H&E Equipment Services, Inc.
Form 10-K
February 26, 2015
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D. C. 20549**

# FORM 10-K

**(Mark One)**

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

**For the fiscal year ended December 31, 2014**

**or**

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

**For the transition period from _____ to _____**

**Commission file number 000-51759**

## H&E EQUIPMENT SERVICES, INC.

**(Exact Name of Registrant as Specified in Its Charter)**

| **Delaware**<br>**(State or Other Jurisdiction of Incorporation or Organization)** | **81-0553291**<br>**(IRS Employer Identification No.)** |
|---|---|
| **7500 Pecue Lane,**<br><br>**Baton Rouge, Louisiana 70809**<br>**(Address of Principal Executive Offices, including Zip Code)** | **(225) 298-5200**<br>**(Registrant s Telephone Number, Including Area Code)** |

**Securities registered pursuant to Section 12(b) of the Act:**

| **Title of Each Class** | **Name of Each Exchange on Which Registered** |
|---|---|
| **Common Stock, par value $0.01 per share** | **Nasdaq Global Market** |

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405) is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

| Large Accelerated Filer x | Accelerated Filer ¨ |
|---|---|

Non-Accelerated Filer ¨ Smaller Reporting Company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ¨ No x

The aggregate market value of the common stock held by non-affiliates of the registrant was approximately $1,138,162,949 (computed by reference to the closing sale price of the registrant s common stock on the Nasdaq Global Market on June 30, 2014, the last business day of the registrant s most recently completed second fiscal quarter).

As of February 20, 2015, there were 35,260,409 shares of common stock, par value $0.01 per share, of the registrant outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the document listed below have been incorporated by reference into the indicated parts of this Form 10-K, as specified in the responses to the item numbers involved.

| | |
|---|---|
| Part III | The registrant s definitive proxy statement, for use in connection with the Annual Meeting of Stockholders, to be filed within 120 days after the registrant s fiscal year ended December 31, 2014. |

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## FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the federal securities laws. Statements that are not historical facts, including statements about our beliefs and expectations, are forward-looking statements. Forward-looking statements include statements preceded by, followed by or that include the words may , could , would , should , believe , expect , anticipate , plan , estimate , target , project similar expressions. These statements include, among others, statements regarding our expected business outlook, anticipated financial and operating results, our business strategy and means to implement the strategy, our objectives, the amount and timing of capital expenditures, the likelihood of our success in expanding our business, financing plans, budgets, working capital needs and sources of liquidity. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We believe that these risks and uncertainties include, but are not limited to, those described in the Risk Factors section of this Annual Report on Form 10-K. These factors should not be construed as exhaustive and should be read with the other cautionary statements in this Annual Report on Form 10-K.

Forward-looking statements are only predictions and are not guarantees of performance. These statements are based on our management s beliefs and assumptions, which in turn are based on currently available information. Important assumptions relating to the forward-looking statements include, among others,

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assumptions regarding demand for our products, the expansion of product offerings geographically or through new marketing applications, the timing and cost of planned capital expenditures, competitive conditions and general economic conditions. These assumptions could prove inaccurate. Forward-looking statements also involve known and unknown risks and uncertainties, which could cause actual results to differ materially from those contained in any forward-looking statement. In addition, even if our actual results are consistent with the forward-looking statements contained in this Annual Report on Form 10-K, those results may not be indicative of results or developments in subsequent periods. Many of these factors are beyond our ability to control or predict. Such factors include, but are not limited to, the following:

- general economic conditions and construction and industrial activity in the markets where we operate in North America;
- the pace of economic recovery in areas affecting our business (although we have experienced an upturn in our business activities from the most recent economic downturn and related decreases in construction and industrial activities, there is no certainty this trend will continue; if the pace of the recovery slows or construction and industrial activities decline, our revenues and operating results may be severely affected);
- the impact of conditions in the global credit markets and their effect on construction spending and the economy in general;
- relationships with equipment suppliers;
- increased maintenance and repair costs as we age our fleet and decreases in our equipment s residual value;
- our indebtedness;
- risks associated with the expansion of our business;
- our possible inability to integrate any businesses we acquire;
- competitive pressures;
- compliance with laws and regulations, including those relating to environmental matters and corporate governance matters; and
- other factors discussed under Item 1A - Risk Factors or elsewhere in this Annual Report on Form 10-K.

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

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# PART I

## Item 1. Business

### The Company

We are 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. We engage in five principal business activities in these equipment categories:

- equipment rentals;
- new equipment sales;
- used equipment sales;
- parts sales; and
- repair and maintenance services.

By providing rental, sales, parts, repair and maintenance functions under one roof, we offer our customers a one-stop solution for their equipment needs. This full-service approach provides us with (1) multiple points of customer contact; (2) cross-selling opportunities among our rental, new and used equipment sales, parts sales and services operations; (3) an effective method to manage our rental fleet through efficient maintenance and profitable distribution of used equipment; and (4) a mix of business activities that enables us to operate effectively throughout economic cycles. We believe that the operating experience and extensive infrastructure we have developed throughout our history as an integrated services company provide us with a competitive advantage over rental-focused companies and equipment distributors. In addition, our focus on four core categories of heavy construction and industrial equipment enables us to offer specialized knowledge and support to our customers.

For the year ended December 31, 2014, we generated total revenues of approximately $1.1 billion. The pie charts below illustrate a breakdown of our revenues and gross profit for the year ended December 31, 2014 by business segment (see note 17 to our consolidated financial statements for further information regarding our business segments):

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We have operated, through our predecessor companies, as an integrated equipment services company for approximately 54 years and have built an extensive infrastructure that as of February 20, 2015 includes 70 full-service facilities located throughout the West Coast, Intermountain, Southwest, Gulf Coast, Southeast and Mid-Atlantic regions of the United States. Our management, from the corporate level down to the branch store level, has extensive industry experience. We focus our rental and sales 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 forces and strengthen our customer relationships. In addition, we operate our day-to-day business on a branch basis, which we believe allows us to more closely service our customers, fosters management accountability at local levels and strengthens our local and regional relationships.

**Products and Services**

*Equipment Rentals.* We rent our heavy construction and industrial equipment to our customers on a daily, weekly and monthly basis. We have a well-maintained rental fleet that, at December 31, 2014, consisted of 26,056 pieces of equipment 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 $1.2 billion and an average age of approximately 31.7 months. Our rental business creates cross-selling opportunities for us in sales and service support activities.

*New Equipment Sales.* We sell new heavy construction and industrial equipment in all four core equipment categories, and are a leading U.S. distributor for nationally recognized suppliers including JLG Industries, Gehl, Genie Industries (Terex), Komatsu, and Doosan/Bobcat. In addition, we are the world s largest distributor of Grove and Manitowoc crane equipment. Our new equipment sales operation is a source of new customers for our parts sales and service support activities, as well as for used equipment sales.

*Used Equipment Sales.* We sell used equipment primarily from our rental fleet, as well as inventoried equipment that we acquire through trade-ins from our customers and selective purchases of high-quality used equipment. For the year ended December 31, 2014, approximately 82.3% of our used equipment sales revenues were derived from sales of rental fleet equipment. Used equipment sales, like new equipment sales, generate parts and services business for us.

*Parts Sales.* We sell new and used parts to customers and also provide parts to our own rental fleet. We maintain an extensive in-house parts inventory in order to provide timely parts and service support to our customers as well as to our own rental fleet. In addition, our parts operations enable us to maintain a high-quality rental fleet and provide additional product support to our end users.

*Service Support.* We provide maintenance and repair services for our customers owned equipment and to our own rental fleet. In addition to repair and maintenance on an as-needed or scheduled basis, we provide ongoing preventative maintenance services and warranty repairs for our customers. We devote significant resources to training our technical service employees and over time, we have built a full-scale services infrastructure that we believe would be difficult for companies without the requisite resources and lead time to effectively replicate.

In addition to our principal business activities mentioned above, we provide ancillary equipment support activities including transportation, hauling, parts shipping and loss damage waivers.

**Industry Background**

Although there has been some consolidation within the industry, including the acquisition of Rental Services Corporation by United Rentals, Inc., the U.S. construction equipment distribution industry remains highly fragmented and consists mainly of a small number of multi-location regional or national operators and a large number of relatively

small, independent businesses serving discrete local markets. The industry is driven by a broad range of economic factors including total U.S. non-residential construction trends, construction machinery demand, and demand for rental equipment. Construction equipment is largely distributed to end users through two channels: equipment rental companies and equipment dealers. Examples of equipment rental companies include United Rentals, Sunbelt Rentals, Neff Rentals and Hertz Equipment Rental. Examples of equipment dealers include Finning and Toromont. Unlike many of these companies, which principally focus on one channel

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of distribution, we operate substantially in both channels. As an integrated equipment services company, we rent, sell and provide parts and services support. Although many of the historically pure equipment rental companies also provide parts and service support to customers, their service offerings are typically limited and may prove difficult to expand due to the infrastructure, training and resources necessary to develop the breadth of offerings and depth of specialized equipment knowledge that our services and sales staff provides.

**Our Competitive Strengths**

*Integrated Platform of Products and Services.* We believe that our operating experience and the extensive infrastructure we have developed through years of operating as an integrated equipment services company provides us with a competitive advantage over rental-focused companies and equipment distributors. Key strengths of our integrated equipment services platform include:

ability to strengthen customer relationships by providing a full-range of products and services;

purchasing power gained through purchases for our new equipment sales and rental operations;

high quality rental fleet supported by our strong product support capabilities;

established retail sales network resulting in profitable disposal of our used equipment; and

mix of business activities that enables us to effectively operate through economic cycles.

*Complementary, High Margin Parts and Services Operations.* Our parts and services businesses allow us to maintain our rental fleet in excellent condition and to offer our customers high-quality rental equipment. Our after-market parts and services businesses together provide us with a high-margin revenue source that has proven to be relatively stable throughout a range of economic cycles.

*Specialized, High-Quality Equipment Fleet.* Our focus on four core types of heavy construction and industrial equipment allows us to better provide the specialized knowledge and support that our customers demand when renting and purchasing equipment. These four types of equipment are attractive because they have a long useful life, high residual value and generally strong industry demand.

*Well-Developed Infrastructure.* We have built an infrastructure that as of February 23, 2015 included a network of 70 full-service facilities, and a workforce that included a highly-skilled group of approximately 565 service technicians and an aggregate of 227 sales people in our specialized rental and equipment sales forces. We believe that our well-developed infrastructure helps us to better serve large multi-regional customers than our historically rental-focused competitors and provides an advantage when competing for lucrative fleet and project management business.

*Leading Distributor for Suppliers.* We are a leading U.S. distributor for nationally-recognized equipment suppliers, including JLG Industries, Gehl, Genie Industries (Terex), Komatsu and Doosan/Bobcat. In addition, we are the world s largest distributor of Grove and Manitowoc crane equipment. These relationships improve our ability to negotiate

equipment acquisition pricing and allow us to purchase parts at wholesale costs.

*Customized Information Technology Systems.* Our information systems allow us to actively manage our business and our rental fleet. We have a customer relationship management system that provides our sales force with real-time access to customer and sales information. In addition, our enterprise resource planning system implemented in 2010 expands our ability to provide more timely and meaningful information to manage our business.

*Experienced Management Team.* Our senior management team is led by John M. Engquist, our Chief Executive Officer, who has approximately 40 years of industry experience. Our senior and regional managers have an average of approximately 24 years of industry experience. Our branch managers have extensive knowledge and industry experience as well.

**Our Business Strategy**

Our business strategy includes, among other things, leveraging our integrated business model, managing the life cycle of our rental equipment, further developing our parts and services operations and selectively entering new markets and pursuing acquisitions. However, the timing and extent to which we implement these various aspects of our strategy depend on a variety of factors, many of which are outside our control, such as general economic conditions and construction activity in the United States.

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*Leverage Our Integrated Business Model.* We intend to continue to actively leverage our integrated business model to offer a one-stop solution to our customers varied needs with respect to the four categories of heavy construction and industrial equipment on which we focus. We will continue to cross-sell our services to expand and deepen our customer relationships. We believe that our integrated equipment services model provides us with a strong platform for growth and enables us to effectively operate through economic cycles.

*Managing the Life Cycle of Our Rental Equipment.* We actively manage the size, quality, age and composition of our rental fleet, employing a cradle through grave approach. During the life of our rental equipment, we (1) aggressively negotiate on purchase price; (2) use our customized information technology systems to closely monitor and analyze, among other things, time utilization (equipment usage based on customer demand), rental rate trends and targets and equipment demand; (3) continuously adjust our fleet mix and pricing; (4) maintain fleet quality through regional quality control managers and our on-site parts and services support; and (5) dispose of rental equipment through our retail sales force. This allows us to purchase our rental equipment at competitive prices, optimally utilize our fleet, cost-effectively maintain our equipment quality and maximize the value of our equipment at the end of its useful life.

*Grow Our Parts and Services Operations.* Our strong parts and services operations are keystones of our integrated equipment services platform and together provide us with a relatively stable high-margin revenue source. Our parts and services operations help us develop strong, ongoing customer relationships, attract new customers and maintain a high quality rental fleet. We intend to further grow this product support side of our business and further penetrate our customer base.

*Enter Carefully Selected New Markets.* We intend to continue our strategy of selectively expanding our network to solidify our presence in attractive and contiguous regions where we operate. We look to add new locations in those markets that offer attractive growth opportunities, high or increasing levels of demand for construction and heavy equipment, and contiguity to our existing markets.

*Make Selective Acquisitions.* The equipment industry is fragmented and includes a large number of relatively small, independent businesses servicing discrete local markets. Some of these businesses may represent attractive acquisition candidates. We intend to evaluate and pursue, on an opportunistic basis, acquisitions which meet our selection criteria, including favorable financing terms, with the objective of increasing our revenues, improving our profitability, entering additional attractive markets and strengthening our competitive position.

**History**

Through our predecessor companies, we have been in the equipment services business for approximately 54 years. H&E Equipment Services L.L.C. was formed in June 2002 through the 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 Equipment Services L.L.C. ( 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, 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.

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We completed, effective as of February 28, 2006, the acquisition of all the outstanding capital stock of Eagle High Reach Equipment, Inc. (now known as H&E California Holding, Inc.) and all of the outstanding equity interests of its subsidiary, Eagle High Reach Equipment, LLC (now known as H&E Equipment Services (California), LLC) (collectively, Eagle or the Eagle Acquisition ). Prior to the acquisition, Eagle was a privately-held construction and industrial equipment rental company serving the southern California construction and industrial markets out of four branch locations.

We completed, effective as of September 1, 2007, the acquisition of all of the outstanding capital stock of J.W. Burress, Incorporated (now known as H&E Equipment Services (Mid-Atlantic), Inc.) ( Burress or the Burress Acquisition ). Prior to the acquisition, Burress was a privately-held company operating primarily as a distributor in the construction and industrial equipment markets out of 12 locations in four states in the Mid-Atlantic region of the United States.

**Customers**

We serve approximately 36,400 customers in the United States, primarily in the West Coast, Intermountain, Southwest, Gulf Coast, Southeast and Mid-Atlantic regions. Our customers include a wide range of industrial and commercial companies, construction contractors, manufacturers, public utilities, municipalities, maintenance contractors and numerous and diverse other large industrial accounts. They vary from small, single machine owners to large contractors and industrial and commercial companies who typically operate under equipment and maintenance budgets. Our branches enable us to closely service local and regional customers, while our well-developed full-service infrastructure enables us to effectively service multi-regional and national accounts. Our integrated strategy enables us to satisfy customer requirements and increase revenues from customers through cross-selling opportunities presented by the various products and services that we offer. As a result, our five reporting segments generally derive their revenue from the same customer base. In 2014, no single customer accounted for more than 3.0% of our total revenues, and no single customer accounted for more than 10% of our revenue on a segmented basis. Our top ten customers combined accounted for approximately 12.4% of our total revenues in 2014.

**Sales and Marketing**

We have two distinct, focused sales forces; one specializing in equipment rentals and one focused specifically on new and used equipment sales. We believe maintaining separate sales forces for equipment rental and equipment sales is important to our customer service, allowing us to effectively meet the demands of different types of customers.

Both our rental sales force and equipment sales force are divided into smaller, product focused teams which enhances the development of in-depth product application and technical expertise. To further develop knowledge and experience, we provide our sales forces with extensive training, including frequent factory and in-house training by manufacturer representatives regarding the operational features, operator safety training and maintenance of new equipment. This training is essential, as our sales personnel regularly call on customers job sites, often assisting customers in assessing their immediate and ongoing equipment needs. In addition, we have a commission-based compensation program for our sales forces.

We maintain a company-wide customer relationship management system. We believe that this comprehensive customer and sales management tool enhances our territory management program by increasing the productivity and efficiency of our sales representatives and branch managers as they are provided real-time access to sales and customer information.

We have developed strategies to identify target customers for our equipment services in all markets. These strategies allow our sales force to identify frequent rental users, function as advisors and problem solvers for our customers and accelerate the sales process in new operations.

While our specialized, well-trained sales force strengthens our customer relationships and fosters customer loyalty, we also promote our business through marketing and advertising, including industry publications, direct mail campaigns, television, the Yellow Pages and our Company website at www.he-equipment.com.

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**Suppliers**

We purchase a significant amount of equipment from the same manufacturers with whom we have distribution agreements. We purchased approximately 61% of our new equipment and rental fleet from three manufacturers (Grove/Manitowoc, Komatsu, and Genie Industries (Terex)) during the year ended December 31, 2014. These relationships improve our ability to negotiate equipment acquisition pricing. We are also a leading U.S. distributor for nationally-recognized equipment suppliers including JLG Industries, Gehl, Genie Industries (Terex), Komatsu, Doosan/Bobcat and Grove/Manitowoc. As an authorized distributor for a wide range of suppliers, we are also able to provide our customers parts and services that in many cases are covered under the manufacturer s warranty. While we believe that we have alternative sources of supply for the equipment we purchase in each of our principal product categories, termination of one or more of our relationships with any of our major suppliers of equipment could have a material adverse effect on our business, financial condition or results of operations if we were unable to obtain adequate or timely rental and sales equipment.

**Information Technology Systems**

We have specialized information systems that track (1) rental inventory utilization statistics; (2) maintenance and repair costs; (3) returns on investment for specific equipment types; and (4) detailed operational and financial information for each piece of equipment. These systems enable us to closely monitor our performance and actively manage our business, and include features that were custom designed to support our integrated services platform. The point-of-sale aspect of our systems enables us to link all of our facilities, permitting universal access to real-time data concerning equipment located at the individual facility locations and the rental status and maintenance history for each piece of equipment. In addition, our systems include, among other features, on-line contract generation, automated billing, applicable sales tax computation and automated rental purchase option calculation. We customized our customer relationship management system to enable us to more effectively manage our sales territories and sales representatives activity. This customer relationship management system provides sales and customer information, available rental fleet and inventory information, a quote system and other organizational tools to assist our sales forces. We maintain an extensive customer database which allows us to monitor the status and maintenance history of our customers owned-equipment and enables us to more effectively provide parts and services to meet their needs. All of our critical systems run on servers and other equipment that is current technology and available from major suppliers and serviceable through existing maintenance agreements.

**Seasonality**

Although our business is not significantly impacted by seasonality, the demand for our rental equipment tends to be lower in the winter months. The level of equipment rental activities 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.

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

**Competition**

The equipment industry is generally comprised of either pure rental equipment companies or manufacturer dealer/distributorship companies. We are an integrated equipment services company and rent, sell and provide parts

and services support. Although there has been some consolidation within the equipment industry, including the United Rentals acquisition of Rental Services Corporation, the equipment industry remains highly fragmented and consists mainly of a small number of multi-location regional or national operators and a large number of relatively small, independent businesses serving discrete local markets. Many of the markets in which we operate are served by numerous competitors, ranging from national and multi-regional equipment rental companies (for example, United Rentals, Sunbelt Rentals, Neff Rentals and Hertz Equipment Rental) or equipment dealers (for example, Finning and Toromont) to small, independent businesses with a limited number of locations.

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We believe that participants in the equipment rental industry generally compete on the basis of availability, quality, reliability, delivery and price. In general, large operators enjoy substantial competitive advantages over small, independent rental businesses due to a distinct price advantage. Many rental equipment companies parts and services offerings are limited and may prove difficult to expand due to the training, infrastructure and management resources necessary to develop the breadth of service offerings and depth of knowledge our service technicians are able to provide. Some of our competitors have significantly greater financial, marketing and other resources than we do.

Traditionally, equipment manufacturers distributed their equipment and parts through a network of independent dealers with distribution agreements. As a result of consolidation and competition, both manufacturers and distributors sought to streamline their operations, improve their costs and gain market share. Our established, integrated infrastructure enables us to compete directly with our competitors on either a local, regional or national basis. We believe customers place greater emphasis on value-added services, teaming with equipment rental and sales companies who can meet all of their equipment, parts and services needs.

**Environmental and Safety Regulations**

Our facilities and operations are subject to comprehensive and frequently changing federal, state and local environmental and occupational health and safety laws. These laws regulate (1) the handling, storage, use and disposal of hazardous materials and wastes and, if any, the associated cleanup of properties affected by pollutants; (2) air quality (emissions); and (3) wastewater. We do not currently anticipate any material adverse effect on our business or financial condition or competitive position as a result of our efforts to comply with such requirements. Although we have made and will continue to make capital and other expenditures to comply with environmental requirements, we do not expect to incur material capital expenditures for environmental controls or compliance.

In the future, federal, state or local governments could enact new or more stringent laws or issue new or more stringent regulations concerning environmental and worker health and safety matters, or effect a change in their enforcement of existing laws or regulations, that could affect our operations. Also, in the future, contamination may be found to exist at our facilities or off-site locations where we have sent wastes. There can be no assurance that we, or various environmental regulatory agencies, will not discover previously unknown environmental non-compliance or contamination. We could be held liable for such newly-discovered non-compliance or contamination. It is possible that changes in environmental and worker health and safety laws or liabilities from newly-discovered non-compliance or contamination could have a material adverse effect on our business, financial condition and results of operations.

**Employees**

As of December 31, 2014, we had approximately 1,900 employees. Of these employees, 779 are salaried personnel and 1,121 are hourly personnel. Our employees perform the following functions: sales operations, parts operations, rental operations, technical services and office and administrative support. A collective bargaining agreement relating to two branch locations covers approximately 66 of our employees. We believe our relations with our employees are good, and we have never experienced a work stoppage.

Generally, the total number of employees does not significantly fluctuate throughout the year. However, acquisition activity or the opening of new branches may increase the number of our employees or fluctuations in the level of our business activity could require some staffing level adjustments in response to actual or anticipated customer demand.

**Available Information**

We file electronically with the SEC annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. The public may read and copy any materials we have filed with or furnished to the SEC at the SEC s Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site (www.sec.gov) that contains reports, proxy and information statements, and other

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information regarding issuers that file electronically with the SEC. Copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, ownership reports for insiders and any amendments to these reports filed with or furnished to the SEC are available free of charge through our internet website (www.he-equipment.com) as soon as reasonably practicable after filing with the SEC. We use the Investor Relations section of our website as a means of disclosing material non-public information and for complying with our disclosure obligations under Regulation FD. Accordingly, investors should monitor the Investor Relations section of our website, in addition to following press releases, SEC filings and public conference calls and webcasts.

Additionally, we make available free of charge on our internet website:

- our Code of Conduct and Ethics;
- the charter of our Corporate Governance and Nominating Committee;
- the charter of our Compensation Committee; and
- the charter of our Audit Committee.

