

H&E Equipment Services, Inc.
Form 10-Q
November 05, 2010

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

FORM 10-Q

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

For the quarterly period ended September 30, 2010.

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

For the transition period from _____ to _____

Commission file number: 000-51759

H&E Equipment Services, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

81-0553291

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

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

(Address of Principal Executive Offices)

70816

(ZIP Code)

(225) 298-5200

(Registrant's Telephone Number, Including Area Code)

None

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer
(Do not check if a smaller

Smaller Reporting
Company

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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 November 1, 2010, there were 35,033,292 shares of H&E Equipment Services, Inc. common stock, \$0.01 par value, outstanding.

H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES
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Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the federal securities laws. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements include statements preceded by, followed by or that include the words may, could, would, should, believe, expect, anticipate, plan, estimate, target, project, similar expressions. These statements include, among others, statements regarding our expected business outlook, anticipated financial and operating results, our business strategy and means to implement the strategy, our objectives, the amount and timing of capital expenditures, the likelihood of our success in expanding our business, financing plans, budgets, working capital needs and sources of liquidity.

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

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

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

- relationships with new equipment suppliers;

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

- our indebtedness;

- the risks associated with the expansion of our business;

- our possible inability to integrate any businesses we acquire;

- competitive pressures;

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

- other factors discussed under "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2009.

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

discussion of some of the foregoing risks and uncertainties, see Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2009, as well as other reports and registration statements filed by us with the SEC. All of our annual, quarterly and current reports, and any amendments thereto, filed with or furnished to the SEC are available on our Internet website under the Investor Relations link. For more information about us and the announcements we make from time to time, visit our Internet website at www.he-equipment.com.

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

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

	Balances at	
	September 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Cash	\$ 26,856	\$ 45,336
Receivables, net of allowance for doubtful accounts of \$5,953 and \$5,736, respectively	97,966	72,001
Inventories, net of reserves for obsolescence of \$982 and \$824, respectively	92,472	94,987
Prepaid expenses and other assets	9,245	6,999
Rental equipment, net of accumulated depreciation of \$245,411 and \$224,881, respectively	412,126	437,407
Property and equipment, net of accumulated depreciation and amortization of \$51,189 and \$42,086, respectively	59,008	65,802
Deferred financing costs, net of accumulated amortization of \$10,109 and \$9,050, respectively	7,374	5,545
Intangible assets, net of accumulated amortization of \$2,927 and \$2,492, respectively	552	988
Goodwill	34,019	34,019
Total assets	\$ 739,618	\$ 763,084
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Accounts payable	\$ 61,942	\$ 28,866
Manufacturer flooring plans payable	75,503	92,868
Accrued expenses payable and other liabilities	33,231	37,271
Notes payable	703	1,929
Senior unsecured notes	250,000	250,000
Capital lease payable	2,087	2,181
Deferred income taxes	57,703	69,146
Deferred compensation payable	1,988	1,941
Total liabilities	483,157	484,202
Commitments and contingent liabilities		
Stockholders equity:		
Preferred stock, \$0.01 par value, 25,000,000 shares authorized; no shares issued		
Common stock, \$0.01 par value, 175,000,000 shares authorized; 38,699,666 and 38,525,688 shares issued at September 30, 2010 and December 31, 2009,	386	385

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respectively, and 35,033,292 and 34,904,597 shares outstanding at September 30, 2010 and December 31, 2009, respectively

Additional paid-in capital	208,813	208,072
Treasury stock at cost, 3,666,374 shares of common stock held at September 30, 2010 and 3,621,091 shares of common stock held at December 31, 2009, respectively	(56,330)	(56,118)
Retained earnings	103,592	126,543
Total stockholders' equity	256,461	278,882
Total liabilities and stockholders' equity	\$ 739,618	\$ 763,084

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 OPERATIONS****(Unaudited)****(Amounts in thousands, except per share amounts)**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Revenues:				
Equipment rentals	\$ 48,272	\$ 45,108	\$ 126,400	\$ 150,669
New equipment sales	47,697	48,685	103,952	172,010
Used equipment sales	14,700	32,698	46,062	69,254
Parts sales	22,599	25,786	65,013	78,144
Services revenues	12,412	15,225	36,466	46,164
Other	8,164	8,126	21,643	25,824
Total revenues	153,844	175,628	399,536	542,065
Cost of revenues:				
Rental depreciation	19,628	21,105	58,260	67,789
Rental expense	10,552	10,209	29,171	32,441
New equipment sales	42,979	43,549	93,992	150,519
Used equipment sales	11,083	27,069	35,690	56,482
Parts sales	16,710	18,952	47,804	56,339
Services revenues	5,177	5,646	13,805	17,059
Other	9,795	9,131	26,630	26,683
Total cost of revenues	115,924	135,661	305,352	407,312
Gross profit	37,920	39,967	94,184	134,753
Selling, general and administrative expenses	36,594	35,073	109,233	110,342
Gain on sales of property and equipment, net	125	289	324	472
Income (loss) from operations	1,451	5,183	(14,725)	24,883
Other income (expense):				
Interest expense	(7,287)	(7,847)	(21,781)	(24,039)
Other, net	10	123	166	518
Total other expense, net	(7,277)	(7,724)	(21,615)	(23,521)
Income (loss) before provision for income taxes	(5,826)	(2,541)	(36,340)	1,362
Provision (benefit) for income taxes	(2,046)	(261)	(13,389)	1,201
Net income (loss)	\$ (3,780)	\$ (2,280)	\$ (22,951)	\$ 161

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Net income (loss) per common share:				
Basic	\$ (0.11)	\$ (0.07)	\$ (0.66)	\$
Diluted	\$ (0.11)	\$ (0.07)	\$ (0.66)	\$
Weighted average common shares outstanding:				
Basic	34,700	34,625	34,656	34,601
Diluted	34,700	34,625	34,656	34,638

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

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	Nine Months Ended September 30,	
	2010	2009
Cash flows from operating activities:		
Net income (loss)	\$ (22,951)	\$ 161
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization on property and equipment	9,946	8,250
Depreciation on rental equipment	58,260	67,789
Amortization of loan discounts and deferred financing costs	1,060	1,064
Amortization of intangible assets	435	444
Provision for losses on accounts receivable	2,425	2,761
Provision for inventory obsolescence	192	47
Increase (decrease) in deferred income taxes	(11,443)	1,434
Stock-based compensation expense	741	645
Gain on sales of property and equipment, net	(324)	(472)
Gain on sales of rental equipment, net	(9,327)	(12,023)
Changes in operating assets and liabilities:		
Receivables, net	(28,390)	57,810
Inventories, net	(24,092)	10,685
Prepaid expenses and other assets	(2,246)	4,654
Accounts payable	33,076	(65,604)
Manufacturer flooring plans payable	(17,365)	(27,698)
Accrued expenses payable and other liabilities	(4,039)	(11,844)
Deferred compensation payable	47	(100)
Net cash provided by (used in) operating activities	(13,995)	38,003
Cash flows from investing activities:		
Purchases of property and equipment	(3,262)	(15,428)
Purchases of rental equipment	(31,942)	(10,222)
Proceeds from sales of property and equipment	434	1,335
Proceeds from sales of rental equipment	34,705	57,418
Net cash provided by (used in) investing activities	(65)	33,103
Cash flows from financing activities:		
Purchases of treasury stock	(212)	(107)
Borrowings on senior secured credit facility		534,373
Payments on senior secured credit facility		(607,678)
Payments of deferred financing costs	(2,888)	

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Payments of related party obligation		(150)
Payments of capital lease obligation	(94)	(89)
Principal payments on notes payable	(1,226)	(22)
Net cash used in financing activities	(4,420)	(73,673)
Net decrease in cash	(18,480)	(2,567)
Cash, beginning of period	45,336	11,266
Cash, end of period	\$ 26,856	\$ 8,699
Supplemental schedule of noncash investing and financing activities:		
Noncash asset purchases:		
Assets transferred from new and used inventory to rental fleet	\$ 26,415	\$ 8,964
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 25,925	\$ 28,408
Income taxes paid, net of refunds received	\$ 64	\$ 275

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 nine month periods ended September 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010, and therefore, the results and trends in these interim condensed consolidated financial statements may not be the same for the entire year. These interim condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and related notes in our Annual Report on Form 10-K for the year ended December 31, 2009, from which the balance sheet amounts as of December 31, 2009 were derived.

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

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

Nature of Operations

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

(2) Significant Accounting Policies

We describe our significant accounting policies in note 2 of the notes to consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2009. During the three and nine month periods ended September 30, 2010, there were no significant changes to those accounting policies.

Use of Estimates

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

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condensed consolidated financial statements. Actual results may differ materially from those estimates. We review our estimates on an ongoing basis based on information currently available, and changes in facts and circumstances may cause us to revise these estimates.

Accounting Pronouncements Adopted in Fiscal Year 2010

In June 2009, the FASB issued Statement of FAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (FAS 167), which has been codified into Accounting Standards Codification (ASC) 810: *Consolidations*. This guidance is a revision to pre-existing guidance pertaining to the consolidation and disclosure of variable interest entities. Specifically, it changes how a reporting entity determines when or if an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity's purpose and design and the reporting entity's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance. This guidance requires a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. A reporting entity is required to disclose how its involvement with a variable interest entity affects the reporting entity's financial statements. We adopted the provisions of FAS 167 effective January 1, 2010, and such adoption did not have a material impact on our condensed consolidated financial statements.

Accounting Pronouncements Not Yet Adopted

In October 2009, the FASB issued ASU 2009-13, *Multiple-Deliverable Revenue Arrangements* (amendments to ASC 605, *Revenue Recognition*) (ASU 2009-13). ASU 2009-13 addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and requires entities to allocate revenue in an arrangement containing more than one unit of accounting using estimated selling prices of the delivered goods and services based on a selling price hierarchy. The amendments eliminate the residual method of revenue allocation and require revenue to be allocated using the relative selling price method. ASU 2009-13 should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. We do not expect that the adoption of this statement will have a material impact on our consolidated financial statements.

