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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2004

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

For the transition period from to

Commission file 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 o

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes o 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.

H&E EQUIPMENT SERVICES L.L.C.

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

	September 30, 2004	December 31, 2003
	(In thousands)	
ASSETS		
Cash	$ 2,215	$ 3,891
Receivables, net of allowance for doubtful accounts of $2,896 and $3,188, respectively	68,793	62,615
Inventories, net	57,229	44,078
Prepaid expenses and other assets	3,103	2,521
Rental equipment, net of accumulated depreciation of $118,275 and $113,546, respectively	243,147	259,282
Property and equipment, net of accumulated depreciation of $16,178 and $13,906, respectively	15,331	15,128
Deferred financing costs and other intangible assets, net of accumulated amortization of $4,473 and $2,751, respectively	10,870	11,235
Goodwill, net of accumulated amortization of $758	3,204	3,204
Total assets	$ 403,892	$ 401,954
LIABILITIES AND MEMBER'S DEFICIT		
Liabilities:		
Amount due on senior secured credit facility	$ 55,739	$ 43,958
Accounts payable	87,783	91,446
Accrued expenses payable and other liabilities	29,519	15,901
Accrued loss from litigation	17,434	17,434
Related party obligation	1,107	1,235
Notes payable	822	1,063
Senior secured notes, net of discount	198,735	198,660
Senior subordinated notes, net of discount	43,363	43,010
Capital lease obligations	1,452	5,351
Deferred compensation payable	10,323	10,898
Total liabilities	446,277	428,956
Member's deficit	(42,385)	(27,002)
Total liabilities and member's deficit	$ 403,892	$ 401,954

See notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
	(In thousands)			
Revenues:				
Equipment rentals	$ 42,076	$ 40,395	$ 116,722	$ 115,251
New equipment sales	28,793	17,723	80,570	58,553
Used equipment sales	20,353	14,914	61,984	51,981
Parts sales	14,951	13,562	44,335	40,001
Service revenue	8,486	8,214	25,446	25,392
Other	6,230	5,289	17,500	14,997
Total revenues	120,889	100,097	346,557	306,175
Cost of Revenues:				
Rental depreciation	12,214	13,707	36,479	41,460
Rental expense	12,474	12,455	38,811	37,177
New equipment sales	25,949	16,359	72,791	53,308
Used equipment sales	15,810	12,037	48,889	42,044
Parts sales	10,741	9,796	31,766	28,916
Service revenue	3,188	3,200	9,639	10,070
Other	5,373	4,854	15,876	14,366
Total cost of revenues	85,749	72,408	254,251	227,341
Gross profit	35,140	27,689	92,306	78,834
Selling, general and administrative expenses	26,254	24,767	78,104	75,176
Loss from litigation	—	434	—	17,434
Related party expense	—	1,275	—	1,275
Gain on sale of property and equipment	49	45	156	82
Income (loss) from operations	8,935	1,258	14,358	(14,969)
Other Income (Expense):				
Interest expense	(10,161)	(9,762)	(29,836)	(29,441)
Other, net	11	93	95	189
Total other expense, net	(10,150)	(9,669)	(29,741)	(29,252)
Net loss	$ (1,215)	$ (8,411)	$ (15,383)	$ (44,221)

See notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003
	(In thousands)	
Cash flows from operating activities:		
Net loss	$ (15,383)	$ (44,221)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation on property and equipment	2,930	2,871
Depreciation on rental equipment	36,479	41,460
Amortization of loan discounts and deferred financing costs	1,958	1,797
Amortization of other intangible assets	191	—
Provision for losses on accounts receivable	1,037	699
Gain on sale of property and equipment	(156)	(82)
Gain on sale of rental equipment	(11,600)	(8,310)
Changes in operating assets and liabilities:		
Receivables, net	(7,215)	(3,320)
Inventories, net	(21,780)	(1,795)
Prepaid expenses and other assets	(582)	(2,113)
Accounts payable	(3,663)	(8,108)
Accrued expenses payable and other liabilities	13,246	13,110
Accrued loss from litigation	—	17,434
Deferred compensation payable	(575)	580
Net cash (used in) provided by operating activities	(5,113)	10,002
Cash flows from investing activities:		
Purchases of property and equipment	(3,272)	(2,321)
Purchases of rental equipment	(48,310)	(23,989)
Proceeds from sale of property and equipment	295	2,616
Proceeds from sale of rental equipment	48,195	37,031
Net cash (used in) provided by investing activities	(3,092)	13,337
Cash flows from financing activities:		
Borrowings on senior secured credit facility	350,067	286,371
Payments on senior secured credit facility	(338,286)	(305,471)
Payment of deferred financing costs	(887)	(854)
Payments of related party obligation	(225)	—
Principal payments on notes payable	(241)	(274)
Payments on capital lease obligations	(3,899)	(4,032)
Net cash provided by (used in) financing activities	6,529	(24,260)
Net decrease in cash	(1,676)	(921)
Cash, beginning of period	3,891	3,398
Cash, end of period	$ 2,215	$ 2,477

See notes to condensed consolidated financial statements.

	Nine Months Ended September 30,	
	2004	2003
	(In thousands)	
Supplemental schedule of noncash investing activities:		
Assets transferred from new and used inventory to rental fleet	$ 8,629	$ 7,540
Related party expense	—	1,275
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 17,879	$ 18,914
Income taxes	19	97

As of September 30, 2004 and December 31, 2003, the Company had $50.6 and $51.8 million, respectively, in manufacturer flooring plans payable outstanding, which were used to finance purchases of inventory and rental equipment.

During the third quarter of 2004, the Company entered into a three year non-competition agreement with a former officer. Accordingly, the Company recorded a $0.1 million intangible asset and accrued liability. The intangible asset is being amortized using the straight-time method over the term of the agreement.

During the first quarter of 2004, the Company entered into a twelve month non-competition agreement with a former vice-president. Accordingly, the Company recorded a $0.3 million intangible asset and accrued liability. The intangible asset is being amortized using the straight-line method over the term of the agreement.

See notes to condensed 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 condensed 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 condensed consolidated balance sheets are presented on an unclassified basis.

Nature of Operations

H&E Equipment Services is one of the largest integrated equipment rental, sales and service companies in the United States of America (United States). Unlike many of its competitors which focus primarily on renting equipment, the Company also sells new and used equipment and provides extensive parts and service support. This integrated model enables the Company to effectively manage key aspects of its rental fleet through reduced equipment acquisition costs, efficient maintenance and profitable disposition of rental fleet equipment. Over the past 41 years, the Company has built an infrastructure that includes a network of 39 facilities, most of which have full-service capabilities, and a workforce that includes a highly-skilled group of approximately 480 service technicians and separate and distinct rental and equipment sales forces. The Company generates a significant portion of its gross profit from its parts and service operations, which management believes, provides the Company with a more stable operating profile than companies that focus solely on renting equipment.

