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

# FORM 10-Q

**(Mark one)**

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

**For the quarterly period ended June 30, 2006**

o **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**<br>(State of Incorporation) | **81-0553291**<br>(I.R.S. Employer Identification No.) |
|---|---|
| **11100 Mead Road, Suite 200,**<br>**Baton Rouge, Louisiana 70816**<br>(Address of principal executive offices, including zip code) | **(225) 298-5200**<br>(Registrant's telephone number, including area code) |

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 o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer o Accelerated filer o Non-Accelerated filer ☑

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

Number of shares of common stock, par value $0.01 per share, of the registrant outstanding as of August 10, 2006 was 38,192,094 shares.

**H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES**
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| Certification pursuant to 18 U.S.C. Section 1350 | |

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

Forward-looking statements are only predictions and are not guarantees of performance. These statements are based on our management’s beliefs and assumptions, which in turn are based on currently available information. Important assumptions relating to the forward-looking statements include, among others, assumptions regarding demand for our products, the expansion of product offerings geographically or through new 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 that 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 activity in the markets where we operate in North America;
- relationships with new equipment suppliers;
- increased maintenance and repair costs;
- our substantial leverage;
- 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, 2005 and under Item 1A — “Risk Factors” in this Quarterly Report on Form 10-Q.

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, 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 risk and uncertainties, see Item 1A — “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2005 and Item 1A — “Risk Factors” in this Quarterly Report on Form 10-Q, as well as other reports and registration statements filed by us with the SEC. All of our annual, quarterly and current reports and amendments thereto, filed with the SEC are available on our website under the Investor Relations link. For more information about us and the announcements we make from time to time, visit our website at www.he-equipment.com.

**PART I—FINANCIAL INFORMATION**

**Item 1. Financial Statements.**

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

| | Balances at | |
|---|---|---|
| | June 30, 2006 (Unaudited) | December 31, 2005 |
| **ASSETS** | | |
| Cash and cash equivalents | $ 24,641 | $ 5,627 |
| Receivables, net of allowance for doubtful accounts of $2,586 and $2,364, respectively | 107,901 | 99,523 |
| Inventories, net of reserve for obsolescence of $849 and $975, respectively | 112,366 | 81,093 |
| Prepaid expenses and other assets | 3,126 | 1,378 |
| Rental equipment, net of accumulated depreciation of $142,001 and $133,943, respectively | 393,445 | 308,036 |
| Property and equipment, net of accumulated depreciation of $23,997 and $21,142, respectively | 28,122 | 18,284 |
| Deferred financing costs and other intangible assets, net of accumulated amortization of $8,006 and $7,250, respectively | 7,286 | 8,184 |
| Goodwill | 30,454 | 8,572 |
| Total assets | $ 707,341 | $ 530,697 |
| **LIABILITIES, MEMBERS' DEFICIT AND STOCKHOLDERS' EQUITY** | | |
| **Liabilities:** | | |
| Amounts due on senior secured credit facility | $ — | $ 106,451 |
| Accounts payable | 77,411 | 56,173 |
| Manufacturer flooring plans payable | 116,983 | 93,728 |
| Accrued expenses payable and other liabilities | 29,988 | 22,798 |
| Related party obligation | 764 | 869 |
| Notes payable | 1,190 | 521 |
| Senior secured notes, net of original issue discount of $1,066 and $1,127, respectively | 198,934 | 198,873 |
| Senior subordinated notes, net of original issue discount of $8,624 and $8,943, respectively | 44,376 | 44,057 |
| Deferred income taxes | 8,561 | 645 |
| Deferred compensation payable | 3,158 | 11,722 |
| Total liabilities | 481,365 | 535,837 |
| **Commitments and contingencies Members' deficit** | — | (5,140) |
| **Stockholders' equity:** | | |
| Preferred stock, $0.01 par value, 25,000,000 shares authorized; no shares issued at June 30, 2006 and December 31, 2005, respectively | — | — |
| Common stock, $0.01 par value, 175,000,000 shares authorized; 38,192,094 and no shares issued and outstanding at June 30, 2006 and December 31, 2005, respectively | 382 | — |
| Additional paid-in capital | 204,021 | — |
| Retained earnings | 21,573 | — |
| Total stockholders' equity | 225,976 | — |
| Total liabilities, members' deficit and stockholders' equity | $ 707,341 | $ 530,697 |

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

**H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**
**For the three months and six months ended June 30, 2006 and 2005**
**(Unaudited)**
**(Amounts in thousands, except per share amounts)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Revenues: | | | | |
| Equipment rentals | $ 64,011 | $ 45,576 | $ 118,006 | $ 86,167 |
| New equipment sales | 56,945 | 33,417 | 112,660 | 63,715 |
| Used equipment sales | 36,065 | 23,962 | 67,719 | 49,581 |
| Parts sales | 21,237 | 17,792 | 40,550 | 34,216 |
| Service revenues | 13,374 | 9,887 | 25,708 | 19,050 |
| Other | 10,904 | 7,096 | 20,103 | 13,551 |
| Total revenues | 202,536 | 137,730 | 384,746 | 266,280 |
| Cost of revenues: | | | | |
| Rental depreciation | 19,170 | 12,876 | 36,030 | 25,040 |
| Rental expense | 10,476 | 11,490 | 21,088 | 23,009 |
| New equipment sales | 49,733 | 29,557 | 98,294 | 56,020 |
| Used equipment sales | 25,746 | 17,922 | 49,545 | 37,718 |
| Parts sales | 15,080 | 12,698 | 28,604 | 24,133 |
| Service revenues | 4,731 | 3,747 | 9,298 | 6,993 |
| Other | 9,305 | 7,274 | 17,569 | 14,471 |
| Total cost of revenues | 134,241 | 95,564 | 260,428 | 187,384 |
| Gross profit | 68,295 | 42,166 | 124,318 | 78,896 |
| Selling, general and administrative expenses | 33,384 | 27,317 | 74,427 | 53,123 |
| Gain (loss) on sales of property and equipment, net | 60 | (144) | 159 | (103) |
| Income from operations | 34,971 | 14,705 | 50,050 | 25,670 |
| Other income (expense): | | | | |
| Interest expense | (10,115) | (10,321) | (20,282) | (20,425) |
| Other, net | 355 | 80 | 430 | 170 |
| Total other expense, net | (9,760) | (10,241) | (19,852) | (20,255) |
| Income before provision for income taxes | 25,211 | 4,464 | 30,198 | 5,415 |
| Provision for income taxes | 5,408 | 171 | 6,475 | 171 |
| Net income | $ 19,803 | $ 4,293 | $ 23,723 | $ 5,244 |
| Net income per common share: | | | | |
| Basic | $ 0.52 | $ 0.17 | $ 0.66 | $ 0.21 |
| Diluted | $ 0.52 | $ 0.17 | $ 0.66 | $ 0.21 |
| Weighted average common shares outstanding | | | | |
| Basic | 38,070 | 25,492 | 35,777 | 25,492 |
| Diluted | 38,096 | 25,492 | 35,790 | 25,492 |

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

**H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF MEMBERS' DEFICIT AND STOCKHOLDERS' EQUITY**
**For the six months ended June 30, 2006**
**(Unaudited)**
**(Amounts in thousands, except share amounts)**

| | Common Stock | | Additional Paid-in Capital | Retained Earnings | Total Stockholders' Equity | Members' Deficit |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| Balances at January 1, 2006 | — | $ — | $ — | $ — | $ — | $ (5,140) |
| Net income for the period January 1, 2006 through February 2, 2006 | — | — | — | — | — | 2,150 |
| Effect of the Reorganization Transactions | 25,492,019 | 255 | (3,245) | — | (2,990) | 2,990 |
| Common stock issued on February 3, 2006 pursuant to initial public offering, net of $15,915 issue costs | 12,578,125 | 126 | 206,892 | — | 207,018 | — |
| Issuance of common stock | 121,950 | 1 | — | — | 1 | — |
| Stock-based compensation | — | — | 374 | — | 374 | — |
| Net income for the period February 3, 2006 through June 30, 2006 | — | — | — | 21,573 | 21,573 | — |
| Balances at June 30, 2006 | 38,192,094 | $ 382 | $ 204,021 | $ 21,573 | $ 225,976 | $ — |

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

**H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**
**For the six months ended June 30, 2006 and 2005**
**(Unaudited)**
**(Amounts in thousands)**

| | Six Months Ended June 30, | |
|---|---|---|
| | 2006 | 2005 |
| Cash flows from operating activities: | | |
| Net income | $ 23,723 | $ 5,244 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation on property and equipment | 3,263 | 2.399 |
| Depreciation on rental equipment | 36,030 | 25,041 |
| Amortization of loan discounts and deferred financing costs | 1,445 | 1,355 |
| Amortization of other intangible assets | 23 | 70 |
| Provision for losses on accounts receivable | 1,001 | 630 |
| Provision for inventory obsolescence | 17 | 30 |
| Provision for deferred income taxes | 5,843 | — |
| Non-cash compensation expense | 374 | — |
| (Gain) loss on sales of property and equipment, net | (159) | 102 |
| Gain on sales of rental equipment, net | (16,293) | (10,386) |
| Changes in operating assets and liabilities, net of impact of acquisition: | | |
| Receivables, net | (2,078) | (3,001) |
| Inventories | (52,224) | (26,182) |
| Prepaid expenses and other assets | (3,089) | (1,833) |
| Accounts payable | 20,750 | 7,000 |
| Manufacturer flooring plans payable | 23,255 | 5,801 |
| Accrued expenses payable and other liabilities | 3,368 | 3,769 |
| Deferred compensation payable | (8,564) | 576 |
| Net cash provided by operating activities | 36,685 | 10,615 |
| Cash flows from investing activities: | | |
| Acquisition of businesses, net of cash acquired | (56,961) | — |
| Purchases of property and equipment | (10,171) | (4,159) |
| Purchases of rental equipment | (105,453) | (63,402) |
| Proceeds from sales of property and equipment | 382 | 568 |
| Proceeds from sales of rental equipment | 54,390 | 39,450 |
| Net cash used in investing activities | (117,813) | (27,543) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock, net of issue costs | 207,018 | — |
| Borrowings on senior secured credit facility | 487,673 | 284,316 |
| Payments on senior secured credit facility | (594,124) | (263,200) |
| Payment of deferred financing costs | (190) | (10) |
| Payments of related party obligation | (150) | (150) |
| Principal payments of notes payable | (85) | (142) |
| Payments on capital lease obligations | — | (1,120) |
| Net cash provided by financing activities | 100,142 | 19,694 |
| Net increase in cash and cash equivalents | 19,014 | 2,766 |
| Cash, beginning of period | 5,627 | 3,358 |
| Cash and cash equivalents, end of period | $ 24,641 | $ 6,124 |

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**H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES**
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**
**For the six months ended June 30, 2006 and 2005**
**(Unaudited)**
**(Amounts in thousands)**

| | Six Months Ended June 30, | |
|---|---|---|
| | **2006** | **2005** |
| Supplemental schedule of noncash investing activities: | | |
| Assets transferred from new and used inventory to rental fleet | $ 21,849 | $ 18,077 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | $ 19,027 | $ 19,731 |
| Income taxes | $ 500 | $ 171 |

As of June 30, 2006 and June 30, 2005, we had $117.0 million and $57.0 million, respectively, in manufacturer flooring plans payable outstanding, which are used to finance purchases of inventory and rental equipment.

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

**H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**(Unaudited)**
**June 30, 2006**

## (1) Organization and Nature of Operations

### Basis of Presentation

In connection with our initial public offering of common stock in February 2006 (see note 3 to the condensed consolidated financial statements for further information regarding our initial public offering), we converted H&E Equipment Services L.L.C. ("H&E LLC"), a Louisiana limited liability company and the wholly-owned operating subsidiary of H&E Holding L.L.C. ("Holdings"), into H&E Equipment Services, Inc., a Delaware corporation. 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 of our initial public offering, immediately prior to the closing of the initial public offering, on February 3, 2006, H&E LLC and Holdings merged with and into us (H&E Equipment Services, Inc.), with us surviving the reincorporation merger as the operating company. Effective February 3, 2006, H&E LLC and Holdings no longer existed. In these transactions (collectively, the "Reorganization Transactions"), holders of preferred limited liability company interests and holders of common limited liability company interests in H&E Holdings received shares of our common stock. All references to common stock share and per share amounts included in our condensed consolidated statements of income for the three and six months ended June 30, 2006 and 2005 have been retroactively adjusted to reflect the Reorganization Transactions as if the Reorganization Transactions had taken place as of the beginning of the earliest period presented.

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., and our recent acquisition, as described in note 4 to the condensed consolidated financial statements, of Eagle High Reach Equipment, Inc. (H&E California Holdings, Inc.) and Eagle High Reach Equipment, LLC (H&E Equipment Services (California LLC), consummated on February 28, 2006, collectively referred to herein as "we" or "us" or "our" or the "Company."

The accompanying unaudited interim condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) 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. Certain items in the prior periods have been reclassified to make the presentation consistent with the current reporting periods. Operating results for the three and six months ended June 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006, 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 consolidated financial statements and related notes in our Annual Report on Form 10-K for the year ended December 31, 2005.

The nature of our business is such that short-term obligations are typically met by cash flows generated from long-term assets. Consequently, 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 an extremely 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 1 of the notes to consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2005. During the quarter ended June 30, 2006, the Company began investing portions of its available cash on hand in cash equivalents. The Company considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

*Use of Estimates*

We prepare our condensed consolidated financial statements in accordance with U.S. generally accepted accounting principles, 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 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 financial statements. Actual results may differ materially from those estimates. We review our estimates on an ongoing basis based on information currently available, and changes in facts and circumstances may cause us to revise these estimates.

*Recent Accounting Pronouncements*

In December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123(R), "Share-Based Payment", ("SFAS 123(R)"), which revises SFAS No. 123 and supersedes APB Opinion No. 25 and related interpretations. SFAS No. 123(R) requires all share-based payment transactions, including grants of stock options, restricted stock awards, performance-based awards, shares appreciation rights and employee stock purchase plans to be valued at fair value on the date of grant, and to be expensed over the requisite service period. SFAS No. 123(R) is effective for the annual reporting period beginning after June 15, 2005 and requires one of two transition methods to be applied. We adopted SFAS 123 (R) on January 1, 2006. Please see note 5 to the condensed consolidated financial statements for further discussion related to the Company's adoption of SFAS No. 123(R).

In May 2005, the FASB issued Statement No. 154, "Accounting Changes and Error Corrections" ("SFAS 154"). SFAS 154 replaces APB Opinion No. 20 ("APB 20"), "Accounting Changes" and FASB Statement No. 3, "Reporting Accounting Charges in Interim Financial Statements." SFAS 154 requires that a voluntary change in accounting principle be applied retrospectively with all prior period financial statements presented on the new accounting principle, unless it is impracticable to do so. SFAS 154 also provides that a correction of errors in previously issued financial statements should be termed a "restatement." APB 20 previously required most voluntary changes in accounting principle to be recognized by including in net income at the period of change the cumulative effect of changing to the new accounting principle. In addition, SFAS 154 carries forward without change the guidance contained in APB 20 for reporting a correction of an error in previously issued financial statements and a change in accounting estimate. We adopted this new standard on January 1, 2006.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting for uncertainty in income taxes recognized in accordance with FASB Statement No. 109 ("SFAS 109"). FIN 48 clarifies the application of SFAS 109 by defining criteria that an individual tax position must meet for any part of the benefit of that position to be recognized in the financial statements. Additionally, FIN 48 provides guidance on the measurement, derecognition, classification and disclosure of tax positions, along with accounting for the related interest and penalties. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. Management is currently evaluating the impact, if any, that the adoption of FIN 48 will have on the Company's financial position, results of operations and cash flows.

**(3) Initial Public Offering and Use of Proceeds**

We completed an initial public offering of our common stock, par value $.01 per share, on February 3, 2006. In the offering, we sold 12,578,125 shares for an aggregate offering price of $226.4 million. Net proceeds to us, after deducting underwriting discounts and commissions and offering expenses, totaled approximately $207.0 million. Aggregate underwriting discounts and commissions totaled approximately $15.9 million and aggregate offering expenses totaled approximately $3.6 million.

We used the net offering proceeds to us of $207.0 million as follows:

- $56.9 million to complete our acquisition of Eagle High Reach Equipment, Inc. and all of the equity interests of its subsidiary, Eagle High Reach Equipment, LLC (together, "Eagle"), on February 28, 2006. For information on the Eagle acquisition, see note 4 to the condensed consolidated financial statements.
- $30.3 million to purchase rental equipment under operating leases;
- $8.6 million to pay deferred compensation owed to one of our current executives and a former executive; and
- $96.6 million to repay outstanding principal indebtedness under our senior secured credit facility.

Additionally, we paid $8.0 million to Bruckmann, Rosser, Sherill & Co., L.L.C. (an affiliate of Bruckmann, Rosser, Sherill & Co., L.P. and Bruckmann, Rosser, Sherill & Co. II, L.P., two of our principal stockholders) in connection with the termination of a management services agreement. Remaining net proceeds of approximately $6.6 million were used for general corporate purposes.

