

**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, 2005

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

For the transition period from _____ to _____

Commission file numbers: 333-99587
333-99589

H&E EQUIPMENT SERVICES L.L.C.

(Exact name of registrant as specified in its charter)

Louisiana
(State of Incorporation)

72-1287046
(I.R.S. Employer Identification No.)

11100 Mead Road, Suite 200,
Baton Rouge, Louisiana
(Address of principal executive offices)

70816
(Zip Code)

Registrant's telephone number, including area code **(225) 298-5200**

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

H&E Holdings L.L.C. owns 100% of the registrant's limited liability company interests.

TABLE OF CONTENTS

	<u>Page</u>	
PART I.	FINANCIAL INFORMATION	
Item 1.	Unaudited Financial Statements:	
	Consolidated Balance Sheets as of June 30, 2005 and December 31, 2004	3
	Consolidated Statements of Operations for the Three Months and Six Months Ended June 30, 2005 and 2004 (Restated)	4
	Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2005 and 2004 (Restated)	5
	Notes to Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	20
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	34
Item 4.	Controls and Procedures	35
PART II.	OTHER INFORMATION	
Item 1.	Legal Proceedings	36
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	36
Item 3.	Defaults upon Senior Securities	36
Item 4.	Submission of Matters to a Vote of Security Holders	36
Item 5.	Other Information	36
Item 6.	Exhibits	36

PART I—FINANCIAL INFORMATION

Item 1. Unaudited Financial Statements.

H&E EQUIPMENT SERVICES L.L.C.
CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2005	December 31, 2004
(In thousands)		
ASSETS		
Cash	\$ 6,124	\$ 3,358
Receivables, net of allowance for doubtful accounts of \$2,620 and \$2,732, respectively	71,275	68,902
Inventories, net of reserve for obsolescence of \$1,309 and \$1,490, respectively	64,884	56,811
Prepaid expenses and other assets	2,877	1,044
Rental equipment, net of accumulated depreciation of \$125,106 and \$124,411, respectively	271,004	243,630
Property and equipment, net of accumulated depreciation of \$18,854 and \$17,674, respectively	17,192	16,101
Deferred financing costs and other intangible assets, net of accumulated amortization of \$6,192 and \$5,092, respectively	9,161	10,251
Goodwill, net of accumulated amortization of \$758	8,572	8,572
	<u>451,089</u>	<u>408,669</u>
Total assets	\$ 451,089	\$ 408,669
LIABILITIES AND MEMBERS' DEFICIT		
Liabilities:		
Amount due on senior secured credit facility	\$ 76,409	\$ 55,293
Accounts payable	105,393	92,592
Accrued expenses payable and other liabilities	24,632	20,919
Accrued loss from litigation	17,434	17,434
Related party obligation	968	1,062
Notes payable	585	727
Senior secured notes, net of discount	198,815	198,761
Senior subordinated notes, net of discount	43,762	43,491
Capital lease obligations	—	1,120
Deferred compensation payable	11,146	10,570
	<u>479,144</u>	<u>441,969</u>
Total liabilities	479,144	441,969
Members' deficit	(28,055)	(33,300)
	<u>451,089</u>	<u>408,669</u>
Total liabilities and members' deficit	\$ 451,089	\$ 408,669

See notes to consolidated financial statements.

H&E EQUIPMENT SERVICES L.L.C.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2005	2004 (Restated)	2005	2004 (Restated)
	(In thousands)		(In thousands)	
Revenues:				
Equipment rentals	\$ 45,576	\$ 39,094	\$ 86,167	\$ 74,646
New equipment sales	33,417	26,480	63,715	51,777
Used equipment sales	23,962	18,369	49,581	41,631
Parts sales	17,792	15,476	34,216	29,384
Service revenues	9,887	8,350	19,050	16,960
Other	7,096	5,922	13,551	11,249
Total revenues	137,730	113,691	266,280	225,647
Cost of Revenues:				
Rental depreciation	12,876	12,092	25,040	24,421
Rental expense	11,490	12,911	23,009	26,364
New equipment sales	29,557	23,732	56,020	46,354
Used equipment sales	17,922	14,751	37,718	33,567
Parts sales	12,698	11,053	24,133	21,025
Service revenues	3,747	3,169	6,993	6,451
Other	7,274	7,023	14,471	13,744
Total cost of revenues	95,564	84,731	187,384	171,926
Gross profit	42,166	28,960	78,896	53,721
Selling, general and administrative expenses	27,317	24,413	53,123	48,389
Gain (loss) on sale of property and equipment	(144)	80	(103)	107
Income from operations	14,705	4,627	25,670	5,439
Other Income (Expense):				
Interest expense	(10,321)	(9,788)	(20,425)	(19,675)
Other, net	80	57	170	84
Total other expense, net	(10,241)	(9,731)	(20,255)	(19,591)
Income (loss) before provision for income taxes	4,464	(5,104)	5,415	(14,152)
Provision for income taxes	171	—	171	—
Net income (loss)	\$ 4,293	\$ (5,104)	\$ 5,244	\$ (14,152)

See notes to consolidated financial statements.

H&E EQUIPMENT SERVICES L.L.C.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2005	2004 (Restated)
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	\$ 5,244	\$ (14,152)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation on property and equipment	2,399	1,733
Depreciation on rental equipment	25,041	24,421
Amortization of loan discounts and deferred financing costs	1,355	1,294
Amortization of other intangible assets	70	102
Provision for losses on accounts receivable	630	509
Provision for obsolescence	30	53
(Gain) loss on sale of property and equipment	102	(107)
Gain on sale of rental equipment	(10,386)	(7,153)
Changes in operating assets and liabilities:		
Receivables, net	(3,001)	(4,122)
Inventories, net	(26,182)	(14,302)
Prepaid expenses and other assets	(1,833)	(275)
Accounts payable	12,801	(4,196)
Accrued expenses payable and other liabilities	3,769	4,180
Deferred compensation payable	576	518
Net cash provided by (used in) operating activities	10,615	(11,497)
Cash flows from investing activities:		
Purchases of property and equipment	(4,159)	(1,747)
Purchases of rental equipment	(63,402)	(25,824)
Proceeds from sale of property and equipment	568	228
Proceeds from sale of rental equipment	39,450	31,621
Net cash (used in) provided by investing activities	(27,543)	4,278
Cash flows from financing activities:		
Borrowings on senior secured credit facility	284,316	232,705
Payments on senior secured credit facility	(263,200)	(222,077)
Payment of deferred financing costs	(10)	(887)
Payments of related party obligation	(150)	(150)
Principal payments on notes payable	(142)	(168)
Payments on capital lease obligations	(1,120)	(3,579)
Net cash provided by financing activities	19,694	5,844
Net increase (decrease) in cash	2,766	(1,375)
Cash, beginning of period	3,358	3,891
Cash, end of period	\$ 6,124	\$ 2,516

See notes to consolidated financial statements.

2005	2004 (Restated)
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(In thousands)

Supplemental schedule of noncash investing activities:

Assets transferred from new and used inventory to rental fleet	\$ 18,077	\$ 7,797
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Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest	\$ 19,731	\$ 19,000
Income taxes	171	—

As of June 30, 2005 and December 31, 2004, the Company had \$57.0 million and \$51.2 million, respectively, in manufacturer flooring plans payable outstanding, which were used to finance purchases of inventory and rental equipment.

See notes to consolidated financial statements.

H&E EQUIPMENT SERVICES L.L.C.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Nature of Operations

Basis of Presentation

H&E Equipment Services L.L.C. (H&E Equipment Services or the Company) is a wholly-owned subsidiary of H&E Holdings L.L.C. (H&E Holdings). H&E Holdings is principally a holding company conducting all of its operations through H&E Equipment Services. The consolidated financial statements include the results of operations of H&E Equipment Services and its wholly-owned subsidiaries H&E Finance Corp., GNE Investments, Inc. and Great Northern Equipment, Inc., collectively referred to herein as the Company.

The nature of the the Company's 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 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 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, enabling 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 used and new equipment sales, rental, parts sales and service operations.

The accompanying consolidated financial statements are unaudited and, in the opinion of management, such financial statements reflect all adjustments, consisting only of normal recurring adjustments necessary to present fairly the results of the interim periods presented. Interim financial statements do not require all disclosures normally presented in year-end financial statements prepared in accordance with accounting principles generally accepted in the United States, and, accordingly, certain disclosures have been omitted. Results of operations for the three-month and six month periods ended June 30, 2005 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. The information included in this report should be read in conjunction with the financial statements and related notes included in the Company's Form 10-K for the year ended December 31, 2004 filed with the Securities and Exchange Commission.