(3) Fair Value of Financial Instruments

The carrying value of financial instruments reported in our accompanying condensed consolidated balance sheets for cash, accounts receivable, accounts payable and accrued expenses payable and other liabilities approximate fair value due to the immediate or short-term nature or maturity of these financial instruments. The 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):

	September 30, 2010	
	Carrying Amount	Fair Value
Manufacturer flooring plans payable with interest computed at 6.75%	\$ 75,503	\$ 62,658
Senior unsecured notes with interest compounded at 8.375%	250,000	250,000
Notes payable to lenders with interest computed at 9.55%	703	350
Capital lease payable with interest computed at 5.929%	2,087	1,898
Letters of credit		220
	December 31, 2009	
	Carrying Amount	Fair Value
Manufacturer flooring plans payable with interest computed at 6.75%	\$ 92,868	\$ 82,082
Senior unsecured notes with interest compounded at 8.375%	250,000	247,500

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Notes payable to lenders with interest computed at 7.25% to 9.55% .	1,929	1,476
Capital lease payable with interest computed at 5.929%	2,181	1,944
Letters of credit		98

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The following table summarizes the activity in Stockholders Equity for the nine month period ended September 30, 2010 (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, 2009	38,525,688	\$ 385	\$ 208,072	\$ (56,118)	\$ 126,543	\$ 278,882
Stock-based compensation			741			741
Issuance of common stock	173,978	1				1
Repurchase of 23,157 shares of restricted common stock				(212)		(212)
Net loss					(22,951)	(22,951)
Balances at						
September 30, 2010	38,699,666	\$ 386	\$ 208,813	\$ (56,330)	\$ 103,592	\$ 256,461

(5) Stock-Based Compensation

We account for our stock-based compensation plan using the fair value recognition provisions of ASC 718, *Stock Compensation* (ASC 718). Under the provisions of ASC 718, stock-based compensation is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the requisite employee service period (generally the vesting period of the grant). Shares available for future stock-based payment awards under our 2006 Stock-Based Incentive Compensation Plan were 3,938,354 shares as of September 30, 2010.

Non-vested Stock

The following table summarizes our non-vested stock activity for the nine month period ended September 30, 2010:

	Number	Weighted
	of	Average
	Shares	Grant Date Fair
		Value
Non-vested stock at December 31, 2009	279,223	\$ 7.79
Granted	173,978	\$ 9.54
Vested	(97,650)	\$ 8.20
Forfeited	(22,126)	\$ 8.12
Non-vested stock at September 30, 2010	333,425	\$ 8.57

As of September 30, 2010, we had unrecognized compensation expense of \$2.1 million related to non-vested stock that we expect to be recognized over a weighted-average period of 2.1 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 nine month period ended

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September 30, 2010 and 2009 (amounts in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Compensation expense	\$ 301	\$ 220	\$ 732	\$ 594

Stock Options

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Compensation expense	\$ 9	\$ 6	\$ 9	\$ 51

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

	Number of Shares	Weighted Average Exercise Price	Weighted Average Contractual Life In Years
Outstanding options at December 31, 2009	51,000	\$ 24.80	
Granted			
Exercised			
Canceled, forfeited or expired			
Outstanding options at September 30, 2010	51,000	\$ 24.80	5.8
Options exercisable at September 30, 2010	51,000	\$ 24.80	5.8

The closing price of our common stock on September 30, 2010 was \$7.97. All options outstanding at September 30, 2010 have grant date fair values which exceed the September 30, 2010 closing stock price.

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

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

Non-vested stock options at September 30, 2010

(6) Earnings (Loss) per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Basic net income (loss) per share:				
Net income (loss)	\$ (3,780)	\$ (2,280)	\$ (22,951)	\$ 161
Weighted average number of shares of common stock outstanding	34,700	34,625	34,656	34,601

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Net income (loss) per share of common stock	basic	\$ (0.11)	\$ (0.07)	\$ (0.66)	\$
Diluted net income (loss) per share:					
Net income (loss)		\$ (3,780)	\$ (2,280)	\$ (22,951)	\$ 161
Weighted average number of shares of common stock	outstanding	34,700	34,625	34,656	34,601
Effect of dilutive securities:					
Effect of dilutive stock options					
Effect of dilutive non-vested restricted stock					37
Weighted average number of shares of common stock	outstanding diluted	34,700	34,625	34,656	34,638
Net income (loss) per share of common stock	diluted	\$ (0.11)	\$ (0.07)	\$ (0.66)	\$
Common shares excluded from the denominator as anti-dilutive:					
Stock options		51	51	51	51
Non-vested restricted stock		167	291	224	61

Table of Contents**(7) Senior Secured Credit Facility**

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

The credit facility, as amended and restated, continues to provide, among other things, a \$320.0 million senior secured asset based revolver, including a \$30.0 million letter of credit facility, a \$130.0 million incremental facility and a guaranty by the Company and each of its subsidiaries of the obligations under the credit facility. In addition, the borrowers under the credit facility remain the same and the credit facility remains secured by substantially all of the assets of the Company and its subsidiaries. We paid transaction costs of approximately \$2.9 million in connection with the amendment and restatement of the credit facility.

(8) Segment Information

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

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Revenues:				
Equipment rentals	\$ 48,272	\$ 45,108	\$ 126,400	\$ 150,669
New equipment sales	47,697	48,685	103,952	172,010
Used equipment sales	14,700	32,698	46,062	69,254
Parts sales	22,599	25,786	65,013	78,144
Services revenues	12,412	15,225	36,466	46,164
Total segmented revenues	145,680	167,502	377,893	516,241
Non-segmented revenues	8,164	8,126	21,643	25,824
Total revenues	\$ 153,844	\$ 175,628	\$ 399,536	\$ 542,065
Gross Profit (Loss):				
Equipment rentals	\$ 18,092	\$ 13,794	\$ 38,969	\$ 50,439
New equipment sales	4,718	5,136	9,960	21,491

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Used equipment sales	3,617	5,629	10,372	12,772
Parts sales	5,889	6,834	17,209	21,805
Services revenues	7,235	9,579	22,661	29,105
Total segmented gross profit	39,551	40,972	99,171	135,612
Non-segmented gross loss	(1,631)	(1,005)	(4,987)	(859)
Total gross profit	\$ 37,920	\$ 39,967	\$ 94,184	\$ 134,753

	Balances at	
	September 30, 2010	December 31, 2009
Segment identified assets:		
Equipment sales	\$ 77,883	\$ 81,022
Equipment rentals	412,126	437,407
Parts and services	14,589	13,964
Total segment identified assets	504,598	532,393
Non-segment identified assets	235,020	230,691
Total assets	\$ 739,618	\$ 763,084

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The Company operates primarily in the United States and our sales to international customers for the three and nine month periods ended September 30, 2010 were 1.8% and 1.2%, respectively, of total revenues compared to 2.5% and 4.9% for the three and nine month periods ended September 30, 2009. No one customer accounted for more than 10% of our revenues on an overall or segment basis for any of the periods presented.

Table of Contents**(9) Condensed Consolidating Financial Information of Guarantor Subsidiaries**

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

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

CONDENSED CONSOLIDATING BALANCE SHEET

	As of September 30, 2010			
	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Assets:				
Cash	\$ 26,856	\$	\$	\$ 26,856
Receivables, net	86,503	11,463		97,966
Inventories, net	75,975	16,497		92,472
Prepaid expenses and other assets	9,015	230		9,245
Rental equipment, net	326,878	85,248		412,126
Property and equipment, net	49,068	9,940		59,008
Deferred financing costs, net	7,374			7,374
Intangible assets, net		552		552
Investment in guarantor subsidiaries	(15,263)		15,263	
Goodwill	4,493	29,526		34,019
Total assets	\$ 570,899	\$ 153,456	\$ 15,263	\$ 739,618
Liabilities and Stockholders Equity:				
Accounts payable	\$ 57,833	\$ 4,109	\$	\$ 61,942
Manufacturer flooring plans payable	75,139	364		75,503
Accrued expenses payable and other liabilities	31,443	1,788		33,231
Intercompany balances	(159,668)	159,668		
Notes payable		703		703
Senior unsecured notes	250,000			250,000
Capital lease payable		2,087		2,087
Deferred income taxes	57,703			57,703
Deferred compensation payable	1,988			1,988
Total liabilities	314,438	168,719		483,157
Stockholders' equity (deficit)	256,461	(15,263)	15,263	256,461

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Total liabilities and stockholders equity	\$ 570,899	\$ 153,456	\$ 15,263	\$ 739,618
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Table of Contents**CONDENSED CONSOLIDATING BALANCE SHEET**

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

Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****Three Months Ended September 30, 2010**

	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Revenues:				
Equipment rentals	\$ 37,617	\$ 10,655	\$	\$ 48,272
New equipment sales	44,125	3,572		47,697
Used equipment sales	13,034	1,666		14,700
Parts sales	19,055	3,544		22,599
Services revenues	10,951	1,461		12,412
Other	6,732	1,432		8,164
Total revenues	131,514	22,330		153,844
Cost of revenues:				
Rental depreciation	15,229	4,399		19,628
Rental expense	8,371	2,181		10,552
New equipment sales	39,841	3,138		42,979
Used equipment sales	9,839	1,244		11,083
Parts sales	14,115	2,595		16,710
Services revenues	4,623	554		5,177
Other	7,639	2,156		9,795
Total cost of revenues	99,657	16,267		115,924
Gross profit (loss):				
Equipment rentals	14,017	4,075		18,092
New equipment sales	4,284	434		4,718
Used equipment sales	3,195	422		3,617
Parts sales	4,940	949		5,889
Services revenues	6,328	907		7,235
Other	(907)	(724)		(1,631)
Gross profit	31,857	6,063		37,920
Selling, general and administrative expenses	30,331	6,263		36,594
Equity in loss of guarantor subsidiaries	(2,620)		2,620	
Gain on sales of property and equipment, net	108	17		125
Income (loss) from operations	(986)	(183)	2,620	1,451
Other income (expense):				
Interest expense	(4,845)	(2,442)		(7,287)
Other, net	5	5		10
Total other expense, net	(4,840)	(2,437)		(7,277)

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Loss before income taxes	(5,826)	(2,620)	2,620	(5,826)
Income tax benefit	(2,046)			(2,046)
Net loss	\$ (3,780)	\$ (2,620)	\$ 2,620	\$ (3,780)