The Company's operations are principally connected with construction and industrial activities. Consequently, a downturn in construction or industrial activity may lead to a decrease in the demand for equipment or depressed rental rates and sales prices for the equipment the Company sells.

The accompanying condensed 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 nine-month periods ended September 30, 2004 are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. The information included in this report should be read in conjunction with the financial statements and related notes included in the the Company's Form 10-K for the year ended December 31, 2003 filed with the Securities and Exchange Commission (SEC).

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.

Reclassifications

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

2. 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, a complaint was filed by a competitor of the Company in the General Court of Justice, Superior Court Division, State of North Carolina, County of Mecklenburg (the Court). On May 2, 2003, the Court handed down an Order and Opinion in favor of the plaintiff. In conjunction therewith, the Company recorded a $17.4 million loss for estimated damages, plaintiff's attorneys fees and other costs in 2003.

On September 11, 2003, the Company filed a notice of appeal. In conjunction with the appeal and in accordance with the Court's order, the Company issued an irrevocable standby letter of credit for $19.0 million, representing the amount of the judgment plus $1.6 million in anticipated statutory interest for the sixteen months while the judgment is being appealed. If, at the end of the sixteen months (January 2005), the appeal is still pending, the Company will be required to extend the maturity of the irrevocable standby letter of credit for eight additional months and increase the amount by $0.8 million (eight months additional statutory interest at 8.0%). The Company will expense any additional statutory interest as interest expense in the statement of operations. For the duration of the letter of credit, the Company pays a 300 basis point fee on the amount available for issuance.

During the third quarter of 2004, both parties involved in this litigation filed appellate briefs with the North Carolina Court of Appeals. Both parties have moved to be allowed to make "oral arguments" and are awaiting the Court's decision. While the Company is appealing this judgment, management believes 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 its business or financial condition.

3. Senior Secured Credit Facility

During the first quarter of 2004, the Company amended its senior secured credit agreement dated June 17, 2002, governing its senior secured credit facility. Principally, this amendment:

1. extended the maturity date of the amended senior secured credit facility to February 2009;

2. eliminated the maximum leverage ratio covenant;

3. increased the adjusted maximum leverage ratio covenant from 5.2x to 5.8x for each quarter in the first year; 5.7x for each quarter in the second year; 5.4x for each quarter in the third year; 5.3x for each quarter in the fourth year; and 5.2x for each quarter in the fifth year. The

minimum adjusted interest coverage ratio is set at 1.25x for each quarter through 2005; 1.35x for each quarter in 2006 and 2007; and 1.40x for each quarter in 2008 and through the remaining term of the agreement;

4. increased the block on availability of assets from $20.0 million to $30.0 million based on the total borrowing base assets; and

5. reduced the advance rate on rental fleet assets to 75 percent from 80 percent of the orderly liquidation value.

The Company paid a loan amendment fee of $0.8 million that is being amortized over the remaining term of the loan.

4. Segment Information

The Company has identified five reportable segments: equipment rentals, new equipment sales, used equipment sales, parts sales and service revenue. 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 September 30,		For the Nine Months Ended September 30,	
	2004	2003	2004	2003
Revenues:				
Equipment rentals	$ 42,076	$ 40,395	$ 116,722	$ 115,251
New equipment sales	28,793	17,723	80,570	58,553
Used equipment sales	20,353	14,914	61,984	51,981
Parts sales	14,951	13,562	44,335	40,001
Service revenue	8,486	8,214	25,446	25,392
Total segmented revenues	114,659	94,808	329,057	291,178
Non-segmented revenues	6,230	5,289	17,500	14,997
Total revenues	$ 120,889	$ 100,097	$ 346,557	$ 306,175
Gross Profit:				
Equipment rentals	$ 17,388	$ 14,233	$ 41,432	$ 36,614
New equipment sales	2,844	1,364	7,779	5,245
Used equipment sales	4,543	2,877	13,095	9,937
Parts sales	4,210	3,766	12,569	11,085
Service revenue	5,298	5,014	15,807	15,322
Total gross profit from segmented revenues	34,283	27,254	90,682	78,203
Non-segmented gross profit	857	435	1,624	631
Total gross profit	$ 35,140	$ 27,689	$ 92,306	$ 78,834

	As of September 30,	As of December 31,
	2004	2003
Segment Identified Assets:		
Equipment sales, net	$ 40,851	$ 29,091
Equipment rentals, net	243,147	259,282
Parts sales and service revenue	16,378	14,987
Total segment identified assets	300,376	303,360
Non-segment identified assets	103,516	98,594
Total assets	$ 403,892	$ 401,954

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.

5. Condensed 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 condensed consolidating financial information of H&E Equipment Services and its subsidiaries are included below. The condensed 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.

CONDENSED CONSOLIDATING BALANCE SHEET

	As of September 30, 2004			
	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(In thousands)			
ASSETS				
Cash	$ 2,173	$ 42	$ —	$ 2,215
Receivables, net	66,629	2,164	—	68,793
Inventories, net	53,090	4,139	—	57,229
Prepaid expenses and other assets	3,103	—	—	3,103
Rental equipment, net	230,332	12,815	—	243,147
Property and equipment, net	14,839	492	—	15,331
Deferred financing costs and other intangible assets, net	10,870	—	—	10,870
Investment in guarantor subsidiaries	4,726	—	(4,726)	—
Goodwill, net	3,204	—	—	3,204
Total assets	$ 388,966	$ 19,652	$ (4,726)	$ 403,892
LIABILITIES AND MEMBER'S EQUITY (DEFICIT)				
Liabilities:				
Amount due on senior secured credit facility	$ 52,080	$ 3,659	$ —	$ 55,739
Accounts payable	87,783	—	—	87,783
Accrued expenses payable and other liabilities	29,439	80	—	29,519
Inter-company balance	(11,187)	11,187	—	—
Accrued loss from litigation	17,434	—	—	17,434
Related party obligation	1,107	—	—	1,107
Notes payable	822	—	—	822
Senior secured notes, net of discount	198,735	—	—	198,735
Senior subordinated notes, net of discount	43,363	—	—	43,363
Capital lease obligations	1,452	—	—	1,452
Deferred compensation payable	10,323	—	—	10,323
Total liabilities	431,351	14,926	—	446,277
Member's equity (deficit)	(42,385)	4,726	(4,726)	(42,385)
Total liabilities and member's equity (deficit)	$ 388,966	$ 19,652	$ (4,726)	$ 403,892