**(4) Acquisition**

We completed, effective as of February 28, 2006, the previously announced acquisition of all of the capital stock of Eagle High Reach Equipment, Inc. and all of the equity interests of its subsidiary, Eagle High Reach Equipment, LLC for estimated consideration of approximately $66.2 million, consisting of cash paid of $59.9 million, liabilities assumed of $3.6 million, liabilities incurred of $2.1 million, and transaction costs of $0.6 million. The purchase price is subject to post closing adjustments and certain escrows. The Eagle purchase price was determined based on the expected cash flows from the Eagle business and negotiation with the sellers. The purchase price was funded out of the proceeds from our recently completed initial public offering (see note 3 to the condensed consolidated financial statements for further information on our initial public offering). Prior to the acquisition Eagle was a privately-held construction and industrial equipment rental company. Eagle serves the southern California construction and industrial markets out of four locations. This acquisition marks our initial entry into the southern California market and is consistent with our business strategy. For further information on our business strategy, see Item 1 of Part I of our Annual Report on Form 10-K for the year ended December 31, 2005.

The Eagle acquisition has been accounted for using the purchase method of accounting. The aggregate purchase price has been allocated to the assets acquired and liabilities assumed based an estimate of their fair values as determined by a valuation performed by an independent national firm. The excess of the purchase price over the fair value of the net identifiable tangible and intangible assets has been allocated to goodwill. Goodwill generated from the acquisition was recognized given the expected contribution of Eagle to the overall corporate strategy. We estimate that approximately $9.9 million of the goodwill acquired will be tax deductible. Our purchase price allocation is subject to adjustment as post closing adjustments, if any, and certain escrows are finalized during the quarterly period ended September 30, 2006. Additionally, we are in the process of evaluating the allocation of Eagle goodwill to our operating segments. Our operating results for the six month period ended June 30, 2006 include the operating results of Eagle since the date of acquisition, February 28, 2006.

The following table summarizes the estimated preliminary allocation based on fair values of the Eagle assets acquired and liabilities assumed in February 2006 (amount in thousands).

| | |
|---|---|
| Cash | $ 32 |
| Receivables | 7,300 |
| Inventories | 915 |
| Rental equipment | 32,235 |
| Property and equipment | 3,153 |
| Prepaid expenses and other assets | 654 |
| Goodwill | 21,883 |
| Accounts payable | (483) |
| Accrued expenses payable and other liabilities | (2,349) |
| Deferred income taxes | (2,073) |
| Notes payable | (755) |
| Net assets acquired | $ 60,512 |

Our estimated preliminary allocation as of March 31, 2006, included in our Form 10-Q/A for the quarterly period then ended allocated approximately $17.5 million and $3.3 million to goodwill and deferred income taxes, respectively. The approximate $4.4 million increase in goodwill and $1.3 million decrease in deferred income taxes is largely the result of the finalization of the aforementioned valuation performed by an independent national firm. In that final valuation report, the fair market value allocated to the acquired value of Eagle's rental fleet was $32.2 million, a decrease of approximately $5.2 million from the $37.4 million estimated preliminary allocation to those assets.

The following table contains pro forma condensed consolidated statements of income information for the three month and six month periods ended June 30, 2006 and 2005, as if the Eagle transaction occurred at the beginning of each respective period (amounts in thousands except per share data).

| | Three Month Period Ended June 30, | | Six Month Period Ended June 30, | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Total revenues | $202,536 | $146,056 | $390,074 | $281,761 |
| Gross profit | 68,295 | 45,117 | 126,092 | 86,608 |
| Operating income | 34,971 | 16,087 | 49,342 | 28,864 |
| Net income | 19,803 | 5,190 | 23,374 | 6,205 |
| Basic net income per common share | $ 0.52 | $ 0.20 | $ 0.65 | $ 0.24 |
| Diluted net income per common share | $ 0.52 | $ 0.20 | $ 0.65 | $ 0.24 |

The pro forma information above is presented for illustrative purposes only and may not be indicative of the results of operations that would have actually occurred had the Eagle transaction occurred as presented. Further, the above pro forma amounts do not consider any potential synergies or integration costs that may result from the transaction. In addition, future results may vary significantly from the results reflected in such pro forma information.

**(5) Stock-Based Compensation**

We adopted our 2006 Stock-Based Incentive Compensation Plan (the “Stock Incentive Plan”) in January 2006 prior to the Company’s initial public offering of common stock. The Stock Incentive Plan was further amended and restated with the approval of our stockholders at the 2006 annual meeting of the stockholders of the Company to provide for the inclusion of non-employee directors as persons eligible to receive awards under the Stock Incentive Plan. Prior to the adoption of the Stock Incentive Plan, no share-based payment arrangements existed. The Stock Incentive Plan is administered by the Compensation Committee of our Board of Directors, which selects persons eligible to receive awards and determines the number of shares and/or options subject to each award, the terms, conditions, performances measures, if any, and other provisions of the award. Under the Stock Incentive Plan, we may offer deferred shares or restricted shares of our common stock and grant options, including both incentive stock options and nonqualified stock options, to purchase shares of our common stock.

Statement of Financial Accounting Standard No. 123 (revised), (“SFAS 123(R)”), “Share-Based Payment,” became effective for us in the first quarter of our current fiscal year ending December 31, 2006. Under the provisions of SFAS 123(R), 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).

*Non-vested Stock*

On February 22, 2006, we issued non-vested stock grants for 121,950 shares of our common stock. These stock awards may not be sold or otherwise transferred until certain restrictions have lapsed. The unrecognized compensation cost related to these awards is expected to be expensed over the period the restrictions lapse (one to three years). Compensation expense was determined based on the $24.60 market price of our stock at the date of grant applied to the total number of shares that were anticipated to fully vest. As of June 30, 2006, we have unrecognized compensation expense of $2.7 million associated with these awards. Compensation expense related to these awards included in selling, general and administrative expenses in the accompanying condensed consolidated statements of income for the three and six months ended June 30, 2006 was $0.3 million and $0.4 million, respectively. At June 30, 2006, there were 121,950 non-vested shares outstanding.

*Stock Options*

On February 22, 2006, stock options for 45,000 shares of our common stock were granted by the Company, subject to stockholder approval of the amendment to and restatement of the Stock Incentive Plan at the Company’s annual meeting of stockholders, with an exercise price of $24.60 per share, the market price of our stock on the date of grant. On June 6, 2006, the Company’s stockholders approved the Stock Incentive Plan. The Company uses the Black-Scholes option pricing model to estimate the fair value of stock-based awards. The following assumptions were used in determining the estimated fair value for these awards:

| | |
|---|---|
| Risk-free interest rate | 5.00% |
| Expected life of options (in years) | 6.0 |
| Expected volatility | 35.00% |
| Expected annual dividend yield | — |

The assumptions above are based on multiple factors. Since the Company is a new public entity with limited historical data on the price of its publicly traded common shares and has no history of share-based payments exercise activity, the Company, as provided for in SEC Staff Accounting Bulletin No. 107, used a simplified method for determining the options expected term and based its estimate of expected volatility on the historical, expected or implied volatility of similar entities within our industry whose share or option prices are publicly available.

At June 30, 2006, there was $0.8 million of unrecognized compensation cost related to these stock options awards that is expected to be recognized over a period of 2.7 years. Compensation expense related to these awards included in selling, general and administrative expenses in the accompanying condensed consolidated statements of income was $21,000 for both the three and six months ended June 30, 2006. At June 30, 2006, 45,000 options were outstanding with a grant-date value of $24.60 per share. The aggregate intrinsic value of options outstanding at June 30, 2006 was $1.1 million. None of the options outstanding were exercisable as of June 30, 2006.

Shares available for future stock-based payment awards under our Stock Incentive Plan were 4,401,467 shares as of June 30, 2006.

### (6) Earnings per Share

Earnings per common share for the three and six months ended June 30, 2006 and 2005 are based on the weighted average number of common shares outstanding during the period and have been retroactively adjusted for the three and six month periods ended June 30, 2006 and 2005, to reflect the Reorganization Transactions as if the Reorganization Transactions had occurred at the beginning of the earliest period presented. The following table sets forth the computation of basic and diluted net income per common share for the three and six months ended June 30, 2006 and 2005 (amounts in thousands, except per share amounts).

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | June 30, 2006 | June 30, 2005 | June 30, 2006 | June 30, 2005 |
| Basic net income per share: | | | | |
| Net income | $ 19,803 | $ 4,293 | $ 23,723 | $ 5,244 |
| Weighted average number of common shares outstanding | 38,070 | 25,492 | 35,777 | 25,492 |
| Net income per common share — basic | $ 0.52 | $ 0.17 | $ 0.66 | $ 0.21 |
| Diluted net income per share: | | | | |
| Net income | $ 19,803 | $ 4,293 | $ 23,723 | $ 5,244 |
| Weighted average number of common shares outstanding | 38,070 | 25,492 | 35,777 | 25,492 |
| Effect of dilutive securities: | | | | |
| Effect of dilutive stock options and non-vested stock | 26 | — | 13 | — |
| Weighted average number of shares outstanding — diluted | 38,096 | 25,492 | 35,790 | 25,492 |
| Net income per common share — diluted | $ 0.52 | $ 0.17 | $ 0.66 | $ 0.21 |

### (7) Senior Secured Credit Facility

On February 3, 2006, the senior secured credit agreement dated June 17, 2002, as amended, by and among the Company, Great Northern Equipment, Inc. (together with the Company, the “Borrowers”), Eagle High Reach Equipment, LLC, GNE Investments, Inc., H&E Finance Corp., General Electric Capital Corporation and the Lenders Party thereto (the “Credit Agreement”), was amended primarily to (1) approve, as described elsewhere in this Quarterly Report on Form 10-Q, the merger of H&E Holdings and H&E LLC, with and into H&E Equipment Services, Inc., with H&E Equipment Services, Inc. surviving the reincorporation merger as the operating company, and to effectuate H&E Equipment Services, Inc. as a “Borrower” under the terms of the senior secured credit facility; and (2) require that the proceeds of certain stock and debt issuances in excess of $1,000,000 in the aggregate be used to prepay amounts outstanding under the senior secured credit facility in an amount equal to such proceeds. We did not pay an amendment fee relating to this amendment.

On February 6, 2006, we used a portion of the proceeds from our initial public offering to pay $96.6 million of our total outstanding principal indebtedness related to the senior secured credit facility. Accrued interest in the amount of $0.2 million was subsequently paid in March 2006. At June 30, 2006, we had no borrowings under the senior secured credit facility and we had $156.7 million of borrowing availability, net of $ 8.3 million of issued letters of credit.

On March 20, 2006, the senior secured credit facility was further amended to (1) adjust the “Applicable Revolver Index Margin”, the “Applicable Revolver LIBOR Margin” and the “Applicable L/C Margin” to reflect tiered pricing based upon our monthly computed “Leverage Ratio” applied on a prospective basis commencing at least one day after the date of delivery to the “Lenders” of the monthly unaudited “Financial Statements” beginning after March 31, 2006; (2) adjust the “Applicable Unused Line Fee Margin” to reflect tiered pricing based upon our “Excess Availability Percentage” computed on the first day of a calendar month applied on a prospective basis commencing with the first adjustment to the “Applicable Revolver Index Margin” and “Applicable Revolver LIBOR

Margin,”; (3) eliminate the $16.5 million block on availability of assets; (4) revise the financial covenants to (i) add a covenant requiring maintenance of a minimum “Fixed Charge Coverage Ratio” of 1.10 to 1.00, which is tested at the end of each fiscal month only if a “Covenant Liquidity Event” has occurred and is then continuing and (ii) eliminate all other “Financial Covenants”; and (5) revise the definitions of various other capitalized terms contained within the original senior secured credit agreement. In connection with this amendment, we paid fees to the “Lenders” of $190,000.

As of July 12, 2006, the Company was granted a waiver (the “Waiver”) under the Credit Agreement. Pursuant to the Waiver, our lenders under the Credit Agreement have waived our non-compliance with, and the effects of our non-compliance under, various representations and non-financial covenants contained in the Credit Agreement affected by the accounting adjustment in connection with our restatement of our consolidated financial statements for the three months ended March 31, 2006 contained in our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2006. As a result of the restatement, among other things, we would no longer be able to make the representations under the Credit Agreement concerning the conformity with GAAP of our previously delivered financial statements, or confirm our prior compliance with certain obligations concerning the maintenance of our books and records in accordance with GAAP. Because the restatement does not result in our having breached the financial covenant in the Credit Agreement, the Waiver does not waive or modify the financial covenant. As a result of the Waiver, we continue to have full access to our revolving credit facility under the Credit Agreement.

On August 4, 2006, the Company entered into an Amended and Restated Credit Agreement (the “Amended Credit Agreement”), amending and restating the Company’s Credit Agreement pursuant to which, among other things, (i) the principal amount of availability of the credit facility was increased from $165.0 million to $250.0 million; (ii) the “Applicable Unused Line Fee Margin” (as defined in the Amended Credit Agreement) in respect of undrawn commitments was lowered to 0.25%; (iii) the advance rate on rental fleet assets from the lesser of 100% of net book value or 80% of orderly liquidation value was changed to the lesser of 100% of net book value or 85% of orderly liquidation value; (iv) the maturity date of the facility was extended from February 10, 2009 to August 4, 2011; and (v) H&E Equipment Services (California), LLC was added as a borrower. The Company paid $1.4 million to the “Lenders” in connection with this Amended Credit Agreement and estimate other transaction costs to be paid of approximately $0.6 million. As of August 10, 2006, we had $14.6 million of outstanding borrowings under our senior secured credit facility with $227.1 million of additional borrowing availability, net of $8.3 million of issued standby letters of credit. As of June 30, 2006, the Company was in compliance with its financial covenant under the senior secured credit facility.

**(8) Segment Information**

We have identified five reportable segments: equipment rentals, new equipment sales, used equipment sales, parts sales and service revenue. 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.

The Company does not compile discrete financial information by its segments other than the information presented below. The following table presents information about the Company’s reportable segments (amounts in thousands).

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Revenues: | | | | |
| Equipment rentals | $ 64,011 | $ 45,576 | $118,006 | $ 86,167 |
| New equipment sales | 56,945 | 33,417 | 112,660 | 63,715 |
| Used equipment sales | 36,065 | 23,962 | 67,719 | 49,581 |
| Parts sales | 21,237 | 17,792 | 40,550 | 34,216 |

| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Service revenue | 13,374 | 9,887 | 25,708 | 19,050 |
| Total segmented revenues | 191,632 | 130,634 | 364,643 | 252,729 |
| Non-segmented revenues | 10,904 | 7,096 | 20,103 | 13,551 |
| Total revenues | $ 202,536 | $ 137,730 | $ 384,746 | $ 266,280 |
| Gross Profit: | | | | |
| Equipment rentals | $ 34,365 | $ 21,210 | $ 60,888 | $ 38,118 |
| New equipment sales | 7,212 | 3,860 | 14,366 | 7,695 |
| Used equipment sales | 10,319 | 6,040 | 18,174 | 11,863 |
| Parts sales | 6,157 | 5,094 | 11,946 | 10,083 |
| Service revenue | 8,643 | 6,140 | 16,410 | 12,057 |
| Total segmented gross profit | 66,696 | 42,344 | 121,784 | 79,816 |
| Non-segmented gross profit (loss) | 1,599 | (178) | 2,534 | (920) |
| Total gross profit | $ 68,295 | $ 42,166 | $ 124,318 | $ 78,896 |

| Balances at | June 30, 2006 | December 31, 2005 |
|---|---|---|
| Segment identified assets: | | |
| Equipment sales | $ 91,653 | $ 62,344 |
| Equipment rentals | 393,446 | 308,036 |
| Parts and service | 20,713 | 18,749 |
| Total segment identified assets | 505,812 | 389,129 |
| Non-segment identified assets | 201,529 | 141,568 |
| Total assets | $ 707,341 | $ 530,697 |

The Company operates primarily in the United States and had minimal international sales for any of the periods presented. No one customer accounted for more than 10% of the Company’s revenues on an overall or segment basis for any of the periods presented.

**(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 Equipment Services (California), LLC (formerly known as Eagle High Reach Equipment, LLC), and H&E California Holdings, Inc. (formerly known as Eagle High Reach Equipment, 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 the Company’s ability to obtain funds from the guarantor subsidiaries by dividend or loan.

The consolidating financial statements of H&E Equipment Services, Inc. and its subsidiaries are included below. The financial statements for H&E Finance Corp., the subsidiary co-issuer, are not included within the consolidating financial statements because H&E Finance Corp. has no assets or operations. The financial statements of H&E Equipment Services (California), LLC and H&E California Holdings, Inc. included are from the date of the Company’s acquisition of Eagle, February 28, 2006, to June 30, 2006 and as of June 30, 2006.

