share amounts)

|                                                 | Three Months Ended<br>June 30, |           | Six Months Ended<br>June 30, |            |
|-------------------------------------------------|--------------------------------|-----------|------------------------------|------------|
|                                                 | 2012                           | 2011      | 2012                         | 2011       |
| Revenues:                                       |                                |           |                              |            |
| Equipment rentals                               | \$ 70,504                      | \$ 55,772 | \$ 130,133                   | \$ 104,250 |
| New equipment sales                             | 64,704                         | 57,913    | 105,701                      | 87,086     |
| Used equipment sales                            | 23,588                         | 23,066    | 50,110                       | 38,483     |
| Parts sales                                     | 24,725                         | 24,942    | 48,103                       | 46,519     |
| Services revenues                               | 13,879                         | 13,244    | 27,179                       | 25,881     |
| Other                                           | 11,624                         | 9,398     | 21,463                       | 17,024     |
| Total revenues                                  | 209,024                        | 184,335   | 382,689                      | 319,243    |
| Cost of revenues:                               |                                |           |                              |            |
| Rental depreciation                             | 24,763                         | 21,507    | 47,577                       | 42,070     |
| Rental expense                                  | 12,253                         | 11,569    | 23,796                       | 22,308     |
| New equipment sales                             | 57,633                         | 51,118    | 93,578                       | 77,148     |
| Used equipment sales                            | 16,405                         | 18,058    | 35,027                       | 29,620     |
| Parts sales                                     | 17,805                         | 18,261    | 34,734                       | 34,101     |
| Services revenues                               | 5,168                          | 5,137     | 10,292                       | 10,048     |
| Other                                           | 10,762                         | 10,890    | 20,799                       | 21,037     |
| Total cost of revenues                          | 144,789                        | 136,540   | 265,803                      | 236,332    |
| Gross profit                                    | 64,235                         | 47,795    | 116,886                      | 82,911     |
| Selling, general and administrative expenses    | 41,399                         | 37,546    | 82,102                       | 75,639     |
| Gain on sales of property and equipment, net    | 641                            | 52        | 964                          | 149        |
| Income from operations                          | 23,477                         | 10,301    | 35,748                       | 7,421      |
| Other income (expense):                         |                                |           |                              |            |
| Interest expense                                | (6,973)                        | (7,178)   | (13,843)                     | (14,385)   |
| Other, net                                      | 151                            | 185       | 508                          | 508        |
| Total other expense, net                        | (6,822)                        | (6,993)   | (13,335)                     | (13,877)   |
| Income (loss) before provision for income taxes | 16,655                         | 3,308     | 22,413                       | (6,456)    |
| Provision (benefit) for income taxes            | 6,187                          | 619       | 7,990                        | (2,672)    |
| Net income (loss)                               | \$ 10,468                      | \$ 2,689  | \$ 14,423                    | \$ (3,784) |
| Net income (loss) per common share:             |                                |           |                              |            |
| Basic                                           | \$ 0.30                        | \$ 0.08   | \$ 0.41                      | \$ (0.11)  |

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|                                             |    |        |    |        |    |        |    |        |
|---------------------------------------------|----|--------|----|--------|----|--------|----|--------|
| Diluted                                     | \$ | 0.30   | \$ | 0.08   | \$ | 0.41   | \$ | (0.11) |
| Weighted average common shares outstanding: |    |        |    |        |    |        |    |        |
| Basic                                       |    | 34,838 |    | 34,725 |    | 34,822 |    | 34,713 |
| Diluted                                     |    | 34,964 |    | 34,906 |    | 34,957 |    | 34,713 |

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

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

|                                                                                                    | <b>Six Months Ended<br/>June 30,</b> |             |
|----------------------------------------------------------------------------------------------------|--------------------------------------|-------------|
|                                                                                                    | <b>2012</b>                          | <b>2011</b> |
| Cash flows from operating activities:                                                              |                                      |             |
| Net income (loss)                                                                                  | \$ 14,423                            | \$ (3,784)  |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: |                                      |             |
| Depreciation and amortization on property and equipment                                            | 6,538                                | 6,247       |
| Depreciation on rental equipment                                                                   | 47,577                               | 42,070      |
| Amortization of loan discounts and deferred financing costs                                        | 669                                  | 694         |
| Amortization of intangible assets                                                                  | 50                                   | 247         |
| Provision for losses on accounts receivable                                                        | 1,731                                | 1,451       |
| Provision for inventory obsolescence                                                               | 31                                   | 139         |
| (Increase) decrease in deferred income taxes                                                       | 1,619                                | (2,770)     |
| Stock-based compensation expense                                                                   | 797                                  | 660         |
| Gain on sales of property and equipment, net                                                       | (964)                                | (149)       |
| Gain on sales of rental equipment, net                                                             | (14,359)                             | (8,194)     |
| Writedown of goodwill for tax-deductible goodwill in excess of book goodwill                       | 972                                  |             |
| Changes in operating assets and liabilities:                                                       |                                      |             |
| Receivables, net                                                                                   | (4,345)                              | 126         |
| Inventories, net                                                                                   | (70,113)                             | (30,036)    |
| Prepaid expenses and other assets                                                                  | (292)                                | 459         |
| Accounts payable                                                                                   | 18,389                               | (3,925)     |
| Manufacturer flooring plans payable                                                                | 5,732                                | (8,592)     |
| Accrued expenses payable and other liabilities                                                     | 9,814                                | 711         |
| Deferred compensation payable                                                                      | (64)                                 | (28)        |
| Net cash provided by (used in) operating activities                                                | 18,205                               | (4,674)     |
| Cash flows from investing activities:                                                              |                                      |             |
| Purchases of property and equipment                                                                | (19,422)                             | (6,293)     |
| Purchases of rental equipment                                                                      | (119,574)                            | (54,333)    |
| Proceeds from sales of property and equipment                                                      | 1,340                                | 260         |
| Proceeds from sales of rental equipment                                                            | 44,586                               | 26,887      |
| Net cash used in investing activities                                                              | (93,070)                             | (33,479)    |
| Cash flows from financing activities:                                                              |                                      |             |
| Purchases of treasury stock                                                                        | (291)                                | (461)       |
| Excess tax benefit (deficiency) from stock-based awards                                            | 286                                  |             |
| Borrowings on senior secured credit facility                                                       | 462,578                              | 170,540     |
| Payments on senior secured credit facility                                                         | (407,370)                            | (155,316)   |
| Payments of deferred financing costs                                                               | (783)                                |             |
| Payments of capital lease obligations                                                              | (78)                                 | (73)        |
| Net cash provided by financing activities                                                          | 54,342                               | 14,690      |

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|                           |          |          |
|---------------------------|----------|----------|
| Net decrease in cash      | (20,523) | (23,463) |
| Cash, beginning of period | 24,215   | 29,149   |
| Cash, end of period       | \$ 3,692 | \$ 5,686 |

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

(Unaudited)

(Amounts in thousands)

|                                                                      | Six Months Ended<br>June 30, |            |
|----------------------------------------------------------------------|------------------------------|------------|
|                                                                      | 2012                         | 2011       |
| Supplemental schedule of noncash investing and financing activities: |                              |            |
| Noncash asset purchases:                                             |                              |            |
| Assets transferred from new and used inventory to rental fleet       | \$ 25,778                    | \$ 25,294  |
| Supplemental disclosures of cash flow information:                   |                              |            |
| Cash paid during the period for:                                     |                              |            |
| Interest                                                             | \$ 13,096                    | \$ 13,699  |
| Income taxes paid, net of refunds received                           | \$ 319                       | \$ (1,850) |

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

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**H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**(1) Organization and Nature of Operations**

**Basis of Presentation**

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

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such regulations. In the opinion of management, all adjustments (consisting of all normal and recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012, 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, 2011, from which the balance sheet amounts as of December 31, 2011 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, 2011. During the three and six month periods ended June 30, 2012, there were no significant changes to those accounting policies.

*Use of Estimates*

We prepare our condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, which requires management to use its judgment to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosures at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reported period. These assumptions and estimates could have a material effect on our condensed consolidated financial statements. Actual results may differ materially from those estimates. We review our estimates on an ongoing basis based on information currently available, and

changes in facts and circumstances may cause us to revise these estimates.

**Table of Contents***Recent Accounting Pronouncements*

There are no recent accounting pronouncements that are expected to affect the Company's financial reporting.

**(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 that 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):

|                                                                     | <b>June 30, 2012</b>       |                       |
|---------------------------------------------------------------------|----------------------------|-----------------------|
|                                                                     | <b>Carrying<br/>Amount</b> | <b>Fair<br/>Value</b> |
| Manufacturer flooring plans payable with interest computed at 5.75% | \$ 64,050                  | \$ 56,532             |
| Senior unsecured notes with interest compounded at 8.375%           | 250,000                    | 255,000               |
| Capital lease payable with interest computed at 5.929% to 9.55%     | 2,527                      | 1,965                 |
| Letters of credit                                                   |                            | 130                   |

|                                                                     | <b>December 31, 2011</b>   |                       |
|---------------------------------------------------------------------|----------------------------|-----------------------|
|                                                                     | <b>Carrying<br/>Amount</b> | <b>Fair<br/>Value</b> |
| Manufacturer flooring plans payable with interest computed at 5.38% | \$ 58,318                  | \$ 52,069             |
| Senior unsecured notes with interest compounded at 8.375%           | 250,000                    | 252,500               |
| Capital lease payable with interest computed at 5.929% to 9.55%     | 2,605                      | 1,839                 |
| Letters of credit                                                   |                            | 192                   |

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### (4) Stockholders' Equity

The following table summarizes the activity in Stockholders' Equity for the six month period ended June 30, 2012 (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, 2011                           | 38,808,941   | \$ 387 | \$ 210,695 | \$ (56,884) | \$ 110,009 | \$ 264,207   |
| Stock-based compensation                                |              |        | 797        |             |            | 797          |
| Tax benefits associated with stock-based awards         |              |        | 286        |             |            | 286          |
| Issuance of non-vested restricted common stock          | 5,568        |        |            |             |            |              |
| Repurchases of 35,982 shares of restricted common stock |              |        |            | (291)       |            | (291)        |
| Net income                                              |              |        |            |             | 14,423     | 14,423       |
| Balances at June 30, 2012                               | 38,814,509   | \$ 387 | \$ 211,778 | \$ (57,175) | \$ 124,432 | \$ 279,422   |