**Item 1A. Risk Factors**

Investing in our securities involves a high degree of risk. You should consider carefully the following risk factors and the other information in this Annual Report on Form 10-K, including our consolidated financial statements and related notes, before making any investment decisions regarding our securities. If any of the following risks actually occur, our business, financial condition and operating results could be adversely affected. As a result, the trading price of our securities could decline and you may lose part or all of your investment.

***Our business could be adversely affected by declines in construction and industrial activities, or a downturn in the economy in general, which could lead to decreased demand for equipment, depressed equipment rental rates and lower sales prices, resulting in a decline in our revenues, gross margins and operating results.***

Our equipment is principally used in connection with construction and industrial activities. Consequently, a downturn in construction or industrial activities, or the economy in general, may lead to a decrease in the demand for equipment or depress rental rates and the sales prices for our equipment. Our business may also be negatively impacted, either temporarily or long-term, by:

- a reduction in spending levels by customers;
- unfavorable credit markets affecting end-user access to capital;

adverse changes in federal, state and local government infrastructure spending;

an increase in the cost of construction materials;

adverse weather conditions which may affect a particular region;

an increase in interest rates; or

terrorism or hostilities involving the United States.

Weakness or deterioration in the non-residential construction and industrial sectors caused by these or other factors could have a material adverse effect on our financial position, results of operations and cash flows in the future and may also have a material adverse effect on residual values realized on the disposition of our rental fleet. For example, during fiscal years 2009 and 2010, the economic downturn and related economic uncertainty, combined with weakness in the construction industry and a decrease in industrial activity, resulted in a significant decrease in the demand for our new and used equipment and depressed equipment rental rates, which resulted in decreased revenues and lower gross margins realized on our equipment rentals and on the sale of our new and used inventory during those periods.

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***The inability to forecast trends accurately may have an adverse impact on our business and financial condition.***

An economic downturn or economic uncertainty makes it difficult for us to forecast trends, which may have an adverse impact on our business and financial condition. The economic downturn of 2009 and 2010 which included, among other things, significant reductions in available capital and liquidity from banks and other providers of credit, substantial reductions and/or fluctuations in equity and currency values worldwide and concerns that the worldwide economy may enter into a prolonged recessionary period limited our ability, as well as the ability of our customers and our suppliers, to accurately forecast future product demand trends. More recently, declines and volatility in oil and natural gas prices, and uncertainty regarding future price levels, may begin to affect the exploration, production and construction activity of our customers in those markets. Uncertainty regarding future product demand could cause us to maintain excess equipment inventory and increase our equipment inventory carrying costs. Alternatively, this forecasting difficulty could cause a shortage of equipment for sale or rental that could result in an inability to satisfy demand for our products and a loss of market shares.

***Unfavorable conditions or disruptions in the capital and credit markets may adversely impact business conditions and the availability of credit.***

Disruptions in the global capital and credit markets as a result of an economic downturn, economic uncertainty, changing or increased regulation, reduced alternatives or failures of significant financial institutions could adversely affect our customers ability to access capital and could adversely affect our access to liquidity needed for business in the future. Additionally, unfavorable market conditions may depress demand for our products and services or make it difficult for our customers to obtain financing and credit on reasonable terms. Unfavorable market conditions also may cause more of our customers to be unable to meet their payment obligations to us, increasing delinquencies and credit losses. If we are unable to manage credit risk adequately, or if a large number of customers should have financial difficulties at the same time, our credit losses could increase above historical levels and our operating results would be adversely affected. Delinquencies and credit losses generally can be expected to increase during economic slowdowns or recessions. Moreover, our suppliers may be adversely impacted by unfavorable capital and credit markets, causing disruption or delay of product availability. These events could negatively impact our business, financial position, results of operations and cash flows.

In addition, if the financial institutions that have extended line of credit commitments to us are adversely affected by the conditions of the capital and credit markets, they may be unable to fund borrowings under those credit commitments, which could have an adverse impact on our financial condition and our ability to borrow funds, if needed, for working capital, acquisitions, capital expenditures and other corporate purposes.

***Our significant indebtedness could adversely affect our financial condition.***

We have a significant amount of indebtedness outstanding. As of December 31, 2014, we had total indebtedness of approximately $892.0 million, consisting of the $630.0 million aggregate amounts outstanding under our senior unsecured notes, $259.9 million of outstanding borrowing under our senior secured credit facility (the Credit Facility ) and $2.1 million of capital lease obligations. As of February 20, 2015, we had borrowing availability under the Credit Facility of $357.9 million, net of $7.2 million of outstanding letters of credit.

Our indebtedness could have important consequences. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions;

require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes;

limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;

place us at a competitive disadvantage compared to our competitors that have less debt; and

limit our ability to obtain additional financing for working capital, capital expenditures, acquisitions or general corporate purposes.

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We expect to use cash flow from operations and borrowings under our Credit Facility to meet our current and future financial obligations, including funding our operations, debt service and capital expenditures. Our ability to make these payments depends on our future performance, which will be affected by financial, business, economic and other factors, many of which we cannot control. Our business may not generate sufficient cash flow from operations in the future, which could result in our being unable to repay indebtedness, or to fund other liquidity needs. If we do not have enough capital, we may be forced to reduce or delay our business activities and capital expenditures, sell assets, obtain additional debt or equity capital or restructure or refinance all or a portion of our debt, including the senior unsecured notes and our Credit Facility, on or before maturity. We cannot make any assurances that we will be able to accomplish any of these alternatives on terms acceptable to us, or at all. In addition, the terms of existing or future indebtedness, including the agreements governing the senior unsecured notes and the Credit Facility may limit our ability to pursue any of these alternatives.

***We may not be able to generate sufficient cash to service all of our indebtedness and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.***

Our ability to make scheduled payments or to refinance our debt obligations depends on our financial and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We cannot make assurances that we will maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. The Credit Facility and the indenture governing the senior unsecured notes restrict our ability to dispose of assets and use the proceeds from the disposition. We may not be able to consummate those dispositions or to obtain the proceeds which we could realize from such dispositions. Any proceeds we do receive from a disposition may not be adequate to meet any debt service obligations then due.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay capital expenditures, seek additional capital or restructure or refinance our indebtedness. We cannot assure you that we would be able to take any of these actions, that these actions would be successful and permit us to meet our scheduled debt service obligations or that these actions would be permitted under the terms of our existing or future debt agreements, including the Credit Facility or the indenture governing the senior unsecured notes.

If we cannot make scheduled payments on our debt, we will be in default and, as a result:

- our debt holders could declare all outstanding principal and interest to be due and payable;
- the lenders under the Credit Facility could terminate their commitments to lend us money and foreclose against the assets securing our borrowings; and
- we could be forced into bankruptcy or liquidation.

***Despite current indebtedness levels, we may still be able to incur more indebtedness, which could further exacerbate the risks described above.***

Under the terms of the agreements governing the Credit Facility and the senior unsecured notes, we and our subsidiaries may be able to incur substantial indebtedness in the future.

Additionally, our Credit Facility provides revolving commitments of up to $602.5 million in the aggregate. As of February 20, 2015, we had $357.9 million of availability under the Credit Facility, net of $7.2 million of outstanding letters of credit. If new debt is added to our current debt levels, the risks that we now face relating to our substantial indebtedness could intensify.

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***The agreements governing the Credit Facility and our senior unsecured notes restrict our ability to engage in certain corporate and financial transactions.***

The agreements governing the Credit Facility and the senior unsecured notes contain certain covenants that, among other things, restrict or limit our and our restricted subsidiaries ability to:

- incur more debt;
- pay dividends and make distributions;
- issue preferred stock of subsidiaries;
- make investments;
- repurchase stock;
- create liens;
- enter into transactions with affiliates;
- enter into sale and lease-back transactions;
- merge or consolidate; and
- transfer and sell assets.

Our ability to borrow under the Credit Facility depends upon compliance with the restrictions contained in the Credit Facility. Events beyond our control could affect our ability to meet these covenants.

In addition, the Credit Facility requires us to meet certain financial conditions tests. Events beyond our control can affect our ability to meet these financial conditions tests and to comply with other provisions governing the Credit Facility and the senior unsecured notes. Our failure to comply with obligations under the agreements governing the Credit Facility and the senior unsecured notes may result in an event of default under the agreements governing the Credit Facility and the senior unsecured notes, respectively. A default, if not cured or waived, may permit acceleration of this indebtedness and our other indebtedness. We may not be able to remedy these defaults. If our indebtedness is accelerated, we may not have sufficient funds available to pay the accelerated indebtedness and may not have the ability to refinance the accelerated indebtedness on terms favorable to us or at all.

***Variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.***

Borrowings under the Credit Facility are at variable rates of interest and expose us to interest rate risk. As such, our results of operations are sensitive to movements in interest rates. There are many economic factors outside our control that have in the past and may, in the future, impact rates of interest including publicly announced indices that underlie the interest obligations related to a certain portion of our debt. Factors that impact interest rates include governmental monetary policies, inflation, recession, changes in unemployment, the money supply, international disorder and instability in domestic and foreign financial markets. If interest rates increase, our debt service obligations on the variable rate indebtedness would increase even though the amount borrowed remained the same, and our results of operations would be adversely impacted. Such increases in interest rates could have a material adverse effect on our financial conditions and results of operations.

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***Our business could be hurt if we are unable to obtain additional capital as required, resulting in a decrease in our revenues and profitability.***

The cash that we generate from our business, together with cash that we may borrow under our Credit Facility, may not be sufficient to fund our capital requirements. We may require additional financing to obtain capital for, among other purposes, purchasing equipment, completing acquisitions, establishing new locations and refinancing existing indebtedness. Any additional indebtedness that we incur will make us more vulnerable to economic downturns and limit our ability to withstand competitive pressures. Moreover, we may not be able to obtain additional capital on acceptable terms, if at all. If we are unable to obtain sufficient additional financing in the future, our business could be adversely affected by reducing our ability to increase revenues and profitability.

***Our revenue and operating results may fluctuate, which could result in a decline in our profitability and make it more difficult for us to grow our business.***

Our revenue and operating results have historically varied from quarter to quarter. Periods of decline could result in an overall decline in profitability and make it more difficult for us to make payments on our indebtedness and grow our business. We expect our quarterly results to continue to fluctuate in the future due to a number of factors, including:

- general economic conditions in the markets where we operate;
- the cyclical nature of our customers business, particularly our construction customers;
- seasonal sales and rental patterns of our construction customers, with sales and rental activity tending to be lower in the winter months;
- severe weather and seismic conditions temporarily affecting the regions where we operate;
- changes in corporate spending for plants and facilities or changes in government spending for infrastructure projects;
- the effectiveness of integrating acquired businesses and new start-up locations; and
- timing of acquisitions and new location openings and related costs.

In addition, we incur various costs when integrating newly acquired businesses or opening new start-up locations, and the profitability of a new location is generally expected to be lower in the initial months of operation.

***Fluctuations in the stock market, as well as general economic and market conditions, may impact the market price of our common stock.***

The market price of our common stock has been and may continue to be subject to significant fluctuations in response to general economic changes and other factors including, but not limited to:

- variations in our quarterly operating results or results that vary from investor expectations;
- changes in the strategy and actions taken by our competitors, including pricing changes;
- securities analysts elections to discontinue coverage of our common stock, changes in financial estimates by analysts or a downgrade of our common stock or of our sector by analysts;
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in the price of oil;
- investor perceptions of us and the equipment rental and distribution industry; and
- national or regional catastrophes or circumstances and natural disasters, hostilities and acts of terrorism.

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Broad market and industry factors may materially reduce the market price of our common stock, regardless of or in a manner that is disproportionate to any related impact on our operating performance. As an example, in the latter half of 2014 the price of oil fell significantly. We believe that this decline in oil prices was a significant factor in the price decline of our stock during the same period, even though we did not see a corresponding significant decrease in levels of construction and industrial activities related to oil, gas, petrochemical or other energy related activities over the same period and, as a result, our 2014 operating performance was not significantly impacted. In addition, the stock market historically has experienced price and volume fluctuations that often have been unrelated or disproportionate to the operating performance of companies. These fluctuations, as well as general economic and market conditions, including those listed above and others, may harm the market price of our common stock.

***We are subject to competition, which may have a material adverse effect on our business by reducing our ability to increase or maintain revenues or profitability.***

The equipment rental and retail distribution industries are highly competitive and the equipment rental industry is highly fragmented. Many of the markets in which we operate are served by numerous competitors, ranging from national and multi-regional equipment rental companies to small, independent businesses with a limited number of locations. We generally compete on the basis of availability, quality, reliability, delivery and price. Some of our competitors have significantly greater financial, marketing and other resources than we do, and may be able to reduce rental rates or sales prices. The market downturn and increased competitive pressures in 2009 and 2010 caused us to significantly reduce our rates to maintain market share, resulting in lower operating margins and profitability. We may encounter increased competition from existing competitors or new market entrants in the future, which could have a material adverse effect on our business, financial condition and results of operations.

***We purchase a significant amount of our equipment from a limited number of manufacturers. Termination of one or more of our relationships with any of those manufacturers could have a material adverse effect on our business, as we may be unable to obtain adequate or timely rental and sales equipment.***

We purchase most of our rental and sales equipment from leading, nationally-known original equipment manufacturers ( OEMs ). For the year ended December 31, 2014, we purchased approximately 61% of our rental and sales equipment from three manufacturers (Grove/Manitowoc, Komatsu, and Genie Industries (Terex)). Although we believe that we have alternative sources of supply for the rental and sales equipment we purchase in each of our core product categories, termination of one or more of our relationships with any of these major suppliers could have a material adverse effect on our business, financial condition or results of operations if we were unable to obtain adequate or timely rental and sales equipment.

***Our suppliers of new equipment may appoint additional distributors, sell directly or unilaterally terminate our distribution agreements, which could have a material adverse effect on our business due to a reduction of, or inability to increase, our revenues.***

We are a distributor of new equipment and parts supplied by leading, nationally-known OEMs. Under our distribution agreements with these OEMs, manufacturers retain the right to appoint additional dealers and sell directly to national accounts and government agencies. We have both written and oral distribution agreements with our new equipment suppliers. Under our oral agreements with the OEMs, we operate under our established course of dealing with the supplier and are subject to the applicable state law regarding such relationship. In most instances, the OEMs may appoint additional distributors, elect to sell to customers directly or unilaterally terminate their distribution agreements with us at any time without cause. Any such actions could have a material adverse effect on our business, financial condition and results of operations due to a reduction of, or an inability to increase, our revenues.

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***The cost of new equipment that we sell or purchase for use in our rental fleet may increase and therefore we may spend more for such equipment. In some cases, we may not be able to procure new equipment on a timely basis due to supplier constraints.***

The cost of new equipment from manufacturers that we sell or purchase for use in our rental fleet may increase as a result of increased raw material costs, including increases in the cost of steel, which is a primary material used in most of the equipment we use, or due to increased regulatory requirements, such as those related to emissions. These increases could materially impact our financial condition or results of operations in future periods if we are not able to pass such cost increases through to our customers.

***Our rental fleet is subject to residual value risk upon disposition.***

The market value of any given piece of rental equipment could be less than its depreciated value at the time it is sold. The market value of used rental equipment depends on several factors, including:

the market price for new equipment of a like kind;

wear and tear on the equipment relative to its age;

the time of year that it is sold (prices are generally higher during the construction season);

worldwide and domestic demands for used equipment;

the supply of used equipment on the market; and

general economic conditions.

We include in operating income the difference between the sales price and the depreciated value of an item of equipment sold. Although for the year ended December 31, 2014, we sold used equipment from our rental fleet at an average selling price of approximately 154.3% of net book value, we cannot assure you that used equipment selling prices will not decline. Any significant decline in the selling prices for used equipment could have a material adverse effect on our business, financial condition, results of operations or cash flows.

***We incur maintenance and repair costs associated with our rental fleet equipment that could have a material adverse effect on our business in the event these costs are greater than anticipated.***

As our fleet of rental equipment ages, the cost of maintaining such equipment, if not replaced within a certain period of time, generally increases. Determining the optimal age for our rental fleet equipment is subjective and requires considerable estimates by management. We have made estimates regarding the relationship between the age of our rental fleet equipment, and the maintenance and repair costs, and the market value of used equipment. Our future operating results could be adversely affected because our maintenance and repair costs may be higher than estimated and market values of used equipment may fluctuate.

***Fluctuations in fuel costs or reduced supplies of fuel could harm our business.***

We could be adversely affected by limitations on fuel supplies or significant increases in fuel prices that result in higher costs to us of transporting equipment from one branch to another branch or one region to another region. A significant or protracted disruption of fuel supplies could have an adverse effect on our financial condition and results of operations.

***We may not be able to facilitate our growth strategy by identifying or completing transactions with attractive acquisition candidates, which could limit our revenues and profitability. Future acquisitions may result in significant transaction expenses and we may involve significant costs. We may experience integration and consolidation risks associated with future acquisitions.***

An element of our growth strategy is to selectively pursue on an opportunistic basis acquisitions of additional businesses. The success of this element of our growth strategy depends, in part, on selecting strategic acquisition candidates at attractive prices. We cannot assure you that we will be able to identify attractive acquisition

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candidates or complete the acquisition of any identified candidates at favorable prices and upon advantageous terms and conditions, including financing alternatives. We expect to face competition for acquisition candidates, which may limit the number of acquisition opportunities and lead to higher acquisition costs. We may not have the financial resources necessary to consummate any acquisitions or the ability to obtain the necessary funds on satisfactory terms. Any future acquisitions may result in significant transaction expenses and risks associated with entering new markets. We may also be subject to claims by third parties related to the operations of these businesses prior to our acquisition and by sellers under the terms of our acquisition agreements.

We may not have sufficient management, financial and other resources to integrate and consolidate any future acquisitions. Any significant diversion of management s attention or any major difficulties encountered in the integration of the businesses we acquire could have a material adverse effect on our business, financial condition or results of operations, which could decrease our profitability and make it more difficult for us to grow our business. Furthermore, general economic conditions or unfavorable global capital and credit markets could affect the timing and extent to which we successfully acquire new businesses, which could limit our revenues and profitability.

***We may not be able to facilitate our growth strategy by identifying and opening attractive start-up locations, which could limit our revenues and profitability.***

An element of our growth strategy is to selectively identify and implement start-up locations in order to add new customers. The success of this element of our growth strategy depends, in part, on identifying strategic start-up locations.

We also cannot assure you that we will be able to identify attractive start-up locations. Opening start-up locations may involve significant costs and limit our ability to expand our operations. Start-up locations may involve risks associated with entering new markets and we may face significant competition.

We may not have sufficient management, financial and other resources to successfully operate new locations. Any significant diversion of management s attention or any major difficulties encountered in the locations that we open in the future could have a material adverse effect on our business, financial condition or results of operations, which could decrease our profitability and make it more difficult for us to grow our business. Furthermore, general economic conditions or unfavorable global capital and credit markets could affect the timing and extent to which we open new start-up locations, which could limit our revenues and profitability.

***We are dependent on key personnel. A loss of key personnel could have a material adverse effect on our business, which could result in a decline in our revenues and profitability.***

Our senior and regional managers have an average of approximately 24 years of industry experience. Our branch managers have extensive knowledge and industry experience as well. Our success is dependent, in part, on the experience and skills of our management team. Competition for top management talent within our industry is generally significant. If we are unable to fill and keep filled all of our senior management positions, or if we lose the services of any key member of our senior management team and are unable to find a suitable replacement in a timely manner, we may be challenged to effectively manage our business and execute our strategy.

***Disruptions in our information technology systems, including our customer relationship management system, could adversely affect our operating results by limiting our capacity to effectively monitor and control our operations.***

Our information technology systems facilitate our ability to monitor and control our operations and adjust to changing market conditions. Any disruption in any of these systems, including our customer management system, or the failure of any of these systems to operate as expected could, depending on the magnitude of the problem, adversely affect our operating results by limiting our capacity to effectively monitor and control our operations and adjust to changing market conditions.

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***If the Company fails to maintain an effective system of internal controls, the Company may not be able to accurately report financial results or prevent fraud.***

Effective internal controls are necessary to provide reliable financial reports and to assist in the effective prevention of fraud. Any inability to provide reliable financial reports or prevent fraud could harm our business. We must annually evaluate our internal procedures to satisfy the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, which requires management and auditors to assess the effectiveness of our internal controls. If we fail to remedy or maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we could be subject to regulatory scrutiny, civil or criminal penalties or shareholder litigation.

In addition, failure to maintain effective internal controls could result in financial statements that do not accurately reflect our financial condition or results of operations. There can be no assurance that we will be able to maintain a system of internal controls that fully complies with the requirements of the Sarbanes-Oxley Act of 2002 or that our management and independent registered public accounting firm will continue to conclude that our internal controls are effective.

***We are exposed to various risks related to legal proceedings or claims that could adversely affect our operating results. The nature of our business exposes us to various liability claims, which may exceed the level of our insurance coverage and thereby not fully protect us.***

We are a party to lawsuits in the normal course of our business. Litigation in general can be expensive, lengthy and disruptive to normal business operations. Moreover, the results of complex legal proceedings are difficult to predict. Responding to lawsuits brought against us, or legal actions that we may initiate, can often be expensive and time-consuming. Unfavorable outcomes from these claims and/or lawsuits could adversely affect our business, results of operations, or financial condition, and we could incur substantial monetary liability and/or be required to change our business practices.

Our business exposes us to claims for personal injury, death or property damage resulting from the use of the equipment we rent or sell and from injuries caused in motor vehicle accidents in which our delivery and service personnel are involved and other employee related matters. Additionally, we could be subject to potential litigation associated with compliance with various laws and governmental regulations at the federal, state or local levels, such as those relating to the protection of persons with disabilities, employment, health, safety, security and other regulations under which we operate.

We carry comprehensive insurance, subject to deductibles, at levels we believe are sufficient to cover existing and future claims made during the respective policy periods. However, we may be exposed to multiple claims that do not exceed our deductibles, and, as a result, we could incur significant out-of-pocket costs that could adversely affect our financial condition and results of operations. In addition, the cost of such insurance policies may increase significantly upon renewal of those policies as a result of general rate increases for the type of insurance we carry as well as our historical experience and experience in our industry. Although we have not experienced any material losses that were not covered by insurance, our existing or future claims may exceed the coverage level of our insurance, and such insurance may not continue to be available on economically reasonable terms, or at all. If we are required to pay significantly higher premiums for insurance, are not able to maintain insurance coverage at affordable rates or if we must pay amounts in excess of claims covered by our insurance, we could experience higher costs that could adversely affect our financial condition and results of operations.

***Our future operating results and financial position could be negatively affected by impairment charges to our goodwill, intangible assets or other long-lived assets.***

When we acquire a business, we record goodwill as the excess of the consideration transferred plus the fair value of any non-controlling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. At December 31, 2014, we had goodwill of approximately $31.2 million. In accordance with Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) 350, *Intangibles Goodwill & Other* ( ASC 350 ), we test goodwill for impairment on October 1 of each year, and on an interim date if factors or indicators become apparent that would require an interim test.