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Table of Contents**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS****Three Months Ended September 30, 2009**

	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Revenues:				
Equipment rentals	\$ 35,724	\$ 9,384	\$	\$ 45,108
New equipment sales	37,087	11,598		48,685
Used equipment sales	30,338	2,360		32,698
Parts sales	21,503	4,283		25,786
Services revenues	13,441	1,784		15,225
Other	6,516	1,610		8,126
Total revenues	144,609	31,019		175,628
Cost of revenues:				
Rental depreciation	16,425	4,680		21,105
Rental expense	8,142	2,067		10,209
New equipment sales	32,944	10,605		43,549
Used equipment sales	25,014	2,055		27,069
Parts sales	15,835	3,117		18,952
Services revenues	5,026	620		5,646
Other	7,077	2,054		9,131
Total cost of revenues	110,463	25,198		135,661
Gross profit (loss):				
Equipment rentals	11,157	2,637		13,794
New equipment sales	4,143	993		5,136
Used equipment sales	5,324	305		5,629
Parts sales	5,668	1,166		6,834
Services revenues	8,415	1,164		9,579
Other	(561)	(444)		(1,005)
Gross profit	34,146	5,821		39,967
Selling, general and administrative expenses	29,137	5,936		35,073
Equity in loss of guarantor subsidiaries	(3,086)		3,086	
Gain on sales of property and equipment, net	180	109		289
Income (loss) from operations	2,103	(6)	3,086	5,183
Other income (expense):				
Interest expense	(4,729)	(3,118)		(7,847)
Other, net	85	38		123
Total other expense, net	(4,644)	(3,080)		(7,724)

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Loss before benefit for income taxes	(2,541)	(3,086)	3,086	(2,541)
Income tax benefit	(261)			(261)
Net loss	\$ (2,280)	\$ (3,086)	\$ 3,086	\$ (2,280)

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

Nine Months Ended September 30, 2010

	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Revenues:				
Equipment rentals	\$ 99,849	\$ 26,551	\$	\$ 126,400
New equipment sales	93,221	10,731		103,952
Used equipment sales	39,658	6,404		46,062
Parts sales	54,942	10,071		65,013
Services revenues	32,020	4,446		36,466
Other	17,634	4,009		21,643
Total revenues	337,324	62,212		399,536
Cost of revenues:				
Rental depreciation	45,631	12,629		58,260
Rental expense	23,458	5,713		29,171
New equipment sales	84,247	9,745		93,992
Used equipment sales	30,824	4,866		35,690
Parts sales	40,420	7,384		47,804
Services revenues	12,320	1,485		13,805
Other	20,852	5,778		26,630
Total cost of revenues	257,752	47,600		305,352
Gross profit (loss):				
Equipment rentals	30,760	8,209		38,969
New equipment sales	8,974	986		9,960
Used equipment sales	8,834	1,538		10,372
Parts sales	14,522	2,687		17,209
Services revenues	19,700	2,961		22,661
Other	(3,218)	(1,769)		(4,987)
Gross profit	79,572	14,612		94,184
Selling, general and administrative expenses	91,114	18,119		109,233
Equity in loss of guarantor subsidiaries	(10,726)		10,726	
Gain on sales of property and equipment, net	264	60		324
Loss from operations	(22,004)	(3,447)	10,726	(14,725)
Other income (expense):				
Interest expense	(14,494)	(7,287)		(21,781)
Other, net	158	8		166
Total other expense, net	(14,336)	(7,279)		(21,615)

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Loss before income taxes	(36,340)	(10,726)	10,726	(36,340)
Income tax benefit	(13,389)			(13,389)
Net loss	\$ (22,951)	\$ (10,726)	\$ 10,726	\$ (22,951)

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

Nine Months Ended September 30, 2009

	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Revenues:				
Equipment rentals	\$ 123,452	\$ 27,217	\$	\$ 150,669
New equipment sales	140,640	31,370		172,010
Used equipment sales	61,907	7,347		69,254
Parts sales	66,157	11,987		78,144
Services revenues	40,621	5,543		46,164
Other	21,273	4,551		25,824
Total revenues	454,050	88,015		542,065
Cost of revenues:				
Rental depreciation	54,135	13,654		67,789
Rental expense	26,347	6,094		32,441
New equipment sales	122,882	27,637		150,519
Used equipment sales	50,068	6,414		56,482
Parts sales	47,679	8,660		56,339
Services revenues	15,162	1,897		17,059
Other	21,118	5,565		26,683
Total cost of revenues	337,391	69,921		407,312
Gross profit (loss):				
Equipment rentals	42,970	7,469		50,439
New equipment sales	17,758	3,733		21,491
Used equipment sales	11,839	933		12,772
Parts sales	18,478	3,327		21,805
Services revenues	25,459	3,646		29,105
Other	155	(1,014)		(859)
Gross profit	116,659	18,094		134,753
Selling, general and administrative expenses	91,828	18,514		110,342
Equity in loss of guarantor subsidiaries	(9,397)		9,397	
Gain on sales of property and equipment, net	419	53		472
Income (loss) from operations	15,853	(367)	9,397	24,883
Other income (expense):				
Interest expense	(14,942)	(9,097)		(24,039)
Other, net	451	67		518
Total other expense, net	(14,491)	(9,030)		(23,521)

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Income (loss) before provision for income taxes	1,362	(9,397)	9,397	1,362
Provision for income taxes	1,201			1,201
Net income (loss)	\$ 161	\$ (9,397)	\$ 9,397	\$ 161

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

Nine Months Ended September 30, 2010

	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Cash flows from operating activities:				
Net loss	\$ (22,951)	\$ (10,726)	\$ 10,726	\$ (22,951)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization on property and equipment	8,385	1,561		9,946
Depreciation on rental equipment	45,631	12,629		58,260
Amortization of loan discounts and deferred financing costs	1,060			1,060
Amortization of intangible assets		435		435
Provision for losses on accounts receivable	2,519	(94)		2,425
Provision for inventory obsolescence	192			192
Decrease in deferred income taxes	(11,443)			(11,443)
Stock-based compensation expense	741			741
Gain on sales of property and equipment, net	(264)	(60)		(324)
Gain on sales of rental equipment, net	(7,860)	(1,467)		(9,327)
Equity in loss of guarantor subsidiaries	10,726		(10,726)	
Changes in operating assets and liabilities:				
Receivables, net	(30,617)	2,227		(28,390)
Inventories, net	(24,063)	(29)		(24,092)
Prepaid expenses and other assets	(2,139)	(107)		(2,246)
Accounts payable	28,967	4,109		33,076
Manufacturer flooring plans payable	(17,729)	364		(17,365)
Accrued expenses payable and other liabilities	(4,246)	207		(4,039)
Intercompany balances	9,545	(9,545)		
Deferred compensation payable	47			47
Net cash used in operating activities	(13,499)	(496)		(13,995)
Cash flows from investing activities:				
Purchases of property and equipment	(2,876)	(386)		(3,262)
Purchases of rental equipment	(27,022)	(4,920)		(31,942)
Proceeds from sales of property and equipment	359	75		434
Proceeds from sales of rental equipment	28,884	5,821		34,705
Net cash provided by (used in) investing activities	(655)	590		(65)
Cash flows from financing activities:				
Purchases of treasury stock	(212)			(212)
Payments of deferred financing costs	(2,888)			(2,888)
Payments on capital lease obligations		(94)		(94)

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Principal payments of notes payable	(1,216)	(10)	(1,226)
Net cash used in financing activities	(4,316)	(104)	(4,420)
Net decrease in cash	(18,470)	(10)	(18,480)
Cash, beginning of period	45,326	10	45,336
Cash, end of period	\$ 26,856	\$	\$ 26,856

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

Nine Months Ended September 30, 2009

	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
Cash flows from operating activities:				
Net income (loss)	\$ 161	\$ (9,397)	\$ 9,397	\$ 161
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation on property and equipment	6,600	1,650		8,250
Depreciation on rental equipment	54,135	13,654		67,789
Amortization of loan discounts and deferred financing costs	1,064			1,064
Amortization of intangible assets		444		444
Provision for losses on accounts receivable	2,360	401		2,761
Provision for inventory obsolescence	47			47
Provision for deferred income taxes	1,434			1,434
Stock-based compensation expense	645			645
Gain on sales of property and equipment, net	(419)	(53)		(472)
Gain on sales of rental equipment, net	(11,125)	(898)		(12,023)
Equity in loss of guarantor subsidiaries	9,397		(9,397)	
Changes in operating assets and liabilities:				
Receivables, net	45,786	12,024		57,810
Inventories, net	15,719	(5,034)		10,685
Prepaid expenses and other assets	4,546	108		4,654
Accounts payable	(66,106)	502		(65,604)
Manufacturer flooring plans payable	(27,698)			(27,698)
Accrued expenses payable and other liabilities	(12,048)	204		(11,844)
Intercompany balances	(2,148)	2,148		
Deferred compensation payable	(100)			(100)
Net cash provided by operating activities	22,250	15,753		38,003
Cash flows from investing activities:				
Purchases of property and equipment	(14,959)	(469)		(15,428)
Purchases of rental equipment	10,452	(20,674)		(10,222)
Proceeds from sales of property and equipment	1,523	(188)		1,335
Proceeds from sales of rental equipment	51,747	5,671		57,418
Net cash provided by (used in) investing activities	48,763	(15,660)		33,103
Cash flows from financing activities:				
Purchase of treasury stock	(107)			(107)
Borrowings on senior secured credit facility	534,373			534,373
Payments on senior secured credit facility	(607,678)			(607,678)
Payments of related party obligation	(150)			(150)

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Payments on capital lease obligation		(89)		(89)
Principal payments of notes payable	(13)	(9)		(22)
Net cash used in financing activities	(73,575)	(98)		(73,673)
Net decrease in cash	(2,562)	(5)		(2,567)
Cash, beginning of period	11,251	15		11,266
Cash, end of period	\$ 8,689	\$ 10	\$	\$ 8,699

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

Overview**Background**

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

As of November 1, 2010, we operated 68 full-service facilities throughout the Intermountain, Southwest, Gulf Coast, West Coast, Southeast and Mid-Atlantic regions of the United States. Our work force includes distinct, focused sales forces for our new and used equipment sales and rental operations, highly-skilled service technicians, product specialists and regional managers. We focus our sales and rental activities on, and organize our personnel principally by, our four core equipment categories. We believe this allows us to provide specialized equipment knowledge, improve the effectiveness of our rental and sales force and strengthen our customer relationships. In addition, we have branch managers at each location who are responsible for managing their assets and financial results. We believe this fosters accountability in our business, and strengthens our local and regional relationships.