The Company prepares the financial statements in accordance with accounting principles generally accepted in the United States. In applying many accounting principles, management makes assumptions, estimates and/or judgments. These assumptions, estimates and/or judgments are often subjective and may change based on changing circumstances or changes in management's analysis. Material changes in these assumptions, estimates and/or judgments have the potential to materially alter the Company's results of operations.

2. Reclassifications and Restatements

Reclassifications

Certain amounts in the prior-period consolidated financial statements have been reclassified for comparative purposes to conform to the presentation in the current-period consolidated financial statements.

Restatements of Previously Issued Consolidated Financial Statements

Our previously issued consolidated financial statements as of and for the years ended December 31, 2002 and 2003 have been restated to correct errors related to the treatment of deferred taxes in connection with the Company's combination with ICM Equipment Company on June 17, 2002. For further discussion regarding the restatements, see footnote 20 of our Form 10-K for the fiscal year ended December 31, 2004. Following is a summary of the effects of the restatement adjustments and reclassifications on the Company's consolidated statement of operations for the three and six months ended June 30, 2004.

Consolidated Statements of Operations				
	As Previously Reported	Restatement Adjustments	Reclassification Adjustments	As Restated
Three Months Ended June 30, 2004				
Other revenues	5,959	—	(37)	5,922
Total revenues	113,728	—	(37)	113,691
Rental depreciation	12,014	78	—	12,092
Rental expense	12,933	—	(22)	12,911
New equipment cost of revenues	23,968	—	(236)	23,732
Used equipment cost of revenues	14,515	—	236	14,751
Other cost of revenues	5,389	—	1,634	7,023
Total cost of revenues	83,041	78	1,612	84,731
Selling, general and administration expenses	26,148	(86)	(1,649)	24,413
Income from operations	4,619	8	—	4,627
Loss before income taxes	(5,112)	8	—	(5,104)
Net loss	(5,112)	8	—	(5,104)
Six Months Ended June 30, 2004				
Other revenues	11,270	—	(21)	11,249
Total revenues	225,668	—	(21)	225,647
Rental depreciation	24,265	156	—	24,421
Rental expense	26,337	—	27	26,364
New equipment cost of revenues	46,842	—	(488)	46,354
Used equipment cost of revenues	33,079	—	488	33,567
Other cost of revenues	10,503	—	3,241	13,744
Total cost of revenues	168,502	156	3,268	171,926
Selling, general and administration expenses	51,850	(172)	(3,289)	48,389
Income from operations	5,423	16	—	5,439
Loss before income taxes	(14,168)	16	—	(14,152)
Net loss	(14,168)	16	—	(14,152)

3. Litigation

The Company is party to various litigation matters, in most cases (except for the legal proceeding referred to below) involving ordinary and routine claims incidental to the Company's business. The Company cannot estimate with certainty the ultimate legal and financial liability with respect to such pending matters (excluding the legal proceeding referred to below). However, management believes,

based on their examination of such matters, that the Company's ultimate liability will not have a material adverse effect on its business or financial condition.

In July 2000, one of our competitors, Sunbelt Rentals, Inc., brought claims against us in the General Court of Justice, Superior Court Division, State of North Carolina, County of Mecklenburg alleging, among other things, that in connection with our hiring of former employees of the plaintiff there occurred a breach of fiduciary duty, misappropriation of trade secrets, unfair trade practices and interference with prospective advantages. In May 2003, the Court ruled in favor of the plaintiff in the amount of \$17.4 million. Consequently, we recorded a \$17.4 million loss in 2003. We subsequently appealed the judgment. In conjunction with the appeal and in accordance with the Court's ruling, we issued an irrevocable standby letter of credit for \$19.8 million, representing the amount of the judgment plus \$2.4 million in anticipated statutory interest (8%) for the twenty-four months while the judgment is being appealed. Going forward, we intend to expense any statutory interest as interest expense in the statement of operations. Currently, we pay a 225 basis point fee on the amount available for issuance. Oral arguments took place on March 3, 2005, and the appeal was then submitted for the appellate court's decision. While we are appealing this judgment, we believe that even if there is a reduction in the amount of damages awarded to the plaintiff on appeal, the judgment could have a material adverse effect on our business or financial condition.

4. Senior Secured Credit Facility

During the first quarter of 2005, the Company entered into three amendments to its senior credit agreement dated June 17, 2002, governing its senior secured credit facility. The amendments accomplished the following:

- (a) increased the maximum annual property and equipment expenditures to \$8.5 million;
- (b) lowered interest rates according to a pricing grid based upon daily average excess availability for the immediately preceding fiscal month. We elect interest at either the Index Rate (the higher of the prime rate, as determined pursuant to the amended credit agreement, and the federal funds rate plus 50 basis points) plus the applicable revolver Index margin per annum or the applicable London Interbank Offered Rate, or LIBOR rate, plus the applicable revolver LIBOR margin per each calendar month. With daily average excess availability equal to or more than \$40 million, the LIBOR margin will be 2.25% and the Index margin will be .75%. If availability falls below \$40 million and equal to or more than \$25 million, the senior secured credit facility bears interest at a LIBOR margin of 2.50% and the Index margin will be 1.00%. If availability is less than \$25 million, the LIBOR margin will be 2.75% and the Index margin will be 1.25%. The commitment fee equal to .5% per annum in respect to undrawn commitments remains unchanged;
- (c) reduced the availability block on assets from \$30 million to \$15 million;
- (d) increased the advance rate on orderly liquidation value as defined in the senior secured credit agreement of rental assets from 75% to 80%; and
- (e) amended the requirement of delivery of audited financial statements for the fiscal year ended December 31, 2004 from March 31, 2005 to September 30, 2005.

The Company did not pay a loan amendment fee in exchange for execution of these amendments. As of June 30, 2005, we were in compliance with the financial covenants.

5. Segment Information

The Company has identified five reportable segments: equipment rentals, new equipment sales, used equipment sales, parts sales and service revenues. These segments are based upon how management 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. Selling, general, and administrative expenses and 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 unaudited information about the Company's reportable segments (in thousands):

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2005	2004 (Restated)	2005	2004 (Restated)
Revenues:				
Equipment rentals	\$ 45,576	\$ 39,094	\$ 86,167	\$ 74,646
New equipment sales	33,417	26,480	63,715	51,777
Used equipment sales	23,962	18,369	49,581	41,631
Parts sales	17,792	15,476	34,216	29,384
Service revenues	9,887	8,350	19,050	16,960
Other	7,096	5,922	13,551	11,249
Total revenues	\$ 137,730	\$ 113,691	\$ 266,280	\$ 225,647
Gross Profit:				
Equipment rentals	\$ 21,210	\$ 14,091	\$ 38,118	\$ 23,861
New equipment sales	3,860	2,748	7,695	5,423
Used equipment sales	6,040	3,618	11,863	8,064
Parts sales	5,094	4,423	10,083	8,359
Service revenues	6,140	5,181	12,057	10,509
Other	(178)	(1,101)	(920)	(2,495)
Total gross profit	\$ 42,166	\$ 28,960	\$ 78,896	\$ 53,721
			As of June 30,	As of December 31,
			2005	2004
Segment Identified Assets:				
Equipment sales, net		\$ 47,489	\$ 39,929	
Equipment rentals, net		271,004	243,630	
Parts sales and service revenues		18,002	16,882	
Total segment identified assets		336,495	300,441	
Non-segment identified assets		114,594	108,228	
Total assets		\$ 451,089	\$ 408,669	

The Company operates 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 annual sales on an overall basis for any of the periods presented.

6. Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123(R), "Share-Based Payment", which is a revision of SFAS No. 123 and supercedes APB Opinion No. 25. SFAS

No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be valued at fair value on the date of grant, and to be expensed over the applicable vesting period. SFAS No. 123(R) is effective for all stock-based awards granted on or after July 1, 2005. In addition, companies must also recognize compensation expense related to any awards that are not fully vested as of the effective date. Compensation expense for the unvested awards will be measured based on the fair value of the awards previously calculated in developing the pro forma disclosures in accordance with the provisions of SFAS No. 123. Historically, we have not used share-based compensation schemes for compensation our employees. Therefore, the adoption of SFAS No. 123(R) is not expected to have any impact on our reported results of operations upon adoption. However, should we determine to employ share-based compensation schemes in the future, SFAS No. 123(R) would have a currently indeterminate impact on us.

