BlackRock Multi-Sector Income Trust
Form 497
February 26, 2013

**PROSPECTUS**

# 36,000,000 Shares

# BlackRock Multi-Sector Income Trust

## Common Shares

## $20.00 per share

*Investment Objectives.* BlackRock Multi-Sector Income Trust (the Trust ) is a newly-organized, non-diversified, closed-end management investment company with no operating history. The Trust s primary investment objective is to seek high current income, with a secondary objective of capital appreciation. There can be no assurance that the Trust s investment objectives will be achieved or that the Trust s investment program will be successful.

*Investment Advisor and Sub-Advisors.* The Trust s investment adviser is BlackRock Advisors, LLC (the Advisor ) and the Trust s investment sub-advisers are BlackRock Financial Management, Inc. and BlackRock Investment Management, LLC (collectively, the Sub-Advisors ). We sometimes refer to the Advisor and the Sub-Advisors collectively as the Advisors.

(*continued on inside front cover)*

The Trust s common shares have been approved for listing on the New York Stock Exchange, subject to notice of issuance, under the symbol BIT.

***No Prior History.*** **Because the Trust is newly organized, its common shares have no history of public trading. Shares of closed-end investment companies frequently trade at a discount from their net asset value. The risk of loss due to this discount may be greater for investors expecting to sell their shares in a relatively short period after completion of the public offering.**

**Investing in the Trust s common shares involves certain risks that are described in the Risks section beginning on page 55 of this Prospectus. Certain of these risks are summarized in Prospectus Summary Special Risk Considerations beginning on page 5.**

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this Prospectus is truthful or complete. Any representation to the contrary is a criminal offense.**

| | Per Share | Total(3) |
|---|---|---|
| Public Offering Price | $20.00 | $720,000,000 |
| Sales Load(1) | $.90 | $32,400,000 |

| | | |
|---|---|---|
| Estimated Offering Expenses(2) | $.04 | $1,440,000 |
| Proceeds, After Expenses, to the Trust(4) | $19.06 | $686,160,000 |

*(notes on inside front cover)*

The underwriters expect to deliver the common shares to purchasers on or about February 28, 2013.

**BofA Merrill Lynch**

**Citigroup**

**Morgan Stanley**

**UBS Investment Bank**

**Wells Fargo Securities**

**RBC Capital Markets**

**BB&T Capital Markets** **J.J.B. Hilliard, W.L. Lyons, LLC** **Janney Montgomery Scott**
**Ladenburg Thalmann & Co. Inc.** **Maxim Group LLC** **Newbridge Securities Corp**
**Pershing LLC** **Southwest Securities** **Wedbush Securities Inc.** **Wunderlich Securities**

The date of this Prospectus is February 25, 2013.

*(notes from previous page)*

(1) The Advisor (and not the Trust) has agreed to pay from its own assets structuring fees to Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citigroup Global Markets Inc., Morgan Stanley & Co. LLC, UBS Securities LLC, Wells Fargo Securities, LLC and RBC Capital Markets, LLC. The Advisor and certain of its affiliates (and not the Trust) expect to pay compensation to certain registered representatives of BlackRock Investments, LLC (an affiliate of the Advisor) that participate in the marketing of the Trust s common shares. See Underwriting.

(2) The Advisor has agreed to pay offering expenses of the Trust (other than the sales load) to the extent that offering expenses (other than the sales load), when added to organizational costs paid by the Trust, exceed $.04 per common share. The Trust will pay offering expenses of the Trust (other than the sales load), when added to organizational costs paid by the Trust, of up to $.04 per common share, which may include a reimbursement of the Advisor s expenses incurred in connection with this offering. Any offering expenses paid by the Trust will be deducted from the proceeds of the offering received by the Trust. The aggregate organizational and offering expenses (other than the sales load) are estimated to be $2,417,000 (or $.07 per common share). The aggregate organizational and offering expenses (other than the sales load) to be incurred by the Trust are estimated to be $1,440,000 (or $.04 per common share). The aggregate offering expenses (other than the sales load) to be incurred by the Advisor on behalf of the Trust are estimated to be $977,000 (or $.03 per common share). If the underwriters exercise the option to purchase additional common shares in full, the aggregate organizational and offering expenses (other than the sales load) to be borne by the Trust are estimated to be $1,656,000 (or $.04 per common share).

(3) The Trust has granted the underwriters an option to purchase up to 5,400,000 additional common shares at the public offering price, less the sales load, within 45 days of the date of this Prospectus. If such option is exercised in full, the public offering price, sales load and proceeds, after expenses, to the Trust will be $828,000,000, $37,260,000 and $789,084,000, respectively. See Underwriting.

(4) The Trust will pay its organizational costs in full out of its seed capital prior to completion of this offering.

*(continued from previous page)*

*Investment Strategy.* Under normal market conditions, the Trust will invest at least 80% of its Managed Assets (as defined in this Prospectus) in loan and debt instruments and other investments with similar economic characteristics (collectively fixed income securities ). In investing the Trust s assets, the Advisors expect to allocate capital across multiple sectors of the fixed income securities market by evaluating portfolio risk in light of the available investment opportunities and prevailing risks in the fixed income market, with the goal of delivering attractive risk-adjusted returns. In doing so, the Advisors seek to find the appropriate balance between risk mitigation and opportunism. The Advisors do not manage the Trust to a benchmark, which provides flexibility to allocate and rotate the Trust s assets across various sectors within the fixed income universe. This strategy seeks to provide exposure to those segments of the fixed income market that the Advisors anticipate will provide value while attempting to minimize exposure to those segments that the Advisors anticipate will not provide value. If the Advisors perception of the value of a segment of the fixed income market or an individual security is incorrect, your investment in the Trust may lose value.

Fixed income securities in which the Trust may invest include: mortgage related securities; asset-backed securities; U.S. Government and agency securities; loans and loan participations, including senior secured floating rate and fixed rate loans or debt ( Senior Loans ) and second lien or other subordinated or unsecured floating rate and fixed rate loans or debt ( Second Lien Loans ); bonds or other debt securities issued by U.S. or foreign (non-U.S.) corporations or other business entities; collateralized loan obligations; preferred securities; convertible securities, including synthetic convertible securities; sovereign debt; municipal securities; and structured instruments.

The Trust may invest in securities of any quality, rated or unrated, including those that are rated below investment grade quality (rated Ba/BB or below by Moody s Investor s Service, Inc., Standard & Poor s Corporation Ratings Group, a division of The McGraw-Hill Companies, Inc., or Fitch Ratings, Inc.) or securities that are unrated but judged to be of comparable quality by the Advisors. Such securities, sometimes referred to as high yield or junk bonds, are predominantly speculative with respect to the capacity to pay interest and repay principal in accordance with the terms of the security and generally involve greater price volatility than securities in higher rating categories. The Trust may hold securities of any duration or maturity and does not maintain set policies with respect to the average duration or maturity of the Trust s portfolio. The Trust may invest without limitation in securities of U.S. issuers and non-U.S. issuers located in countries throughout the world, including in developed and emerging markets. Foreign securities in which the Trust may invest may be U.S. dollar-denominated or non-U.S. dollar-denominated. The Trust may invest in securities of issuers of any market capitalization size, including small- and mid-cap companies, and of issuers that operate in any sector or industry.

*Leverage.* The Trust currently intends to use leverage to seek to achieve its investment objectives. The Trust currently anticipates that it will use leverage through reverse repurchase agreements and/or dollar rolls and the Trust may also borrow funds from banks or other financial institutions and/or issue preferred shares as described in this Prospectus. The Trust intends to use economic leverage, which includes leverage attributable to reverse repurchase agreements, dollar rolls, borrowings and any issuance of preferred shares, of up to 40% of its Managed Assets (66.7% of its net assets), although it may use economic leverage of up to 50% of its Managed Assets (100% of its net assets). See Leverage.

The use of leverage is subject to numerous risks. When leverage is employed, the net asset value and market price of the common shares and the yield to holders of common shares will be more volatile than if leverage were not used. For example, a rise in short-term interest rates, which currently are near historically low levels, will cause the Trust s net asset value to decline more than if the Trust had not used leverage. A reduction in the Trust s net asset value may cause a reduction in the market price of its common shares. The Trust cannot assure you that the use of leverage will result in a higher yield on the common shares. The Trust s leveraging strategy may not be successful. See Risks Leverage Risk.

* * * *

You should read this Prospectus, which concisely sets forth information about the Trust, before deciding whether to invest in the common shares and retain it for future reference. A Statement of Additional Information, dated February 25, 2013 containing additional information about the Trust (the SAI ), has been filed with the Securities and Exchange Commission and, as amended from time to time, is incorporated by reference in its entirety into this Prospectus. You can review the table of contents for the SAI on page 100 of this Prospectus. You may request a free copy of the SAI by calling (800) 882-0052 or by writing to the Trust, or obtain a copy (and other information regarding the Trust) from the Securities and Exchange Commission s Public Reference Room in Washington, D.C. Call (202) 551-8090 for information. The Securities and Exchange Commission charges a fee for copies. You can get the same information free from the Securities and Exchange Commission s website (http://www.sec.gov). You may also e-mail requests for these documents to publicinfo@sec.gov or make a request in writing to the Securities and Exchange Commission s Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549-0102. The Trust does not post a copy of the SAI on its website because the Trust s common shares are not continuously offered, which means the SAI will not be updated after completion of this offering and the information contained in the SAI will become outdated. In addition, you may request copies of the Trust s semi-annual and annual reports or other information about the Trust or make shareholder inquiries by calling (800) 882-0052. The Trust s annual and semi-annual reports, when produced, will be available at the Trust s website (http://www.blackrock.com) free of charge.

You should not construe the contents of this Prospectus as legal, tax or financial advice. You should consult with your own professional advisors as to the legal, tax, financial or other matters relevant to the suitability of an investment in the Trust.

**The Trust s common shares do not represent a deposit or an obligation of, and are not guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.**

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**You should rely only on the information contained or incorporated by reference in this Prospectus. The Trust has not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information in this Prospectus is accurate only as of the date of this Prospectus. Our business, financial condition and prospects may have changed since that date.**

## PROSPECTUS SUMMARY

*This is only a summary of certain information contained in this Prospectus relating to BlackRock Multi-Sector Income Trust. This summary may not contain all of the information that you should consider before investing in our common shares. You should review the more detailed information contained in this Prospectus and in the Statement of Additional Information (the SAI ).*

**The Trust**

BlackRock Multi-Sector Income Trust is a newly organized, non-diversified, closed-end management investment company with no operating history. Throughout the Prospectus, we refer to BlackRock Multi-Sector Income Trust simply as the Trust or as we, us or our. See The Trust.

**The Offering**

The Trust is offering 36,000,000 common shares of beneficial interest at $20.00 per share through a group of underwriters led by Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citigroup Global Markets Inc., Morgan Stanley & Co. LLC, UBS Securities LLC and Wells Fargo Securities, LLC. The common shares of beneficial interest are called common shares in the rest of this Prospectus. You must purchase at least 100 common shares ($2,000) in order to participate in this offering. The Trust has given the underwriters an option to purchase up to 5,400,000 additional common shares within 45 days of the date of this Prospectus solely to cover the exercise of such option, if any. BlackRock Advisors, LLC (the Advisor ), the Trust s investment adviser, has agreed to pay offering expenses (other than the sales load) to the extent that offering expenses (other than the sales load), when added to organizational costs paid by the Trust, exceed $.04 per common share. See Underwriting.

**Investment Objectives**

The Trust s primary investment objective is to seek high current income, with a secondary objective of capital appreciation. The Trust is not intended as, and you should not construe it to be, a complete investment program. There can be no assurance that the Trust s investment objectives will be achieved or that the Trust s investment program will be successful. The Trust s investment objectives may be changed by the Board of Trustees of the Trust (the Board, and each member, a Trustee ) without prior shareholder approval.

**Investment Strategy**

In investing the Trust s assets, the Advisors expect to allocate capital across multiple sectors of the fixed income securities market by evaluating portfolio risk in light of the available investment opportunities and prevailing risks in the fixed income market, with the goal of delivering attractive risk-adjusted returns. In doing so, the Advisors seek to find the appropriate balance between risk mitigation and opportunism. The Advisors do not manage the Trust to a benchmark, which provides flexibility to allocate and rotate the Trust s assets across various sectors within the fixed income universe. This strategy seeks to provide exposure to those segments of the fixed income market that the Advisors anticipate will provide value while attempting to minimize exposure to those segments that the Advisors anticipate will not provide value. If the Advisors perception of the value of a segment of the fixed income market or an individual security is incorrect, your investment in the Trust may lose value.

**Investment Policies**

Under normal market conditions, the Trust will invest at least 80% of its Managed Assets (as defined in this Prospectus) in loan and debt instruments and other investments with similar economic characteristics (collectively fixed income securities ).

Fixed income securities in which the Trust may invest include: mortgage related securities; asset-backed securities ( ABS ); U.S. Government and agency securities; loans and loan participations, including senior secured floating rate and fixed rate loans or debt ( Senior Loans ) and second lien or other subordinated or unsecured floating rate and fixed rate loans or debt ( Second Lien Loans ); bonds or other debt securities issued by U.S. or foreign (non-U.S.) corporations or other business entities; collateralized loan obligations ( CLOs ); preferred securities; convertible securities, including synthetic convertible securities; sovereign debt; municipal securities; and structured instruments.

The Trust may invest in securities of any quality, rated or unrated, including those that are rated below investment grade quality (rated Ba/BB or below by Moody s Investor s Service, Inc. ( Moody s ), Standard & Poor s Corporation Ratings Group, a division of The McGraw-Hill Companies, Inc. ( S&P ), or Fitch Ratings, Inc. ( Fitch )) or securities that are unrated but judged to be of comparable quality by the Advisors. Such securities, sometimes referred to as high yield or junk bonds, are predominantly speculative with respect to the capacity to pay interest and repay principal in accordance with the terms of the security and generally involve greater price volatility than securities in higher rating categories. Below investment grade securities and comparable unrated securities involve substantial risk of loss and are susceptible to default or decline in market value due to adverse economic and business developments. Under normal market conditions, the Trust will not invest more than 20% of its Managed Assets in securities, other than mortgage related and other asset-backed securities, that are, at the time of investment, rated CCC+ or lower by S&P or Fitch or Caa1 or lower by Moody s, or that are unrated but judged to be of comparable quality by the Advisors. For purposes of applying the foregoing policy, in the case of securities with split ratings (i.e., a security receiving two different ratings from two different rating agencies), the Trust will apply the higher of the applicable ratings. The Trust may invest in mortgage related and other asset backed securities of any quality, rated or unrated, without limitation.

The Trust may invest in fixed income securities of any type, including those with fixed, floating or variable interest rates, those with interest rates that change based on multiples of changes in a specified reference interest rate or index of interest rates and those with interest rates that change inversely to changes in interest rates, as well as those that do not bear interest. The Trust may hold securities of any duration or maturity and does not maintain set policies with respect to the average duration or maturity of the Trust s portfolio.

Under normal market conditions, the Trust will not invest more than 10% of its Managed Assets in CLOs.

Under normal market conditions, the Trust will invest at least 25% of its total assets in mortgage related securities. The Trust s investment in mortgage related securities may consist entirely of privately issued securities, which are issued by commercial banks, savings and loan institutions, mortgage bankers, private mortgage insurance companies and other non-governmental issuers.

Under normal market conditions, the Trust may invest up to 20% of its Managed Assets in securities other than fixed income securities, including common stocks, warrants, depositary receipts and other equity securities.

The Trust may invest without limitation in securities of U.S. issuers and non-U.S. issuers located in countries throughout the world, including in developed and emerging markets. Foreign securities in which the Trust may invest may be U.S. dollar-denominated or non-U.S. dollar-denominated. The Trust may invest in securities of issuers of any market capitalization size, including small- and mid-cap companies, and of issuers that operate in any sector or industry.

The Trust may also invest in securities of other open- or closed-end investment companies, including exchange-traded funds ( ETFs ), subject to applicable regulatory limits, that invest primarily in securities of the types in which the Trust may invest directly. The Trust treats its investments in open- or closed-end investment companies that invest substantially all of their assets in fixed income securities as investments in fixed income securities.

During temporary defensive periods, including the period during which the net proceeds of this offering are being invested, and in order to keep the Trust s cash fully invested, the Trust may invest up to 100% of its total assets in liquid, short-term investments, including high quality, short-term securities. The Trust may not achieve its investment objectives under these circumstances.

The Trust may engage in Strategic Transactions (as defined in this Prospectus) for hedging purposes, to establish a position in the securities market as a temporary substitute for purchasing particular securities or to enhance income or gain. See The Trust s Investments Portfolio Contents and Techniques Strategic Transactions and Other Management Techniques.

The Trust may also engage in short sales of securities. See The Trust s Investments Portfolio Contents and Techniques Short Sales in this Prospectus and Investment Restrictions in the SAI for information about the limitations applicable to the Trust s short sale activities.