### (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 3,823,511 shares as of June 30, 2012.

#### Non-vested Stock

The following table summarizes our non-vested stock activity for the six months ended June 30, 2012:

|                                       | Number of | Weighted        |
|---------------------------------------|-----------|-----------------|
|                                       | Shares    | Average Grant   |
|                                       |           | Date Fair Value |
| Non-vested stock at December 31, 2011 | 278,634   | \$ 10.77        |
| Granted                               | 5,568     | \$ 16.18        |
| Vested                                | (118,485) | \$ 8.06         |
| Forfeited                             | (3,465)   | \$ 10.87        |
| Non-vested stock at June 30, 2012     | 162,252   | \$ 12.93        |

As of June 30, 2012, we had unrecognized compensation expense of approximately \$1.3 million related to non-vested stock that we expect to be recognized over a weighted-average period of 2.0 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 and six months ended June 30, 2012 and 2011 (amounts in thousands):

|                      | For the Three Months Ended |        | For the Six Months Ended |        |
|----------------------|----------------------------|--------|--------------------------|--------|
|                      | June 30,                   |        | June 30,                 |        |
|                      | 2012                       | 2011   | 2012                     | 2011   |
| Compensation expense | \$ 465                     | \$ 362 | \$ 797                   | \$ 660 |



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### Stock Options

At June 30, 2012, there is no unrecognized compensation expense as all stock option awards have fully vested. The following table represents stock option activity for the six months ended June 30, 2012:

|                                          | Number of<br>Shares | Weighted Average<br>Exercise Price | Weighted Average<br>Contractual<br>Life<br>In Years |
|------------------------------------------|---------------------|------------------------------------|-----------------------------------------------------|
| Outstanding options at December 31, 2011 | 51,000              | \$ 24.80                           |                                                     |
| Granted                                  |                     |                                    |                                                     |
| Exercised                                |                     |                                    |                                                     |
| Canceled, forfeited or expired           |                     |                                    |                                                     |
| Outstanding options at June 30, 2012     | 51,000              | \$ 24.80                           | 4.0                                                 |
| Options exercisable at June 30, 2012     | 51,000              | \$ 24.80                           | 4.0                                                 |

The closing price of our common stock on June 30, 2012 was \$15.03. All options outstanding at June 30, 2012 have grant date fair values which exceed the June 30, 2012 closing stock price.

### (6) Income (Loss) per Share

Income (loss) per common share for the three and six months ended June 30, 2012 and 2011 are based on the weighted average number of common shares outstanding during the period. The effects of potentially dilutive securities that are anti-dilutive are not included in the computation of dilutive income (loss) per share. The following table sets forth the computation of basic and diluted net income (loss) per common share for the three and six month periods ended June 30, 2012 and 2011 (amounts in thousands, except per share amounts):

|                                                                       | Three Months Ended<br>June 30, |          | Six Months Ended<br>June 30, |            |
|-----------------------------------------------------------------------|--------------------------------|----------|------------------------------|------------|
|                                                                       | 2012                           | 2011     | 2012                         | 2011       |
| Basic net income (loss) per share:                                    |                                |          |                              |            |
| Net income (loss)                                                     | \$ 10,468                      | \$ 2,689 | \$ 14,423                    | \$ (3,784) |
| Weighted average number of shares of common stock outstanding         | 34,838                         | 34,725   | 34,822                       | 34,713     |
| Net income (loss) per share of common stock basic                     | \$ 0.30                        | \$ 0.08  | \$ 0.41                      | \$ (0.11)  |
| Diluted net income (loss) per share:                                  |                                |          |                              |            |
| Net income (loss)                                                     | \$ 10,468                      | \$ 2,689 | \$ 14,423                    | \$ (3,784) |
| Weighted average number of shares of common stock outstanding         | 34,838                         | 34,725   | 34,822                       | 34,713     |
| Effect of dilutive securities:                                        |                                |          |                              |            |
| Effect of dilutive stock options                                      |                                |          |                              |            |
| Effect of dilutive non-vested restricted stock                        | 126                            | 181      | 135                          |            |
| Weighted average number of shares of common stock outstanding diluted | 34,964                         | 34,906   | 34,957                       | 34,713     |
| Net income (loss) per share of common stock diluted                   | \$ 0.30                        | \$ 0.08  | \$ 0.41                      | \$ (0.11)  |
| Common shares excluded from the denominator as anti-dilutive:         |                                |          |                              |            |
| Stock options                                                         | 51                             | 51       | 51                           | 51         |

|                             |   |   |     |
|-----------------------------|---|---|-----|
| Non-vested restricted stock | 4 | 2 | 209 |
|-----------------------------|---|---|-----|

**(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.

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

|                                     | Three Months Ended<br>June 30, |                   | Six Months Ended<br>June 30, |                   |
|-------------------------------------|--------------------------------|-------------------|------------------------------|-------------------|
|                                     | 2012                           | 2011              | 2012                         | 2011              |
| <b>Revenues:</b>                    |                                |                   |                              |                   |
| Equipment rentals                   | \$ 70,504                      | \$ 55,772         | \$ 130,133                   | \$ 104,250        |
| New equipment sales                 | 64,704                         | 57,913            | 105,701                      | 87,086            |
| Used equipment sales                | 23,588                         | 23,066            | 50,110                       | 38,483            |
| Parts sales                         | 24,725                         | 24,942            | 48,103                       | 46,519            |
| Services revenues                   | 13,879                         | 13,244            | 27,179                       | 25,881            |
| <b>Total segmented revenues</b>     | <b>197,400</b>                 | <b>174,937</b>    | <b>361,226</b>               | <b>302,219</b>    |
| Non-segmented revenues              | 11,624                         | 9,398             | 21,463                       | 17,024            |
| <b>Total revenues</b>               | <b>\$ 209,024</b>              | <b>\$ 184,335</b> | <b>\$ 382,689</b>            | <b>\$ 319,243</b> |
| <b>Gross Profit (Loss):</b>         |                                |                   |                              |                   |
| Equipment rentals                   | \$ 33,488                      | \$ 22,696         | \$ 58,760                    | \$ 39,872         |
| New equipment sales                 | 7,071                          | 6,795             | 12,123                       | 9,938             |
| Used equipment sales                | 7,183                          | 5,008             | 15,083                       | 8,863             |
| Parts sales                         | 6,920                          | 6,681             | 13,369                       | 12,418            |
| Services revenues                   | 8,711                          | 8,107             | 16,887                       | 15,833            |
| <b>Total segmented gross profit</b> | <b>63,373</b>                  | <b>49,287</b>     | <b>116,222</b>               | <b>86,924</b>     |
| Non-segmented gross profit (loss)   | 862                            | (1,492)           | 664                          | (4,013)           |
| <b>Total gross profit</b>           | <b>\$ 64,235</b>               | <b>\$ 47,795</b>  | <b>\$ 116,886</b>            | <b>\$ 82,911</b>  |

|                                        | Balances at       |                      |
|----------------------------------------|-------------------|----------------------|
|                                        | June 30,<br>2012  | December 31,<br>2011 |
| <b>Segment identified assets:</b>      |                   |                      |
| Equipment sales                        | \$ 94,051         | \$ 52,572            |
| Equipment rentals                      | 518,425           | 450,877              |
| Parts and services                     | 15,404            | 12,579               |
| <b>Total segment identified assets</b> | <b>627,880</b>    | <b>516,028</b>       |
| Non-segment identified assets          | 231,260           | 237,277              |
| <b>Total assets</b>                    | <b>\$ 859,140</b> | <b>\$ 753,305</b>    |

The Company operates primarily in the United States and our sales to international customers for the three and six month periods ended June 30, 2012 were 5.5% and 3.8%, respectively, of total revenues compared to 1.4% and 3.4% for the three and six month periods ended June 30, 2011. 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

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(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, 2011 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, 2011.

**Table of Contents****CONDENSED CONSOLIDATING BALANCE SHEET**

|                                                | As of June 30, 2012       |                           |             |              |
|------------------------------------------------|---------------------------|---------------------------|-------------|--------------|
|                                                | H&E Equipment<br>Services | Guarantor<br>Subsidiaries | Elimination | Consolidated |
|                                                | (Amounts in thousands)    |                           |             |              |
| <b>Assets:</b>                                 |                           |                           |             |              |
| Cash                                           | \$ 3,692                  | \$                        | \$          | \$ 3,692     |
| Receivables, net                               | 94,177                    | 13,776                    |             | 107,953      |
| Inventories, net                               | 92,301                    | 17,154                    |             | 109,455      |
| Prepaid expenses and other assets              | 5,374                     | 141                       |             | 5,515        |
| Rental equipment, net                          | 426,422                   | 92,003                    |             | 518,425      |
| Property and equipment, net                    | 63,501                    | 11,782                    |             | 75,283       |
| Deferred financing costs, net                  | 5,754                     |                           |             | 5,754        |
| Intangible assets, net                         |                           | 17                        |             | 17           |
| Investment in guarantor subsidiaries           | (25,991)                  |                           | 25,991      |              |
| Goodwill                                       | 3,520                     | 29,526                    |             | 33,046       |
| Total assets                                   | \$ 668,750                | \$ 164,399                | \$ 25,991   | \$ 859,140   |
| <b>Liabilities and Stockholders' Equity:</b>   |                           |                           |             |              |
| Amounts due on senior secured credit facility  | \$ 71,263                 | \$                        | \$          | \$ 71,263    |
| Accounts payable                               | 75,189                    | 6,206                     |             | 81,395       |
| Manufacturer flooring plans payable            | 63,456                    | 594                       |             | 64,050       |
| Accrued expenses payable and other liabilities | 47,616                    | 688                       |             | 48,304       |
| Intercompany balances                          | (180,375)                 | 180,375                   |             |              |
| Senior unsecured notes                         | 250,000                   |                           |             | 250,000      |
| Capital lease payable                          |                           | 2,527                     |             | 2,527        |
| Deferred income taxes                          | 60,235                    |                           |             | 60,235       |
| Deferred compensation payable                  | 1,944                     |                           |             | 1,944        |
| Total liabilities                              | 389,328                   | 190,390                   |             | 579,718      |
| Stockholders' equity (deficit)                 | 279,422                   | (25,991)                  | 25,991      | 279,422      |
| Total liabilities and stockholders' equity     | \$ 668,750                | \$ 164,399                | \$ 25,991   | \$ 859,140   |