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If economic conditions deteriorate and result in significant declines in the Company s stock price, or if there are significant downward revisions in the present value of our estimated future cash flows, additional impairments to one or more reporting units could occur in future periods, and such impairments could be material. A downward revision in the present value of estimated future cash flows could be caused by a number of factors, including, among others, adverse changes in the business climate, negative industry or economic trends, decline in performance in our industry sector, or a decline in market multiples for competitors. Our estimates regarding future cash flows are inherently uncertain and changes in our underlying assumptions and the impact of market conditions on those assumptions could materially affect the determination of fair value and/or goodwill impairment. Future events and changing market conditions may impact our assumptions as to revenues, costs or other factors that may result in changes in our estimates of future cash flows. We can provide no assurance that a material impairment charge will not occur in a future period. Such a charge could negatively affect our results of operations and financial position. We will continue to monitor the recoverability of the carrying value of our goodwill and other long-lived assets (see Critical Accounting Policies and Estimates in Part II, Item 7).

***Labor disputes could disrupt our ability to serve our customers and/or lead to higher labor costs.***

We currently have approximately 66 employees in Utah, a significant territory in our geographic footprint, who are covered by a collective bargaining agreement and approximately 1,834 employees who are not represented by unions or covered by collective bargaining agreements. Various unions periodically seek to organize certain of our nonunion employees. Union organizing efforts or collective bargaining negotiations could potentially lead to work stoppages and/or slowdowns or strikes by certain of our employees, which could adversely affect our ability to serve our customers. Further, settlement of actual or threatened labor disputes or an increase in the number of our employees covered by collective bargaining agreements can have unknown effects on our labor costs, productivity and flexibility.

***We have operations throughout the United States, which exposes us to multiple state and local regulations. Changes in applicable law, regulations or requirements, or our material failure to comply with any of them, can increase our costs and have other negative impacts on our business.***

Our 70 branch locations in the United States are located in 22 different states, which exposes us to a host of different state and local regulations. These laws and requirements address multiple aspects of our operations, such as worker safety, consumer rights, privacy, employee benefits and more, and can often have different requirements in different jurisdictions. Changes in these requirements, or any material failure by our branches to comply with them, can increase our costs, affect our reputation, limit our business, drain management time and attention and generally otherwise impact our operations in adverse ways.

***We could be adversely affected by environmental and safety requirements, which could force us to increase significant capital and other operational costs and may subject us to unanticipated liabilities.***

Our operations, like those of other companies engaged in similar businesses, require the handling, use, storage and disposal of certain regulated materials. As a result, we are subject to the requirements of federal, state and local environmental and occupational health and safety laws and regulations. We may not be in complete compliance with all such requirements at all times. We are subject to potentially significant civil or criminal fines or penalties if we fail to comply with any of these requirements. We have made and will continue to make capital and other expenditures in order to comply with these laws and regulations. However, the requirements of these laws and regulations are complex, change frequently, and could become more stringent in the future. It is possible that these requirements will change or that liabilities will arise in the future in a manner that could have a material adverse effect on our business, financial condition and results of operations.

Environmental laws also impose obligations and liability for the cleanup of properties affected by hazardous substance spills or releases. These liabilities can be imposed on the parties generating or disposing of such substances or the operator of the affected property, often without regard to whether the owner or operator knew of, or was responsible for, the presence of hazardous substances. Accordingly, we may become liable, either contractually or by operation of law, for remediation costs even if a contaminated property is not presently owned or operated by us, or if the contamination was caused by third parties during or prior to our ownership or

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operation of the property. Given the nature of our operations (which involve the use of petroleum products, solvents and other hazardous substances for fueling and maintaining our equipment and vehicles), there can be no assurance that prior site assessments or investigations have identified all potential instances of soil or groundwater contamination. Future events, such as changes in existing laws or policies or their enforcement, or the discovery of currently unknown contamination, may give rise to additional remediation liabilities which may be material.

***Hurricanes, other adverse weather events, national or regional catastrophes or natural disasters could negatively affect our local economies or disrupt our operations, which could have an adverse effect on our business or results of operations.***

Our market areas in the Gulf Coast and Mid-Atlantic regions of the United States are susceptible to hurricanes. Such weather events can disrupt our operations, result in damage to our properties and negatively affect the local economies in which we operate. Future hurricanes could result in damage to certain of our facilities and the equipment located at such facilities, or equipment on rent with customers in those areas. In addition, climate change could lead to an increase in intensity or occurrence of hurricanes or other adverse weather events, including severe winter storms. Future occurrences of these events, as well as regional or national catastrophes or natural disasters, and their effects may adversely impact our business or results of operations.

**Item 1B. Unresolved Staff Comments**

None.

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**Item 2. Properties**

As of February 20, 2015, we had a network of 70 full-service facilities, serving approximately 36,400 customers across 22 states in the West Coast, Intermountain, Southwest, Gulf Coast, Southeast and Mid-Atlantic regions of the United States. In our facilities, we rent, display and sell equipment, including tools and supplies, and provide maintenance and basic repair work. Of the 70 total facilities, we own 12 of our locations and lease 58 locations. Our leases typically provide for varying terms and renewal options. The following table provides data on our locations and the number of multiple branch locations in each city is indicated by parentheses:

| City/State | Leased/Owned | City/State | Leased/Owned |
|---|---|---|---|
| **Alabama (2)** | | **New Mexico (1)** | |
| Birmingham | Leased | Albuquerque | Leased |
| Huntsville | Leased | **Nevada (2)** | |
| **Arizona (2)** | | Las Vegas | Leased |
| Phoenix | Owned | Reno | Leased |
| Tucson | Owned | **North Carolina (5)** | |
| **Arkansas (2)** | | Arden | Leased |
| Little Rock | Owned | Charlotte(2) | Leased(2) |
| Springdale | Owned | Raleigh | Leased |
| **California (7)** | | Winston-Salem | Leased |
| Bakersfield | Leased | **Oklahoma (2)** | |
| Fontana | Leased | Oklahoma City | Leased |
| La Mirada | Leased | Tulsa | Leased |
| Sacramento | Leased | **South Carolina (2)** | |
| San Diego | Leased | Columbia | Leased |
| Santa Fe Springs | Owned | Greenville | Leased |
| Union City | Leased | **Tennessee (3)** | |
| **Colorado (2)** | | Chattanooga | Leased |
| Colorado Springs | Leased | Memphis | Leased |
| Denver | Owned | Nashville | Leased |
| **Florida (4)** | | **Texas (14)** | |
| Fort Myers | Leased | Austin | Leased |
| Orlando | Leased | Corpus Christi | Leased |
| Pompano Beach | Leased | Dallas(2) | Leased(1) Owned(1) |
| Tampa | Leased | Fort Worth | Leased |
| **Georgia (1)** | | Houston(2) | Leased(2) |
| Atlanta | Leased | Katy | Leased |
| **Idaho (2)** | | Lubbock | Leased |
| Boise | Leased | McAllen | Leased |
| Coeur d Alene | Leased | Mesquite | Leased |
| **Louisiana (8)** | | Midland | Leased |
| Alexandria | Leased | Pasadena | Leased |
| Baton Rouge | Owned | San Antonio | Owned |
| Belle Chasse | Leased | **Utah (2)** | |
| Kenner | Owned | Salt Lake City | Leased |
| Lafayette | Leased | St. George | Leased |
| Lake Charles | Leased | **Virginia (4)** | |

| | | | |
|---|---|---|---|
| Shreveport(2) | Leased(2) | Ashland | Owned |
| **Maryland (1)** | | Chesapeake | Leased |
| Baltimore | Leased | Roanoke | Owned |
| **Mississippi (1)** | | Warrenton | Leased |
| Jackson | Leased | **Washington(1)** | |
| **Montana (2)** | | Seattle | Leased |
| Belgrade | Leased | | |
| Billings | Leased | | |

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Each facility location has a branch manager who is responsible for day-to-day operations. In addition, branch operating facilities are typically staffed with approximately 10 to 100 people, who may include technicians, salespeople, rental operations staff and parts specialists. While facility offices are typically open five days a week, we provide 24 hour, seven day per week service.

Our corporate headquarters employs approximately 290 people. Our corporate headquarters facility is on 3.1 acres of company-owned land where we occupy a total of approximately 42,550 square feet.

**Item 3. 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 4. Mine Safety Disclosures**

Not applicable.

**PART II**

**Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

**Market Information**

Our common stock, par value $0.01 per share, trades on the Nasdaq Global Market ( Nasdaq ) under the symbol HEES. The following table sets forth, for the quarterly periods indicated, the high and low sales prices per share for our common stock as reported by Nasdaq for the years ended December 31, 2014 and 2013.

| | High | Low |
|---|---|---|
| **Year ended December 31, 2014** | | |
| First quarter | $ 40.81 | $ 28.25 |
| Second quarter | 41.51 | 33.36 |
| Third quarter | 42.38 | 35.31 |
| Fourth quarter | 40.33 | 26.30 |
| **Year ended December 31, 2013** | | |
| First quarter | $ 21.18 | $ 14.79 |
| Second quarter | 22.97 | 17.02 |
| Third quarter | 27.26 | 21.09 |
| Fourth quarter | 31.92 | 23.16 |

**Holders**

On February 20, 2015, we had 139 stockholders of record of our common stock. This does not include beneficial owners of our common stock whose stock is held in nominee or street name through brokers.

**Dividends**

The Company paid cash dividends of $0.25 per share, or approximately $8.8 million, on both September 9, 2014 and December 9, 2014, totaling approximately $17.6 million. The Company intends to continue 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.

The Company on September 19, 2012 paid a one-time special dividend of $7.00 per share on its then-outstanding common stock, with dividends on nonvested common stock at that time to be paid upon vesting of those shares. On June 6, 2014, the Company paid all remaining dividends on those nonvested shares of common stock totaling $0.7 million.

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**Securities Authorized for Issuance Under Equity Compensation Plans**

For certain information concerning securities authorized for issuance under our equity compensation plan, see Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

**Performance Graph**

The Performance Graph below compares the cumulative total stockholder return on H&E Equipment Services, Inc. common stock beginning on December 31, 2009 and for each subsequent quarter period end through and including December 31, 2014, with the cumulative return of the Russell 2000 Index and an industry peer group selected by us. The peer group we selected is comprised of the following companies: United Rentals, Inc., Hertz Global Holdings, Inc., Toromont Industries, Ltd., Finning International, Inc., and The Ashtead Group, PLC.

The Performance Graph comparison assumes $100 was invested in our common stock and in each of the other indices described above on December 31, 2009. Dividend reinvestment has been assumed and returns have been weighted to reflect relative stock market capitalization. The stock performance shown on the graph below is not necessarily indicative of future price performance.

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| | 12/31/09 | 12/31/10 | 12/31/11 | 12/31/12 | 12/31/13 | 12/31/14 |
|---|---|---|---|---|---|---|
| H&E Equipment Services, Inc | $ 100.00 | $ 110.19 | $ 127.81 | $ 220.02 | $ 432.59 | $ 415.51 |
| Russell 2000 Index | 100.00 | 126.86 | 121.56 | 141.43 | 196.34 | 205.95 |
| Peer Group | 100.00 | 146.17 | 128.26 | 178.31 | 281.46 | 306.07 |

This stock performance information is furnished and shall not be deemed to be soliciting material or subject to Rule 14A of the Securities Exchange Act of 1934, as amended (the Exchange Act ), shall not be deemed filed for purposes of Section 18 of the Exchange Act or otherwise subject to the liabilities of that section, and shall not be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date of this Annual Report on Form 10-K and irrespective of any general incorporation by reference language in any such filing, except to the extent that we specifically incorporate this information by reference.

**Issuer Purchases of Equity Securities**

There were no stock repurchases or other purchases of equity securities by the Company during the fourth quarter ended December 31, 2014.

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**Item 6. Selected Financial Data**

The following table sets forth our selected historical consolidated financial data as of the dates and for the periods indicated. The selected historical consolidated financial data as of and for the years ended December 31, 2014, 2013 and 2012 have been derived from our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. The selected historical consolidated financial data as of and for the years ended December 31, 2011 and 2010 have been derived from our audited consolidated financial information not included herein. Our historical results are not necessarily indicative of future performance or results of operations. You should read the consolidated historical financial data together with our consolidated financial statements and related notes included in Item 8 of this Annual Report on Form 10-K and with Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations.

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| | For the Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2014 | 2013 | 2012 | 2011 | 2010 |
| | (Amounts in thousands, except per share amounts) | | | | |
| **Statement of operations data[1]:** | | | | | |
| Revenues: | | | | | |
| Equipment rentals | $ 404,110 | $ 338,935 | $ 288,641 | $ 228,038 | $ 177,970 |
| New equipment sales | 328,036 | 294,768 | 241,721 | 220,211 | 167,303 |
| Used equipment sales | 123,173 | 141,560 | 104,563 | 85,347 | 62,286 |
| Parts sales | 113,732 | 103,174 | 99,621 | 94,511 | 86,686 |
| Services revenues | 61,292 | 56,694 | 56,554 | 53,954 | 49,629 |
| Other | 60,069 | 52,625 | 46,215 | 38,490 | 30,280 |
| Total revenues | 1,090,412 | 987,756 | 837,315 | 720,551 | 574,154 |
| Cost of revenues: | | | | | |
| Rental depreciation | 146,055 | 121,948 | 102,966 | 86,781 | 78,583 |
| Rental expense | 61,916 | 55,338 | 50,052 | 46,599 | 40,194 |
| New equipment sales | 289,526 | 262,887 | 214,197 | 196,152 | 150,665 |
| Used equipment sales | 84,936 | 100,693 | 73,988 | 65,042 | 48,269 |
| Parts sales | 81,106 | 74,241 | 72,323 | 69,222 | 63,902 |
| Services revenues | 21,507 | 21,034 | 21,977 | 21,024 | 18,751 |
| Other | 57,428 | 49,779 | 44,510 | 43,028 | 37,851 |
| Total cost of revenues | 742,474 | 685,920 | 580,013 | 527,848 | 438,215 |
| Gross profit (loss): | | | | | |
| Equipment rentals | 196,139 | 161,649 | 135,623 | 94,658 | 59,193 |
| New equipment sales | 38,510 | 31,881 | 27,524 | 24,059 | 16,638 |
| Used equipment sales | 38,237 | 40,867 | 30,575 | 20,305 | 14,017 |
| Parts sales | 32,626 | 28,933 | 27,298 | 25,289 | 22,784 |
| Services revenues | 39,785 | 35,660 | 34,577 | 32,930 | 30,878 |
| Other | 2,641 | 2,846 | 1,705 | (4,538) | (7,571) |
| Total gross profit | 347,938 | 301,836 | 257,302 | 192,703 | 135,939 |
| Selling, general and administrative expenses[2] | 206,480 | 189,062 | 169,653 | 153,354 | 148,277 |
| Gain from sales of property and equipment, net | 2,286 | 2,549 | 1,592 | 793 | 443 |
| Income (loss) from operations | 143,744 | 115,323 | 89,241 | 40,142 | (11,895) |
| Other income (expense): | | | | | |
| Interest expense[3] | (52,353) | (51,404) | (35,541) | (28,727) | (29,076) |
| Loss on early extinguishment of debt[4] | | | (10,180) | | |
| Other, net | 1,293 | 1,228 | 928 | 726 | 591 |

| | | | | | |
|---|---|---|---|---|---|
| Total other expense, net | (51,060) | (50,176) | (44,793) | (28,001) | (28,485) |
| Income (loss) before income taxes | 92,684 | 65,147 | 44,448 | 12,141 | (40,380) |
| Income tax provision (benefit) | 37,545 | 21,007 | 15,612 | 3,215 | (14,920) |
| Net income (loss) | $ 55,139 | $ 44,140 | $ 28,836 | $ 8,926 | $ (25,460) |
| Net income (loss) per common share: | | | | | |
| Basic | $ 1.57 | $ 1.26 | $ 0.83 | $ 0.26 | $ (0.73) |
| Diluted | $ 1.56 | $ 1.26 | $ 0.82 | $ 0.26 | $ (0.73) |
| Weighted average common shares outstanding: | | | | | |
| Basic | 35,159 | 35,041 | 34,890 | 34,759 | 34,668 |
| Diluted | 35,249 | 35,146 | 34,978 | 34,887 | 34,668 |
| Dividends declared per common share outstanding | $ 0.50 | $ | $ 7.00 | $ | $ |

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| | For the Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2014 | 2013 | 2012 | 2011 | 2010 |
| | (Amounts in thousands) | | | | |
| **Other financial data:** | | | | | |
| Depreciation and amortization[5] | $ 166,514 | $ 138,903 | $ 116,513 | $ 99,398 | $ 92,266 |
| Statement of cash flows: | | | | | |
| Net cash provided by operating activities | 158,318 | 138,652 | 41,023 | 60,385 | 17,938 |
| Net cash used in investing activities | (296,643) | (179,590) | (212,990) | (80,928) | (29,669) |
| Net cash provided by (used in) financing activities | 136,579 | 49,651 | 156,646 | 15,609 | (4,456) |

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2014 | 2013 | 2012 | 2011 | 2010 |
| | (Amounts in thousands) | | | | |
| **Balance sheet data:** | | | | | |
| Cash | $ 15,861 | $ 17,607 | $ 8,894 | $ 24,215 | $ 29,149 |
| Rental equipment, net | 889,706 | 688,710 | 583,349 | 450,877 | 426,637 |
| Goodwill | 31,197 | 31,197 | 32,074 | 34,019 | 34,019 |
| Deferred financing costs, net | 4,664 | 4,689 | 5,049 | 5,640 | 7,027 |
| Intangible assets, net | | | | 66 | 429 |
| Total assets | 1,358,804 | 1,090,340 | 942,399 | 753,305 | 734,421 |
| Total debt[6] | 888,732 | 733,284 | 681,231 | 268,660 | 252,754 |
| Stockholders equity | 133,367 | 94,812 | 48,636 | 264,207 | 254,250 |

(1) See note 17 to the consolidated financial statements discussing segment information.

(2) Stock-based compensation expense included in selling, general and administrative expenses for the years ended December 31, 2014, 2013, 2012, 2011 and 2010 totaled $2.6 million, $2.6 million, $1.9 million, $1.3 million and $1.0 million, respectively.

(3) Interest expense for the periods presented is comprised of cash-pay interest (interest recorded on debt and other obligations requiring periodic cash payments) and non-cash pay interest (comprised of amortization of deferred financing costs and accretion (amortization) of note discount (premium)).

(4) As more fully discussed in note 8 to the consolidated financial statements, in the third quarter of 2012 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.

(5) Excludes amortization of deferred financing costs and accretion (amortization) of note discount (premium), which are included in interest expense.

(6) Total debt represents the amounts outstanding, as applicable for the periods presented, under the Credit Facility, senior unsecured notes, notes payable and capital leases. Total debt as presented as of December 31, 2014 and 2013 includes $1.3 million and $1.5 million, respectively, of unaccreted note discount (net of unamortized note premium) related to the Company s senior unsecured notes.

**Item 7. 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 December 31, 2014, and its results of operations for the year ended December 31, 2014, and should be read in conjunction with the Selected Financial Data and our consolidated financial statements and the accompanying notes thereto included elsewhere in this Annual Report on Form 10-K. 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 Annual Report on Form 10-K). 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 this Annual Report on Form 10-K.

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***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 February 20, 2015, we operated 70 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 54 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.

***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) a percentage of original equipment cost, and (2) the number of rental equipment units available for rent), 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.

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*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.

You can read more about our business segments under Item 1 Business and in note 17 of the consolidated financial statements in this Annual Report on Form 10-K.

***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 year ended December 31, 2014, approximately 37.1% of our total revenues were attributable to equipment rentals, 30.1% of our total revenues were attributable to new equipment sales, 11.3% were attributable to used equipment sales, 10.4% were attributable to parts sales, 5.6% were attributable to our services revenues and 5.5% were attributable to non-segmented other revenues.

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The pie charts below illustrate a breakdown of our revenues and gross profit for the year ended December 31, 2014 by business segment (see note 17 to our consolidated financial statements for further information regarding our business segments):

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 as equipment usage based on: (1) a percentage of original equipment cost, and (2) the number of rental equipment units available for rent), 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.

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*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 other 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 year period ended December 31, 2014, our total cost of revenues was approximately $742.5 million. Our operating expenses consist principally of selling, general and administrative expenses. For the year ended December 31, 2014, our selling, general and administrative expenses were $206.5 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 over a five year estimated useful life with a 25% salvage value, and industrial lift trucks over a seven year estimated useful life. Attachments and other smaller type equipment are depreciated over a three year estimated useful life. We periodically evaluate the appropriateness of remaining depreciable lives assigned to rental equipment.

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

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

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*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.

***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.

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***Rental Fleet***

A substantial portion of our overall value is in our rental fleet equipment. The net book value of our rental equipment at December 31, 2014 was $889.7 million, or approximately 65.5% of our total assets. Our rental fleet as of December 31, 2014 consisted of 26,056 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 $1.2 billion. As of December 31, 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 | 17,378 | 66.7% | $ 767.9 | 61.8% | 36.2 |
| Cranes | 443 | 1.7% | 143.4 | 11.5% | 36.4 |
| Earthmoving | 2,578 | 9.9% | 238.5 | 19.2% | 19.4 |
| Industrial Lift Trucks | 808 | 3.1% | 31.1 | 2.5% | 26.7 |
| Other | 4,849 | 18.6% | 62.2 | 5.0% | 22.3 |
| Total | 26,056 | 100.0% | $ 1,243.1 | 100.0% | 31.7 |

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 $242.3 million, or 24.2%, for the year ended December 31, 2014 due to rental equipment purchases in response to improved equipment time utilization from the increase in demand. The average age of our rental fleet equipment decreased by approximately 3.2 months for the year ended December 31, 2014.

Our average rental rates for the year ended December 31, 2014 were 2.8% higher than the year ended December 31, 2013 (see further discussion on rental rates in Results of Operations below).

The rental equipment mix among our four core product lines for the year ended December 31, 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 this Annual Report on Form 10-K.

*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.

*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.

*Regional and Industry-Specific Activity and Trends.* Expenditures by our customers may be impacted by the overall level of construction activity in the markets and regions in which they operate, the price of oil and other commodities and other general economic trends impacting the industries in which our customers and end users operate. As our customers adjust their activity and spending levels in response to these external factors, our rentals and sales of equipment to those customers will be impacted. For example, high levels of industrial activity in our Gulf Coast and Intermountain regions have been a meaningful driver of recent growth in our revenues. The recent decline and volatility in oil and natural gas prices, and uncertainty regarding future price levels, may cause our customers in those markets to adjust their activity and spending levels.

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We believe that our integrated business tempers the effects of downturns in a particular segment. For a discussion of seasonality, see Seasonality on page 50 of this Annual Report on Form 10-K.

**Critical Accounting Policies and Estimates**

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America. The application of many accounting principles requires us to make assumptions, estimates and/or judgments that affect the reported amounts of assets, liabilities, revenues and expenses in our consolidated financial statements. We base our estimates and judgments on historical experience and other assumptions that we believe are reasonable under the circumstances. These assumptions, estimates and/or judgments, however, are often subjective and they and our actual results may change based on changing circumstances or changes in our analyses. If actual amounts are ultimately different from our estimates, the revisions are included in our results of operations for the period in which the actual amounts first become known. We believe the following critical accounting policies could potentially produce materially different results if we were to change underlying assumptions, estimates and/or judgments. See also note 2 to our consolidated financial statements for a summary of our significant accounting policies.

*Revenue Recognition.* Our revenue recognition policies vary by reporting segment. Under current accounting guidance, our policy is to 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. A rental contract term can be daily, weekly or monthly. Because the term of the contracts can extend across financial reporting periods, we record unbilled rental revenue and deferred rental revenue at the end of reporting periods so rental revenue earned is appropriately stated in the periods presented. We recognize revenue from new equipment sales, used equipment sales and parts sales at the time of delivery to, or pick-up by, the customer and when all obligations under the sales contract have been fulfilled and collectibility is reasonably assured. We recognize services revenues at the time services are rendered. We recognize other revenues for support services at the time we generate an invoice including the charge for such completed services. See also Revenue Sources above. Also, see Recent Accounting Pronouncements on page 53 of this Annual Report on Form 10-K related to revenue recognition.