In May 2005, the FASB issued Statement No. 154, "Accounting Changes and Error Corrections" (SFAS 154). SFAS 154 replaces APB Opinion No. 20, "Accounting Changes" and FASB Statement No. 3, "Reporting Accounting Changes 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." The new standard is effective for accounting changes and correction of errors beginning July 1, 2005. The Company has incorporated the provisions of SFAS 154 in the presentation of our December 31, 2004 financial statements.

7. Impact of Recent Natural Disaster

The Company has four facilities located in the area most significantly affected by Hurricane Katrina and Rita. None of the facilities in the New Orleans, Louisiana area were forced to close for any extended period of time, and all of them are currently open and fully operational. Due to the most recent hurricane, we are in the process of returning the Lake Charles, Louisiana facility to a fully operational state. While the financial impact of Hurricane Katrina and Rita relating to these four facilities is not expected to be material to the Company, the Company remains in the process of assessing the potential overall impact of the hurricane on the Company's business.

8. Consolidating Financial Information of Guarantor Subsidiaries

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

The consolidating financial information of H&E Equipment Services and its subsidiaries are included below. The consolidating financial statements for H&E Finance Corp., the subsidiary co-issuer, is not presented because H&E Finance Corp. has no assets or operations.

CONSOLIDATING BALANCE SHEET

As of June 30, 2005

	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
(In thousands)				
ASSETS				
Cash	\$ 6,111	\$ 13	\$ —	\$ 6,124
Receivables, net	68,455	2,820	—	71,275
Inventories, net	59,689	5,195	—	64,884
Prepaid expenses and other assets	2,877	—	—	2,877
Rental equipment, net	256,667	14,337	—	271,004
Property and equipment, net	16,420	772	—	17,192
Deferred financing costs and other intangible assets, net	9,161	—	—	9,161
Investment in guarantor subsidiaries	5,737	—	(5,737)	—
Goodwill, net	8,572	—	—	8,572
Total assets	\$ 433,689	\$ 23,137	\$ (5,737)	\$ 451,089
LIABILITIES AND MEMBERS' (DEFICIT) EQUITY				
Liabilities:				
Amount due on senior secured credit facility	\$ 72,938	\$ 3,471	\$ —	\$ 76,409
Accounts payable	105,393	—	—	105,393
Accrued expenses payable and other liabilities	10,703	13,929	—	24,632
Inter-company balance	—	—	—	—
Accrued loss from litigation	17,434	—	—	17,434
Related party obligation	968	—	—	968
Notes payable	585	—	—	585
Senior secured notes, net of discount	198,815	—	—	198,815
Senior subordinated notes, net of discount	43,762	—	—	43,762
Capital lease obligations	—	—	—	—
Deferred compensation payable	11,146	—	—	11,146
Total liabilities	461,744	17,400	—	479,144
Members' (deficit) equity	(28,055)	5,737	(5,737)	(28,055)
Total liabilities and members' (deficit) equity	\$ 433,689	\$ 23,137	\$ (5,737)	\$ 451,089

CONSOLIDATING BALANCE SHEET

As of December 31, 2004

	<u>H&E Equipment Services</u>	<u>Guarantor Subsidiaries</u>	<u>Elimination</u>	<u>Consolidated</u>
	(In thousands)			
ASSETS				
Cash	\$ 3,334	\$ 24	\$ —	\$ 3,358
Receivables, net	66,434	2,468	—	68,902
Inventories, net	52,641	4,170	—	56,811
Prepaid expenses and other assets	1,044	—	—	1,044
Rental equipment, net	231,330	12,300	—	243,630
Property and equipment, net	15,615	486	—	16,101
Deferred financing costs, net	10,251	—	—	10,251
Investment in guarantor subsidiaries	5,238	—	(5,238)	—
Goodwill, net	8,572	—	—	8,572
Total assets	\$ 394,459	\$ 19,448	\$ (5,238)	\$ 408,669
LIABILITIES AND MEMBERS' (DEFICIT) EQUITY				
Liabilities:				
Amount due on senior secured credit facility	\$ 51,822	\$ 3,471	\$ —	\$ 55,293
Accounts payable	92,592	—	—	92,592
Accrued expenses payable and other liabilities	20,804	115	—	20,919
Intercompany balance	(10,624)	10,624	—	—
Accrued loss from litigation	17,434	—	—	17,434
Related party obligation	1,062	—	—	1,062
Notes payable	727	—	—	727
Senior secured notes, net of discount	198,761	—	—	198,761
Senior subordinated notes, net of discount	43,491	—	—	43,491
Capital lease obligations	1,120	—	—	1,120
Deferred compensation payable	10,570	—	—	10,570
Total liabilities	427,759	14,210	—	441,969
Members' (deficit) equity	(33,300)	5,238	(5,238)	(33,300)
Total liabilities and members' (deficit) equity	\$ 394,459	\$ 19,448	\$ (5,238)	\$ 408,669

CONSOLIDATING STATEMENT OF OPERATIONS

Three Months Ended June 30, 2005

	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(In thousands)			
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 revenues	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 revenues	3,648	99	—	3,747
Other	6,960	314	—	7,274
Total cost of revenues	90,820	4,744	—	95,564
Gross profit	39,894	2,272	—	42,166
Selling, general and administrative expenses	25,854	1,463	—	27,317
Loss on sale of property and equipment	(144)	—	—	(144)
Equity in earnings of guarantor subsidiaries	513	—	(513)	—
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

CONSOLIDATING STATEMENT OF OPERATIONS

Three Months Ended June 30, 2004 (Restated)

	Parent	Guarantor Subsidiaries	Elimination	Consolidated
	(In thousands)			
Revenues:				
Equipment rentals	\$ 37,552	\$ 1,542	\$ —	\$ 39,094
New equipment sales	25,402	1,078	—	26,480
Used equipment sales	17,274	1,095	—	18,369
Parts sales	15,002	474	—	15,476
Service revenues	8,050	300	—	8,350
Other	5,735	187	—	5,922
Total revenues	109,015	4,676	—	113,691
Cost of Revenues:				
Rental depreciation	11,598	494	—	12,092
Rental expense	12,604	307	—	12,911
New equipment sales	22,793	939	—	23,732
Used equipment sales	13,941	810	—	14,751
Parts sales	10,722	331	—	11,053
Service revenues	3,073	96	—	3,169
Other	6,741	282	—	7,023
Total cost of revenues	81,472	3,259	—	84,731
Gross profit	27,543	1,417	—	28,960
Selling, general and administrative expenses	23,454	959	—	24,413
Gain on sale of property and equipment	72	8	—	80
Equity in earnings of guarantor subsidiaries	237	—	(237)	
Income from operations	4,398	466	(237)	4,627
Other income (expense):				
Interest expense	(9,559)	(229)	—	(9,788)
Other, net	57		—	57
Total other expense, net	(9,502)	(229)	—	(9,731)
Net (loss) income	\$ (5,104)	\$ 237	\$ (237)	\$ (5,104)

CONSOLIDATING STATEMENT OF OPERATIONS

Six Months Ended June 30, 2005

	<u>H&E Equipment Services</u>	<u>Guarantor Subsidiaries</u>	<u>Elimination</u>	<u>Consolidated</u>
	(In thousands)			
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 revenues	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 revenues	6,814	179	—	6,993
Other	13,892	579	—	14,471
Total cost of revenues	179,399	7,985	—	187,384
Gross profit	75,307	3,589	—	78,896
Selling, general and administrative expenses	50,572	2,551	—	53,123
Gain (loss) on sale of property and equipment	(112)	9	—	(103)
Equity in earnings of guarantor subsidiaries	499	—	(499)	—
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

CONSOLIDATING STATEMENT OF OPERATIONS

Six Months Ended June 30, 2004 (Restated)