Through our predecessor companies, we have been in the equipment services business for approximately 49 years. H&E Equipment Services L.L.C. (*H&E LLC*) was formed in June 2002 through the business combination of Head & Engquist, a wholly-owned subsidiary of Gulf Wide, and ICM. Head & Engquist, founded in 1961, and ICM, founded in 1971, were two leading regional, integrated equipment services companies operating in contiguous geographic markets. In the June 2002 transaction, Head & Engquist and ICM were merged with and into Gulf Wide, which was renamed H&E LLC. Prior to the combination, Head & Engquist operated 25 facilities in the Gulf Coast region, and ICM operated 16 facilities in the Intermountain region of the United States.

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

Critical Accounting Policies

Item 7, included in Part II of our Annual Report on Form 10-K for the year ended December 31, 2009, presents the accounting policies and related estimates that we believe are the most critical to understanding our consolidated financial statements, financial condition, and results of operations and cash flows, and which require complex

management judgment and assumptions, or involve uncertainties. There have been no changes to these critical accounting policies and estimates during the three and nine month periods ended September 30, 2010. These policies include, among others, revenue recognition, the adequacy of the allowance for doubtful accounts, the propriety of our estimated useful life of rental equipment and property and equipment, the potential impairment of long-lived assets including goodwill and intangible assets, obsolescence reserves on inventory, the allocation of purchase price related to business combinations, reserves for claims, including self-insurance reserves, and deferred income taxes, including the valuation of any related deferred tax assets.

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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, 2009 and in note 2 to the condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

Business Segments

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

Equipment Rentals. Our rental operation primarily rents our four core types of construction and industrial equipment. We have a well-maintained rental fleet and our own dedicated sales force, focused by equipment type. We actively manage the size, quality, age and composition of our rental fleet based on our analysis of key measures such as time utilization (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.

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

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

Parts Sales. Our parts business sells new and used parts for the equipment we sell, and also provides parts to our own rental fleet. To a lesser degree, we also sell parts for equipment produced by manufacturers whose products we neither rent nor sell. In order to provide timely parts and service support to our customers as well as our own rental fleet, we maintain an extensive parts inventory.

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 8 to the condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

Revenue Sources

We generate all of our revenues from our five business segments and our non-segmented equipment support activities. Equipment rentals and new equipment sales account for more than half of our total revenues. For the nine month period ended September 30, 2010, approximately 31.7% of our total revenues were attributable to equipment rentals, 26.0% of our total revenues were attributable to new equipment sales, 11.5% were attributable to used equipment sales, 16.3% were attributable to parts sales, 9.1% were attributable to our services revenues and 5.4% were attributable to non-segmented other revenues.

The equipment that we sell, rent and service is principally used in the construction industry, as well as by companies for commercial and industrial uses such as plant maintenance and turnarounds. As a result, our total revenues are affected by several factors including, but not limited to, the demand for and availability of rental

equipment, rental rates and other competitive factors, the demand for new and used equipment, the level of construction and industrial activities, spending levels by our customers, adverse

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weather conditions and general economic conditions. For a discussion of the impact of seasonality on our revenues, see *Seasonality* below.

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

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

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

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

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

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

Principal Costs and Expenses

Our largest expenses are the costs to purchase the new equipment we sell, the costs associated with the used equipment we sell, rental expenses, rental depreciation and costs associated with parts sales and services, all of which are included in cost of revenues. For the nine month period ended September 30, 2010, our total cost of revenues was approximately \$305.4 million. Our operating expenses consist principally of selling, general and administrative expenses. For the nine month period ended September 30, 2010, our selling, general and administrative expenses were approximately \$109.2 million. In addition, we have interest expense related to our debt instruments. We are also subject to federal and state income taxes. Operating expenses and all other income and expense items below the gross

profit line of our condensed consolidated statements of operations are not generally allocated to our reportable segments.

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

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

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

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

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

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

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

Selling, General and Administrative Expenses:

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

Interest Expense:

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

Principal Cash Flows

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

Rental Fleet

A significant portion of our overall value is in our rental fleet equipment. The net book value of rental equipment at September 30, 2010 was \$412.1 million, or approximately 55.7% of our total assets. Our rental fleet, as of September 30, 2010, consisted of approximately 15,823 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 \$665.5 million. As of September 30, 2010, our rental fleet composition was as follows (dollars in millions):

	Units	% of Total Units	Original Acquisition Cost	% of Original Acquisition Cost	Average Age in Months
Hi-Lift or Aerial Work Platforms	12,050	76.2%	\$ 405.1	60.9%	47.0
Cranes	349	2.2%	80.4	12.1%	36.7
Earthmoving	1,610	10.2%	146.9	22.1%	29.7
Industrial Lift Trucks	430	2.7%	17.0	2.5%	38.5
Other	1,384	8.7%	16.1	2.4%	27.5

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Total	15,823	100.0%	\$ 665.5	100.0%	43.0
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Determining the optimal age and mix for our rental fleet equipment is subjective and requires considerable estimates and judgments by management. We constantly evaluate the mix, age and quality of the equipment in our rental fleet in response to current economic and market conditions, competition and customer demand. The mix and age of our rental fleet, as well as our cash flows, are impacted by sales of equipment from the rental fleet, which are influenced by used equipment pricing at the retail and secondary auction market levels, and the capital expenditures to acquire new rental fleet equipment. In making equipment acquisition decisions, we evaluate current economic and market conditions, competition, manufacturers' availability, pricing and return on investment over the estimated useful life of the specific equipment, among other things. As a result of our in-house service capabilities and extensive maintenance program, we believe our rental fleet is well-maintained.

On average, we increased the overall average age of our rental fleet equipment by approximately 3.0 months for the nine month period ended September 30, 2010. The original acquisition cost of our overall gross rental fleet decreased by approximately \$9.7 million, or approximately 1.4%, for the nine month period ended September 30, 2010, mostly due to a planned elimination of rental fleet growth capital expenditures and selective fleet replacement expenditures during the first half of the year in response to a challenging economic environment and credit market conditions. In response to improved equipment time utilization during the third quarter of 2010, we grew our rental fleet equipment size from 15,554 units with an original acquisition cost of \$657.7 million at June 30, 2010 to 15,823 units with an original acquisition cost of \$665.5 million at September 30, 2010. On average, the overall average age of our rental fleet decreased by approximately 0.2 months for the three month period ended September 30, 2010.

Our average rental rates for the nine month period ended September 30, 2010 were 9.6% lower than the comparative nine month period ended September 30, 2009 and 5.9% lower than the comparative three month period ended September 30, 2010 (see further discussion on rental rates in Results of Operations below). On a sequential basis, our average rental rates for the three month period ended September 30, 2010 increased 1.8% compared to the three month period ended June 30, 2010.

The rental equipment mix among our four core product lines for the nine month period ended September 30, 2010 was largely consistent with that of the prior year comparable period as a percentage of total units available for rent and as a percentage of original acquisition cost.

Principal External Factors that Affect our Businesses

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

Economic downturns. The demand for our products is dependent on the general economy, the stability of the global credit markets, the industries in which our customers operate or serve, and other factors. Downturns in the general economy or in the construction and manufacturing industries, as well as adverse credit market conditions, can cause demand for our products to materially decrease. The recent macroeconomic downturn, including recent conditions in the global credit markets, is a principal factor currently affecting our business.

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

Adverse weather. Adverse weather in any geographic region in which we operate may depress demand for equipment in that

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region. Our equipment is primarily used outdoors and, as a result, prolonged adverse weather conditions may prohibit our customers from continuing their work projects. The adverse weather also has a seasonal impact in parts of our Intermountain region, primarily in the winter months.

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

Results of Operations

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

During the second and third quarters of 2010, 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. Our time utilization on rental equipment improved during the second and third quarters on a sequential basis and continues to improve during the early stages of the fourth quarter. We cannot forecast whether these gross profit margin improvements during the second and third quarters are indicative of the beginnings of a favorable trend in our business, nor can we forecast whether, or to what extent, we may experience any further declines, or whether our responses to ongoing or future unfavorable business conditions will be meaningful in mitigating or reversing the gross profit margin declines for the foreseeable future.

While our equipment rentals operating segment realized revenue growth for the third quarter of 2010 compared to the third quarter of 2009, our other operating segments continued to experience revenue declines for each of the first three comparative quarters of 2010. Continued weakness or further deterioration in the non-residential construction and industrial sectors could result in continuing declining revenues and gross profits/margins and may have a material adverse effect on our financial position, results of operations and cash flows in the future. We have proactively responded to these unfavorable business factors in 2009 and early 2010 through various operational and strategic measures, including closing underperforming branches and redeploying rental fleet assets to existing branches with higher demand or to branches in new markets where demand is higher; minimizing rental fleet capital expenditures; reducing headcount; implementing cost reduction measures throughout the Company; and using some of the excess cash flow resulting from our planned reduction in capital expenditures to repay outstanding debt. We believe that these measures strengthen our balance sheet by improving our cash position. We will continue to evaluate and respond to business conditions as appropriate. While we cannot predict the timing or impact of an economic recovery and/or substantially improved conditions within the construction and industrial sectors, we believe that our efforts position us to take advantage of future opportunities when an economic and business recovery occurs.