CONDENSED CONSOLIDATING BALANCE SHEET

	As of December 31, 2003			
	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(In thousands)			
ASSETS				
Cash	$ 3,868	$ 23	$ —	$ 3,891
Receivables, net	61,318	1,297	—	62,615
Inventories, net	42,783	1,295	—	44,078
Prepaid expenses and other assets	2,521	—	—	2,521
Rental equipment, net	250,426	8,856	—	259,282
Property and equipment, net	14,872	256	—	15,128
Deferred financing costs, net	11,235	—	—	11,235
Investment in guarantor subsidiaries	4,464	—	(4,464)	—
Goodwill, net	3,204	—	—	3,204
Total assets	$ 394,691	$ 11,727	$ (4,464)	$ 401,954
LIABILITIES AND MEMBER'S EQUITY (DEFICIT)				
Liabilities:				
Amount due on senior secured credit facility	$ 39,679	$ 4,279	$ —	$ 43,958
Accounts payable	91,446	—	—	91,446
Accrued expenses payable and other liabilities	15,741	160	—	15,901
Intercompany balance	(2,824)	2,824	—	—
Accrued loss from litigation	17,434	—	—	17,434
Related party obligation	1,235	—	—	1,235
Notes payable	1,063	—	—	1,063
Senior secured notes, net of discount	198,660	—	—	198,660
Senior subordinated notes, net of discount	43,010	—	—	43,010
Capital lease obligations	5,351	—	—	5,351
Deferred compensation payable	10,898	—	—	10,898
Total liabilities	421,693	7,263	—	428,956
Member's equity (deficit)	(27,002)	4,464	(4,464)	(27,002)
Total liabilities and member's equity (deficit)	$ 394,691	$ 11,727	$ (4,464)	$ 401,954

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

	Three Months Ended September 30, 2004			
	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(In thousands)			
Revenues:				
Equipment rentals	$ 40,355	$ 1,721	$ —	$ 42,076
New equipment sales	27,834	959	—	28,793
Used equipment sales	19,434	919	—	20,353
Parts sales	14,496	455	—	14,951
Service revenue	8,224	262	—	8,486
Other	6,007	223	—	6,230
Total revenues	116,350	4,539	—	120,889
Cost of Revenues:				
Rental depreciation	11,696	518	—	12,214
Rental expense	12,179	295	—	12,474
New equipment sales	25,129	820	—	25,949
Used equipment sales	15,170	640	—	15,810
Parts sales	10,434	307	—	10,741
Service revenue	3,108	80	—	3,188
Other	5,144	229	—	5,373
Total cost of revenues	82,860	2,889	—	85,749
Gross profit	33,490	1,650	—	35,140
Selling, general and administrative expenses	25,150	1,104	—	26,254
Gain on sale of property and equipment	33	16	—	49
Equity in earnings of guarantor subsidiaries	314	—	(314)	—
Income from operations	8,687	562	(314)	8,935
Other Income (Expense):				
Interest expense	(9,912)	(249)	—	(10,161)
Other, net	10	1	—	11
Total other expense, net	(9,902)	(248)	—	(10,150)
Net (loss) income	$ (1,215)	$ 314	$ (314)	$ (1,215)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

	Three Months Ended September 30, 2003			
	Parent	Guarantor Subsidiaries	Elimination	Consolidated
	(In thousands)			
Revenues:				
Equipment rentals	$ 38,945	$ 1,450	$ —	$ 40,395
New equipment sales	17,274	449	—	17,723
Used equipment sales	14,014	900	—	14,914
Parts sales	13,204	358	—	13,562
Service revenue	8,011	203	—	8,214
Other	5,120	169	—	5,289
Total revenues	96,568	3,529	—	100,097
Cost of Revenues:				
Rental depreciation	13,264	443	—	13,707
Rental expense	12,223	232	—	12,455
New equipment sales	15,922	437	—	16,359
Used equipment sales	11,421	616	—	12,037
Parts sales	9,547	249	—	9,796
Service revenue	3,105	95	—	3,200
Other	4,624	230	—	4,854
Total cost of revenues	70,106	2,302	—	72,408
Gross profit	26,462	1,227	—	27,689
Selling, general and administrative expenses	23,804	963	—	24,767
Loss from litigation	434	—		434
Related party expense	1,275	—	—	1,275
Gain on sale of property and equipment	34	11	—	45
Equity in earnings of guarantor subsidiaries	58	—	(58)	—
Income from operations	1,041	275	(58)	1,258
Other income (expense):				
Interest expense	(9,547)	(215)	—	(9,762)
Other, net	95	(2)	—	93
Total other expense, net	(9,452)	(217)	—	(9,669)
Net (loss) income	$ (8,411)	$ 58	$ (58)	$ (8,411)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

	Nine Months Ended September 30, 2004			
	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(In thousands)			
Revenues:				
Equipment rentals	$ 112,406	$ 4,316	$ —	$ 116,722
New equipment sales	77,854	2,716	—	80,570
Used equipment sales	58,496	3,488	—	61,984
Parts sales	43,107	1,228	—	44,335
Service revenue	24,639	807	—	25,446
Other	16,968	532	—	17,500
Total revenues	333,470	13,087	—	346,557
Cost of Revenues:				
Rental depreciation	35,036	1,443	—	36,479
Rental expense	37,936	875	—	38,811
New equipment sales	70,419	2,372	—	72,791
Used equipment sales	46,364	2,525	—	48,889
Parts sales	30,931	835	—	31,766
Service revenue	9,391	248	—	9,639
Other	15,202	674	—	15,876
Total cost of revenues	245,279	8,972	—	254,251
Gross profit	88,191	4,115	—	92,306
Selling, general and administrative expenses	74,901	3,203	—	78,104
Gain on sale of property and equipment	131	25	—	156
Equity in earnings of guarantor subsidiaries	262	—	(262)	—
Income from operations	13,683	937	(262)	14,358
Other Income (Expense):				
Interest expense	(29,147)	(689)	—	(29,836)
Other, net	81	14	—	95
Total other expense, net	(29,066)	(675)	—	(29,741)
Net (loss) income	$ (15,383)	$ 262	$ (262)	$ (15,383)

CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

	Nine Months Ended September 30, 2003			
	Parent	Guarantor Subsidiaries	Elimination	Consolidated
Revenues:				
Equipment rentals	$ 111,787	$ 3,464	$ —	$ 115,251
New equipment sales	57,072	1,481	—	58,553
Used equipment sales	49,286	2,695	—	51,981
Parts sales	39,035	966	—	40,001
Service revenue	24,743	649	—	25,392
Other	14,601	396	—	14,997
Total revenues	296,524	9,651	—	306,175
Cost of Revenues:				
Rental depreciation	40,139	1,321	—	41,460
Rental expense	36,505	672	—	37,177
New equipment sales	51,983	1,325	—	53,308
Used equipment sales	40,076	1,968	—	42,044
Parts sales	28,255	661	—	28,916
Service revenue	9,841	229	—	10,070
Other	13,874	492	—	14,366
Total cost of revenues	220,673	6,668	—	227,341
Gross profit	75,851	2,983	—	78,834
Selling, general and administrative expenses	72,493	2,683	—	75,176
Loss from litigation	17,434	—	—	17,434
Related party expense	1,275	—	—	1,275
Gain on sale of property and equipment	49	33	—	82
Equity in loss of guarantor subsidiaries	(298)	—	298	—
Income (loss) from operations	(15,600)	333	298	(14,969)
Other income (expense):				
Interest expense	(28,806)	(635)	—	(29,441)
Other, net	185	4	—	189
Total other expense, net	(28,621)	(631)	—	(29,252)
Net loss	$ (44,221)	$ (298)	$ 298	$ (44,221)