*Allowance for Doubtful Accounts.* We maintain an allowance for doubtful accounts that reflects our estimate of the amount of our receivables that we will be unable to collect. We develop our estimate of this allowance based on our historical experience with specific customers, our understanding of our current economic circumstances and our own judgment as to the likelihood of ultimate payment. Our largest exposure to doubtful accounts is in our rental operations. We perform credit evaluations of customers and establish credit limits based on reviews of our customers current credit information and payment histories. We believe our credit risk is somewhat mitigated by our geographically diverse customer base and our credit evaluation procedures. During the year, we write-off customer account balances when we have exhausted reasonable collection efforts and determined that the likelihood of collection is remote. Such write-offs are charged against our allowance for doubtful accounts. Bad debt expense as a percentage of total revenues for the years ended December 31, 2014, 2013 and 2012 were 0.3%, 0.3% and 0.4%, respectively. The actual rate of future credit losses, however, may not be similar to past experience. Our estimate of doubtful accounts could change based on changing circumstances, including changes in the economy or in the particular circumstances of individual customers. Accordingly, we may be required to increase or decrease our allowance for doubtful accounts.

*Useful Lives of Rental Equipment and Property and Equipment.* We depreciate rental equipment and property and equipment over their estimated useful lives (generally three to ten years), after giving effect to an estimated salvage value ranging from 0% to 25% of cost. The useful life of rental equipment is determined based on our estimate of the period the asset will generate revenues, and the salvage value is determined based on our estimate of the minimum

value we could realize from the asset after such period. We periodically review the assumptions utilized in computing rates of depreciation. We may be required to change these estimates based on changes in our industry or other changing circumstances. If these estimates change in the future, we may be required to recognize increased or decreased depreciation expense for these assets.

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The amount of depreciation expense we record is highly dependent upon the estimated useful lives and the salvage values assigned to each category of rental equipment. Generally, we assign estimated useful lives to our rental fleet ranging from a three-year life, five-year life with a 25% salvage value, seven-year life and a ten-year life. Depreciation expense on our rental fleet for the year ended December 31, 2014 was approximately $146.1 million. For the year ended December 31, 2014, the estimated impact of a change in estimated useful lives for each category of equipment by two years was as follows:

| | Hi-Lift or Aerial Work Platforms | Cranes | Earth-moving | Industrial Lift Trucks | Other | Total |
|---|---|---|---|---|---|---|
| | | | ($ in millions) | | | |
| *Impact of 2-year change in useful life on results of operations for the year ended December 31, 2014* | | | | | | |
| Depreciation expense for the year ended December 31, 2014 | $ 74.3 | $ 17.0 | $ 38.1 | $ 4.7 | $ 12.0 | $ 146.1 |
| Increase of 2 years in useful life | 57.5 | 11.0 | 22.7 | 3.3 | 11.4 | 105.9 |
| Decrease of 2 years in useful life | 86.2 | 16.5 | 52.9 | 6.0 | 12.1 | 173.7 |

For purposes of the sensitivity analysis above, we elected not to decrease the useful lives of other equipment, which are primarily three-year estimated useful life assets; rather, we have held the depreciation expense constant at the actual amount of depreciation expense. We believe that decreasing the life of the other equipment by two years is an unreasonable estimate and would potentially lead to the decision to expense, rather than capitalize, a significant portion of the subject asset class. In general terms, a one-year increase in the estimated life across all classes of our rental equipment will give rise to an approximate decrease in our annual depreciation expense of approximately $20.1 million. Additionally, a one-year decrease in the estimated life across all classes of our rental equipment (with the exception of other equipment as discussed above) will give rise to an approximate increase in our annual depreciation expense of approximately $13.8 million.

Another significant assumption used in our calculation of depreciation expense is the estimated salvage value assigned to our earthmoving equipment. Based on our recent experience, we have used a 25% factor of the equipment s original cost to estimate its salvage value. This factor is highly subjective and subject to change upon future actual results at the time we dispose of the equipment. A change of 5%, either increase or decrease, in the estimated salvage value would result in a change in our annual depreciation expense of approximately $2.1 million.

*Purchase Price Allocation*. We have made significant acquisitions in the past and we may make additional acquisitions in the future that meet our selection criteria that solidify our presence in the contiguous regions where we operate with an objective of increasing our revenues, improving our profitability, entering additional attractive markets and strengthening our competitive position. Pursuant to Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) 350 ( ASC 350 ), *Intangibles-Goodwill and Other*, we record as goodwill the excess of the consideration transferred plus the fair value of any non-controlling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. Such fair market value assessments require judgments and estimates that can be affected by various factors over time, which may cause final amounts to differ materially from original estimates. For acquisitions completed through December 31, 2014, adjustments to fair value assessments have been recorded to goodwill over the purchase price allocation period (typically not exceeding 12 months).

With the exception of goodwill, long-lived fixed assets generally represent the largest component of our acquisitions. Typically, the long-lived fixed assets that we acquire are primarily comprised of rental fleet equipment. Historically, virtually all of the rental equipment that we have acquired through purchase business combinations has been classified as To be Used, rather than as To be Sold. Equipment that we acquire and classify as To be Used is recorded at fair value, as determined by replacement cost of such equipment. Any significant inventories of new and used equipment acquired in the transaction are valued at fair value, less cost to sell.

In addition to long-lived fixed assets, we also acquire other assets and assume liabilities. These other assets and liabilities typically include, but are not limited to, parts inventory, accounts receivable, accounts payable and other working capital items. Because of their short-term nature, the fair values of these assets and liabilities

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generally approximate the carrying values reflected on the acquired entities balance sheets. However, when appropriate, we adjust these carrying values for factors such as collectibility and existence. The intangible assets that we have acquired generally consist primarily of the goodwill recognized. Depending upon the applicable purchase agreement and the particular facts and circumstances of the business acquired, we may identify other intangible assets, such as trade names or trademarks, non-compete agreements and customer-related intangibles (specifically, customer relationships). A trademark has a fair value equal to the present value of the royalty income attributable to it. The royalty income attributable to a trademark represents the hypothetical cost savings that are derived from owning the trademark instead of paying royalties to license the trademark from another owner. When specifically negotiated by the parties in the applicable purchase agreements, we base the value of non-compete agreements on the amounts assigned to them in the purchase agreements as these amounts represent the amounts negotiated in an arm s length transaction. When not negotiated by the parties in the applicable purchase agreements, the fair value of non-compete agreements is estimated based on an income approach since their values are representative of the current and future revenue and profit erosion protection they provide. Customer relationships are generally valued based on an excess earnings or income approach with consideration to projected cash flows. We use an independent third party valuation firm to assist us with estimating the fair values of our acquired intangible assets.

*Goodwill.* We have made acquisitions in the past that included the recognition of goodwill. Pursuant to ASC 350, goodwill is the excess of the consideration transferred plus the fair value of any non-controlling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. We evaluate goodwill for impairment annually or more frequently if triggering events occur or other impairment indicators arise which might impair recoverability.

Application of the goodwill impairment test requires judgment, including: the identification of reporting units; assignment of assets and liabilities to reporting units; assignment of goodwill to reporting units; determination of the fair value of each reporting unit; and an assumption as to the form of the transaction in which the reporting unit would be acquired by a market participant (either a taxable or nontaxable transaction). Impairment of goodwill is evaluated at the reporting unit level. A reporting unit is defined as an operating segment (i.e., before aggregation or combination), or one level below an operating segment (i.e., a component). A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and segment management regularly reviews the operating results of that component. Pursuant to ASC 350 and ASC 280, *Segment Reporting*, and other relevant guidance, we have identified two components within our Rental operating segment (Equipment Rentals Component 1 and Equipment Rentals Component 2) and have determined that each of our other four operating segments (New Equipment, Used Equipment, Parts, and Service segments) represents a reporting unit, resulting in six total reporting units.

As of December 31, 2014, our goodwill was comprised of the following carrying values of three reporting units (amounts in thousands):

| Reporting Unit | Carrying Value at December 31, 2013 |
|---|---|
| Equipment Rentals Component 2 | $ 18,732 |
| Used Equipment Sales | 6,155 |
| Parts Sales | 6,310 |

| | |
|---|---|
| Total Goodwill | $ 31,197 |

In September 2011, the FASB issued Accounting Standards Update ( ASU ) 2011-08, *Intangibles-Goodwill and Other (Topic 350)-Testing Goodwill for Impairment* ( ASU 2011-08 ), to allow entities to first use a qualitative approach to test goodwill for impairment. ASU 2011-08 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not (a likelihood of greater than 50%) that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, the currently prescribed two-step goodwill test must be performed. Otherwise, the two-step goodwill impairment test is not required.

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Considerable judgment is required by management in using the qualitative approach under ASU 2011-08 to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. As noted in note 2 to the consolidated financial statements, we adopted ASU 2011-08 in conjunction with our annual impairment test as of October 1, 2011. During fiscal years 2012, 2013 and 2014, we performed, as of October 1 of each year, a qualitative assessment and determined that it is more likely than not that the fair value of each of our reporting units is not less than its carrying value and, therefore, did not perform the prescribed two-step goodwill impairment test. We considered various factors in performing the qualitative test, including macroeconomic conditions, industry and market considerations, the overall financial performance of our reporting units, the Company s stock price and the excess amount or cushion between our reporting unit s fair value and carrying value as indicated on our most recent quantitative assessment.

Based upon continuing improving macroeconomic conditions and positive trends within our industry and market, combined with recent positive operating results in comparison to prior periods and our internal forecasts, and with consideration of the cushion between the reporting unit s fair value and carrying value from our most recent quantitative analysis, we determined that it is more likely than not that the fair value of our reporting units exceeds their respective carrying values at the October 1, 2012, 2013 and 2014 valuation dates and there was no goodwill impairment at October 1, 2012, 2013 or 2014.

If the two-step goodwill test must be performed, we determine whether the fair value of our goodwill reporting units is greater than their carrying value. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that reporting unit, goodwill is not impaired. However, if the fair value of a reporting unit is less than its carrying value, then the second step of the impairment test is performed to determine the implied fair value of goodwill. If the carrying value of a reporting unit s goodwill exceeds its implied fair value, then we record an impairment loss for the excess amount.

For purposes of performing the first step of the impairment test described above, we estimate the fair value of our reporting units using a discounted cash flow analysis and/or by applying various market multiples. The principal factors used in the discounted cash flow analysis are our internal projected results of operations, weighted average cost of capital ( WACC ) and terminal value assumptions.

Our internal projected results of operations serve as key inputs for developing our cash flow projections for a planning period of twelve years. Beyond this period, we also determine an assumed long-term growth rate representing the expected rate at which a reporting unit s earnings stream is expected to grow. These rates are used to calculate the terminal value of our reporting units and are added to the cash flows projected during the twelve year planning period. The WACC is an estimate of the overall after-tax rate of return required by equity and debt holders of a business enterprise and represents the expected cost of new capital likely to be used by market participants. The WACC is used to discount our combined future cash flows.

The inputs and variables used in determining the fair value of a reporting unit require management to make certain assumptions regarding the impact of operating and macroeconomic changes, as well as estimates of future cash flows. Our estimates regarding future cash flows are based on historical experience and projections of future operating performance, including revenues, margins and operating expenses. These estimates involve risk and are inherently uncertain. Changes in our estimates and assumptions could materially affect the determination of fair value and/or the amount of goodwill impairment to be recognized. However, we believe that our estimates and assumptions are reasonable and represent our most likely future operating results based upon current information available. Future deterioration in the macroeconomic environment, adverse changes within our industry, further deterioration in our common stock price, downward revisions to our projected cash flows based on new information, or other factors, some of which are beyond our ability to control, could result in a future impairment charge that could materially

impact our future results of operations and financial position in the reporting period identified.

*Long-lived Assets and Intangible Assets.* Our long-lived assets principally consist of rental equipment and property and equipment. Our intangible assets consist principally of the intangible assets acquired in the September 1, 2007 Burress Acquisition and became fully amortized during the year ended December 31, 2012.

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We review our long-lived assets and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In reviewing for impairment, the carrying value of such assets is compared to the estimated undiscounted future cash flows expected from the use of the assets and their eventual disposition. If such cash flows are not sufficient to support the asset s recorded value, an impairment charge is recognized to reduce the carrying value of the asset to its estimated fair value. The determination of future cash flows as well as the estimated fair value of long-lived and intangible assets involves significant estimates and judgment on the part of management. Our estimates and assumptions may prove to be inaccurate due to factors such as changes in economic conditions, changes in our business prospects or other changing circumstances.

We evaluate the remaining useful life of our intangible assets on a periodic basis to determine whether events and circumstances warrant a revision to the remaining estimated amortization period.

*Inventories.* We state our new and used equipment inventories at the lower of cost or market by specific identification. Parts and supplies are stated at the lower of the weighted average cost or market. We maintain allowances for damaged, slow-moving and unmarketable inventory to reflect the difference between the cost of the inventory and the estimated market value. Changes in product demand may affect the value of inventory on hand and may require higher inventory allowances. Uncertainties with respect to inventory valuation are inherent in the preparation of financial statements.

*Reserves for Claims*. We are exposed to various claims relating to our business, including those for which we provide self-insurance. Claims for which we self-insure up to specified retention limits include: (1) workers compensation claims; (2) general liability claims by third parties for injury or property damage caused by our equipment or personnel; (3) automobile liability claims; and (4) employee health insurance claims. These types of claims may take a substantial amount of time to resolve and, accordingly, the ultimate liability associated with a particular claim, including claims incurred but not reported as of a period-end reporting date, may not be known for an extended period of time. Our methodology for developing self-insurance reserves is based on management estimates and independent third party actuarial estimates. Our estimation process considers, among other matters, the cost of known claims over time, cost inflation and incurred but not reported claims. These estimates may change based on, among other things, changes in our claim history or receipt of additional information relevant to assessing the claims. Further, these estimates may prove to be inaccurate due to factors such as adverse judicial determinations or other claim settlements at higher than estimated amounts. Accordingly, we may be required to increase or decrease our reserve levels.

*Income Taxes.* The Company files a consolidated federal income tax return with its wholly-owned subsidiaries. The Company is a C-Corporation under the provisions of the Internal Revenue Code. We utilize the asset and liability approach to measure deferred tax assets and liabilities based on temporary differences existing at each balance sheet date using currently enacted tax rates in accordance with ASC 740, *Income Taxes* ( ASC 740 ). ASC 740 takes into account the differences between financial statement treatment and tax treatment of certain transactions. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rate is recognized as income or expense in the period that includes the enactment date of that tax rate.

In accordance with ASC 740, the Company recognizes the effect of an income tax position only if it is more likely than not (a likelihood of greater than 50%) that such position will be sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company recognizes both interest and penalties related to uncertain tax positions in net other income (expense). During the fourth quarter of

fiscal 2013, we adopted ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists ( ASU 2013-11 ). The adoption of ASU 2013-11 had no material impact to our financial position or results of operations.

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Our deferred tax calculation requires management to make certain estimates about future operations. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Our U.S. federal tax returns for 2011 and subsequent years remain subject to examination by tax authorities. We are also subject to examination in various state jurisdictions for 2008 and subsequent years. Our Federal Tax Returns for the tax years 2005 through 2009 were recently examined by the IRS. No material adjustment resulted from the IRS examination.

**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 years ended December 31, 2014, 2013 and 2012. The period-to-period comparisons of our financial results are not necessarily indicative of future results.

***Year Ended December 31, 2014 Compared to the Year Ended December 31, 2013***

***Revenues.***

| | For the Year Ended December 31, | | Total Dollar Increase (Decrease) | Total Percentage Increase (Decrease) |
|---|---|---|---|---|
| | 2014 | 2013 | | |
| | (in thousands, except percentages) | | | |
| Segment revenues: | | | | |
| Equipment rentals | $ 404,110 | $ 338,935 | $ 65,175 | 19.2% |
| New equipment sales | 328,036 | 294,768 | 33,268 | 11.3% |
| Used equipment sales | 123,173 | 141,560 | (18,387) | (13.0)% |
| Parts sales | 113,732 | 103,174 | 10,558 | 10.2% |
| Services revenues | 61,292 | 56,694 | 4,598 | 8.1% |
| Non-Segmented other revenues | 60,069 | 52,625 | 7,444 | 14.1% |
| Total revenues | $ 1,090,412 | $ 987,756 | $ 102,656 | 10.4% |

*Total Revenues.* Our total revenues were approximately $1.1 billion for the year ended December 31, 2014 compared to $987.8 million for the year ended December 31, 2013, an increase of approximately $102.7 million, or 10.4%, driven in part by the accelerating recovery in commercial construction markets in the Gulf Coast and the other regions in which we operate. Revenues for our reportable segments and non-segmented other revenues are further discussed below.

*Equipment Rental Revenues.* Our revenues from equipment rentals for the year ended December 31, 2014 increased $65.2 million, or 19.2%, to $404.1 million from $338.9 million in 2013. Rental revenues from aerial work platforms increased approximately $39.7 million, while rental revenues from earthmoving equipment increased $14.5 million. Other equipment rentals increased $6.1 million, while crane and lift truck rental revenues increased $4.2 million and $0.7 million, respectively. Our average rental rates for the year ended December 31, 2014 increased 2.8% compared to the year ended December 31, 2013.

Rental equipment dollar utilization (annual rental revenues divided by the average original rental fleet equipment costs) for the year ended December 31, 2014 increased 0.1% to 35.8% from 35.7% in 2013. The slight increase in comparative rental equipment dollar utilization was primarily driven by an increase in rental equipment time utilization combined with a 2.8% increase in average rental rates. Rental equipment time utilization as a percentage of original equipment cost was approximately 72.2% for the year ended December 31, 2014 compared to 70.8% for the year ended December 31, 2013, an increase of approximately 1.4%. Rental equipment time utilization based on the number of rental equipment units available for rent was 66.9% for the year ended December 31, 2014 compared to 65.7% in the same period last year, an increase of approximately 1.2%. 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 year ended December 31, 2014 increased approximately $33.3 million, or 11.3%, to $328.0 million from $294.8 million in 2013. Sales of new cranes

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increased $14.6 million and sales of new earthmoving equipment increased $10.9 million. Sales of new aerial work platform equipment increased $6.1 million, while sales of new other equipment increased $2.3 million. Sales of new lift trucks decreased approximately $0.7 million.

*Used Equipment Sales Revenues.* Our used equipment sales decreased $18.4 million, or 13.0%, to $123.2 million for the year ended December 31, 2014, from $141.6 million for the same period in 2013. Sales of used cranes decreased $14.3 million and sales of used aerial work platform equipment decreased $7.3 million. Partially offsetting these decreases were increases in sales of used earthmoving equipment, used lift trucks and used other equipment of $2.3 million, $0.8 million and $0.1 million, respectively. The decrease in used equipment sales is largely due to the Company having a younger fleet, resulting in less equipment being at an age at which it is typically sold in the normal fleet life cycle.

*Parts Sales Revenues.* Our parts sales revenues increased approximately $10.5 million, or 10.2%, to $113.7 million for the year ended December 31, 2014 from $103.2 million for the same 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 year ended December 31, 2014 increased $4.6 million, or 8.1%, to $61.3 million from $56.7 million in the same 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 year ended December 31, 2014, our other revenues were $60.1 million, an increase of approximately $7.4 million, or 14.1%, from $52.6 million in 2013. The increase was primarily due to an increase in hauling revenues and higher damage waiver income associated with our increased equipment rental activity.

***Gross Profit.***

| | For the Year Ended December 31, | | Total Dollar Change Increase (Decrease) | Total Percentage Change Increase (Decrease) |
|---|---|---|---|---|
| | 2014 | 2013 | | |
| | (in thousands, except percentages) | | | |
| Segment Gross Profit: | | | | |
| Equipment rentals | $ 196,139 | $ 161,649 | $ 34,490 | 21.3% |
| New equipment sales | 38,510 | 31,881 | 6,629 | 20.8% |
| Used equipment sales | 38,237 | 40,867 | (2,630) | (6.4)% |
| Parts sales | 32,626 | 28,933 | 3,693 | 12.8% |
| Services revenues | 39,785 | 35,660 | 4,125 | 11.6% |
| Non-Segmented revenues | 2,641 | 2,846 | (205) | (7.2)% |
| Total gross profit | $ 347,938 | $ 301,836 | $ 46,102 | 15.3% |

*Total Gross Profit.* Our total gross profit was $347.9 million for the year ended December 31, 2014 compared to $301.8 million for the year ended December 31, 2013, an increase of $46.1 million, or 15.3%. Total gross profit

margin for the year ended December 31, 2014 was 31.9%, an increase of 1.3% from the 30.6% gross profit margin for the same period in 2013. Gross profit and gross margin for all reportable segments and non-segmented other revenues are further described below.

*Equipment Rentals Gross Profit.* Our gross profit from equipment rentals for the year ended December 31, 2014 increased $34.5 million, or 21.3%, to $196.1 million from $161.6 million in 2013. The increase in equipment rentals gross profit was the result of a $65.2 million increase in rental revenues for the year ended December 31, 2014, which was partially offset by a $6.6 million increase in rental expenses and a $24.2 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 15.3% for the year ended December 31, 2014 compared to 16.4% for the same period last year. This percentage decrease was primarily attributable to the increase in comparative rental revenues. Depreciation expense was 36.2% of equipment rental revenues for the year ended December 31, 2014 compared to 36.0% for the same period last year, up 0.2%, as a result of an increase in the volume of rental purchase option agreements.

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Gross profit margin on equipment rentals for the year ended December 31, 2014 was 48.5%, up 0.8% from 47.7% 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 year ended December 31, 2014 compared to the year ended December 31, 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 year ended December 31, 2014 increased $6.6 million, or 20.8%, to $38.5 million compared to $31.9 million for the same period in 2013 on an increase in total new equipment sales of $33.3 million. Gross profit margin on new equipment sales for the year ended December 31, 2014 was 11.7%, an increase of 0.9% from 10.8% in the same period in 2013, primarily reflecting higher margins on new crane and new earthmoving equipment sales.

*Used Equipment Sales Gross Profit.* Our used equipment sales gross profit for the year ended December 31, 2014 decreased approximately $2.6 million, or 6.4%, to $38.2 million from $40.9 million in the same period in 2013 on a decrease in used equipment sales of $18.4 million. Gross profit margin on used equipment sales for the year ended December 31, 2014 was 31.0%, up approximately 2.1% from 28.9% for the same period last year, primarily as a result of higher margins on sales of used earthmoving equipment and used aerial work platform equipment. Our used equipment sales from the rental fleet, which comprised approximately 82.3% and 80.9% of our used equipment sales for the years ended December 31, 2014 and 2013, respectively, were approximately 154.3% and 150.8% of net book value for the years ended December 31, 2014 and 2013, respectively.

*Parts Sales Gross Profit.* For the year ended December 31, 2014, our parts sales revenue gross profit increased $3.7 million, or 12.8%, to $32.6 million from $28.9 million for the same period in 2013 on a $10.6 million increase in parts sales revenues. Gross profit margin on parts sales for the year ended December 31, 2014 was 28.7%, an increase of 0.7% from 28.0% in the same period in 2013, as a result of the mix of parts sold.