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Our operating results for the three and nine months ended September 30, 2009 and the related period-to-period comparisons below were impacted by the sale of a substantial portion of our Yale® lift truck assets. On July 31, 2009, the Company sold certain of its Yale® lift truck assets in its rental fleet, new and used equipment inventories and parts inventories located in the Intermountain region of the United States to Arnold Machinery Company (the Arnold Transaction) for total cash proceeds of approximately \$15.7 million. At the time of the sale, these Yale® lift trucks comprised approximately 71% of the total lift trucks in our rental fleet and approximately 3.5% of our total rental fleet assets (based on net book value). The Yale brand accounted for less than 5% of our total revenues in 2009 through the date of the Arnold Transaction. Details of the Arnold Transaction are presented below (amounts in thousands):

Revenues:	
New equipment sales	\$ 1,161
Used equipment sales	13,437(1)
Parts sales	1,061
Service revenues	895(2)
 Total revenues	 \$ 16,554
 Cost of revenues:	
New equipment sales	\$ 1,125
Used equipment sales	12,830(1)
Parts sales	1,011
 Total cost of revenues	 14,966
 Gross profit	 \$ 1,588

(1) Amounts include revenues and cost of revenues related to Yale® lift truck rental fleet assets of \$12.7 million and \$12.2 million, respectively.

(2) Represents the recognition of deferred revenue associated with the termination of related Yale® lift truck maintenance

and repair
contracts.

In 2008, we began the initial design implementation phases of a new enterprise resource planning (ERP) system to further enhance operating efficiencies and provide more effective management of our business operations. On February 1, 2010, we implemented the new enterprise resource planning (ERP) system in 14 of the Company s branches, as well as in the Company s centralized corporate accounting operations. Subsequently, on April 1, 2010, we implemented the new ERP in 26 branches. On June 1, 2010, we completed the ERP implementation in our remaining 27 branches.

Three Months Ended September 30, 2010 Compared to the Three Months Ended September 30, 2009 Revenues.

	Three Months Ended September 30,		Total Dollar	Total Percentage
	2010	2009	Increase (Decrease)	Increase (Decrease)
	(in thousands, except percentages)			
Segment Revenues:				
Equipment rentals	\$ 48,272	\$ 45,108	\$ 3,164	7.0%
New equipment sales	47,697	48,685	(988)	(2.0)%
Used equipment sales	14,700	32,698	(17,998)	(55.0)%
Parts sales	22,599	25,786	(3,187)	(12.4)%
Services revenues	12,412	15,225	(2,813)	(18.5)%
Non-Segmented revenues	8,164	8,126	38	0.5%
Total revenues	\$ 153,844	\$ 175,628	\$ (21,784)	(12.4)%

Total Revenues. Our total revenues were \$153.8 million for the three month period ended September 30, 2010 compared to \$175.6 million for the same three month period in 2009, a decrease of \$21.8 million, or 12.4%. Included in total revenues for the three months ended September 30, 2009 were revenues of \$16.6 million from the Arnold Transaction. Revenues for all reportable segments and non-segmented revenues are further discussed below.

Equipment Rental Revenues. Our revenues from equipment rentals for the three month period ended September 30, 2010 increased \$3.2 million, or 7.0%, to \$48.3 million from \$45.1 million in the same three month period in 2009. Rental revenues from earthmoving equipment increased \$3.9 million while rental revenues from aerial work platforms and other equipment increased \$1.1 million and \$0.2 million, respectively. These increases were offset by decreases in crane and lift truck rental revenues of \$1.2 million and \$0.8 million, respectively. Our average rental rates for the three month period ended September 30, 2010 declined 5.9% compared to the same three month period in 2009.

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Rental equipment dollar utilization (annual rental revenues divided by the average original rental fleet equipment costs) for the three month period ended September 30, 2010 improved to 29.2% compared to 25.5% for the same three month period in 2009, an increase of 3.7%. The increase in comparative rental equipment dollar utilization was the net result of an 8.0% increase in rental equipment time utilization (equipment usage based on the number of rental equipment units available for rent), which was partially offset by the 5.9% decrease in average rental rates in the comparative period. Rental equipment time utilization based on the number of rental equipment units available for rent was 62.3% for the three month period ended September 30, 2010 compared to 54.3% for the same three month period in 2009. Rental equipment time utilization as a percentage of original equipment cost was 65.9% for the three months ended September 30, 2010 compared to approximately 57.0% for the same three month period in 2009, an increase of 8.9%.

New Equipment Sales Revenues. Our new equipment sales for the three month period ended September 30, 2010 decreased \$1.0 million, or 2.0%, to \$47.7 million from \$48.7 million for the comparable period in 2009. The Arnold Transaction accounted for \$1.2 million of new lift truck equipment sales revenues for the three month period ended September 30, 2009. Sales of new cranes decreased \$9.2 million, reflecting lower demand due to the macroeconomic downturn and the other factors discussed above. Sales of new lift trucks decreased \$1.2 million largely as a result of the Arnold Transaction. Sales of new earthmoving equipment increased \$4.6 million, while sales of aerial work platforms increased \$4.2 million and sales of other equipment increased \$0.6 million.

Used Equipment Sales Revenues. Our used equipment sales decreased \$18.0 million, or 55.0%, to \$14.7 million for the three month period ended September 30, 2010, from \$32.7 million for the same three month period in 2009. The Arnold Transaction accounted for \$13.4 million of used lift truck sales revenues for the three month period ended September 30, 2009. The remaining decrease is primarily as a result of lower demand for used equipment. Sales of used cranes decreased \$2.6 million, while sales of used earthmoving equipment and other equipment decreased \$1.1 million and \$0.6 million, respectively. Inclusive of the sales revenues from the Arnold Transaction in 2009, used lift truck sales decreased approximately \$13.8 million.

Parts Sales Revenues. Our parts sales decreased approximately \$3.2 million, or 12.4%, to \$22.6 million for the three month period ended September 30, 2010 from \$25.8 million for the same three month period in 2009. Parts revenues related to the Arnold Transaction totaled \$1.1 million for the three month period ended September 30, 2009. The remaining decline in parts revenues was due to a decrease in customer demand for parts.

Services Revenues. Our services revenues for the three month period ended September 30, 2010 decreased \$2.8 million, or 18.5%, to \$12.4 million from \$15.2 million for the same three month period last year. The Arnold Transaction resulted in the recognition of \$0.9 million in deferred services revenues in the three month period ended September 30, 2009 related to the termination of related lift truck maintenance and repair contracts. The remaining decline in service revenues was largely due to a decrease in demand for services related to the decline in construction and industrial activity in the past year.

Non-Segmented Other Revenues. Our non-segmented other revenues consisted primarily of equipment support activities including transportation, hauling, parts freight and damage waiver charges. For the three month period ended September 30, 2010, our other revenues were approximately \$8.2 million compared to \$8.1 million in the same three month period in 2009.

Gross Profit.

	Three Months Ended		Total	Total
	September 30,	September 30,	Dollar	Percentage
	2010	2009	Increase	Increase
	(in thousands, except percentages)		(Decrease)	(Decrease)
Segment Gross Profit (Loss):				
Equipment rentals	\$ 18,092	\$ 13,794	\$ 4,298	31.2%
New equipment sales	4,718	5,136	(418)	(8.1)%

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Used equipment sales	3,617	5,629	(2,012)	(35.7)%
Parts sales	5,889	6,834	(945)	(13.8)%
Services revenues	7,235	9,579	(2,344)	(24.5)%
Non-Segmented revenues	(1,631)	(1,005)	(626)	(62.3)%
Total gross profit	\$ 37,920	\$ 39,967	\$ (2,047)	(5.1)%

Total Gross Profit. Our total gross profit was \$37.9 million for the three month period ended September 30, 2010 compared to \$40.0 million for the same three month period in 2009, a decrease of approximately \$2.1 million, or 5.1%. Total gross profit margin for the three month period ended September 30, 2010 improved to 24.6%, up 1.8% from the 22.8% gross margin in 2009. The Arnold Transaction, inclusive of the \$0.9 million of deferred services revenues recognized as discussed above, contributed \$1.6 million in

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total gross profit on a total gross profit margin of 9.6% for the three month period ended September 30, 2009. Gross profit (loss) and gross margin for all reportable segments and non-segmented revenues are further described below:

Equipment Rentals Gross Profit. Our gross profit from equipment rentals for the three month period ended September 30, 2010 increased \$4.3 million, or 31.2%, to \$18.1 million from \$13.8 million in the same three month period in 2009. The increase in equipment rentals gross profit is the net result of a \$3.2 million increase in rental revenues for the three month period ended September 30, 2010 and a \$1.5 decrease in rental equipment depreciation expense due to a smaller fleet size in 2010 compared to 2009, which was partially offset by a \$0.3 million net increase in rental expenses. As a percentage of equipment rental revenues, maintenance and repair costs were 15.5% for the three month period ended September 30, 2010 compared to approximately 15.4% for the same three month period in 2009 and depreciation expense was 40.7% for the three month period ended September 30, 2010 compared to 46.8% for the same three month period in 2009.

Gross profit margin for the three month period ended September 30, 2010 was 37.5%, up 6.9% from 30.6% in the same three month period in 2009. The gross profit margin increase was primarily due to the higher rental equipment dollar utilization, the current year decrease in depreciation expense as a percentage of equipment rental revenues and the product mix of equipment rented, which was partially offset by the 5.9% decrease in average comparative rental rates and the slight increase in current year maintenance and repair costs as a percentage of equipment rental revenues.

New Equipment Sales Gross Profit. Our new equipment sales gross profit for the three month period ended September 30, 2010 decreased approximately \$0.4 million, or 8.1%, to \$4.7 million compared to \$5.1 million for the same three month period in 2009 on a total new equipment sales decline of \$1.0 million. Gross profit margin on new equipment sales for the three month period ended September 30, 2010 was 9.9%, a decrease of 0.6% from 10.5% in the same three month period in 2009, reflecting lower margins on new crane sales and aerial work platforms. The Arnold Transaction accounted for new equipment sales gross profit of \$36,000 on a gross profit margin of 3.2% for the three month period ended September 30, 2009.

Used Equipment Sales Gross Profit. Our used equipment sales gross profit for the three month period ended September 30, 2010 decreased \$2.0 million, or 35.7%, to \$3.6 million from \$5.6 million for the same three month period in 2009 on a used equipment sales decrease of \$18.0 million. Gross profit margin for the three month period ended September 30, 2010 was 24.6%, up 7.4% from 17.2% in the same three month period in 2009. The Arnold Transaction accounted for \$0.6 million in gross profit in the prior year period with a gross profit margin of 4.5%. Gross profit margin, excluding the impact of the Arnold Transaction, was 26.1% for the three month period ended September 30, 2009. Our used equipment sales from the rental fleet, which comprised approximately 79.5% and 88.8% of our used equipment sales for the three month periods ended September 30, 2010 and 2009, respectively, were approximately 140.6% of net book value for the three month period ended September 30, 2010 compared to 122.8% for the same three month period in 2009.