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

	Nine Months Ended September 30, 2004			
	H&E Equipment Services	Guarantor Subsidiaries	Elimination	Consolidated
	(In thousands)			
Cash flows from operating activities:				
Net (loss) income	$ (15,383)	$ 262	$ (262)	$ (15,383)
Adjustment to reconcile net (loss) income to net cash (used in) provided by operating activities:				
Depreciation on property and equipment	2,821	109	—	2,930
Depreciation on rental equipment	35,036	1,443	—	36,479
Amortization of loan discounts and deferred financing costs	1,958	—	—	1,958
Amortization of other intangible assets	191	—	—	191
Provision for losses on accounts receivable	988	49	—	1,037
Gain on sale of property and equipment	(131)	(25)	—	(156)
Gain on sale of rental equipment	(10,715)	(885)	—	(11,600)
Deficit in earnings of guarantor subsidiaries	(262)	—	262	—
Changes in operating assets and liabilities:				
Receivables, net	(6,299)	(916)	—	(7,215)
Inventories, net	(15,142)	(6,638)	—	(21,780)
Prepaid expenses and other assets	(582)	—	—	(582)
Accounts payable	(3,663)	—	—	(3,663)
Accrued expenses payable and other liabilities	13,326	(80)	—	13,246
Intercompany balance	(8,363)	8,363	—	—
Deferred compensation payable	(575)	—	—	(575)
Net cash (used in) provided by operating activities	(6,795)	1,682	—	(5,113)
Cash flows from investing activities:				
Purchases of property and equipment	(2,926)	(346)	—	(3,272)
Purchases of rental equipment	(44,446)	(3,864)	—	(48,310)
Proceeds from sale of property and equipment	269	26	—	295
Proceeds from sale of rental equipment	45,054	3,141	—	48,195
Net cash used in investing activities:	(2,049)	(1,043)	—	(3,092)
Cash flows from financing activities:				
Borrowings on senior secured credit facility	350,067	—	—	350,067
Payments on senior secured credit facility	(337,666)	(620)	—	(338,286)
Payment of deferred financing costs	(887)	—	—	(887)
Payments of related party obligation	(225)	—	—	(225)
Principal payments on notes payable	(241)	—	—	(241)
Payments on capital lease obligations	(3,899)	—	—	(3,899)
Net cash provided by (used in) financing activities	7,149	(620)	—	6,529
Net (decrease) increase in cash	(1,695)	19	—	(1,676)
Cash, beginning of period	3,868	23	—	3,891
Cash, end of period	$ 2,173	$ 42	$ —	$ 2,215

CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

	Nine Months Ended September 30, 2003			
	Parent	Guarantor Subsidiaries	Elimination	Consolidated
	(In thousands)			
Cash flows from operating activities:				
Net loss	$ (44,221)	$ (298)	$ 298	$ (44,221)
Adjustment to reconcile net loss to net cash provided by operating activities:				
Depreciation on property and equipment	2,813	58	—	2,871
Depreciation on rental equipment	40,139	1,321	—	41,460
Amortization of loan discounts and deferred financing costs	1,797	—	—	1,797
Provision for losses on accounts receivable	652	47	—	699
Gain on sale of property and equipment	(49)	(33)	—	(82)
Gain on sale of rental equipment	(7,646)	(664)	—	(8,310)
Deficit in earnings of guarantor subsidiaries	298	—	(298)	—
Changes in operating assets and liabilities:				
Receivables, net	(2,900)	(420)	—	(3,320)
Inventories, net	(3,099)	1,304	—	(1,795)
Prepaid expenses and other assets	(2,117)	4	—	(2,113)
Accounts payable	(8,020)	(88)	—	(8,108)
Accrued expenses payable and other liabilities	13,957	(847)	—	13,110
Intercompany balance	(6,167)	6,167	—	—
Accrued loss from litigation	17,434	—	—	17,434
Deferred compensation payable	580	—	—	580
Net cash provided by operating activities	3,451	6,551	—	10,002
Cash flows from investing activities:				
Purchases of property and equipment	(2,087)	(234)	—	(2,321)
Purchases of rental equipment	(16,004)	(7,985)	—	(23,989)
Proceeds from sale of property and equipment	2,583	33	—	2,616
Proceeds from sale of rental equipment	34,670	2,361	—	37,031
Net cash provided by (used in) investing activities:	19,162	(5,825)	—	13,337
Cash flows from financing activities:				
Borrowings on senior secured credit facility	286,371	—	—	286,371
Payments on senior secured credit facility	(304,686)	(785)	—	(305,471)
Payment of deferred financing costs	(854)	—	—	(854)
Principal payments on notes payable	(274)	—	—	(274)
Payments on capital lease obligations	(4,032)	—	—	(4,032)
Net cash used in financing activities	(23,475)	(785)	—	(24,260)
Net decrease in cash	(862)	(59)	—	(921)
Cash, beginning of period	3,331	67	—	3,398
Cash, end of period	$ 2,469	$ 8	$ —	$ 2,477

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

The following discussion reviews our operations for the three and nine months ended September 30, 2004 and 2003 and should be read in conjunction with the unaudited condensed consolidated financial statements and related notes included herein. The following discussion and analysis should also 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, 2003 filed with the SEC.

Overview

We are an integrated equipment rental, sales and service company located in the United States with a network of 39 facilities, most of which have full-service capabilities, and a workforce that includes a highly-skilled group of service technicians and separate and distinct rental and equipment sales forces. In addition to renting equipment, we also sell new and used equipment and provide extensive parts and service support. We generate a significant portion of our gross profit from parts sales and service revenue.

Our integrated approach leads to revenues from each source being partially driven by the activities of the other revenue sources. Our revenues are dependent on several factors, including, but not limited to, the demand for rental equipment, rental fleet availability, rental rates, the demand for new and used equipment, the level of industrial and construction activity and general economic conditions.

We derive our revenues primarily from the following sources:

(i) *Rental of Equipment*—This category includes revenues from renting equipment. We offer flexible rental terms, including daily, weekly and monthly rentals. We focus our rental activities on, and organize our personnel by, four core types of equipment:

  a. Aerial work platforms;

  b. Cranes;

  c. Earthmoving; and

  d. Lift trucks.

  Equipment rental revenue is impacted by time utilization (the equipment usage based on customer demand), rental rates and availability of equipment. Rental rates are significantly impacted by the competition in a specific geographical location.