**CONDENSED CONSOLIDATING BALANCE SHEET**
**(Amounts in thousands)**

| | As of June 30, 2006 | | | |
|---|---|---|---|---|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| **Assets:** | | | | |
| Cash and cash equivalents | $ 24,504 | $ 137 | $ — | $ 24,641 |
| Receivables, net | 98,409 | 9,492 | — | 107,901 |
| Inventories, net | 107,074 | 5,292 | — | 112,366 |
| Prepaid expenses and other assets | 2,717 | 409 | — | 3,126 |
| Rental equipment, net | 345,798 | 47,647 | — | 393,445 |
| Property and equipment, net | 24,103 | 4,019 | — | 28,122 |
| Deferred financing costs, net | 7,286 | — | — | 7,286 |
| Investment in guarantor subsidiaries | 8,852 | — | (8,852) | — |
| Goodwill | 30,454 | — | — | 30,454 |
| Total assets | $ 649,197 | $ 66,996 | $ (8,852) | $ 707,341 |
| **Liabilities and Stockholders' Equity:** | | | | |
| Amount due on senior secured credit facility | $ — | $ — | $ — | $ — |
| Accounts payable | 77,266 | 145 | — | 77,411 |
| Manufacturer flooring plans payable | 116,983 | — | — | 116,983 |
| Accrued expenses payable and other liabilities | (27,260) | 57,248 | — | 29,988 |
| Intercompany balance | — | — | — | — |
| Related party obligation | 764 | — | — | 764 |
| Notes payable | 439 | 751 | — | 1,190 |
| Senior secured notes, net of discount | 198,934 | — | — | 198,934 |
| Senior subordinated notes, net of discount | 44,376 | — | — | 44,376 |
| Deferred income taxes | 8,561 | — | — | 8,561 |
| Deferred compensation payable | 3,158 | — | — | 3,158 |
| Total liabilities | 423,221 | 58,144 | — | 481,365 |
| Stockholders' equity | 225,976 | 8,852 | (8,852) | 225,976 |
| Total liabilities and stockholders' equity | $ 649,197 | $ 66,996 | $ (8,852) | $ 707,341 |

**CONDENSED CONSOLIDATING BALANCE SHEET**
**(Amounts in thousands)**

| | As of December 31, 2005 | | | |
|---|---|---|---|---|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| **Assets:** | | | | |
| Cash | $ 5,610 | $ 17 | $ — | $ 5,627 |
| Receivables, net | 95,427 | 4,096 | — | 99,523 |
| Inventories, net | 76,533 | 4,560 | — | 81,093 |
| Prepaid expenses and other assets | 1,378 | — | — | 1,378 |
| Rental equipment, net | 298,708 | 9,328 | — | 308,036 |
| Property and equipment, net | 17,526 | 758 | — | 18,284 |
| Deferred financing costs, net | 8,184 | — | — | 8,184 |
| Investment in guarantor subsidiaries | 7,025 | — | (7,025) | — |
| Goodwill | 8,572 | — | — | 8,572 |
| Total assets | $ 518,963 | $ 18,759 | $ (7,025) | 530,697 |
| **Liabilities and Member's Equity (Deficit):** | | | | |
| Amount due on senior secured credit facility | $ 102,980 | $ 3,471 | $ — | $ 106,451 |
| Accounts payable | 56,173 | — | — | 56,173 |
| Manufacturer flooring plans payable | 93,728 | — | — | 93,728 |
| Accrued expenses payable and other liabilities | 22,696 | 102 | — | 22,798 |
| Intercompany balance | (8,161) | 8,161 | — | — |
| Related party obligation | 869 | — | — | 869 |
| Notes payable | 521 | — | — | 521 |
| Senior secured notes, net of discount | 198,873 | — | — | 198,873 |
| Senior subordinated notes, net of discount | 44,057 | — | — | 44,057 |
| Deferred income taxes | 645 | — | — | 645 |
| Deferred compensation payable | 11,722 | — | — | 11,722 |
| Total liabilities | 524,103 | 11,734 | — | 535,837 |
| Members' equity (deficit) | (5,140) | 7,025 | (7,025) | (5,140) |
| Total liabilities and members' equity (deficit) | $ 518,963 | $ 18,759 | $ (7,025) | $ 530,697 |

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**CONDENSED CONSOLIDATING STATEMENT OF INCOME**
**(Amounts in thousands)**

| | Three Months Ended June 30, 2006 | | | |
|---|---|---|---|---|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| Revenues: | | | | |
| Equipment rentals | $ 54,536 | $ 9,475 | $ — | $ 64,011 |
| New equipment sales | 55,439 | 1,506 | — | 56,945 |
| Used equipment sales | 33,519 | 2,546 | — | 36,065 |
| Parts sales | 20,435 | 802 | — | 21,237 |
| Service revenue | 12,936 | 438 | — | 13,374 |
| Other | 9,660 | 1,244 | — | 10,904 |
| Total revenues | 186,525 | 16,011 | — | 202,536 |
| Cost of revenues: | | | | |
| Rental depreciation | 16,752 | 2,418 | — | 19,170 |
| Rental expense | 8,915 | 1,561 | — | 10,476 |
| New equipment sales | 48,529 | 1,204 | — | 49,733 |
| Used equipment sales | 23,865 | 1,881 | — | 25,746 |
| Parts sales | 14,544 | 536 | — | 15,080 |
| Service revenue | 4,600 | 131 | — | 4,731 |
| Other | 8,166 | 1,139 | — | 9,305 |
| Total cost of revenues | 125,371 | 8,870 | — | 134,241 |
| Gross profit: | | | | |
| Equipment rentals | 28,869 | 5,496 | — | 34,365 |
| New equipment sales | 6,910 | 302 | — | 7,212 |
| Used equipment sales | 9,654 | 665 | — | 10,319 |
| Parts sales | 5,891 | 266 | — | 6,157 |
| Service revenue | 8,336 | 307 | — | 8,643 |
| Other | 1,494 | 105 | — | 1,599 |
| Gross profit | 61,154 | 7,141 | — | 68,295 |
| Selling, general and administrative expenses | 28,870 | 4,514 | — | 33,384 |
| Equity in earnings of guarantor subsidiaries | 1,359 | — | (1,359) | — |
| Gain on sale of property and equipment | 60 | — | — | 60 |
| Income (loss) from operations | 33,703 | 2,627 | (1,359) | 34,971 |
| Other income (expense): | | | | |
| Interest expense | (8,839) | (1,276) | — | (10,115) |
| Other, net | 347 | 8 | — | 355 |
| Total other expense, net | (8,492) | (1,268) | — | (9,760) |
| Income before income taxes | 25,211 | 1,359 | (1,359) | 25,211 |
| Income tax provision | 5,408 | — | — | 5,408 |
| Net income | $ 19,803 | $ 1,359 | $ (1,359) | $ 19,803 |

**CONDENSED CONSOLIDATING STATEMENT OF INCOME**
**(Amounts in thousands)**

| | Three Months Ended June 30, 2005 | | | |
|---|---|---|---|---|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| Revenues: | | | | |
| Equipment rentals | $ 43,808 | $ 1,768 | $ — | $ 45,576 |
| New equipment sales | 31,571 | 1,846 | — | 33,417 |
| Used equipment sales | 21,814 | 2,148 | — | 23,962 |
| Parts sales | 17,212 | 580 | — | 17,792 |
| Service revenue | 9,537 | 350 | — | 9,887 |
| Other | 6,772 | 324 | — | 7,096 |
| Total revenues | 130,714 | 7,016 | — | 137,730 |
| Cost of revenues: | | | | |
| Rental depreciation | 12,321 | 555 | — | 12,876 |
| Rental expense | 11,255 | 235 | — | 11,490 |
| New equipment sales | 27,977 | 1,580 | — | 29,557 |
| Used equipment sales | 16,367 | 1,555 | — | 17,922 |
| Parts sales | 12,292 | 406 | — | 12,698 |
| Service revenue | 3,648 | 99 | — | 3,747 |
| Other | 6,960 | 314 | — | 7,274 |
| Total cost of revenues | 90,820 | 4,744 | — | 95,564 |
| Gross profit: | | | | |
| Equipment rentals | 20,232 | 978 | — | 21,210 |
| New equipment sales | 3,594 | 266 | — | 3,860 |
| Used equipment sales | 5,447 | 593 | — | 6,040 |
| Parts sales | 4,920 | 174 | — | 5,094 |
| Service revenue | 5,889 | 251 | — | 6,140 |
| Other | (188) | 10 | — | (178) |
| Gross profit | 39,894 | 2,272 | — | 42,166 |
| Selling, general and administrative expenses | 25,854 | 1,463 | — | 27,317 |
| Equity in loss of guarantor subsidiaries | 513 | — | (513) | — |
| Gain on sale of property and equipment | (144) | — | — | (144) |
| Income from operations | 14,409 | 809 | (513) | 14,705 |
| Other income (expense): | | | | |
| Interest expense | (10,024) | (297) | — | (10,321) |
| Other, net | 79 | 1 | — | 80 |
| Total other expense, net | (9,945) | (296) | — | (10,241) |
| Income before provision for income taxes | 4,464 | 513 | (513) | 4,464 |
| Provision for income taxes | 171 | — | — | 171 |
| Net income | $ 4,293 | $ 513 | $ (513) | $ 4,293 |

**CONDENSED CONSOLIDATING STATEMENT OF INCOME**
**(Amounts in thousands)**

| | Six Months Ended June 30, 2006 | | | |
|---|---|---|---|---|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| Revenues: | | | | |
| Equipment rentals | $ 104,525 | $ 13,481 | $ — | $ 118,006 |
| New equipment sales | 109,285 | 3,375 | — | 112,660 |
| Used equipment sales | 63,083 | 4,636 | — | 67,719 |
| Parts sales | 39,157 | 1,393 | — | 40,550 |
| Service revenue | 24,917 | 791 | — | 25,708 |
| Other | 18,264 | 1,839 | — | 20,103 |
| Total revenues | 359,231 | 25,515 | — | 384,746 |
| Cost of revenues: | | | | |
| Rental depreciation | 32,192 | 3,838 | — | 36,030 |
| Rental expense | 18,680 | 2,408 | — | 21,088 |
| New equipment sales | 95,433 | 2,861 | — | 98,294 |
| Used equipment sales | 46,274 | 3,271 | — | 49,545 |
| Parts sales | 27,670 | 934 | — | 28,604 |
| Service revenue | 9,061 | 237 | — | 9,298 |
| Other | 15,809 | 1,760 | — | 17,569 |
| Total cost of revenues | 245,119 | 15,309 | — | 260,428 |
| Gross profit: | | | | |
| Equipment rentals | 53,653 | 7,235 | — | 60,888 |
| New equipment sales | 13,852 | 514 | — | 14,366 |
| Used equipment sales | 16,809 | 1,365 | — | 18,174 |
| Parts sales | 11,487 | 459 | — | 11,946 |
| Service revenue | 15,856 | 554 | — | 16,410 |
| Other | 2,455 | 79 | — | 2,534 |
| Gross profit | 114,112 | 10,206 | — | 124,318 |
| Selling, general and administrative expenses | 67,879 | 6,548 | — | 74,427 |
| Equity in earnings of guarantor subsidiaries | 1,826 | — | (1,826) | — |
| Gain on sale of property and equipment | 129 | 30 | — | 159 |
| Income (loss) from operations | 48,188 | 3,688 | (1,826) | 50,050 |
| Other income (expense): | | | | |
| Interest expense | (18,416) | (1,866) | — | (20,282) |
| Other, net | 426 | 4 | — | 430 |
| Total other expense, net | (17,990) | (1,862) | — | (19,852) |
| Income before income taxes | 30,198 | 1,826 | (1,826) | 30,198 |
| Income tax provision | 6,475 | — | — | 6,475 |
| Net income | $ 23,723 | $ 1,826 | $ (1,826) | $ 23,723 |

**CONDENSED CONSOLIDATING STATEMENT OF INCOME**
**(Amounts in thousands)**

| | Six Months Ended June 30, 2005 | | | |
|---|---|---|---|---|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| Revenues: | | | | |
| Equipment rentals | $ 83,187 | $ 2,980 | $ — | $ 86,167 |
| New equipment sales | 61,115 | 2,600 | — | 63,715 |
| Used equipment sales | 45,736 | 3,845 | — | 49,581 |
| Parts sales | 33,221 | 995 | — | 34,216 |
| Service revenue | 18,431 | 619 | — | 19,050 |
| Other | 13,016 | 535 | — | 13,551 |
| Total revenues | 254,706 | 11,574 | — | 266,280 |
| Cost of revenues: | | | | |
| Rental depreciation | 24,012 | 1,028 | — | 25,040 |
| Rental expense | 22,483 | 526 | — | 23,009 |
| New equipment sales | 53,830 | 2,190 | — | 56,020 |
| Used equipment sales | 34,927 | 2,791 | — | 37,718 |
| Parts sales | 23,441 | 692 | — | 24,133 |
| Service revenue | 6,814 | 179 | — | 6,993 |
| Other | 13,892 | 579 | — | 14,471 |
| Total cost of revenues | 179,399 | 7,985 | — | 187,384 |
| Gross profit: | | | | |
| Equipment rentals | 36,692 | 1,426 | — | 38,118 |
| New equipment sales | 7,285 | 410 | — | 7,695 |
| Used equipment sales | 10,809 | 1,054 | — | 11,863 |
| Parts sales | 9,780 | 303 | — | 10,083 |
| Service revenue | 11,617 | 440 | — | 12,057 |
| Other | (876) | (44) | — | (920) |
| Gross profit | 75,307 | 3,589 | — | 78,896 |
| Selling, general and administrative expenses | 50,572 | 2,551 | — | 53,123 |
| Equity in loss of guarantor subsidiaries | 499 | — | (499) | — |
| Gain (loss) on sale of property and equipment | (112) | 9 | — | (103) |
| Income from operations | 25,122 | 1,047 | (499) | 25,670 |
| Other income (expense): | | | | |
| Interest expense | (19,875) | (550) | — | (20,425) |
| Other, net | 168 | 2 | — | 170 |
| Total other expense, net | (19,707) | (548) | — | (20,255) |
| Income before provision for income taxes | 5,415 | 499 | (499) | 5,415 |
| Provision for income taxes | 171 | — | — | 171 |
| Net income | $ 5,244 | $ 499 | $ (499) | $ 5,244 |

**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**
**(Amounts in thousands)**

| | Six Months Ended June 30, 2006 | | | |
|---|---|---|---|---|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| Cash flows from operating activities: | | | | |
| Net income | $ 23,723 | $ 1,826 | $ (1,826) | $ 23,723 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation on property and equipment | 2,978 | 285 | — | 3,263 |
| Depreciation on rental equipment | 32,251 | 3,779 | — | 36,030 |
| Amortization of other intangible assets | 23 | — | — | 23 |
| Amortization of loan discounts and deferred financing costs | 1,445 | — | — | 1,445 |
| Provision for losses on accounts receivable | 1,001 | | — | 1,001 |
| Provision for inventory obsolescence | 17 | — | — | 17 |
| Gain on sale of property and equipment | (129) | (30) | — | (159) |
| Gain on sale of rental equipment | (15,034) | (1,259) | — | (16,293) |
| Provision for deferred taxes | 5,843 | — | — | 5,843 |
| Non-cash compensation expense | 374 | — | — | 374 |
| Equity in earnings of guarantor subsidiaries | (1,826) | — | 1,826 | — |
| Changes in operating assets and liabilities: | | | | |
| Receivables, net | (4,120) | 2,042 | — | (2,078) |
| Inventories, net | (42,829) | (9,395) | — | (52,224) |
| Prepaid expenses and other assets | (1,338) | (1,751) | | (3,089) |
| Accounts payable | 21,093 | (343) | — | 20,750 |
| Manufacturer flooring plans payable | 23,255 | — | — | 23,255 |
| Accrued expenses payable and other liabilities | 5,151 | (1,783) | — | 3,368 |
| Intercompany balance | (46,901) | 46,901 | — | — |
| Deferred compensation payable | (8,564) | — | — | (8,564) |
| Net cash provided by (used in) operating activities | (3,587) | 40,272 | — | 36,685 |
| Cash flows from investing activities: | | | | |
| Acquisition of businesses, net of cash acquired | (19,673) | (37,288) | — | (56,961) |
| Purchases of property and equipment | (9,784) | (387) | — | (10,171) |
| Purchases of rental equipment | (102,280) | (3,173) | — | (105,453) |
| Proceeds from sale of property and equipment | 358 | 24 | — | 382 |
| Proceeds from sale of rental equipment | 50,244 | 4,146 | — | 54,390 |
| Net cash used in investing activities | (81,135) | (36,678) | — | (117,813) |
| Cash flows from financing activities: | | | | |
| Proceeds from issuance of common stock, net of costs | 207,018 | — | — | 207,018 |
| Payment of deferred financing costs | (190) | — | — | (190) |
| Borrowings on senior secured credit facility | 487,673 | — | — | 487,673 |
| Payments on senior secured credit facility | (590,653) | (3,471) | — | (594,124) |
| Payment of related party obligation | (150) | — | — | (150) |
| Principal payments of notes payable | (82) | (3) | — | (85) |
| Net cash provided by (used in) financing activities | 103,616 | (3,474) | — | 100,142 |
| Net increase in cash and cash equivalents | 18,894 | 120 | — | 19,014 |
| Cash, beginning of period | 5,610 | 17 | — | 5,627 |
| Cash and cash equivalents, end of period | $ 24,504 | $ 137 | $ — | $ 24,641 |