The Trust may lend securities with a value of up to 33 1/3% of its total assets (including such loans) to financial institutions that provide cash or securities issued or guaranteed by the U.S. Government as collateral.

Unless otherwise stated herein or in the SAI, the Trust s investment policies are non-fundamental policies and may be changed by the

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Board without prior shareholder approval. The Trust s policy to invest at least 80% of its Managed Assets in fixed income securities may be changed by the Board; however, if this policy changes, the Trust will provide shareholders at least 60 days written notice before implementation of the change.

For a discussion of risk factors that may affect the Trust s ability to achieve its investment objectives, see Risks.

**Leverage**

The Trust currently intends to use leverage to seek to achieve its investment objectives. The Trust currently anticipates that it will use leverage through reverse repurchase agreements and/or dollar rolls and the Trust may also borrow funds from banks or other financial institutions and/or issue preferred shares as described in this Prospectus. The Trust intends to use economic leverage, which includes leverage attributable to reverse repurchase agreements, dollar rolls, borrowings and any issuance of preferred shares, of up to 40% of its Managed Assets (66.7% of its net assets), although it may use economic leverage of up to 50% of its Managed Assets (100% of its net assets). See Leverage.

The use of leverage is subject to numerous risks. When leverage is employed, the net asset value and market price of the common shares and the yield to holders of common shares will be more volatile than if leverage were not used. For example, a rise in short-term interest rates, which currently are near historically low levels, will cause the Trust s net asset value to decline more than if the Trust had not used leverage. A reduction in the Trust s net asset value may cause a reduction in the market price of its common shares. The Trust cannot assure you that the use of leverage will result in a higher yield on the common shares. When the Trust uses leverage, the management fee and sub-advisory fees payable to the Advisors will be higher than if the Trust did not use leverage. The Trust s leveraging strategy may not be successful. See Risks Leverage Risk.

**Investment Advisor and Sub-Advisors**

BlackRock Advisors, LLC will be the Trust s investment adviser and the Advisor s affiliates, BlackRock Financial Management, Inc. and BlackRock Investment Management, LLC (collectively, the Sub-Advisors ), will be the Trust s investment sub-advisers. Throughout the Prospectus, we sometimes refer to the Advisor and the Sub-Advisors collectively as the Advisors. The Advisor will receive an annual fee, payable monthly, in an amount equal to .80% of the average daily value of the Trust s Managed Assets. The Advisor will pay an annual sub-advisory fee to each Sub-Advisor equal to 46% of the monthly management fee received by the Advisor with respect to the assets of the Trust allocated to such Sub-Advisor. See Management of the Trust Investment Advisor and Sub-Advisors.

**Distributions**

Commencing with the Trust s initial dividend, the Trust intends to distribute monthly all or a portion of its net investment income to holders of common shares. We expect to declare the initial monthly dividend on the Trust s common shares approximately 45 days after completion of this offering and to pay that initial monthly dividend approximately 60 to 90 days after completion of this offering, depending on market conditions. The Trust intends to pay any capital gains distributions at least annually.

Shareholders will automatically have all dividends and distributions reinvested in common shares of the Trust in accordance with the Trust s dividend reinvestment plan, unless an election is made to receive cash by contacting the Reinvestment Plan Agent (as defined herein), at (800) 699-1236. See Dividend Reinvestment Plan.

The Trust reserves the right to change its distribution policy and the basis for establishing the rate of its monthly distributions at any time and may do so without prior notice to common shareholders. See Distributions.

**Listing**

The Trust s common shares have been approved for listing on the New York Stock Exchange, subject to notice of issuance, under the symbol BIT. See Description of Shares Common Shares.

**Custodian and Transfer Agent**

State Street Bank and Trust Company will serve as the Trust s Custodian, and Computershare Trust Company, N.A. will serve as the Trust s Transfer Agent.

**Administrator**

State Street Bank and Trust Company will serve as the Trust s administrator and fund accountant.

**Market Price of Shares**

Common shares of closed-end investment companies frequently trade at prices lower than their net asset value. The Trust cannot assure you that its common shares will trade at a price higher than or equal to net asset value. The value of a shareholder s investment in the Trust will be reduced immediately following this offering by the sales load and the amount of the organizational and offering expenses paid by the Trust. See Use of Proceeds. The Trust s common shares will trade in the open market at market prices that will be a function of several factors, including dividend levels (which are in turn affected by expenses), net asset value, call protection for portfolio securities, portfolio credit quality, liquidity, dividend stability, relative demand for and supply of the common shares in the market, general market and economic conditions and other factors. See Leverage, Risks, Description of Shares and the section of the SAI with the heading Repurchase of Common Shares. The common shares are designed primarily for long-term investors and you should not purchase common shares of the Trust if you intend to sell them shortly after purchase.

**Special Risk Considerations**

An investment in common shares of the Trust involves risk. You should consider carefully the risks discussed below, which are described in more detail under Risks beginning on page 55 of this Prospectus.

*No Operating History.* The Trust is a newly organized, non-diversified, closed-end management investment company with no operating history. The Trust does not have any historical financial

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statements or other meaningful operating or financial data on which potential investors may evaluate the Trust and its performance. See Risks No Operating History.

*Non-Diversified Status.* The Trust will be a non-diversified fund. As defined in the Investment Company Act, a non-diversified fund may have a significant part of its investments in a smaller number of securities than can a diversified fund. Having a larger percentage of assets in a smaller number of securities makes a non-diversified fund, like the Trust, more susceptible to the risk that one single event or occurrence can have a significant adverse impact upon the Trust.

*Investment and Market Discount Risk.* An investment in the Trust s common shares is subject to investment risk, including the possible loss of the entire amount that you invest. As with any stock, the price of the Trust s common shares will fluctuate with market conditions and other factors. If shares are sold, the price received may be more or less than the original investment. The value of your investment in the Trust will be reduced immediately following the initial offering by the amount of the sales load and the amount of the organizational and offering expenses paid by the Trust. Common shares are designed for long-term investors and should not be treated as trading vehicles. Shares of closed-end management investment companies frequently trade at a discount from their net asset value. This risk is separate and distinct from the risk that the Trust s net asset value could decrease as a result of its investment activities. At any point in time an investment in the Trust s common shares may be worth less than the original amount invested, even after taking into account distributions paid by the Trust. This risk may be greater for investors who sell their common shares in a relatively short period of time after completion of the initial offering. The Trust anticipates using leverage, which will magnify the Trust s investment, market and certain other risks.

*Fixed Income Securities Risks.* Fixed income securities in which the Trust may invest are generally subject to the following risks:

*Issuer Risk.* The value of fixed income securities may decline for a number of reasons which directly relate to the issuer, such as management performance, financial leverage, reduced demand for the issuer s goods and services, historical and prospective earnings of the issuer and the value of the assets of the issuer.

*Credit Risk.* Credit risk is the risk that one or more fixed income securities in the Trust s portfolio will decline in price or fail to pay interest or principal when due because the issuer of the security experiences a decline in its financial status. Credit risk is increased when a portfolio security is downgraded or the perceived creditworthiness of the issuer deteriorates. To the extent the Trust invests in below investment grade securities, it will be exposed to a greater amount of credit risk than a fund which only invests in investment grade securities. In addition, to the extent the Trust uses credit derivatives, such use will expose it to additional risk in the event that the bonds underlying the derivatives default. See Risks Below Investment Grade Securities Risk.

*Interest Rate Risk.* The value of certain fixed income securities in the Trust s portfolio could be affected by interest rate fluctuations. Generally, when market interest rates fall, fixed rate securities prices rise, and vice versa. Interest rate risk is the risk that the securities in the Trust s portfolio will decline in value because of increases in market interest rates. The prices of longer-term securities fluctuate more than prices of shorter-term securities as interest rates change. **These risks may be greater in the current market environment because certain interest rates are near historically low levels.** The Trust s use of leverage, as described below, will tend to increase common share interest rate risk. The Trust may utilize certain strategies, including taking positions in futures or interest rate swaps, for the purpose of reducing the interest rate sensitivity of fixed income securities held by the Trust and decreasing the Trust s exposure to interest rate risk. The Trust is not required to hedge its exposure to interest rate risk and may choose not to do so. To the extent the Trust holds variable or floating rate instruments, a decrease (or, in the case of inverse floating rate securities, an increase) in market interest rates will adversely affect the income received from such securities, which may adversely affect the net asset value of the Trust s common shares. See Risks Fixed Income Securities Risks Interest Rate Risk.

*Prepayment Risk.* During periods of declining interest rates, borrowers may exercise their option to prepay principal earlier than scheduled. For fixed rate securities, such payments often occur during periods of declining interest rates, forcing the Trust to reinvest in lower yielding securities, resulting in a possible decline in the Trust s income and distributions to shareholders. This is known as prepayment or call risk. Below investment grade securities frequently have call features that allow the issuer to redeem the security at dates prior to its stated maturity at a specified price (typically greater than par) only if certain prescribed conditions are met ( call protection ). For premium bonds (bonds acquired at prices that exceed their par or principal value) purchased by the Trust, prepayment risk may be enhanced.

*Reinvestment Risk.* Reinvestment risk is the risk that income from the Trust s portfolio will decline if the Trust invests the proceeds from matured, traded or called fixed income securities at market interest rates that are below the Trust portfolio s current earnings rate.

*Duration and Maturity Risk.* The Trust has no set policy regarding portfolio maturity or duration. Holding long duration and long maturity investments will expose the Trust to certain magnified risks.

*Below Investment Grade Securities Risk.* The Trust may invest in securities that are rated, at the time of investment, below investment grade quality (rated Ba/BB or below, or unrated but judged to be of comparable quality by the Advisors), which are commonly referred to as junk bonds and are regarded as predominantly speculative with respect to the issuer s capacity to pay interest and repay principal. The value of high yield, lower quality bonds is affected by the creditworthiness of the issuers of the securities and by general economic and specific industry conditions. Issuers of high yield bonds are not perceived to be as strong financially as those with higher credit ratings. These issuers are more vulnerable to financial setbacks and recession than more creditworthy issuers, which may impair their ability to make interest and principal payments. Lower grade securities may be particularly susceptible to economic downturns. It is likely that an economic recession could disrupt severely the market for such securities and may have an adverse impact on the value of such securities. In addition, it is likely that any such economic downturn could adversely affect the ability of the issuers of such securities to repay principal and pay interest thereon and increase the incidence of default for such securities. The secondary market for lower grade securities may be less liquid than that for higher rated securities. Adverse conditions could make it difficult at times for the Trust to sell certain securities or could result in lower prices than those used in calculating the Trust s net asset value. Because of the substantial risks associated with investments in lower grade securities, you could lose money on your investment in common shares of the Trust, both in the short-term and the long-term. To the extent that the Trust invests in lower grade securities that have not been rated by a rating agency, the Trust s ability to achieve its investment objectives will be more dependent on the Advisors credit analysis than would be the case when the Trust invests in rated securities. See Risks Below Investment Grade Securities Risk.

*Mortgage Related Securities Risks.* Investing in mortgage-backed securities ( MBS ) entails various risks. MBS represent an interest in a pool of mortgages. The risks associated with MBS include: credit risk associated with the performance of the underlying mortgage properties and of the borrowers owning these properties; risks associated with their structure and execution (including the collateral, the process by which principal and interest payments are allocated and distributed to investors and how credit losses affect the return to investors in such MBS); risks associated with the servicer of the underlying mortgages; adverse changes in economic conditions and circumstances, which are more likely to have an adverse impact on MBS secured by loans on certain types of commercial properties than on those secured by loans on residential properties; prepayment risk, which can lead to significant fluctuations in the value of the mortgage-backed security; loss of all or part of the premium, if any, paid; and decline in the market value of the security, whether resulting from changes in interest rates, prepayments on the underlying mortgage collateral or perceptions of the credit risk associated with the underlying mortgage collateral. In addition, the Trust s level of investment in MBS of a particular type or in MBS issued or guaranteed by affiliated obligors, serviced by the same servicer or backed by underlying collateral located in a specific geographic region, may subject the Trust to additional risk.

When market interest rates decline, more mortgages are refinanced and the securities are paid off earlier than expected. Prepayments may also occur on a scheduled basis or due to foreclosure. During such periods, the reinvestment of prepayment proceeds by the Trust will generally be at lower rates than the rates that were carried by the obligations that have been prepaid. When market interest rates increase, the market values of MBS decline. At the same time, however, mortgage refinancings and prepayments slow, lengthening the effective maturities of these securities. As a result, the negative effect of the rate increase on the market value of MBS is usually more pronounced than it is for other types of fixed income securities. Moreover, the relationship between borrower prepayments and changes in interest rates may mean some high-yielding mortgage related and other asset-backed securities have less potential for increases in value if market interest rates were to fall than conventional bonds with comparable maturities.

MBS generally are classified as either residential mortgage-backed securities ( RMBS ) or commercial mortgage-backed securities ( CMBS ), each of which are subject to certain specific risks as further described below.

*RMBS Risk.* Credit-related risk on RMBS arises from losses due to delinquencies and defaults by the borrowers in payments on the underlying mortgage loans and breaches by originators and servicers of their obligations under the underlying documentation pursuant to which the RMBS are issued. Residential mortgage loans are obligations of the borrowers thereunder only and are not typically insured or guaranteed by any other person or entity. The rate of delinquencies and defaults on residential mortgage loans and the aggregate amount of the resulting losses will be affected by a number of factors, including general economic conditions, particularly those in the area where the related mortgaged property is located, the level of the borrower s equity in the mortgaged property and the individual financial circumstances of the borrower. If a residential mortgage loan is in default, foreclosure on the related residential property may be a lengthy and difficult process involving significant legal and other expenses. The net proceeds obtained by the holder on a residential mortgage loan following the foreclosure on the related property may be less than the total amount that remains due on the loan. The prospect of incurring a loss upon the foreclosure of the related property may lead the holder of the residential mortgage loan to restructure the residential mortgage loan or otherwise delay the foreclosure process. Non-agency RMBS (which are RMBS issued by non-governmental issuers) have no direct or indirect government guarantees of payment and are subject to various risks as described herein. See Risks Mortgage Related Securities Risks RMBS Risk.

*CMBS Risk.* CMBS are, generally, securities backed by obligations (including certificates of participation in obligations) that are principally secured by mortgages on real property or interests therein having a multifamily or commercial use, such as regional malls, other retail space, office buildings, industrial or warehouse properties, hotels, nursing homes and senior living centers. The market for CMBS developed more recently and, in terms of total outstanding principal amount of issues, is relatively small compared to the market for single-family RMBS. CMBS are subject to particular risks, including lack of standardized terms, shorter maturities than residential mortgage loans and payment of all or substantially all of the principal only at maturity rather than regular amortization of principal. Additional risks may be presented by the type and use of a particular commercial property. Adverse changes in economic conditions and circumstances are more likely to have an adverse impact on MBS secured by loans on commercial properties than on those secured by loans on residential properties. See Risks Mortgage Related Securities Risks CMBS Risk.

*Mortgage Loan Market Risk.* In recent years, the residential mortgage market in the United States has experienced difficulties that may adversely affect the performance and market value of certain mortgages and mortgage related securities. Delinquencies and losses on residential mortgage loans (especially sub-prime and second lien mortgage loans) generally have increased recently and may continue to increase, and a decline in or flattening of housing values (as has recently been experienced and may continue to be experienced in many housing markets) may exacerbate such delinquencies and losses. If the economy of the United States further deteriorates, the incidence of mortgage foreclosures, especially sub-prime mortgages, may continue to increase, which may adversely affect the value of any RMBS owned by the Trust.

Any increase in prevailing market interest rates, which are currently near historical lows, may result in increased payments for borrowers who have adjustable-rate mortgage loans. Moreover, with respect to hybrid mortgage loans after their initial fixed rate period or other adjustable-rate mortgage loans, interest-only products or products having a lower rate, and with respect to mortgage loans with a negative amortization feature which reach their negative amortization cap, borrowers may experience a substantial increase in their monthly payment even without an increase in prevailing market interest rates. Increases in payments for borrowers may result in increased rates of delinquencies and defaults on residential mortgage loans underlying the non-agency RMBS.

New laws, legislation or other government regulations, including those promulgated in furtherance of a bailout or rescue plan to address the crisis and distress in the residential mortgage loan sector, may result in a reduction of available transactional opportunities for the Trust, or an increase in the cost associated with such transactions.

Any such law, legislation or regulation may adversely affect the market value of RMBS. See Risks Mortgage Related Securities Risks Mortgage Loan Market Risk.