**Table of Contents****CONDENSED CONSOLIDATING BALANCE SHEET**

|                                                | H&E Equipment<br>Services | As of December 31, 2011<br>Guarantor<br>Subsidiaries | Elimination<br>(Amounts in thousands) | Consolidated |
|------------------------------------------------|---------------------------|------------------------------------------------------|---------------------------------------|--------------|
| <b>Assets:</b>                                 |                           |                                                      |                                       |              |
| Cash                                           | \$ 24,215                 | \$                                                   | \$                                    | \$ 24,215    |
| Receivables, net                               | 93,840                    | 11,499                                               |                                       | 105,339      |
| Inventories, net                               | 55,052                    | 10,099                                               |                                       | 65,151       |
| Prepaid expenses and other assets              | 5,098                     | 125                                                  |                                       | 5,223        |
| Rental equipment, net                          | 366,568                   | 84,309                                               |                                       | 450,877      |
| Property and equipment, net                    | 52,021                    | 10,754                                               |                                       | 62,775       |
| Deferred financing costs, net                  | 5,640                     |                                                      |                                       | 5,640        |
| Intangible assets, net                         |                           | 66                                                   |                                       | 66           |
| Investment in guarantor subsidiaries           | (25,142)                  |                                                      | 25,142                                |              |
| Goodwill                                       | 4,493                     | 29,526                                               |                                       | 34,019       |
| Total assets                                   | \$ 581,785                | \$ 146,378                                           | \$ 25,142                             | \$ 753,305   |
| <b>Liabilities and Stockholders' Equity:</b>   |                           |                                                      |                                       |              |
| Amounts due on senior secured credit facility  | \$ 16,055                 | \$                                                   | \$                                    | \$ 16,055    |
| Accounts payable                               | 59,095                    | 3,911                                                |                                       | 63,006       |
| Manufacturer flooring plans payable            | 58,249                    | 69                                                   |                                       | 58,318       |
| Accrued expenses payable and other liabilities | 37,786                    | 704                                                  |                                       | 38,490       |
| Intercompany balances                          | (164,231)                 | 164,231                                              |                                       |              |
| Senior unsecured notes                         | 250,000                   |                                                      |                                       | 250,000      |
| Capital lease payable                          |                           | 2,605                                                |                                       | 2,605        |
| Deferred income taxes                          | 58,616                    |                                                      |                                       | 58,616       |
| Deferred compensation payable                  | 2,008                     |                                                      |                                       | 2,008        |
| Total liabilities                              | 317,578                   | 171,520                                              |                                       | 489,098      |
| Stockholders' equity (deficit)                 | 264,207                   | (25,142)                                             | 25,142                                | 264,207      |
| Total liabilities and stockholders' equity     | \$ 581,785                | \$ 146,378                                           | \$ 25,142                             | \$ 753,305   |

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

|                                              | Three Months Ended June 30, 2012 |                           |             |              |
|----------------------------------------------|----------------------------------|---------------------------|-------------|--------------|
|                                              | H&E<br>Equipment<br>Services     | Guarantor<br>Subsidiaries | Elimination | Consolidated |
|                                              | (Amounts in thousands)           |                           |             |              |
| Revenues:                                    |                                  |                           |             |              |
| Equipment rentals                            | \$ 57,600                        | \$ 12,904                 | \$          | \$ 70,504    |
| New equipment sales                          | 55,091                           | 9,613                     |             | 64,704       |
| Used equipment sales                         | 18,722                           | 4,866                     |             | 23,588       |
| Parts sales                                  | 20,956                           | 3,769                     |             | 24,725       |
| Services revenues                            | 11,987                           | 1,892                     |             | 13,879       |
| Other                                        | 9,527                            | 2,097                     |             | 11,624       |
| Total revenues                               | 173,883                          | 35,141                    |             | 209,024      |
| Cost of revenues:                            |                                  |                           |             |              |
| Rental depreciation                          | 19,953                           | 4,810                     |             | 24,763       |
| Rental expense                               | 9,775                            | 2,478                     |             | 12,253       |
| New equipment sales                          | 48,980                           | 8,653                     |             | 57,633       |
| Used equipment sales                         | 12,819                           | 3,586                     |             | 16,405       |
| Parts sales                                  | 15,104                           | 2,701                     |             | 17,805       |
| Services revenues                            | 4,510                            | 658                       |             | 5,168        |
| Other                                        | 8,639                            | 2,123                     |             | 10,762       |
| Total cost of revenues                       | 119,780                          | 25,009                    |             | 144,789      |
| Gross profit (loss):                         |                                  |                           |             |              |
| Equipment rentals                            | 27,872                           | 5,616                     |             | 33,488       |
| New equipment sales                          | 6,111                            | 960                       |             | 7,071        |
| Used equipment sales                         | 5,903                            | 1,280                     |             | 7,183        |
| Parts sales                                  | 5,852                            | 1,068                     |             | 6,920        |
| Services revenues                            | 7,477                            | 1,234                     |             | 8,711        |
| Other                                        | 888                              | (26)                      |             | 862          |
| Gross profit                                 | 54,103                           | 10,132                    |             | 64,235       |
| Selling, general and administrative expenses | 34,456                           | 6,943                     |             | 41,399       |
| Equity in earnings of guarantor subsidiaries | 836                              |                           | (836)       |              |
| Gain on sales of property and equipment, net | 625                              | 16                        |             | 641          |
| Income from operations                       | 21,108                           | 3,205                     | (836)       | 23,477       |
| Other income (expense):                      |                                  |                           |             |              |
| Interest expense                             | (4,586)                          | (2,387)                   |             | (6,973)      |
| Other, net                                   | 133                              | 18                        |             | 151          |
| Total other expense, net                     | (4,453)                          | (2,369)                   |             | (6,822)      |
| Income before income taxes                   | 16,655                           | 836                       | (836)       | 16,655       |
| Income tax expense                           | 6,187                            |                           |             | 6,187        |
| Net income                                   | \$ 10,468                        | \$ 836                    | \$ (836)    | \$ 10,468    |



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

|                                              | Three Months Ended June 30, 2011   |                                                     |             |              |
|----------------------------------------------|------------------------------------|-----------------------------------------------------|-------------|--------------|
|                                              | H&E Equipment<br>Services,<br>Inc. | Guarantor<br>Subsidiaries<br>(Amounts in thousands) | Elimination | Consolidated |
| Revenues:                                    |                                    |                                                     |             |              |
| Equipment rentals                            | \$ 44,675                          | \$ 11,097                                           | \$          | \$ 55,772    |
| New equipment sales                          | 51,271                             | 6,642                                               |             | 57,913       |
| Used equipment sales                         | 19,503                             | 3,563                                               |             | 23,066       |
| Parts sales                                  | 20,990                             | 3,952                                               |             | 24,942       |
| Services revenues                            | 11,632                             | 1,612                                               |             | 13,244       |
| Other                                        | 7,704                              | 1,694                                               |             | 9,398        |
| Total revenues                               | 155,775                            | 28,560                                              |             | 184,335      |
| Cost of revenues:                            |                                    |                                                     |             |              |
| Rental depreciation                          | 16,881                             | 4,626                                               |             | 21,507       |
| Rental expense                               | 9,341                              | 2,228                                               |             | 11,569       |
| New equipment sales                          | 45,276                             | 5,842                                               |             | 51,118       |
| Used equipment sales                         | 15,059                             | 2,999                                               |             | 18,058       |
| Parts sales                                  | 15,371                             | 2,890                                               |             | 18,261       |
| Services revenues                            | 4,592                              | 545                                                 |             | 5,137        |
| Other                                        | 8,574                              | 2,316                                               |             | 10,890       |
| Total cost of revenues                       | 115,094                            | 21,446                                              |             | 136,540      |
| Gross profit (loss):                         |                                    |                                                     |             |              |
| Equipment rentals                            | 18,453                             | 4,243                                               |             | 22,696       |
| New equipment sales                          | 5,995                              | 800                                                 |             | 6,795        |
| Used equipment sales                         | 4,444                              | 564                                                 |             | 5,008        |
| Parts sales                                  | 5,619                              | 1,062                                               |             | 6,681        |
| Services revenues                            | 7,040                              | 1,067                                               |             | 8,107        |
| Other                                        | (870)                              | (622)                                               |             | (1,492)      |
| Gross profit                                 | 40,681                             | 7,114                                               |             | 47,795       |
| Selling, general and administrative expenses | 31,402                             | 6,144                                               |             | 37,546       |
| Equity in loss of guarantor subsidiaries     | (1,346)                            |                                                     | 1,346       |              |
| Gain on sales of property and equipment, net | 35                                 | 17                                                  |             | 52           |
| Income from operations                       | 7,968                              | 987                                                 | 1,346       | 10,301       |
| Other income (expense):                      |                                    |                                                     |             |              |
| Interest expense                             | (4,839)                            | (2,339)                                             |             | (7,178)      |
| Other, net                                   | 179                                | 6                                                   |             | 185          |
| Total other expense, net                     | (4,660)                            | (2,333)                                             |             | (6,993)      |
| Income (loss) before income taxes            | 3,308                              | (1,346)                                             | 1,346       | 3,308        |
| Income tax expense                           | 619                                |                                                     |             | 619          |
| Net income (loss)                            | \$ 2,689                           | \$ (1,346)                                          | \$ 1,346    | \$ 2,689     |



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

|                                              | Six Months Ended June 30, 2012 |                                                     |             |              |
|----------------------------------------------|--------------------------------|-----------------------------------------------------|-------------|--------------|
|                                              | H&E<br>Equipment<br>Services   | Guarantor<br>Subsidiaries<br>(Amounts in thousands) | Elimination | Consolidated |
| Revenues:                                    |                                |                                                     |             |              |
| Equipment rentals                            | \$ 106,886                     | \$ 23,247                                           | \$          | \$ 130,133   |
| New equipment sales                          | 92,401                         | 13,300                                              |             | 105,701      |
| Used equipment sales                         | 39,739                         | 10,371                                              |             | 50,110       |
| Parts sales                                  | 40,751                         | 7,352                                               |             | 48,103       |
| Services revenues                            | 23,485                         | 3,694                                               |             | 27,179       |
| Other                                        | 17,652                         | 3,811                                               |             | 21,463       |
| Total revenues                               | 320,914                        | 61,775                                              |             | 382,689      |
| Cost of revenues:                            |                                |                                                     |             |              |
| Rental depreciation                          | 38,351                         | 9,226                                               |             | 47,577       |
| Rental expense                               | 19,097                         | 4,699                                               |             | 23,796       |
| New equipment sales                          | 81,656                         | 11,922                                              |             | 93,578       |
| Used equipment sales                         | 27,086                         | 7,941                                               |             | 35,027       |
| Parts sales                                  | 29,487                         | 5,247                                               |             | 34,734       |
| Services revenues                            | 9,009                          | 1,283                                               |             | 10,292       |
| Other                                        | 16,678                         | 4,121                                               |             | 20,799       |
| Total cost of revenues                       | 221,364                        | 44,439                                              |             | 265,803      |
| Gross profit (loss):                         |                                |                                                     |             |              |
| Equipment rentals                            | 49,438                         | 9,322                                               |             | 58,760       |
| New equipment sales                          | 10,745                         | 1,378                                               |             | 12,123       |
| Used equipment sales                         | 12,653                         | 2,430                                               |             | 15,083       |
| Parts sales                                  | 11,264                         | 2,105                                               |             | 13,369       |
| Services revenues                            | 14,476                         | 2,411                                               |             | 16,887       |
| Other                                        | 974                            | (310)                                               |             | 664          |
| Gross profit                                 | 99,550                         | 17,336                                              |             | 116,886      |
| Selling, general and administrative expenses | 68,277                         | 13,825                                              |             | 82,102       |
| Equity in loss of guarantor subsidiaries     | (849)                          |                                                     | 849         |              |
| Gain on sales of property and equipment, net | 786                            | 178                                                 |             | 964          |
| Income from operations                       | 31,210                         | 3,689                                               | 849         | 35,748       |
| Other income (expense):                      |                                |                                                     |             |              |
| Interest expense                             | (9,275)                        | (4,568)                                             |             | (13,843)     |
| Other, net                                   | 478                            | 30                                                  |             | 508          |
| Total other expense, net                     | (8,797)                        | (4,538)                                             |             | (13,335)     |
| Income (loss) before income taxes            | 22,413                         | (849)                                               | 849         | 22,413       |
| Income tax expense                           | 7,990                          |                                                     |             | 7,990        |
| Net income (loss)                            | \$ 14,423                      | \$ (849)                                            | \$ 849      | \$ 14,423    |