Parts Sales Gross Profit. For the three month period ended September 30, 2010, our parts sales gross profit decreased \$0.9 million, or 13.8%, to \$5.9 million from \$6.8 million for the same three month period in 2009 on a \$3.2 million decline in parts sales revenues. Gross profit margin for the three month period ended September 30, 2010 was 26.1%, a decrease of 0.4% from 26.5% in the same three month period in 2009, as a result of the mix of parts sold. The Arnold Transaction accounted for approximately \$50,000 in gross profit on a gross profit margin of 4.7% in the three month period ended September 30, 2009.

Services Revenues Gross Profit. For the three month period ended September 30, 2010, our services revenues gross profit decreased \$2.3 million, or 24.5%, to \$7.2 million from approximately \$9.5 million for the same three month period in 2009 on a \$2.8 million decline in services revenues. Gross profit margin for the three month period ended September 30, 2010 was 58.3%, down 4.6% from 62.9% in the same three month period in 2009 due to revenue mix. The Arnold Transaction resulted in the recognition of \$0.9 million in deferred services revenues in the prior year period related to the termination of related lift truck maintenance and repair contracts. Excluding the Arnold Transaction, gross margin was approximately 60.6% in the prior year period.

Non-Segmented Other Revenues Gross Loss. For the three month period ended September 30, 2010, our non-segmented other revenues realized a gross loss of approximately \$1.6 million compared to a gross loss of \$1.0 million for the same three month period in 2009, a \$0.6 million increase in gross loss, as a result of higher fuel

and outside hauling costs.

Selling, General and Administrative Expenses. SG&A expenses increased approximately \$1.5 million, or 4.3%, to \$36.6 million for the three month period ended September 30, 2010 compared to \$35.1 million for the same three month period in 2009. The net increase in SG&A expenses was attributable to several factors. Depreciation expense increased \$0.7 million, primarily related to the depreciation of the ERP system, which was substantially complete and ready for its intended use in January 2010. Employee salaries

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and wages and related employee expenses increased \$0.5 million while bad debt expense increased \$0.2 million and other corporate overhead expenses increased \$0.4 million. These increases were offset by a \$0.3 million decrease in legal and professional fees. Stock-based compensation expense was \$0.3 million and \$0.2 million for the three month periods ended September 30, 2010 and 2009, respectively. As a percent of total revenues, SG&A expenses were 23.8% for the three month period ended September 30, 2010, an increase of 3.8% from 20.0% for the same three month period in 2009, reflecting the expense increases described above, the fixed cost nature of certain SG&A expenses and the 12.4% decline in comparative total revenues.

Other Income (Expense). For the three month period ended September 30, 2010, our net other expenses decreased approximately \$0.4 million to \$7.3 million compared to \$7.7 million for the same three month period in 2009. The decrease was the net result of a \$0.5 million decrease in interest expense to \$7.3 million for the three month period ended September 30, 2010 compared to \$7.8 million for the same three month period in 2009, which was partially offset by a \$0.1 million decrease in other income. Comparative interest expense incurred on our senior secured credit facility was approximately \$0.1 million lower in the three month period ended September 30, 2010 compared to the same period in 2009. Interest expense on our manufacturing flooring plan payables used to finance inventory purchases decreased approximately \$0.4 million, primarily as a result of lower outstanding balances on those manufacturing flooring plan payables in the most recent year period.

Income Taxes. We recorded an income tax benefit of approximately \$2.0 million for the three month period ended September 30, 2010 compared to an income tax benefit of \$0.3 million for the three month period ended September 30, 2009. Our effective income tax rate for the three month period ended September 30, 2010 was approximately 35.1% compared to 10.3% for the same three month period in 2009. The lower effective income tax rate for the three month period ended September 30, 2009 was the result of the lower pre-tax income in 2009 in relation to the permanent differences and the decrease of a permanent benefit related to tax deductible goodwill amortization, for which no deferred income taxes can be recognized until realized, in accordance with FASB ASC Topic 740, *Income Taxes* (ASC 740). In accordance with ASC 740, the actual effective year-to-date tax rate was applied in the prior year third quarter. Based on available evidence, both positive and negative, we believe it is more likely than not that our deferred tax assets at September 30, 2010 are fully realizable through future reversals of existing taxable temporary differences and future taxable income, and are not subject to any limitations.

Nine Months Ended September 30, 2010 Compared to the Nine Months Ended September 30, 2009**Revenues.**

	Nine Months Ended September 30,		Total Dollar	Total Percentage
	2010	2009	Decrease	Decrease
	(in thousands, except percentages)			
Segment Revenues:				
Equipment rentals	\$ 126,400	\$ 150,669	\$ (24,269)	(16.1)%
New equipment sales	103,952	172,010	(68,058)	(39.6)%
Used equipment sales	46,062	69,254	(23,192)	(33.5)%
Parts sales	65,013	78,144	(13,131)	(16.8)%
Services revenues	36,466	46,164	(9,698)	(21.0)%
Non-Segmented revenues	21,643	25,824	(4,181)	(16.2)%
Total revenues	\$ 399,536	\$ 542,065	\$ (142,529)	(26.3)%

Total Revenues. Our total revenues were \$399.5 million for the nine month period ended September 30, 2010 compared to \$542.1 million for the same nine month period in 2009, a decrease of approximately \$142.5 million, or 26.3%. Included in total revenues for the nine months ended September 30, 2009 were revenues of \$16.6 million from the Arnold Transaction. Revenues decreased for all reportable segments and non-segmented revenues as further discussed below.

Equipment Rental Revenues. Our revenues from equipment rentals for the nine month period ended September 30, 2010 decreased \$24.3 million, or 16.1%, to \$126.4 million from \$150.7 million in the same nine month period in 2009. Revenues from aerial work platforms decreased \$17.0 million, cranes decreased \$6.8 million. These decreases were due to lower demand resulting from the macroeconomic downturn and the other factors discussed above, which also negatively impacted our rental rates. Our average rental rates for the nine month period ended September 30, 2010 declined 9.6% compared to the same nine month period in 2009. Rental revenues from lift trucks decreased \$5.3 million, primarily as a result of the Arnold Transaction. Partially offsetting these decreases in rental revenues were a \$3.3 million increase in earthmoving equipment rentals and a \$1.5 million increase in other equipment rentals.

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Rental equipment dollar utilization (annual rental revenues divided by the average original rental fleet equipment costs) for the nine month period ended September 30, 2010 was 25.5% compared to 27.1% for the same nine month period in 2009, a decrease of 1.6%. The decrease in comparative rental equipment dollar utilization was the net result of the 9.6% decrease in average rental rates in the comparative period and a 0.3% increase in rental equipment time utilization (equipment usage based on the number of rental equipment units available for rent). Rental equipment time utilization was 55.6% for the nine month period ended September 30, 2010 compared to 55.3% for the same nine month period in 2009. Rental equipment time utilization as a percentage of original equipment cost was 58.4% for the nine months ended September 30, 2010 compared to 57.5% for the same nine month period ended September 30, 2009, an increase of 0.9%.

New Equipment Sales Revenues. Our new equipment sales for the nine month period ended September 30, 2010 decreased approximately \$68.0 million, or 39.6%, to \$104.0 million from \$172.0 million for the comparable period in 2009. The Arnold Transaction accounted for \$1.1 million of new lift truck equipment sales revenues in the prior year period. Sales of new cranes decreased \$74.0 million, reflecting lower demand due to the macroeconomic downturn and the other factors discussed above. Sales of new lift trucks decreased \$3.4 million largely as a result of the Arnold Transaction, while sales of new other equipment decreased approximately \$0.4 million. Partially offsetting these new equipment sales decreases was a \$5.8 million increase in the sales of new aerial work platforms and a \$4.0 million increase in sales of new earthmoving equipment.

Used Equipment Sales Revenues. Our used equipment sales decreased \$23.2 million, or 33.5%, to \$46.1 million for the nine month period ended September 30, 2010, from \$69.3 million for the same nine month period in 2009, primarily as a result of lower demand for used equipment. The Arnold Transaction accounted for \$13.4 million of used lift truck sales revenues in the prior year period. Sales of used aerial work platform equipment and used cranes decreased \$4.5 million and \$2.9 million, respectively. Used lift truck sales decreased \$14.3 million and other used equipment sales decreased approximately \$1.1 million while sales of used earthmoving equipment decreased \$0.5 million.

Parts Sales Revenues. Our parts sales decreased \$13.1 million, or 16.8%, to \$65.0 million for the nine month period ended September 30, 2010 from \$78.1 million for the same nine month period in 2009. Parts revenues related to the Arnold Transaction totaled \$1.1 million in the prior year period. The decline in parts revenues was due to a decrease in customer demand for parts due to the decline in construction and industrial activity in the past year.

Services Revenues. Our services revenues for the nine month period ended September 30, 2010 decreased \$9.7 million, or 21.0%, to approximately \$36.5 million from \$46.2 million for the same nine month period last year. The Arnold Transaction resulted in the recognition of \$0.9 million in deferred services revenues in the prior year period related to the termination of related lift truck maintenance and repair contracts. The decline in service revenues was largely due to a decrease in demand for services due to the decline in construction and industrial activity in the past year.

Non-Segmented Other Revenues. Our non-segmented other revenues consisted primarily of equipment support activities including transportation, hauling, parts freight and damage waiver charges. For the nine month period ended September 30, 2010, our other revenues were \$21.6 million, a decrease of \$4.2 million, or 16.2%, from \$25.8 million in the same nine month period in 2009. The decrease was primarily due to a decrease in the volume of these services in conjunction with the decline of our primary business activities.