*Services Revenues Gross Profit.* For the year ended December 31, 2014, our services revenues gross profit increased $4.1 million, or 11.6%, to $39.8 million from $35.7 million for the same period in 2013 on a $4.6 million increase in services revenues. Gross profit margin on services revenues for the year ended December 31, 2014 was 64.9%, up 2.0% from 62.9% in the same period in 2013, as a result of our services revenues mix.

*Non-Segmented Other Revenues Gross Profit.* Our non-segmented other revenues gross profit decreased $0.2 million, or 7.2%, to $2.6 million for the year ended December 31, 2014 from $2.8 million for the same period in 2013 on a $7.4 million in increase in non-segmented other revenues. Gross margin for the year ended December 31, 2014 was 4.4% compared to a gross margin of 5.4% in the same period last year, a decrease of 1.0%, primarily reflective of lower hauling gross margins.

***Selling, General and Administrative Expenses.*** SG&A expenses increased $17.4 million, or 9.2%, to $206.5 million for the year ended December 31, 2014 compared to $189.1 million for the year ended December 31, 2013. The net increase in SG&A expenses was attributable to several factors. Employee wages, incentives and benefits increased $10.0 million as a result of higher salaries, wages and payroll taxes stemming primarily from a larger workforce and an increase in commission and incentive pay that resulted from higher revenues and profits. Legal and professional fees increased $2.2 million and liability insurance costs increased $1.3 million. Depreciation expense increased $1.2 million. Facility and utility related expenses increased $1.3 million. Warranty related costs increased $0.9 million and promotional expenses increased $0.5 million. Stock-based compensation expense was $2.6 million in each of the years ended December 31, 2014 and 2013. Of the $17.4 million increase in SG&A expenses, approximately $2.8 million of the increase was attributable to branches opened since December 31, 2012 with less than 12 full comparable months of operations in either or both of the years ended December 31, 2013 and 2014. As a percentage of total

revenues, SG&A expenses were 18.9% for the year ended December 31, 2014, a decrease of 0.2% from 19.1% for the same period last year.

***Other Income (Expense).*** For the year ended December 31, 2014, our net other expenses increased approximately $0.9 million to $51.1 million compared to $50.2 million for the same period in 2014. The increase was the result of a $1.0 million increase in interest expense to $52.4 million for the year ended December 31, 2014 compared to $51.4 million for the same period in 2014, which was partially offset by a $0.1 million increase in other income. The increase in interest expense is the net result of an approximately $0.7 million

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increase in expense related to our senior unsecured notes due to the increase in the aggregate principal amount of these notes from $530 million to $630 million on February 4, 2013 combined with a $0.8 million increase in interest expense on our senior secured credit facility resulting from an increase in average borrowings in 2014 compared to 2013. These interest expense increases were partially offset by a $0.5 million decrease in interest expense related to lower average borrowing rates on manufacturing flooring plans used to finance inventory purchases resulting from lower average interest rates.

***Income Taxes***. We recorded income tax expense of approximately $37.5 million for the year ended December 31, 2014 compared to income tax expense of $21.0 million for the year ended December 31, 2013. Our effective income tax rate was 40.5% for the year ended December 31, 2014 compared to 32.3% for the same period last year. The increase in our effective tax rate is primarily due to a decrease in permanent differences related to tax deductible goodwill. We also recorded a reduction of book goodwill of approximately $0.9 million for the year ended December 31, 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 December 31, 2014 are fully realizable through future reversals of existing taxable temporary differences and future taxable income, and are not subject to any limitations.

***Year Ended December 31, 2013 Compared to the Year Ended December 31, 2012***

***Revenues.***

| | For the Year Ended December 31, | | Total Dollar Increase | Total Percentage Increase |
|---|---|---|---|---|
| | 2013 | 2012 | | |
| | (in thousands, except percentages) | | | |
| Segment revenues: | | | | |
| Equipment rentals | $ 338,935 | $ 288,641 | $ 50,294 | 17.4% |
| New equipment sales | 294,768 | 241,721 | 53,047 | 22.0% |
| Used equipment sales | 141,560 | 104,563 | 36,997 | 35.4% |
| Parts sales | 103,174 | 99,621 | 3,553 | 3.6% |
| Services revenues | 56,694 | 56,554 | 140 | 0.3% |
| Non-Segmented other revenues | 52,625 | 46,215 | 6,410 | 13.9% |
| Total revenues | $ 987,756 | $ 837,315 | $ 150,441 | 18.0% |

*Total Revenues.* Our total revenues were approximately $987.8 million for the year ended December 31, 2013 compared to $837.3 million for the year ended December 31, 2012, an increase of $150.4 million, or 18.0%. Revenues in all of our reportable segments and non-segmented other revenues increased as further discussed below.

*Equipment Rental Revenues.* Our revenues from equipment rentals for the year ended December 31, 2013 increased $50.3 million, or 17.4%, to $338.9 million from $288.6 million in 2012. Rental revenues from aerial work platforms increased approximately $34.5 million, while rental revenues from earthmoving equipment increased $9.7 million. Other equipment rentals increased $2.7 million, while crane and lift truck rental revenues each increased approximately $1.7 million. Our average rental rates for the year ended December 31, 2013 increased 6.9% compared to the year ended December 31, 2012.

Rental equipment dollar utilization (annual rental revenues divided by the average original rental fleet equipment costs) for the year ended December 31, 2013 improved to 35.7% from 35.3% in 2012, an increase of 0.4%. The increase in comparative rental equipment dollar utilization was primarily driven by a 6.9% increase in average rental rates and the mix of equipment rented, which was partially offset by a 1.8% decrease in rental equipment time utilization based on the number of rental equipment units available for rent. Rental equipment time utilization based on the number of rental equipment units available for rent was 65.7% for the year ended December 31, 2013 compared to 67.5% in the same period last year. Rental equipment time utilization as a percentage of original equipment cost was 70.8% for the year ended December 31, 2013 compared to 72.0% in the same period last year, a decrease of 1.2%. The decrease in equipment rental time utilization based on the number of units available for rent and based on original equipment cost is reflective of the 13.3% growth in our rental fleet size from $883.0 million at December 31, 2012 to $1.0 billion at December 31, 2013.

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*New Equipment Sales Revenues.* Our new equipment sales for the year ended December 31, 2013 increased approximately $53.0 million, or 22.0%, to $294.8 million from $241.7 million in 2012. Sales of new cranes increased $26.2 million and sales of new earthmoving equipment increased $20.0 million. Sales of new aerial work platform equipment increased $6.4 million, while sales of new lift trucks increased approximately $0.5 million. Sales of new other equipment were consistent with prior year results.

*Used Equipment Sales Revenues.* Our used equipment sales increased $37.0 million, or 35.4%, to approximately $141.6 million for the year ended December 31, 2013, from $104.6 million for the same period in 2012. Sales of used cranes increased $19.6 million and sales of used aerial work platform equipment increased $17.9 million, while sales of used other equipment increased $1.4 million. These increases in used equipment sales were partially offset by a $1.2 million decrease in used lift truck sales and a $0.7 million decrease in used earthmoving equipment sales.

*Parts Sales Revenues.* Our parts sales revenues increased approximately $3.6 million, or 3.6%, to $103.2 million for the year ended December 31, 2013 from $99.6 million for the same period in 2012. The increase in parts revenues was due to higher demand for parts compared to last year.

*Services Revenues.* Our services revenues for the year ended December 31, 2013 increased $0.1 million, or 0.3%, to $56.7 million from $56.6 million in 2012.

*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 year ended December 31, 2013, our other revenues were $52.6 million, an increase of $6.4 million, or 13.9%, from $46.2 million in 2012. The increase was primarily due to an increase in the volume of these services in conjunction with the related improvements of our primary business activities.

***Gross Profit.***

| | For the Year Ended December 31, | | Total Dollar Change Increase | Total Percentage Change Increase |
|---|---|---|---|---|
| | 2013 | 2012 | (in thousands, except percentages) | |
| Segment Gross Profit: | | | | |
| Equipment rentals | $ 161,649 | $ 135,623 | $ 26,026 | 19.2% |
| New equipment sales | 31,881 | 27,524 | 4,357 | 15.8% |
| Used equipment sales | 40,867 | 30,575 | 10,292 | 33.7% |
| Parts sales | 28,933 | 27,298 | 1,635 | 6.0% |
| Services revenues | 35,660 | 34,577 | 1,083 | 3.1% |
| Non-Segmented revenues | 2,846 | 1,705 | 1,141 | 66.9% |
| Total gross profit | $ 301,836 | $ 257,302 | $ 44,534 | 17.3% |

*Total Gross Profit.* Our total gross profit was $301.8 million for the year ended December 31, 2013 compared to $257.3 million for the year ended December 31, 2012, an increase of $44.5 million, or 17.3%. Total gross profit margin for the year ended December 31, 2013 was 30.6%, a decrease of 0.1% from the 30.7% gross profit margin for the same period in 2012. 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 year ended December 31, 2013 increased $26.0 million, or 19.2%, to $161.6 million from $135.6 million in 2012. The increase in equipment rentals gross profit was the result of a $50.3 million increase in rental revenues for the year ended December 31, 2013, which was partially offset by a $5.4 million increase in rental expenses and an $18.9 million increase in rental equipment depreciation expense. The increases in rental expenses and rental equipment depreciation expense were due to a larger fleet size in 2013 as compared to 2012. As a percentage of equipment rental revenues, rental expenses were approximately 16.4% for the year ended December 31, 2013 compared to 17.3% for the same period last year. This percentage decrease was primarily attributable to the increase in comparative rental revenues. Depreciation expense was 36.0% for the year ended December 31, 2013 compared to 35.7% for the same period in 2012, an increase of 0.3%. The increase in depreciation expense as a percentage of equipment rental revenues is primarily due to a younger fleet and an increase in original equipment replacement cost.

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Gross profit margin on equipment rentals for the year ended December 31, 2013 was 47.7%, up 0.7% from 47.0% for the same period in 2012. This gross profit margin improvement was primarily due to the increase in comparative rental revenues resulting from higher average rental rates, combined with the decrease in rental expenses as a percentage of equipment rental revenues. The improvement in gross profit margin was partially offset by a slight increase in depreciation expense as a percentage of equipment rental revenues.

*New Equipment Sales Gross Profit.* Our new equipment sales gross profit for the year ended December 31, 2013 increased $4.4 million, or 15.8%, to $31.9 million compared to $27.5 million for the same period in 2012 on an increase in total new equipment sales of $53.0 million. Gross profit margin on new equipment sales for the year ended December 31, 2013 was 10.8%, a decrease of 0.6% from 11.4% for the same period in 2012, primarily reflecting the mix of cranes sold combined with lower margins on sales of new earthmoving equipment in 2013 resulting from a few large volume package deals in the third and fourth quarters of 2013. Large volume package deals typically carry lower margins than smaller package deals or individual sales of new earthmoving equipment.

*Used Equipment Sales Gross Profit.* Our used equipment sales gross profit for the year ended December 31, 2013 increased $10.3 million, or 33.7%, to $40.9 million from $30.6 million in the same period in 2012 on an increase in used equipment sales of $37.0 million. Gross profit margin on used equipment sales for the year ended December 31, 2013 was 28.9%, down 0.3% from 29.2% for the same period in 2012, primarily as a result of the mix of used equipment sold. Our used equipment sales from the rental fleet, which comprised approximately 80.9% and 86.6% of our used equipment sales for the years ended December 31, 2013 and 2012, respectively, were approximately 150.8% and 148.5% of net book value for the twelve month periods ended December 31, 2013 and 2012, respectively.

*Parts Sales Gross Profit.* For the year ended December 31, 2013, our parts sales revenue gross profit increased approximately $1.6 million, or 6.0%, to $28.9 million from $27.3 million for the same period in 2012 on a $3.6 million increase in parts sales revenues. Gross profit margin on parts sales for the year ended December 31, 2013 was 28.0%, an increase of 0.6% from 27.4% in the same period in 2012, as a result of the mix of parts sold.

*Services Revenues Gross Profit.* For the year ended December 31, 2013, our services revenues gross profit increased $1.1 million, or 3.1%, to $35.7 million from $34.6 million for the same period in 2012 in part due to a $0.1 million increase in services revenues. Gross profit margin on services revenues for the year ended December 31, 2013 was 62.9%, up 1.8% from 61.1% in the same twelve month period in 2012, as a result of our services revenues mix.

*Non-Segmented Other Revenues Gross Profit.* Our non-segmented other revenues gross profit improved to $2.8 million for the year ended December 31, 2013 from $1.7 million for the same period in 2012, an increase of $1.1 million, or 66.9%. On a gross margin basis, gross profit margin on non-segmented other revenues for the year ended December 31, 2013 was 5.4% compared to a gross profit margin of 3.7% in the same period last year, primarily reflecting a $6.4 million improvement in comparative non-segmented other revenues.

***Selling, General and Administrative Expenses.*** SG&A expenses increased $19.4 million, or 11.3%, to $189.1 million for the year ended December 31, 2013 from $169.7 million for the year ended December 31, 2012. The net increase in SG&A expenses was attributable to several factors. Employee salaries and wages and related employee expenses increased $11.9 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 sales revenues, as well as higher health insurance costs related to increases in our number of employees compared to last year and in the health insurance costs per claim. Stock-based compensation expenses were $2.6 million and $1.9 million for the years ended December 31, 2013 and 2012, respectively. Professional fees increased $2.1 million and liability insurance costs increased $0.7 million. Depreciation expense increased $2.2 million and promotional expenses increased $1.1 million. Other general corporate overhead net expenses increased approximately $1.5 million. Of the total $19.4 million increase in SG&A

expenses, approximately $3.3 million was attributable to branch locations that have opened since December 31, 2011, with less than 12 full comparable

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months of operations in either or both of the years ended December 31, 2012 and 2013. As a percentage of total revenues, SG&A expenses were 19.1% for the year ended December 31, 2013, a decrease of 1.2% from 20.3% for the same period in 2012, primarily as a result of the current year increase in total revenues.

***Other Income (Expense).*** For the year ended December 31, 2013, our net other expenses increased $5.4 million to approximately $50.2 million from $44.8 million for the same period in 2012. Included in other income (expense) for the year ended December 31, 2012 is a $10.2 million loss on the early extinguishment of debt, as discussed in the Loss on Early Extinguishment of Debt section immediately below. Interest expense increased $15.9 million to $51.4 million for the year ended December 31, 2013 from $35.5 million for the same period in 2012. The increase in interest expense is the net result of a $15.4 million increase in interest expense related to our senior unsecured notes and a $1.2 million increase in interest expense related to the Credit Facility. The increase in interest expense on our senior unsecured notes is primarily due to an increase in the aggregate principal amount of these notes from $250 million to $630 million, which was partially offset by the lower interest rate on the new notes. The increase in interest expense related to the Credit Facility is largely due to an increase in the average amount of borrowings under the Credit Facility during the current year as compared to last year. These increases were partially offset by a $0.8 million decrease in interest expense related to manufacturing flooring plans used to finance inventory purchases. Other income increased $0.3 million.

***Loss on Early Extinguishment of Debt***. As more fully described in note 8 to our consolidated financial statements included elsewhere in the Annual Report on Form 10-K, we recorded a one-time loss on the early extinguishment of the $250 million aggregate principal amount of our Old Notes in the year ended December 31, 2012 of approximately $10.2 million, or approximately $6.6 million after-tax, reflecting payment of $5.0 million of tender premiums associated with our purchase of the Old Notes and $2.6 million to redeem the remaining untendered Old Notes, combines with the write-off of approximately $2.6 million of unamortized deferred financing costs of the Old Notes.

***Income Taxes***. We recorded income tax expense of $21.0 million for the year ended December 31, 2013 compared to an income tax expense of $15.6 million for the year ended December 31, 2012. Our effective income tax rate for the year ended December 31, 2013 was 32.3% compared to 35.1% for 2012, a decrease of 2.8%. Our effective tax rate decreased as a result of pre-tax income in relation to higher favorable permanent differences for the year ended December 31, 2013. We also recorded a reduction of book goodwill of approximately $0.9 million in the year ended December 31, 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 December 31, 2013 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 year ended December 31, 2014, the cash provided by our operating activities was $158.3 million. Our reported net income of $55.1 million, which, when adjusted for non-cash income and expense items, such as depreciation and amortization, (including net amortization (accretion) of note discount (premium)), deferred income taxes, 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 $227.1 million. These cash flows from operating activities were also positively impacted by a $44.5 million increase in manufacturing flooring plans payable and a $6.1 million increase in accrued expenses payable and other liabilities. Partially offsetting these positive cash flows was an increase of $66.7 million in inventories as a result of increasing demand and improving sales of new equipment as compared to last year and a $35.2 million increase in receivables. Also decreasing our operating cash flows were a $14.4 million decrease in accounts payable and a $3.1 million increase in prepaid expenses and other assets.

For the year ended December 31, 2013, the cash provided by our operating activities was approximately $138.7 million. Our reported net income of approximately $44.1 million, which, when adjusted for non-cash income and expense items, such as depreciation and amortization, deferred income taxes, amortization of deferred financing costs, accretion of note discount (net of premium amortization), provision for losses on

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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 approximately $166.9 million. These cash flows from operating activities were also positively impacted by a $31.7 million increase in accounts payable and a $3.9 million increase in accrued expenses payable and other liabilities. Additionally, accounts receivable decreased $6.5 million. Offsetting these positive cash flows was an increase of $67.8 million in inventories as a result of increasing demand and improving sales of new and used equipment. Also offsetting our operating cash flows were a $0.8 million increase in prepaid expenses and other assets and a $1.8 million decrease in manufacturing flooring plans payable.

*Cash Flow from Investing Activities.* For the year ended December 31, 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 $296.6 million. This was a result of purchases of rental and non-rental equipment totaling $401.7 million, which was partially offset by proceeds from the sale of rental and non-rental equipment of approximately $105.1 million.

For the year ended December 31, 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 $179.6 million. This was a result of purchases of rental and non-rental equipment totaling $296.9 million, which was partially offset by proceeds from the sale of rental and non-rental equipment of approximately $117.4 million.

*Cash Flow from Financing Activities.* For the year ended December 31, 2014, cash provided by our financing activities was approximately $136.6 million. Net borrowings under the Credit Facility totaled $157.5 million. Partially offsetting these positive cash flows were deferred financing costs of $0.9 million and capital lease payments of $0.2 million. Purchases of treasury stock totaled $1.5 million. We also paid dividends totaling $18.3 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 remaining novested shares of common stock totaling $0.7 million. On July 28, 2014 and November 12, 2014, the Company announced quarterly cash dividends of $0.25 per share of common stock. On September 9, 2014 and December 9, 2014, the Company paid the two announced dividends totaling approximately $17.6 million.

For the year ended December 31, 2013, cash provided by our financing activities was approximately $49.7 million. Net proceeds from our 7% senior notes due 2022 issued on February 4, 2013 (the Add-on Notes ) were approximately $107.3 million. Excess tax benefits realized from stock-based awards totaled $0.3 million. Partially offsetting these positive cash flows were net payments under the Credit Facility of $0.1 million, payments of deferred financing costs of $0.7 million and dividends paid of $0.9 million. Additionally, purchases of treasury stock totaled $0.9 million and payments on capital leases were $0.2 million.

***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

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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.

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

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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.

***Senior Secured Credit Facility***

We and our subsidiaries are parties to a $602.5 million 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 the Credit Facility 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 December 31, 2014, the Company could borrow up to an additional $149.1 million and remain in compliance with the debt covenants under the Company s credit facility. At December 31, 2014, the interest rate on the Credit Facility was based on LIBOR plus 200 basis points. The weighted average interest rate at December 31, 2014 was approximately 2.5%. At February 23, 2015, we had $357.9 million of available borrowings under our Credit Facility, net of $7.2 million of outstanding letters of credit.

On February 5, 2015, we entered into an amendment to the Credit Facility which increased the total amount of revolving loan commitments under the Amended and Restated Credit Agreement from $402.5 million to $602.5 million.

***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.

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The amount of our future capital expenditures will depend on a number of factors, including general economic conditions, demand and growth prospects. Our gross rental fleet capital expenditures for the year ended December 31, 2014 were $412.7 million, which includes $44.2 million of non-cash transfers from new and used equipment to rental fleet inventory. Our gross property and equipment capital expenditures for the year ended December 31, 2014 were $33.2 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 February 20, 2015, we had $357.9 million of available borrowings under the Credit Facility, net of $7.2 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. At December 31, 2014, the Company could borrow up to an additional $357.9 million and remain in compliance with the debt covenants under the Company s credit facility.

**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.

**Certain Information Concerning Off-Balance Sheet Arrangements**

An off-balance sheet arrangement is any transaction, agreement or other contractual arrangement involving an unconsolidated entity under which a company has (1) made guarantees, (2) a retained or a contingent interest in

transferred assets, (3) an obligation under derivative instruments classified as equity or (4) any obligation arising out of a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the Company, or that engages in leasing, hedging or research and development arrangements with the Company.

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We have no off-balance sheet arrangements as described above. Further, we do not have any relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. We are, therefore, not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such relationships. We have also evaluated our relationships with related parties and determined that none of the related party interests represent variable interest entities pursuant to ASC 810, *Consolidation.*

In the normal course of our business activities, we may lease real estate, rental equipment and non-rental equipment under operating leases. See Contractual and Commercial Commitments below.

**Contractual and Commercial Commitments**

Our contractual obligations and commercial commitments principally include obligations associated with our outstanding indebtedness and interest payments as of December 31, 2014.

| | | Payments Due by Year | | | |
|---|---|---|---|---|---|
| | **Total** | **2015** | **2016-2017** | **2018-2019** | **Thereafter** |
| | | **(Amounts in thousands)** | | | |
| Senior unsecured notes payable | $ 630,000 | $ | $ | $ | $ 630,000 |
| Interest payments on senior unsecured notes (1) | 338,100 | 44,100 | 88,200 | 88,200 | 117,600 |
| Credit Facility | 259,919 | | | 259,919 | |
| Interest payments on Credit Facility (1) | 29,638 | 6,748 | 13,498 | 9,392 | |
| Capital lease obligations (including interest) (2) | 2,962 | 334 | 666 | 666 | 1,296 |
| Operating leases (3) | 134,003 | 13,719 | 25,984 | 20,938 | 73,362 |
| Other long-term obligations (4) | 93,600 | 48,556 | 45,044 | | |
| Total contractual cash obligations (5) | $ 1,488,222 | $ 113,457 | $ 173,392 | $ 379,115 | $ 822,258 |

(1) Future interest payments are calculated based on the assumption that all debt remains outstanding until maturity. Interest on Credit Facility assumes the interest rate in effect at December 31, 2014 and includes the unused commitment fee. As discussed elsewhere in this Annual Report on Form 10-K, the Credit Facility was amended in February 2015. However, the impact to future interest payments as disclosed in this table above is not material. The maturity date of the Credit Facility did not change as a result of the amendment.

(2) This includes capital leases for which the related liability has been recorded (including interest) at the present value of future minimum lease payments due under the leases.

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

(4) Represents amounts due on manufacturer flooring plans payable, which are used to finance our purchases of inventory and rental equipment.

(5) We had an unrecognized tax benefit of approximately $5.7 million at December 31, 2014 that is not included in the table above as this amount relates to federal and state income taxes and any liability subsequently determined

and potentially assessed by the taxing authorities but would be offset against our Net Operating Losses for the related tax years and no cash payment would be required.