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

|                                              | Six Months Ended June 30, 2011     |                                                     |             |              |
|----------------------------------------------|------------------------------------|-----------------------------------------------------|-------------|--------------|
|                                              | H&E Equipment<br>Services,<br>Inc. | Guarantor<br>Subsidiaries<br>(Amounts in thousands) | Elimination | Consolidated |
| Revenues:                                    |                                    |                                                     |             |              |
| Equipment rentals                            | \$ 83,748                          | \$ 20,502                                           | \$          | \$ 104,250   |
| New equipment sales                          | 75,925                             | 11,161                                              |             | 87,086       |
| Used equipment sales                         | 31,823                             | 6,660                                               |             | 38,483       |
| Parts sales                                  | 39,299                             | 7,220                                               |             | 46,519       |
| Services revenues                            | 22,777                             | 3,104                                               |             | 25,881       |
| Other                                        | 13,922                             | 3,102                                               |             | 17,024       |
| Total revenues                               | 267,494                            | 51,749                                              |             | 319,243      |
| Cost of revenues:                            |                                    |                                                     |             |              |
| Rental depreciation                          | 32,989                             | 9,081                                               |             | 42,070       |
| Rental expense                               | 18,074                             | 4,234                                               |             | 22,308       |
| New equipment sales                          | 67,296                             | 9,852                                               |             | 77,148       |
| Used equipment sales                         | 24,175                             | 5,445                                               |             | 29,620       |
| Parts sales                                  | 28,834                             | 5,267                                               |             | 34,101       |
| Services revenues                            | 8,998                              | 1,050                                               |             | 10,048       |
| Other                                        | 16,548                             | 4,489                                               |             | 21,037       |
| Total cost of revenues                       | 196,914                            | 39,418                                              |             | 236,332      |
| Gross profit (loss):                         |                                    |                                                     |             |              |
| Equipment rentals                            | 32,685                             | 7,187                                               |             | 39,872       |
| New equipment sales                          | 8,629                              | 1,309                                               |             | 9,938        |
| Used equipment sales                         | 7,648                              | 1,215                                               |             | 8,863        |
| Parts sales                                  | 10,465                             | 1,953                                               |             | 12,418       |
| Services revenues                            | 13,779                             | 2,054                                               |             | 15,833       |
| Other                                        | (2,626)                            | (1,387)                                             |             | (4,013)      |
| Gross profit                                 | 70,580                             | 12,331                                              |             | 82,911       |
| Selling, general and administrative expenses | 62,839                             | 12,800                                              |             | 75,639       |
| Equity in loss of guarantor subsidiaries     | (5,061)                            |                                                     | 5,061       |              |
| Gain on sales of property and equipment, net | 128                                | 21                                                  |             | 149          |
| Income (loss) from operations                | 2,808                              | (448)                                               | 5,061       | 7,421        |
| Other income (expense):                      |                                    |                                                     |             |              |
| Interest expense                             | (9,760)                            | (4,625)                                             |             | (14,385)     |
| Other, net                                   | 496                                | 12                                                  |             | 508          |
| Total other expense, net                     | (9,264)                            | (4,613)                                             |             | (13,877)     |
| Loss before income taxes                     | (6,456)                            | (5,061)                                             | 5,061       | (6,456)      |
| Income tax benefit                           | (2,672)                            |                                                     |             | (2,672)      |
| Net loss                                     | \$ (3,784)                         | \$ (5,061)                                          | \$ 5,061    | \$ (3,784)   |



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

|                                                                                          | H&E Equipment<br>Services | Six Months Ended June 30, 2012<br>Guarantor<br>Subsidiaries | Elimination<br>(Amounts in thousands) | Consolidated |
|------------------------------------------------------------------------------------------|---------------------------|-------------------------------------------------------------|---------------------------------------|--------------|
| Cash flows from operating activities:                                                    |                           |                                                             |                                       |              |
| Net income (loss)                                                                        | \$ 14,423                 | \$ (849)                                                    | \$ 849                                | \$ 14,423    |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: |                           |                                                             |                                       |              |
| Depreciation and amortization on property and equipment                                  | 5,663                     | 875                                                         |                                       | 6,538        |
| Depreciation on rental equipment                                                         | 38,351                    | 9,226                                                       |                                       | 47,577       |
| Amortization of loan discounts and deferred financing costs                              | 669                       |                                                             |                                       | 669          |
| Amortization of intangible assets                                                        |                           | 50                                                          |                                       | 50           |
| Provision for losses on accounts receivable                                              | 1,203                     | 528                                                         |                                       | 1,731        |
| Provision for inventory obsolescence                                                     | 31                        |                                                             |                                       | 31           |
| Provision for deferred income taxes                                                      | 1,619                     |                                                             |                                       | 1,619        |
| Stock-based compensation expense                                                         | 797                       |                                                             |                                       | 797          |
| Gain on sales of property and equipment, net                                             | (786)                     | (178)                                                       |                                       | (964)        |
| Gain on sales of rental equipment, net                                                   | (11,965)                  | (2,394)                                                     |                                       | (14,359)     |
| Writedown of goodwill for tax-deductible goodwill in excess of book goodwill             | 972                       |                                                             |                                       | 972          |
| Equity in loss of guarantor subsidiaries                                                 | 849                       |                                                             | (849)                                 |              |
| Changes in operating assets and liabilities:                                             |                           |                                                             |                                       |              |
| Receivables, net                                                                         | (1,540)                   | (2,805)                                                     |                                       | (4,345)      |
| Inventories, net                                                                         | (59,008)                  | (11,105)                                                    |                                       | (70,113)     |
| Prepaid expenses and other assets                                                        | (275)                     | (17)                                                        |                                       | (292)        |
| Accounts payable                                                                         | 16,094                    | 2,295                                                       |                                       | 18,389       |
| Manufacturer flooring plans payable                                                      | 5,207                     | 525                                                         |                                       | 5,732        |
| Accrued expenses payable and other liabilities                                           | 9,830                     | (16)                                                        |                                       | 9,814        |
| Intercompany balances                                                                    | (16,144)                  | 16,144                                                      |                                       |              |
| Deferred compensation payable                                                            | (64)                      |                                                             |                                       | (64)         |
| Net cash provided by operating activities                                                | 5,926                     | 12,279                                                      |                                       | 18,205       |
| Cash flows from investing activities:                                                    |                           |                                                             |                                       |              |
| Purchases of property and equipment                                                      | (17,575)                  | (1,847)                                                     |                                       | (19,422)     |
| Purchases of rental equipment                                                            | (99,181)                  | (20,393)                                                    |                                       | (119,574)    |
| Proceeds from sales of property and equipment                                            | 1,218                     | 122                                                         |                                       | 1,340        |
| Proceeds from sales of rental equipment                                                  | 34,669                    | 9,917                                                       |                                       | 44,586       |
| Net cash used in investing activities                                                    | (80,869)                  | (12,201)                                                    |                                       | (93,070)     |
| Cash flows from financing activities:                                                    |                           |                                                             |                                       |              |
| Purchases of treasury stock                                                              | (291)                     |                                                             |                                       | (291)        |
| Excess tax benefit (deficiency) from stock-based awards                                  | 286                       |                                                             |                                       | 286          |
| Borrowings on senior secured credit facility                                             | 462,578                   |                                                             |                                       | 462,578      |
| Payments on senior secured credit facility                                               | (407,370)                 |                                                             |                                       | (407,370)    |
| Payments of deferred financing costs                                                     | (783)                     |                                                             |                                       | (783)        |
| Payments on capital lease obligations                                                    |                           | (78)                                                        |                                       | (78)         |
| Net cash provided by (used in) financing activities                                      | 54,420                    | (78)                                                        |                                       | 54,342       |
| Net decrease in cash                                                                     | (20,523)                  |                                                             |                                       | (20,523)     |
| Cash, beginning of period                                                                | 24,215                    |                                                             |                                       | 24,215       |

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|                     |    |       |    |  |    |  |    |       |
|---------------------|----|-------|----|--|----|--|----|-------|
| Cash, end of period | \$ | 3,692 | \$ |  | \$ |  | \$ | 3,692 |
|---------------------|----|-------|----|--|----|--|----|-------|