*Stripped MBS Risk.* Stripped MBS may be subject to additional risks. One type of stripped mortgage-backed security pays to one class all of the interest from the mortgage assets (the interest only or IO class), while the other class will receive all of the principal (the principal only or PO class). The yield to maturity on an IO class is extremely sensitive to the rate of principal payments (including prepayments) on the underlying mortgage assets and a rapid rate of principal payments may have a material adverse effect on the Trust s yield to maturity from these securities. If the assets underlying the IO class experience greater than anticipated prepayments of principal, the Trust may fail to recoup fully, or at all, its initial investment in these securities. Conversely, PO class securities tend to decline in value if prepayments are slower than anticipated.

*Collateralized Mortgage Obligations Risk.* There are certain risks associated specifically with collateralized mortgage obligations ( CMOs ). CMOs are debt obligations collateralized by mortgage loans or mortgage pass-through securities. The average life of a CMO is determined using mathematical models that incorporate prepayment assumptions and other factors that involve estimates of future economic and market conditions. Actual future results may vary from these estimates, particularly during periods of extreme market volatility. Further, under certain market conditions, such as those that occurred during the recent downturn in the mortgage markets, the weighted average life of certain CMOs may not accurately reflect the price volatility of such securities. CMOs issued by private entities are not obligations issued or guaranteed by the U.S. Government, its agencies or instrumentalities and are not guaranteed by any government agency, although the securities underlying a CMO may be subject to a guarantee. Therefore, if the collateral securing the CMO, as well as any third party credit support or guarantees, is insufficient to make payments when due, the holder could sustain a loss. Inverse floating rate CMOs are subject to additional risks. See Risks Mortgage Related Securities Risks CMO Risk.

*ABS Risk.* ABS involve certain risks in addition to those presented by MBS. There is the possibility that recoveries on the underlying collateral may not, in some cases, be available to support payments on these securities. Relative to MBS, ABS may provide the Trust with a less effective security interest in the underlying collateral and are more dependent on the borrower s ability to pay. The collateral underlying ABS may constitute assets related to a wide range of industries and sectors, such as credit card and automobile receivables. See Risks ABS Risk.

*CLO Risk.* In addition to the general risks associated with fixed income securities discussed herein, CLOs carry additional risks, including: (i) the possibility that distributions from collateral securities will not be adequate to make interest or other payments; (ii) the quality of the collateral may decline in value or default; (iii) the possibility that the CLO securities are subordinate to other classes; and (iv) the complex structure of the security may not be fully understood at the time of investment and may produce disputes with the issuer or unexpected investment results. The credit quality of CLOs depends primarily upon the quality of the underlying assets and the level of credit support and/or enhancement provided. The underlying assets (e.g., loans) of CLOs are subject to prepayments, which shorten the weighted average maturity and may lower the return of the securities issued by the CLOs. The value of CLO securities also may change because of changes in the market s perception of the creditworthiness of the servicing agent for the pool, the originator of the pool, or the financial institution or fund providing the credit support or enhancement. Furthermore, the leveraged nature of each subordinated class may magnify the adverse impact on such class of changes in the value of the assets, changes in the distributions on the assets, defaults and recoveries on the assets, capital gains and losses on the assets, prepayment on assets and availability, price and interest rates of assets. CLOs are typically privately offered and sold, and thus are not registered under the securities laws. As a result, investments in CLOs may be characterized by the Trust as illiquid securities; however, an active dealer market may exist which would allow such securities to be considered liquid in some circumstances. Finally, CLOs are limited recourse and may not be paid in full and may be subject to up to 100% loss. See Risks CLO Risk.

*U.S. Government Securities Risk.* U.S. Government debt securities generally involve lower levels of credit risk than other types of fixed income securities of similar maturities, although, as a result, the yields available from U.S. Government debt securities are generally lower than the yields available from such other securities. Like other fixed income securities, the values of U.S. Government securities change as interest rates fluctuate. On August 5, 2011, S&P lowered its long-term sovereign credit rating on U.S. Government debt to AA+ from AAA with a negative outlook. Moody s affirmed the Aaa long-term sovereign credit rating of U.S. Government debt on November 21, 2011 while maintaining its negative outlook. The downgrade by S&P and any future downgrades by other rating agencies could increase volatility in both stock and bond markets, result in higher interest rates and higher Treasury yields and increase borrowing costs generally. These events could have significant adverse effects on the economy generally and could result in significant adverse impacts on securities issuers and the Trust. The Advisors cannot predict the effects of these or similar events in the future on the U.S. economy and securities markets or on the Trust s portfolio.

*Senior Loans Risk.* Senior Loans typically hold the most senior position in the capital structure of the issuing entity, are typically secured with specific collateral and typically have a claim on the assets and/or stock of the borrower that is senior to that held by subordinated debt holders and stockholders of the borrower. The Trust s investments in Senior Loans are typically below investment grade and are considered speculative because of the credit risk of their issuer. The risks associated with Senior Loans are similar to the risks of below investment grade fixed income securities, although Senior Loans are typically senior and secured in contrast to other below investment grade fixed income securities, which are often subordinated and unsecured. Senior Loans higher standing has historically resulted in generally higher recoveries in the event of a corporate reorganization. Although the Senior Loans in which the Trust will invest generally will be secured by specific collateral, there can be no assurance that liquidation of such collateral would satisfy the Borrower s obligation in the event of non-payment of scheduled interest or principal or that such collateral could be readily liquidated. In the event of the bankruptcy of a Borrower, the Trust could experience delays or limitations with respect to its ability to realize the benefits of the collateral securing a Senior Loan. In addition, because their interest payments are typically adjusted for changes in short-term interest rates, investments in Senior Loans generally have less interest rate risk than other below investment grade fixed income securities, which may have fixed interest rates.

The Trust may acquire Senior Loan assignments or participations. The purchaser of an assignment typically succeeds to all the rights and obligations of the assigning institution and becomes a lender under the credit agreement with respect to the debt obligation; however, the purchaser s rights can be more restricted than those of the assigning institution. A participation typically results in a contractual relationship only with the institution participating out the interest, not with the Borrower. In purchasing participations, the Trust generally will have no right to enforce compliance by the Borrower with the terms of the loan agreement against the Borrower and the Trust may not directly benefit from the collateral supporting the debt obligation in which it has purchased the participation. As a result, the Trust will be exposed to the credit risk of both the Borrower and the institution selling the participation. See Risks Senior Loans Risk.

*Second Lien Loans Risk.* Second Lien Loans generally are subject to similar risks as those associated with investments in Senior Loans. Because Second Lien Loans are subordinated or unsecured and thus lower in priority of payment to Senior Loans, they are subject to the additional risk that the cash flow of the borrower and property securing the loan or debt, if any, may be insufficient to meet scheduled payments after giving effect to the senior secured obligations of the borrower. This risk is generally higher for subordinated unsecured loans or debt, which are not backed by a security interest in any specific collateral. Second Lien Loans generally have greater price volatility than Senior Loans and may be less liquid. Second Lien Loans share the same risks as other below investment grade securities.

*Corporate Bonds Risk.* The market value of a corporate bond generally may be expected to rise and fall inversely with interest rates. The market value of intermediate and longer term corporate bonds is generally more sensitive to changes in interest rates than is the market value of shorter term corporate bonds. The market value of a corporate bond also may be affected by factors directly related to the issuer, such as investors perceptions of the creditworthiness of the issuer, the issuer s financial performance, perceptions of the issuer in the market place, performance of management of the issuer, the issuer s capital structure and use of financial leverage and demand for the issuer s goods and services. Certain risks associated with investments in corporate bonds are described elsewhere in this Prospectus in further detail, including under Credit Risk, Interest Rate Risk, Prepayment Risk, Inflation Risk and Deflation Risk. There is a risk that the issuers of corporate bonds may not be able to meet their obligations on interest or principal payments at the time called for by an instrument. Corporate bonds of below investment grade quality are often high risk and have speculative characteristics and may be particularly susceptible to adverse issuer-specific developments. Corporate bonds of below investment grade quality are subject to the risks described herein under Below Investment Grade Securities Risk.

*Preferred Securities Risk.* There are special risks associated with investing in preferred securities, including deferral, subordination, limited voting rights, special redemption rights and risks associated with new types of securities. See Risks Preferred Securities Risk.

*Convertible Securities Risk.* Convertible securities generally offer lower interest or dividend yields than non-convertible securities of similar quality. As with all fixed income securities, the market values of convertible securities tend to decline as interest rates increase and, conversely, to increase as interest rates decline. However, when the market price of the common stock underlying a convertible security exceeds the conversion price, the convertible security tends to reflect the market price of the underlying common stock. As the market price of the underlying common stock declines, the convertible security tends to trade increasingly on a yield basis and thus may not decline in price to the same extent as the underlying common stock. Synthetic convertible securities are subject to additional risks, including risks associated with derivatives. See Risks Convertible Securities Risk.

*REITs Risk.* To the extent that the Trust invests in real estate related investments, including real estate investment trusts ( REITs ), it will be subject to the risks associated with owning real estate and with the real estate industry generally. These include difficulties in valuing and disposing of real estate, the possibility of declines in the value of real estate, risks related to general and local economic conditions, the possibility of adverse changes in the climate for real estate, environmental liability risks, the risk of increases in property taxes and operating expenses, possible adverse changes in zoning laws, the risk of casualty or condemnation losses, limitations on rents, the possibility of adverse changes in interest rates and in the credit markets and the possibility of borrowers paying off mortgages sooner than expected, which may lead to reinvestment of assets at lower prevailing interest rates. To the extent that the Trust invests in REITs, it will also be subject to the risk that a REIT may default on its obligations or go bankrupt. REITs are generally not taxed on income timely distributed to shareholders, provided they comply with the applicable requirements of the Internal Revenue Code of 1986, as amended (the Code ). By investing in REITs indirectly through the Trust, a shareholder will bear not only his or her proportionate share of the expenses of the Trust, but also, indirectly, similar expenses of the REITs. Mortgage REITs are pooled investment vehicles that invest the majority of their assets in real property mortgages and which generally derive income primarily from interest payments thereon. Investing in mortgage REITs involves certain risks related to investing in real property mortgages. In addition, mortgage REITs must satisfy highly technical and complex requirements in order to qualify for the favorable tax treatment accorded to REITs under the Code. No assurances can be given that a mortgage REIT in which the Trust invests will be able to continue to qualify as a REIT or that complying with the REIT requirements under the Code will not adversely affect such REIT s ability to execute its business plan.

*Municipal Securities Risk.* Municipal securities involve certain risks. The amount of public information available about the municipal securities to which the Trust is economically exposed is generally less than that for corporate equities or bonds, and the investment performance of the Trust may therefore be more dependent on the analytical abilities of the Advisors than would be a stock fund or a taxable bond fund. The secondary market for municipal securities, particularly the below investment grade securities to which the Trust may be economically exposed, also tends to be less well-developed or liquid than many other securities markets, which may adversely affect the Trust s ability to sell such securities at prices approximating those at which the Trust may currently value them.

In addition, many state and municipal governments that issue securities are under significant economic and financial stress and may not be able to satisfy their obligations. The ability of municipal issuers to make timely payments of interest and principal may be diminished during general economic downturns and as governmental cost burdens are reallocated among federal, state and local governments. The taxing power of any governmental entity may be limited by provisions of state constitutions or laws and an entity s credit will depend on many factors, including the entity s tax base, the extent to which the entity relies on federal or state aid and other factors which are beyond the entity s control. In addition, laws enacted in the future by Congress or state legislatures or referenda could extend the time for payment of principal and/or interest, or impose other constraints on enforcement of such obligations or on the ability of municipalities to levy taxes. Issuers of municipal securities might seek protection under bankruptcy laws. In the event of bankruptcy of such an issuer, holders of municipal securities could experience delays in collecting principal and interest and such holders may not be able to collect all principal and interest to which they are entitled.

The Trust may invest in taxable municipal securities, including Build America Bonds ( BABs ). BABs are taxable municipal obligations issued pursuant to legislation providing for the issuance of taxable municipal debt on which the issuer receives federal support of the interest paid. The issuance of BABs was discontinued on December 31, 2010. Under the sequestration process under the Budget Control Act of 2011, 7.6% of the federal subsidy fo7

| | | |
|---|---|---|
| | ) | (4,673) |
| Cash, beginning of period | 17,607 | 8,894 |
| Cash, end of period | $ 6,090 | $ 4,221 |

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

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

**(Unaudited)**

**(Amounts in thousands)**

| | Six Months Ended June 30, 2014 | 2013 |
|---|---|---|
| Supplemental schedule of noncash investing and financing activities: | | |
| Noncash asset purchases: | | |
| Assets transferred from new and used inventory to rental fleet | $ 37,428 | $ 32,282 |
| Supplemental disclosures of cash flow information: | | |
| Cash paid during the period for: | | |
| Interest | $ 24,968 | $ 23,699 |
| Income taxes paid, net of refunds received | $ 2,634 | $ 1,212 |

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

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

## (1) Organization and Nature of Operations

### Basis of Presentation

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

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such regulations. In the opinion of management, all adjustments (consisting of all normal and recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014, and therefore, the results and trends in these interim condensed consolidated financial statements may not be the same for the entire year. These interim condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and related notes in our Annual Report on Form 10-K for the year ended December 31, 2013, from which the consolidated balance sheet amounts as of December 31, 2013 were derived.

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

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

### Nature of Operations

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

**(2) Significant Accounting Policies**

We describe our significant accounting policies in note 2 of the notes to consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2013. During the six month period ended June 30, 2014, there were no significant changes to those accounting policies.

*Use of Estimates*

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

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*Recent Accounting Pronouncements*

In April 2014, the Financial Accounting Standards Board ( FASB ) issued Accounting Standards Update ( ASU ) No. 2014-08, *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* ( ASU 2014-08 ) which amended the FASB s guidance for reporting discontinued operations and disposals of components of an entity under Accounting Standards Codification Subtopic 250-20. The guidance as amended by ASU 2014-08 raises the threshold for a disposal to qualify as a discontinued operation by requiring that a disposal representing a strategic shift that has (or will have) a major effect on an entity s financial results or a business activity classified as held for sale be reported as such. The amendments also expand the disclosure requirements regarding the assets, liabilities, revenues and expenses of discontinued operations and add new disclosure requirements for individually significant dispositions that do not qualify as discontinued operations. The amendments are effective prospectively for fiscal years beginning after December 15, 2014, and interim reporting periods within those years (early adoption is permitted only for disposals that have not been previously reported). The implementation of the amended guidance is not expected to have a material impact on the Company s consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* ( ASU 2014-09 ). ASU 2014-09 requires an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In doing so, entities will need to use more judgment and make more estimates than under current guidance. These judgments and estimates may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 also requires an entity to disclose sufficient qualitative and quantitative information surrounding the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. This ASU supersedes the revenue recognition requirements in Topic 605, *Revenue Recognition*, and most industry-specific guidance throughout the Industry Topics of the Codification, and further permits the use of either a retrospective or cumulative effect transition method. This guidance will be effective for the Company for our 2017 fiscal year. We are currently in the process of evaluating the impact of the adoption of ASU 2014-09 on the Company s consolidated financial statements.

In June 2014, the FASB issued ASU No. 2014-12, *Compensation Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved after the Requisite Service Period* ( ASU 2014-12 ). ASU 2014-12 requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This ASU further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. ASU 2014-12 is effective for interim and annual reporting periods beginning after December 15, 2015, with early adoption permitted. The Company does not anticipate that the adoption of this standard will have a material impact on its consolidated financial statements.

**(3) Fair Value of Financial Instruments**

Fair value is defined as the amount that would be received for selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The FASB fair value measurement guidance established a fair value hierarchy that prioritizes the inputs used to measure fair value. The three broad levels of the fair value hierarchy are as follows:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 Quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly

Level 3 Unobservable inputs for which little or no market data exists, therefore requiring a company to develop its own assumptions

The carrying value of financial instruments reported in the accompanying condensed consolidated balance sheets for cash, accounts receivable, accounts payable and accrued expenses payable and other liabilities approximate fair value due to the immediate or short-term nature or maturity of these financial instruments. The fair value of our letter of credit is based on fees currently charged for similar agreements. The carrying amounts and fair values of our other financial instruments subject to fair value disclosures as of June 30, 2014 and December 31, 2013 are presented in the table below (amounts in thousands) and have been calculated based upon market quotes and present value calculations based on market rates.

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| | June 30, 2014 | |
|---|---|---|
| | Carrying Amount | Fair Value |
| Manufacturer flooring plans payable with interest computed at 5.25% (Level 3) | $ 52,142 | $ 46,021 |
| Senior unsecured notes with interest computed at 7.0%[(1)] (Level 1) | 630,000 | 696,150 |
| Capital leases payable with interest computed at 5.929% to 9.55% (Level 3) | 2,190 | 1,594 |
| Letter of credit (Level 3) | | 130 |

| | December 31, 2013 | |
|---|---|---|
| | Carrying Amount | Fair Value |
| Manufacturer flooring plans payable with interest computed at 5.25% (Level 3) | $ 49,062 | $ 42,686 |
| Senior unsecured notes with interest computed at 7.0%[(1)] (Level 1) | 630,000 | 686,700 |
| Capital leases payable with interest computed at 5.929% to 9.55% (Level 3) | 2,278 | 1,717 |
| Letter of credit (Level 3) | | 146 |

(1) Amounts shown based on aggregate amounts outstanding for the periods presented.