As of December 31, 2014, we had a standby letter of credit issued under our Credit Facility totaling $6.5 million. On January 1, 2015, we renewed that letter of credit for $7.2 million for a one-year term, expiring on January 1, 2016.

**Inflation**

Although we cannot accurately anticipate the effect of inflation on our operations, we believe that inflation has not had for the three most recent fiscal years ended, and is not likely in the foreseeable future to have, a material impact on our results of operations.

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**Acquisitions and Start-up Facilities**

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

**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 and have not yet determined the method by which we will adopt ASU 2014-09.

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.

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**Item 7A. 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 1.00% to 1.50%, depending on the leverage ratio, in the case of index rate revolving loans and LIBOR plus an applicable margin of 2.00% to 2.50%, depending on the leverage ratio, in the case of LIBOR revolving loans. At December 31, 2014, we had total borrowings outstanding under the Credit Facility of approximately $259.9 million. A 1.0% increase in the interest rate on the Credit Facility would result in approximately a $2.6 million increase in interest expense on an annualized basis. At February 20, 2015, we had $357.9 million of available borrowings under the Credit Facility, net of $7.2 million of outstanding letters of credit. We did not have significant exposure to changing interest rates as of December 31, 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 8. Financial Statements and Supplementary Data**

Index to consolidated financial statements of H&E Equipment Services, Inc. and Subsidiaries

See note 16 to the consolidated financial statements for summarized quarterly financial data.


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| Consolidated Statements of Stockholders Equity for the years ended December 31, 2014, 2013 and 2012 | 57 |
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**Report of Independent Registered Public Accounting Firm**

Board of Directors and Stockholders

H&E Equipment Services, Inc.

Baton Rouge, Louisiana

We have audited the accompanying consolidated balance sheets of H&E Equipment Services, Inc. and subsidiaries as of December 31, 2014 and 2013 and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2014. In connection with our audits of the financial statements, we have also audited the financial statement schedule listed in Item 15(a)(2) of this annual report on Form 10-K. These financial statements and schedule are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedules. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of H&E Equipment Services, Inc. and subsidiaries at December 31, 2014 and 2013, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2014**,** in conformity with accounting principles generally accepted in the United States of America.

Also, in our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), H&E Equipment Services, Inc. s internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 26, 2015, expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Dallas, Texas
February 26, 2015

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

**CONSOLIDATED BALANCE SHEETS**

**AS OF DECEMBER 31,**

| | 2014 | 2013 |
|---|---|---|
| | (Amounts in thousands, except share amounts) | |
| **Assets** | | |
| Cash | $ 15,861 | $ 17,607 |
| Receivables, net of allowance for doubtful accounts of $3,288 and $3,651, respectively | 164,335 | 131,970 |
| Inventories, net of reserves for obsolescence of $647 and $647, respectively | 133,987 | 111,640 |
| Prepaid expenses and other assets | 9,146 | 6,024 |
| Rental equipment, net of accumulated depreciation of $351,841 and $309,944, respectively | 889,706 | 688,710 |
| Property and equipment, net of accumulated depreciation and amortization of $88,376 and $75,994, respectively | 109,908 | 98,503 |
| Deferred financing costs, net of accumulated amortization of $11,111 and $10,176, respectively | 4,664 | 4,689 |
| Goodwill | 31,197 | 31,197 |
| Total assets | $ 1,358,804 | $ 1,090,340 |
| **Liabilities and Stockholders Equity** | | |
| **Liabilities:** | | |
| Amounts due on senior secured credit facility | $ 259,919 | $ 102,460 |
| Accounts payable | 53,341 | 67,779 |
| Manufacturer flooring plans payable | 93,600 | 49,062 |
| Dividends payable | | 633 |
| Accrued expenses payable and other liabilities | 60,548 | 54,439 |
| Senior unsecured notes (net of unaccreted discount of $1,286 and $1,454, respectively) | 628,714 | 628,546 |
| Capital leases payable | 2,099 | 2,278 |
| Deferred income taxes | 125,110 | 88,291 |
| Deferred compensation payable | 2,106 | 2,040 |
| Total liabilities | 1,225,437 | 995,528 |
| **Commitments and Contingencies (Note 12)** | | |
| **Stockholders equity:** | | |
| Preferred stock, $0.01 par value, 25,000,000 shares authorized; no shares issued | | |
| Common stock, $0.01 par value, 175,000,000 shares authorized; 39,100,021 and 39,023,594 shares issued at December 31, 2014 and 2013, respectively, and | 390 | 389 |

| | | |
|---|---|---|
| 35,232,032 and 35,200,398 shares outstanding at December 31, 2014 and 2013, respectively | | |
| Additional paid-in capital | 218,349 | 215,775 |
| Treasury stock at cost, 3,867,989 and 3,823,196 shares of common stock held at December 31, 2014 and 2013, respectively | (59,935) | (58,468) |
| Retained deficit | (25,437) | (62,884) |
| Total stockholders equity | 133,367 | 94,812 |
| Total liabilities and stockholders equity | $ 1,358,804 | $ 1,090,340 |

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

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

**CONSOLIDATED STATEMENTS OF INCOME**

**FOR THE YEARS ENDED DECEMBER 31,**

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| | (Amounts in thousands, except per share amounts) | | |
| Revenues: | | | |
| Equipment rentals | $ 404,110 | $ 338,935 | $ 288,641 |
| New equipment sales | 328,036 | 294,768 | 241,721 |
| Used equipment sales | 123,173 | 141,560 | 104,563 |
| Parts sales | 113,732 | 103,174 | 99,621 |
| Services revenues | 61,292 | 56,694 | 56,554 |
| Other | 60,069 | 52,625 | 46,215 |
| Total revenues | 1,090,412 | 987,756 | 837,315 |
| Cost of revenues: | | | |
| Rental depreciation | 146,055 | 121,948 | 102,966 |
| Rental expense | 61,916 | 55,338 | 50,052 |
| New equipment sales | 289,526 | 262,887 | 214,197 |
| Used equipment sales | 84,936 | 100,693 | 73,988 |
| Parts sales | 81,106 | 74,241 | 72,323 |
| Services revenues | 21,507 | 21,034 | 21,977 |
| Other | 57,428 | 49,779 | 44,510 |
| Total cost of revenues | 742,474 | 685,920 | 580,013 |
| Gross profit | 347,938 | 301,836 | 257,302 |
| Selling, general and administrative expenses | 206,480 | 189,062 | 169,653 |
| Gain from sales of property and equipment, net | 2,286 | 2,549 | 1,592 |
| Income from operations | 143,744 | 115,323 | 89,241 |
| Other income (expense): | | | |
| Interest expense | (52,353) | (51,404) | (35,541) |
| Loss on early extinguishment of debt | | | (10,180) |
| Other, net | 1,293 | 1,228 | 928 |
| Total other expense, net | (51,060) | (50,176) | (44,793) |

| | | | |
|---|---|---|---|
| Income before provision for income taxes | 92,684 | 65,147 | 44,448 |
| Provision for income taxes | 37,545 | 21,007 | 15,612 |
| Net income | $ 55,139 | $ 44,140 | $ 28,836 |
| Net income per common share: | | | |
| Basic | $ 1.57 | $ 1.26 | $ 0.83 |
| Diluted | $ 1.56 | $ 1.26 | $ 0.82 |
| Weighted average common shares outstanding: | | | |
| Basic | 35,159 | 35,041 | 34,890 |
| Diluted | 35,249 | 35,146 | 34,978 |
| Dividends declared per common share outstanding | $ 0.50 | $ | $ 7.00 |

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

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

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

**FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012**

**(Amounts in thousands, except share amounts)**

| | Common Stock | | | | | |
|---|---|---|---|---|---|---|
| | Shares Issued | Amount | Additional Paid-in Capital | Treasury Stock | Retained Earnings (Deficit) | Total Stockholders Equity |
| Balances at December 31, 2011 | 38,808,941 | $ 387 | $ 210,695 | $ (56,884) | $ 110,009 | $ 264,207 |
| Stock-based compensation | | | 1,862 | | | 1,862 |
| Tax benefits associated with stock-based awards | | | 293 | | | 293 |
| Issuance of non-vested restricted common stock | 108,678 | 1 | | | | 1 |
| Repurchases of 46,064 shares of restricted common stock | | | | (694) | | (694) |
| Cash dividend on common stock ($7.00 per share) | | | | | (245,869) | (245,869) |
| Net income | | | | | 28,836 | 28,836 |
| Balances at December 31, 2012 | 38,917,619 | 388 | 212,850 | (57,578) | (107,024) | 48,636 |
| Stock-based compensation | | | 2,618 | | | 2,618 |
| Tax benefits associated with stock-based awards | | | 307 | | | 307 |
| Issuance of non-vested restricted common stock | 105,975 | 1 | | | | 1 |
| Repurchases of 46,064 shares of restricted common stock | | | | (890) | | (890) |
| Net income | | | | | 44,140 | 44,140 |
| Balances at December 31, 2013 | 39,023,594 | 389 | 215,775 | (58,468) | (62,884) | 94,812 |
| Stock-based compensation | | | 2,598 | | | 2,598 |
| Cash dividends on common stock ($0.50 per share) | | | | | (17,692) | (17,692) |
| Tax deficiency associated with stock-based awards | | | (24) | | | (24) |
| Issuance of non-vested restricted common stock | 76,427 | 1 | | | | 1 |
| | | | | (1,467) | | (1,467) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Repurchases of 38,134 shares of restricted common stock | | | | | | |
| Net income | | | | | 55,139 | 55,139 |
| Balances at December 31, 2014 | 39,100,021 | $ 390 | $ 218,349 | $ (59,935) | $ (25,437) | $ 133,367 |

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

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

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED DECEMBER 31,**

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| | (Amounts in thousands) | | |
| Cash flows from operating activities: | | | |
| Net income | $ 55,139 | $ 44,140 | $ 28,836 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization of property and equipment | 20,459 | 16,955 | 13,481 |
| Depreciation of rental equipment | 146,055 | 121,948 | 102,966 |
| Amortization of deferred financing costs | 934 | 1,094 | 1,555 |
| Accretion of note discount, net of premium amortization | 168 | 231 | |
| Amortization of intangible assets | | | 66 |
| Provision for losses on accounts receivable | 2,859 | 3,194 | 3,480 |
| Provision for inventory obsolescence | 159 | 220 | 126 |
| Provision for deferred income taxes | 36,819 | 16,702 | 12,973 |
| Stock-based compensation expense | 2,598 | 2,618 | 1,862 |
| Loss on early extinguishment of debt | | | 10,180 |
| Gain from sales of property and equipment, net | (2,286) | (2,549) | (1,592) |
| Gain from sales of rental equipment, net | (35,769) | (38,575) | (29,559) |
| Tax deficiency from stock-based awards | (24) | | |
| Writedown of goodwill for tax-deductible goodwill in excess of book goodwill | | 877 | 1,944 |
| Changes in operating assets and liabilities: | | | |
| Receivables | (35,224) | 6,503 | (39,808) |
| Inventories | (66,723) | (67,754) | (43,137) |
| Prepaid expenses and other assets | (3,122) | (815) | 16 |
| Accounts payable | (14,438) | 31,659 | (26,886) |
| Manufacturer flooring plans payable | 44,538 | (1,777) | (7,479) |
| Accrued expenses payable and other liabilities | 6,110 | 3,916 | 12,032 |
| Deferred compensation payable | 66 | 65 | (33) |
| Net cash provided by operating activities | 158,318 | 138,652 | 41,023 |
| Cash flows from investing activities: | | | |
| Purchases of property and equipment | (33,235) | (29,479) | (37,361) |
| Purchases of rental equipment | (368,491) | (267,465) | (268,229) |
| Proceeds from sales of property and equipment | 3,657 | 2,759 | 2,058 |
| Proceeds from sales of rental equipment | 101,426 | 114,595 | 90,542 |
| Net cash used in investing activities | (296,643) | (179,590) | (212,990) |

| | | | |
|---|---|---|---|
| Cash flows from financing activities: | | | |
| Excess tax benefit from stock-based awards | | 307 | 293 |
| Purchases of treasury stock | (1,467) | (890) | (694) |
| Borrowings on senior secured credit facility | 1,235,630 | 1,058,990 | 1,032,285 |
| Payments on senior secured credit facility | (1,078,171) | (1,114,249) | (890,621) |
| Payments of deferred financing costs | (909) | (733) | (3,227) |
| Dividend paid | (18,325) | (855) | (244,381) |
| Principal payments on senior unsecured notes | | | (257,576) |
| Proceeds from issuance of senior unsecured notes | | 107,250 | 520,725 |
| Payments of capital lease obligations | (179) | (169) | (158) |
| Net cash provided by financing activities | 136,579 | 49,651 | 156,646 |
| Net increase (decrease) in cash | (1,746) | 8,713 | (15,321) |
| Cash, beginning of year | 17,607 | 8,894 | 24,215 |
| Cash, end of year | $ 15,861 | $ 17,607 | $ 8,894 |

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

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

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

**FOR THE YEARS ENDED DECEMBER 31,**

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| | (Amounts in thousands) | | |
| Supplemental schedule of non-cash investing and financing activities: | | | |
| Non-cash asset purchases: | | | |
| Assets transferred from new and used inventory to rental fleet | $ 44,217 | $ 35,864 | $ 28,192 |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid during the year for: | | | |
| Interest | $ 50,956 | $ 49,252 | $ 29,664 |
| Income taxes paid, net of refunds received | $ 4,516 | $ 2,479 | $ 347 |

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(1) Organization and Nature of Operations**
**Organization**

Prior to our initial public offering in February 2006, our business was conducted through H&E Equipment Services L.L.C. ( H&E LLC ). In connection with our initial public offering, we converted H&E LLC, a Louisiana limited liability company and the wholly-owned operating subsidiary of H&E Holding L.L.C. ( Holdings ), into H&E Equipment Services, Inc., a Delaware corporation. In order to have an operating Delaware corporation as the issuer of our initial public offering, immediately prior to the closing of the initial public offering, on February 3, 2006, H&E LLC and Holdings merged with and into us (H&E Equipment Services, Inc.), with us surviving the reincorporation merger as the operating company. Effective February 3, 2006, H&E LLC and Holdings no longer existed under operation of law pursuant to the reincorporation merger. In these transactions (collectively, the Reorganization Transactions ), holders of preferred limited liability company interests and holders of common limited liability company interests in Holdings received shares of our common stock.

**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 services operations.

**(2) Summary of Significant Accounting Policies**
**Principles of Consolidation and Basis of Presentation**

Our 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.

All significant intercompany accounts and transactions have been eliminated in these consolidated financial statements. Business combinations are included in the 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 consolidated balance sheets are presented on an unclassified basis.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Revenue Recognition**

Pursuant to Staff Accounting Bulletin No. 104 ( SAB 104 ), the SEC Staff believes that revenue generally is realized or realizable and earned when all of the following criteria are met: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the seller s price to the buyer is fixed or determinable; and (4) collectibility is reasonably assured. Consistent with SAB 104, our policy recognizes 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. A rental contract term can be daily, weekly or monthly. Because the term of the contracts can extend across multiple financial reporting periods, we record unbilled rental revenue and deferred revenue at the end of reporting periods so that rental revenues earned are appropriately stated in the periods presented. Revenue from the sale of new and used equipment and parts is recognized at the time of delivery to, or pick-up by, the customer and when all obligations under the sales contract have been fulfilled, risk of ownership has been transferred and collectibility is reasonably assured. Services revenue is recognized at the time the services are rendered. Other revenues consist primarily of billings to customers for rental equipment delivery and damage waiver charges and are recognized at the time an invoice is generated and after the service has been provided.

See also the Recent Accounting Pronouncements discussion below for new accounting guidance related to revenue from contracts with customers.

**Inventories**

New and used equipment inventories are stated at the lower of cost or market, with cost determined by specific-identification. Inventories of parts and supplies are stated at the lower of the average cost or market.

**Long-lived Assets, Goodwill and Intangible Assets**

***Rental Equipment***

The rental equipment we purchase is stated at cost and is depreciated over the estimated useful lives of the equipment using the straight-line method. 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 type equipment are depreciated generally over a three year estimated useful life. We periodically evaluate the appropriateness of remaining depreciable lives and any salvage value assigned to rental equipment.

Ordinary repair and maintenance costs and property taxes are charged to operations as incurred. However, expenditures for additions or improvements that significantly extend the useful life of the asset are capitalized in the period incurred. When rental equipment is sold or disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any gains or losses are included in income. We receive individual offers for fleet on a continual basis, at which time we perform an analysis on whether or not to accept the offer. The rental equipment is not transferred to inventory under the held for sale model as the equipment is used to generate revenues

until the equipment is sold.

***Property and Equipment***

Property and equipment are recorded at cost and are depreciated over the assets estimated useful lives using the straight-line method. Ordinary repair and maintenance costs are charged to operations as incurred. However, expenditures for additions or improvements that significantly extend the useful life of the asset are capitalized in the period incurred. At the time assets are sold or disposed of, the cost and accumulated depreciation are removed from their respective accounts and the related gains or losses are reflected in income.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

We capitalize interest on qualified construction projects. Costs associated with internally developed software are accounted for in accordance with FASB ASC 350-40, *Internal-Use Software* ( ASC 350-40 ), which provides guidance for the treatment of costs associated with computer software development and defines the types of costs to be capitalized and those to be expensed.

We periodically evaluate the appropriateness of remaining depreciable lives assigned to property and equipment. Leasehold improvements are amortized using the straight-line method over their estimated useful lives or the remaining term of the lease, whichever is shorter. Generally, we assign the following estimated useful lives to these categories:

| Category | Estimated Useful Life |
|---|---|
| Transportation equipment | 5 years |
| Buildings | 39 years |
| Office equipment | 5 years |
| Computer equipment | 3 years |
| Machinery and equipment | 7 years |

In accordance with ASC 360, *Property, Plant and Equipment* ( ASC 360 ), when events or changes in circumstances indicate that the carrying amount of our rental fleet and property and equipment might not be recoverable, the expected future undiscounted cash flows from the assets are estimated and compared with the carrying amount of the assets. If the sum of the estimated undiscounted cash flows is less than the carrying amount of the assets, an impairment loss is recorded. The impairment loss is measured by comparing the fair value of the assets with their carrying amounts. Fair value is determined based on discounted cash flows or appraised values, as appropriate. We did not record any impairment losses related to our rental equipment or property and equipment during 2014, 2013 or 2012.

***Goodwill***

We have made acquisitions in the past that included the recognition of goodwill, which was determined based upon previous accounting principles. Pursuant to ASC 350, *Intangibles-Goodwill and Other* ( ASC 350 ), effective January 1, 2009, goodwill is recorded as the excess of the consideration transferred plus the fair value of any non-controlling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired.

We evaluate goodwill for impairment at least annually, or more frequently if triggering events occur or other impairment indicators arise which might impair recoverability. Impairment of goodwill is evaluated at the reporting unit level. A reporting unit is defined as an operating segment (i.e. before aggregation or combination), or one level below an operating segment (i.e. a component). A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and segment management

regularly reviews the operating results of that component. We have identified two components within our Rental operating segment and have determined that each of our other operating segments (New, Used, Parts and Service) represent a reporting unit, resulting in six total reporting units.

In September 2011, the FASB issued ASU 2011-08, *Intangibles-Goodwill and Other (Topic 350)-Testing Goodwill for Impairment* ( ASU 2011-08 ), to allow entities to first use a qualitative approach to test goodwill for impairment. ASU 2011-08 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not (a likelihood of greater than 50%) that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, the currently prescribed two-step goodwill test must be performed. Otherwise, the two-step goodwill impairment test is not required. We performed a qualitative assessment in 2014, 2013 and 2012 and determined that it is more likely than not that the fair value of our reporting units exceed their respective carrying values at the October 1, 2014, 2013 and 2012 annual valuation dates and, therefore, did not perform the prescribed two-step goodwill impairment test. We considered various

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

factors in performing the qualitative test, including macroeconomic conditions, industry and market considerations, the overall financial performance of our reporting units, the Company s stock price and the excess amount or cushion between our reporting unit s fair value and carrying value as indicated on our most recent quantitative assessment.

Based upon improving macroeconomic conditions and positive trends within our industry and market during 2012, 2013 and 2014, combined with continuing positive operating results in comparison to prior periods and our internal forecasts, and with consideration of the cushion between the reporting unit s fair value and carrying value from our most recent quantitative analysis, we determined that it is more likely than not that the fair value of our reporting units exceeds their respective carrying values at the October 1, 2014, 2013 and 2012 valuation dates and there was no goodwill impairment at October 1, 2014, 2013 and 2012.

To determine if any of our reporting units are impaired under the prescribed two-step goodwill test, we must determine whether the fair value of each of our reporting units is greater than their respective carrying value. If the fair value of a reporting unit is less than its carrying value, then the implied fair value of goodwill must be calculated and compared to its carrying value to measure the amount of impairment. The implied fair value of goodwill is calculated by allocating the fair value of the reporting unit to all assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination (purchase price allocation). The excess of the fair value of the reporting unit over the amounts assigned is the implied fair value of goodwill. If the carrying amount of the goodwill exceeds the implied fair value of goodwill, an impairment loss is recognized for the excess amount. We determine the fair value of our reporting units using a discounted cash flow analysis or by applying various market multiples or a combination thereof.

The changes in the carrying amount of goodwill for our reporting units for the years ended December 31, 2014 and 2013 were as follows (amounts in thousands):

| | Equipment Rentals Component 2 | Used Equipment Sales | Parts Sales | Total |
|---|---|---|---|---|
| Balance at January 1, 2013 | $ 19,226 | $ 6,311 | $ 6,537 | $ 32,074 |
| Reductions[1] | (526) | (174) | (177) | (877) |
| Balance at December 31, 2013 | 18,700 | 6,137 | 6,360 | 31,197 |
| Reductions | | | | |
| Balance at December 31, 2014 | $ 18,700 | $ 6,137 | $ 6,360 | $ 31,197 |

(1) Writedown of goodwill for tax-deductible goodwill in excess of book goodwill.

**Closed Branch Facility Charges**

We continuously monitor and identify branch facilities with revenues and operating margins that consistently fall below Company performance standards. Once identified, we continue to monitor these branches to determine if operating performance can be improved or if the performance is attributable to economic factors unique to the particular market with unfavorable long-term prospects. If necessary, branches with unfavorable long-term prospects are closed and the rental fleet and new and used equipment inventories are deployed to more profitable branches within our geographic footprint where demand is higher.

We closed one branch during the year ended December 31, 2012 and one branch during 2013 in markets where long-term prospects did not support continued operations. No branches were closed during 2014. Under ASC 420, *Exit or Disposal Cost Obligations* ( ASC 420 ), exit costs include, but are not limited to, the following: (a) one-time termination benefits; (b) contract termination costs, including costs that will continue to

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

be incurred under operating leases that have no future economic benefit; and (c) other associated costs. A liability for costs associated with an exit or disposal activity is recognized and measured at its fair value in the period in which the liability is incurred, except for one-time termination benefits that are incurred over time. Although we do not expect to incur material charges related to branch closures, additional charges are possible to the extent that actual future settlements differ from our estimates of such costs. Costs incurred for the closed branches in 2012 and 2013 did not have a material impact on the Company s consolidated financial statements. As of the date of this Annual Report on Form 10-K, the Company has not identified any other branch facilities with a more than likely probability of closing where the associated costs pursuant to ASC 420 are expected to be material.