**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**
**(Amounts in thousands)**

| | Six Months Ended June 30, 2005 | | | |
|---|---|---|---|---|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| Cash flows from operating activities: | | | | |
| Net income (loss) | $ 5,244 | $ 499 | $ (499) | $ 5,244 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | | |
| Depreciation on property and equipment | 2,310 | 89 | — | 2,399 |
| Depreciation on rental equipment | 24,013 | 1,028 | — | 25,041 |
| Amortization of other intangible assets | 70 | — | — | 70 |
| Amortization of loan discounts and deferred financing costs | 1,355 | — | — | 1,355 |
| Provision for losses on accounts receivable | 540 | 90 | — | 630 |
| Provision for obsolescence | 30 | — | — | 30 |
| Gain on sale of property and equipment | 111 | (9) | — | 102 |
| Gain on sale of rental equipment | (9,396) | (990) | — | (10,386) |
| Equity in earnings of guarantor subsidiaries | (499) | — | 499 | — |
| Changes in operating assets and liabilities: | | | | |
| Receivables, net | (2,559) | (442) | — | (3,001) |
| Inventories, net | (20,306) | (5,876) | — | (26,182) |
| Prepaid expenses and other assets | (1,833) | — | — | (1,833) |
| Accounts payable | 7,000 | — | — | 7,000 |
| Accrued expenses payable and other liabilities | 3,672 | 97 | — | 3,769 |
| Manufacturer flooring plans payable | 5,801 | | | 5,801 |
| Intercompany balance | (3,093) | 3,093 | — | — |
| Deferred compensation payable | 576 | — | — | 576 |
| Net cash used in operating activities | 13,036 | (2,421) | — | 10,615 |
| Cash flows from investing activities: | | | | |
| Purchases of property and equipment | (3,411) | (748) | — | (4,159) |
| Purchases of rental equipment | (63,028) | (374) | — | (63,402) |
| Proceeds from sale of property and equipment | 560 | 8 | — | 568 |
| Proceeds from sale of rental equipment | 35,925 | 3,525 | — | 39,450 |
| Net cash provided by investing activities | (29,954) | 2,411 | — | (27,543) |
| Cash flows from financing activities: | | | | |
| Borrowings on senior secured credit facility | 284,316 | — | — | 284,316 |
| Payments on senior secured credit facility | (263,200) | — | — | (263,200) |
| Payment of deferred financing costs | (10) | | | (10) |
| Payment of related party obligation | (150) | — | — | (150) |
| Principal payments of notes payable | (142) | — | — | (142) |
| Payments on capital lease obligations | (1,120) | — | — | (1,120) |
| Net cash provided by financing activities | 19,694 | — | — | 19,694 |
| Net increase (decrease) in cash | 2,776 | (10) | — | 2,766 |
| Cash, beginning of period | 3,334 | 24 | — | 3,358 |
| Cash, end of period | $ 6,110 | $ 14 | $ — | $ 6,124 |

**(10) Subsequent Events**

On August 4, 2006, the Company completed their previously announced cash tender offer and consent solicitation for their 11 1/8% senior secured notes due 2012 and 12 1/2% senior subordinated notes due 2013 (collectively, the "Notes"). Additionally, the Company announced the closing of its previously announced private offering of $250 million aggregate principal amount of its 8 3/8% senior unsecured notes due 2016 (the "New Notes").

Net proceeds to us, after deducting underwriting commissions, totaled approximately $245.3 million. The Company used the net proceeds of the offering of the New Notes, together with cash on hand and borrowings under its existing senior secured credit facility, to purchase $195.5 million in aggregate principal amount of the senior secured notes (representing approximately 97.8% of the previously outstanding senior secured notes), and the $53.0 million in aggregate principal amount of the senior subordinated notes (representing 100% of the previously outstanding senior subordinated notes) that were validly tendered pursuant to the tender offer and consent solicitation. The total principal amount, accrued and unpaid interest, consent fee amounts and premiums paid for the senior secured notes was $217.6 million. The total principal amount, accrued and unpaid interest, consent fee amounts and premiums paid for the Senior Subordinated Notes was approximately $60.1 million. The Company expects to subsequently pay other transaction costs, debt issuance costs and professional fees of approximately $3.3 million related to the offering.

In connection with the above transactions, the Company expects to record a one-time loss on early retirement of debt in the quarterly period ended September 30, 2006 of approximately $41.0 million, or approximately $32.2 million after-tax, reflecting payment of the $25.3 million of tender premiums and other estimated costs of $0.7 million in connection with the tender offer and consent solicitation, combined with the write off of approximately $5.4 million of unamortized deferred financing costs of the Notes and $9.6 million of remaining unamortized original issue discount on the Notes.

The amendments to the indentures pursuant to which the Notes were issued which were proposed in connection with the tender offer and consent solicitation became operative on August 4, 2006. The amendments to the indentures eliminate substantially all of the restrictive covenants and eliminate or modify certain events of default and related provisions contained in the indentures.

The New Notes have not been registered under the Securities Act of 1933, as amended, or applicable state laws, and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act and applicable state laws. Under a registration rights agreement with the initial purchasers of the New Notes, the Company and the guarantors have agreed to use all commercially reasonable efforts to file and to cause to become effective a registration statement with respect to an offer to exchange the New Notes for new notes of the Company having terms identical in all material respects to the New Notes (except that the exchange notes will not contain terms with respect to transfer restrictions).

The New Notes were issued at par and require semiannual interest payments on January 15th and July 15th of each year, beginning on January 15, 2007. No principal payments are due until maturity (January 15, 2016). We may redeem some or all of the New Notes on or after July 15, 2011, at the applicable redemption prices plus accrued and unpaid interest and additional interest, if any, to the date of redemption. Additionally, we may redeem up to 35% of the aggregate principal amount of the notes using net cash proceeds from equity offerings completed on or prior to July 15, 2009.

The New Notes rank equal in right of payment to all of our and our guarantors' existing and future unsecured senior indebtedness and senior in right of payment to any of our or our guarantors' future subordinated indebtedness. The New Notes are effectively junior in priority to our and our guarantors' obligations under all of our existing and future secured indebtedness, including borrowings under our senior secured credit facility, the $4.5 million of outstanding senior secured notes remaining following completion of the tender offer, and any other secured obligations, in each case, to the extent of the value of the assets securing such obligations. The New Notes are also effectively junior to all liabilities (including trade payables) of our non-guarantor subsidiaries.

Concurrently with the closing of the private offering, the Company entered into an Amended and Restated Credit Agreement (the "Amended Credit Agreement"), amending and restating the Company's Credit Agreement pursuant to which, among other things, (i) the principal amount of availability of the credit facility was increased from $165.0 million to $250.0 million; (ii) the "Applicable Unused Line Fee Margin" (as defined in the Amended Credit Agreement) in respect of undrawn commitments was lowered to 0.25%; (iii) the advance rate on rental fleet assets from the lesser of 100% of net book value or 80% of orderly liquidation value was changed to the lesser of 100% of net book value or 85% of orderly liquidation value; (iv) the maturity date of the facility was extended from February 10, 2009 to August 4, 2011; and (v) H&E Equipment Services (California), LLC was added as a borrower. The Company paid $1.4 million to the "Lenders" in connection with this Amended Credit Agreement and estimate other transaction costs to be paid of approximately $0.6 million. As of August 10, 2006, we had $14.6 million of outstanding borrowings under our senior secured credit facility with $227.1 million of additional borrowing availability, net of $8.3 million of issued standby letters of credit.

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

The following discussion summarizes the financial position of H&E Equipment Services, Inc. and its subsidiaries as of June 30, 2006, and the results of their operations for the three and six month periods ended June 30, 2006, 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 consolidated financial statements and accompanying notes to our Annual Report on Form 10-K for the year ended December 31, 2005.

### 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 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 an extremely high quality rental fleet, as well as an effective distribution channel for fleet disposal and provides cross-selling opportunities among our new and used equipment sales, rental, parts sales and service operations.

As of August 10, 2006, we operated 47 full-service facilities throughout the Intermountain, Southwest, Gulf Coast, West Coast and Southeast 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 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 45 years. H&E Equipment Services L.L.C. was formed in June 2002 through the combination of Head & Engquist, a wholly-owned subsidiary of Gulf Wide, and ICM. Head & Engquist, founded in 1961, and ICM, founded in 1971, were two leading regional, integrated equipment service companies operating in contiguous geographic markets. In a June 2002 transaction, Head & Engquist and ICM were merged with and into Gulf Wide, which was renamed H&E Equipment Services L.L.C. 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.

*Critical Accounting Policies*

Item 7, included in Part II of our Annual Report on Form 10-K for the year ended December 31, 2005, and note 2 to the condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q, present 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. These include, among other things, 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, obsolescence reserves on inventory, and deferred income taxes, including the valuation of any related deferred tax assets.

Information regarding our other accounting policies is included in the notes 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, 2005, and note 2 to our condensed consolidated financial statements included elsewhere 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 an extremely 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, rental rate trends and targets, and equipment demand which we closely monitor. We maintain fleet quality through regional quality control managers and our parts and services operations.
- *New Equipment Sales.* Our new equipment sales operation sells new equipment in all four 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 provides 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 total revenues from our five business segments and our non-segmented equipment support activities. Equipment rentals and new equipment sales account for more than half of our total revenues. For the six months ended June 30, 2006, approximately 30.7% of our total revenues were attributable to equipment rentals, 29.3% of our total revenues were attributable to new equipment sales, 17.6% were attributable to used equipment sales, 10.5% were attributable to parts sales, 6.7% were attributable to our service revenues and 5.2% 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, the demand for new and used equipment, the level of construction and industrial activities, spending levels by our customers, adverse weather conditions and general economic conditions. For a discussion of the impact of seasonality on our revenues, see “Seasonality” below.

*Equipment Rentals.* Revenues from equipment rentals depend on rental rates. Because rental rates are impacted by competition in specific regions and markets, we continuously monitor and adjust rental rates. We have a rental rate initiative driven by management to increase rental rates. Equipment rental revenue is also impacted by the availability of equipment and by time utilization (equipment usage based on customer demand). 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, over the contract term, regardless of the timing of billing to customers.

*New Equipment Sales.* We 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; new equipment sales also lead to future parts and service revenues. We recognize revenue from the sale of new equipment at the time of delivery to, or pick-up by, the customer and when all obligations under the sales contract have been fulfilled and collectibility is reasonably assured.

*Used Equipment Sales.* We generate the majority of our used equipment sales revenues by selling equipment from our rental fleet. The remainder of 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 in the same manner that we recognize revenue from new equipment sales.

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

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

*Non-Segmented Revenues.* Our non-segmented other revenue consists of billings to customers for equipment support and activities including: transportation, hauling, parts freight and loss damage waiver charges. We recognize revenue for support services at the time we generate an invoice for such services and after the services have been provided.

***Principal Costs and Expenses***

Our largest expenses are the costs to purchase the new equipment we sell, the costs associated with the used equipment we sell, rental expenses, rental depreciation and costs associated with parts sales and services, all of which are included in cost of revenues. For the six months ended June 30, 2006, our total cost of revenues was approximately $260.4 million. Our operating expenses consist principally of selling, general and administrative expense. For the six months ended June 30, 2006, our operating expenses were approximately $74.4 million. In addition, we have interest expense related to our debt instruments. Operating expenses and all other income and expense items below the gross profit line of our condensed consolidated statement of income are not generally allocated to our reportable segments.

Cost of Revenues:

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

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

miscellaneous costs of rental equipment.

*New Equipment Sales.* Cost of new equipment sold consists of the equipment cost of the new equipment that is sold.

*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 amount of credit given to the customer towards the new equipment for trade-ins and the equipment cost for used equipment purchased for sale.

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

*Service Support.* Cost of service revenue 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 expenses include sales and marketing expenses, payroll and related costs, insurance expense, professional fees, property and other taxes, administrative overhead, and depreciation associated with property and equipment (other than rental equipment). These expenses are not generally allocated to our reportable segments.

Interest Expense:

Interest expense represents the interest on our outstanding debt instruments, including indebtedness outstanding under our senior secured credit facility, senior secured notes due 2012 and senior subordinated notes due 2013 and notes payable. Also included in interest expense is the amortization cost of (1) deferred financing costs and (2) original issue discount related to our senior secured notes and senior subordinated notes.

### *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.

### *Rental Fleet*

A significant portion of our overall value is in our rental fleet equipment. Our rental fleet, as of June 30, 2006, consisted of 17,597 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 $614.3 million. As of June 30, 2006, 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 |
|---|---|---|---|---|---|
| Aerial Work Platforms | 13,255 | 75.3% | $ 408.5 | 66.5% | 47.9 |
| Cranes | 352 | 2.0% | 75.2 | 12.2% | 46.4 |
| Earthmoving | 965 | 5.5% | 73.2 | 11.9% | 18.6 |
| Lift Trucks | 1,354 | 7.7% | 36.7 | 6.0% | 29.0 |
| Other | 1,671 | 9.5% | 20.7 | 3.4% | 37.7 |
| Total | 17,597 | 100.0% | $ 614.3 | 100.0% | 43.9 |

Determining the optimal age and mix for our rental fleet equipment is subjective and requires considerable estimates by management. We constantly evaluate the mix, age and quality of the equipment in our rental fleet in response to current economic conditions, competition and customer demand. On average, we increased the age of our rental fleet by approximately 2.8 months during the six months ended June 30, 2006, substantially all of which was directly related to the average age of the recently acquired

Eagle rental fleet. We increased our overall gross rental fleet, through the normal course of business activities, by approximately $15.2 million during the six months ended June 30, 2006, and $91.9 million when combined with the Eagle acquisition. We also increased our average rental rates, rental revenue and fleet utilization. The mix among our four core product lines remained consistent with that of prior years. As a result of our in-house service capabilities and extensive maintenance program, we believe our fleet is extremely well-maintained.

The mix and age of our rental fleet, as well as our cash flows, are impacted by the normal sales of equipment from the rental fleet and the capital expenditures to acquire new rental fleet equipment. In making acquisition decisions, we evaluate current market conditions, competition, manufacturers' availability, pricing and return on investment over the estimated life of the specific equipment, among other things.

***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 discussed in Item 1A—"Risk Factors" of this Quarterly Report on Form 10-Q, as well as in Item 1A—"Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2005, include:

- *Spending levels by customers.* Rentals and sales of equipment to the construction industry and to industrial companies constitute a significant portion of our 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.

- *Economic downturns.* The demand for our products is dependent on the general economy, the industries in which our customers operate or serve, and other factors. Downturns in the general economy or in the construction and manufacturing industries can cause demand for our products to materially decrease. Until recently, our business and profit margins were adversely affected by unfavorable economic conditions which resulted, among other things, in a decline in construction activity and overcapacity of available equipment.

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

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 comparisons below provide summaries of our revenues and gross profits for our business segments and non-segmented revenues. The period-to-period comparisons of financial results are not necessarily indicative of future results.

Our operating results for the three and six months ended June 30, 2006 include the operating results of Eagle since the date of acquisition, February 28, 2006.

***Three Months Ended June 30, 2006 Compared to the Three Months Ended June 30, 2005***

***Revenues.***

| | Three Months Ended June 30, | | Total Dollar Change | Total Percentage Change |
|---|---|---|---|---|
| | 2006 | 2005 | | |
| | (in millions, except percentages) | | | |
| Segment Revenues: | | | | |
| Equipment rentals | $ 64.0 | $ 45.6 | $ 18.4 | 40.4% |
| New equipment sales | 56.9 | 33.4 | 23.5 | 70.4% |
| Used equipment sales | 36.1 | 23.9 | 12.2 | 51.0% |
| Parts sales | 21.2 | 17.8 | 3.4 | 19.1% |
| Services revenues | 13.4 | 9.9 | 3.5 | 35.4% |
| Non-Segmented revenues | 10.9 | 7.1 | 3.8 | 53.5% |
| Total revenues | $ 202.5 | $ 137.7 | $ 64.8 | 47.1% |

*Total Revenues.* Our total revenues were $202.5 million for the three months ended June 30, 2006 compared to $137.7 million for the same period in 2005, an increase of $64.8 million, or 47.1%. Revenues increased for all reportable segments primarily as a result of increased customer demand for our products and services. Total revenues related to Eagle included in our 2006 operating results for the three months ended June 30, 2006 were $9.6 million.