**(4) Stockholders Equity**

The following table summarizes the activity in Stockholders Equity for the six month period ended June 30, 2014 (amounts in thousands, except share data):

| | Common Stock | | | | | |
|---|---|---|---|---|---|---|
| | Shares Issued | Amount | Additional Paid-in Capital | Treasury Stock | Retained Earnings (Deficit) | Total Stockholders Equity |
| Balances at December 31, 2013 | 39,023,594 | $ 389 | $ 215,775 | $ (58,468) | $ (62,884) | $ 94,812 |
| Stock-based compensation | | | 1,619 | | | 1,619 |
| Cash dividend on common stock ($7.00 per share) | | | | | (75) | (75) |
| Excess tax deficiency from stock-based awards | | | (24) | | | (24) |
| Issuance of common stock | 10,380 | 1 | | | | 1 |
| Net income | | | | | 23,162 | 23,162 |
| Balances at June 30, 2014 | 39,033,974 | $ 390 | $ 217,370 | $ (58,468) | $ (39,797) | $ 119,495 |

**(5) Stock-Based Compensation**

We account for our stock-based compensation plan using the fair value recognition provisions of Accounting Standards Codification 718, *Stock Compensation* ( ASC 718 ). Under the provisions of ASC 718, stock-based compensation is measured at the grant date, based on the calculated fair value of the award, and is recognized as an expense over the requisite employee service period (generally the vesting period of the grant). Shares available for future stock-based payment awards under our 2006 Stock-Based Incentive Compensation Plan were 3,604,046 shares as of June 30, 2014.

*Non-vested Stock*

The following table summarizes our non-vested stock activity for the six months ended June 30, 2014:

| | **Number of Shares** | **Weighted Average Grant Date Fair Value** | |
|---|---|---|---|
| Non-vested stock at December 31, 2013 | 187,867 | $ | 18.21 |
| Granted | 10,380 | $ | 28.91 |
| Vested | (10,380) | $ | 28.91 |
| Forfeited | (1,363) | $ | 18.72 |
| Non-vested stock at June 30, 2014 | 186,504 | $ | 18.20 |

As of June 30, 2014, we had unrecognized compensation expense of approximately $1.7 million related to non-vested stock that we expect to be recognized over a weighted-average period of approximately 1.7 years. The following table summarizes compensation expense related to non-vested stock, which is included in selling, general and administrative expenses in the accompanying condensed consolidated statements of income for the three and six months ended June 30, 2014 and 2013 (amounts in thousands):

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| | For the Three Months Ended June 30, | | For the Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Compensation expense | $ 811 | $ 665 | $ 1,619 | $ 1,604 |

*Stock Options*

At June 30, 2014, there is no unrecognized compensation expense as all stock option awards have fully vested. The following table represents stock option activity for the six months ended June 30, 2014:

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Contractual Life In Years |
|---|---|---|---|
| Outstanding options at December 31, 2013 | 51,000 | $ 17.80 | |
| Granted | | | |
| Exercised | | | |
| Canceled, forfeited or expired | | | |
| Outstanding options at June 30, 2014 | 51,000 | $ 17.80 | 2.0 |
| Options exercisable at June 30, 2014 | 51,000 | $ 17.80 | 2.0 |

The aggregate intrinsic value of our outstanding and exercisable options at June 30, 2014 was approximately $1.9 million.

**(6) Income per Share**

Income per common share for the three and six months ended June 30, 2014 and 2013 are based on the weighted average number of common shares outstanding during the period. The effects of potentially dilutive securities that are anti-dilutive are not included in the computation of dilutive income per share. The following table sets forth the computation of basic and diluted net income per common share for the three and six month periods ended June 30, 2014 and 2013 (amounts in thousands, except per share amounts):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 |
| Basic net income per share: | | | | |
| Net income | $ 15,726 | $ 10,809 | $ 23,162 | $ 15,586 |
| | 35,111 | 34,988 | 35,110 | 34,982 |

| | | | | |
|---|---|---|---|---|
| Weighted average number of shares of common stock outstanding | | | | |
| Net income per share of common stock basic | $ 0.45 | $ 0.31 | $ 0.66 | $ 0.45 |
| Diluted net income per share: | | | | |
| Net income | $ 15,726 | $ 10,809 | $ 23,162 | $ 15,586 |
| Weighted average number of shares of common stock outstanding | 35,111 | 34,988 | 35,110 | 34,982 |
| Effect of dilutive securities: | | | | |
| Effect of dilutive stock options | 24 | 35 | 23 | 35 |
| Effect of dilutive non-vested restricted stock | 100 | 99 | 94 | 92 |
| Weighted average number of shares of common stock outstanding diluted | 35,235 | 35,122 | 35,227 | 35,109 |
| Net income per share of common stock diluted | $ 0.45 | $ 0.31 | $ 0.66 | $ 0.44 |
| Common shares excluded from the denominator as anti-dilutive: | | | | |
| Stock options | | | | |
| Non-vested restricted stock | | | | |

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**(7) Senior Unsecured Notes**

The following table reconciles our Senior Secured Notes to our condensed consolidated balance sheets (amounts in thousands):

| | |
|---|---|
| Balance at December 31, 2012 | $ 521,065 |
| Aggregate principal amount issued on February 4, 2013 | 100,000 |
| Premium on notes issued | 8,500 |
| Initial purchaser s discount | (1,250) |
| Accretion of discount through December 31, 2013 | 1,044 |
| Amortization of note premium through December 31, 2013 | (813) |
| Balance at December 31, 2013 | $ 628,546 |
| Accretion of discount through June 30, 2014 | 527 |
| Amortization of note premium through June 30, 2014 | (443) |
| Balance at June 30, 2014 | $ 628,630 |

**(8) Senior Secured Credit Facility**

We and our subsidiaries are parties to a senior secured credit facility (the Credit Facility ) with General Electric Capital Corporation as agent, and the lenders named therein.

On May 21, 2014, we amended, extended and restated our existing $402.5 million senior secured credit facility with General Electric Capital Corporation by entering into the Fourth Amended and Restated Credit Agreement (the Amended and Restated Credit Agreement ) by and among the Company, Great Northern Equipment, Inc., H&E Equipment Services (California), LLC, the other credit parties named therein, the lenders named therein, General Electric Capital Corporation, as administrative agent, Bank of America, N.A. as co-syndication agent and documentation agent, Wells Fargo Capital Finance, LLC, as co-syndication agent and Deutsche Bank Securities Inc. as joint lead arranger and joint bookrunner.

The Amended and Restated Credit Agreement, among other things, (i) extends the maturity date of the credit facility from February 29, 2017 to May 21, 2019, (ii) increases the uncommitted incremental revolving capacity from $130 million to $150 million, (iii) permits a like-kind exchange program under Section 1031 of the Internal Revenue Code of 1986, as amended, (iv) provides that the unused commitment fee margin will be either 0.50%, 0.375% or 0.25%, depending on the ratio of the average of the daily closing balances of the aggregate revolving loans, swing line loans and letters of credit outstanding during each month to the aggregate commitments for the revolving loans, swing line loans and letters of credit, (v) lowers the interest rate (a) in the case of index rate revolving loans, to the index rate plus an applicable margin of 0.75% to 1.25% depending on the leverage ratio and (b) in the case of LIBOR revolving loans, to LIBOR plus an applicable margin of 1.75% to 2.25%, depending on the leverage ratio, (vi) lowers the margin applicable to the letter of credit fee to between 1.75% and 2.25%, depending on the leverage ratio, and (vii) permits, under certain conditions, for the payment of dividends and/or stock repurchases or redemptions on the capital stock of the Company of up to $75 million per calendar year and further additionally permits the payment of the special cash dividend of $7.00 per share previously declared by the Company on August 20, 2012 to the holders of outstanding restricted stock of the Company following the declared payment date with such permission not tied to the vesting of such restricted stock (which includes the Company s payment in June 2014 of all amounts that remained payable to the holders of the restricted stock of the Company with respect to such special dividend that was otherwise payable following the applicable vesting dates in May and July 2014 and 2015).

At June 30, 2014, the interest rate on the Credit Facility was based on LIBOR plus 200 basis points. The weighted average interest rate at June 30, 2014 was approximately 2.5%. At June 30, 2014, we had $223.2 million of available borrowings under our Credit Facility, net of $6.5 million of outstanding letters of credit.

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**(9) Segment Information**

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

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** |
| Revenues: | | | | |
| Equipment rentals | $ 98,814 | $ 83,728 | $ 185,038 | $ 159,098 |
| New equipment sales | 90,581 | 73,436 | 160,128 | 126,759 |
| Used equipment sales | 31,397 | 34,661 | 60,742 | 66,810 |
| Parts sales | 28,371 | 26,448 | 54,173 | 51,400 |
| Services revenues | 16,102 | 13,770 | 29,750 | 28,321 |
| Total segmented revenues | 265,265 | 232,043 | 489,831 | 432,388 |
| Non-segmented revenues | 15,113 | 13,297 | 27,776 | 25,340 |
| Total revenues | $ 280,378 | $ 245,340 | $ 517,607 | $ 457,728 |
| Gross Profit: | | | | |
| Equipment rentals | $ 47,784 | $ 39,460 | $ 86,786 | $ 73,095 |
| New equipment sales | 11,168 | 8,381 | 18,981 | 13,965 |
| Used equipment sales | 10,341 | 10,489 | 19,268 | 19,890 |
| Parts sales | 8,330 | 7,215 | 15,850 | 13,863 |
| Services revenues | 10,335 | 8,713 | 19,242 | 17,521 |
| Total segmented gross profit | 87,958 | 74,258 | 160,127 | 138,334 |
| Non-segmented gross profit | 1,110 | 1,154 | 1,725 | 1,558 |
| Total gross profit | $ 89,068 | $ 75,412 | $ 161,852 | $ 139,892 |

| | Balances at | |
|---|---|---|
| | **June 30, 2014** | **December 31, 2013** |
| Segment identified assets: | | |
| Equipment sales | $ 130,800 | $ 95,392 |

| | | |
|---|---|---|
| Equipment rentals | 784,896 | 688,710 |
| Parts and services | 19,904 | 16,248 |
| Total segment identified assets | 935,600 | 800,350 |
| Non-segment identified assets | 294,850 | 289,990 |
| Total assets | $ 1,230,450 | $ 1,090,340 |

The Company operates primarily in the United States and our sales to international customers for the three and six month periods ended June 30, 2014 were 1.5% and 1.6%, respectively, of total revenues compared to 0.7% and 1.2% for the three and six month periods ended June 30, 2013, respectively. No one customer accounted for more than 10% of our revenues on an overall or segment basis for any of the periods presented.

**(10) Condensed Consolidating Financial Information of Guarantor Subsidiaries**

All of the indebtedness of H&E Equipment Services, Inc. is guaranteed by GNE Investments, Inc. and its wholly-owned subsidiary Great Northern Equipment, Inc., H&E Equipment Services (California), LLC, H&E California Holding, Inc., H&E Equipment Services (Mid-Atlantic), Inc. and H&E Finance Corp. The guarantor subsidiaries are all wholly-owned and the guarantees, made on a joint and several basis, are full and unconditional (subject to subordination provisions and subject to a standard limitation

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which provides that the maximum amount guaranteed by each guarantor will not exceed the maximum amount that can be guaranteed without making the guarantee void under fraudulent conveyance laws). There are no restrictions on H&E Equipment Services, Inc.  s ability to obtain funds from the guarantor subsidiaries by dividend or loan.

The consolidating financial statements of H&E Equipment Services, Inc. and its subsidiaries are included below. The financial statements for H&E Finance Corp. are not included within the consolidating financial statements because H&E Finance Corp. has no assets or operations.

**CONDENSED CONSOLIDATING BALANCE SHEET**

| | As of June 30, 2014 | | | |
|---|---|---|---|---|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| | (Amounts in thousands) | | | |
| **Assets:** | | | | |
| Cash | $ 6,090 | $ | $ | $ 6,090 |
| Receivables, net | 124,738 | 19,798 | | 144,536 |
| Inventories, net | 136,967 | 13,737 | | 150,704 |
| Prepaid expenses and other assets | 8,600 | 205 | | 8,805 |
| Rental equipment, net | 664,076 | 120,820 | | 784,896 |
| Property and equipment, net | 86,754 | 12,482 | | 99,236 |
| Deferred financing costs, net | 4,986 | | | 4,986 |
| Investment in guarantor subsidiaries | 186,443 | | (186,443) | |
| Goodwill | 1,671 | 29,526 | | 31,197 |
| Total assets | $ 1,220,325 | $ 196,568 | $ (186,443) | $ 1,230,450 |
| **Liabilities and Stockholders  Equity:** | | | | |
| Amounts due on senior secured credit facility | $ 172,768 | $ | $ | $ 172,768 |
| Accounts payable | 87,916 | 7,282 | | 95,198 |
| Manufacturer flooring plans payable | 52,142 | | | 52,142 |
| Accrued expenses payable and other liabilities | 56,738 | 676 | | 57,414 |
| Dividends payable | 23 | (23) | | |
| Senior unsecured notes | 628,630 | | | 628,630 |
| Capital lease payable | | 2,190 | | 2,190 |
| Deferred income taxes | 100,540 | | | 100,540 |
| Deferred compensation payable | 2,073 | | | 2,073 |
| Total liabilities | 1,100,830 | 10,125 | | 1,110,955 |
| Stockholders  equity | 119,495 | 186,443 | (186,443) | 119,495 |
| Total liabilities and stockholders  equity | $ 1,220,325 | $ 196,568 | $ (186,443) | $ 1,230,450 |

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## CONDENSED CONSOLIDATING BALANCE SHEET

| | As of December 31, 2013 | | | |
|---|---|---|---|---|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| | (Amounts in thousands) | | | |
| **Assets:** | | | | |
| Cash | $ 17,607 | $ | $ | $ 17,607 |
| Receivables, net | 114,525 | 17,445 | | 131,970 |
| Inventories, net | 102,125 | 9,515 | | 111,640 |
| Prepaid expenses and other assets | 5,853 | 171 | | 6,024 |
| Rental equipment, net | 582,721 | 105,989 | | 688,710 |
| Property and equipment, net | 85,826 | 12,677 | | 98,503 |
| Deferred financing costs, net | 4,689 | | | 4,689 |
| Investment in guarantor subsidiaries | 165,703 | | (165,703) | |
| Goodwill | 1,671 | 29,526 | | 31,197 |
| Total assets | $ 1,080,720 | $ 175,323 | $ (165,703) | $ 1,090,340 |
| **Liabilities and Stockholders Equity:** | | | | |
| Amount due on senior secured credit facility | $ 102,460 | $ | $ | $ 102,460 |
| Accounts payable | 60,787 | 6,992 | | 67,779 |
| Manufacturer flooring plans payable | 49,062 | | | 49,062 |
| Dividends payable | 656 | (23) | | 633 |
| Accrued expenses payable and other liabilities | 54,066 | 373 | | 54,439 |
| Senior unsecured notes | 628,546 | | | 628,546 |
| Capital leases payable | | 2,278 | | 2,278 |
| Deferred income taxes | 88,291 | | | 88,291 |
| Deferred compensation payable | 2,040 | | | 2,040 |
| Total liabilities | 985,908 | 9,620 | | 995,528 |
| Stockholders equity | 94,812 | 165,703 | (165,703) | 94,812 |
| Total liabilities and stockholders equity | $ 1,080,720 | $ 175,323 | $ (165,703) | $ 1,090,340 |