Table of Contents**Gross Profit.**

	Nine Months Ended September 30,		Total Dollar Change	Total Percentage Change
	2010	2009	Decrease	Decrease
	(in thousands, except percentages)			
Segment Gross Profit (Loss):				
Equipment rentals	\$ 38,969	\$ 50,439	\$ (11,470)	(22.7)%
New equipment sales	9,960	21,491	(11,531)	(53.7)%
Used equipment sales	10,372	12,772	(2,400)	(18.8)%
Parts sales	17,209	21,805	(4,596)	(21.1)%
Services revenues	22,661	29,105	(6,444)	(22.1)%
Non-Segmented revenues	(4,987)	(859)	(4,128)	(480.6)%
Total gross profit	\$ 94,184	\$ 134,753	\$ (40,569)	(30.1)%

Total Gross Profit. Our total gross profit was \$94.2 million for the nine month period ended September 30, 2010 compared to \$134.8 million for the same nine month period in 2009, a decrease of \$40.6 million, or 30.1%. Total gross profit margin for the nine month period ended September 30, 2010 was 23.6%, a decrease of 1.3% from the 24.9% gross profit margin for the same nine month period in 2009. The Arnold Transaction contributed \$1.6 million in gross profit on a total gross profit margin of 9.6% in the prior year period. Gross profit (loss) and gross margin for all reportable segments and non-segmented revenues are further described below:

Equipment Rentals Gross Profit. Our gross profit from equipment rentals for the nine month period ended September 30, 2010 decreased approximately \$11.5 million, or 22.7%, to \$39.0 million from approximately \$50.5 million in the same nine month period in 2009. The decrease in equipment rentals gross profit is the net result of a \$24.3 million decrease in rental revenues for the nine month period ended September 30, 2010, which was partially offset by a \$3.3 million net decrease in rental expenses and a \$9.5 million decrease in rental equipment depreciation expense. The net decrease in rental expenses and rental equipment depreciation expense was primarily due to a smaller fleet size in 2010 compared to 2009. As a percentage of equipment rental revenues, maintenance and repair costs were approximately 16.1% for the nine month period ended September 30, 2010 compared to 15.2% for the same nine month period in 2009 and depreciation expense was 46.1% for the nine month period ended September 30, 2010 compared to 45.0% for the same nine month period in 2009. These percentage increases were primarily attributable to the decline in comparative rental revenues.

Gross profit margin for the nine month period ended September 30, 2010 was 30.9%, down 2.5% from 33.4% in the same nine month period in 2009. This gross profit margin decline was primarily due to the 9.6% decline in our average rental rates and the product mix of equipment rented, combined with the current year increase in rental and depreciation expenses as a percentage of equipment rental revenues.

New Equipment Sales Gross Profit. Our new equipment sales gross profit for the nine month period ended September 30, 2010 decreased \$11.5 million, or 53.7%, to \$10.0 million compared to \$21.5 million for the same nine month period in 2009 on a total new equipment sales decline of \$68.1 million. Gross profit margin on new equipment sales for the nine month period ended September 30, 2010 was 9.5%, a decrease of 3.0% from 12.5% in the same nine month period in 2009, reflecting lower demand for new equipment and lower margins on new crane sales. The Arnold Transaction accounted for new equipment sales gross profit of \$36,000 on a gross profit margin of 3.2% in the prior year period.

Used Equipment Sales Gross Profit. Our used equipment sales gross profit for the nine month period ended September 30, 2010 decreased \$2.4 million, or 18.8%, to \$10.4 million from \$12.8 million for the same nine month period in 2009 on a used equipment sales decrease of \$23.2 million. Gross profit margin for the nine month period ended September 30, 2010 was 22.6%, up 4.0% from 18.6% in the same nine month period in 2009, as a result of the

impact of lower demand for used equipment and pass thru s of trade-in inventory in the prior year second quarter combined with the impact of the Arnold Transaction in the third quarter of last year. The Arnold Transaction accounted for \$0.6 million in gross profit with a gross profit margin of 4.5%. Our used equipment sales from the rental fleet, which comprised approximately 75.3% and 82.9% of our used equipment sales for the nine month periods ended September 30, 2010 and 2009, respectively, were approximately 136.8% of net book value for the nine month period ended September 30, 2010 compared to 126.5% for the same nine month period in 2009.

Parts Sales Gross Profit. For the nine month period ended September 30, 2010, our parts sales gross profit decreased \$4.6 million, or 21.1%, to \$17.2 million from \$21.8 million for the same nine month period in 2009 on a \$13.1 million decline in parts sales. Gross profit margin for the nine month period ended September 30, 2010 was 26.5%, a decrease of 1.4% from 27.9% in the

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same nine month period in 2009, as a result of the mix of parts sold. The Arnold Transaction accounted for approximately \$50,000 in gross profit on a gross profit margin of 4.7% in the prior year period.

Services Revenues Gross Profit. For the nine month period ended September 30, 2010, our services revenues gross profit decreased \$6.4 million, or 22.1%, to \$22.7 million from \$29.1 million for the same nine month period in 2009 on a \$9.7 million decline in services revenues. Gross profit margin for the nine month period ended September 30, 2010 was 62.2%, down 0.8% from 63.0% in the same nine month period in 2009 due to revenue mix. The Arnold Transaction resulted in the recognition of \$0.9 million in deferred services revenues in the prior year period related to the termination of related lift truck maintenance and repair contracts. Excluding the Arnold Transaction, gross margin was approximately 62.3% in the prior year period

Non-Segmented Other Revenues Gross Profit (Loss). For the nine month period ended September 30, 2010, our non-segmented other revenues realized a gross loss of approximately \$5.0 million compared to a gross loss of approximately \$0.9 million for the same nine month period in 2009, as a result of declines in transportation, hauling and freight revenues and service related revenues associated with lower revenues in our primary business activities.

Selling, General and Administrative Expenses. SG&A expenses decreased approximately \$1.1 million, or 1.0%, to \$109.2 million for the nine month period ended September 30, 2010 compared to approximately \$110.3 million for the same nine month period in 2009. The net decrease in SG&A expenses was attributable to several factors. Employee salaries and wages and related employee expenses decreased \$3.9 million as a result of cost control measures instituted by the Company, including workforce headcount reductions since the beginning of 2009, combined with lower commissions in the current nine month period that resulted from lower rental and sales revenues. Bad debt expense decreased \$0.4 million as a result of some deterioration in our accounts receivable agings in the first quarter of last year. These decreases were partially offset by a \$0.8 million increase in legal and professional fees resulting primarily from data conversion costs and other consulting fees related to our ERP system implementation. Additionally, depreciation expense increased \$2.4 million, primarily related to the depreciation of the ERP system, which was substantially complete and ready for its intended use in January 2010. Stock-based compensation expense was \$0.7 million and \$0.6 million for the nine month periods ended September 30, 2010 and 2009, respectively. As a percent of total revenues, SG&A expenses were 27.3% for the nine month period ended September 30, 2010, an increase of 6.9% from 20.4% for the same nine month period in 2009, reflecting the higher expenses described above, the fixed cost nature of certain SG&A expenses and the 26.3% decline in comparative total revenues.

Other Income (Expense). For the nine month period ended September 30, 2010, our net other expenses decreased \$1.9 million to \$21.6 million compared to \$23.5 million for the same nine month period in 2009. The decrease was the net result of a \$2.2 million decrease in interest expense to approximately \$21.8 million for the nine month period ended September 30, 2010 compared to \$24.0 million for the same nine month period in 2009, which was partially offset by a \$0.4 million decrease in other income. The decrease in interest expense was due to several factors. Comparative interest expense incurred on our senior secured credit facility was approximately \$0.8 million lower in the nine month period ended September 30, 2010 compared to the same period in 2009. We had no borrowings under our senior secured credit facility for the nine month period ended September 30, 2010, but incurred approximately \$1.4 million in interest costs related to the amortization of deferred financing costs, commitment fees and letter of credit fees. For the nine month period ended September 30, 2009, we incurred approximately \$2.3 million in interest expense related to the senior secured credit facility for borrowings under the facility, amortization of deferred financing costs, commitment fees and letter of credit fees. Additionally, interest expense on our manufacturing flooring plan payables used to finance inventory purchases decreased approximately \$1.4 million in the most recent year period, as a result of lower outstanding balances on those manufacturing flooring plan payables.

Income Taxes. We recorded an income tax benefit of \$13.4 million for the nine month period ended September 30, 2010 compared to income tax expense of \$1.2 million for the nine month period ended September 30, 2009. Our effective income tax rate for the nine month period ended September 30, 2010 was approximately 36.8% compared to 88.2% for the same nine month period in 2009. The higher effective tax rate for the nine month period September 30, 2009 was the result of a permanent difference resulting from unrealized tax deductible goodwill amortization, for which no deferred tax benefit can be recognized in accordance with ASC 740. In accordance with ASC 740, the actual effective year-to-date tax rate was applied in the prior year third quarter. Based on available evidence, both positive

and negative, we believe it is more likely than not that our deferred tax assets at September 30, 2010 are fully realizable through future reversals of existing taxable temporary differences and future taxable income, and are not subject to any limitations.

Table of Contents**Liquidity and Capital Resources**

Cash flow from operating activities. For the nine month period ended September 30, 2010, our cash provided by our operating activities was exceeded by our cash used in our operating activities, resulting in net cash used in our operating activities of \$14.0 million. Our reported net loss of approximately \$23.0 million, which, when adjusted for non-cash income and expense items, such as depreciation and amortization, deferred income taxes, provision for losses on accounts receivable, stock-based compensation expense and net gains on the sale of long-lived assets, provided positive cash flows of approximately \$29.0 million. These cash flows from operating activities were also positively impacted by an increase of \$33.1 million in accounts payable. Offsetting these positive cash flows were a \$17.4 million decrease in manufacturing flooring plans payable, an \$28.4 million increase net accounts receivable, a \$24.1 million increase in net inventories, a \$2.2 million increase in prepaid expenses and other assets and a \$4.0 million decrease in accrued expenses payable and other liabilities.