*Equipment Rental Revenues.* Our revenues from equipment rentals for the three months ended June 30, 2006 increased $18.4 million, or 40.4%, to $64.0 million from $45.6 million for the same three-month period in 2005. The increase is primarily a result of improved rental rates and larger fleet size. Rental revenues increased for all four core product lines. Revenues from aerial work platforms increased $13.4 million, cranes increased $1.4 million, earthmoving increased $2.2 million, lift trucks increased $0.8 million and other equipment rentals increased $0.6 million. Total equipment rental revenues for the three months ended June 30, 2006 related to Eagle included in our 2006 operating results were $7.3 million, of which substantially all of those rentals were for aerial work platforms. Rental equipment dollar utilization (quarterly rental revenues divided by the average quarterly original rental fleet equipment costs, adjusted for the Eagle acquisition, of $606.3 million and $476.9 million for three months ended June 30, 2006 and 2005, respectively) was approximately 42.2% in 2006 compared to 38.2% in 2005.

*New Equipment Sales Revenues.* Our new equipment sales for the three months ended June 30, 2006 increased $23.5 million, or 70.4%, to $56.9 million from $33.4 million for the comparable period in 2005. Sales of new cranes increased $14.9 million, aerial work platforms increased $3.1 million, new earthmoving sales increased $3.5 million and new lift trucks increased $0.7 million. Other new equipment sales increased by $1.3 million. Total new equipment sales revenues for the three months ended June 30, 2006 related to Eagle included in our 2006 operating results were $0.1 million.

*Used Equipment Sales Revenues.* Our used equipment sales increased $12.2 million, or 51.0%, to $36.1 million for the three months ended June 30, 2006 from $23.9 million for the same period in 2005. In 2006, our used equipment sales from the fleet were approximately 140.1% compared to 133.7% of net book value for 2005. With extended manufacturer lead times for new equipment, the demand for well-maintained, used equipment has increased. Total used equipment sales revenues for the three months ended June 30, 2006 related to Eagle included in our 2006 operating results were $1.3 million.

*Parts Sales Revenues.* Our parts sales increased $3.4 million, or 19.1%, to $21.2 million for the three months ended June 30, 2006 from $17.8 million in the 2005 comparable period. Of the $3.4 million increase for the three months ended June 30, 2006, $0.1 million was attributable to Eagle. The remaining increase was primarily attributable to increased customer demand for parts.

*Service Revenues.* Our service revenues for the three months ended June 30, 2006 increased $3.5 million, or 35.4%, to $13.4 million from $9.9 million for the same period last year primarily attributable to increased customer demand for service support.

*Non-Segmented Revenues.* Our non-segmented other revenues consisted primarily of equipment support activities including transportation, hauling, parts freight and damage waiver charges. For the three months ended June 30, 2006, our other revenue increased $3.8 million, or 53.5%, over the same period last year. These support activities increased due to a combination of the increases in charge-out rates and in the volume of our primary business activities, combined with Eagle revenues of $0.8 million in the current period.

***Gross Profit.***

| | Three Months Ended June 30, 2006 | 2005 | Total Dollar Change | Total Percentage Change |
|---|---|---|---|---|
| | | (in millions, except for percentages) | | |
| Segment Gross Profit: | | | | |
| Equipment rentals | $ 34.4 | $ 21.2 | $ 13.2 | 62.3% |
| New equipment sales | 7.2 | 3.9 | 3.3 | 84.6% |
| Used equipment sales | 10.3 | 6.0 | 4.3 | 71.7% |
| Parts sales | 6.2 | 5.1 | 1.1 | 21.6% |
| Services | 8.6 | 6.2 | 2.5 | 38.7% |
| Non-Segmented gross profit (loss) | 1.6 | (0.2) | 1.8 | 900.0% |
| Total gross profit | $ 68.3 | $ 42.2 | $ 26.1 | 61.8% |

*Total Gross Profit.* Our total gross profit was $68.3 million for the three months ended June 30, 2006 compared to $42.2 million for the three months ended June 30, 2005, a $26.1 million, or 61.8%, increase. Gross profit increased primarily as a result of increased rental revenues combined with reduced rental expense. In addition, due to the increase in customer demand for new and well-maintained used equipment, we were able to sell our equipment at a higher gross margin. Total gross profit margin for three months ended June 30, 2006 was 33.7%, an increase of 3.1% from the 30.6% gross profit margin for the same three-month period in 2005. Total gross profit related to Eagle included in our operating results for the three months ended June 30, 2006 was $4.7 million. Our gross profit was attributable to:

*Equipment Rentals Gross Profit.* Our gross profit from equipment rentals for the three months ended June 30, 2006 increased $13.2 million, or 62.3%, to $34.4 million from $21.2 million in the same period in 2005. The increase is primarily a result of an $18.4 million increase in rental revenue and a $1.1 million decrease in rental expense. Eagle's rental operations contributed $4.2 million of the total gross profit increase for the period. These improvements in gross profit were partially offset by a $6.3 million increase in rental depreciation expense as a result of a larger fleet.

*New Equipment Sales Gross Profit.* Our new equipment sales gross profit for the three months ended June 30, 2006 increased $3.3 million, or 84.6%, to $7.2 million compared to $3.9 million for the same period last year. The increase in new equipment sales gross profit is primarily attributable to higher new equipment sales revenue, improved margins and the mix of equipment sold.

*Used Equipment Sales Gross Profit.* Our used equipment sales gross profit for the three months ended June 30, 2006 increased $4.3 million, or 71.7%, to $10.3 million from the $6.0 million for the same period in 2005, of which Eagle contributed $0.4 million of the increase. The remaining increase in used equipment sales gross profit was primarily the result of higher used equipment sales, improved margins and the mix of used equipment sold.

*Parts Sales Gross Profit.* For the three months ended June 30, 2006, our parts sales revenue gross profit increased $1.1 million, or 21.6%, to $6.2 million from $5.1 million for the same period in 2005. The increase was primarily attributable to increased customer demand for parts service.

*Service Revenues Gross Profit.* For the three months ended June 30, 2006, our service revenues gross profit increased $2.4 million, or 38.7%, to $8.6 million from $6.2 million for the same period in 2005. The increase was primarily attributable to increased customer demand for service support.

*Non-Segmented Revenues Gross Profit.* For the three months ended June 30, 2006, our non-segmented revenues gross profit improved $1.8 million, or 900.0%, on a 53.5% improvement in revenues over the three months ended June 30, 2005. The improvement in gross profit is the result of several factors, most significantly a $0.8 million gross profit improvement in hauling activities and a $0.7 million gross profit improvement in damage waiver charges. These improvements are largely due to a strategic focus on these equipment support activities combined with the increase in support activity revenues combined with higher charge-out rates..

***Selling, General and Administrative Expenses.*** Selling, general and administrative ("SG&A") expenses increased $6.1 million, or 22.3%, to $33.4 million for the three months ended June 30, 2006 compared to $27.3 million for the same period last year. The increase was primarily related to increased headcount, higher sales commissions, performance incentives, and benefits services. As a percent of total revenues, SG&A expenses were 16.5% in 2006 down from 19.8% in the prior year, reflecting the fixed cost nature of certain SG&A costs combined with higher revenues in the current year compared to the prior year.

***Other Income (Expense).*** For the three months ended June 30, 2006, our other expense decreased by $0.4 million to $9.8 million compared to $10.2 million for the same period in 2005, reflecting $0.2 million of lower interest expense resulting from a decrease in average outstanding borrowings from $61.4 million last year to $0 this year as a result of our February 2006 paydown of outstanding principal balances from the proceeds of our initial public offering (see note 3 to the condensed consolidated financial statements for further information on our initial public offering), combined with higher interest costs associated with our manufacturer flooring plans payable used to finance inventory purchases. Additionally, net other income increased $0.2 million for the comparative periods as a

result of interest income earned during the current period.

***Income Taxes.*** Effective with the Company's Reorganization Transactions on February 3, 2006, we are a C-corporation for income tax purposes. Prior to the Reorganization Transactions, we were a limited liability company that elected to be treated as a C-corporation for income tax purposes. At the end of the second quarter of 2005 we had recorded a tax valuation allowance for the entire amount of our net deferred income tax assets. The valuation allowance was recorded given the cumulative losses incurred and our belief that it was more likely than not that we would not be able to recover the net deferred income tax assets. At the end of the second quarter of 2006, we have a net deferred tax liability, and the valuation allowance has been reversed. Based on available evidence, both positive and negative, we believe our deferred tax assets at June 30, 2006 are fully realizable through future reversals of existing taxable temporary differences and future taxable income, and not subject to any limitations.

The provision for income taxes is based upon the expected effective tax rate applicable to the full year. The effective income tax rate for the three months ended June 30, 2006 was 21.5%, compared to 3.8% for the three months ended June 30, 2005. The increase in our effective income tax rate was primarily due to increased taxable income resulting in higher state income tax and federal alternative minimum tax liability. The effective tax rate includes the expected impact of the Company's recently completed debt offering to be recorded in the quarterly period ended September 30, 2006 (see note 10 to the condensed consolidated financial statements for further information).

***Six Months Ended June 30, 2006 Compared to the Six Months Ended June 30, 2005***

***Revenues.***

| | Six Months Ended June 30, | | Total Dollar | Total Percentage |
|---|---|---|---|---|
| | 2006 | 2005 | Change | Change |
| | (in millions, except percentages) | | | |
| Segment Revenues: | | | | |
| Equipment rentals | $ 118.0 | $ 86.2 | $ 31.8 | 36.9% |
| New equipment sales | 112.7 | 63.7 | 49.0 | 76.9% |
| Used equipment sales | 67.7 | 49.6 | 18.1 | 36.5% |
| Parts sales | 40.5 | 34.2 | 6.3 | 18.4% |
| Services revenues | 25.7 | 19.1 | 6.6 | 34.6% |
| Non-Segmented revenues | 20.1 | 13.5 | 6.6 | 48.9% |
| Total revenues | $ 384.7 | $ 266.3 | $ 118.4 | 44.5% |

*Total Revenues.* Our total revenues were $384.7 million for the six months ended June 30, 2006 compared to $266.3 million for he same six-month period in 2005, an increase of $118.4 million, or 44.5%. Revenues increased for all reportable segments primarily as a result of increased customer demand for our products and services. Total revenues related to Eagle included in our 2006 operating results for the six months ended June 30, 2006 were $12.6 million.

*Equipment Rental Revenues.* Our revenues from equipment rentals for the six months ended June 30, 2006 increased $31.8 million, or 36.9%, to $118.0 million from $86.2 million for the same six-month period in 2005. The increase is primarily a result of improved rental rates and larger fleet size. Rental revenues increased for all four core product lines. Revenues from aerial work platforms increased $21.9 million, cranes increased $2.7 million, earthmoving increased $4.7 million, lift trucks increased $1.6 million and other equipment rentals increased $0.9 million. Total equipment rental revenues for the six months ended June 30, 2006 related to Eagle included in our 2006 operating results were $9.7 million, of which substantially all of those rentals were for aerial work platforms. Rental equipment dollar utilization (quarterly rental revenues divided by the average quarterly original rental fleet equipment costs, adjusted for the Eagle acquisition, of $578.4 million and $469.5 million for six months ended June 30, 2006 and 2005, respectively) was approximately 40.8% in 2006 compared to 36.7% in 2005.

*New Equipment Sales Revenues.* Our new equipment sales for the six months ended June 30, 2006 increased $49.0 million, or 76.9%, to $112.7 million from $63.7 million for the comparable period in 2005. Sales of new cranes increased $26.6 million, aerial work platforms increased $6.2 million, new earthmoving sales increased $13.5 million and new lift trucks increased $0.1 million. Other new equipment sales increased by $2.6 million. Total new equipment sales revenues related to Eagle for the six months ended

June 30, 2006 included in our 2006 operating results were $0.1 million.

*Used Equipment Sales Revenues.* Our used equipment sales increased $18.1 million, or 36.5%, to $67.7 million for the six months ended June 30, 2006 from $49.6 million for the same period in 2005. In 2006, our used equipment sales from the fleet were approximately 136.7% compared to 131.5% of net book value for 2005. With extended manufacturer lead times for new equipment, the demand for well-maintained, used equipment has increased. Total used equipment sales revenues for the six months ended June 30, 2006 related to Eagle included in our 2006 operating results were $1.5 million.

*Parts Sales Revenues.* Our parts sales increased $6.3 million, or 18.4%, to $40.5 million for the six months ended June 30, 2006 from $34.2 million in the 2005 comparable period. The increase was primarily attributable to increased customer demand for parts. Parts sales related to Eagle for the period were $0.1 million.

*Service Revenues.* Our service revenues for the six months ended June 30, 2006 increased $6.6 million, or 34.6%, to $25.7 million from $19.1 million for the same period last year primarily attributable to increased customer demand for service support.

*Non-Segmented Revenues.* Our non-segmented other revenues consisted primarily of equipment support activities including transportation, hauling, parts freight and damage waiver charges. For the six months ended June 30, 2006, our other revenue increased $6.6 million, or 48.9%, over the same period last year. These support activities increased due to a combination of the increases in charge-out rates and in the volume of our primary business activities, combined with Eagle revenues of $1.1 million in the current period.

***Gross Profit.***

| | Six Months Ended June 30, 2006 | Six Months Ended June 30, 2005 | Total Dollar Change | Total Percentage Change |
|---|---|---|---|---|
| | (in millions, except for percentages) | | | |
| Segment Gross Profit: | | | | |
| Equipment rentals | $ 60.9 | $ 38.1 | $ 22.8 | 59.8% |
| New equipment sales | 14.4 | 7.7 | 6.7 | 87.0% |
| Used equipment sales | 18.2 | 11.9 | 6.3 | 52.9% |
| Parts sales | 11.9 | 10.1 | 1.8 | 17.8% |
| Services | 16.4 | 12.1 | 4.3 | 35.5% |
| Non-Segmented gross profit (loss) | 2.5 | (1.0) | 3.5 | 350.0% |
| Total gross profit | $ 124.3 | $ 78.9 | $ 45.4 | 57.5% |

*Total Gross Profit.* Our total gross profit was $124.3 million for the six months ended June 30, 2006 compared to $78.9 million for the six months ended June 30, 2005, a $45.4 million, or 57.5%, increase. Gross profit increased primarily as a result of increased rental revenues combined with reduced rental expense. In addition, due to the increase in customer demand for new and well-maintained used equipment, we were able to sell our equipment at a higher gross margin. Total gross profit margin for six months ended June 30, 2006 was 32.3%, an increase of 2.7% from the 29.6% gross profit margin for the same six-month period in 2005. Total gross profit related to Eagle included in our operating results for the six months ended June 30, 2006 was $5.9 million. Our gross profit was attributable to:

*Equipment Rentals Gross Profit.* Our gross profit from equipment rentals for the six months ended June 30, 2006 increased $22.8 million, or 59.8%, to $60.9 million from $38.1 million in the same period in 2005. The increase is primarily a result of a $31.8 million increase in rental revenue and a $2.0 million decrease in rental expense. Eagle's rental operations contributed $5.2 million of the $22.8 million of the total gross profit increase for the period. These improvements in gross profit were offset by a $11.0 million increase in rental depreciation expense as a result of a larger fleet.

*New Equipment Sales Gross Profit.* Our new equipment sales gross profit for the six months ended June 30, 2006 increased $6.7 million, or 87.0%, to $14.4 million compared to $7.7 million for the same period last year. The increase in new equipment sales gross profit is primarily attributable to higher new equipment sales revenue, improved margins and the mix of equipment sold.

*Used Equipment Sales Gross Profit.* Our used equipment sales gross profit for the six months ended June 30, 2006 increased $6.3 million, or 52.9%, to $18.2 million from the $11.9 million for the same period in 2005, of which Eagle contributed $0.5 million of the increase. The remaining increase in used equipment sales gross

profit was primarily the result of higher used equipment sales, improved margins and the mix of used equipment sold.

*Parts Sales Gross Profit.* For the six months ended June 30, 2006, our parts sales revenue gross profit increased $1.8 million, or 17.8%, to $11.9 million from $10.1 million for the same period in 2005. The increase was primarily attributable to increased customer demand for parts service.

*Service Revenues Gross Profit.* For the six months ended June 30, 2006, our service revenues gross profit increased $4.3 million, or 35.5%, to $16.4 million from $12.1 million for the same period in 2005, of which Eagle contributed $0.3 million of the increase. The remaining increase was primarily attributable to increased customer demand for service support.

*Non-Segmented Revenues Gross Profit.* For the six months ended June 30, 2006, our non-segmented revenues gross profit improved 350.0% on a 48.9% improvement in revenues over the six months ended June 30, 2005. The improvement in gross profit is the result of several factors, most significantly a $1.2 million gross profit improvement in hauling activities and a $1.8 million gross profit improvement in damage waiver charges. These improvements are largely due to a strategic focus on these equipment support activities combined with the increase in support activity revenues.

***Selling, General and Administrative Expenses.*** Selling, general and administrative ("SG&A") expenses increased $21.3 million, or 40.1%, to $74.4 million for the six months ended June 30, 2006 compared to $53.1 million for the same period last year. The increase was primarily related to increased headcount, higher sales commissions, performance incentives, and benefits combined with a one-time, nonrecurring expense of $8.0 million to terminate a management services agreement in connection with our initial public offering of common stock (see also note 3 to the condensed consolidated financial statements for further information on our initial public offering). As a percent of total revenues, SG&A expenses were 19.3% in 2006 down from 19.9% in the prior year, reflecting the fixed cost nature of certain SG&A costs combined with higher revenues in the current year compared to the prior year, which was largely impacted by the $8.0 million non-recurring expense item above.