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

|                                                                                           | H&E Equipment<br>Services,<br>Inc. | Six Months Ended June 30, 2011 |             |              |
|-------------------------------------------------------------------------------------------|------------------------------------|--------------------------------|-------------|--------------|
|                                                                                           |                                    | Guarantor<br>Subsidiaries      | Elimination | Consolidated |
|                                                                                           |                                    | (Amounts in thousands)         |             |              |
| Cash flows from operating activities:                                                     |                                    |                                |             |              |
| Net loss                                                                                  | \$ (3,784)                         | \$ (5,061)                     | \$ 5,061    | \$ (3,784)   |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: |                                    |                                |             |              |
| Depreciation and amortization on property and equipment                                   | 5,232                              | 1,015                          |             | 6,247        |
| Depreciation on rental equipment                                                          | 32,989                             | 9,081                          |             | 42,070       |
| Amortization of loan discounts and deferred financing costs                               | 694                                |                                |             | 694          |
| Amortization of intangible assets                                                         |                                    | 247                            |             | 247          |
| Provision for losses on accounts receivable                                               | 1,803                              | (352)                          |             | 1,451        |
| Provision for inventory obsolescence                                                      | 139                                |                                |             | 139          |
| Decrease in deferred income taxes                                                         | (2,770)                            |                                |             | (2,770)      |
| Stock-based compensation expense                                                          | 660                                |                                |             | 660          |
| Gain on sales of property and equipment, net                                              | (128)                              | (21)                           |             | (149)        |
| Gain on sales of rental equipment, net                                                    | (6,961)                            | (1,233)                        |             | (8,194)      |
| Equity in loss of guarantor subsidiaries                                                  | 5,061                              |                                | (5,061)     |              |
| Changes in operating assets and liabilities:                                              |                                    |                                |             |              |
| Receivables, net                                                                          | 3,122                              | (2,996)                        |             | 126          |
| Inventories, net                                                                          | (25,186)                           | (4,850)                        |             | (30,036)     |
| Prepaid expenses and other assets                                                         | 431                                | 28                             |             | 459          |
| Accounts payable                                                                          | (3,670)                            | (255)                          |             | (3,925)      |
| Manufacturer flooring plans payable                                                       | (8,626)                            | 34                             |             | (8,592)      |
| Accrued expenses payable and other liabilities                                            | 441                                | 270                            |             | 711          |
| Intercompany balances                                                                     | (12,122)                           | 12,122                         |             |              |
| Deferred compensation payable                                                             | (28)                               |                                |             | (28)         |
| Net cash provided by (used in) operating activities                                       | (12,703)                           | 8,029                          |             | (4,674)      |
| Cash flows from investing activities:                                                     |                                    |                                |             |              |
| Purchases of property and equipment                                                       | (5,315)                            | (978)                          |             | (6,293)      |
| Purchases of rental equipment                                                             | (41,510)                           | (12,823)                       |             | (54,333)     |
| Proceeds from sales of property and equipment                                             | 200                                | 60                             |             | 260          |
| Proceeds from sales of rental equipment                                                   | 21,102                             | 5,785                          |             | 26,887       |
| Net cash used in investing activities                                                     | (25,523)                           | (7,956)                        |             | (33,479)     |
| Cash flows from financing activities:                                                     |                                    |                                |             |              |
| Purchases of treasury stock                                                               | (461)                              |                                |             | (461)        |
| Borrowings on senior secured credit facility                                              | 170,540                            |                                |             | 170,540      |
| Payments on senior secured credit facility                                                | (155,316)                          |                                |             | (155,316)    |
| Payments on capital lease obligations                                                     |                                    | (73)                           |             | (73)         |
| Net cash provided by (used in) financing activities                                       | 14,763                             | (73)                           |             | 14,690       |
| Net decrease in cash                                                                      | (23,463)                           |                                |             | (23,463)     |
| Cash, beginning of period                                                                 | 29,149                             |                                |             | 29,149       |
| Cash, end of period                                                                       | \$ 5,686                           | \$                             | \$          | \$ 5,686     |



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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 June 30, 2012, and its results of operations for the three and six month periods ended June 30, 2012, 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, 2011. 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, 2011.

#### **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 July 27, 2012, we operated 64 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 51 years. H&E Equipment Services L.L.C. ( *H&E LLC* ) was formed in June 2002 through the business combination of Head & Engquist Equipment, LLC ( *Head & Engquist* ), a wholly-owned subsidiary of Gulf Wide Industries, L.L.C. ( *Gulf Wide* ), and ICM Equipment Company L.L.C. ( *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 L.L.C. ( *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 reincorporation merger.

#### *Critical Accounting Policies*

Item 7, included in Part II of our Annual Report on Form 10-K for the year ended December 31, 2011, 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 six months ended June 30, 2012. 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, 2011 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 six month period ended June 30, 2012, approximately 34.0% of our total revenues were attributable to equipment rentals, 27.6% of our total revenues were attributable to new equipment sales, 13.1% were attributable to used equipment sales, 12.6% were attributable to parts sales, 7.1% were attributable to our services revenues and 5.6% were attributable to non-segmented other revenues.



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

*Equipment Rentals.* 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, the costs associated with the used equipment we sell, rental expenses, rental depreciation and costs associated with parts sales and services, all of which are included in cost of revenues. For the six month period ended June 30, 2012, our total cost of revenues was approximately \$265.8 million. Our operating expenses consist principally of selling, general and administrative expenses. For the six month period ended June 30, 2012, our selling, general and administrative expenses were \$82.1 million. In addition, we have interest expense related to our debt instruments. Operating expenses and all other income and expense items below the gross profit line of our consolidated statements of operations are not generally allocated to our reportable segments.



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We are also subject to federal and state income taxes. Our Federal Tax Returns for the tax years 2005 through 2009 are currently under examination by the Internal Revenue Service ( IRS ) following the Company's filing of amended returns for the tax years 2005 through 2009 pursuant to which the Company claimed a net operating loss carryback. Accordingly, we may incur additional tax expense based on probable outcomes of such matters. We currently do not expect any material adjustments resulting from the IRS examination.

### ***Cost of Revenues:***

**Rental Depreciation.** Depreciation of rental equipment represents the depreciation costs attributable to rental equipment. Estimated useful lives vary based upon type of equipment. Generally, we depreciate cranes and aerial work platforms over a ten year estimated useful life, earthmoving 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. We periodically evaluate the appropriateness of remaining depreciable lives assigned to rental equipment.

**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, legal and professional fees, rent and other occupancy costs, 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, including indebtedness outstanding under our senior secured credit facility, senior unsecured notes due 2016 and our capital lease obligations. 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 inventory and to fund working capital and capital expenditures (see also Liquidity and Capital Resources below).

**Table of Contents****Rental Fleet**

A significant portion of our overall value is in our rental fleet equipment. The net book value of our rental equipment at June 30, 2012 was \$518.4 million, or approximately 60.3% of our total assets. Our rental fleet as of June 30, 2012, consisted of 19,453 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 \$809.3 million. As of June 30, 2012, our rental fleet composition was as follows (dollars in millions):

|                                  | Units  | % of<br>Total<br>Units | Original<br>Acquisition<br>Cost | % of<br>Original<br>Acquisition<br>Cost | Average<br>Age in<br>Months |
|----------------------------------|--------|------------------------|---------------------------------|-----------------------------------------|-----------------------------|
| Hi-Lift or Aerial Work Platforms | 13,289 | 68.3%                  | \$ 486.4                        | 60.1%                                   | 48.8                        |
| Cranes                           | 370    | 1.9%                   | 105.7                           | 13.1%                                   | 40.0                        |
| Earthmoving                      | 1,879  | 9.7%                   | 156.7                           | 19.3%                                   | 22.1                        |
| Industrial Lift Trucks           | 644    | 3.3%                   | 24.4                            | 3.0%                                    | 25.2                        |
| Other                            | 3,271  | 16.8%                  | 36.1                            | 4.5%                                    | 20.1                        |
| Total                            | 19,453 | 100.0%                 | \$ 809.3                        | 100.0%                                  | 40.4                        |

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 approximately \$72.7 million, or 9.9%, during the six month period ended June 30, 2012. The average age of our rental fleet equipment decreased by approximately 2.9 months during the six month period ended June 30, 2012.

Our average rental rates for the six month period ended June 30, 2012 were 10.6% higher than the comparative six month period ended June 30, 2011 (see further discussion on rental rates in Results of Operations below).

The rental equipment mix among our four core product lines for the six month period ended June 30, 2012 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 under the heading Forward-Looking Statements, and in Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011.

*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.

*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

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to make capital expenditures to rent or buy specialized equipment. Accordingly, our business is impacted by fluctuations in customers' spending levels on capital expenditures and by the availability of credit to those customers.

*Adverse weather.* Adverse weather in 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, particularly in the winter months.

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We believe that our integrated business tempers the effects of downturns in a particular segment. For a discussion of seasonality, see Seasonality on page 34 of this Quarterly Report on Form 10-Q.

**Results of Operations**

The tables included in the period-to-period comparisons below provide summaries of our revenues and gross profits for our business segments and non-segmented revenues for the three and six month periods ended June 30, 2012 and 2011. 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 macroeconomic downturn; and (iii) unfavorable credit markets affecting end-user access to capital. Although our total gross profit margins trended downward from the year ended December 31, 2006 through December 31, 2010, 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 as the 2011 fiscal year and first two quarters of 2012, 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 recent gross profit margin improvements are indicative of a favorable trend in our business, nor can we forecast whether, or to what extent, we may experience any other declines, or whether our responses to any ongoing or future unfavorable business conditions will be meaningful in mitigating or reversing the prior gross profit margin declines.

Deterioration in the non-residential construction industry and the industrial sectors we serve could result in 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 was 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 (see also Item 1A, Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2011).

**Three Months Ended June 30, 2012 Compared to the Three Months Ended June 30, 2011****Revenues.**

|                        | Three Months Ended<br>June 30,     |            | Total<br>Dollar<br>Increase<br>(Decrease) | Total<br>Percentage<br>Increase<br>(Decrease) |
|------------------------|------------------------------------|------------|-------------------------------------------|-----------------------------------------------|
|                        | 2012                               | 2011       |                                           |                                               |
|                        | (in thousands, except percentages) |            |                                           |                                               |
| Segment Revenues:      |                                    |            |                                           |                                               |
| Equipment rentals      | \$ 70,504                          | \$ 55,772  | \$ 14,732                                 | 26.4%                                         |
| New equipment sales    | 64,704                             | 57,913     | 6,791                                     | 11.7%                                         |
| Used equipment sales   | 23,588                             | 23,066     | 522                                       | 2.3%                                          |
| Parts sales            | 24,725                             | 24,942     | (217)                                     | (0.9)%                                        |
| Services revenues      | 13,879                             | 13,244     | 635                                       | 4.8%                                          |
| Non-Segmented revenues | 11,624                             | 9,398      | 2,226                                     | 23.7%                                         |
| Total revenues         | \$ 209,024                         | \$ 184,335 | \$ 24,689                                 | 13.4%                                         |

**Total Revenues.** Our total revenues were \$209.0 million for the three month period ended June 30, 2012 compared to \$184.3 million for the same three month period in 2011, an increase of \$24.7 million, or 13.4%. Revenues for all reportable segments and non-segmented revenues are further discussed below.



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**Equipment Rental Revenues.** Our revenues from equipment rentals for the three month period ended June 30, 2012 increased \$14.7 million, or 26.4%, to \$70.5 million from \$55.8 million in the same three month period in 2011. Rental revenues from aerial work platforms increased approximately \$8.8 million, while rental revenues from cranes increased \$1.5 million. Other equipment rentals increased \$3.1 million and lift truck rental revenues and earthmoving equipment rental revenues increased \$0.8 million and \$0.6 million, respectively. Our average rental rates for the three month period ended June 30, 2012 increased 11.0% compared to the three month period ended June 30, 2011 and increased 5.0% compared to the previous three month period ended March 31, 2012.