**Deferred Financing Costs and Initial Purchasers Discounts**

Deferred financing costs include legal, accounting and other direct costs incurred in connection with the issuance and amendments thereto, of the Company s debt. These costs are amortized over the terms of the related debt using the straight-line method which approximates amortization using the effective interest method. Initial purchasers discount, or underwriters discount, is the differential between the price paid to an issuer for the new issue and the prices at which the securities are initially offered to the investing public. The amortization expense of deferred financing costs and accretion of initial purchasers discounts are included in interest expense as an overall cost of the related financings.

**Reserves for Claims**

We are exposed to various claims relating to our business, including those for which we provide self-insurance. Claims for which we self-insure include: (1) workers compensation claims; (2) general liability claims by third parties for injury or property damage caused by our equipment or personnel; (3) automobile liability claims; and (4) employee health insurance claims. These types of claims may take a substantial amount of time to resolve and, accordingly, the ultimate liability associated with a particular claim, including claims incurred but not reported as of a period-end reporting date, may not be known for an extended period of time. Our methodology for developing self-insurance reserves is based on management estimates and independent third party actuarial estimates. Our estimation process considers, among other matters, the cost of known claims over time, cost inflation and incurred but not reported claims. These estimates may change based on, among other things, changes in our claim history or receipt of additional information relevant to assessing the claims. Further, these estimates may prove to be inaccurate due to factors such as adverse judicial determinations or other claim settlements at higher than estimated amounts. Accordingly, we may be required to increase or decrease our reserve levels. At December 31, 2014, our claims reserves related to workers compensation, general liability and automobile liability, which are included in Accrued expenses and other liabilities in our consolidated balance sheets, totaled $4.4 million and our health insurance reserves totaled $1.2 million. At December 31, 2013, our claims reserves related to workers compensation, general liability and automobile liability totaled $3.5 million and our health insurance reserves totaled $1.4 million.

**Sales Taxes**

We impose and collect significant amounts of sales taxes concurrent with our revenue-producing transactions with customers and remit those taxes to the various governmental agencies as prescribed by the taxing jurisdictions in

which we operate. We present such taxes in our consolidated statements of operations on a net basis.

**Advertising**

Advertising costs are expensed as incurred and totaled $1.3 million, $0.6 million and $0.6 million for the years ended December 31, 2014, 2013 and 2012, respectively.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Shipping and Handling Fees and Costs**

Shipping and handling fees billed to customers are recorded as revenues while the related shipping and handling costs are included in other cost of revenues.

**Income Taxes**

The Company files a consolidated federal income tax return with its wholly-owned subsidiaries. The Company is a C-Corporation under the provisions of the Internal Revenue Code. We utilize the asset and liability approach to measuring deferred tax assets and liabilities based on temporary differences existing at each balance sheet date using currently enacted tax rates in accordance with ASC 740. ASC 740 takes into account the differences between financial statement treatment and tax treatment of certain transactions. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect of a change in tax rate is recognized as income or expense in the period that includes the enactment date of that rate.

In accordance with ASC 740, the Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax provisions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. The Company recognizes both interest and penalties related to uncertain tax positions in net other income (expense). During the fourth quarter of fiscal 2013, we adopted ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The adoption of ASU 2013-11 had no material impact to our financial position or results of operations.

Our deferred tax calculation requires management to make certain estimates about future operations. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

**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 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 December 31, 2014 and 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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**H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

| | December 31, 2014 | |
|---|---|---|
| | Carrying Amount | Fair Value |
| Manufacturer flooring plans payable with interest computed at 5.00% (Level 3) | $ 93,600 | $ 82,021 |
| Senior unsecured notes with interest computed at 7.0%[(1)] (Level 1) | 628,714 | 648,113 |
| Capital leases payable with interest computed at 5.929% to 9.55% (Level 3) | 2,099 | 1,495 |
| 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) | 628,546 | 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.

During 2014 and 2013, there were no transfers of financial assets or liabilities in or out of Level 1, Level 2 or Level 3 of the fair value hierarchy.

**Concentrations of Credit and Supplier Risk**

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of trade accounts receivable. Credit risk can be negatively impacted by adverse changes in the economy or by disruptions in the credit markets. However, we believe that credit risk with respect to trade accounts receivable is somewhat mitigated by our large number of geographically diverse customers and our credit evaluation procedures. Although generally no collateral is required, when feasible, mechanics liens are filed and personal guarantees are signed to protect the Company s interests. We maintain reserves for potential losses.

We record trade accounts receivables at sales value and establish specific reserves for certain customer accounts identified as known collection problems due to insolvency, disputes or other collection issues. The amounts of the specific reserves estimated by management are based on the following assumptions and variables: the customer s financial position, age of the customer s receivables and changes in payment schedules. In addition to the specific reserves, management establishes a non-specific allowance for doubtful accounts by applying specific percentages to

the different receivable aging categories (excluding the specifically reserved accounts). The percentage applied against the aging categories increases as the accounts become further past due. The allowance for doubtful accounts is charged with the write-off of uncollectible customer accounts.

We purchase a significant amount of equipment from the same manufacturers with whom we have distribution agreements. During the year ended December 31, 2014, we purchased approximately 61% from three manufacturers (Grove/Manitowoc, Komatsu, and Genie Industries (Terex)) providing our rental and sales equipment. We believe that while there are alternative sources of supply for the equipment we purchase in each of the principal product categories, termination of one or more of our relationships with any of our major suppliers of equipment could have a material adverse effect on our business, financial condition or results of operation if we were unable to obtain adequate or timely rental and sales equipment.

**Income per Share**

Income per common share for the year ended December 31, 2014, 2013 and 2012 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. We include all common shares granted under our incentive compensation plan which remain unvested ( restricted common shares ) and contain non-forfeitable rights to dividends or dividend equivalents, whether paid or unpaid ( participating securities ), in the number of shares outstanding in our basic and diluted EPS calculations using the two-class method. All of our restricted common shares are currently participating securities.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Under the two-class method, earnings per common share are computed by dividing the sum of distributed earnings allocated to common shareholders and undistributed earnings allocated to common shareholders by the weighted average number of common shares outstanding for the period. In applying the two-class method, distributed and undistributed earnings are allocated to both common shares and restricted common shares based on the total weighted average shares outstanding during the period. The number of restricted common shares outstanding during the period was only 0.4% of total outstanding shares and, consequently, was immaterial to the basic and diluted EPS calculations. Therefore, use of the two-class method had no impact on our basic and diluted EPS calculations as presented for the year ended December 31, 2014.

The following table sets forth the computation of basic and diluted net income per common share for the years ended December 31, (amounts in thousands, except per share amounts):

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Basic net income per share: | | | |
| Net income | $ 55,139 | $ 44,140 | $ 28,836 |
| Weighted average number of common shares outstanding | 35,159 | 35,041 | 34,890 |
| Net income per common share basic | $ 1.57 | $ 1.26 | $ 0.83 |
| | | | |
| Diluted net income per share: | | | |
| Net income | $ 55,139 | $ 44,140 | $ 28,836 |
| Weighted average number of common shares outstanding | 35,159 | 35,041 | 34,890 |
| Effect of dilutive securities: | | | |
| Effect of dilutive stock options | 23 | 18 | |
| Effect of dilutive non-vested stock | 67 | 87 | 88 |
| | | | |
| Weighted average number of common shares outstanding diluted | 35,249 | 35,146 | 34,978 |
| Net income per common share diluted | $ 1.56 | $ 1.26 | $ 0.82 |
| | | | |
| Common shares excluded from the denominator as anti-dilutive: | | | |
| Stock options | | | 51 |
| Non-vested stock | 1 | 1 | 65 |

**Stock-Based Compensation**

We adopted our 2006 Stock-Based Incentive Compensation Plan (the Stock Incentive Plan ) in January 2006 prior to our initial public offering of common stock. The Stock Incentive Plan was further amended and restated with the approval of our stockholders at the 2006 annual meeting of the stockholders of the Company to provide for the inclusion of non-employee directors as persons eligible to receive awards under the Stock Incentive Plan. Prior to the

adoption of the Stock Incentive Plan in January 2006, no share-based payment arrangements existed. The Stock Incentive Plan is administered by the Compensation Committee of our Board of Directors, which selects persons eligible to receive awards and determines the number of shares and/or options subject to each award, the terms, conditions, performance measures, if any, and other provisions of the award. Under the Stock Incentive Plan, we may offer deferred shares or restricted shares of our common stock and grant options, including both incentive stock options and nonqualified stock options, to purchase shares of our common stock. Shares available for future stock-based payment awards under our Stock Incentive Plan were 3,537,999 shares of common stock as of December 31, 2014.

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).

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Non-vested Stock***

From time to time, we issue shares of non-vested stock typically with vesting terms of three years. The following table summarizes our non-vested stock activity for the years ended December 31, 2014 and 2013:

| | Number of Shares | Weighted Average Grant Date Fair Value |
|---|---|---|
| Non-vested stock at January 1, 2013 | 230,415 | $ 13.65 |
| Granted | 86,911 | $ 21.83 |
| Vested | (122,121) | $ 12.37 |
| Forfeited | (7,338) | $ 15.35 |
| Non-vested stock at December 31, 2013 | 187,867 | $ 18.21 |
| Granted | 76,427 | $ 36.69 |
| Vested | (109,237) | $ 18.70 |
| Forfeited | (6,659) | $ 23.88 |
| Non-vested stock at December 31, 2014 | 148,398 | $ 27.11 |

As of December 31, 2014, we had unrecognized compensation expense of approximately $3.1 million related to non-vested stock award payments that we expect to be recognized over a weighted average period of 2.2 years.

The following table summarizes compensation expense related to stock-based awards included in selling, general and administrative expenses in the accompanying consolidated statements of operations for the years ended December 31, (amounts in thousands):

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Compensation expense | $ 2,598 | $ 2,618 | $ 1,806 |

We receive a tax deduction when non-vested stock vests at a higher value than the value used to recognize compensation expense at the date of grant. In accordance with ASC 718, we are required to report excess tax benefits from the award of equity instruments as financing cash flows. Excess tax benefits will be recorded when a deduction reported for tax return purposes for an award of equity instruments exceeds the cumulative compensation cost for the instruments recognized for financial reporting purposes. As a result of certain realization requirements of ASC 718, $0.7 million of excess tax benefits on stock compensation have not been recorded because those tax benefits have not yet reduced taxes payable. Equity will be increased if and when these excess tax benefits are ultimately realized.

***Stock Options***

No stock options were granted during 2014, 2013 or 2012. At December 31, 2014, we had no unrecognized compensation expense related to prior stock option awards.

The following table summarizes compensation expense related to stock-based awards included in selling, general and administrative expenses in the accompanying consolidated statements of operations for the years ended December 31, (amounts in thousands):

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Compensation expense | $ | $ | $ 56 |

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table represents stock option activity for the years ended December 31, 2014 and 2013:

| | Number of Shares | Weighted Average Exercise Price[1] | Weighted Average Contractual Life In Years |
|---|---|---|---|
| Outstanding options at January 1, 2013 | 51,000 | $ 17.80 | |
| Granted | | | |
| Exercised | | | |
| Canceled, forfeited or expired | | | |
| Outstanding options at December 31, 2013 | 51,000 | $ 17.80 | 2.5 |
| Granted | | | |
| Exercised | | | |
| Canceled, forfeited or expired | | | |
| Outstanding options at December 31, 2014 | 51,000 | $ 17.80 | 1.5 |
| Options exercisable at December 31, 2014 | 51,000 | $ 17.80 | 1.5 |

(1) Weighted average exercise prices shown above include a reduction of $7.00 per share to reflect the equitable adjustment to the exercise prices in connection with the declaration and payment of a special, one-time cash dividend of $7.00 per share in the third quarter of 2012.

In connection with the Company s payment of the special, one-time cash dividend of $7.00 per share in 2012, the exercise prices of all outstanding stock options grants were adjusted downward by $7.00 per share. The modification of stock options resulted in an additional $0.1 million of stock compensation expense.

The aggregate intrinsic value of our outstanding and exercisable options at December 31, 2014 was $1.4 million.

We receive a tax deduction for stock option exercises during the period in which the options are exercised, generally for the excess of the price at which the stock is sold over the exercise price of the options.

**Purchases of Company Common Stock**

Purchases of our common stock are accounted for as treasury stock in the accompanying consolidated balance sheets using the cost method. Repurchased stock is included in authorized shares, but is not included in shares outstanding.

**Segment Reporting**

We have determined in accordance with ASC 280, *Segment Reporting* ( ASC 280 ) that we have five reportable segments. 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. See note 17 to the consolidated financial statements regarding our segment information.

**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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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 and have not yet determined the method by which we will adopt ASU 2014-09.

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) Receivables**

Receivables consisted of the following at December 31, (amounts in thousands):

| | 2014 | 2013 |
|---|---|---|
| Trade receivables | $ 158,400 | $ 130,199 |
| Unbilled rental revenue | 5,772 | 5,290 |
| Income tax receivables | 3,434 | 116 |

| | | |
|---|---|---|
| Other | 17 | 16 |
| | 167,623 | 135,621 |
| Less allowance for doubtful accounts | (3,288) | (3,651) |
| Total receivables, net | $ 164,335 | $ 131,970 |

We charge off customer account balances when we have exhausted reasonable collection efforts and determined that the likelihood of collection is remote.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(4) Inventories**

Inventories consisted of the following at December 31, (amounts in thousands):

| | 2014 | 2013 |
|---|---|---|
| New equipment | $ 108,891 | $ 89,833 |
| Used equipment | 5,772 | 5,558 |
| Parts, supplies and other | 19,324 | 16,249 |
| Total inventories, net | $ 133,987 | $ 111,640 |

The above amounts are net of reserves for inventory obsolescence at December 31, 2014 and 2013 totaling $0.6 million and $0.6 million, respectively.

**(5) Property and Equipment**

Net property and equipment consisted of the following at December 31, (amounts in thousands):

| | 2014 | 2013 |
|---|---|---|
| Land | $ 7,368 | $ 6,833 |
| Transportation equipment | 67,268 | 60,987 |
| Building and leasehold improvements | 53,021 | 39,253 |
| Office and computer equipment | 51,542 | 46,556 |
| Machinery and equipment | 12,628 | 10,757 |
| Property under capital leases | 3,217 | 3,217 |
| Construction in progress | 3,240 | 6,894 |
| | 198,284 | 174,497 |
| Less accumulated depreciation and amortization | (88,376) | (75,994) |
| Total net property and equipment | $ 109,908 | $ 98,503 |

Total depreciation and amortization on property and equipment was $20.5 million, $17.0 million and $13.5 million for the years ended December 31, 2014, 2013 and 2012, respectively. Included in the office and computer equipment category above at December 31, 2014 and 2013 is approximately $26.9 million of capitalized costs, including $0.6 million of capitalized interest, related to the implementation of our enterprise resource planning system. Unamortized computer software costs related to the enterprise resource planning system at December 31, 2014 and 2013 was approximately $7.6 million and $11.4 million, respectively, while related amortization expense in 2014 and 2013

totaled approximately $3.8 million each year. The enterprise resource planning system was substantially complete and ready for its intended use on or around January 19, 2010. Interest costs capitalized for the year ended December 31, 2012 was $0.2 million. Amounts capitalized in 2012 relate primarily to the construction of the Company s new corporate headquarters and the consolidation of the Company s Baton Rouge and Gonzales, Louisiana branch facilities, which was completed in the fourth quarter of 2012.

**(6) Manufacturer Flooring Plans Payable**

Manufacturer flooring plans payable are financing arrangements for inventory and rental equipment. The interest cost incurred on the manufacturer flooring plans ranged between 0% to the prime rate (3.25% at December 31, 2014) plus an applicable margin at December 31, 2014. Certain manufacturer flooring plans provide for a one to twelve-month reduced interest rate term or a deferred payment period. We recognize interest expense based on the effective interest method. We make payments in accordance with the original terms of the financing agreements. However, we routinely sell equipment that is financed under manufacturer flooring plans prior to the original maturity date of the financing agreement. The related manufacturer flooring plan payable is then paid at the time the equipment being financed is sold. The manufacturer flooring plans payable are secured by the equipment being financed.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Maturities (based on original financing terms) of the manufacturer flooring plans payable as of December 31, 2014 for each of the next five years ending December 31 are as follows (amounts in thousands):

| | |
|---|---|
| 2015 | $ 48,556 |
| 2016 | 43,669 |
| 2017 | 1,375 |
| 2018 | |
| 2019 | |
| Thereafter | |
| Total | $ 93,600 |

**(7) Accrued Expenses Payable and Other Liabilities**

Accrued expenses payable and other liabilities consisted of the following at December 31, (amounts in thousands):

| | 2014 | 2013 |
|---|---|---|
| Payroll and related liabilities | $ 23,663 | $ 20,665 |
| Sales, use and property taxes | 7,722 | 7,712 |
| Accrued interest | 15,329 | 15,101 |
| Accrued insurance | 3,931 | 3,243 |
| Deferred revenue | 5,195 | 4,268 |
| Other | 4,708 | 3,450 |
| Total accrued expenses payable and other liabilities | $ 60,548 | $ 54,439 |

**(8) Senior Unsecured Notes**

On August 20, 2012, the Company closed on its offering of $530 million aggregate principal amount of 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, after deducting $9.3 million of initial purchasers discount, 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 its $250 million aggregate principal amount of 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 (the Supplemental Indenture ) amending the indenture relating to the Old Notes. The Supplemental Indenture eliminated substantially all of the restrictive covenants and certain events of default from 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 to be 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 an estimated $1.5 million are to be paid upon vesting of those shares pursuant to their respective stock awards terms and conditions.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In connection with the above transactions, the Company recorded a one-time loss on the early extinguishment of debt in 2012 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 1st and September 1st 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.

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.

The indenture governing the New Notes contains certain covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to: (i) incur additional indebtedness, assume a guarantee or issue preferred stock; (ii) pay dividends or make other equity distributions or payments to or affecting our subsidiaries; (iii) purchase or redeem our capital stock; (iv) make certain investments; (v) create liens; (vi) sell or dispose of assets or engage in mergers or consolidations; (vii) engage in certain transactions with subsidiaries or affiliates; (viii) enter into sale-leaseback transactions; and (ix) engage in certain business activities. Each of the covenants is subject to exceptions and qualifications. As of December 31, 2013, we were in compliance with these covenants.

On February 4, 2013, the Company closed on its offering of $100 million aggregate principal amount of 7% senior notes due 2022 (the 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 bear interest at a rate of 7% per year and mature on September 1, 2022. Interest on the Add-on Notes accrues from August 20, 2012 and is payable on each March 1 and September 1, commencing March 1, 2013. No principal payments are due until maturity.

The Add-on 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 Add-on Notes before September 1, 2015 with the net cash proceeds from certain equity offerings. We may also redeem the Add-on Notes prior to September 1, 2017 at a specified make-whole redemption price plus accrued and unpaid interest to the date of redemption.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Add-on Notes are our senior unsecured obligations and 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 Add-on Notes are unconditionally guaranteed on a senior unsecured basis by all of our current and future significant domestic restricted subsidiaries. In addition, the Add-on 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 Add-on Notes. 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.

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

On April 1, 2013, the Company launched an offer to exchange the New and Add-on Notes and guarantees for registered, publicly tradable notes and guarantees that have terms identical in all material respects to the New and Add-on Notes (except that the exchange notes will not contain any transfer restrictions). This exchange offer closed on April 30, 2013.

The following table reconciles our Senior Secured Notes to our 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 December 31, 2014 | 1,055 |
| Amortization of note premium through December 31, 2014 | (887) |
| Balance at December 31, 2014 | $ 628,714 |

**(9) Senior Secured Credit Facility**

We and our subsidiaries are parties to a $602.5 million senior secured credit facility (the Credit Facility ) with General Electric Capital Corporation as agent, and the lenders named therein (the Lenders ).

On May 21, 2014, we amended, extended and restated the Credit Facility 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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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).

As of December 31, 2014, we were in compliance with our financial covenants under the Credit Facility. At December 31, 2014, the Company could borrow up to an additional $136.1 million and remain in compliance with the debt covenants under the Company s credit facility.

At December 31, 2014, the interest rate on the Credit Facility was based on a 3.25% U.S. Prime Rate plus 100 basis points and LIBOR plus 200 basis points. The weighted average interest rate at December 31, 2014 was approximately 2.5%. At February 20, 2015, we had $357.9 million of available borrowings under our Credit Facility, net of $7.2 million of outstanding letters of credit.

On February 5, 2015, we entered into an amendment of the Credit Facility which increased the total amount of revolving loan commitments under the Amended and Restated Credit Agreement from $402.5 million to $602.5 million.

**(10) Capital Lease Obligations**

As of December 31, 2013, we had two capital lease obligations, expiring in 2022 and 2029, respectively. Future minimum capital lease payments, in the aggregate, existing at December 31, 2014 for each of the next five years ending December 31 and thereafter are as follows (amounts in thousands):

| | |
|---|---|
| 2015 | $ 333 |
| 2016 | 333 |
| 2017 | 333 |
| 2018 | 333 |
| 2019 | 333 |
| Thereafter | 1,297 |

| | |
|---|---|
| Total minimum lease payments | 2,962 |
| Less: amount representing interest | (863) |
| Present value of minimum lease payments | $ 2,099 |

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(11) Income Taxes**

Our income tax provision for the years ended December 31, 2014, 2013 and 2012, consists of the following (amounts in thousands):

| | Current | Deferred | Total |
|---|---|---|---|
| Year ended December 31, 2014: | | | |
| U.S. Federal | $ 576 | $ 30,753 | $ 31,329 |
| State | 151 | 6,065 | 6,216 |
| | $ 727 | $ 36,818 | $ 37,545 |
| Year ended December 31, 2013: | | | |
| U.S. Federal | $ 1,262 | $ 16,306 | $ 17,568 |
| State | 1,860 | 1,579 | 3,439 |
| | $ 3,122 | $ 17,885 | $ 21,007 |
| Year ended December 31, 2012: | | | |
| U.S. Federal | $ | $ 13,187 | $ 13,187 |
| State | 400 | 2,025 | 2,425 |
| | $ 400 | $ 15,212 | $ 15,612 |

Significant components of our deferred income tax assets and liabilities as of December 31 are as follows (amounts in thousands):

| | 2014 | 2013 |
|---|---|---|
| Deferred tax assets: | | |
| Accounts receivable | $ 1,246 | $ 1,388 |
| Inventories | 252 | 253 |
| Net operating losses | 11,978 | 10,802 |
| AMT and general business tax credits | 3,210 | 2,619 |
| Sec 263A costs | 1,491 | 1,243 |
| Accrued liabilities | 4,279 | 4,109 |
| Deferred compensation | 2,089 | 1,932 |
| Accrued interest | 606 | 580 |
| Stock-based compensation | 304 | 471 |

| | | |
|---|---|---|
| Goodwill and intangible assets | 2,659 | 3,988 |
| Other assets | 91 | 37 |
| | 28,205 | 27,422 |
| Deferred tax liabilities: | | |
| Property and equipment | (151,703) | (114,107) |
| Investments | (1,612) | (1,606) |
| | (153,315) | (115,713) |
| Net deferred tax liabilities | $ (125,110) | $ (88,291) |

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The reconciliation between income taxes computed using the statutory federal income tax rate of 35% to the actual income tax expense (benefit) is below for the years ended December 31 (amounts in thousands):

| | 2014 | 2013 | 2012 |
|---|---|---|---|
| Computed tax at statutory rates | $ 32,439 | $ 22,801 | $ 15,557 |
| Permanent items - other | 1,069 | 716 | 741 |
| Permanent items - excess of tax deductible goodwill | | (4,673) | (2,130) |
| State income tax, net of federal tax effect | 4,046 | 2,651 | 1,592 |
| Increase in uncertain tax positions | (9) | (488) | (148) |
| Other | | | |
| | $ 37,545 | $ 21,007 | $ 15,612 |

At December 31, 2014, we had available federal net operating loss carry forwards of approximately $61.0 million, which expire in varying amounts from 2029 through 2034. We also had federal alternative minimum tax credit carry forwards at December 31, 2014 of approximately $2.7 million which do not expire and $0.5 million general business credit carry forwards that expire in varying amounts from 2025 and 2029.