	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(In thousands)			
Revenues:				
Equipment rentals	\$ 72,051	\$ 2,595	\$ —	\$ 74,646
New equipment sales	50,020	1,757	—	51,777
Used equipment sales	39,062	2,569	—	41,631
Parts sales	28,611	773	—	29,384
Service revenues	16,415	545	—	16,960
Other	10,934	315	—	11,249
Total revenues	217,093	8,554	—	225,647
Cost of Revenues:				
Rental depreciation	23,496	925	—	24,421
Rental expense	25,783	581	—	26,364
New equipment sales	44,829	1,525	—	46,354
Used equipment sales	31,655	1,912	—	33,567
Parts sales	20,497	528	—	21,025
Service revenues	6,283	168	—	6,451
Other	13,163	581	—	13,744
Total cost of revenues	165,706	6,220	—	171,926
Gross profit	51,387	2,334	—	53,721
Selling, general and administrative expenses	46,421	1,968	—	48,389
Gain on sale of property and equipment	98	9	—	107
Deficit in earnings of guarantor subsidiaries	(52)	—	52	—
Income from operations	5,012	375	52	5,439
Other Income (Expense):				
Interest expense	(19,235)	(440)	—	(19,675)
Other, net	71	13	—	84
Total other expense, net	(19,164)	(427)	—	(19,591)
Net (loss) income	\$ (14,152)	\$ (52)	\$ 52	\$ (14,152)

CONSOLIDATING STATEMENT OF CASH FLOWS

Six Months Ended June 30, 2005

	<u>H&E Equipment Services</u>	<u>Guarantor Subsidiaries</u>	<u>Elimination</u>	<u>Consolidated</u>
	(In thousands)			
Cash flows from operating activities:				
Net income	\$ 5,244	\$ 499	\$ (499)	\$ 5,244
Adjustment to reconcile net income to net cash (used in) 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 loan discounts and deferred financing costs	1,355	—	—	1,355
Amortization of other intangible assets	70	—	—	70
Provision for losses on accounts receivable	540	90	—	630
Provision for obsolescence	30	—	—	30
(Gain) loss 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	12,801	—	—	12,801
Accrued expenses payable and other liabilities	3,672	97	—	3,769
Intercompany balance	(3,093)	3,093	—	—
Deferred compensation payable	576	—	—	576
Net cash provided by 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 (used in) 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)
Payments of related party obligation	(150)	—	—	(150)
Principal payments on 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

CONSOLIDATING STATEMENT OF CASH FLOWS

Six Months Ended June 30, 2004 (Restated)

	<u>Parent</u>	<u>Guarantor Subsidiaries</u>	<u>Elimination</u>	<u>Consolidated</u>
	(In thousands)			
Cash flows from operating activities:				
Net loss	\$ (14,152)	\$ (52)	\$ 52	\$ (14,152)
Adjustment to reconcile net loss to net cash provided by operating activities:				
Depreciation on property and equipment	1,667	66	—	1,733
Depreciation on rental equipment	23,496	925	—	24,421
Amortization of loan discounts and deferred financing costs	1,294	—	—	1,294
Amortization of other intangibles	102	—	—	102
Provision for losses on accounts receivable	470	39	—	509
Provision for obsolescence	53	—	—	53
Gain on sale of property and equipment	(98)	(9)	—	(107)
Gain on sale of rental equipment	(6,542)	(611)	—	(7,153)
Deficit in earnings of guarantor subsidiaries	52	—	(52)	—
Changes in operating assets and liabilities:				
Receivables, net	(3,207)	(915)	—	(4,122)
Inventories, net	(13,505)	(797)	—	(14,302)
Prepaid expenses and other assets	(275)	—	—	(275)
Accounts payable	(4,196)	—	—	(4,196)
Accrued expenses payable and other liabilities	4,167	13	—	4,180
Intercompany balance	(5,053)	5,053	—	—
Accrued loss from litigation	—	—	—	—
Deferred compensation payable	518	—	—	518
Net cash (used in) provided by operating activities	<u>(15,209)</u>	<u>3,712</u>	<u>—</u>	<u>(11,497)</u>
Cash flows from investing activities:				
Purchases of property and equipment	(1,508)	(239)	—	(1,747)
Purchases of rental equipment	(20,428)	(5,396)	—	(25,824)
Proceeds from sale of property and equipment	218	10	—	228
Proceeds from sale of rental equipment	29,325	2,296	—	31,621
Net cash provided by (used in) investing activities:	<u>7,607</u>	<u>(3,329)</u>	<u>—</u>	<u>4,278</u>
Cash flows from financing activities:				
Borrowings on senior secured credit facility	232,705	—	—	232,705
Payments on senior secured credit facility	(221,675)	(402)	—	(222,077)
Payment of deferred financing costs	(887)	—	—	(887)
Payments on related party obligation	(150)	—	—	(150)
Principal payments on notes payable	(168)	—	—	(168)
Payments on capital lease obligations	(3,579)	—	—	(3,579)
Net cash provided by (used in) financing activities	<u>6,246</u>	<u>(402)</u>	<u>—</u>	<u>5,844</u>
Net increase (decrease) in cash	(1,356)	(19)	—	(1,375)
Cash, beginning of period	3,868	23	—	3,891
Cash, end of period	<u>\$ 2,512</u>	<u>\$ 4</u>	<u>\$ —</u>	<u>\$ 2,516</u>

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion reviews our operations for the three and six months ended June 30, 2005 and 2004 and should be read in conjunction with the unaudited consolidated financial statements and related notes included herein. The following discussion and analysis should be read in conjunction with the financial statements and management's discussion and analysis of financial condition and results of operations included in our Form 10-K for the year ended December 31, 2004 filed with the Securities and Exchange Commission. The following discussion contains, in addition to historical information, forward-looking statements that include risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under the heading "Forward-Looking Statements."

As more fully described in the notes to our consolidated financial statements, we have restated our previously issued consolidated financial statements to primarily correct our accounting treatment of deferred taxes in connection with our combination with ICM Equipment Company on June 17, 2002. All financial information contained herein has been revised to reflect the restatements.

Overview

Background

As one of the largest integrated equipment services companies in the United States focused on heavy construction and industrial equipment, we rent, sell and provide parts and service support for four core categories of specialized equipment: (1) hi-lift or aerial work platform equipment, (2) cranes, (3) earthmoving equipment and (4) industrial lift trucks. By providing equipment rental, sales, on-site parts, 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.

We operate 41 full service facilities throughout the Intermountain, Southwest, Gulf 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 44 years. We were formed in June 2002 through the combination of Head & Engquist Equipment, L.L.C. (H&E) (a wholly-owned subsidiary of Gulf Wide Industries, L.L.C.) and ICM Equipment Company L.L.C. (ICM). H&E, founded in 1961, and ICM, founded in 1971, were two leading regional, integrated rental, sales and equipment service companies operating in contiguous geographic markets. H&E and ICM were merged with and into H&E's parent company, Gulf Wide Industries, L.L.C., which was renamed H&E Equipment Services L.L.C. Prior to the combination, H&E operated 25 facilities in the Gulf Coast region, and ICM operated 16 facilities in the Intermountain region of the United States.

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) services. These segments are based upon how we allocate resources and assess performance. In addition, we also have non-segmented other revenues and costs that relate to equipment support activities.

- *Equipment Rentals.* Our rental operations primarily rent 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 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. We have approximately 521 highly skilled service technicians.

Our non-segmented other 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.

Revenue Sources

Total Revenues. 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, 2005, approximately 32.4% of our total revenues were attributable to equipment rentals, 23.9% of our total revenues were attributable to new equipment sales, 18.6% were attributable to used equipment sales, 12.8% were attributable to parts sales, 7.2% were attributable to our service revenues and 5.1% 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. 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 to monitor 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 new equipment customers and selective purchases of high-quality used equipment. 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 not as 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.

Service Revenues. We derive our service 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. These preventative maintenance services accounted for approximately 11% of our services revenues for the three months ended June 30, 2005. Our after-market service provides a high-margin, relatively stable source of revenue through changing economic cycles. We recognize service revenues at the time services are rendered.

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

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 expense, rental depreciation and costs associated with parts sales and services, which are all included in costs of revenues. For the six months ended June 30, 2005, our total cost of revenues was approximately \$187.4 million. Our operating expenses consist principally of selling, general and administrative expenses. For the six months ended June 30, 2005, our operating expenses were approximately \$53.1 million. In addition, we have interest expense related to our debt instruments. Operating expenses and all other income and expense items below gross profit 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, the Company depreciates cranes and aerial work platforms over a ten year useful life, earthmoving over a five year useful life with a 25% salvage value and industrial lift trucks over a seven year useful life. Attachments and other smaller type equipment are fully depreciated over a three year 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, 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. 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. Costs associated with providing transportation, hauling, parts freight, and damage waiver including, among other things, 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 credit facility, senior secured notes due 2012, senior subordinated notes due 2013 and statutory interest on the judgment from the Court in the Sunbelt Rentals, Inc. litigation.

Principal Cash Flows

We generate cash primarily from our operating activities, and historically, we have used cash flows from operating activities and our revolving credit facility as the primary sources of funds to purchase our inventory and fund working capital and capital expenditures.