Our cash provided by operating activities for the nine months ended September 30, 2009 was \$38.0 million. Our reported net income of approximately \$0.2 million, which, when adjusted for non-cash income and expense items, such as depreciation and amortization, deferred income taxes, provision for losses on accounts receivable, stock-based compensation expense, and net gains on the sale of long-lived assets, provided positive cash flows of approximately \$70.1 million. These cash flows from operating activities were also positively impacted by a decrease of \$57.8 million in net accounts receivable, a \$4.7 million decrease in prepaid expenses and other assets and a \$10.7 million decrease in inventories. Partially offsetting these positive cash flows were a decrease of \$65.6 million in accounts payable, a \$27.7 million decrease in manufacturing flooring plans payable, and an \$11.8 million decrease in accrued expenses and other liabilities.

Cash flow from investing activities. For the nine month period ended September 30, 2010, our 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 \$0.1 million. This was a net result of purchases of rental and non-rental equipment of \$35.2 million and proceeds from the sales of rental and non-rental equipment totaling \$35.1 million.

For the nine months ended September 30, 2009, cash provided by our investing activities was \$33.1 million. This is a net result of proceeds from the sale of rental and non-rental equipment of \$58.8 million, which includes approximately \$13.3 million in cash proceeds related to the Arnold Transaction. Partially offsetting these cash flows were purchases of rental and non-rental equipment totaling \$25.7 million.

Cash flow from financing activities. For the nine month period ended September 30, 2010, cash used in our financing activities was approximately \$4.4 million, representing payments of our notes payable and capital lease obligation and purchases of treasury stock of \$1.2 million, \$0.1 million and \$0.2 million, respectively, and transactions costs of \$2.9 million associated with our amended and restated senior secured credit facility (see note 7 to these condensed consolidated financial statements for further information).

For the nine months ended September 30, 2009, cash used in our financing activities was approximately \$73.7 million. Our total borrowings during the period under our senior secured credit facility were \$534.4 million and total payments under the senior secured credit facility in the same period were \$607.7 million. We also made payments under our related party obligation and notes payable and capital lease obligations totaling \$0.2 million and acquired \$0.1 million of treasury stock.

Senior Secured Credit Facility

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

Our senior secured credit facility requires us to maintain a minimum fixed charge coverage ratio in the event that our excess borrowing availability is below \$40.0 million (as adjusted if the incremental facility is exercised). The credit facility also requires us to maintain a maximum total leverage ratio of 5.0 to 1.0, which is tested if excess availability is less than \$40 million (as adjusted if the incremental facility is exercised). We paid transaction costs of

approximately \$2.9 million in connection with the amendment and restatement of the credit facility. At November 1, 2010, we had \$312.0 million of available borrowings under our senior secured credit facility, net of \$8.0 million of outstanding letters of credit, and were in compliance with these covenants.

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Senior Unsecured Notes

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

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

The indenture governing our senior secured notes contains certain covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to: (i) incur additional indebtedness, assume a guarantee or issue preferred stock; (ii) pay dividends or make other equity distributions or payments to or affecting our subsidiaries; (iii) purchase or redeem our capital stock; (iv) make certain investments; (v) create liens; (vi) sell or dispose of assets or engage in mergers or consolidation; (vii) engage in certain transactions with subsidiaries or affiliates; (viii) enter into sale leaseback transactions with subsidiaries or affiliates; (viii) enter into sale leaseback transactions; and (ix) engage in certain business activities. Each of the covenants is subject to exceptions and qualifications.

Cash Requirements Related to Operations

Our principal sources of liquidity have been from cash provided by operating activities and the sales of new, used and rental fleet equipment, proceeds from the issuance of debt, and borrowings available under our senior secured credit facility. Our principal uses of cash have been to fund operating activities and working capital, purchases of rental fleet equipment and property and equipment, fund payments due under facility operating leases and manufacturer flooring plans payable, and to meet debt service requirements. In the future, we may pursue additional strategic acquisitions. In addition, we may use cash from working capital and/or borrowings under 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 nine month period ended September 30, 2010 were approximately \$58.4 million, including \$26.4 million of non-cash transfers from new and used equipment to rental fleet inventory. Our gross property and equipment capital expenditures for the nine month period ended September 30, 2010 were \$3.3 million. In response to changing economic conditions (either positive or negative), we believe we have the flexibility to modify our capital expenditures by adjusting them (either up or down) to match our actual performance.

On July 31, 2009, the Company sold to Arnold Machinery Company its Yale® lift truck assets in our rental fleet, new and used equipment inventories and parts inventories located in the Intermountain region of the United States, resulting in total cash proceeds of approximately \$15.7 million. At the time of the sale, these lift trucks comprised, based on net book value, approximately 71% of our total lift trucks in the rental fleet and approximately 3.5% of our total rental fleet. The Yale® brand accounted for less than 5.0% of our total revenues in 2009 through the date of the transaction.

To service our debt, we will require a significant amount of cash. Our ability to pay interest and principal on our indebtedness (including the senior unsecured notes, the senior secured credit facility and our other indebtedness), will depend upon our future operating performance and the availability of borrowings under our senior secured credit facility and/or other debt and equity financing alternatives available to us, which will be affected by prevailing economic conditions and conditions in the global credit and capital markets, as well as financial, business and other factors, some of which are beyond our control. Based on our current level of operations and given the current state of the capital markets, we believe our cash flow from operations, available cash and available borrowings under our senior secured credit facility will be adequate to meet our future liquidity needs for the foreseeable future. In 2009, we fully repaid our senior secured credit facility. As of November 1, 2010, we had \$312.0 million of available borrowings under our senior secured credit facility, net of \$8.0 million of outstanding letters of credit.

We cannot provide absolute assurance that our future cash flow from operating activities will be sufficient to meet our long-term obligations and commitments. If we are unable to generate sufficient cash flow from operating activities

in the future to service our indebtedness and to meet our other commitments, we will be required to adopt one or more alternatives, such as refinancing or restructuring our indebtedness, selling material assets or operations or seeking to raise additional debt or equity capital. Given current

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economic and market conditions, including the significant disruptions in the global capital markets, we cannot assure investors that any of these actions could be affected on a timely basis or on satisfactory terms or at all, or that these actions would enable us to continue to satisfy our capital requirements. In addition, our existing debt agreements, including the indenture governing our senior unsecured notes, and our senior secured credit facility, as well as any future debt agreements, contain or may contain restrictive covenants, which may prohibit us from adopting any of these alternatives. Our failure to comply with these covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our debt.

Seasonality

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

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

Contractual and Commercial Commitments

On July 29, 2010, we amended and restated our \$320.0 million senior secured credit facility with General Electric Capital Corporation as administrative agent, and the lenders named therein, to, among other things, extend the facility's maturity date from August 4, 2011 to July 29, 2015 (see also note 7 to the condensed consolidated financial statements for further information). We have no outstanding balances under the credit facility. As of September 30, 2010, there were no other material changes from the information included in our Annual Report on Form 10-K for the year ended December 31, 2009.

Off-Balance Sheet Arrangements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our earnings may be affected by changes in interest rates since interest expense on our senior secured credit facility is currently calculated based upon the index rate plus an applicable margin of 1.50% to 2.25%, depending on the leverage ratio, in the case of index rate revolving loans and LIBOR plus an applicable margin of 2.50% to 3.25%, depending on the leverage ratio, in the case of LIBOR revolving loans. At September 30, 2010, we had no outstanding borrowings under our senior secured credit facility. Further, we did not have significant exposure to changing interest rates as of September 30, 2010 on our fixed-rate senior unsecured notes or on our other notes payable. Historically, we have not engaged in derivatives or other financial instruments for trading, speculative or hedging purposes, though we may do so from time to time if such instruments are available to us on acceptable terms and prevailing market conditions are accommodating.

Item 4. Controls and Procedures

Management's Quarterly Evaluation of Disclosure Controls and Procedures

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

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

The design of any system of control is based upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated objectives under all future events, no matter how remote, or that the

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degree of compliance with the policies or procedures may not deteriorate. Because of its inherent limitations, disclosure controls and procedures may not prevent or detect all misstatements. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Changes in Internal Control Over Financial Reporting

During the quarter ended March 31, 2010, as part of the Company's on-going ERP project, our ERP system was implemented in 14 of the Company's branches, as well as in the Company's centralized corporate accounting operations. During the quarter ended June 30, 2010, the ERP system was implemented in our 53 remaining branches and will be implemented in subsequent new branch openings. As a result, various internal controls related to our business processes, user security, account structure, system reporting and approval procedures were modified and redesigned to conform to the new ERP system. Although management believes internal controls have been maintained or enhanced by the ERP system implemented, the design and operating effectiveness of the controls in the newly upgraded environments have not been completely assessed as of September 30, 2010. As such, there is a risk that deficiencies may exist that have not yet been identified that could be deemed significant deficiencies or, in the aggregate, a material weakness. In 2010 management will continue its assessment of internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) relating to the new ERP system. Otherwise, there were no changes in the Company's internal control over financial reporting that occurred during the quarter ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

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

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

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

Issuer Purchases of Equity Securities

On June 30, 2010, 27,551 shares of non-vested stock that were issued in 2009 vested at \$7.49 per share. On July 7, 2010, holders of those vested shares returned 4,813 shares of common stock to the Company as payment for their respective employee withholding taxes. This resulted in an addition of 4,813 shares to Treasury Stock.

Item 3. Defaults upon Senior Securities.

None.

Item 4. (Removed and Reserved).

Item 5. Other Information.

None.

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Item 6. Exhibits.

- 10.1 Third Amended and Restated Credit Agreement, dated as of July 29, 2010, by and among H&E Equipment Services, Inc., Great Northern Equipment, Inc., GNE Investments, Inc., H&E Finance Corp., H&E Equipment Services (California), LLC, H&E California Holdings, Inc., H&E Equipment Services (Mid-Atlantic), Inc., General Electric Capital Corporation, as Agent, Bank of America, N.A. as co-syndication agent, documentation agent, joint lead arranger and joint bookrunner and the lenders party thereto (incorporated by reference from Exhibit 10.1 to Current Report on Form 8-K of H&E Equipment Services, Inc. (File No. 000-51759), filed August 3, 2010).
- 31.1 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 31.2 Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith).
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).

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SIGNATURES

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

H&E EQUIPMENT SERVICES, INC.

Dated: November 5, 2010

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

Dated: November 5, 2010

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

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EXHIBIT INDEX

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