(ii) *Sales of New Equipment*—This category includes revenues from selling new equipment. We are a leading distributor of new products for nationally-recognized manufacturers in our four core product lines. Our new equipment distribution infrastructure facilitates a large, high-quality product support operation, creates a higher level of partnering with manufacturers and adds to our customer base, which often leads to additional rental, parts and service revenue. New sales are impacted by the manufacturers availability of equipment.

(iii) *Sales of Used Equipment*—This category includes revenues from selling used and rental fleet equipment. In the normal course of business activities, we routinely sell our rental fleet equipment in order to manage the size, composition and age of our rental fleet in response to changing market conditions and to maintain a modern, high-quality fleet. We also sell used equipment that has been inventoried.

(iv) *Parts Sales and Service Revenue*—This category includes revenues from parts sales and maintenance and repair services to customers for their owned equipment.

Our cost of revenues includes depreciation, maintenance, property taxes, equipment lease expense, and other miscellaneous costs of rental equipment, cost of equipment sold and cost of parts sales and service revenue.

We believe a significant portion of our overall value is in the rental fleet equipment. Our rental fleet (including rental equipment financed with operating leases) as of September 30, 2004, consisted of 13,044 units having an original acquisition cost (defined as the cost originally paid to manufacturers) of approximately $466.1 million and an average age of 43.5 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. We reduced our overall gross rental fleet, through the normal course of business activities, by approximately $42 million over the last year. While we reduced the size of our equipment rental fleet, the mix among our four core product lines remained consistent with that of prior years. With our in-house service capabilities and extensive maintenance program, we believe our fleet is one of the best maintained in the industry.

Not only is mix and age of our rental fleet impacted by the normal sales of equipment from the rental fleet and the capital expenditures to acquire new rental fleet equipment, but so are our cash flows. In making acquisition decisions, we evaluated current market conditions, competition, manufacturers' availability, pricing and return on investment over the estimated life of the specific equipment, among other things.

Lead times from manufacturers have lengthened. Because of the timing and availability of new equipment, our capital expenditures for rental fleet equipment, for the first nine months of 2004, were less than anticipated, although we have placed orders and expect to take delivery in the fourth quarter of this year. We strive to manage our rental fleet relative to the current market demand.

Critical Accounting Policies and 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. These assumptions, estimates and/or judgments are often subjective and may change based on changing circumstances or changes in our analysis. Material changes in these assumptions, estimates and/or judgments have the potential to materially alter our results of operations. We have identified below those of our accounting polices that we believe could potentially produce materially different results were we to change underlying assumptions, estimates and/or judgments.

Revenue Recognition. 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. Revenue from the sale of equipment and parts is recognized 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 revenue is recognized at the time the services are rendered. Other revenues consist primarily for rental equipment delivery and damage waiver charges.

Allowance for Doubtful Accounts. We maintain an allowance for doubtful accounts. This allowance reflects our estimate of the amount of our receivables that we will be unable to collect. Our estimate 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, 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 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.

Results of Operations

Three months ended September 30, 2004 compared to three months ended September 30, 2003

The following table sets forth selected statement of operations revenue data for the periods indicated (dollars in millions):

	Three Months Ended September 30,			
	2004	**2003**	**Total Dollar Change**	**Total Percent Change**
Revenues:				
Equipment rentals:				
Cranes	$ 4.4	$ 4.9	$ (0.5)	(10.2)%
Aerial work platforms	26.0	23.6	2.4	10.2%
Earthmoving	6.4	7.0	(0.6)	(8.6)%
Lift trucks	2.4	2.0	0.4	20.0%
Other	2.9	2.9	—	—
Total equipment rentals	42.1	40.4	1.7	4.2%
New equipment sales:				
Cranes	7.0	4.9	2.1	42.9%
Aerial work platforms	3.2	2.3	0.9	39.1%
Earthmoving	14.5	6.0	8.5	141.7%
Lift trucks	1.8	3.7	(1.9)	(51.4)%
Other	2.3	0.8	1.5	187.5%
Total new equipment sales	28.8	17.7	11.1	62.7%
Used equipment sales:				
Cranes	7.8	3.9	3.9	100.0%
Aerial work platforms	2.6	1.8	0.8	44.4%
Earthmoving	7.0	6.5	0.5	7.7%
Lift trucks	2.4	1.7	0.7	41.2%
Other	0.6	1.0	(0.4)	(40.0)%
Total used equipment sales	20.4	14.9	5.5	36.9%
Parts sales	14.9	13.6	1.3	9.6%
Service revenue	8.5	8.2	0.3	3.7%
Other	6.2	5.3	0.9	17.0%
Total revenues	$ 120.9	$ 100.1	$ 20.8	20.8%

Total Revenues. Our third quarter 2004 total revenues were $120.9 million compared to $100.1 million in the third quarter of 2003, a $20.8 million or 20.8% increase. Our revenues were attributable to:

1. *Equipment Rental Revenues*. Our revenues from equipment rentals increased $1.7 million, or 4.2%, to $42.1 million for the third quarter of 2004 from $40.4 for the third quarter of 2003. The increase is primarily a result of improved rental rates, higher time utilization and despite having reduced the overall total gross rental fleet by $42 million through the normal course of business activities over the last year. The $0.5 million and $0.6 million decrease in crane and earthmoving equipment rental revenues was primarily attributable to lower time utilization. Rental equipment dollar utilization (quarterly rental revenues annualized, divided by the average quarterly original rental fleet equipment cost of $471.5 million and $518.3 million for 2004 and 2003, respectively) was approximately 35.5% compared to 30.8% last year.

2. *New Equipment Sales Revenues.* Our new equipment sales increased $11.1 million, or 62.7%, to $28.8 million for the third quarter of 2004 from $17.7 million for the third quarter of 2003. During the third quarter of 2004, sales of new cranes, aerial work platforms, earthmoving and other new equipment improved, and were offset by lower new lift truck sales. The decline in sales of new lift trucks was due primarily to the timing and availability of inventory.

3. *Used Equipment Sales Revenues.* Our used equipment sales increased $5.5 million, or 36.9%, to $20.4 million for the third quarter of 2004 from $14.9 million for the third quarter of 2003. In the third quarter of 2004, we sold our used equipment at approximately 128% of net book value compared to 124% of net book value in the third quarter of 2003. With extended manufacturer lead times for new equipment, the demand for well-maintained, used equipment has increased.

4. *Parts Sales and Service Revenue.* Our parts sales and service revenue increased $1.6 million, or 7.3%, to $23.4 million for the third quarter of 2004 from $21.8 million for the third quarter of 2003. The increase was primarily attributable to increased customer demand.

5. *Other Revenues.* Our other revenues consisted primarily of equipment support activities including transportation, hauling, parts freight and damage waiver charges. Our other revenues increased $0.9 million during the third quarter of 2004.