Rental Fleet

A significant portion of our overall value is in our rental fleet equipment. Our rental fleet (including rental equipment financed with operating leases) as of June 30, 2005, consists of 13,726 units having an original acquisition cost (which is the cost originally paid to manufacturers or the original amount financed under operating leases) of approximately \$486.1 million and an average age of 42.4 months.

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. While we minimally increased the size of our rental fleet over the last twelve months, 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, 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, which are discussed below and under the headings "Forward-Looking Statements."

- *Spending levels by customers.* Rental 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. 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 to us of downturns in a particular segment. For a discussion of seasonality, see "Seasonality."

Critical Accounting Policies; Use of Estimates

We prepare our financial statements in accordance with accounting principles generally accepted in the United States. In applying many accounting principles, we need to make assumptions, estimates

and/or judgments that affect the reported amounts of assets, liabilities, revenues and expenses in our consolidated financial statements. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable under the circumstances. These assumptions, estimates and/or judgments, however, are often subjective and they and our actual results may change based on changing circumstances or changes in our analyses. If actual amounts are ultimately different from our estimates, the revisions are included in our results of operations for the period in which the actual amounts become known. We believe the following critical accounting policies could potentially produce materially different results if we were to change underlying assumptions, estimates and/or judgments. (See our notes to our consolidated financial statements for a summary of our significant accounting policies.)

Revenue Recognition. Our revenue recognition varies by segment. Our policy is to recognize revenue from equipment rentals in the period earned, over the contract term, regardless of the timing of the billing to customers. A rental contract term can be daily, weekly or monthly. Because the term of the contracts can extend across financial reporting periods, we record unbilled rental revenue and deferred rental revenue at the end of reporting periods so rental revenue is appropriately reported in the periods presented. We recognize revenue from new equipment sales, used equipment sales and 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. We recognize services revenues at the time services are rendered. We recognize other revenues for support services at the time we generate an invoice including the charge for such services.

Allowance for Doubtful Accounts. We maintain an allowance for doubtful accounts that reflects our estimate of the amount of our receivables that we will be unable to collect. Our largest exposure to doubtful accounts is in our rental operations. We perform credit evaluations of customers and establish credit limits based on reviews of current credit information and payment histories. Our credit risk is mitigated by our geographically diverse customer base and our credit evaluation procedures. The rate of future credit losses, however, may not be similar to past experience. Our estimate of doubtful accounts could change based on changing circumstances, including changes in the economy or in the particular circumstances of individual customers. Accordingly, we may be required to increase or decrease our allowance.

Useful Lives of Rental Equipment and Property and Equipment. We depreciate rental equipment and property and equipment over their estimated useful lives (generally three to ten years), after giving effect to an estimated salvage value of 0% to 25% of cost. The useful life of an asset is determined based on our estimate of the period the asset will generate revenues, and the salvage value is determined based on our estimate of the minimum value we could realize from the asset after such period. We routinely review the assumptions utilized in computing rates of depreciation of our rental equipment and property and equipment. We may be required to change these estimates based on changes in our industry or other changing circumstances. If these estimates change in the future, we may be required to recognize increased or decreased depreciation expense for these assets.

Impairment of Long-Lived Assets. Long-lived assets are recorded at the lower of amortized cost or fair value. We review long-lived assets and certain identifiable intangibles for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted cash flows expected to be generated by the asset over the remaining useful life. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Inventories. We state our new and used equipment inventories at the lower of cost or market, with cost determined by specific identification. Parts and supplies are stated on the lower of the weighted average cost or market. We maintain allowances for damaged, slow-moving and unmarketable

inventory to reflect the difference between the cost of the inventory and the estimated market value. Changes in product demand may affect the value of inventory on hand and may require higher inventory allowances. Uncertainties with respect to inventory valuation are inherent in the preparation of financial statements.

Results of Operations

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

Three months ended June 30, 2005 compared to three months ended June 30, 2004 (restated)

Revenues

	Three Months Ended June 30,		Total Dollar Change	Total Percent Change
	2005	2004 (Restated)		
<i>Segment Revenues:</i>				
Equipment rentals	\$ 45.6	\$ 39.1	\$ 6.5	16.6%
New equipment sales	33.4	26.5	6.9	26.0
Used equipment sales	23.9	18.4	5.5	29.9
Parts sales	17.8	15.5	2.3	14.8
Service revenues	9.9	8.3	1.6	19.3
Non-segmented revenues	7.1	5.9	1.2	20.3
Total revenues	\$ 137.7	\$ 113.7	\$ 24.0	21.1%

Total Revenues. Our second quarter 2005 total revenues were \$137.7 million compared to \$113.7 million in the second quarter of 2004, a \$24.0 million or 21.1% increase. Revenues increased for all reportable segments as a result of increased customer demand for our products and services.

Equipment Rentals. Our revenues from equipment rentals increased \$6.5 million, or 16.6%, to \$45.6 million for the second quarter of 2005 from \$39.1 million for the second quarter of 2004. The increase is primarily a result of improved rental rates and higher time utilization. As a result of increased customer demand, rental revenues increased in all four core product lines with the primary increase attributable to aerial work platforms and cranes. Aerial work platform rental revenues increased \$4.4 million quarter over quarter, and crane rental revenues increased \$0.9 million quarter over quarter. Rental equipment dollar utilization (quarterly rental revenues annualized, divided by the average quarterly original rental fleet equipment cost of \$476.9 million and \$481.2 million for 2005 and 2004, respectively) was approximately 38.2% for the second quarter of 2005 compared to 32.5% for the second quarter of 2004.

New Equipment Sales. Our new equipment sales increased \$6.9 million, or 26.0%, to \$33.4 million for the second quarter of 2005 from \$26.5 million for the second quarter of 2004. During the second quarter of 2005, sales of new cranes increased \$2.8 million, aerial work platforms increased \$1.4 million and sales of new earthmoving increased \$3.3 million. Increases in these core products were offset by a \$0.6 million decline in new lift truck sales.

Used Equipment Sales. Our used equipment sales increased \$5.5 million, or 29.9%, to \$23.9 million for the second quarter of 2005 from \$18.4 million for the second quarter of 2004. In the second quarter of 2005, we sold our used equipment at approximately 133.7% of net book value compared to 124.5% of net book value in the second quarter of 2004. With extended manufacturer lead times for new equipment, the demand for well-maintained, used equipment has increased.

Parts Sales. Our parts sales increased \$2.3 million, or 14.8%, to \$17.8 million for the second quarter of 2005 from \$15.5 million for the second quarter of 2004. The increase was primarily attributable to increased customer demand for parts.

Service Revenues. Our service revenues increased \$1.6 million or 19.3%, to \$9.9 million in the second quarter of 2005 from \$8.3 million in the second quarter of 2004 primarily attributable to increased 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. Our other revenues increased \$1.2 million, or 20.3%, during the second quarter of 2005. These support activities increased due primarily to the increases in charge-out rates and in our primary business activities.

Gross profit

	Three Months Ended June 30,		Total Dollar Change	Total Percent Change
	2005	2004 (Restated)		
<i>Segmented Gross Profit:</i>				
Equipment rentals	\$ 21.2	\$ 14.1	\$ 7.1	50.4%
New equipment sales	3.9	2.7	1.2	44.4
Used equipment sales	6.0	3.6	2.4	66.7
Parts sales	5.1	4.4	0.7	15.9
Service revenues	6.1	5.2	0.9	17.3
Non-segmented gross profit	(0.2)	(1.1)	0.9	(81.8)
Total gross profit	\$ 42.1	\$ 28.9	\$ 13.2	45.7%

Total Gross Profit. Our second quarter of 2005 total gross profit was \$42.1 million compared to \$28.9 million in the second quarter of 2004, a \$13.2 million, or 45.7% increase. Gross profit increased primarily as a result of the increase in rental revenues. 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 the second quarter of 2005 was 30.6% up from 25.4% for the second quarter of 2004. Our gross profit was attributable to:

Equipment Rentals Gross Profit. Our equipment rentals gross profit increased \$7.1 million, or 50.4%, to \$21.2 million for the second quarter of 2005 from \$14.1 million for the second quarter of 2004. The increase is primarily a result of a \$6.5 million increase in rental revenue combined with a \$0.6 million net decrease in rental depreciation and rental expenses.