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**CONDENSED CONSOLIDATING STATEMENT OF INCOME**

| | Three Months Ended June 30, 2014 | | | |
|---|---|---|---|---|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| | (Amounts in thousands) | | | |
| Revenues: | | | | |
| Equipment rentals | $ 83,728 | $ 15,086 | $ | $ 98,814 |
| New equipment sales | 80,760 | 9,821 | | 90,581 |
| Used equipment sales | 26,062 | 5,335 | | 31,397 |
| Parts sales | 24,549 | 3,822 | | 28,371 |
| Services revenues | 13,856 | 2,246 | | 16,102 |
| Other | 12,600 | 2,513 | | 15,113 |
| Total revenues | 241,555 | 38,823 | | 280,378 |
| Cost of revenues: | | | | |
| Rental depreciation | 30,038 | 5,411 | | 35,449 |
| Rental expense | 13,012 | 2,569 | | 15,581 |
| New equipment sales | 70,633 | 8,780 | | 79,413 |
| Used equipment sales | 17,479 | 3,577 | | 21,056 |
| Parts sales | 17,376 | 2,665 | | 20,041 |
| Services revenues | 4,942 | 825 | | 5,767 |
| Other | 11,526 | 2,477 | | 14,003 |
| Total cost of revenues | 165,006 | 26,304 | | 191,310 |
| Gross profit: | | | | |
| Equipment rentals | 40,678 | 7,106 | | 47,784 |
| New equipment sales | 10,127 | 1,041 | | 11,168 |
| Used equipment sales | 8,583 | 1,758 | | 10,341 |
| Parts sales | 7,173 | 1,157 | | 8,330 |
| Services revenues | 8,914 | 1,421 | | 10,335 |
| Other | 1,074 | 36 | | 1,110 |
| Gross profit | 76,549 | 12,519 | | 89,068 |
| Selling, general and administrative expenses | 43,695 | 8,188 | | 51,883 |
| Equity in earnings of guarantor subsidiaries | 1,613 | | (1,613) | |
| Gain on sales of property and equipment, net | 642 | 115 | | 757 |
| Income from operations | 35,109 | 4,446 | (1,613) | 37,942 |
| Other income (expense): | | | | |
| Interest expense | (10,034) | (2,888) | | (12,922) |
| Other, net | 289 | 55 | | 344 |

| | | | | |
|---|---|---|---|---|
| Total other expense, net | (9,745) | (2,833) | | (12,578) |
| Income before income taxes | 25,364 | 1,613 | (1,613) | 25,364 |
| Income tax expense | 9,638 | | | 9,638 |
| Net income | $ 15,726 | $ 1,613 | $ (1,613) | $ 15,726 |

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## CONDENSED CONSOLIDATING STATEMENT OF INCOME

| | Three Months Ended June 30, 2013 | | | |
|---|---|---|---|---|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| | (Amounts in thousands) | | | |
| Revenues: | | | | |
| Equipment rentals | $ 69,370 | $ 14,358 | $ | $ 83,728 |
| New equipment sales | 66,481 | 6,955 | | 73,436 |
| Used equipment sales | 30,227 | 4,434 | | 34,661 |
| Parts sales | 22,631 | 3,817 | | 26,448 |
| Services revenues | 11,845 | 1,925 | | 13,770 |
| Other | 10,995 | 2,302 | | 13,297 |
| Total revenues | 211,549 | 33,791 | | 245,340 |
| Cost of revenues: | | | | |
| Rental depreciation | 24,684 | 5,336 | | 30,020 |
| Rental expense | 11,613 | 2,635 | | 14,248 |
| New equipment sales | 58,780 | 6,275 | | 65,055 |
| Used equipment sales | 21,163 | 3,009 | | 24,172 |
| Parts sales | 16,491 | 2,742 | | 19,233 |
| Services revenues | 4,365 | 692 | | 5,057 |
| Other | 9,835 | 2,308 | | 12,143 |
| Total cost of revenues | 146,931 | 22,997 | | 169,928 |
| Gross profit (loss): | | | | |
| Equipment rentals | 33,073 | 6,387 | | 39,460 |
| New equipment sales | 7,701 | 680 | | 8,381 |
| Used equipment sales | 9,064 | 1,425 | | 10,489 |
| Parts sales | 6,140 | 1,075 | | 7,215 |
| Services revenues | 7,480 | 1,233 | | 8,713 |
| Other | 1,160 | (6) | | 1,154 |
| Gross profit | 64,618 | 10,794 | | 75,412 |
| Selling, general and administrative expenses | 39,301 | 7,805 | | 47,106 |
| Equity in earnings of guarantor subsidiaries | 417 | | (417) | |
| Gain on sales of property and equipment, net | 521 | 85 | | 606 |
| Income from operations | 26,255 | 3,074 | (417) | 28,912 |
| Other income (expense): | | | | |
| Interest expense | (10,414) | (2,671) | | (13,085) |
| Other, net | 187 | 14 | | 201 |

| | | | | |
|---|---|---|---|---|
| Total other expense, net | (10,227) | (2,657) | | (12,884) |
| Income before income taxes | 16,028 | 417 | (417) | 16,028 |
| Income tax expense | 5,219 | | | 5,219 |
| Net income | $ 10,809 | $ 417 | $ (417) | $ 10,809 |

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**CONDENSED CONSOLIDATING STATEMENT OF INCOME**

| | Six Months Ended June 30, 2014 | | | |
|---|---|---|---|---|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| | (Amounts in thousands) | | | |
| Revenues: | | | | |
| Equipment rentals | $ 157,173 | $ 27,865 | $ | $ 185,038 |
| New equipment sales | 141,811 | 18,317 | | 160,128 |
| Used equipment sales | 47,636 | 13,106 | | 60,742 |
| Parts sales | 46,947 | 7,226 | | 54,173 |
| Services revenues | 25,427 | 4,323 | | 29,750 |
| Other | 23,136 | 4,640 | | 27,776 |
| Total revenues | 442,130 | 75,477 | | 517,607 |
| Cost of revenues: | | | | |
| Rental depreciation | 57,823 | 10,624 | | 68,447 |
| Rental expense | 24,951 | 4,854 | | 29,805 |
| New equipment sales | 124,759 | 16,388 | | 141,147 |
| Used equipment sales | 31,968 | 9,506 | | 41,474 |
| Parts sales | 33,288 | 5,035 | | 38,323 |
| Services revenues | 8,918 | 1,590 | | 10,508 |
| Other | 21,379 | 4,672 | | 26,051 |
| Total cost of revenues | 303,086 | 52,669 | | 355,755 |
| Gross profit (loss): | | | | |
| Equipment rentals | 74,399 | 12,387 | | 86,786 |
| New equipment sales | 17,052 | 1,929 | | 18,981 |
| Used equipment sales | 15,668 | 3,600 | | 19,268 |
| Parts sales | 13,659 | 2,191 | | 15,850 |
| Services revenues | 16,509 | 2,733 | | 19,242 |
| Other | 1,757 | (32) | | 1,725 |
| Gross profit | 139,044 | 22,808 | | 161,852 |
| Selling, general and administrative expenses | 84,970 | 15,769 | | 100,739 |
| Equity in earnings of guarantor subsidiaries | 1,813 | | (1,813) | |
| Gain on sales of property and equipment, net | 1,155 | 265 | | 1,420 |
| Income from operations | 57,042 | 7,304 | (1,813) | 62,533 |
| Other income (expense): | | | | |
| Interest expense | (19,985) | (5,587) | | (25,572) |
| Other, net | 554 | 96 | | 650 |

| | | | | |
|---|---|---|---|---|
| Total other expense, net | (19,431) | (5,491) | | (24,922) |
| Income before income taxes | 37,611 | 1,813 | (1,813) | 37,611 |
| Income tax expense | 14,449 | | | 14,449 |
| Net income | $ 23,162 | $ 1,813 | $ (1,813) | $ 23,162 |

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**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**

| | Six Months Ended June 30, 2013 | | | |
|---|---|---|---|---|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| | (Amounts in thousands) | | | |
| Revenues: | | | | |
| Equipment rentals | $ 132,279 | $ 26,819 | $ | $ 159,098 |
| New equipment sales | 113,753 | 13,006 | | 126,759 |
| Used equipment sales | 55,753 | 11,057 | | 66,810 |
| Parts sales | 43,946 | 7,454 | | 51,400 |
| Services revenues | 24,613 | 3,708 | | 28,321 |
| Other | 20,932 | 4,408 | | 25,340 |
| Total revenues | 391,276 | 66,452 | | 457,728 |
| Cost of revenues: | | | | |
| Rental depreciation | 47,707 | 10,445 | | 58,152 |
| Rental expense | 22,891 | 4,960 | | 27,851 |
| New equipment sales | 101,174 | 11,620 | | 112,794 |
| Used equipment sales | 38,820 | 8,100 | | 46,920 |
| Parts sales | 32,158 | 5,379 | | 37,537 |
| Services revenues | 9,506 | 1,294 | | 10,800 |
| Other | 19,257 | 4,525 | | 23,782 |
| Total cost of revenues | 271,513 | 46,323 | | 317,836 |
| Gross profit (loss): | | | | |
| Equipment rentals | 61,681 | 11,414 | | 73,095 |
| New equipment sales | 12,579 | 1,386 | | 13,965 |
| Used equipment sales | 16,933 | 2,957 | | 19,890 |
| Parts sales | 11,788 | 2,075 | | 13,863 |
| Services revenues | 15,107 | 2,414 | | 17,521 |
| Other | 1,675 | (117) | | 1,558 |
| Gross profit | 119,763 | 20,129 | | 139,892 |
| Selling, general and administrative expenses | 77,782 | 15,588 | | 93,370 |
| Equity in loss of guarantor subsidiaries | (399) | | 399 | |
| Gain on sales of property and equipment, net | 947 | 159 | | 1,106 |
| Income from operations | 42,529 | 4,700 | 399 | 47,628 |
| Other income (expense): | | | | |
| Interest expense | (20,217) | (5,140) | | (25,357) |
| Other, net | 667 | 41 | | 708 |

| | | | | |
|---|---|---|---|---|
| Total other expense, net | (19,550) | (5,099) | | (24,649) |
| Income (loss) before income taxes | 22,979 | (399) | 399 | 22,979 |
| Income tax expense | 7,393 | | | 7,393 |
| Net income (loss) | $ 15,586 | $ (399) | $ 399 | $ 15,586 |

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**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**

| | Six Months Ended June 30, 2014 | | | |
|---|---|---|---|---|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| | (Amounts in thousands) | | | |
| Cash flows from operating activities: | | | | |
| Net income | $ 23,162 | $ 1,813 | $ (1,813) | $ 23,162 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | | | |
| Depreciation and amortization on property and equipment | 8,547 | 1,171 | | 9,718 |
| Depreciation on rental equipment | 57,823 | 10,624 | | 68,447 |
| Amortization of deferred financing costs | 497 | | | 497 |
| Accretion of note discount, net of premium amortization | 84 | | | 84 |
| Provision for losses on accounts receivable | 1,157 | 217 | | 1,374 |
| Provision for inventory obsolescence | 63 | | | 63 |
| Increase in deferred income taxes | 12,249 | | | 12,249 |
| Stock-based compensation expense | 1,619 | | | 1,619 |
| Gain on sales of property and equipment, net | (1,155) | (265) | | (1,420) |
| Gain on sales of rental equipment, net | (14,627) | (3,545) | | (18,172) |
| Equity in earnings of guarantor subsidiaries | (1,813) | | 1,813 | |
| Changes in operating assets and liabilities: | | | | |
| Receivables | (11,370) | (2,570) | | (13,940) |
| Inventories | (67,639) | (8,916) | | (76,555) |
| Prepaid expenses and other assets | (2,747) | (34) | | (2,781) |
| Accounts payable | 27,130 | 290 | | 27,420 |
| Manufacturer flooring plans payable | 3,080 | | | 3,080 |
| Accrued expenses payable and other liabilities | 2,672 | 303 | | 2,975 |
| Deferred compensation payable | 33 | | | 33 |
| Net cash provided by (used in) operating activities | 38,765 | (912) | | 37,853 |
| Cash flows from investing activities: | | | | |
| Purchases of property and equipment | (9,596) | (976) | | (10,572) |
| Purchases of rental equipment | (132,476) | (29,103) | | (161,579) |
| Proceeds from sales of property and equipment | 1,276 | 265 | | 1,541 |
| Proceeds from sales of rental equipment | 40,659 | 11,887 | | 52,546 |
| Investment in subsidiaries | (18,927) | | 18,927 | |
| Net cash used in investing activities | (119,064) | (17,927) | 18,927 | (118,064) |
| Cash flows from financing activities: | | | | |
| Excess tax deficiency from stock-based awards | (24) | | | (24) |

| | | | | |
|---|---|---|---|---|
| Borrowings on senior secured credit facility | 590,249 | | | 590,249 |
| Payments on senior secured credit facility | (519,941) | | | (519,941) |
| Payments of deferred financing costs | (794) | | | (794) |
| Dividends paid | (708) | | | (708) |
| Payments on capital lease obligations | | (88) | | (88) |
| Capital contributions | | 18,927 | (18,927) | |
| Net cash provided by financing activities | 68,782 | 18,839 | (18,927) | 68,694 |
| Net decrease in cash | (11,517) | | | (11,517) |
| Cash, beginning of period | 17,607 | | | 17,607 |
| Cash, end of period | $ 6,090 | $ | $ | $ 6,090 |

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## CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

| | Six Months Ended June 30, 2013 | | | |
|---|---|---|---|---|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| | (Amounts in thousands) | | | |
| Cash flows from operating activities: | | | | |
| Net income (loss) | $ 15,586 | $ (399) | $ 399 | $ 15,586 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | | |
| Depreciation and amortization on property and equipment | 7,083 | 994 | | 8,077 |
| Depreciation on rental equipment | 47,707 | 10,445 | | 58,152 |
| Amortization of deferred financing costs | 557 | | | 557 |
| Accretion of note discount, net of premium amortization | 147 | | | 147 |
| Provision for losses on accounts receivable | 1,175 | 398 | | 1,573 |
| Provision for inventory obsolescence | 94 | | | 94 |
| Increase in deferred income taxes | 3,058 | | | 3,058 |
| Stock-based compensation expense | 1,604 | | | 1,604 |
| Gain on sales of property and equipment, net | (947) | (159) | | (1,106) |
| Gain on sales of rental equipment, net | (15,237) | (2,942) | | (18,179) |
| Writedown of goodwill for tax-deductible goodwill in excess of book goodwill | 439 | | | 439 |
| Equity in loss of guarantor subsidiaries | 399 | | (399) | |
| Changes in operating assets and liabilities: | | | | |
| Receivables | 6,551 | (387) | | 6,164 |
| Inventories | (88,421) | (6,204) | | (94,625) |
| Prepaid expenses and other assets | (3,223) | (45) | | (3,268) |
| Accounts payable | 36,999 | 3,686 | | 40,685 |
| Manufacturer flooring plans payable | 5,979 | (448) | | 5,531 |
| Accrued expenses payable and other liabilities | 3,838 | 468 | | 4,306 |
| Deferred compensation payable | 33 | | | 33 |
| Net cash provided by operating activities | 23,421 | 5,407 | | 28,828 |
| Cash flows from investing activities: | | | | |
| Purchases of property and equipment | (11,532) | (800) | | (12,332) |
| Purchases of rental equipment | (101,801) | (19,209) | | (121,010) |
| Proceeds from sales of property and equipment | 979 | 212 | | 1,191 |
| Proceeds from sales of rental equipment | 41,368 | 8,634 | | 50,002 |
| Investment in subsidiaries | (5,848) | | 5,848 | |
| Net cash used in investing activities | (76,834) | (11,163) | 5,848 | (82,149) |

Cash flows from financing activities:

| | | | | |
|---|---|---|---|---|
| Purchases of treasury stock | (410) | | | (410) |
| Excess tax benefit from stock-based awards | 227 | | | 227 |
| Borrowings on senior secured credit facility | 533,898 | | | 533,898 |
| Payments on senior secured credit facility | (591,101) | | | (591,101) |
| Proceeds from issuance of unsecured notes | 107,250 | | | 107,250 |
| Payments of deferred financing costs | (735) | | | (735) |
| Dividends paid | (389) | (9) | | (398) |
| Payments on capital lease obligations | | (83) | | (83) |
| Capital contributions | | 5,848 | (5,848) | |
| Net cash provided by financing activities | 48,740 | 5,756 | (5,848) | 48,648 |
| Net decrease in cash | (4,673) | | | (4,673) |
| Cash, beginning of period | 8,894 | | | 8,894 |
| Cash, end of period | $ 4,221 | $ | $ | $ 4,221 |

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

The following discussion summarizes the financial position of H&E Equipment Services, Inc. and its subsidiaries as of June 30, 2014, and its results of operations for the three and six month periods ended June 30, 2014, and should be read in conjunction with (i) the unaudited condensed consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q and (ii) the audited consolidated financial statements and accompanying notes to our Annual Report on Form 10-K for the year ended December 31, 2013. The following discussion contains, in addition to historical information, forward-looking statements that include risks and uncertainties (see discussion of Forward-Looking Statements included elsewhere in this Quarterly Report on Form 10-Q). Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those factors set forth under Item 1A Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2013.

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

As of July 24, 2014, we operated 69 full-service facilities throughout the Intermountain, Southwest, Gulf Coast, West Coast, Southeast and Mid-Atlantic regions of the United States. Our work force includes distinct, focused sales forces for our new and used equipment sales and rental operations, highly skilled service technicians, product specialists and regional managers. We focus our sales and rental activities on, and organize our personnel principally by, our four core equipment categories. We believe this allows us to provide specialized equipment knowledge, improve the effectiveness of our rental and sales force and strengthen our customer relationships. In addition, we have branch managers for each location who are responsible for managing their assets and financial results. We believe this fosters accountability in our business and strengthens our local and regional relationships.