The following table sets forth selected statement of operations gross profit data for the periods indicated (dollars in millions):

	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003	Total Dollar Change	Total Percent Change
Gross Profit:				
Equipment rentals	$ 17.4	$ 14.2	$ 3.2	22.5%
New equipment sales:				
Cranes	0.8	0.6	0.2	33.3%
Aerial work platforms	0.3	0.4	(0.1)	(25.0)%
Earthmoving	2.0	0.8	1.2	150.0%
Lift trucks	0.2	0.2	—	—
Other	(0.5)	(0.6)	0.1	(16.7)%
Total new equipment sales	2.8	1.4	1.4	100.0%
Used equipment sales:				
Cranes	1.6	0.5	1.1	220.0%
Aerial work platforms	0.8	0.3	0.5	166.7%
Earthmoving	1.4	1.3	0.1	7.7%
Lift trucks	0.8	0.6	0.2	33.3%
Other	(0.1)	0.2	(0.3)	(150.0)%
Total used equipment sales	4.5	2.9	1.6	55.2%
Parts sales	4.2	3.8	0.4	10.5%
Service revenue	5.3	5.0	0.3	6.0%
Other	0.9	0.4	0.5	125.0%
Total gross profit	$ 35.1	$ 27.7	$ 7.4	26.7%

Total Gross Profit. Our third quarter of 2004 total gross profit was $35.1 million compared to $27.7 million in the third quarter of 2003, a $7.4 million, or 26.7% increase. Total gross profit margin for the third quarter of 2004 was 29.0% up from 27.7% for the third quarter last year. Following is information concerning our gross profit:

1. *Equipment Rentals Gross Profit*. Our equipment rentals gross profit increased $3.2 million, or 22.5%, to $17.4 million for the third quarter of 2004 from $14.2 for the third quarter of 2003. The increase is primarily a result of a $1.7 million increase in rental revenue combined with a $1.5 million decrease in depreciation expense and other miscellaneous rental expenses.

   Depreciation expense on our rental fleet equipment is recorded in equipment rentals cost of revenues. Total rental fleet depreciation expense decreased approximately $1.5 million as a result of having reduced the total rental fleet. For the third quarter of 2004, our maintenance and repair expense decreased approximately $0.2 million, offset by $0.4 million increase in equipment re-rent expense (if customers need equipment that we do not have in our fleet and we do not want to purchase it, we will often rent it from other sources). Other miscellaneous rental expenses, including fuel costs and off-balance sheet lease expense, decreased approximately $0.2 million.

2. *New Equipment Sales Gross Profit*. Our new equipment sales gross profit increased $1.4 million, or 100.0%, to $2.8 million for the third quarter of 2004 from $1.4 million for the third quarter of 2003. The increase in new equipment sales gross profit is attributable primarily to higher new equipment sales revenues.

3. *Used Equipment Sales Gross Profit.* Our used equipment sales gross profit increased $1.6 million, or 55.2%, to $4.5 million for the third quarter of 2004 from $2.9 million for the third quarter of 2003. The increase in used equipment sales gross profit was primarily the result of a 2.6% increase in gross profit margin on used equipment sold. Customers are willing to pay more for well maintained, used equipment.

4. *Parts Sales and Service Revenue Gross Profit.* Our parts sales and service revenue gross profit increased $0.7 million, or 8.0%, to $9.5 million for the third quarter of 2004 from $8.8 million for the third quarter of 2003. The increase was attributable primarily to increased parts sales.

Selling, General and Administrative Expenses. Selling, general and administrative (SG&A) expenses increased $1.5 million, or 6.0%, to $26.3 million for the third quarter of 2004 from $24.8 million for the third quarter of 2003. As a percent of sales, SG&A expenses were 21.7% for the third quarter of 2004 down from 24.8% for the third quarter of 2003. Approximately $1.1 million of the total increase was related to higher sales commissions, performance incentives and benefits. Rising insurance, facility, depreciation and transportation and hauling costs accounted for the remaining $0.4 million of the total increase.

Income Taxes. We are a limited liability company that has elected to be treated as a C Corporation for income tax purposes. At the end of the third quarter of 2004 and 2003, 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.

Nine months ended September 30, 2004 compared to nine months ended September 30, 2003

The following table sets forth selected statement of operations revenue data for the periods indicated (dollars in millions):

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003	Total Dollar Change	Total Percent Change
Revenues:				
Equipment rentals:				
Cranes	$ 13.5	$ 15.2	$ (1.7)	(11.2)%
Aerial work platforms	70.9	66.6	4.3	6.5%
Earthmoving	16.9	19.0	(2.1)	(11.1)%
Lift trucks	7.0	6.3	0.7	11.1%
Other	8.4	8.1	0.3	3.7%
Total equipment rentals	116.7	115.2	1.5	1.3%
New equipment sales:				
Cranes	30.3	22.3	8.0	35.9%
Aerial work platforms	9.4	6.5	2.9	44.6%
Earthmoving	28.2	16.8	11.4	67.9%
Lift trucks	8.0	9.2	(1.2)	(13.0)%
Other	4.7	3.8	0.9	23.7%
Total new equipment sales	80.6	58.6	22.0	37.5%

Used equipment sales:				
Cranes	20.1	16.7	3.4	20.4%
Aerial work platforms	9.3	6.9	2.4	34.8%
Earthmoving	21.1	19.1	2.0	10.5%
Lift trucks	8.9	6.2	2.7	43.5%
Other	2.6	3.1	(0.5)	(16.1)%
Total used equipment sales	62.0	52.0	10.0	19.2%
Parts sales	44.3	40.0	4.3	10.8%
Service revenue	25.5	25.4	0.1	0.4%
Other	17.5	15.0	2.5	16.7%
Total revenues	$ 346.6	$ 306.2	$ 40.4	13.2%

Total Revenues. Our total revenues for the first nine months of 2004 were $346.6 million compared to $306.2 million for the first nine months of 2003, a $40.4 million or 13.2% increase. Our revenues were attributable to:

1. *Equipment Rental Revenues.* Our revenues from equipment rentals increased $1.5 million, or 1.3%, to $116.7 million for the first nine months of 2004 from $115.2 for the first nine months of 2003. The overall increase is a result of improved rental rates and higher time utilization in the first nine months of this year compared to last year and despite having reduced the overall gross rental fleet by approximately $42 million through the normal course of business activities over the last year. Rental equipment dollar utilization (year-to-date rental revenues annualized, divided by the average year-to-date original rental fleet equipment cost of $475.1 million and $530.5 million for 2004 and 2003, respectively) was approximately 32.4% compared to 29.0% last year.

2. *New Equipment Sales Revenues.* Our new equipment sales increased $22.0 million, or 37.5%, to $80.6 million for the first nine months of 2004 from $58.6 million for the first nine months of 2003. During the first nine months of 2004, new equipment sales for cranes, aerial work platforms, and earth moving equipment all improved, offset by a $1.2 million decrease in new lift truck sales.