Depreciation expense on our rental fleet equipment is recorded in equipment rentals cost of revenues. Total rental fleet depreciation expense increased approximately \$0.9 million as a result of having increased the total rental fleet. For the second quarter of 2005, our maintenance and repair expense decreased approximately \$0.6 million, and other rental expenses, including property taxes and operating lease expense, decreased approximately \$0.9 million.

New Equipment Sales Gross Profit. Our new equipment sales gross profit increased \$1.2 million, or 44.4%, to \$3.9 million for the second quarter of 2005 from \$2.7 million for the second quarter of 2004. The increase in new equipment sales gross profit is attributable primarily to higher new equipment sales revenues, improved margins and the mix of equipment sold.

Used Equipment Sales Gross Profit. Our used equipment sales gross profit increased \$2.4 million, or 66.7%, to \$6.0 million for the second quarter of 2005 from \$3.6 million for the second quarter of 2004. The increase in used equipment sales gross profit was primarily the result of higher used equipment sales, improved margins and the mix of equipment sold.

Parts Sales Gross Profit. Our parts sales gross profit increased \$0.7 million, or 15.9%, to \$5.1 million for the second quarter of 2005 from \$4.4 million for the second quarter of 2004. The increase was attributable primarily to increased customer demand for parts sales.

Service Revenues Gross Profit. Our service revenues gross profit increased \$0.9 million, or 17.3%, to \$6.1 million from \$5.2 million in 2004. The increase was primarily attributable to increased customer demand for service support.

Selling, General and Administrative Expenses. Selling, general and administrative (SG&A) expenses increased \$2.8 million, or 11.4%, to \$27.3 million for the second quarter of 2005 from \$24.5 million for the second quarter of 2004. Approximately \$2.1 million of the total increase was related to higher sales commissions, performance incentives, benefits and professional services. As a percent of total revenues, SG&A expenses were 19.8% for the second quarter of 2005 down from 21.5% for the second quarter of 2004.

Income Taxes. We are a limited liability company and have elected to be treated as a C Corporation for income tax purposes. At the end of the second quarter of 2005 and 2004, we have 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 we have incurred and our belief that it is more likely than not that we will be unable to recover the net deferred income tax assets.

Six months ended June 30, 2005 compared to six months ended June 30, 2004 (restated)

Revenues

	Six Months Ended June 30,		Total Dollar Change	Total Percent Change
	2005	2004 (Restated)		
<i>Segment Revenues:</i>				
Equipment rentals	\$ 86.2	\$ 74.6	\$ 11.6	15.5%
New equipment sales	63.7	51.8	11.9	23.0
Used equipment sales	49.6	41.6	8.0	19.2
Parts sales	34.2	29.4	4.8	16.3
Service revenues	19.1	17.0	2.1	12.4
Non-segmented revenues	13.5	11.2	2.3	20.5
 Total revenues	 \$ 266.3	 \$ 225.6	 \$ 40.7	 18.0%

Total Revenues. Our total revenues for the first six months of 2005 were \$266.3 million compared to \$225.6 million for the first six months of 2004, a \$40.7 million, or 18.0% increase. Revenues increased for all reportable segments as a result of increased customer demand for our products and services.

Equipment Rentals. Our revenues from equipment rentals increased \$11.6 million, or 15.5%, to \$86.2 million for the first six months of 2005 from \$74.6 million for the first six months of 2004. The increase is primarily a result of improved rental rates and higher time utilization. Rental revenues increased in all four core product lines with the primary increase attributable to aerial work platforms, cranes, and lift trucks. Revenues from aerial work platforms increased \$8.9 million, cranes increased \$1.2 million and lift trucks increased \$0.9 million. The remaining increase in rental revenues related to

earthmoving and miscellaneous product lines. Rental equipment dollar utilization (quarterly rental revenues annualized, divided by the average quarterly original rental fleet equipment cost of \$469.5 million and \$481.4 million for 2005 and 2004, respectively) was approximately 36.7% for the first six months of 2005 compared to 31.0% for the first six months of 2004.

New Equipment Sales. Our new equipment sales increased \$11.9 million, or 23.0%, to \$63.7 million for the first six months of 2005 from \$51.8 million for the first six months of 2004. During the first six months of 2005, sales of new aerial work platforms increased \$3.8 million while new equipment sales of earthmoving increased \$4.1 million, new equipment crane sales increased \$1.6 million and new lift trucks sales increased \$1.1 million. Other new equipment sales also increased.

Used Equipment Sales. Our used equipment sales increased \$8.0 million, or 19.2%, to \$49.6 million for the first six months of 2005 from \$41.6 million for the first six months of 2004. In the first six months of 2005, we sold our used equipment at approximately 131.5% of net book value compared to 124.0% of net book value in the first six months of 2004. With extended manufacturer lead times for new equipment, the demand for well-maintained, used equipment has increased.

Parts Sales. Our parts sales increased \$4.8 million, or 16.3%, to \$34.2 million for the first six months of 2005 from \$29.4 million for the first six months of 2004. The increase was primarily attributable to increased customer demand for parts.

Service Revenues. Our service revenues increased \$2.1 million or 12.4%, to \$19.1 million in the first six months of 2005 from \$17.0 million in the first six months of 2004 primarily attributable to increased 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. Our other revenues increased \$2.3 million, or 20.5%, during the first six months of 2005. These support activities increased due to the increases in charge-out rates and in our primary business activities.

Gross profit

	Six Months Ended June 30,		Total Dollar Change	Total Percent Change
	2005	2004 (Restated)		
<i>Segmented Gross Profit:</i>				
Equipment rentals	\$ 38.1	\$ 23.9	\$ 14.2	59.4%
New equipment sales	7.7	5.4	2.3	42.6
Used equipment sales	11.9	8.1	3.8	46.9
Parts sales	10.1	8.3	1.8	21.7
Service revenues	12.1	10.5	1.6	15.2
Non-segmented gross profit	(1.0)	(2.5)	1.5	(60.0)
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Total gross profit	\$ 78.9	\$ 53.7	\$ 25.2	46.9%
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Total Gross Profit. Our first six months of 2005 total gross profit was \$78.9 million compared to \$53.7 million in the first six months of 2004, a \$25.2 million, or 46.9% increase. Gross profit increased primarily as a result of the increase in 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 the first six

months of 2005 was 29.6% up from 23.8% for the first six months of 2004. Our gross profit was attributable to:

Equipment Rentals Gross Profit. Our equipment rentals gross profit increased \$14.2 million, or 59.4%, to \$38.1 million for the first six months of 2005 from \$23.9 million for the first six months of 2004. The increase is primarily a result of a \$11.6 million increase in rental revenue combined with a combined \$3.3 million decrease in rental expense.

Depreciation expense on our rental fleet equipment is recorded in equipment rentals cost of revenues. Total rental fleet depreciation expense increased approximately \$0.7 million as a result of having increased the total rental fleet. For the first six months of 2005, our maintenance and repair expense decreased approximately \$1.5 million, and other miscellaneous rental expenses, including property taxes and operating lease expense, decreased approximately \$1.8 million.

New Equipment Sales Gross Profit. Our new equipment sales gross profit increased \$2.3 million, or 42.6%, to \$7.7 million for the first six months of 2005 from \$5.4 million for the first six months of 2004. The increase in new equipment sales gross profit is attributable primarily to higher new equipment sales revenues, improved margins and the mix of equipment sold.

Used Equipment Sales Gross Profit. Our used equipment sales gross profit increased \$3.8 million, or 46.9%, to \$11.9 million for the first six months of 2005 from \$8.1 million for the first six months of 2004. The increase in used equipment sales gross profit was primarily the result of higher used equipment sales, improved margins and the mix of equipment sold.

Parts Sales Gross Profit. Our parts sales gross profit increased \$1.8 million, or 21.7%, to \$10.1 million for the first six months of 2005 from \$8.3 million for the first six months of 2004. The increase was attributable primarily to increased customer demand for parts sales.

Service Revenues Gross Profit. Our service revenues gross profit increased \$1.6 million, or 15.2%, to \$12.1 million from \$10.5 million in 2004. The increase was primarily attributable to increased customer demand for service support.

Selling, General and Administrative Expenses. Selling, general and administrative (SG&A) expenses increased \$4.7 million, or 9.7%, to \$53.1 million for the first six months of 2005 from \$48.4 million for the first six months of 2004. Approximately \$3.3 million of the total increase was related to higher sales commissions, performance incentives, benefits and professional services. As a percent of sales, SG&A expenses were 19.9% for the first six months of 2005 down from 21.4% for the first six months of 2004.