Through our predecessor companies, we have been in the equipment services business for approximately 53 years. H&E Equipment Services L.L.C. ( H&E LLC ) was formed in June 2002 through the business combination of Head & Engquist Equipment, LLC ( Head & Engquist ), a wholly-owned subsidiary of Gulf Wide Industries, L.L.C. ( Gulf Wide ), and ICM Equipment Company L.L.C. ( ICM ). Head & Engquist, founded in 1961, and ICM, founded in 1971, were two leading regional, integrated equipment service companies operating in contiguous geographic markets. In the June 2002 transaction, Head & Engquist and ICM were merged with and into Gulf Wide, which was renamed H&E LLC. Prior to the combination, Head & Engquist operated 25 facilities in the Gulf Coast region, and ICM operated 16 facilities in the Intermountain region of the United States.

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

*Critical Accounting Policies*

Item 7, included in Part II of our Annual Report on Form 10-K for the year ended December 31, 2013, presents the accounting policies and related estimates that we believe are the most critical to understanding our consolidated financial statements, financial condition, and results of operations and cash flows, and which require complex management judgment and assumptions, or involve uncertainties. There have been no changes to these critical accounting policies and estimates during the quarter ended June 30, 2014. These policies include, among others, revenue recognition, the adequacy of the allowance for doubtful accounts, the propriety of our estimated useful life of rental equipment and property and equipment, the potential impairment of long-lived assets including goodwill and intangible assets, obsolescence reserves on inventory, the allocation of purchase price related to business combinations, reserves for claims, including self-insurance reserves, and deferred income taxes, including the valuation of any related deferred tax assets.

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Information regarding our other significant accounting policies is included in note 2 to our consolidated financial statements in Item 8 of Part II of our Annual Report on Form 10-K for the year ended December 31, 2013 and in note 2 to the condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

***Business Segments***

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

*Equipment Rentals.* Our rental operation primarily rents our four core types of construction and industrial equipment. We have a well-maintained rental fleet and our own dedicated sales force, focused by equipment type. We actively manage the size, quality, age and composition of our rental fleet based on our analysis of key measures such as time utilization (which we analyze as equipment usage based on: (1) the number of rental equipment units available for rent, and (2) as a percentage of original equipment cost), rental rate trends and targets, rental equipment dollar utilization and maintenance and repair costs, which we closely monitor. We maintain fleet quality through regional quality control managers and our parts and services operations.

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

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

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

*Services.* Our services operation provides maintenance and repair services for our customers equipment and to our own rental fleet at our facilities as well as at our customers locations. As the authorized distributor for numerous equipment manufacturers, we are able to provide service to that equipment that will be covered under the manufacturer s warranty.

Our non-segmented revenues and costs relate to equipment support activities that we provide, such as transportation, hauling, parts freight and damage waivers, and are not generally allocated to reportable segments.

For additional information about our business segments, see note 8 to the condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

***Revenue Sources***

We generate all of our total revenues from our five business segments and our non-segmented equipment support activities. Equipment rentals and new equipment sales account for more than half of our total revenues. For the six month period ended June 30, 2014, approximately 35.8% of our total revenues were attributable to equipment rentals, 30.9% of our total revenues were attributable to new equipment sales, 11.7% were attributable to used equipment sales, 10.5% were attributable to parts sales, 5.7% were attributable to our services revenues and 5.4% were attributable to non-segmented other revenues.

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

*Equipment Rentals.* Our rental operation primarily rents our four core types of construction and industrial equipment. We have a well-maintained rental fleet and our own dedicated sales force, focused by equipment type. We actively manage the size, quality, age and composition of our rental fleet based on our analysis of key measures such as time utilization (which we analyze: (1) as equipment usage based on the number of rental equipment units available for rent and (2) as a percentage of original equipment cost), rental rate trends and targets, rental equipment dollar utilization and maintenance and repair costs, which we closely monitor. We maintain fleet quality through regional quality control managers and our parts and services operations. We recognize revenue from equipment rentals in the period earned on a straight-line basis, over the contract term, regardless of the timing of the billing to customers.

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

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

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

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

Our non-segmented revenues 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. We recognize non-segmented other revenues at the time of billing and after the related services have been provided.

***Principal Costs and Expenses***

Our largest expenses are the costs to purchase the new equipment we sell, the costs associated with the used equipment we sell, rental expenses, rental depreciation and costs associated with parts sales and services, all of which are included in cost of revenues. For the six month period ended June 30, 2014, our total cost of revenues was approximately $355.8 million. Our operating expenses consist principally of selling, general and administrative expenses. For the six month period ended June 30, 2014, our selling, general and administrative expenses were $100.7 million. In addition, we have interest expense related to our debt instruments. Operating expenses and all other income and expense items below the gross profit line of our consolidated statements of income are not generally allocated to our reportable segments.

We are also subject to federal and state income taxes. Future income tax examinations by state and federal agencies could result in additional income tax expense based on probable outcomes of such matters.

***Cost of Revenues:***

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

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

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

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

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

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

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

***Selling, General and Administrative Expenses:***

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

***Interest Expense:***

Interest expense for the periods presented represents the interest on our outstanding debt instruments, including aggregate amounts outstanding under our revolving senior secured credit facility (the Credit Facility ), senior unsecured notes due 2022 and our capital lease obligations, as well as our extinguished senior unsecured notes due 2016 (the Old Notes ) for the periods during which such Old Notes were outstanding. Interest expense also includes interest on our outstanding manufacturer flooring plans payable which are used to finance inventory and rental equipment purchases. Non-cash interest expense related to the amortization cost of deferred financing costs is also included in interest expense.

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***Principal Cash Flows***

We generate cash primarily from our operating activities and, historically, we have used cash flows from operating activities, manufacturer floor plan financings and available borrowings under the Credit Facility as the primary sources of funds to purchase inventory and to fund working capital and capital expenditures, growth and expansion opportunities (see also Liquidity and Capital Resources below). Our management of our working capital is closely tied to operating cash flows, as working capital can be significantly impacted by, among other things, our accounts receivable activities, the level of new and used equipment inventories, which may increase or decrease in response to current and expected demand, and the size and timing of our trade accounts payable payment cycles.

***Rental Fleet***

A substantial portion of our overall value is in our rental fleet equipment. The net book value of our rental equipment at June 30, 2014 was $784.9 million, or approximately 63.8% of our total assets. Our rental fleet as of June 30, 2014 consisted of 24,302 units having an original acquisition cost (which we define as the cost originally paid to manufacturers or the original amount financed under operating leases) of approximately $1.1 billion. As of June 30, 2014, our rental fleet composition was as follows (dollars in millions):

| | Units | % of Total Units | Original Acquisition Cost | % of Original Acquisition Cost | Average Age in Months |
|---|---|---|---|---|---|
| Hi-Lift or Aerial Work Platforms | 16,154 | 66.5% | $ 690.0 | 61.8% | 37.5 |
| Cranes | 424 | 1.7% | 133.1 | 11.9% | 36.4 |
| Earthmoving | 2,278 | 9.4% | 206.6 | 18.5% | 20.0 |
| Industrial Lift Trucks | 758 | 3.1% | 29.9 | 2.7% | 25.8 |
| Other | 4,688 | 19.3% | 57.3 | 5.1% | 21.3 |
| Total | 24,302 | 100.0% | $ 1,116.9 | 100.0% | 32.3 |

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

The original acquisition cost of our gross rental fleet increased by approximately $116.1 million, or 11.6%, for the six month period ended June 30, 2014. The average age of our rental fleet equipment decreased by approximately 2.6 months for the six months ended June 30, 2014.

Our average rental rates for the six month period ended June 30, 2014 were 0.9% higher than in the six month period ended June 30, 2013. Our average rental rates for the three month period ended June 30, 2014 were 2.1% higher than in the three month period ended June 30, 2013 and 1.8% higher than the three month period ended March 31, 2014 (see further discussion on rental rates in Results of Operations below).

The rental equipment mix among our four core product lines for the six months ended June 30, 2014 was largely consistent with that of the prior year comparable period as a percentage of total units available for rent and as a percentage of original acquisition cost.

***Principal External Factors that Affect our Businesses***

We are subject to a number of external factors that may adversely affect our businesses. These factors, and other factors, are discussed below and under the heading Forward-Looking Statements, and in Item 1A Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2013.

> *Economic downturns.* The demand for our products is dependent on the general economy, the stability of the global credit markets, the industries in which our customers operate or serve, and other factors. Downturns in the general economy or in the construction and manufacturing industries, as well as adverse credit market conditions, can cause demand for our products to materially decrease.

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

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

We believe that our integrated business tempers the effects of downturns in a particular segment. For a discussion of seasonality, see Seasonality on page 36 of this Quarterly Report on Form 10-Q.

**Results of Operations**

The tables included in the period-to-period comparisons below provide summaries of our revenues and gross profits for our business segments and non-segmented revenues for the three and six months ended June 30, 2014 and 2013. The period-to-period comparisons of our financial results are not necessarily indicative of future results.

***Three Months Ended June 30, 2014 Compared to the Three Months Ended June 30, 2013***

***Revenues.***

| | Three Months Ended June 30, | | Total Dollar Increase | Total Percentage Increase |
|---|---|---|---|---|
| | 2014 | 2013 | (Decrease) | (Decrease) |
| | (in thousands, except percentages) | | | |
| Segment Revenues: | | | | |
| Equipment rentals | $ 98,814 | $ 83,728 | $ 15,086 | 18.0% |
| New equipment sales | 90,581 | 73,436 | 17,145 | 23.3% |
| Used equipment sales | 31,397 | 34,661 | (3,264) | (9.4)% |
| Parts sales | 28,371 | 26,448 | 1,923 | 7.3% |
| Services revenues | 16,102 | 13,770 | 2,332 | 16.9% |
| Non-Segmented revenues | 15,113 | 13,297 | 1,816 | 13.7% |
| Total revenues | $ 280,378 | $ 245,340 | $ 35,038 | 14.3% |

*Total Revenues.* Our total revenues were $280.4 million for the three month period ended June 30, 2014 compared to $245.3 million for the three month period ended June 30, 2013, an increase of approximately $35.0 million, or 14.3%. Revenues for all reportable segments are further discussed below.

*Equipment Rental Revenues.* Our revenues from equipment rentals for the three month period ended June 30, 2014 increased $15.1 million, or 18.0%, to $98.8 million from $83.7 million in the three month period ended June 30, 2013. Rental revenues from aerial work platforms increased $8.2 million, while rental revenues from earthmoving equipment increased $2.5 million. Rental revenues from cranes increased $0.9 million, and rental revenues from other equipment and lift trucks increased $3.2 million and $0.3 million, respectively. Our average rental rates for the three month period ended June 30, 2014 increased 2.1% compared to the same three month period last year and increased 1.8% from the first quarter ended March 31, 2014.

Rental equipment dollar utilization (annual rental revenues divided by the average original rental fleet equipment costs) for the three month period ended June 30, 2014 improved to 36.3% compared to 35.8% in the three month period ended June 30, 2013, an increase of 0.5%. The increase in comparative rental equipment dollar utilization was primarily driven by a 2.1% increase in average rental rates and the mix of equipment rented, combined with an improvement in rental equipment time utilization. Rental equipment time utilization as a percentage of original equipment cost was 72.7% for the three month period ended June 30, 2014 compared to 71.0% in the three month period ended June 30, 2013, an increase of 1.7%. Rental equipment time utilization based on the number of rental equipment units available for rent was 67.0% for the three month period ended June 30, 2014 compared to 66.3% in the same period last year, an increase of 0.7%. The increase in equipment rental time utilization based on original equipment cost and based on the number of units available for rent is largely reflective of increased demand for rental equipment.

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*New Equipment Sales Revenues.* Our new equipment sales for the three month period ended June 30, 2014 increased $17.1 million, or 23.3%, to $90.6 million from $73.4 million for the three month period ended June 30, 2013. Sales of new cranes increased approximately $8.0 million and sales of new aerial work platform equipment increased $6.4 million, while sales of new earthmoving equipment increased $3.2 million. Partially offsetting these increases were a $0.3 million decrease in new lift truck sales and a $0.1 million decrease in new other equipment sales.

*Used Equipment Sales Revenues.* Our used equipment sales decreased $3.3 million, or 9.4%, to $31.4 million for the three month period ended June 30, 2014, from $34.7 million for the same three month period in 2013. Sales of used crane equipment decreased $5.1 million and sales of used aerial work platform equipment decreased $1.9 million, while sales of used lift trucks decreased $0.2 million. Offsetting these decreases were an increase in used earthmoving equipment sales of $3.7 million and a $0.1 million increase in used general equipment sales.

*Parts Sales Revenues.* Our parts sales increased approximately $1.9 million, or 7.3%, to $28.4 million for the three month period ended June 30, 2014 from approximately $26.4 million for the same three month period in 2013. The increase in parts revenues was due to higher demand for parts compared to last year.

*Services Revenues.* Our services revenues for the three month period ended June 30, 2014 increased $2.3 million, or 16.9%, to $16.1 million from $13.8 million for the same three month period last year. The increase in services revenues was due to higher demand for services compared to last year.

*Non-Segmented Other Revenues.* Our non-segmented other revenues consisted primarily of equipment support activities including transportation, hauling, parts freight and damage waiver charges. For the three month period ended June 30, 2014, our other revenues were approximately $15.1 million, an increase of $1.8 million, or 13.7%, from $13.3 million in the same three month period in 2013. The increase was primarily due to an increase in hauling revenues and higher damage waiver income associated with equipment rentals.

***Gross Profit.***

| | Three Months Ended June 30, | | Total Dollar Change Increase (Decrease) | Total Percentage Change Increase (Decrease) |
|---|---|---|---|---|
| | **2014** | **2013** | | |
| | **(in thousands, except percentages)** | | | |
| Segment Gross Profit: | | | | |
| Equipment rentals | $ 47,784 | $ 39,460 | $ 8,324 | 21.1% |
| New equipment sales | 11,168 | 8,381 | 2,787 | 33.3% |
| Used equipment sales | 10,341 | 10,489 | (148) | (1.4)% |
| Parts sales | 8,330 | 7,215 | 1,115 | 15.5% |
| Services revenues | 10,335 | 8,713 | 1,622 | 18.6% |
| Non-Segmented revenues | 1,110 | 1,154 | (44) | (3.8)% |
| Total gross profit | $ 89,068 | $ 75,412 | $ 13,656 | 18.1% |

*Total Gross Profit.* Our total gross profit was $89.1 million for the three month period ended June 30, 2014 compared to $75.4 million for the same three month period in 2013, an increase of $13.7 million, or 18.1%. Total gross profit margin for the three month periods ended June 30, 2014 was 31.8%, an increase of 1.1% from 30.7% during the same three month period last year. Gross profit and gross margin for all reportable segments are further described below:

*Equipment Rentals Gross Profit.* Our gross profit from equipment rentals for the three month period ended June 30, 2014 increased $8.3 million, or 21.1%, to $47.8 million from $39.5 million in the same three month period in 2013. The increase in equipment rentals gross profit was the result of a $15.1 million increase in rental revenues, which was partially offset by a $1.3 million increase in rental expenses and a $5.4 million increase in rental equipment depreciation expense. The increase in rental expenses and rental equipment depreciation expense was due to a larger fleet size in 2014 compared to 2013. As a percentage of equipment rental revenues, rental expenses were 15.8% for the three month period ended June 30, 2014 compared to 17.0% for the same period last year. This percentage decrease was primarily attributable to the increase in comparative rental revenues. Depreciation expense was 35.9% of equipment rental revenues for each of the three month periods ended June 30, 2014 and 2013.

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Gross profit margin on equipment rentals for the three month period ended June 30, 2014 was approximately 48.4%, a 1.3% increase compared to a gross profit margin of 47.1% for the same period in 2013. This increase in gross profit margin was primarily due to the increase in equipment rental revenues and the decrease in rental expenses as a percentage of equipment rental revenues.

*New Equipment Sales Gross Profit.* Our new equipment sales gross profit for the three month period ended June 30, 2014 increased $2.8 million, or 33.3%, to $11.2 million compared to $8.4 million for the same three month period in 2013 on a total new equipment sales increase of $17.1 million. Gross profit margin on new equipment sales for the three month period ended June 30, 2014 was 12.3%, an increase of 0.9% from 11.4% in the same three month period in 2013, primarily reflecting higher margins on sales of new cranes in the current year period.

*Used Equipment Sales Gross Profit.* Our used equipment sales gross profit for the three month period ended June 30, 2014 decreased approximately $0.1 million, or 1.4%, to $10.3 million from $10.5 million in the same period in 2013 on a used equipment sales decrease of $3.3 million. Gross profit margin on used equipment sales for the three month period ended June 30, 2014 was 32.9%, up 2.6% from 30.3% for the same three month period in 2013, primarily as a result of higher margins on sales of used cranes, aerial work platform equipment and earthmoving equipment. Our used equipment sales from the rental fleet, which comprised approximately 88.4% and 79.7% of our used equipment sales for the three month periods ended June 30, 2014 and 2013, respectively, were approximately 154.7% and 154.0% of net book value for the three month periods ended June 30, 2014 and 2013, respectively.