Rental equipment dollar utilization (annual rental revenues divided by the average original rental fleet equipment costs) for the three month period ended June 30, 2012 improved to 35.6% compared to 31.0% in the same three month period in 2011, an increase of approximately 4.6%. The increase in comparative rental equipment dollar utilization was the result of a 1.6% increase in rental equipment time utilization (equipment usage based on the number of rental equipment units available for rent), combined with a 11.0% increase in average rental rates in the comparative period. Rental equipment time utilization based on the number of rental equipment units available for rent was 68.7% for the three month period ended June 30, 2012 compared to 67.1% for the same three month period in 2011. Rental equipment time utilization as a percentage of original equipment cost was 73.5% for the three month period ended June 30, 2012 compared to 70.0% for the three month period ended June 30, 2011, an increase of 3.5%.

**New Equipment Sales Revenues.** Our new equipment sales for the three month period ended June 30, 2012 increased \$6.8 million, or 11.7%, to \$64.7 million from \$57.9 million for the three month period ended June 30, 2011. Sales of new cranes increased \$5.4 million and sales of new aerial work platform equipment increased \$1.3 million. Sales of new earthmoving equipment increased \$0.1 million, while sales of other equipment decreased approximately \$0.1 million.

**Used Equipment Sales Revenues.** Our used equipment sales increased \$0.5 million, or 2.3%, to \$23.6 million for the three month period ended June 30, 2012, from \$23.1 million for the same three month period in 2011. Sales of used aerial work platform equipment increased approximately \$1.6 million and sales of used other equipment and used lift trucks increased \$0.6 million and \$0.3 million, respectively. These increases were partially offset by a decrease in sales of used cranes and used earthmoving equipment of \$1.1 million and \$0.8 million, respectively.

**Parts Sales Revenues.** Our parts sales decreased \$0.2 million, or 0.9%, to \$24.7 million for the three month period ended June 30, 2012 from \$24.9 million for the same three month period in 2011.

**Services Revenues.** Our services revenues for the three month period ended June 30, 2012 increased \$0.6 million, or 4.8%, to \$13.9 million from approximately \$13.2 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 June 30, 2012, our other revenues were \$11.6 million, an increase of \$2.2 million, or 23.7%, from \$9.4 million in the same three month period in 2011. The increase was primarily due to an increase in the volume of these services in conjunction with the related improvements of our primary business activities.

## Gross Profit.

|                              | Three Months Ended<br>June 30,     |           | Total<br>Dollar<br>Change<br>Increase | Total<br>Percentage<br>Change<br>Increase |
|------------------------------|------------------------------------|-----------|---------------------------------------|-------------------------------------------|
|                              | 2012                               | 2011      |                                       |                                           |
|                              | (in thousands, except percentages) |           |                                       |                                           |
| Segment Gross Profit (Loss): |                                    |           |                                       |                                           |
| Equipment rentals            | \$ 33,488                          | \$ 22,696 | \$ 10,792                             | 47.6%                                     |
| New equipment sales          | 7,071                              | 6,795     | 276                                   | 4.1%                                      |
| Used equipment sales         | 7,183                              | 5,008     | 2,175                                 | 43.4%                                     |
| Parts sales                  | 6,920                              | 6,681     | 239                                   | 3.6%                                      |
| Services revenues            | 8,711                              | 8,107     | 604                                   | 7.5%                                      |
| Non-Segmented revenues       | 862                                | (1,492)   | 2,354                                 | 157.8%                                    |

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|                    |           |           |           |       |
|--------------------|-----------|-----------|-----------|-------|
| Total gross profit | \$ 64,235 | \$ 47,795 | \$ 16,440 | 34.4% |
|--------------------|-----------|-----------|-----------|-------|

*Total Gross Profit.* Our total gross profit was approximately \$64.2 million for the three month period ended June 30, 2012 compared to \$47.8 million for the same three month period in 2011, an increase of \$16.4 million, or 34.4%. Total gross profit margin for the three month period ended June 30, 2012 was 30.7%, an increase of 4.8% from the 25.9% gross profit margin for the same three month period in 2011. Gross profit (loss) and gross margin for all reportable segments are further described below:

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**Equipment Rentals Gross Profit.** Our gross profit from equipment rentals for the three month period ended June 30, 2012 increased \$10.8 million, or 47.6%, to \$33.5 million from \$22.7 in the same three month period in 2011. The increase in equipment rentals gross profit was the result of a \$14.7 million increase in rental revenues for the three month period ended June 30, 2012, which was partially offset by a \$0.7 million increase in rental expenses and a \$3.3 million increase in rental equipment depreciation expense. The increase in rental expenses and rental equipment depreciation expense was primarily due to a larger fleet size in 2012 compared to 2011. As a percentage of equipment rental revenues, rental expenses were 17.4% for the three month period ended June 30, 2012 compared to 20.7% for the three month period ended June 30, 2011 and depreciation expense was 35.1% for the three month period ended June 30, 2012 compared to 38.6% for the same three month period in 2011. These percentage decreases were primarily attributable to the increase in comparative rental revenues.

Gross profit margin on equipment rentals for the three month period ended June 30, 2012 was approximately 47.5%, up 6.8% from 40.7% for the comparable period in 2011. This gross profit margin improvement was primarily due to the increase in comparative rental revenues resulting from improved utilization and higher average rental rates, combined with the decreases in depreciation expenses and rental expenses as a percentage of equipment rental revenues for the three month period ended June 30, 2012 compared to same period last year.

**New Equipment Sales Gross Profit.** Our new equipment sales gross profit for the three month period ended June 30, 2012 increased approximately \$0.3 million, or 4.1%, to \$7.1 million compared to \$6.8 million for the same three month period in 2011 on a total new equipment sales increase of \$6.8 million. Gross profit margin on new equipment sales for the three month period ended June 30, 2012 was 10.9%, a decrease of approximately 1.8% from 11.7% in the same three month period in 2011, primarily reflecting lower margins on new crane sales resulting from the product mix of new cranes sold and lower margins on new earthmoving equipment sales resulting from the product mix of new earthmoving equipment sold.

**Used Equipment Sales Gross Profit.** Our used equipment sales gross profit for the three month period ended June 30, 2012 increased \$2.2 million, or 43.4%, to \$7.2 million from \$5.0 million in the same period in 2011 on a used equipment sales increase of \$0.5 million. Gross profit margin on used equipment sales for the three month period ended June 30, 2012 was 30.5%, up 8.8% from 21.7% for the same three month period in 2011, primarily as a result of the improved margins on used aerial high lift equipment and used earthmoving equipment. Our used equipment sales from the rental fleet, which comprised approximately 88.7% and 65.3% of our used equipment sales for the three month periods ended June 30, 2012 and 2011, respectively, were approximately 148.9% and 145.0% of net book value for the three month periods ended June 30, 2012 and 2011, respectively.

**Parts Sales Gross Profit.** For the three month period ended June 30, 2012, our parts sales revenue gross profit increased \$0.2 million, or 3.6%, to \$6.9 million from \$6.7 million for the same three month period in 2011 on a \$0.2 million decrease in parts sales revenues. Gross profit margin for the three month period ended June 30, 2012 was 28.0%, an increase of 1.2% from 26.8% in the same three month period in 2011, as a result of the mix of parts sold.

**Services Revenues Gross Profit.** For the three month period ended June 30, 2012, our services revenues gross profit increased \$0.6 million, or 7.5%, to \$8.7 million from \$8.1 million for the same three month period in 2011 on a \$0.6 million increase in services revenues. Gross profit margin for the three month period ended June 30, 2012 was 62.8%, up 1.6% from 61.2% in the same three month period in 2011 as a result of service revenues mix.

**Non-Segmented Other Revenues Gross Profit (Loss).** Our non-segmented other revenues realized a gross profit of \$0.9 million for the three month period ended June 30, 2012 compared to a gross loss of \$1.5 million for the same period in 2011. On a gross margin basis, gross margin for the three month period ended June 30, 2012 was 7.4% compared to a gross loss margin of 15.9% for the same three month period last year, primarily reflective of the \$2.2 million improvement in non-segmented other revenues for the comparative period and an increase in gross margins for these services in conjunction with the related improvements of our primary business activities.

**Selling, General and Administrative Expenses.** SG&A expenses increased approximately \$3.9 million, or 10.4%, to \$41.4 million for the three month period ended June 30, 2012 compared to \$37.5 million for the three month period ended June 30, 2011. The net increase in SG&A expenses was attributable to several factors. Employee salaries and wages and related employee expenses increased \$3.2 million as a result of higher salaries, wages and payroll taxes stemming primarily from an increase from commission and incentive pay that resulted from higher rental and sales revenues. Stock-based compensation expense was approximately \$0.5 million for the three month period ended June 30, 2012 and \$0.4 million for the same three month period last year. Legal and professional fees increased \$0.6 million in the current year period and bad debt expense increased \$0.3 million. These increases were

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partially offset by a net \$0.2 million decrease general corporate overhead costs. As a percentage of total revenues, SG&A expenses were 19.8% for the three month period ended June 30, 2012, a decrease of 0.6% from 20.4% for the same three month period in 2011, primarily as a result of the current year increase in total revenues.

**Other Income (Expense).** For the three month period ended June 30, 2012, our net other expenses decreased \$0.2 million to \$6.8 million compared to \$7.0 million for the same three month period in 2011. The decrease was the result of a \$0.2 million decrease in interest expense to \$7.0 million for the three month period ended June 30, 2012 compared to \$7.2 million for the same three month period in 2011. The decrease in interest expense is the net result of an approximately \$0.5 million decrease in interest expense related to manufacturing flooring plans used to finance inventory purchases and a \$0.3 million increase in interest related costs on our senior secured credit facility.

**Income Taxes.** We recorded income tax expense of \$6.2 million for the three month period ended June 30, 2012 compared to income tax expense of \$0.6 million for the three month period ended June 30, 2011. Our effective income tax rate for the three month period ended June 30, 2012 was approximately 37.2% compared to approximately 18.7% for the three month period ended June 30, 2011. Our effective tax rate increased as a result of higher pre-tax income in relation to permanent differences. We also recorded a reduction of book goodwill of approximately \$0.5 million for tax benefits realized from tax-deductible goodwill in excess of book goodwill. Based on available evidence, both positive and negative, we believe it is more likely than not that our deferred tax assets at June 30, 2012 are fully realizable through future reversals of existing taxable temporary differences and future taxable income, and are not subject to any limitations.