Income Taxes. We are a limited liability company and have elected to be treated as a C Corporation for income tax purposes. At the end of the second quarter of 2005 and 2004, we have 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 we have incurred and our belief that it is more likely than not that we will be unable to recover the net deferred income tax assets.

Liquidity and Capital Resources

Cash flow from operating activities. For the six months ended June 30, 2005, our cash flows provided by operating activities was \$10.6 million. Our cash flows from operations were primarily attributed to our reported net income of \$5.2 million which, when adjusted for non-cash expense items, such as depreciation and amortization and gains on sale of long-lived assets, provided cash flow of \$24.5 million. This amount was principally 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 retail sales and assets of \$1.8 million. The increase in our inventories relates to maintaining proper inventory levels for transfers to the rental fleet to facilitate our capital expenditures. Receivables increased primarily as a result of an increase in sales. Prepaid expenses and other assets increased primarily due to timing of our payments

for insurance premiums and other annual expenses. Positively impacting our cash flows from operations was an increase in accounts payable of \$12.8 million primarily related to equipment purchases. In addition, an increase in accrued expenses and other liabilities of \$3.8 million provided cash from operations primarily due to timing of payments of accrued wages, benefits, interest and property taxes.

For the six months ended June 30, 2004, our cash used in operating activities was \$11.5 million. Our cash flows from operating activities were primarily attributed to our reported loss of \$14.2 million which, when adjusted for non-cash expense items, such as depreciation and amortization, and gains on sale of long-lived assets provided positive cash flows of \$6.6 million. Other uses of operating cash flow was an increase in receivables of \$4.1 million, an increase in inventories of \$14.2 million, and a decrease in accounts payable of \$4.2 million. This amount was offset by an \$4.2 million increase in accrued expenses.

Cash flow from investing activities. For the six months ended 2005, cash used by our investing activities was \$27.5 million. This is a result of purchases of \$67.5 million in rental and non-rental equipment offset by proceeds from sale of rental and non-rental equipment of \$40.0 million. For the six months ended 2004, cash provided by our investing activities was \$4.3 million. This is a result of proceeds from sale of rental and non-rental equipment of \$31.8 million offset by \$27.5 million purchases of rental and non-rental equipment.

Cash flow from financing activities. For the six months ended 2005, cash provided by our financing activities was \$19.7 million. Our total borrowings under the amended senior secured credit facility were \$284.3 million and total payments under the amended senior secured credit facility were \$263.2 million. Payments on capital leases and other notes were \$1.3 million. For the six months ended 2004, cash provided by financing activities was \$5.8 million. Our total borrowings under the amended senior secured credit facility were \$232.7 million and total payments under the amended senior secured credit facility were \$222.1 million. Payments on capital leases and other notes were \$3.7 million.

Senior Secured Credit Facility Amendments

During the first quarter of 2005, we amended the senior secured credit agreement on January 13, 2005 to increase capital expenditures on property and equipment from \$5.0 million to \$8.5 million during any fiscal year. On March 11, 2005, we amended the senior secured credit agreement which principally:

- lowered interest rates according to a pricing grid based upon daily average excess availability for the immediately preceding fiscal month. We elect interest at either the Index Rate (the higher of the prime rate, as determined pursuant to the amended credit agreement, and the federal funds rate plus 50 basis points) plus the applicable revolver Index margin per annum or the applicable London Interbank Offered Rate, or LIBOR rate, plus the applicable revolver LIBOR margin per each calendar month. With daily average excess availability equal to or more than \$40 million, the LIBOR margin will be 2.25% and the Index margin will be .75%. If availability falls below \$40 million and equal to or more than \$25 million, the senior secured credit facility bears interest at a LIBOR margin of 2.50% and the Index margin will be 1.00%. If availability is less than \$25 million, the LIBOR margin will be 2.75% and the Index margin will be 1.25%. The commitment fee equal to .5% per annum in respect to undrawn commitments remains unchanged;
- reduced the block on availability of assets from \$30 million to \$15 million; and
- increased the advance rate on rental fleet assets from 75% to 80% of orderly liquidation value as defined in the senior secured credit agreement.

On March 29, 2005, we again amended the annual requirement of delivery of audited financial statements for the fiscal year ended December 31, 2004 from March 31, 2005 to September 30, 2005. The Company did not pay a loan amendment fee for the amendments entered into during the first

quarter of 2005. As of June 30, 2005, we were in compliance with the financial covenants in place at that time.

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. As of June 30, 2005, the total balance outstanding on the amended senior secured credit facility was \$76.4 million with \$45.9 million available in additional borrowings, net of \$27.7 million in standby letters of credit. Also on June 30, 2005, our total balance payable on notes payable were \$0.6 million.

Our principal uses of cash have been to fund operating activities and working capital, finance the purchase of rental fleet equipment, fund payments due under operating leases and manufacturer flooring plans payable, and to meet debt service requirements. In the future, we may also pursue strategic acquisitions. We anticipate that these uses will be the principal demands on our cash in the foreseeable future.

The amount of our future capital expenditures will depend on a number of factors including general economic conditions and growth prospects. We anticipate that we will fund rental fleet capital expenditures with the proceeds from the sales of new, used and rental fleet equipment, cash 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.

To service our debt, we will require a significant amount of cash. Our ability to pay interest and principal on our indebtedness (including the senior subordinated and senior secured notes and obligations under the amended senior secured credit facility) and to satisfy our other debt obligations will depend upon our future operating performance and the availability of refinancing indebtedness, which will be affected by prevailing economic conditions and financial, business and other factors, some of which are beyond our control. 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 at least the next twelve months.

In conjunction with a legal proceeding, we have issued an irrevocable standby letter of credit for \$19.8 million representing the amount of the judgment and anticipated statutory interest while the judgment is being appealed. If we are required to fund the judgment as a result of the Court's ruling, our liquidity would not be impacted as it has already been reduced by the amount of the letter of credit. For further discussion of the litigation, see "Item 1. Legal Proceedings".

We cannot assure that our future cash flow 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.

Certain Information Concerning Off-Balance Sheet Arrangements

At June 30, 2005, we did not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which

would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. We are, therefore, not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships.

In the normal course of our business activities, we lease real estate, rental equipment and non-rental fleet equipment under operating leases.

Contractual and Commercial Commitments Summary

We had no material changes to contractual cash obligations and commercial commitments for the six months ended June 30, 2005.

Seasonality

Our business is seasonal with demand for our rental equipment tending 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 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 three most recent fiscal years, and is not likely in the foreseeable future to have, a material impact on our results of operations.

Acquisitions

We periodically engage in evaluations of potential acquisitions and start-up facilities. Currently, there are no definitive agreements with respect to any material acquisition. We are a party to a non-binding letter of intent that contemplates a potential material acquisition by the Company. 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.

Forward-Looking Statements

Certain statements contained in this report are forward-looking in nature. These statements can be identified by the use of forward-looking terminology such as "believes," "expects," "projects," "forecasts," "may," "will," "should," "seeks," "on-track," "plans," "intends," or "anticipates" or the negative thereof or comparable terminology, or by discussions of strategy or outlook. The Company's business and operations are subject to a variety of risks and uncertainties and, consequently, actual results may materially differ from those projected by any forward-looking statements. Factors that could cause actual results to differ from those projected include, but are not limited to, the following: (1) unfavorable economic and industry conditions can reduce demand and prices for the Company's products and services, (2) governmental funding for highway and other construction projects may not reach expected levels, (3) the Company may not have access to the capital that it may require, (4) intense competition and (5) costs may increase more than anticipated. Certain of these risks and uncertainties as well as others, are discussed in greater detail in the Company's filings with the SEC.

We make no commitment to revise or update any forward-looking statements in order to reflect events or circumstances after the date any such statement is made.

Recent Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123(R), "Share-Based Payment", which is a revision of SFAS No. 123 and supercedes APB Opinion No. 25. SFAS No. 123(R) requires all share-based payments to employees, including grants of employee stock options, to be valued at fair value on the date of grant, and to be expensed over the applicable vesting period. SFAS No. 123(R) is effective for all stock-based awards granted on or after July 1, 2005. In addition, companies must also recognize compensation expense related to any awards that are not fully vested as of the effective date. Compensation expense for the unvested awards will be measured based on the fair value of the awards previously calculated in developing the pro forma disclosures in accordance with the provisions of SFAS No. 123. Historically, we have not used share-based compensation schemes for compensating our employees. Therefore, the adoption of SFAS No. 123(R) is not expected to have any impact on our reported results of operations upon adoption. However, should we determine to employ share-based compensation schemes in the future, SFAS No. 123(R) would have a currently indeterminate impact on us.