*Parts Sales Gross Profit.* For the three month period ended June 30, 2014, our parts sales revenue gross profit increased $1.1 million, or 15.5%, to $8.3 million from $7.2 million for the same three month period in 2013 on a $1.9 million increase in parts sales revenues. Gross profit margin for the three month period ended June 30, 2014 was 29.4%, an increase of 2.1% from 27.3% in the same three month period in 2012, as a result of higher margins on other equipment parts sales and the mix of parts sold.

*Services Revenues Gross Profit.* For the three month period ended June 30, 2014, our services revenues gross profit increased $1.6 million, or 18.6%, to $10.3 million from $8.7 million for the same three month period in 2013 on a $2.3 million increase in services revenues. Gross profit margin for the three month period ended June 30, 2014 was 64.2%, up 0.9% from 63.3% in the same three month period in 2013, as a result of services revenues mix.

*Non-Segmented Other Revenues Gross Profit.* Our non-segmented other revenues gross profit decreased less than $0.1 million, or 3.8%, to $1.1 million for the three month period ended June 30, 2014 from $1.2 million for the same period in 2013. Gross margin for the three month period ended June 30, 2014 was 7.3% compared to a gross margin of 8.7% in the same three month period last year, primarily reflective of lower margins on hauling and other transportations costs.

***Selling, General and Administrative Expenses.*** SG&A expenses increased $4.8 million, or 10.1%, to $51.9 million for the three month period ended June 30, 2014 compared to $47.1 million for the three month period ended June 30, 2013. The net increase in SG&A expenses was attributable to several factors. Employee salaries and wages and related employee expenses increased approximately $2.8 million as a result of higher salaries, wages and payroll taxes stemming primarily from an increase in commission and incentive pay that resulted from higher rental and new equipment sales revenues. Liability insurance costs increased $0.4 million and legal and professional fees increased $0.4 million. Facility and utility related expenses increased $0.5 million and depreciation expense increased $0.2 million. Supplies expense and other overhead costs increased $0.4 million. Stock-based compensation expense was $0.8 million and $0.9 million for the three month periods ended June 30, 2014 and 2013, respectively. Of the $4.8 million increase in SG&A expenses, approximately $0.6 million was attributable to branches opened since December 31, 2012 with less than three full months of operations (or no operations) in the second quarter of 2013. As a percentage of total revenues, SG&A expenses were 18.5% for the three month period ended June 30, 2014, a decrease of 0.7% from 19.2% for the same three month period in 2013, primarily as a result of the current year increase in total revenues.

***Other Income (Expense).*** For the three month period ended June 30, 2014, our net other expenses decreased $0.3 million to $12.6 million compared to $12.9 million for the same three month period in 2013. The decrease was the result of a $0.2 million decrease in interest expense to $12.9 million for the three month period ended June 30, 2014 compared to $13.1 million for the same three month period in 2013 and a $0.1 million increase in miscellaneous other income. The decrease in interest expense is primarily the result of a $0.2 million increase in expense related to manufacturing flooring plans used to finance inventory purchases.

***Income Taxes.*** We recorded income tax expense of $9.6 million for the three month period ended June 30, 2014 compared to income tax expense of $5.2 million for the three month period ended June 30, 2013. Our effective income tax rate was 38.0% for the three month period ended June 30, 2014 compared to 32.6% for the same three month period last year. The increase in our effective tax rate is primarily due to a decrease in permanent differences in the relation to current year pre-tax income. We also recorded a reduction of book goodwill of approximately $0.2 million for the three month period ended June 30, 2013 for tax benefits realized from tax-deductible goodwill in excess of book goodwill. Based on available evidence, both positive and negative, we believe it is more likely than not that our deferred tax assets at June 30, 2014 are fully realizable through future reversals of existing taxable temporary differences and future taxable income, and are not subject to any limitations.

***Six Months Ended June 30, 2014 Compared to the Six Months Ended June 30, 2013***

***Revenues.***

| | Six Months Ended June 30, | | Total Dollar Increase | Total Percentage Increase |
|---|---|---|---|---|
| | 2014 | 2013 | (Decrease) | (Decrease) |
| | (in thousands, except percentages) | | | |
| Segment Revenues: | | | | |
| Equipment rentals | $ 185,038 | $ 159,098 | $ 25,940 | 16.3% |
| New equipment sales | 160,128 | 126,759 | 33,369 | 26.3% |
| Used equipment sales | 60,742 | 66,810 | (6,068) | (9.1)% |
| Parts sales | 54,173 | 51,400 | 2,773 | 5.4% |
| Services revenues | 29,750 | 28,321 | 1,429 | 5.0% |
| Non-Segmented revenues | 27,776 | 25,340 | 2,436 | 9.6% |
| Total revenues | $ 517,607 | $ 457,728 | $ 59,879 | 13.1% |

*Total Revenues.* Our total revenues were $517.6 million for the six month period ended June 30, 2014 compared to $457.7 million for the six month period ended June 30, 2013, an increase of $59.9 million, or 13.1%. Revenues for all reportable segments are further discussed below.

*Equipment Rental Revenues.* Our revenues from equipment rentals for the six month period ended June 30, 2014 increased $25.9 million, or 16.3%, to $185.0 million from $159.1 million in the six month period ended June 30, 2013. Rental revenues from aerial work platforms increased $15.5 million, while rental revenues from earthmoving equipment increased $4.7 million. Rental revenues from other equipment increased approximately $3.5 million and rental revenues from cranes increased $1.6 million. Lift truck rental revenues increased $0.5 million. Our average rental rates for the six month period ended June 30, 2014 increased 0.9% compared to the same six month period last year.

Rental equipment dollar utilization (annual rental revenues divided by the average original rental fleet equipment costs) for the six month period ended June 30, 2014 improved to 35.3% from 34.9% in the six month period ended June 30, 2013, an increase of 0.4%. The increase in comparative rental equipment dollar utilization was primarily driven by an increase in rental equipment time utilization combined with a 0.9% increase in average rental rates. Rental equipment time utilization as a percentage of original equipment cost was approximately 71.0% for the six month period ended June 30, 2014 compared to 69.5% in the six month period ended June 30, 2013, an increase of 1.5%. Rental equipment time utilization based on the number of rental equipment units available for rent was 65.8% for the six month period ended June 30, 2014 compared to 65.0% in the same period last year, an increase of 0.8%.

The increase in equipment rental time utilization based on original equipment cost and based on the number of units available for rent is reflective of increased equipment rental demand.

*New Equipment Sales Revenues.* Our new equipment sales for the six month period ended June 30, 2014 increased approximately $33.4 million, or 26.3%, to $160.1 million from $126.8 million for the six month period ended June 30, 2013. Sales of new cranes increased $20.6 million and sales of new earthmoving equipment increased $6.9 million. Sales of new aerial work platform equipment increased $6.6 million. New other equipment sales decreased $0.7 million and sales of new lift trucks decreased approximately $0.1 million.

*Used Equipment Sales Revenues.* Our used equipment sales decreased $6.1 million, or 9.1%, to $60.7 million for the six month period ended June 30, 2014, from $66.8 million for the same six month period in 2013. The decrease in used equipment sales was primarily driven by a $10.6 million decrease in used crane sales. Used aerial work platform equipment sales decreased $0.2 million. Offsetting these decreases were an increase in sales of used earthmoving equipment of $4.6 million and a $0.2 million increase in used lift truck sales.

*Parts Sales Revenues.* Our parts sales increased $2.8 million, or 5.4%, to $54.2 million for the six month period ended June 30, 2014 from approximately $51.4 million for the same six month period in 2013. The increase in parts revenues was due to higher demand for parts compared to the same period last year.

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*Services Revenues.* Our services revenues for the six month period ended June 30, 2014 increased $1.4 million, or 5.0%, to approximately $29.8 million from $28.3 million for the same six month period last year. The increase in services revenues was primarily due to higher demand for services compared to last year.

*Non-Segmented Other Revenues.* Our non-segmented other revenues consisted primarily of equipment support activities including transportation, hauling, parts freight and damage waiver charges. For the six month period ended June 30, 2014, our non-segmented other revenues were $27.8 million, an increase of approximately $2.4 million, or 9.6%, from $25.3 million in the same six month period in 2013. The increase was primarily due to an increase in hauling revenues and higher damage waiver income associated with equipment rentals.

***Gross Profit.***

| | Six Months Ended June 30, | | Total Dollar Change | Total Percentage Change |
|---|---|---|---|---|
| | 2014 | 2013 | Increase (Decrease) | Increase (Decrease) |
| | (in thousands, except percentages) | | | |
| Segment Gross Profit: | | | | |
| Equipment rentals | $ 86,786 | $ 73,095 | $ 13,691 | 18.7% |
| New equipment sales | 18,981 | 13,965 | 5,016 | 35.9% |
| Used equipment sales | 19,268 | 19,890 | (622) | (3.1)% |
| Parts sales | 15,850 | 13,863 | 1,987 | 14.3% |
| Services revenues | 19,242 | 17,521 | 1,721 | 9.8% |
| Non-Segmented revenues | 1,725 | 1,558 | 167 | 10.7% |
| Total gross profit | $ 161,852 | $ 139,892 | $ 21,960 | 15.7% |

*Total Gross Profit.* Our total gross profit was $161.9 million for the six month period ended June 30, 2014 compared to $139.9 million for the same six month period in 2013, an increase of $22.0 million, or 15.7%. Total gross profit margin for the six month period ended June 30, 2014 was 31.3%, an increase of 0.7% from the 30.6% gross profit margin for the same six month period in 2013. Gross profit and gross margin for all reportable segments are further described below:

*Equipment Rentals Gross Profit.* Our gross profit from equipment rentals for the six month period ended June 30, 2014 increased $13.7 million, or 18.7%, to $86.8 million from $73.1 million in the same six month period in 2013. The increase in equipment rentals gross profit was the result of a $25.9 million increase in rental revenues for the six month period ended June 30, 2014, which was partially offset by a $2.0 million increase in rental expenses and a $10.3 million increase in rental equipment depreciation expense. The increase in rental expenses and rental equipment depreciation expense was due to a larger fleet size in 2014 compared to 2013. As a percentage of equipment rental revenues, rental expenses were 16.1% for the six month period ended June 30, 2014 compared to 17.5% for the same period last year. This percentage decrease was primarily attributable to the increase in comparative rental revenues. Depreciation expense was 37.0% of equipment rental revenues for the six month period ended June 30, 2014 compared to 36.6% for the same period in 2013. The percentage increase in depreciation expense as a percentage of equipment rental revenues is primarily due to an increase in the volume of rental purchase option arrangements.

Gross profit margin on equipment rentals for the six month period ended June 30, 2014 was approximately 46.9%, up 1.0% from 45.9% for the same period in 2013. This gross profit margin improvement was primarily due to the increase in comparative rental revenues resulting from higher average rental rates and the increase in time utilization for the six month period ended June 30, 2014 compared to the six month period ended June 30, 2013, combined with the decrease in rental expenses as a percentage of equipment rental revenues.

*New Equipment Sales Gross Profit.* Our new equipment sales gross profit for the six month period ended June 30, 2014 increased $5.0 million, or 35.9%, to $19.0 million compared to $14.0 million for the same six month period in 2013 on a total new equipment sales increase of $33.4 million. Gross profit margin on new equipment sales for the six month period ended June 30, 2014 was 11.9%, an increase of 0.9% from 11.0% in the same six month period in 2013, primarily reflecting higher margins on new crane and earthmoving equipment sales.

*Used Equipment Sales Gross Profit.* Our used equipment sales gross profit for the six month period ended June 30, 2014 decreased $0.6 million, or 3.1%, to $19.3 million from $19.9 million in the same period in 2013 on a used equipment sales decrease of $6.1 million. Gross profit margin on used equipment sales for the six month period ended June 30, 2014 was 31.7%, up approximately 1.9% from 29.8% for the same six month period in 2013, primarily as a result of higher margins on sales of used cranes and aerial

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work platform equipment. Our used equipment sales from the rental fleet, which comprised approximately 86.5% and 74.8% of our used equipment sales for the six month periods ended June 30, 2014 and 2013, respectively, were approximately 152.9% and 157.1% of net book value for the six month periods ended June 30, 2014 and 2013, respectively.

*Parts Sales Gross Profit.* For the six month period ended June 30, 2014, our parts sales revenue gross profit increased approximately $2.0 million, or 14.3%, to $15.9 million from $13.9 million for the same six month period in 2013 on a $2.8 million increase in parts sales revenues. Gross profit margin for the six month period ended June 30, 2014 was 29.3%, an increase of 2.3% from 27.0% in the same six month period in 2013, as a result of the mix of parts sold and pricing on other equipment parts.

*Services Revenues Gross Profit.* For the six month period ended June 30, 2014, our services revenues gross profit increased $1.7 million, or 9.8%, to $19.2 million from $17.5 million for the same six month period in 2013 on a $1.4 million increase in services revenues. Gross profit margin for the six month period ended June 30, 2014 was 64.7%, up approximately 2.8% from 61.9% in the same six month period in 2013, as a result of services revenues mix.

*Non-Segmented Other Revenues Gross Profit.* Our non-segmented other revenues gross profit increased $0.2 million, or 10.7%, to $1.7 million for the six month period ended June 30, 2014 from approximately $1.6 million for the same period in 2013. Gross margin for the six month period ended June 30, 2014 was 6.2% compared to a gross margin of 6.1% in the same six month period last year.

***Selling, General and Administrative Expenses.*** SG&A expenses increased approximately $7.4 million, or 7.9%, to approximately $100.7 million for the six month period ended June 30, 2014 compared to $93.4 million for the six month period ended June 30, 2013. The net increase in SG&A expenses was attributable to several factors. Employee salaries and wages and related employee expenses increased approximately $4.2 million as a result of higher salaries, wages and payroll taxes stemming primarily from an increase in commission and incentive pay that resulted from higher rental and new equipment sales revenues. Liability insurance costs increased $0.7 million and depreciation expense increased $0.5 million. Promotional expenses increased $0.4 million and legal and professional fees increased $0.5 million. Facility and utility related expenses increased $0.8 million. Stock-based compensation expense was $1.6 million for each of the six month periods ended June 30, 2014 and 2013. Of the $7.4 million increase in SG&A expenses, approximately $1.2 million was attributable to branches opened since December 31, 2012 with less than six full months of operations (or no operations) in the first six months of 2013. As a percentage of total revenues, SG&A expenses were 19.5% for the six month period ended June 30, 2014, a decrease of 0.9% from 20.4% for the same six month period in 2013, primarily as a result of the current year increase in total revenues.

***Other Income (Expense).*** For the six month period ended June 30, 2014, our net other expenses increased approximately $0.3 million to $24.9 million compared to $24.6 million for the same six month period in 2013. The increase was the result of a $0.2 million increase in interest expense to $25.6 million for the six month period ended June 30, 2014 compared to $25.4 million for the same six month period in 2013 and a $0.1 million decrease in miscellaneous other income. The increase in interest expense is the net result of an approximately $0.7 million increase in expense related to our senior unsecured notes and a $0.4 million decrease in interest expense related to manufacturing flooring plans used to finance inventory purchases. The increase in interest expense on our senior unsecured notes is primarily due to the increase in the aggregate principal amount of these notes from $530 million to $630 million on February 4, 2013.

***Income Taxes.*** We recorded income tax expense of approximately $14.4 million for the six month period ended June 30, 2014 compared to income tax expense of $7.4 million for the six month period ended June 30, 2013. Our effective income tax rate was 38.4% for the six month period ended June 30, 2014 compared to 32.2% for the same six month period last year. The increase in our effective tax rate is primarily due to a decrease in permanent differences in the relation to current year pre-tax income. We also recorded a reduction of book goodwill of approximately $0.4 million for the six month period ended June 30, 2013 for tax benefits realized from tax-deductible goodwill in excess of book goodwill. Based on available evidence, both positive and negative, we believe it is more likely than not that our deferred tax assets at June 30, 2014 are fully realizable through future reversals of existing taxable temporary differences and future taxable income, and are not subject to any limitations.

**Liquidity and Capital Resources**

*Cash flow from operating activities*. For the six month period ended June 30, 2014, the cash provided by our operating activities was $37.8 million. Our reported net income of $23.2 million, which, when adjusted for non-cash income and expense items, such as depreciation and amortization, deferred income taxes, net amortization (accretion) of note discount (premium), provision for losses on accounts receivable, provision for inventory obsolescence, stock-based compensation expense and net gains on the sale of long-lived assets, provided positive cash flows of $97.6 million. These cash flows from operating activities were also positively impacted by a $27.4 million increase in accounts payable and a $3.1 million increase in manufacturing flooring plans payable. Also increasing our operating cash flows was a $3.0 million increase in accrued expenses payable and other liabilities. Offsetting these positive cash flows was an increase of $76.6 million in inventories as a result of increasing demand and improving sales of new equipment. Also decreasing our operating cash flows was a $13.9 million increase in receivables and a $2.8 million increase in prepaid expenses and other assets.