### Six Months Ended June 30, 2012 Compared to the Six Months Ended June 30, 2011

#### Revenues.

|                        | Six Months Ended<br>June 30,<br>2012 | 2011<br>(in thousands, except percentages) | Total<br>Dollar<br>Increase | Total<br>Percentage<br>Increase |
|------------------------|--------------------------------------|--------------------------------------------|-----------------------------|---------------------------------|
| Segment Revenues:      |                                      |                                            |                             |                                 |
| Equipment rentals      | \$ 130,133                           | \$ 104,250                                 | \$ 25,883                   | 24.8%                           |
| New equipment sales    | 105,701                              | 87,086                                     | 18,615                      | 21.4%                           |
| Used equipment sales   | 50,110                               | 38,483                                     | 11,627                      | 30.2%                           |
| Parts sales            | 48,103                               | 46,519                                     | 1,584                       | 3.4%                            |
| Services revenues      | 27,179                               | 25,881                                     | 1,298                       | 5.0%                            |
| Non-Segmented revenues | 21,463                               | 17,024                                     | 4,439                       | 26.1%                           |
| Total revenues         | \$ 382,689                           | \$ 319,243                                 | 63,446                      | 19.9%                           |

**Total Revenues.** Our total revenues were \$382.7 million for the six month period ended June 30, 2012 compared to \$319.2 million for the same six month period in 2011, an increase of approximately \$63.4 million, or 19.9%. 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 six month period ended June 30, 2012 increased \$25.9 million, or 24.8%, to \$130.1 million from approximately \$104.2 million in the same six month period in 2011. Rental revenues from aerial work platforms increased approximately \$16.4 million, while rental revenues from cranes increased \$2.8 million. Other equipment rentals increased \$5.0 million, lift truck rental revenues increased \$1.4 million, and earthmoving equipment rentals increased \$0.3 million. Our average rental rates for the six month period ended June 30, 2012 increased 10.6% compared to the six month period ended June 30, 2011.

Rental equipment dollar utilization (annual rental revenues divided by the average original rental fleet equipment costs) for the six month period ended June 30, 2012 improved to approximately 34.0% compared to 29.5% in the same six month period in 2011, an increase of 4.5%. The increase in comparative rental equipment dollar utilization was the result of a 3.2% increase in rental equipment time utilization (equipment usage based on the number of rental equipment units available for rent), combined with a 10.6% increase in average rental rates in the comparative period. Rental equipment time utilization based on the number of rental equipment units available for rent was 67.3% for the six month period ended June 30, 2012 compared to 64.1% for the same six month period in 2011. Rental equipment time utilization as a percentage of original equipment cost was 71.6% for the six month period ended June 30, 2012 compared to 67.4% for the six month period ended June 30, 2011, an increase of 4.2%.

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*New Equipment Sales Revenues.* Our new equipment sales for the six month period ended June 30, 2012 increased \$18.6 million,

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or 21.4%, to \$105.7 million from \$87.1 million for the six month period ended June 30, 2011. Sales of new cranes increased \$20.9 million and sales of new aerial work platform equipment increased \$1.4 million. These new equipment sales increases were partially offset by a decrease in sales of new earthmoving equipment of \$3.4 million, new lift trucks of \$0.1 million and other equipment of \$0.2 million.

*Used Equipment Sales Revenues.* Our used equipment sales increased \$11.6 million, or 30.2%, to \$50.1 million for the six month period ended June 30, 2012, from \$38.5 million for the same six month period in 2011. Sales of used earthmoving equipment increased \$4.8 million, while used aerial work platform equipment and used crane sales increased \$3.2 million and \$1.9 million, respectively. Sales of used other equipment and used lift trucks increased \$1.2 million and \$0.5 million, respectively.

*Parts Sales Revenues.* Our parts sales increased \$1.6 million, or 3.4%, to \$48.1 million for the six month period ended June 30, 2012 from \$46.5 million for the same six month period in 2011. The increase in parts revenues was due to a \$1.8 million increase in parts sales resulting from higher demand for parts in the first quarter of the current year, which was partially offset by a \$0.2 million decrease in parts sales in the current year second quarter.

*Services Revenues.* Our services revenues for the six month period ended June 30, 2012 increased \$1.3 million, or 5.0%, to \$27.2 million from \$25.9 million for the same six 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 six month period ended June 30, 2012, our other revenues were \$21.5 million, an increase of \$4.4 million, or 26.1%, from \$17.0 million in the same six month period in 2011. The increase was primarily due to an increase in the volume of these services in conjunction with the related improvements of our primary business activities.

### Gross Profit.

|                              | Six Months Ended<br>June 30,       |           | Total<br>Dollar<br>Change<br>Increase | Total<br>Percentage<br>Change<br>Increase |
|------------------------------|------------------------------------|-----------|---------------------------------------|-------------------------------------------|
|                              | 2012                               | 2011      |                                       |                                           |
|                              | (in thousands, except percentages) |           |                                       |                                           |
| Segment Gross Profit (Loss): |                                    |           |                                       |                                           |
| Equipment rentals            | \$ 58,760                          | \$ 39,872 | \$ 18,888                             | 47.4%                                     |
| New equipment sales          | 12,123                             | 9,938     | 2,185                                 | 22.0%                                     |
| Used equipment sales         | 15,083                             | 8,863     | 6,220                                 | 70.2%                                     |
| Parts sales                  | 13,369                             | 12,418    | 951                                   | 7.7%                                      |
| Services revenues            | 16,887                             | 15,833    | 1,054                                 | 6.7%                                      |
| Non-Segmented revenues       | 664                                | (4,013)   | 4,677                                 | 116.5%                                    |
| Total gross profit           | \$ 116,886                         | \$ 82,911 | \$ 33,975                             | 41.0%                                     |

*Total Gross Profit.* Our total gross profit was \$116.9 million for the six month period ended June 30, 2012 compared to \$82.9 million for the same six month period in 2011, an increase of \$34.0 million, or 41.0%. Total gross profit margin for the six month period ended June 30, 2012 was 30.5%, an increase of 4.5% from the 26.0% gross profit margin for the same six month period in 2011. Gross profit (loss) and gross margin for all reportable segments are further described below:

*Equipment Rentals Gross Profit.* Our gross profit from equipment rentals for the six month period ended June 30, 2012 increased \$18.9 million, or 47.4%, to \$58.8 million from \$39.9 million in the same six month period in 2011. The increase in equipment rentals gross profit was the result of a \$25.9 million increase in rental revenues for the six month period ended June 30, 2012, which was partially offset by a \$1.5 million increase in rental expenses and a \$5.5 million increase in rental equipment depreciation expense. The increase in rental expenses and rental equipment depreciation expense was primarily due to a larger fleet size in 2012 compared to 2011. As a percentage of equipment rental revenues, rental expenses were 18.3% for the six month period ended June 30, 2012 compared to 21.4% for the six month period ended June 30, 2011 and depreciation expense was 36.6% for the six month period ended June 30, 2012 compared to 40.4% for the same six month period in 2011. These percentage decreases were primarily attributable to the increase in comparative rental revenues.

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Gross profit margin on equipment rentals for the six month period ended June 30, 2012 was approximately 45.2%, up 7.0% from 38.2% for the comparable period in 2011. This gross profit margin improvement was primarily due to the increase in comparative rental revenues resulting from improved utilization and higher average rental rates, combined with the decreases in depreciation expenses and rental expenses as a percentage of equipment rental revenues for the six month period ended June 30, 2012 compared to same period last year.

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**New Equipment Sales Gross Profit.** Our new equipment sales gross profit for the six month period ended June 30, 2012 increased approximately \$2.2 million, or 22.0%, to \$12.1 million compared to \$9.9 million for the same six month period in 2011 on a total new equipment sales increase of \$18.6 million. Gross profit margin on new equipment sales for the six month period ended June 30, 2012 was 11.5%, an increase of 0.1% from 11.4% in the same six month period in 2011.

**Used Equipment Sales Gross Profit.** Our used equipment sales gross profit for the six month period ended June 30, 2012 increased \$6.2 million, or 70.2%, to \$15.1 million from \$8.9 million in the same period in 2011 on a used equipment sales increase of \$11.6 million. Gross profit margin on used equipment sales for the six month period ended June 30, 2012 was 30.1%, up 7.1% from 23.0% for the same six month period in 2011, primarily as a result of improved margins of used aerial work platform equipment, used cranes and used earthmoving equipment. Our used equipment sales from the rental fleet, which comprised approximately 89.0% and 69.9% of our used equipment sales for the six month periods ended June 30, 2012 and 2011, respectively, were approximately 147.5% and 143.8% of net book value for the six month periods ended June 30, 2012 and 2011, respectively.

**Parts Sales Gross Profit.** For the six month period ended June 30, 2012, our parts sales revenue gross profit increased approximately \$1.0 million, or 7.7%, to \$13.4 million from \$12.4 million for the same six month period in 2011 on a \$1.6 million increase in parts sales revenues. Gross profit margin for the six month period ended June 30, 2012 was 27.8%, an increase of 1.1% from 26.7% in the same six month period in 2011, as a result of the mix of parts sold.

**Services Revenues Gross Profit.** For the six month period ended June 30, 2012, our services revenues gross profit increased \$1.1 million, or 6.7%, to \$16.9 million from \$15.8 million for the same six month period in 2011 on a \$1.3 million increase in services revenues. Gross profit margin for the six month period ended June 30, 2012 was 62.1%, up 0.9% from 61.2% in the same six month period in 2011 as a result of service revenues mix.

**Non-Segmented Other Revenues Gross Profit (Loss).** Our non-segmented other revenues realized a gross profit of approximately \$0.7 million for the six month period ended June 30, 2012 compared to a gross loss of \$4.0 million for the same period in 2011. On a gross margin basis, gross margin for the six month period ended June 30, 2012 was 3.1% compared to a gross loss margin of 23.6%, primarily reflective of the \$4.4 million improvement in non-segmented other revenues.

**Selling, General and Administrative Expenses.** SG&A expenses increased approximately \$6.5 million, or 8.5%, to \$82.1 million for the six month period ended June 30, 2012 compared to \$75.6 million for the six month period ended June 30, 2011. The net increase in SG&A expenses was attributable to several factors. Employee salaries and wages and related employee expenses increased \$4.9 million as a result of higher salaries, wages and payroll taxes stemming primarily from an increase from commission and incentive pay that resulted from higher rental and sales revenues. Stock-based compensation expense was \$0.8 million for the six month period ended June 30, 2012 compared to \$0.7 million for the same six month period last year. Legal and professional fees increased \$0.6 million and bad debt expense increased \$0.3 million. Promotional costs increased \$0.2 million, while supplies and other corporate overhead expenses increased \$0.5 million. As a percentage of total revenues, SG&A expenses were approximately 21.5% for the six month period ended June 30, 2012, a decrease of 2.2% from 23.7% for the same six month period in 2011, primarily as a result of the current year increase in total revenues.