3. *Used Equipment Sales Revenues.* Our used equipment sales increased $10.0 million, or 19.2%, to $62.0 million for the first nine months of 2004 from $52.0 million for the first nine months of 2003. Used equipment sales increased across all four core product lines (due to customer demand for well maintained, used equipment) offset by a $0.5 million decrease in other used equipment sales.

4. *Parts Sales and Service Revenue.* Our parts sales and service revenue increased $4.4 million, or 6.7%, to $69.8 million for the first nine months of 2004 from $65.4 million for the same period last year. The increase was primarily attributable to higher customer demand.

5. *Other Revenues.* Our other revenues consisted primarily of equipment support activities including transportation, hauling, parts freight and damage waiver charges. Our other revenues increased $2.5 million during the first nine months of 2004.

The following table sets forth selected statement of operations gross profit data for the periods indicated (dollars in millions):

	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003	Total Dollar Change	Total Percent Change
Gross Profit:				
Equipment rentals	41.4	36.6	4.8	13.1%
New equipment sales:				
Cranes	3.3	2.3	1.0	43.5%
Aerial work platforms	1.0	0.8	0.2	25.0%
Earthmoving	3.7	2.4	1.3	54.2%
Lift trucks	0.8	0.6	0.2	33.3%
Other	(1.0)	(0.9)	(0.1)	11.1%
Total new equipment sales	7.8	5.2	2.6	50.0%
Used equipment sales:				
Cranes	3.8	2.9	0.9	31.0%
Aerial work platforms	1.9	1.4	0.5	35.7%
Earthmoving	4.0	3.3	0.7	21.2%
Lift trucks	2.8	1.6	1.2	75.0%
Other	0.6	0.8	(0.2)	(25.0)%
Total used equipment sales	13.1	10.0	3.1	31.0%
Parts sales	12.6	11.1	1.5	13.5%
Service revenue	15.8	15.3	0.5	3.3%
Other	1.6	0.6	1.0	166.7%
Total gross profit	$ 92.3	$ 78.8	$ 13.5	17.1%

Total Gross Profit. Our total gross profit for the first nine months of 2004 was $92.3 million up from $78.8 million for the first nine months of 2003, a $13.5 million or 17.1% increase. Total gross profit margin for the first nine months of 2004 was 26.6% compared to 25.7% for the same period last year. Following is information concerning our gross profit:

1. *Equipment Rentals Gross Profit.* Our equipment rentals gross profit increased $4.8 million, or 13.1%, to $41.4 million for the first nine months of 2004 from $36.6 for the first nine months of 2003. The increase is primarily a result of a $1.5 million increase in rental revenue combined with a $3.3 million decrease in depreciation expense and other miscellaneous rental expenses.

   Depreciation expense on our rental fleet equipment is recorded in equipment rentals cost of revenues. Total rental fleet depreciation expense decreased approximately $5.0 million as a result of having reduced the overall total rental fleet. During the first nine months of 2004, our property tax and re-rent expense combined increased approximately $2.3 million. Other miscellaneous rental expense, including fuel and off-balance sheet lease expense, decreased approximately $0.6 million. For the nine months ended September 30, 2004, our maintenance and repair expenses were consistent with the same period last year.

2. *New Equipment Sales Gross Profit.* Our new equipment sales gross profit increased $2.6 million, or 50.0%, to $7.8 million for the first nine months of 2004 from $5.2 million for the first nine months of 2003. For the first nine months of 2004, new equipment sales improved across our four core product lines, offset by a $0.1 million decrease in other new equipment sales.

3. *Used Equipment Sales Gross Profit.* Our used equipment sales gross profit increased $3.1 million, or 31.0%, to $13.1 million for the first nine months of 2004 from $10.0 million for the first nine months of 2003. The increase in used equipment sales gross profit was attributable to increased revenues and a 1.9% increase in the gross profit margin on used equipment sales.

4. *Parts Sales and Service Gross Profit.* Our parts sales and service revenue gross profit increased $2.0 million, or 7.6%, to $28.4 million for the first nine months of 2004 from $26.4 million for the same period last year. The increase was primarily attributable to increased customer demand.

Selling, General and Administrative Expenses. Selling, general and administrative (SG&A) expenses increased $2.9 million, or 3.9%, to $78.1 million for the nine months ended September 30, 2004 from $75.2 million for the same period last year. As a percent of sales, SG&A expenses were 22.5% and 24.6% for the nine months ending September 30, 2004 and 2003, respectively. Approximately $2.8 million of the total increase related to higher sales commissions, performance incentives, benefits and other costs associated with increased revenues. Rising insurance, facility, depreciation and transportation and hauling costs accounted for the remaining $0.1 million of the total increase.

Loss from Litigation. In July 2000, a complaint was filed by one of our competitors in the General Court of Justice, Superior Court Division, State of North Carolina, County of Mecklenburg (the Court). On May 2, 2003, the Court handed down an Order and Opinion in favor of the plaintiff. In conjunction therewith, we recorded a $17.4 million loss for estimated damages, plaintiff's attorneys fees and other costs in 2003.

On September 11, 2003, we filed a notice of appeal. In conjunction with the appeal and in accordance with the Court's order, we issued an irrevocable standby letter of credit for $19.0 million, representing the amount of the judgment plus $1.6 million in anticipated statutory interest for the sixteen months while the judgment is being appealed. If, at the end of the sixteen months (January 2005), the appeal is still pending, we will be required to extend the maturity of the irrevocable standby letter of credit for eight additional months and increase the amount by $0.8 million (eight months additional statutory interest at 8.0%). We will expense any additional statutory interest as interest expense in the statement of operations. For the duration of the letter of credit, we pay a 300 basis point fee on the amount available for issuance.

During the third quarter of 2004, both parties involved in this litigation filed appellate briefs with the North Carolina Court of Appeals. Both parties have moved to be allowed to make "oral arguments" and are awaiting the 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.

Income Taxes. We are a limited liability company that has elected to be treated as a C Corporation for income tax purposes. At the end of the third quarter of 2004 and 2003, 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

Senior Secured Credit Facility Amendments

During the first quarter of 2004, we amended the senior secured credit agreement dated June 17, 2002, governing our senior secured credit facility. Principally, this amendment:

1. extended the maturity date of the amended senior secured credit facility to February 2009;

2. eliminated the maximum leverage ratio covenant;

3. increased the adjusted maximum leverage ratio covenant from 5.2x to 5.8x for each quarter in the first year; 5.7x for each quarter in the second year; 5.4x for each quarter in the third year; 5.3x for each quarter in the fourth year; and 5.2x for each quarter in the fifth year. The minimum adjusted interest coverage ratio is set at 1.25x for each quarter through 2005; 1.35x for each quarter in 2006 and 2007; and 1.40x for each quarter in 2008 and through the remaining term of the agreement;

4. increased the block on availability of assets from $20.0 million to $30.0 million based on the total borrowing base assets; and

5. reduced the advance rate on rental fleet assets to 75 percent from 80 percent of the orderly liquidation value.