***Other Income (Expense).*** For the six months ended June 30, 2006, our net other expense decreased by $0.4 million to $19.9 million compared to $20.3 million for the same period in 2005, reflecting $0.1 million of lower interest expense resulting from a decrease in average outstanding borrowings from $61.0 million last year to $51.8 this year as a result of our February 2006 paydown of outstanding principal balances from the proceeds of our initial public offering (see note 3 to the condensed consolidated financial statements for further information on our initial public offering), combined with higher interest costs associated with our manufacturer flooring plans payable used to finance inventory purchases. Additionally, net other income increased $0.3 million for the comparative periods as a result of interest income earned during the period.

***Income Taxes..*** Effective with the Company's Reorganization Transactions on February 3, 2006, we are a C-corporation for income tax purposes. Prior to the Reorganization Transactions, we were a limited liability company that elected to be treated as a C-corporation for income tax purposes. At the end of the second quarter of 2005 we had recorded a tax valuation allowance for the entire amount of our net deferred income tax assets. The valuation allowance was recorded given the cumulative losses incurred and our belief that it was more likely than not that we would not be able to recover the net deferred income tax assets. At the end of the second quarter of 2006, we have a net deferred tax liability, and the valuation allowance has been reversed. Based on available evidence, both positive and negative, we believe our deferred tax assets at June 30, 2006 are fully realizable through future reversals of existing taxable temporary differences and future taxable income, and not subject to any limitations.

The provision for income taxes is based upon the expected effective tax rate applicable to the full year. The effective income tax rate for the six months ended June 30, 2006 was 21.4%, compared to 3.2% for the six months ended June 30, 2005. The increase in our effective income tax rate was primarily due to increased taxable income resulting in higher state income tax and federal alternative minimum tax liability. The expected effective tax rate includes the expected impact of the Company's recently completed debt offering (see note 10 to the condensed consolidated financial statements for further information).

**Liquidity and Capital Resources**

*Cash flow from operating activities*. Our cash provided by operating activities for the six months ended June 30, 2006 was $36.7 million. Our cash flows from operations were primarily attributable to our reported net income of $23.7 million, which, when adjusted for non-cash expense items, such as depreciation, deferred income taxes and amortization and gains on the sale of long-lived assets provided positive cash flows. These cash flows from operating activities were positively impacted by increases of $20.8 million in

accounts payable and an increase of $23.2 million in manufacturer flooring plans payable, primarily due to an increase in inventory purchases. Offsetting these positive cash flows from operations were increases in our inventories of $52.2 and the payments of $8.6 million in deferred compensation liabilities. The increase in our inventories reflects our strategy of maintaining adequate inventories to meet the increasing customer demand.

For the six months ended June 30, 2005, our cash used by operating activities was $10.6 million. Our cash flows operations were primarily attributable to our reported net income of $5.2 million, which, when adjusted for non-cash expense items, such as depreciation, taxes and amortization, and gains on the sale of long-lived assets provided positive cash flows. These cash flows from operating activities were positively impacted by increases of $7.0 million in accounts payable and an increase of of $5.8 million in manufacturer flooring plans payable, primarily due to an increase in inventory purchases. These cash flows from operating activities were partially offset by increases in our receivables of $3.0 million, an increase of inventories of $26.2 million and an increase in prepaid and other assets of $1.8 million resulting in net cash used in operating activities.

*Cash flow from investing activities.* For the six months ended June 30, 2006, cash used in our investing activities was $117.8 million. This is a net result of our acquisition of Eagle (see note 4 to the condensed consolidated financial statements for further information) combined with rental and non-rental equipment purchases of $115.6 million, offset by $54.8 million in cash proceeds from the sale of rental and non-rental equipment. For the six months ended June 30, 2005, cash used in by our investing activities was $27.5 million. This is a net result of proceeds from the sale of rental and non-rental equipment of $67.5 million, which was partially offset by purchases totaling $40.0 million in rental and non-rental equipment.

*Cash flow from financing activities.* We completed an initial public offering of our common stock in February 2006, resulting in total net proceeds to us, after deducting underwriting commissions and other fees and expenses, of approximately $207.0 million (see note 3 to the condensed consolidated financial statements for further information related to our initial public offering). Cash provided by our financing activities for the six months ended June 30, 2006 was $100.1 million. For the current year six-month period, our total borrowings under the amended senior secured credit facility were $487.7 million and total payments under the amended senior secured credit facility were $594.1 million. Financing costs paid in cash related to Amendment No. 11 to our senior secured credit facility totaled $0.2 million and payment of our related party obligation was $0.2 million while payments on notes payable were $0.1 million.

For the six months ended June 30, 2005, cash provided by our financing activities was $19.7 million. For the six months ended June 30, 2005, our total borrowings under the amended senior secured credit facility were $284.3 million and total payments under the amended senior secured credit facility in the same period were $263.2 million. Payment of our related party obligation was $0.1 million. Payments on capital leases and other notes payable were $1.3 million.

***Senior Secured Credit Facility Amendments***

On February 3, 2006, the senior secured credit agreement, dated June 17, 2002, as amended, by and among the Company, Great Northern Equipment, Inc. (together with the Company, the "Borrowers"), Eagle High Reach Equipment, Inc., Eagle High Reach Equipment, LLC, GNE Investments, Inc., H&E Finance Corp., General Electric Capital Corporation and the Lenders party thereto (the "Credit Agreement"), was amended primarily to (1) approve, as described elsewhere in this Quarterly Report on Form 10-Q, the merger of H&E Holdings and H&E LLC with and into H&E Equipment Services, Inc., with H&E Equipment Services, Inc. surviving the reincorporation merger as the operating company, and to effectuate H&E Equipment Services, Inc. as a "Borrower" under the terms of the senior secured credit facility; and (2) require the proceeds of certain stock and debt issuances in excess of $1,000,000 in the aggregate be used to prepay amounts outstanding under the senior secured credit facility in an amount equal to such proceeds. We did not pay an amendment fee relating to this amendment.

In February 2006, we used a portion of the proceeds from our initial public offering to repay $96.6 million of outstanding indebtedness under the senior secured credit facility, and we paid accrued interest in the amount of $0.2 million in March 2006. Our borrowing availability under the amended senior secured credit facility as of June 30, 2006 and as of August 10, 2006, was approximately $156.7 million, net of $8.3 million of issued letters of credit. As of June 30, 2006, we were in compliance with the financial covenant related to our debt.

On March 20, 2006, the senior secured credit agreement was further amended to (1) adjust the "Applicable Revolver Index Margin", the "Applicable Revolver LIBOR Margin" and the "Applicable L/C Margin" to reflect tiered pricing based upon our monthly computed "Leverage Ratio" applied on a prospective basis commencing at least one day after the date of delivery to the "Lenders" of the monthly unaudited "Financial Statements" beginning after March 31, 2006; (2) adjust the "Applicable Unused Line Fee Margin" to reflect tiered pricing based upon our "Excess Availability Percentage" computed on the first day of a calendar month applied on a prospective basis commencing with the first adjustment to the "Applicable Revolver Index Margin" and "Applicable Revolver LIBOR Margin"; (3) eliminate the $16.5 million block on availability of assets; (4) revise the financial covenants to (i) add a

covenant requiring maintenance of a minimum “Fixed Charge Coverage Ratio” of 1.10 to 1.00, which is tested at the end of each fiscal month only if a “Covenant Liquidity Event” has occurred and is then continuing and (ii) eliminate all other “Financial Covenants”; and (5) revise the definitions of various other capitalized terms contained within the original senior secured credit agreement. In connection with this amendment, we paid fees to the “Lenders” of $190,000.

As of July 12, 2006, we were granted a waiver under our senior secured credit agreement pursuant to which our lenders under our senior secured credit agreement waived our non-compliance with, and the effects of our non-compliance under, various representations and non-financial covenants contained in the senior secured credit agreement affected by the accounting adjustment in connection with the restatement as further described in note 10 to our consolidated financial statements included elsewhere in this in this Quarterly Report on Form 10-Q. As a result of the restatement, among other things, we would no longer be able to make the representations under our senior secured credit agreement concerning the conformity with GAAP of our previously delivered financial statements, or confirm our prior compliance with certain obligations concerning the maintenance of our books and records in accordance with GAAP. Because the restatement does not result in our having breached the financial covenant in the senior secured credit agreement, the waiver does not waive or modify the financial covenant. As a result of the waiver, we continue to have full access to our revolving credit facility under the senior secured credit agreement.

On August 4, 2006, the Company entered into an Amended and Restated Credit Agreement (the “Amended Credit Agreement”), amending and restating the Company’s senior secured credit agreement pursuant to which, among other things, (i) the principal amount of availability of the credit facility was increased from $165.0 million to $250.0 million, (ii) the “Applicable Unused Line Fee Margin” (as defined in the Amended Credit Agreement) in respect of undrawn commitments was lowered to 0.25%, (iii) the advance rate on rental fleet assets from the lesser of 100% of net book value or 80% of orderly liquidation value was changed to the lesser of 100% of net book value or 85% of orderly liquidation value, (iv) the maturity date of the facility was extended from February 10, 2009 to August 4, 2011 and (v) H&E Equipment Services (California), LLC was added as a borrower. The Company paid $1.4 million to the “Lenders” in connection with this Amended Credit Agreement and estimate other transaction costs to be paid of approximately $0.6 million. As of August 10, 2006, we had $14.6 million of outstanding borrowings under our senior secured credit facility with $227.1 million of additional borrowing availability, net of $8.3 million of issued standby letters of credit. As of June 30, 2006, the Company was in compliance with its financial covenant under the senior secured credit agreement.

***Cash Requirements Related to Operations***

Our principal sources of liquidity have been from cash provided by operations and the sales of new, used and rental fleet equipment, proceeds from the issuance of debt, and borrowings available under our amended senior secured credit facility. In February 2006, we completed an initial public offering of our common stock (see note 3 to the condensed consolidated financial statements for further information). At June 30, 2006, we had available cash and cash equivalents of approximately $24.6 million (see also note 10 to the condensed consolidated financial statements.).

Our principal uses of cash have been to fund operating activities and working capital, purchase of rental fleet equipment and property and equipment, fund payments due under operating leases and manufacturer flooring plans payable, and to meet debt service requirements. In February 2006, we completed the Eagle acquisition (see note 4 to the condensed consolidated financial statements for further information). In the future, we may pursue additional strategic acquisitions. We anticipate that these uses will be the principal demands on our cash in the future.

The amount of our future capital expenditures will depend on a number of factors including general economic conditions and growth prospects. Our gross rental fleet capital expenditures for the six months ended June 30, 2006 were $127.3 million, including $21.8 million of non-cash transfers from new and used equipment to rental fleet inventory, primarily to replace the rental fleet equipment we sold during the period. Our gross property and equipment capital expenditures for the six months ended June 30, 2006 were $10.2 million. We anticipate that our gross rental fleet capital expenditures for the remainder of 2006 will be used to primarily replace the rental fleet equipment we anticipate selling during 2006 as well as to meet increased demand. We anticipate that we will fund these rental fleet capital expenditures with the proceeds from the sales of new, used and rental fleet equipment, cash flow from operations and, if required, from borrowings under our amended senior secured credit facility. In response to changing economic

conditions, we believe we have the flexibility to modify our capital expenditures by adjusting them (either up or down) to match our actual performance. If we pursue any other strategic acquisitions during 2006, we may need to access available borrowings under our senior secured debt.

To service our debt, we will require a significant amount of cash. Our ability to pay interest and principal on our 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 financial, business and other factors, some of which are beyond our control. See also note 10 to the condensed consolidated financial statements related to the Company's recently completed tender offer and exchange for its 11 1/8% senior secured notes due 2012 and 12 1/2% senior subordinated notes due 2013. Based on our current level of operations, we believe our cash flow from operations, available cash and available borrowings under the amended senior secured credit facility will be adequate to meet our future liquidity needs for the foreseeable future..

We cannot provide absolute assurance that our future cash flow from operations will be sufficient to meet our long-term obligations and commitments. If we are unable to generate sufficient cash flow from operations 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. We cannot assure 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 or future debt agreements, including the indentures and the amended senior secured credit facility, may contain restrictive covenants prohibiting 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 accelerations of all of our debt.

**Seasonality**

Although our business is not significantly 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. Parts and service activities are less affected by changes in demand caused by seasonality.

**Inflation**

Although we cannot accurately anticipate the effect of inflation on our operations, we believe that inflation has not had for the periods covered by this Quarterly Report on Form 10-Q, and is not likely in the foreseeable future to have, a material impact on our results of operations.

**Acquisitions**

We completed, effective as of February 28, 2006, the previously announced acquisition of all of the capital stock of Eagle High Reach Equipment, Inc. and all of the equity interests of its subsidiary, Eagle High Reach Equipment, LLC. See note 4 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for further information on this acquisition. The Eagle purchase price was funded out of the proceeds from our recently completed initial public offering. Prior to our acquisition, Eagle was a privately-held construction and industrial equipment rental company. Eagle serves the southern California construction and industrial markets out of four locations.

We periodically engage in evaluations of potential acquisitions and start-up facilities. The success of our growth strategy depends, in part, on selecting strategic acquisition candidates at attractive prices and identifying strategic start-up locations. We expect to face competition for acquisition candidates, which may limit the number of acquisition opportunities and lead to higher acquisition costs. We may not have the financial resources necessary to consummate any acquisitions or to successfully open any new facilities in the future or the ability to obtain the necessary funds on satisfactory terms. For further information regarding our risks related to acquisitions, see Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2005.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

Our earnings are affected by changes in interest rates due to the fact that interest on the amended senior secured credit facility is

calculated based upon LIBOR plus 150 basis points as of June 30, 2006. We are also required to pay the lenders a commitment fee equal to 0.375% per annum in respect of undrawn commitments under the amended senior secured credit facility. As a result of the paydown of our amended senior secured credit facility in February 2006 from the proceeds of our initial public offering (see note 3 to the condensed consolidated financial statements for further information on our use of proceeds from our initial public offering), we had no variable rate debt outstanding as of June 30, 2006. We do not have significant exposure to changing interest rates on our fixed-rate senior secured notes or senior subordinated notes or on our other notes payables.

**Item 4. Controls and Procedures**

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

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits 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.

In connection with our initial public offering of common stock completed during the quarter ended March 31, 2006, we accounted for a one-time, nonrecurring payment, as a direct cost of the initial public offering, and as such, the payment was reflected as a charge to stockholders' equity in our unaudited interim financial statements for the three months ended March 31, 2006. Management concluded, after further review and consultation with BDO Seidman, LLP, our independent registered public accounting firm, that the payment should not be accounted for as a direct cost of the initial public offering and should instead be reflected as an expense in our consolidated income statement for the three months ended March 31, 2006. Management and our Audit Committee concluded to restate our unaudited interim financial statements for the three months ended March 31, 2006 to properly record and report the correct accounting treatment of this payment. Such restatement is contained in the Company's Form 10-Q/A for the three month period ended March 31, 2006, as filed with the SEC on July 14, 2006.

Auditing Standard Number 2 issued by the Public Accounting Oversight Board, or PCAOB, indicates that a restatement of previously issued financial statements is a "strong indicator that a material weakness in internal control over financial reporting exists." Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a – 15(e) 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. Accordingly, as part of their evaluation, they reviewed the circumstances surrounding the restatement of our previously issued unaudited financial statements for the three months ended March 31, 2006, reflected in the Company's Form 10-Q/A filed with the SEC on July 14, 2006.

Our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures were not effective as of June 30, 2006 to properly record and report the correct accounting treatment of this payment. To the extent we engage in non-routine transactions in the future, our disclosure controls and procedures now include consulting as appropriate with outside qualified consultants and performing additional levels of review by the Company's accounting personnel. Our Chief Executive Officer and our Chief Financial Officer have concluded that our current disclosure controls and procedures are effective as of the filing date of this report to provide reasonable assurance that material information required to be included in our periodic SEC reports is recorded, processed summarized and reported within the time periods specified in the SEC rules and forms.

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

*Changes in Internal Controls*

There were no changes in our internal control over financial reporting that occurred during the three month period covered by this report 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 or financial condition.

### Item 1A. Risk Factors.

In addition to the other information set forth in this report, 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, 2005, as well as the factors discussed below, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K and in this Quarterly Report on Form 10-Q are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

There have been no material changes with respect to the Company's risk factors previously disclosed in the Annual Report on Form 10-K for the year ended December 31, 2005, except as described below:

***We have substantial indebtedness and may be unable to service our debt. Our substantial indebtedness could adversely affect our financial position, limit our available cash and our access to additional capital and prevent us from growing our business.***

We have a substantial amount of indebtedness. As of June 30, 2006, on an as adjusted basis after giving effect to the offering of our 8 3/8% senior unsecured notes due 2016 (the "senior unsecured notes") and the purchase of our 11 1/8% senior secured notes due 2012 (the "senior secured notes") and the 12 1/2% senior subordinated notes due 2013 (the "senior subordinated notes"), our total indebtedness (consisting of the aggregate amounts outstanding under our senior secured credit facility, senior unsecured notes, senior secured notes and notes payable) would have been approximately $272.7 million, $22.7 million of which would have been secured. In addition, after giving effect to an amendment of our senior secured credit facility that increased the aggregate principal amount of the facility from $165.0 million to $250.0 million, we would have had available $224.7 million of additional borrowing availability, net of issued letters of credit.