For the six month period ended June 30, 2013, the cash provided by our operating activities was $28.8 million. Our reported net income of approximately $15.6 million, which, when adjusted for non-cash income and expense items, such as depreciation and amortization, deferred income taxes, provision for losses on accounts receivable, provision for inventory obsolescence, stock-based compensation expense, writedown of goodwill for tax-deductible goodwill in excess of book goodwill and net gains on the sale of long-lived assets, provided positive cash flows of $70.0 million. These cash flows from operating activities were also positively impacted by a $40.7 million increase in accounts payable and a $5.5 million increase in manufacturing flooring plans payable. Also increasing our operating cash flows were a $6.2 million decrease in net accounts receivables and a $4.3 million increase in accrued expenses payable and other liabilities. Offsetting these positive cash flows was an increase of $94.6 million in net inventories as a result of increasing demand and improving sales of new and used equipment. Also decreasing our operating cash flows was a $3.3 million increase in prepaid expenses and other assets.

*Cash flow from investing activities.* For the six month period ended June 30, 2014, cash provided by our investing activities was exceeded by cash used in our investing activities, resulting in net cash used in our investing activities of $118.1 million. This was a result of purchases of rental and non-rental equipment totaling $172.2 million, which was partially offset by proceeds from the sale of rental and non-rental equipment of approximately $54.1 million.

For the six month period ended June 30, 2013, cash provided by our investing activities was exceeded by cash used in our investing activities, resulting in net cash used in our investing activities of approximately $82.1 million. This was a result of purchases of rental and non-rental equipment totaling $133.3 million, which was partially offset by proceeds from the sale of rental and non-rental equipment of approximately $51.2 million.

*Cash flow from financing activities.* For the six month period ended June 30, 2014, cash provided by our financing activities was $68.7 million. Net borrowings under the Credit Facility totaled approximately $70.3 million. Partially offsetting these positive cash flows were deferred financing costs of $0.8 million. As more fully described in our Quarterly Report on Form 10-Q for the three months ended September 30, 2012, the Company on September 19, 2012 paid a one-time special dividend of $7.00 per share on the then-outstanding common stock and dividends on nonvested stock at that time were to be paid upon vesting of those shares. On June 6, 2014, the Company paid all remaining dividends on those shares of common stock totaling $0.7 million.

For the six month period ended June 30, 2013, cash provided by our financing activities was approximately $48.6 million. Net proceeds from our 7% senior notes due 2022 issued on February 4, 2013 (the Add-on Notes ) were approximately $107.3 million. Net borrowings under the Credit Facility totaled $57.2 million and excess tax benefits realized from stock-based awards totaled $0.2 million. Partially offsetting these positive cash flows were payments of deferred financing costs of $0.7 million and dividends paid of $0.4 million. Additionally, purchases of treasury stock totaled $0.4 million.

***Senior Secured Credit Facility***

We and our subsidiaries are parties to a senior secured Credit Facility with General Electric Capital Corporation as agent, and the lenders named therein.

On May 21, 2014, we amended, extended and restated its existing $402.5 million senior secured credit facility with General Electric Capital Corporation by entering into the Fourth Amended and Restated Credit Agreement (the Amended and Restated Credit Agreement ) by and among the Company, Great Northern Equipment, Inc., H&E Equipment Services (California), LLC, the other credit parties named therein, the lenders named therein, General Electric Capital Corporation, as administrative agent, Bank of America, N.A. as co-syndication agent and documentation agent, Wells Fargo Capital Finance, LLC, as co-syndication agent and Deutsche Bank Securities Inc. as joint lead arranger and joint bookrunner.

The Amended and Restated Credit Agreement, among other things, (i) extends the maturity date of the credit facility from February 29, 2017 to May 21, 2019, (ii) increases the uncommitted incremental revolving capacity from $130 million to $150 million, (iii) permits a like-kind exchange program under Section 1031 of the Internal Revenue Code of 1986, as amended, (iv) provides that the unused commitment fee margin will be either 0.50%, 0.375% or 0.25%, depending on the ratio of the average of the daily closing balances of the aggregate revolving loans, swing line loans and letters of credit outstanding during each month to the aggregate commitments for the revolving loans, swing line loans and letters of credit, (v) lowers the interest rate (a) in the case of index rate revolving loans, to the index rate plus an applicable margin of 0.75% to 1.25% depending on the leverage ratio and (b) in the case of LIBOR revolving loans, to LIBOR plus an applicable margin of 1.75% to 2.25%, depending on the leverage ratio, (vi) lowers the margin applicable to the letter of credit fee to between 1.75% and 2.25%, depending on the leverage ratio, and (vii) permits, under certain conditions, for the payment of dividends and/or stock repurchases or redemptions on the capital stock of the Company of up to $75 million per calendar year and further additionally permits the payment of the special cash dividend of $7.00 per share previously declared by the Company on August 20, 2012 to the holders of outstanding restricted stock of the Company following the declared payment date with such permission not tied to the vesting of such restricted stock (which includes the Company s payment in June 2014 of all amounts that remained payable to the holders of the restricted stock of the Company with respect to such special dividend that was otherwise payable following the applicable vesting dates in May and July 2014 and 2015).

At June 30, 2014, the interest rate on the Credit Facility was based on LIBOR plus 200 basis points. The weighted average interest rate at June 30, 2014 was approximately 2.5%. At July 24, 2014, we had $203.3 million of available borrowings under our Credit Facility, net of $6.5 million of outstanding letters of credit.

***Senior Unsecured Notes***

On August 20, 2012, the Company closed on its offering of $530 million aggregate principal amount of its 7% senior notes due 2022 (the New Notes ) in an unregistered offering. The New Notes and related guarantees were offered in a private placement solely to qualified institutional buyers in reliance on Rule 144A under the Securities Act of 1933, as amended (the Securities Act ), or outside the United States to persons other than U.S. persons in compliance with Regulation S under the Securities Act.

Net proceeds to the Company from the sale of the New Notes totaled approximately $520.7 million. The Company used a portion of the net proceeds from the sale of the New Notes to repurchase $158.7 million of the $250 million aggregate principal amount of its 8 3/8% senior notes due 2016 (the Old Notes ) in early settlement of a tender offer and consent solicitation (the Tender Offer ) that the Company launched on August 6, 2012. Holders who tendered their Old Notes prior to the early tender deadline received $1,031.67 per $1,000 principal amount of Old Notes tendered, plus accrued and unpaid interest to the date of repurchase. Having received the requisite consents from the holders of the Old Notes in the Tender Offer, the Company, certain of its subsidiaries and The Bank of New York Mellon Trust Company, N.A., as trustee, executed a supplemental indenture amending the indenture relating to the Old Notes. Also on August 20, 2012, the Company satisfied and discharged its obligations under the indenture relating to the Old Notes and issued a notice of redemption for the remaining outstanding principal amount of the Old Notes. On September 19, 2012, the Company redeemed the remaining $91.3 million principal amount outstanding of the Old Notes at a redemption price equal to 102.792% of the aggregate principal amount of the Old Notes being redeemed, plus accrued and unpaid interest on the Old Notes to the redemption date.

The Company used the remaining net proceeds of the offering of the New Notes to pay on September 19, 2012 a special, one-time cash dividend. Actual dividends paid totaled approximately $244.4 million, representing $7.00 per share paid on 34,911,455 outstanding shares of Common Stock of the Company. Dividends on 232,431 outstanding shares of non-vested common stock totaling approximately $1.5 million, net of estimated forfeitures, are to be paid upon vesting of those shares pursuant to their respective stock awards terms and conditions.

In connection with the above transactions, the Company recorded a one-time loss on the early extinguishment of debt of approximately $10.2 million, or approximately $6.6 million after-tax, reflecting payment of $5.0 million of tender premiums and $2.6 million to redeem the Old Notes that remained outstanding following completion of the Tender

Offer, combined with the write-off of approximately $2.6 million of unamortized deferred financing costs related to the Old Notes. Transaction costs incurred in connection with the offering of the New Notes totaled approximately $1.7 million.

The New Notes were issued at par and require semiannual interest payments on March 1 and September 1 of each year, commencing on March 1, 2013. No principal payments are due until maturity (September 1, 2022).

The New Notes are redeemable, in whole or in part, at any time on or after September 1, 2017 at specified redemption prices plus accrued and unpaid interest to the date of redemption. We may redeem up to 35% of the aggregate principal amount of the New Notes before September 1, 2015 with the net cash proceeds from certain equity offerings. We may also redeem the New Notes prior to September 1, 2017 at a specified make-whole redemption price plus accrued and unpaid interest to the date of redemption.

The New Notes rank equally in right of payment to all of our existing and future senior indebtedness and rank senior to any of our subordinated indebtedness. The New Notes are unconditionally guaranteed on a senior unsecured basis by all of our current and future significant domestic restricted subsidiaries. In addition, the New Notes are effectively subordinated to all of our and the guarantors existing and future secured indebtedness, including the Credit Facility, to the extent of the assets securing such indebtedness, and are structurally subordinated to all of the liabilities and preferred stock of any of our subsidiaries that do not guarantee the New Notes.

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If we experience a change of control, we will be required to offer to purchase the New Notes at a repurchase price equal to 101% of the principal amount, plus accrued and unpaid interest to the date of repurchase.

On February 4, 2013, the Company closed on its offering of $100 million aggregate principal amount of Add-on Notes in an unregistered offering through a private placement. The Add-on Notes were priced at 108.5% of the principal amount. Net proceeds from the offering of the Add-on Notes, including accrued interest from August 20, 2012 totaled approximately $110.4 million. The Company used the proceeds from the offering to repay indebtedness outstanding under its Credit Facility and for the payment of fees and expenses related to the offering.

The Add-on Notes were issued as additional notes under an indenture dated as of August 20, 2012, pursuant to which the Company previously issued the New Notes as described above. The Add-on Notes have identical terms to, rank equally with and form a part of a single class of securities with the New Notes.

In order to satisfy our obligations under two separate registration rights agreements, one entered into between the Company, the guarantors of the New Notes and the initial purchasers of the New Notes, and the other entered into between the Company, the guarantors of the Add-on Notes and the initial purchaser of the Add-on Notes, we commenced an offering on April 1, 2013 to exchange the New Notes and guarantees and the Add-on Notes and guarantees for registered, publicly tradable notes and guarantees that have terms identical in all material respects to the New Notes and the Add-on Notes (except that the exchange notes will not contain any transfer restrictions). This exchange offer closed on April 30, 2013.

***Cash Requirements Related to Operations***

Our principal sources of liquidity have been from cash provided by operating activities and the sales of new, used and rental fleet equipment, proceeds from the issuance of debt, and borrowings available under the Credit Facility. Our principal uses of cash have been to fund operating activities and working capital (including new and used equipment inventories), purchases of rental fleet equipment and property and equipment, fund payments due under facility operating leases and manufacturer flooring plans payable, and to meet debt service requirements. In the future, we may pursue additional strategic acquisitions and seek to open new start-up locations. We anticipate that the above described uses will be the principal demands on our cash in the future.

The amount of our future capital expenditures will depend on a number of factors including general economic conditions and growth prospects. Our gross rental fleet capital expenditures for the six month period ended June 30, 2014 were $199.0 million, including $37.4 million of non-cash transfers from new and used equipment to rental fleet inventory. Our gross property and equipment capital expenditures for the six month period ended June 30, 2014 were $10.6 million. In response to changing economic conditions, we believe we have the flexibility to modify our capital expenditures by adjusting them (either up or down) to match our actual performance.

To service our debt, we will require a significant amount of cash. Our ability to pay interest and principal on our indebtedness (including the New Notes and the Add-on Notes, the Credit Facility and our other indebtedness), will depend upon our future operating performance and the availability of borrowings under the Credit Facility and/or other debt and equity financing alternatives available to us, which will be affected by prevailing economic conditions and conditions in the global credit and capital markets, as well as financial, business and other factors, some of which are beyond our control. Based on our current level of operations and given the current state of the capital markets, we believe our cash flow from operations, available cash and available borrowings under the Credit Facility will be adequate to meet our future liquidity needs for the foreseeable future. As of July 24, 2014, we had $203.3 million of available borrowings under the Credit Facility, net of $6.5 million of outstanding letters of credit.

We cannot provide absolute assurance that our future cash flow from operating activities will be sufficient to meet our long-term obligations and commitments. If we are unable to generate sufficient cash flow from operating activities in the future to service our indebtedness and to meet our other commitments, we will be required to adopt one or more alternatives, such as refinancing or restructuring our indebtedness, selling material assets or operations or seeking to raise additional debt or equity capital. Given current economic and market conditions, including the significant disruptions in the global capital markets, we cannot assure investors that any of these actions could be effected on a timely basis or on satisfactory terms or at all, or that these actions would enable us to continue to satisfy our capital requirements. In addition, our existing debt agreements, including the Credit Facility and the indenture governing the New Notes and the Add-on Notes, as well as any future debt agreements, contain or may contain restrictive covenants, which may prohibit us from adopting any of these alternatives. Our failure to comply with these covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our debt.

***Quarterly Dividends***

On July 28, 2014, the Company announced a dividend of $0.25 per share to stockholders of record as of the close of business on August 25, 2014, payable on September 9, 2014. The Company intends to pay regular quarterly cash dividends; however, the declaration of any subsequent dividends is discretionary and will be subject to a final determination by the Board of Directors each quarter after its review of, among other things, business and market conditions.

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## Seasonality

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

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

## Contractual and Commercial Commitments

There have been no material changes from the information included in our Annual Report on Form 10-K for the year ended December 31, 2013.

## Off-Balance Sheet Arrangements

There have been no material changes from the information included in our Annual Report on Form 10-K for the year ended December 31, 2013.

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

Our earnings may be affected by changes in interest rates since interest expense on the Credit Facility is currently calculated based upon the index rate plus an applicable margin of 0.75% to 1.25%, depending on the leverage ratio, in the case of index rate revolving loans and LIBOR plus an applicable margin of 1.75% to 2.25%, depending on the leverage ratio, in the case of LIBOR revolving loans. At June 30, 2014, we had total borrowings outstanding under the Credit Facility of approximately $172.8 million. A 1.0% increase in the interest rate on the Credit Facility would result in approximately a $1.7 million increase in interest expense on an annualized basis. At July 24, 2014, we had $203.3 million of available borrowings under the Credit Facility, net of $6.5 million of outstanding letters of credit. We did not have significant exposure to changing interest rates as of June 30, 2014 on the fixed-rate New Notes and Add-on Notes. Historically, we have not engaged in derivatives or other financial instruments for trading, speculative or hedging purposes, though we may do so from time to time if such instruments are available to us on acceptable terms and prevailing market conditions are accommodating.

## Item 4. Controls and Procedures

*Management s Quarterly Evaluation of Disclosure Controls and Procedures*

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

Our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively) have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our principal executive officer and principal financial officer have concluded that, as of June 30, 2014, our current disclosure controls and procedures were effective.

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

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*Changes in Internal Control Over Financial Reporting*

There were no changes in the Company s internal control over financial reporting (as defined in Exchange Act Rule 13a-15(f)) that occurred during the quarter ended June 30, 2014 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

**PART II. OTHER INFORMATION**

**Item 1. Legal Proceedings.**

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

**Item 1A. Risk Factors.**

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A Risk Factors, in our Annual Report on Form 10-K for the year ended December 31, 2013, which could materially affect our business, financial condition or future results.

As of the date of this Quarterly Report on Form 10-Q, there have been no material changes with respect to the Company s risk factors previously disclosed on Form 10-K for the year ended December 31, 2013.

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

None.

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

None.

**Item 4. Mine Safety Disclosures.**

Not applicable.

**Item 5. Other Information.**

None.

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**Item 6. Exhibits.**

| | |
|---|---|
| 31.1 | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith). |
| 31.2 | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (filed herewith). |
| 32.1 | Certification pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith). |
| 101.INS | XBRL Instance Document (filed herewith). |
| 101.SCH | XBRL Taxonomy Extension Schema Document (filed herewith). |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document (filed herewith). |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document (filed herewith). |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document (filed herewith). |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document (filed herewith). |

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## SIGNATURES

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

| | |
|---|---|
| | H&E EQUIPMENT SERVICES, INC. |
| Dated: July 31, 2014 | By: /s/ John M. Engquist<br>John M. Engquist<br><br>Chief Executive Officer<br><br>(Principal Executive Officer) |
| Dated: July 31, 2014 | By: /s/ Leslie S. Magee<br>Leslie S. Magee<br><br>Chief Financial Officer and Secretary<br><br>(Principal Financial and Accounting Officer) |

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