**Other Income (Expense).** For the six month period ended June 30, 2012, our net other expenses decreased approximately \$0.6 million to \$13.3 million compared to \$13.9 million for the same six month period in 2011. The decrease was the result of a \$0.6 million decrease in interest expense to \$13.8 million for the six month period ended June 30, 2012 compared to \$14.4 million for the same six month period in 2011. The decrease in interest expense is the net result of an approximately \$1.0 million decrease in interest expense related to manufacturing flooring plans used to finance inventory purchases and a \$0.5 million increase in interest related costs on our senior secured credit facility, reflecting increased average borrowings under the facility in the current year period.

**Income Taxes.** We recorded income tax expense of \$8.0 million for the six month period ended June 30, 2012 compared to an income tax benefit of \$2.7 million for the six month period ended June 30, 2011. Our effective income tax rate for the six month period ended June 30, 2012 was approximately 35.7% compared to approximately 41.4% for the six month period ended June 30, 2011. The decrease in our effective tax rate was the result of the impact of favorable permanent differences on pre-tax income for the six-month period ending June 30, 2012 compared to pre-tax loss for the six-month period ending June 30, 2011.

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We also recorded a reduction of book goodwill of approximately \$1.0 million in the six month period ended June 30, 2012 for tax benefits realized from tax-deductible goodwill in excess of book goodwill. Based on available evidence, both positive and negative, we believe it is more likely than not that our deferred tax assets at June 30, 2012 are fully realizable through future reversals of existing taxable temporary differences and future taxable income, and are not subject to any limitations.

### **Liquidity and Capital Resources**

*Cash flow from operating activities.* For the six month period ended June 30, 2012, the cash provided by our operating activities was \$18.2 million. Our reported net income of \$14.4 million, which, when adjusted for non-cash income and expense items, such as depreciation and amortization, deferred income taxes, provision for losses on accounts receivable, stock-based compensation expense and net gains on the sale of long-lived assets, provided positive cash flows of \$59.1 million. These cash flows from operating activities were also positively impacted by an \$18.4 million increase in accounts payable, a \$9.8 million increase in accrued expenses payable and other liabilities and a \$5.7 million increase in manufacturing flooring plans payable. Offsetting these positive cash flows were an increase of \$70.1 million in net inventories, a \$4.3 million increase in net receivables, a \$0.3 million increase in prepaid expenses and other assets and a \$0.1 million decrease in deferred compensation payable.

For the six month period ended June 30, 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 \$4.7 million. Our reported net loss of \$3.8 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 \$36.6 million. These cash flows from operating activities were also positively impacted by a \$0.7 million increase in accrued expenses payable and other liabilities and a \$0.5 million decrease in prepaid expenses and other assets. Offsetting these positive cash flows were an increase of \$30.0 million in net inventories, a \$3.9 million decrease in accounts payable, and an \$8.6 million decrease in manufacturing flooring plans payable.

*Cash flow from investing activities.* For the six months ended June 30, 2012, 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 \$93.1 million. This use of cash was a net result of purchases of rental and non-rental equipment totaling \$139.0 million, which was partially offset by proceeds from the sale of rental and non-rental equipment of approximately \$45.9 million.

For the six months ended June 30, 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 approximately \$33.5 million. This was a result of purchases of rental and non-rental equipment totaling \$60.6 million, which was partially offset by proceeds from the sale of rental and non-rental equipment of approximately \$27.1 million.

*Cash flow from financing activities.* For the six month period ended June 30, 2012, cash provided by our financing activities was \$54.3 million. Net borrowings under our senior secured credit facility totaled \$55.2 million. Excess tax benefits realized from stock-based awards totaled \$0.3 million. These positive cash flow was partially offset by payments of deferred financing costs of \$0.8 million related to the first quarter Amendment to the senior secured credit facility, purchases of \$0.3 million of treasury stock and \$0.1 million of capital lease payments.

For the six month period ended June 30, 2011, cash provided by our financing activities was approximately \$14.7 million, which included net borrowings under our senior secured credit facility of \$15.2 million. We purchased approximately \$0.5 million of treasury stock and made \$0.1 million of capital lease payments for the six month period ended June 30, 2011.

### **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 agent, and the lenders named therein. On February 29, 2012, we amended the credit facility (the "Amendment"). The Amendment (i) permits the refinancing of the Company's 8 3/8% senior unsecured notes due 2016 in an amount not less than \$200.0 million and not greater than the outstanding principal amount of such notes at the time of such refinancing and with no amortization or final maturity prior to the date six months following the maturity of the Credit Agreement, (ii) extends the maturity date of the credit facility from July 29, 2015 to the earlier to occur of, *inter alia*, February 29, 2017, and, unless previously refinanced, the date that is six months prior to the maturity of the senior unsecured notes (giving effect to any extensions thereof), (iii) provides that the unused commitment fee margin will be either 0.50% or 0.375%, depending on the ratio of the average of the daily closing balances of the aggregate revolving loans, swing line loans and letters of credit outstanding during each month to the aggregate commitments for the revolving loans, swing line loans and letters of credit, (iv) lowers the interest rate (a) in the case of index rate revolving loans, to the index rate



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plus an applicable margin of 1.00% to 1.50% depending on the leverage ratio and (b) in the case of LIBOR revolving loans, to LIBOR plus an applicable margin of 2.00% to 2.50%, depending on the leverage ratio, (v) lowers the margin applicable to the letter of credit fee to between 2.00% and 2.50%, depending on the leverage ratio, and (vi) adds provisions whereby the Company represents that it, its subsidiaries and other related parties are in compliance with federal anti-terrorism laws and regulations. Total transaction costs on the Amendment totaled approximately \$0.8 million.

The credit facility continues to provide, among other things, a \$320.0 million senior secured asset based revolver, which includes a \$30.0 million letter of credit facility and a \$130.0 million incremental facility. In addition, the borrowers under the credit facility remain the same, the credit facility remains secured by substantially all of the assets of the Company and its subsidiaries, and the Company and each of its subsidiaries continue to provide a guaranty of the obligations under the credit facility. The 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). As of June 30, 2012, we were in compliance with our financial covenants under the senior secured credit facility.

At June 30, 2012, the interest rate on the senior secured credit facility was based on a 3.25% U.S. Prime Rate plus 100 basis points, or 4.25% and LIBOR plus 200 basis points, or 2.48%. The weighted average interest rate at June 30, 2012 was 3.4%. At July 27, 2012, we had \$205.6 million of available borrowings under our senior secured credit facility, net of \$6.5 million of outstanding letters of credit.

### ***Senior Unsecured Notes***

We currently have outstanding \$250.0 million aggregate principal amount of 8 3/8% senior unsecured notes that are due in 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 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. As of June 30, 2012, we were in compliance with these covenants.

### ***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 and seek to open new start-up locations. In addition, we may use cash from working capital and/or borrowings under our senior secured credit facility should we repurchase Company securities. We anticipate that the above described uses will be the principal demands on our cash in the future.

The amount of our future capital expenditures will depend on a number of factors including general economic conditions and growth prospects. Our gross rental fleet capital expenditures for the six month period ended June 30, 2012 were approximately \$145.4 million, including \$25.8 million of non-cash transfers from new and used equipment to rental fleet inventory. Our gross property and equipment capital expenditures for the six month period ended June 30, 2012 were approximately \$19.4 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



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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 July 27, 2012, we had \$205.6 million of available borrowings under our senior secured credit facility, net of \$6.5 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. Adverse weather has a seasonal impact in parts of our Intermountain region, particularly in the winter months.

Equipment sales cycles are also subject to some seasonality with the peak selling period during the spring season and extending through the summer. Parts and service activities are typically 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, 2011.

### **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, 2011.

### **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 1.00% to 1.50%, depending on the leverage ratio, in the case of index rate revolving loans and LIBOR plus an applicable margin of 2.00% to 2.50%, depending on the leverage ratio, in the case of LIBOR revolving loans. At June 30, 2012, we had total borrowings under our senior secured credit facility of \$71.3 million. A 1.0% increase in the interest rate on the senior secured credit facility would result in approximately a \$0.7 million increase in interest expense on an annualized basis. At July 27, 2012, we had \$205.6 million of available borrowings under our senior secured credit facility, net of \$6.5 million of outstanding letters of credit. We did not have significant exposure to changing interest rates as of

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June 30, 2012 on our fixed-rate senior unsecured notes or on our other notes payable. Historically, we have not engaged in derivatives or other financial instruments for trading, speculative or hedging purposes, though we may do so from time to time if such instruments are available to us on acceptable terms and prevailing market conditions are accommodating.

### **Item 4. Controls and Procedures**

#### *Management's Quarterly Evaluation of Disclosure Controls and Procedures*

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

Our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively) have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our principal executive officer and principal financial officer have concluded that, as of June 30, 2012, 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 were no changes in the Company's internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) that occurred during the quarter ended June 30, 2012 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.**

From time to time, we are involved in various claims and legal actions arising in the ordinary course of our business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these various matters will not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

### **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, 2011, 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, 2011.

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

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On June 1, 2012, 60,196 shares of non-vested stock that were issued in 2009 vested at \$14.81 per share. Certain holders of those vested shares returned 19,678 shares of common stock to the Company during the quarter ended June 30, 2012 as payment for their respective employee withholding taxes. This resulted in an addition of 19,678 shares to treasury stock.

On June 15, 2012, 51,123 shares of non-vested stock that were issued in 2010 vested at \$15.36 per share. Certain holders of those vested shares returned 16,304 shares of common stock to the Company during the quarter ended June 30, 2012 as payment for their respective employee withholding taxes. This resulted in an addition of 16,304 shares to treasury stock.

### **Item 3. Defaults upon Senior Securities.**

None.

### **Item 4. Mine Safety Disclosures.**

Not applicable.

### **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). |
| 101.INS | XBRL Instance Document (furnished herewith).                                                                                                 |
| 101.SCH | XBRL Taxonomy Extension Schema Document (furnished herewith).                                                                                |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document (furnished herewith).                                                                  |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document (furnished herewith).                                                                        |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document (furnished herewith).                                                                 |

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**SIGNATURES**

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

H&E EQUIPMENT SERVICES, INC.

Dated: August 2, 2012

By: /s/ John M. Engquist  
John M. Engquist

President and Chief Executive Officer

(Principal Executive Officer)

Dated: August 2, 2012

By: /s/ Leslie S. Magee  
Leslie S. Magee

Chief Financial Officer and Secretary

(Principal Financial and Accounting Officer)

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**EXHIBIT INDEX**

|         |                                                                                                                                              |
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