As of June 30, 2006, after giving effect to the sale of our senior unsecured notes and the purchase of our senior secured notes and senior subordinated notes pursuant to the tender offer, our senior unsecured secured notes were effectively subordinated to our obligations under $117.0 million of first-priority secured manufacturer floor plan financings to the extent of the value of their collateral, $4.5 million of senior secured notes that remain outstanding following the tender offer, $1.2 million in notes payable (which includes one capital lease obligation of $0.8 million) and $8.3 million in standby letters of credit issued under our senior secured credit facility.

The level of our indebtedness could have important consequences, including:

- a substantial portion of our cash flow from operations will be dedicated to debt service and may not be available for other purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- limiting our ability to obtain financing in the future for working capital, capital expenditures and general corporate purposes, including acquisitions, and may impede our ability to secure favorable lease terms;
- making us more vulnerable to economic downturns and may limit our ability to withstand competitive pressures; and
- placing us at a competitive disadvantage compared to our competitors with less indebtedness.

***We expect that we will recognize a substantial charge that will reduce our net income as a result of the offering of the senior unsecured notes and the purchase of our senior secured notes and senior subordinated notes pursuant to the tender offer.***

On August 4, 2006, the Company completed its previously announced cash tender offer and consent solicitation for the senior secured notes and the senior subordinated notes. Additionally, the Company announced the closing of its previously announced private offering of $250 million aggregate principal amount of its senior unsecured notes. In connection with the above transactions, the Company expects to record a one-time loss on early retirement of debt in the quarterly period ended September 30, 2006 of approximately $41.0 million, or approximately $32.2 million after-tax, reflecting payment of the $25.3 million of tender premiums and other estimated costs of $0.7 million in connection with the tender offer and consent solicitation, combined with the write off of approximately $5.4 million of unamortized deferred financing costs of the senior secure notes and the senior subordinated notes and $9.6 million of remaining unamortized original issue discount on the senior secured notes and the senior subordinated notes. Accordingly, this charge will reduce our net income for the third quarter and fiscal year 2006, with a corresponding negative impact on earnings per common share.

***Our disclosure controls and procedures were not effective as of March 31, 2006 and June 30, 2006 to properly record and report the correct accounting treatment of a one-time payment made during the first quarter of 2006 in connection with our recently completed initial public offering. Also, our disclosure controls and procedures were not effective as of December 31, 2004 to properly record and report the correct accounting treatment of deferred taxes from the Gulf Wide transaction.***

In connection with our recently completed initial public offering of common stock, we accounted for a one-time, nonrecurring payment, as a direct cost of the initial public offering, and as such, the payment was reflected as a charge to stockholders' equity in our unaudited interim financial statements for the three months ended March 31, 2006. Management concluded, after further review and consultation with BDO Seidman, LLP, our independent registered public accounting firm, that the payment should not be accounted for as a direct cost of the initial public offering and should instead be reflected as an expense on our consolidated income statement for the three months ended March 31, 2006. Management and our Audit Committee concluded to restate our unaudited interim financial statements for the three months ended March 31, 2006 to properly record and report the correct accounting treatment of this payment. This restatement is reflected in the Company's Form 10-Q/A for the three month period ended March 31, 2006, as filed with the SEC on July 14, 2006.

Auditing Standard Number 2 issued by the Public Company Accounting Oversight Board, or PCAOB, indicates that a restatement of previously issued financial statements is a "strong indicator that a material weakness in internal control over financial reporting exists." Accordingly, our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively) re-evaluated the effectiveness of our disclosure controls and procedures (as defined under the Securities Exchange Act of 1934, as amended) as of March 31, 2006. As part of their evaluation, they reviewed the circumstances surrounding the restatement of our previously issued unaudited interim financial statements for the three months ended March 31, 2006, as filed with the SEC on Form 10-Q/A \ on July 14, 2006.

Our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of March 31, 2006 and as of June 30, 2006, to properly record and report the correct accounting treatment of this payment. To the extent we engage in non-routine transactions in the future, our disclosure controls and procedures now include procedures for consultation as appropriate with outside qualified consultants and performance of additional levels of review by the Company's accounting personnel. Our Chief Executive Officer and our Chief Financial Officer have concluded that our current disclosure controls and procedures are effective to provide reasonable assurance that material information required to be included in our periodic SEC reports is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms.

In addition, our disclosure controls and procedures were not effective as of December 31, 2004 to properly record and report the correct accounting treatment of deferred taxes from the Gulf Wide transaction. This restatement is described in the notes to our consolidated financial statements on Form 10-K for the year ended December 31, 2004.

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

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

None.

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

None.

**Item 4. Submission of Matters to a Vote of Security Holders.**

During the quarter ended June 30, 2006, the following matters were submitted by the Company to a vote of its security holders at the 2006 Annual Meeting of the Stockholders of the Company held on June 6, 2006. The proposals and results of the vote on the proposals were as follows:

(1) Election of six members to our Board of Directors, each for a one-year term;

| | For | Withheld |
|---|---|---|
| Mr. Bagley | 25,553,378 | 4,804,530 |
| Mr. Engquist | 26,122,446 | 4,235,462 |
| Mr. Alessi | 29,112,855 | 1,245,053 |
| Mr. Bruckmann | 25,273,826 | 5,084,082 |
| Mr. Karlson | 29,211,905 | 1,146,003 |
| Mr. Sawyer | 25,452,621 | 4,905,287 |

(2) A proposal to approve the Amendment to and Restatement of the Company's 2006 Stock-Based Incentive Compensation Plan;

| | |
|---|---|
| For | 25,674,774 |
| Against | 1,885,927 |
| Abstain | 29,695 |
| Broker non-votes | 2,767,512 |

(3) A proposal to ratify the appointment of BDO Seidman, LLP as our Independent Registered Public Accounting Firm.

| | |
|---|---|
| For | 30,295,360 |
| Against | 32,437 |
| Abstain | 29,111 |

**Item 5. Other information.**

None.

**Item 6. Exhibits.**

A. Exhibits

10.1 H&E Equipment Services, Inc. 2006 Stock-Based Incentive Compensation Plan, as amended and restated, effective June 6, 2006 (filed herewith).

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).

**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 hereunto duly authorized.

H&E EQUIPMENT SERVICES, INC.

| | | |
|---|---|---|
| Dated:August 11, 2006 | By: | /s/ JOHN M. ENGQUIST<br>John M. Engquist<br>*Chief Executive Officer*<br>*(Principal Executive Officer)* |
| Dated:August 11, 2006 | By: | /s/ LESLIE S. MAGEE<br>Leslie S. Magee<br>*Chief Financial Officer*<br>*(Principal Financial and Accounting Officer)* |

**EXHIBIT INDEX**

10.1 H&E Equipment Services, Inc. 2006 Stock-Based Incentive Compensation Plan, as amended and restated, effective June 6, 2006 (filed herewith).

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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).

**Exhibit 10.1**

# H&E EQUIPMENT SERVICES, INC.

## 2006 STOCK-BASED INCENTIVE COMPENSATION PLAN

**ADOPTED JANUARY 23, 2006**

**AS AMENDED AND RESTATED, EFFECTIVE JUNE 6, 2006**

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

**2006 STOCK-BASED INCENTIVE COMPENSATION PLAN**

## I. Purpose of the Plan

The purpose of this Amended and Restated Plan is to assist the Company, its Subsidiaries and Affiliates in attracting and retaining valued Employees and Directors by offering them a greater stake in the Company's success and a closer identity with it, and to encourage ownership of the Company's Stock by such Employees and Directors.

## II. Definitions

A. "Affiliate" means any entity other than the Subsidiaries in which the Company has a substantial direct or indirect equity interest, as determined by the Board.

B. "Award" means an award of Deferred Stock, Restricted Stock, or Options under the Plan.

C. "Board" means the Board of Directors of the Company.

D. "Cause" means: (i) the Participant's willful misconduct or gross negligence in connection with the performance of the Participant's duties for the Company, its Subsidiaries or Affiliates; (ii) the Participant's conviction of, or a plea of nolo contendere to, a felony or a crime involving fraud or moral turpitude; (iii) the Participant's engaging in any business that directly or indirectly competes with the Company, its Subsidiaries or Affiliates; or (iv) disclosure of trade secrets, customer lists or confidential information of the Company, its Subsidiaries or Affiliates to a competitor or unauthorized person.

E. "Change in Control" means:

1. the acquisition in one or more transactions by any "Person" (as such term is used for purposes of section 13(d) or section 14(d) of the 1934 Act) but excluding, for this purpose, the Company or its Subsidiaries, any Stockholder of the Company immediately prior to the consummation of the Company's Initial Public Offering or any employee benefit plan of the Company or its Subsidiaries, of "Beneficial Ownership" (within the meaning of Rule 13d-3 under the 1934 Act) of thirty-five percent (35%) or more of the combined voting power of the Company's then outstanding voting securities (the "Voting Securities");

2. the individuals who, as of the effective date of the Plan, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that if the election, or nomination for election by the Company's Stockholders, of any new director was approved by a vote of at least a majority of the Incumbent Board, such new director shall be considered as a member of the Incumbent Board, and provided further that any reductions in the size of the Board that are instituted voluntarily by the Incumbent Board shall not constitute a Change in Control, and after any such reduction the "Incumbent Board" shall mean the Board as so reduced;

3. a merger or consolidation involving the Company if the Stockholders of the Company, immediately before such merger or consolidation, do not own, directly or indirectly, immediately following such merger or consolidation, more than seventy percent (70%) of the combined voting power of the outstanding Voting Securities of the corporation resulting from such merger or consolidation;

4. a complete liquidation or dissolution of the Company or a sale or other disposition of all or substantially all of the assets of the Company; or

5. acceptance by Stockholders of the Company of shares in a share exchange if the Stockholders of the Company immediately before such share exchange, do not own, directly or indirectly, immediately following such share exchange, more than seventy percent (70%) of the combined voting power of the outstanding Voting Securities of the corporation resulting from such share exchange.

F. "Code" means the Internal Revenue Code of 1986, as amended.

G. "Committee" means the Board or such committee designated by the Board to administer the Plan under Section IV.

H. "Common Stock" means the common stock of the Company, par value $0.01 per share, or such other class or kind of shares or other securities resulting from the application of Section IX.

I. "Company" means H&E Equipment Services, Inc., a Delaware Corporation, or any successor company or corporation.

J. "Company Stock" means the Common Stock or Preferred Stock of the Company.

K. "Deferred Stock" means an Award made under Section VI of the Plan to receive Company Stock at the end of a specified Deferral Period.

L. "<u>Deferral Period</u>" means the period during which the receipt of a Deferred Stock Award under Section VI of the Plan will be deferred.

M. "<u>Director</u>" means a member of either (i) the Company's Board or (ii) the Board of Directors of one of the Company's Subsidiaries or Affiliates, who is not an Employee of the Company or any Subsidiary.

N. "<u>Disability</u>" means, as determined by the Committee in its sole discretion, that an Employee or Director:

1. is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or

2. is, by reason of any medically determinable physical or mental impairment which can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than 3 months under an accident and health plan covering Employees or Directors, as applicable, of the Company, its Subsidiaries or Affiliates.

O. "<u>EBITDA</u>" means for any given year, the Company's earnings before interest, income taxes, depreciation, amortization and any accounting charges incurred with respect to this Plan or any Awards granted under this Plan as determined after payment of bonuses, if any, but adjusted for purchase accounting or any other items that are considered unique, or likely to affect only one accounting period (unique or "one time" charges are charges for which, under generally accepted accounting principles consistently applied, an adjustment to EBITDA would be considered proper), as determined by the Board, in its sole discretion, based on the audited financial statements for such year.

P. "<u>Employee</u>" means an officer or other key employee of the Company, a Subsidiary or an Affiliate including a director who is such an employee.

Q. "<u>Fair Market Value</u>" means, on any given date, the value of one share of Common Stock of the Company's stock as determined by the Board in its sole discretion.

R. "<u>Incentive Stock Option</u>" means an Option intended to meet the requirements of an incentive stock option as defined in section 422 of the Code and designated as an Incentive Stock Option.

S. “Initial Public Offering” means the first underwritten public offering of the Company’s stock pursuant to a Registration Statement filed with the United States Securities and Exchange Commission on Form S-1, or its then equivalent.

T. “1934 Act” means the Securities Exchange Act of 1934, as amended.

U. “Non-Qualified Option” means an Option not intended to be an Incentive Stock Option, and designated as a Non-Qualified Option.

V. “Option” means any option to acquire Stock of the Company granted from time to time under Section VIII of the Plan.

W. “Participant” means an Employee or Director to whom an Award is made.

X. “Plan” means the H&E Equipment Services, Inc. 2006 Stock-Based Incentive Compensation Plan herein set forth, as amended from time to time.

Y. “Preferred Stock” means the preferred stock of the Company, or such other class or kind of shares or other securities resulting from the application of Section IX

Z. “Restricted Stock” means Company Stock awarded by the Committee under Section VII of the Plan.

AA. “Restriction Period” means the period during which Restricted Stock awarded under Section VII of the Plan is subject to forfeiture.

BB. “Retirement” means, in the case of an Employee, retirement from the active employment of the Company, a Subsidiary or an Affiliate pursuant to the relevant provisions of the applicable pension plan of such entity or as otherwise determined by the Board. In the case of a Director, “Retirement” means good-faith and complete termination of the Director’s service for the Company, its Subsidiaries and Affiliates.

CC. “Securities Act” means the Securities Act of 1933, as amended.

DD. “Subsidiary” means any corporation (other than the Company) in an unbroken chain of corporations beginning with the Company (or any subsequent parent of the Company) if each of the corporations other than the last corporation in the unbroken chain owns stock possession 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

EE. “Ten Percent Stockholder” means a person who on any given date owns, either directly or indirectly (taking into account the attribution rules contained in section 424(d) of the Code), stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or a Subsidiary.

**III. Eligibility**

Any Employee or Director is eligible to receive an Award.

**IV. Administration and Implementation of Plan**

A. The Plan shall be administered by the Committee, which shall have full power to interpret and administer the Plan and full authority to act in selecting the Employees and Directors to whom Awards will be granted, in determining the type and amount of Awards to be granted to each such Participant, the terms and conditions of Awards granted under the Plan and the terms of agreements which will be entered into with Participants.

B. The Committee’s powers shall include, but not be limited to, the power to determine whether, to what extent and under what circumstances an Option may be exchanged for cash, Company Stock or some combination thereof; to determine whether, to what extent and under what circumstances an Award is made hereunder; to determine whether, to what extent and under what circumstances Company Stock or cash payable with respect to an Award shall be deferred, either automatically or at the election of the Participant (including the power to add deemed earnings to any such deferral); to grant Awards (other than Incentive Stock Options) that are transferable by the Participant; and to determine the effect, if any, of a Change in Control of the Company upon outstanding Awards. Upon a Change in Control, the Committee may, at its discretion, (i) fully vest all Awards made under the Plan, (ii) cancel any outstanding Awards in exchange for a cash payment of an amount equal to the difference between the then Fair Market Value of the stock underlying the Award and the option or base price of the Award, (iii) after having given the Award Participant a chance to exercise any outstanding Options, terminate any or all of the Award Participant’s unexercised Options, or (iv) if the Company is not the surviving corporation, cause the surviving corporation to assume or replace all outstanding Awards with comparable awards.

C. The Committee shall have the power to adopt regulations for carrying out the Plan and to make changes in such regulations as it shall, from time to time, deem advisable. The Committee shall endeavor, in good faith, to avoid the application of section 409A of the Code to any Award by taking such action,

including suspending the operation of any provision of this Plan or any Award, as it reasonably determines to be necessary or appropriate to that result. No such action shall be deemed to be an amendment adverse to the Participant within the meaning of Section XII.F. Any interpretation by the Committee of the terms and provisions of the Plan and the administration thereof, and all action taken by the Committee, shall be final and binding on Participants.