We paid a loan amendment fee of $0.8 million that is being amortized over the remaining term of the loan. As of September 30, 2004, we were in compliance with the financial covenants.

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 September 30, 2004, the total balance outstanding on the amended senior secured credit facility was $55.7 million, with $69.8 million net available in additional borrowings (taking into account $24.5 million in standby letters of credit). Also on September 30, 2004, our total balance payable on capital lease obligations and notes payable were $1.5 million and $0.8 million, respectively.

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. We anticipate that these uses will continue to be the principal demands on our cash in the future.

The amount of our future capital expenditures will depend on a number of factors including general economic conditions and growth prospects. 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.

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 September 30, 2004, 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. See "Contractual and Commercial Commitments Summary" below.

Sources and Uses of Cash

Cash flow from operating activities. For the nine months ended September 30, 2004, our cash used in operating activities was $5.1 million. The significant components of our operating activities that provided cash were depreciation and amortization expense of $41.6 million, an increase in accrued expenses payable and other liabilities of $13.2 million and a net decrease in other assets and other liabilities of $0.6 million. Significant components of our operating activities that used cash consisted of a $15.4 million net loss, gain on sale of rental and non-rental equipment of $11.8 million, a $7.2 million increase in accounts receivable, a $3.7 million decrease in accounts payable, an increase in inventories of $21.8 million and a $0.6 million increase in prepaid expenses and other assets.

Cash flow from investing activities. For the nine months ended September 30, 2004, cash used in our investing activities was $3.1 million. This is a result of proceeds from the sale of rental and non-rental equipment of $48.5 million offset by purchasing $51.6 million in rental and non-rental equipment.

Cash flow from financing activities. For the nine months ended September 30, 2004, cash provided by our financing activities was $6.5 million. Our total borrowings under the amended senior secured credit facility were $350.1 million and total payments under the amended senior secured credit facility were $338.3 million. Financing costs paid in cash for the refinancing totaled $0.9 million and payments of related party obligation totaled $0.2 million. Payments on capital leases and other notes were $4.1 million.

Contractual and Commercial Commitments Summary

The following summarizes our contractual obligations at September 30, 2004, and the effect such obligations are expected to have on our liquidity and cash flow in future periods (including interest):

	Payments Due by Year				
	Total	2004	2005-2006	2007-2008	Thereafter
	(Dollars in thousands)				
Long-term debt (including subordinated notes payable)	$ 254,008	$ 115	$ 536	$ 357	$ 253,000
Interest payments on senior secured notes	178,000	11,125	44,500	44,500	77,875
Interest payments on senior subordinated notes	59,625	3,313	13,250	13,250	29,812
Senior secured credit facility	55,739	—	—	—	55,739
Capital lease obligations	1,632	344	1,288	—	—
Related party obligation	1,425	75	600	600	150
Operating leases(1)	64,435	5,860	37,987	11,806	8,782
Other long-term obligations(2)	62,459	9,519	25,462	19,854	7,624
Total contractual cash obligations	$ 677,323	$ 30,351	$ 123,623	$ 90,367	$ 432,982

(1) This includes total operating lease rental payments (including interest) having initial or remaining non-cancelable lease terms longer than one year.

(2) This includes: (i) Bruckmann, Rosser, Sherrill & Co., Inc's annual management fees through 2012 (based upon the lesser of 1.75% of estimated Earnings Before Interest, Taxes, Depreciation, and Amortization excluding operating lease expense or $2.0 million per year) for $11.6 million, (ii) payments under non-competition agreements with former officers for $0.3 million and (iii) payments for secured floor plan financing for $50.6 million.

Additionally, as of September 30, 2004, we have standby letters of credit totaling $24.5 million that expire in January 2005 and September 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 operations is directly related to commercial and industrial construction and maintenance activities. Therefore, equipment rental performance will be correlated to the levels of 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 spring season and expanding through 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, 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 or letters of intent with respect to any material acquisition. 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 pricess 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, including its most recent Annual Report on Form 10-K. 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.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our earnings are effected by changes in interest rates due to the fact that interest on the revolving line of credit is calculated based upon LIBOR plus 300 basis points. 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 September 30, 2004, we had variable rate debt representing 18.6% 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 September 30, 2004, a one percent increase in market rates would increase our annual interest expense approximately $1.1 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 81.4% of total debt. The annual interest rates on our senior secured credit facility averaged 7.0% in 2004 compared to 5.2% in 2003.

Item 4. Controls and Procedures

(a) Within the 90 days prior to the date of filing this Form 10-Q, we carried out an evaluation, under the supervision and with the participation of management, including our President and Chief Executive Officer along with the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based upon that evaluation, our President and Chief Executive Officer along with the Chief Financial Officer concluded that our disclosure controls and procedures are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in our periodic SEC filings.

(b) There have been no significant changes in our internal controls or in other factors which could significantly affect internal controls subsequent to the date we carried out our evaluation.

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, a complaint was filed by one of our competitors in the General Court of Justice, Superior Court Division, State of North Carolina, County of Mecklenburg (the Court). On May 2, 2003, the Court handed down an Order and Opinion in favor of the plaintiff. In conjunction therewith, we recorded a $17.4 million loss for estimated damages, plaintiff's attorneys fees and other costs in 2003.

On September 11, 2003, we filed a notice of appeal. In conjunction with the appeal and in accordance with the Court's order, we issued an irrevocable standby letter of credit for $19.0 million, representing the amount of the judgment plus $1.6 million in anticipated statutory interest for the sixteen months while the judgment is being appealed. If, at the end of the sixteen months (January 2005), the appeal is still pending, we will be required to extend the maturity of the irrevocable standby letter of credit for eight additional months and increase the amount by $0.8 million (eight months additional statutory interest at 8.0%). We will expense any additional statutory interest as interest expense in the statement of operations. For the duration of the letter of credit, we pay a 300 basis point fee on the amount available for issuance.

During the third quarter of 2004, both parties involved in this litigation filed appellate briefs with the North Carolina Court of Appeals. Both parties have moved to be allowed to make "oral arguments" and are awaiting the 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. Changes in 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 and reports on Form 8-K.

a) Exhibits

31.1 Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification pursuant to section 302 of the Sarbanes-Oxley Act of 2002

b) Reports on Form 8-K

Form 8-K filed on August 4, 2004

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: November 15, 2004	By: /s/ JOHN M. ENGQUIST
	John M. Engquist *Chief Executive Officer* *(Principal Executive Officer)*
Dated: November 15, 2004	By: /s/ LESLIE S. MAGEE
	Leslie S. Magee *Corporate Controller* *(Principal Financial and Accounting Officer)*

QuickLinks

Exhibit 31.1

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: November 15, 2004

By: /s/ JOHN M. ENGQUIST

John M. Engquist
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Leslie S. Magee, Corporate Controller 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: November 15, 2004

By: /s/ LESLIE S. MAGEE

Leslie S. Magee
Corporate Controller