In May 2005, the FASB issued Statement No. 154, "Accounting Changes and Error Corrections" (SFAS 154). SFAS 154 replaces APB Opinion No. 20, "Accounting Changes" and FASB Statement No. 3, "Reporting Accounting Changes 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." The new standard is effective for accounting changes and correction of errors beginning July 1, 2005. The Company has incorporated the provisions of SFAS 154 in the presentation of our December 31, 2004 financial statements.

Impact of Recent Natural Disaster

The Company has four facilities located in the area most significantly affected by Hurricane Katrina and Rita. None of the facilities in the New Orleans, Louisiana area were forced to close for any extended period of time, and all of them are currently open and fully operational. Due to the most recent hurricane, we are in the process of returning the Lake Charles, Louisiana facility to a fully operational state. While the financial impact of Hurricane Katrina and Rita relating to these four facilities is not expected to be material to the Company, the Company remains in the process of assessing the potential overall impact of the hurricane on the Company's business.

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 a LIBOR margin of 2.25%. We are also required to pay the lenders a commitment fee equal to 0.5% per annum in respect of undrawn commitments under the amended senior secured credit facility. At June 30, 2005, we had variable rate debt representing 24.0% of total debt. A portion of our indebtedness bears interest at variable rates that are linked to changing market interest rates. Based upon the balances outstanding at June 30, 2005, a one percent increase in market rates would increase our annual interest expense approximately \$1.3 million. We do not have significant exposure to the changing interest rates on our fixed-rate senior secured notes, senior subordinated notes or the capital lease obligations, which represented 76.0% of our total debt. The annual interest rates on our senior secured credit facility average 7.3% in 2005 compared to 6.8% in 2004.

Item 4. Controls and Procedures

Our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively) have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this quarterly report on Form 10Q. As part of their evaluation, they reviewed the circumstances surrounding the delay in filing this quarterly report on Form 10Q and the restatement of our previously issued financial statements for the years ended December 31, 2002 and 2003. As we previously reported, we delayed filing our Form 10K and our Form 10Q's for the quarters ended March 31, 2005 and June 30, 2005 pending completion by our accountants, BDO Seidman LLP, of the re-audits of our 2002 and 2003 financial statements that were audited by our prior accountants.

During these re-audits, we discovered that we incorrectly recognized the deferred tax components related to the tax basis of carryover goodwill acquired in our combination with ICM Equipment Company in 2002. After internal review and consultation with our Audit Committee, we determined to restate our 2002 and 2003 financial statements to reflect the proper accounting treatment of deferred income taxes. Our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were not effective as of June 30, 2005 to properly record and report the correct accounting treatment of deferred taxes from our 2002 transaction. However, after discovery of this issue, we revisited and reassessed, in consultation with our accountants and our tax manager (who joined us in 2003), the tax treatment, including deferred tax components, for the 2002 transaction to ensure that there were no additional corrections necessary in this regard. To the extent we engage in acquisition transactions in the future, our disclosure controls and procedures now include the involvement of our tax manager in the appropriate tax analysis and related financial disclosure. 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 quarterly 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.

There have been no significant changes in our internal controls over financial reporting that occurred during the quarterly period ended June 30, 2005 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 (except for the legal proceeding referred to below) involving ordinary and routine claims incidental to our business. We cannot estimate with certainty our ultimate legal and financial liability with respect to such pending matters (excluding the legal proceeding referred to below). However, we believe, based on our examination of such matters, that our ultimate liability will not have a material adverse effect on our business or financial condition.

In July 2000, one of our competitors, Sunbelt Rentals, Inc., brought claims against us in the General Court of Justice, Superior Court Division, State of North Carolina, County of Mecklenburg alleging, among other things, that in connection with our hiring of former employees of the plaintiff there occurred a breach of fiduciary duty, misappropriation of trade secrets, unfair trade practices and interference with prospective advantages. In May 2003, the Court ruled in favor of the plaintiff in the amount of \$17.4 million. Consequently, we recorded a \$17.4 million loss in 2003. We subsequently appealed the judgment. In conjunction with the appeal and in accordance with the Court's ruling, we issued an irrevocable standby letter of credit for \$19.8 million, representing the amount of the judgment plus \$2.4 million in anticipated statutory interest (8%) for the twenty-four months while the judgment is being appealed. Going forward, we intend to expense any statutory interest as expense in the statement of operations. Currently, we pay a 225 basis point fee on the amount available for issuance. Oral arguments took place on March 3, 2005 and the appeal was then submitted for the appellate court's decision. While we are appealing this judgment, we believe that even if there is a reduction in the amount of damages awarded to the plaintiff on appeal, the judgment could have a material adverse effect on our business or financial condition.

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.

None.

Item 5. Other information.

None.

Item 6. Exhibits

Exhibits

31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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 L.L.C.

Dated: September 30, 2005

By: /s/ JOHN M. ENGQUIST

John M. Engquist
Chief Executive Officer
(Principal Executive Officer)

Dated: September 30, 2005

By: /s/ LESLIE S. MAGEE

Leslie S. Magee
Chief Financial Officer
(Principal Financial and Accounting Officer)

QuickLinks

[H&E EQUIPMENT SERVICES L.L.C. TABLE OF CONTENTS](#)

[PART I—FINANCIAL INFORMATION](#)

[Item 1. Unaudited Financial Statements.](#)

[H&E EQUIPMENT SERVICES L.L.C. CONSOLIDATED STATEMENTS OF OPERATIONS \(Unaudited\)](#)

[H&E EQUIPMENT SERVICES L.L.C. CONSOLIDATED STATEMENTS OF CASH FLOWS \(Unaudited\)](#)

[H&E EQUIPMENT SERVICES L.L.C. NOTES TO CONSOLIDATED FINANCIAL STATEMENTS](#)

[CONSOLIDATING BALANCE SHEET](#)

[CONSOLIDATING BALANCE SHEET](#)

[CONSOLIDATING STATEMENT OF OPERATIONS](#)

[CONSOLIDATING STATEMENT OF OPERATIONS](#)

[CONSOLIDATING STATEMENT OF OPERATIONS](#)

[CONSOLIDATING STATEMENT OF OPERATIONS](#)

[CONSOLIDATING STATEMENT OF CASH FLOWS](#)

[CONSOLIDATING STATEMENT OF CASH FLOWS](#)

[Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations](#)

[Item 3. Quantitative and Qualitative Disclosures About Market Risk](#)

[Item 4. Controls and Procedures](#)

[PART II. OTHER INFORMATION](#)

[Item 1. Legal Proceedings](#)

[Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.](#)

[Item 3. Defaults upon Senior Securities.](#)

[Item 4. Submission of Matters to a Vote of Security Holders.](#)

[Item 5. Other information.](#)

[Item 6. Exhibits](#)

[SIGNATURES](#)

CERTIFICATIONS

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

1. I have reviewed this quarterly report on Form 10-Q of H&E Equipment Services L.L.C.;
2. Based on my knowledge, this 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 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 report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls 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) 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
 - (c) 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 officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses 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 controls over financial reporting.

Date: September 30, 2005

By: /s/ JOHN M. ENGQUIST

John M. Engquist
President and Chief Executive Officer

QuickLinks

[Exhibit 31.1](#)

[CERTIFICATIONS](#)

CERTIFICATIONS

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

1. I have reviewed this quarterly report on Form 10-Q of H&E Equipment Services L.L.C.;
2. Based on my knowledge, this 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 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 report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls 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) 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
 - (c) 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 officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses 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 controls over financial reporting.

Date: September 30, 2005

By: /s/ LESLIE S. MAGEE

Leslie S. Magee
Chief Financial Officer

QuickLinks

[Exhibit 31.2](#)

[CERTIFICATIONS](#)

**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 L.L.C. (the "Company") on Form 10-Q for the period ending June 30, 2005 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, 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.

/s/ John M. Engquist

John M. Engquist
President and Chief Executive Officer

September 30, 2005

QuickLinks

[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](#)

**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 L.L.C. (the "Company") on Form 10-Q for the period ending June 30, 2005 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Leslie S. Magee, Chief Financial Officer of the Company, 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.

/s/ Leslie S. Magee

Leslie S. Magee
Chief Financial Officer

September 30, 2005

QuickLinks

[Exhibit 32.2](#)

[CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002](#)