D. The Committee may condition the grant of any Award or the lapse of any Deferral or Restriction Period (or any combination thereof) upon the Participant's achievement of a Performance Goal that is established by the Committee before the grant of the Award. For this purpose, a "Performance Goal" shall mean a goal that must be met by the end of a period specified by the Committee (but that is substantially uncertain to be met before the grant of the Award) based upon: (i) the price of Common Stock, (ii) the market share of the Company, its Subsidiaries or Affiliates (or any business unit thereof), (iii) sales by the Company, its Subsidiaries or Affiliates (or any business unit thereof), (iv) earnings per share of Common Stock, (v) return on shareholder equity of the Company, (vi) costs of the Company, its Subsidiaries or Affiliates (or any business unit thereof), (vii) cash flow of the Company, its Subsidiaries or Affiliates (or any business unit thereof), (viii) return on total assets of the Company, its Subsidiaries or Affiliates (or any business unit thereof), (ix) return on invested capital of the Company, its Subsidiaries or Affiliates (or any business unit thereof), (x) return on net assets of the Company, its Subsidiaries or Affiliates (or any business unit thereof), (xi) operating income of the Company, its Subsidiaries or Affiliates (or any business unit thereof) including, without limitation, EBITDA, or (xii) net income of the Company, its Subsidiaries or Affiliates (or any business unit thereof). The Committee shall have discretion to determine the specific targets with respect to each of these categories of Performance Goals. Before granting an Award or permitting the lapse of any Deferral or Restriction Period subject to this Section, the Committee shall certify that an individual has satisfied the applicable Performance Goal.

**V. Shares of Stock Subject to the Plan**

A. Subject to adjustment as provided in Section IX, the total number of shares of Common Stock available for Awards under the Plan shall be the number of shares equal to twelve percent (12%) of the total number of shares of the Company's Common Stock outstanding after the consummation of the Company's Initial Public Offering, including after the exercise, if any, of the underwriters' option to cover over-allotments. The final number of shares of Common Stock available for Awards under the Plan shall be determined by resolution of the

Committee or the Board subsequent to the consummation of the Company's Initial Public Offering.

B. The maximum number of shares of Company Stock subject to Awards that may be granted to any Participant during any calendar year (the "Individual Limit") shall not exceed 20% of the number of shares initially available for Awards under Section V.A. Subject to Section V.C, Section IX and Section XII.F, any Award that is canceled or amended by the Committee shall count against the Individual Limit. Notwithstanding the foregoing, the Individual Limit may be adjusted to reflect the effect on Awards of any transaction or event described in Section IX.

C. Any shares issued by the Company through the assumption or substitution of outstanding grants from an acquired company shall not (i) reduce the shares available for Awards under the Plan, or (ii) be counted against the Individual Limit. Any shares issued hereunder may consist, in whole or in part, of authorized and unissued shares or treasury shares. If any shares subject to any Award granted hereunder are forfeited or such Award otherwise terminates without the issuance of such shares or the payment of other consideration in lieu of such shares, the shares subject to such Award, to the extent of any such forfeiture or termination, shall again be available for Awards under the Plan.

**VI. Deferred Stock**

An Award of Deferred Stock is an agreement by the Company to deliver to the recipient a specified number of shares of Company Stock at the end of a specified deferral period or periods. Such an Award shall be subject to the following terms and conditions:

A. Deferred Stock Awards shall be evidenced by Deferred Stock agreements. Such agreements shall conform to the requirements of the Plan and may contain such other provisions as the Committee shall deem advisable.

B. Upon determination of the number of shares of Deferred Stock to be awarded to a Participant, the Committee shall direct that the same be credited to the Participant's account on the books of the Company but that issuance and delivery of the same shall be deferred until the date or dates provided in Section VI.E hereof. Prior to issuance and delivery hereunder the Participant shall have no rights as an stockholder with respect to any shares of Deferred Stock credited to the Participant's account.

C. No dividends shall be paid with respect to Deferred Stock. In lieu thereof, at the end of the Deferral Period the Participant will be credited with that

number of additional whole shares of Company Stock that can be purchased (based on their Fair Market Value at the end of the Deferral Period) with the sum of the dividends that would have been paid with respect to an equal number of shares of Company Stock between the grant date of such Deferred Stock and the end of the Deferral Period.

D. The Committee may condition the grant of an Award of Deferred Stock or the expiration of the Deferral Period upon the Participant's achievement of one or more Performance Goals specified in the Deferred Stock agreement. If the Participant fails to achieve the specified Performance Goals, the Committee shall not grant the Deferred Stock Award to the Participant, or the Participant shall forfeit the Award and no Company Stock shall be transferred to him pursuant to the Deferred Stock Award.

E. The Deferred Stock agreement shall specify the duration of the Deferral Period taking into account termination of employment or service as a Director on account of death, Disability, Retirement or other cause. The Deferral Period may consist of one or more installments. At the end of the Deferral Period or any installment thereof the shares of Deferred Stock applicable to such installment credited to the account of a Participant shall be issued and delivered to the Participant (or, where appropriate, the Participant's legal representative) in accordance with the terms of the Deferred Stock agreement. The Committee may, in its sole discretion, amend a Deferred Stock Award pursuant to Section IV.C hereof.

**VII. Restricted Stock**

An Award of Restricted Stock is a grant by the Company of a specified number of shares of Company Stock to the Participant, which shares are subject to forfeiture upon the happening of specified events. Such an Award shall be subject to the following terms and conditions:

A. Restricted Stock shall be evidenced by Restricted Stock agreements. Such agreements shall conform to the requirements of the Plan and may contain such other provisions as the Committee shall deem advisable.

B. Upon determination of the number of shares of Restricted Stock to be granted to the Participant, the Committee shall direct that a certificate or certificates representing the number of shares of Company Stock be issued to the Participant with the Participant designated as the registered owner. The certificates representing such shares shall be legended as to sale, transfer, assignment, pledge or other encumbrances during the Restriction Period and

deposited by the Participant, together with a stock power endorsed in blank, with the Company, to be held in escrow during the Restriction Period.

C. During the Restriction Period the Participant shall have the right to receive dividends from and to vote the shares of Restricted Stock.

D. The Committee may condition the grant of an Award of Restricted Stock or the expiration of the Restriction Period upon the Participant's achievement of one or more Performance Goals specified in the Restricted Stock Agreement. If the Participant fails to achieve the specified Performance Goals, the Committee shall not grant the Restricted Stock to the Participant, or the Participant shall forfeit the Award of Restricted Stock and the underlying Company Stock shall be forfeited to the Company.

E. The Restricted Stock agreement shall specify the duration of the Restriction Period and the performance, employment, service as a Director or other conditions (including termination of employment or service as a Director on account of death, Disability, Retirement or other cause) under which the Restricted Stock may be forfeited to the Company. At the end of the Restriction Period the restrictions imposed hereunder shall lapse with respect to the number of shares of Restricted Stock as determined by the Committee, and the legend shall be removed and such number of shares delivered to the Participant (or, where appropriate, the Participant's legal representative). The Committee may, in its sole discretion, amend a Restricted Stock Award pursuant to Section IV.C hereof.

**VIII. Options**

Options give a Participant the right to purchase a specified number of shares of Company Stock from the Company for a specified time period at a fixed price. Options may be either Incentive Stock Options or Non-Qualified Stock Options. The grant of Options shall be subject to the following terms and conditions:

A. Option Grants: Options shall be evidenced by Option agreements. Such agreements shall conform to the requirements of the Plan, and may contain such other provisions as the Committee shall deem advisable.

B. Option Price: The price per share at which Company Stock may be purchased upon exercise of an Option shall be determined by the Committee, but shall be not less than the Fair Market Value of a share of Company Stock on the date of grant. In the case of any Incentive Stock Option granted to a Ten Percent

Stockholder, the option price per share shall not be less than 110% of the Fair Market Value of a share of Company Stock on the date of grant.

C. Term of Options: The Option agreements shall specify when an Option may be exercisable and the terms and conditions applicable thereto. The term of an Option shall in no event be greater than ten years (five years in the case of an Incentive Stock Option granted to a Ten Percent Stockholder and ten years in the case of all other Incentive Stock Options).

D. Incentive Stock Options: Each provision of the Plan and each Option agreement relating to an Incentive Stock Option shall be construed so that each Incentive Stock Option shall be an incentive stock option as defined in section 422 of the Code, and any provisions of the Option agreement thereof that cannot be so construed shall be disregarded. In no event may a Participant be granted an Incentive Stock Option which does not comply with such grant and vesting limitations as may be prescribed by section 422(b) of the Code. Incentive Stock Options may not be granted to Directors or employees of Affiliates.

E. Restrictions on Transferability: No Incentive Stock Option shall be transferable otherwise than by will or the laws of descent and distribution and, during the lifetime of the Participant, shall be exercisable only by the Participant. Upon the death of a Participant, the person to whom the rights have passed by will or by the laws of descent and distribution may exercise an Incentive Stock Option only in accordance with this Section VIII.

F. Payment of Option Price: The option price of the shares of Company Stock upon the exercise of an Option shall be paid: (i) in full in cash at the time of the exercise or, (ii) with the consent of the Committee, in whole or in part in Company Stock held by the Participant for at least six months valued at Fair Market Value on the date of exercise. With the consent of the Committee, payment upon the exercise of a Non-Qualified Option may be made in whole or in part by Restricted Stock which has been held by the Participant for at least six months (based on the fair market value of the Restricted Stock on the date the Option is exercised, as determined by the Committee). In such case the Company Stock to which the Option relates shall be subject to the same forfeiture restrictions originally imposed on the Restricted Stock exchanged therefor.

G. Termination by Death: If a Participant’s employment by or service as a Director of the Company, a Subsidiary or Affiliate terminates by reason of death, any Option granted to such Participant may thereafter be exercised (to the extent such Option was exercisable at the time of death or on such accelerated basis as the

Committee may determine at or after grant) by, where appropriate, the Participant's transferee or by the Participant's legal representative, for a period of 12 months from the date of death or until the expiration of the stated term of the Option, whichever period is shorter.

H. Termination by Reason of Disability: If a Participant's employment by or service as a Director of the Company, a Subsidiary or Affiliate terminates by reason of Disability, any unexercised Option granted to the Participant may thereafter be exercised by the Participant (or, where appropriate, the Participant's transferee or legal representative), to the extent it was exercisable at the time of termination, for a period of 24 months or such shorter term as determined by the Committee (12 months in the case of an Incentive Stock Option) from the date of such termination of employment or until the expiration of the stated term of the Option, whichever period is shorter.

I. Termination by Reason of Retirement: If a Participant's employment by or service as a Director of the Company, a Subsidiary or Affiliate terminates by reason of Retirement, any unexercised Option granted to the Participant may thereafter be exercised by the Participant (or, where appropriate, the Participant's transferee or legal representative), to the extent it was exercisable at the time of termination, for a period of 5 years or such shorter term as determined by the Committee (12 months in the case of an Incentive Stock Option) from the date of such termination of employment or service as a Director or until the expiration of the stated term of the Option, whichever period is shorter. Notwithstanding the foregoing, if, and to the extent, required by section 409A of the Code in the case of a Specified Employee, as defined in section 409A(a)(2)(B) of the Code, any unexercised Option shall not be exercised earlier than six months after the date of retirement.

J. Termination Not for Cause: If a Participant's employment by or service as a Director of the Company, a Subsidiary or Affiliate is terminated by the Company, the Subsidiary or Affiliate not for Cause, any unexercised Option granted to the Participant may thereafter be exercised by the Participant (or, where appropriate, the Participant's transferee or legal representative), to the extent it was exercisable at the time of termination, for a period of 60 days or such shorter term as determined by the Committee from the date of such termination of employment or service as a Director or until the expiration of the stated term of the Option, whichever period is shorter. Notwithstanding the foregoing, and to the extent required by section 409A of the Code in the case of a Specified Employee, as defined in section 409A(a)(2)(B) of the Code, any unexercised Option shall not be exercised earlier than six months after the date of termination not for cause.

K. Termination for Cause or Other Reason: If a Participant's employment by or service as a Director of the Company, a Subsidiary or Affiliate is terminated by the Company, the Subsidiary or Affiliate for Cause, or otherwise terminates for any reason not specified in this Section VIII (including a voluntary termination), all unexercised Options awarded to the Participant shall terminate on the date of such termination.

**IX. Adjustments upon Changes in Capitalization**

In the event of a reorganization, recapitalization, stock split, spin-off, split-off, split-up, stock dividend, issuance of stock rights, combination of shares, merger, consolidation or any other change in the corporate structure of the Company affecting Company Stock, or any distribution to stockholders other than a cash dividend, the Board shall make appropriate adjustment in the number and kind of shares authorized by the Plan and any other adjustments to outstanding Awards as it determines appropriate. No fractional shares of Company Stock shall be issued pursuant to such an adjustment. The Fair Market Value of any fractional shares resulting from adjustments pursuant to this Section shall, where appropriate, be paid in cash to the Participant.

**X. Effective Date, Termination and Amendment**

This Amendment and Restatement of the Plan shall become effective on the date the Amendment and Restatement is approved by the Board, provided that Options granted under the Plan to Directors shall expressly not be exercisable until this Amendment and Restatement shall have been approved by the Company's stockholders in accordance with the rules of the NASDAQ Stock Market and applicable law. The Plan shall remain in full force and effect until the earlier of ten years from the effective date, or the date it is terminated by the Board. The Board shall have the power to amend, suspend or terminate the Plan at any time, provided that no such amendment shall be made without stockholder approval which shall (i) increase (except as provided in Section IX) the total number of shares available for issuance pursuant to the Plan; (ii) change the class of Employees or Directors eligible to be Participants; (iii) modify the Individual Limit (except as provided Section IX) or the categories of Performance Goals set forth in Section IV.D; or (iv) change the provisions of this Section X. Termination of the Plan pursuant to this Section X shall not affect Awards outstanding under the Plan at the time of termination.

**XI. Transferability**

Except as provided below, Awards may not be pledged, assigned or transferred for any reason during the Participant's lifetime, and any attempt to do so shall be void and the relevant Award shall be forfeited. The Committee may grant Awards (except Incentive Stock Options) that are transferable by the Participant during his lifetime, but such Awards shall be transferable only to the extent specifically provided in the agreement entered into with the Participant. The transferee of the Participant shall, in all cases, be subject to the provisions of the agreement between the Company and the Participant.

**XII. General Provisions**

A. Nothing contained in the Plan, or any Award granted pursuant to the Plan, shall confer upon any Employee or Director any right to continued employment by or service as a Director of the Company, a Subsidiary or Affiliate, nor interfere in any way with the right of the Company, a Subsidiary or Affiliate to terminate the employment or service as a Director of any Participant at any time.

B. For purposes of this Plan, transfer of employment or service as a Director between the company and its Subsidiaries and Affiliates shall not be deemed termination of employment or service as a Director.

C. Participants shall be responsible to make appropriate provision for all taxes required to be withheld in connection with any Award, the exercise thereof and the transfer of shares of Company Stock pursuant to this Plan. Such responsibility shall extend to all applicable Federal, state, local or foreign withholding taxes. In the case of the payment of Awards in the form of Company Stock, or the exercise of Options, the Company shall, at the election of the Participant, have the right to retain the number of shares of Company Stock whose Fair Market Value equals the amount legally required to be withheld in satisfaction of the applicable withholding taxes. Agreements evidencing such Awards shall contain appropriate provisions to effect withholding in this manner.

D. Without amending the Plan, Awards may be granted to Employees or Directors who are foreign nationals or employed outside the United States or both, on such terms and conditions different from those specified in the Plan as may, in the judgment of the committee, be necessary or desirable to further the purpose of the Plan.

E. To the extent that Federal laws (such as the 1934 Act, the Code or the Employee Retirement Income Security Act of 1974) do not otherwise control, the Plan and all determinations made and actions taken pursuant hereto shall be governed by the law of Delaware and construed accordingly.

F. The Committee may amend any outstanding Awards to the extent it deems appropriate; provided, however, except as provided in Section IX, no Award may be repriced, replaced, regranted through cancellation, or modified without stockholder approval. The Committee may amend Awards without the consent of the Participant, except in the case of amendments adverse to the Participant, in which case the Participant's consent is required to any such amendment.

**Exhibit 31.1**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, John M. Engquist, President and Chief Executive Officer of H&E Equipment Services, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of H&E Equipment Services, Inc.;

2 Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e and 15d-15e) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such internal control and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) [reserved]

   (c) evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant’s auditors and the audit committee of the registrant’s Board of Directors (or persons performing the equivalent function):

   (a) all significant deficiencies in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Dated: August 11, 2006

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

**Exhibit 31.2**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 302 OF
THE SARBANES-OXLEY ACT OF 2002**

I, Leslie S. Magee, Chief Financial Officer of H&E Equipment Services, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q of H&E Equipment Services, Inc.;

2 Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15e and 15d-15e) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such internal control and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) [reserved]

   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent function):

   (a) all significant deficiencies in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated:August 11, 2006

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

**Exhibit 32.1**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350**
**AS ADOPTED PURSUANT TO SECTION 906 OF**
**THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of H&E Equipment Services, Inc. (the "Company") on Form 10-Q for the period ending June 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John M. Engquist, President and Chief Executive Officer of the Company, and Leslie S. Magee, Chief Financial Officer of the Company, each certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

| Dated:August 11, 2006 | By: | /s/ John M. Engquist |
|---|---|---|
| | | John M. Engquist |
| | | President and Chief Executive Officer |
| | | (Principal Executive Officer) |
| Dated: August 11, 2006 | By: | /s/ Leslie S. Magee |
| | | Leslie S. Magee |
| | | Chief Financial Officer |
| | | (Principal Financial Officer) |