Management has concluded that it is more likely than not that the deferred tax assets are fully realizable through future reversals of existing taxable temporary differences and future taxable income. Therefore, a valuation allowance is not required to reduce the deferred tax assets as of December 31, 2014.

A reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits is as follow (in thousands):

| | 2014 | 2013 |
|---|---|---|
| Gross unrecognized tax benefits at January 1 | $ 5,943 | $ 6,515 |
| Increases in tax positions taken in prior years | 42 | 11 |
| Decreases in tax positions taken in prior years | | (84) |
| Increases in tax positions taken in current year | | |
| Decreases for tax positions taken in current year | | |
| Settlements with taxing authorities | | (285) |
| Lapse in statute of limitations | (23) | (214) |
| Gross unrecognized tax benefits at December 31 | $ 5,962 | $ 5,943 |

The gross amount of unrecognized tax benefits as of December 31, 2014 includes approximately $0.2 million of net unrecognized tax benefits that, if recognized, would affect the effective income tax rate. Consistent with our historical

financial reporting, to the extent we incur interest income, interest expense, or penalties related to unrecognized income tax benefits, they are recorded in Other net income or expense. At this time, we do not expect to recognize significant increases or decreases in unrecognized tax benefits during the next twelve months.

Our U.S. federal tax returns for 2011 and subsequent years remain subject to examination by tax authorities. We are also subject to examination in various state jurisdictions for 2008 and subsequent years.

**(12) Commitments and Contingencies**
**Operating Leases**

As of December 31, 2014, we lease certain real estate related to our branch facilities as well as certain office equipment under non-cancelable operating lease agreements expiring at various dates through 2029. Our real estate leases provide for varying terms, including customary renewal options and base rental escalation clauses, for which the related rent expense is accounted for on a straight-line basis during the terms of the respective leases. Additionally, certain real estate leases may require us to pay maintenance, insurance, taxes and other

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

expenses in addition to the stated rental payments. Rent expense on property leases and equipment leases under non-cancelable operating lease agreements for the years ended December 31, 2014, 2013 and 2012 amounted to approximately $13.0 million, $12.4 million and $12.8 million, respectively.

Future minimum operating lease payments existing at December 31, 2013 for each of the next five years ending December 31 and thereafter are as follows (amounts in thousands):

| | |
|---|---|
| 2015 | $ 13,719 |
| 2016 | 14,162 |
| 2017 | 11,823 |
| 2018 | 10,631 |
| 2019 | 10,307 |
| Thereafter | 73,361 |
| | $ 134,003 |

**Legal Matters**

We are also involved in various claims and legal actions arising in the ordinary course of 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.

**Letters of Credit**

The Company had outstanding letters of credit issued under its Credit Facility totaling $6.5 million as of December 31, 2014 and 2013, respectively. The 2014 letter of credit expired in January 2015 and was renewed for $7.2 million for a one-year period expiring in January 2016.

**(13) Employee Benefit Plan**

We offer substantially all of our employees participation in a qualified 401(k)/profit-sharing plan in which we match employee contributions up to predetermined limits for qualified employees as defined by the plan. For the years ended December 31, 2014, 2013 and 2012, we contributed to the plan, net of employee forfeitures, $1.7 million, $1.7 million and $1.4 million, respectively.

**(14) Deferred Compensation Plans**

In 2001, we assumed in a business combination nonqualified employee deferred compensation plans under which certain employees had previously elected to defer a portion of their annual compensation. Upon assumption of the plans, the plans were amended to not allow further participant compensation deferrals. Compensation previously deferred under the plans is payable upon the termination, disability or death of the participants. At December 31, 2014, we had obligations remaining under one deferred compensation plan. All other plans have terminated pursuant to the provisions of each respective plan. The remaining plan accumulates interest each year at a bank s prime rate in effect at the beginning of January of each year. This rate remains constant throughout the year. The effective rate for the 2014 calendar plan year was 3.25%. The aggregate deferred compensation payable at December 31, 2014 and December 31, 2013 was approximately $2.1 million and $2.0 million, respectively. Included in these amounts at December 31, 2014 and 2013 was accrued interest of $1.6 million and $1.5 million, respectively.

**(15) Related Party Transactions**

John M. Engquist, our Chief Executive Officer, and his sister, Kristan Engquist Dunne, each have a 29.2% beneficial ownership interest in a joint venture, from which we previously leased our Baton Rouge, Louisiana branch facility during the year ended December 31, 2012. Four trusts in the names of the children of John M. Engquist and Kristan Engquist Dunne hold in equal amounts interests totaling 16.6% of such joint venture. The

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

remaining 25% interest is beneficially owned by Mr. Engquist s mother. We paid such entity a total of $0.2 million for the year ended December 31, 2012. The lease on the Baton Rouge facility expired on its terms effective December 31, 2012.

Mr. Engquist has a 50.0% ownership interest in T&J Partnership from which we lease our Shreveport, Louisiana facility. Mr. Engquist s mother beneficially owns 50% of the entity. In 2014, 2013 and 2012, we paid T&J Partnership a total of approximately $0.2 million each year in lease payments.

During the years ended December 31, 2013 and 2012, we were party to aircraft charter arrangements with Gulf Wide Aviation, in which Mr. Engquist has a 62.5% ownership interest. Mr. Engquist s mother and sister hold interests of 25% and 12.5%, respectively, in this entity. Under those arrangements, we paid an hourly rate plus fuel and expenses to Gulf Wide Aviation as well as a management service fee to an unrelated third party for the use of the aircraft by various members of our management. In each of the years ended December 31, 2013 and 2012, our payments in respect of charter (and related) costs to Gulf Wide Aviation totaled approximately $0.2 million and $0.5 million, respectively. During the third quarter of 2013, the Company ceased operating under the Gulf Wide Aviation charter arrangement in accordance with the terms thereof and began using charter services from an unaffiliated third party.

Mr. Engquist has a 31.25% ownership interest in Perkins-McKenzie Insurance Agency, Inc. ( Perkins-McKenzie ), an insurance brokerage firm. Mr. Engquist s mother and sister have a 12.5% and 6.25% interest, respectively, in Perkins-McKenzie. Perkins-McKenzie brokers a substantial portion of our commercial liability insurance. As the broker, Perkins-McKenzie receives from our insurance provider as a commission a portion of the premiums we pay to the insurance provider. Commissions paid to Perkins-McKenzie on our behalf as insurance broker totaled approximately $0.8 million, $0.7 million and $0.6 million for the years ended December 31, 2014, 2013 and 2012, respectively.

We purchase products and services from, and sell products and services to, B-C Equipment Sales, Inc., in which Mr. Engquist has a 50% ownership interest. In each of the years ended December 31, 2014, 2013 and 2012, our purchases totaled approximately $0.2 million, $0.2 million and $0.1 million, respectively, and our sales to B-C Equipment Sales, Inc. totaled approximately $0.1 million, $0.2 million and $0.1 million, respectively.

Effective as of April 30, 2012, we entered into an Amendment to the Consulting Agreement, dated April 30, 2007, between the Company and Gary W. Bagley, Chairman of the Board of the Company (the Agreement Amendment , and the consulting agreement as amended by the Agreement Amendment, the Consulting Agreement ). This Agreement Amendment extended the term of Mr. Bagley s engagement as a consultant through December 31, 2012. The Consulting Agreement expired in accordance with its terms on December 31, 2012.

This Consulting Agreement provided for, among other things:

- a consulting fee of $167,000 per year together with a cost-of-living increase of 4% compounded annually, plus reimbursement of all reasonable and actual out-of-pocket expenses;

welfare benefits, including medical, dental, life and disability insurance; and

the protection of confidential information obtained during employment.

We expensed approximately $0.2 million for the year ended December 31, 2012 related to the Consulting Agreement.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(16) Summarized Quarterly Financial Data (Unaudited)**

The following is a summary of our unaudited quarterly financial results of operations for the years ended December 31, 2014 and 2013 (amounts in thousands, except per share amounts):

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| **2014:** | | | | |
| Total revenues | $ 237,229 | $ 280,378 | $ 275,044 | $ 297,761 |
| Income from operations | 24,591 | 37,942 | 39,993 | 41,218 |
| Income before provision for income taxes | 12,247 | 25,364 | 27,115 | 27,958 |
| Net income | 7,436 | 15,726 | 15,300 | 16,677 |
| Basic net income per common share[(1)] | 0.21 | 0.45 | 0.43 | 0.47 |
| Diluted net income per common share[(1)] | 0.21 | 0.45 | 0.43 | 0.47 |

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|---|---|---|---|
| **2013:** | | | | |
| Total revenues | $ 212,388 | $ 245,340 | $ 270,449 | $ 259,579 |
| Income from operations | 18,716 | 28,912 | 33,932 | 33,763 |
| Income before provision for income taxes | 6,951 | 16,028 | 20,976 | 21,192 |
| Net income | 4,777 | 10,809 | 13,953 | 14,601 |
| Basic net income per common share[(1)] | 0.14 | 0.31 | 0.40 | 0.42 |
| Diluted net income per common share[(1)] | 0.14 | 0.31 | 0.40 | 0.41 |

(1) Because of the method used in calculating per share data, the summation of quarterly per share data may not necessarily total to the per share data computed for the entire year.

**(17) Segment Information**

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| Segment Revenues: | | | |
| Equipment rentals | $ 404,110 | $ 338,935 | $ 288,641 |
| New equipment sales | 328,036 | 294,768 | 241,721 |
| Used equipment sales | 123,173 | 141,560 | 104,563 |
| Parts sales | 113,732 | 103,174 | 99,621 |
| Services revenues | 61,292 | 56,694 | 56,554 |
| Total segmented revenues | 1,030,343 | 935,131 | 791,100 |
| Non-Segmented revenues | 60,069 | 52,625 | 46,215 |
| Total revenues | $ 1,090,412 | $ 987,756 | $ 837,315 |
| Segment Gross Profit: | | | |
| Equipment rentals | $ 196,139 | $ 161,649 | $ 135,623 |
| New equipment sales | 38,510 | 31,881 | 27,524 |
| Used equipment sales | 38,237 | 40,867 | 30,575 |
| Parts sales | 32,626 | 28,933 | 27,298 |
| Services revenues | 39,785 | 35,660 | 34,577 |
| Total gross profit from segmented revenues | 345,297 | 298,990 | 255,597 |
| Non-Segmented gross profit | 2,641 | 2,846 | 1,705 |
| Total gross profit | $ 347,938 | $ 301,836 | $ 257,302 |

| | December 31, | |
|---|---|---|
| | 2014 | 2013 |
| Segment identified assets: | | |
| Equipment sales | $ 114,664 | $ 95,392 |
| Equipment rentals | 889,706 | 688,710 |
| Parts and service | 19,324 | 16,248 |
| Total segment identified assets | 1,023,694 | 800,350 |
| Non-Segmented identified assets | 335,110 | 289,990 |

| | | |
|---|---|---|
| Total assets | $ 1,358,804 | $ 1,090,340 |

The Company operates primarily in the United States and our sales to international customers for the years ended December 31, 2014, 2013 and 2012 were 0.3%, 1.2% and 2.1%, respectively, of total revenues for the periods presented. No one customer accounted for more than 10% of our revenues on an overall or segmented basis for any of the periods presented.

**(18) 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 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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**CONDENSED CONSOLIDATING BALANCE SHEET**

| | As of December 31, 2014 | | | |
|---|---|---|---|---|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| | (Amounts in thousands) | | | |
| **Assets:** | | | | |
| Cash | $ 15,861 | $ | $ | $ 15,861 |
| Receivables, net | 137,197 | 27,138 | | 164,335 |
| Inventories, net | 123,410 | 10,577 | | 133,987 |
| Prepaid expenses and other assets | 9,027 | 119 | | 9,146 |
| Rental equipment, net | 748,353 | 141,353 | | 889,706 |
| Property and equipment, net | 98,279 | 11,629 | | 109,908 |
| Deferred financing costs, net | 4,664 | | | 4,664 |
| Investment in guarantor subsidiaries | 216,540 | | (216,540) | |
| Goodwill | 1,671 | 29,526 | | 31,197 |
| Total assets | $ 1,355,002 | $ 220,342 | $ (216,540) | $ 1,358,804 |
| **Liabilities and Stockholders Equity:** | | | | |
| Amount due on senior secured credit facility | $ 259,919 | $ | $ | $ 259,919 |
| Accounts payable | 50,661 | 2,680 | | 53,341 |
| Manufacturer flooring plans payable | 93,600 | | | 93,600 |
| Dividends payable | 23 | (23) | | |
| Accrued expenses payable and other liabilities | 61,502 | (954) | | 60,548 |
| Senior unsecured notes | 628,714 | | | 628,714 |
| Capital leases payable | | 2,099 | | 2,099 |
| Deferred income taxes | 125,110 | | | 125,110 |
| Deferred compensation payable | 2,106 | | | 2,106 |
| Total liabilities | 1,221,635 | 3,802 | | 1,225,437 |
| Stockholders equity | 133,367 | 216,540 | (216,540) | 133,367 |
| Total liabilities and stockholders equity | $ 1,355,002 | $ 220,342 | $ (216,540) | $ 1,358,804 |

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**CONDENSED CONSOLIDATING STATEMENT OF INCOME**

| | Year Ended December 31, 2014 | | | |
|---|---|---|---|---|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| | (Amounts in thousands) | | | |
| Revenues: | | | | |
| Equipment rentals | $ 338,708 | $ 65,402 | $ | $ 404,110 |
| New equipment sales | 278,869 | 49,167 | | 328,036 |
| Used equipment sales | 99,864 | 23,309 | | 123,173 |
| Parts sales | 99,013 | 14,719 | | 113,732 |
| Services revenues | 52,227 | 9,065 | | 61,292 |
| Other | 49,510 | 10,559 | | 60,069 |
| Total revenues | 918,191 | 172,221 | | 1,090,412 |
| Cost of revenues: | | | | |
| Rental depreciation | 122,763 | 23,292 | | 146,055 |
| Rental expense | 50,832 | 11,084 | | 61,916 |
| New equipment sales | 245,423 | 44,103 | | 289,526 |
| Used equipment sales | 68,739 | 16,197 | | 84,936 |
| Parts sales | 70,769 | 10,337 | | 81,106 |
| Services revenues | 18,231 | 3,276 | | 21,507 |
| Other | 46,851 | 10,577 | | 57,428 |
| Total cost of revenues | 623,608 | 118,866 | | 742,474 |
| Gross profit (loss): | | | | |
| Equipment rentals | 165,113 | 31,026 | | 196,139 |
| New equipment sales | 33,446 | 5,064 | | 38,510 |
| Used equipment sales | 31,125 | 7,112 | | 38,237 |
| Parts sales | 28,244 | 4,382 | | 32,626 |
| Services revenues | 33,996 | 5,789 | | 39,785 |
| Other | 2,659 | (18) | | 2,641 |
| Gross profit | 294,583 | 53,355 | | 347,938 |
| Selling, general and administrative expenses | 170,449 | 36,031 | | 206,480 |
| Equity in earnings of guarantor subsidiaries | 5,711 | | (5,711) | |
| Gain from sales of property and equipment, net | 1,870 | 416 | | 2,286 |

| | | | | |
|---|---|---|---|---|
| Income from operations | 131,715 | 17,740 | (5,711) | 143,744 |
| Other income (expense): | | | | |
| Interest expense | (40,147) | (12,206) | | (52,353) |
| Other, net | 1,116 | 177 | | 1,293 |
| Total other expense, net | (39,031) | (12,029) | | (51,060) |
| Income before income taxes | 92,684 | 5,711 | (5,711) | 92,684 |
| Income tax expense | 37,545 | | | 37,545 |
| Net income | $ 55,139 | $ 5,711 | $ (5,711) | $ 55,139 |

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**CONDENSED CONSOLIDATING STATEMENT OF INCOME**

| | Year Ended December 31, 2013 | | | |
|---|---|---|---|---|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| | (Amounts in thousands) | | | |
| Revenues: | | | | |
| Equipment rentals | $ 280,700 | $ 58,235 | $ | $ 338,935 |
| New equipment sales | 251,911 | 42,857 | | 294,768 |
| Used equipment sales | 119,351 | 22,209 | | 141,560 |
| Parts sales | 88,994 | 14,180 | | 103,174 |
| Services revenues | 49,022 | 7,672 | | 56,694 |
| Other | 43,341 | 9,284 | | 52,625 |
| Total revenues | 833,319 | 154,437 | | 987,756 |
| Cost of revenues: | | | | |
| Rental depreciation | 100,627 | 21,321 | | 121,948 |
| Rental expense | 45,186 | 10,152 | | 55,338 |
| New equipment sales | 224,051 | 38,836 | | 262,887 |
| Used equipment sales | 84,881 | 15,812 | | 100,693 |
| Parts sales | 64,167 | 10,074 | | 74,241 |
| Services revenues | 18,272 | 2,762 | | 21,034 |
| Other | 40,298 | 9,481 | | 49,779 |
| Total cost of revenues | 577,482 | 108,438 | | 685,920 |
| Gross profit (loss): | | | | |
| Equipment rentals | 134,887 | 26,762 | | 161,649 |
| New equipment sales | 27,860 | 4,021 | | 31,881 |
| Used equipment sales | 34,470 | 6,397 | | 40,867 |
| Parts sales | 24,827 | 4,106 | | 28,933 |
| Services revenues | 30,750 | 4,910 | | 35,660 |
| Other | 3,043 | (197) | | 2,846 |
| Gross profit | 255,837 | 45,999 | | 301,836 |
| Selling, general and administrative expenses | 155,881 | 33,181 | | 189,062 |
| Equity in earnings of guarantor subsidiaries | 2,497 | | (2,497) | |
| Gain from sales of property and equipment, net | 2,220 | 329 | | 2,549 |

| | | | | |
|---|---|---|---|---|
| Income from operations | 104,673 | 13,147 | (2,497) | 115,323 |
| Other income (expense): | | | | |
| Interest expense | (40,662) | (10,742) | | (51,404) |
| Other, net | 1,136 | 92 | | 1,228 |
| Total other expense, net | (39,526) | (10,650) | | (50,176) |
| Income before income taxes | 65,147 | 2,497 | (2,497) | 65,147 |
| Income tax expense | 21,007 | | | 21,007 |
| Net income | $ 44,140 | $ 2,497 | $ (2,497) | $ 44,140 |

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**

| | Year Ended December 31, 2012 | | | |
|---|---|---|---|---|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| | (Amounts in thousands) | | | |
| Revenues: | | | | |
| Equipment rentals | $ 237,171 | $ 51,470 | $ | $ 288,641 |
| New equipment sales | 212,544 | 29,177 | | 241,721 |
| Used equipment sales | 83,742 | 20,821 | | 104,563 |
| Parts sales | 85,137 | 14,484 | | 99,621 |
| Services revenues | 49,037 | 7,517 | | 56,554 |
| Other | 37,908 | 8,307 | | 46,215 |
| Total revenues | 705,539 | 131,776 | | 837,315 |
| Cost of revenues: | | | | |
| Rental depreciation | 83,219 | 19,747 | | 102,966 |
| Rental expense | 40,197 | 9,855 | | 50,052 |
| New equipment sales | 188,251 | 25,946 | | 214,197 |
| Used equipment sales | 58,604 | 15,384 | | 73,988 |
| Parts sales | 61,988 | 10,335 | | 72,323 |
| Services revenues | 19,362 | 2,615 | | 21,977 |
| Other | 35,621 | 8,889 | | 44,510 |
| Total cost of revenues | 487,242 | 92,771 | | 580,013 |
| Gross profit (loss): | | | | |
| Equipment rentals | 113,755 | 21,868 | | 135,623 |
| New equipment sales | 24,293 | 3,231 | | 27,524 |
| Used equipment sales | 25,138 | 5,437 | | 30,575 |
| Parts sales | 23,149 | 4,149 | | 27,298 |
| Services revenues | 29,675 | 4,902 | | 34,577 |
| Other | 2,287 | (582) | | 1,705 |
| Gross profit | 218,297 | 39,005 | | 257,302 |
| Selling, general and administrative expenses | 139,775 | 29,878 | | 169,653 |
| Equity in loss of guarantor subsidiaries | (181) | | 181 | |
| Gain from sales of property and equipment, net | 1,216 | 376 | | 1,592 |

| | | | | |
|---|---|---|---|---|
| Income from operations | 79,557 | 9,503 | 181 | 89,241 |
| Other income (expense): | | | | |
| Interest expense | (25,798) | (9,743) | | (35,541) |
| Loss on early extinguishment of debt | (10,180) | | | (10,180) |
| Other, net | 869 | 59 | | 928 |
| Total other expense, net | (35,109) | (9,684) | | (44,793) |
| Income (loss) before income taxes | 44,448 | (181) | 181 | 44,448 |
| Income tax expense | 15,612 | | | 15,612 |
| Net income (loss) | $ 28,836 | $ (181) | $ 181 | $ 28,836 |

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**

| | Year Ended December 31, 2014 | | | |
|---|---|---|---|---|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| | (Amounts in thousands) | | | |
| Cash flows from operating activities: | | | | |
| Net income | $ 55,139 | $ 5,711 | $ (5,711) | $ 55,139 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization on property and equipment | 18,025 | 2,434 | | 20,459 |
| Depreciation on rental equipment | 122,763 | 23,292 | | 146,055 |
| Amortization of deferred financing costs | 934 | | | 934 |
| Accretion of note discount, net of premium amortization | 168 | | | 168 |
| Provision for losses on accounts receivable | 2,428 | 431 | | 2,859 |
| Provision for inventory obsolescence | 159 | | | 159 |
| Provision for deferred income taxes | 36,819 | | | 36,819 |
| Stock-based compensation expense | 2,598 | | | 2,598 |
| Gain from sales of property and equipment, net | (1,870) | (416) | | (2,286) |
| Gain from sales of rental equipment, net | (28,750) | (7,019) | | (35,769) |
| Excess tax deficiency from stock-based awards | (24) | | | (24) |
| Equity in earnings of guarantor subsidiaries | (5,711) | | 5,711 | |
| Changes in operating assets and liabilities: | | | | |
| Receivables, net | (25,100) | (10,124) | | (35,224) |
| Inventories, net | (61,693) | (5,030) | | (66,723) |
| Prepaid expenses and other assets | (3,174) | 52 | | (3,122) |
| Accounts payable | (10,126) | (4,312) | | (14,438) |
| Manufacturer flooring plans payable | 44,538 | | | 44,538 |
| Accrued expenses payable and other liabilities | 7,437 | (1,327) | | 6,110 |
| Deferred compensation payable | 66 | | | 66 |
| Net cash provided by operating activities | 154,626 | 3,692 | | 158,318 |
| Cash flows from investing activities: | | | | |
| Purchases of property and equipment | (30,849) | (2,386) | | (33,235) |
| Purchases of rental equipment | (299,387) | (69,104) | | (368,491) |
| Proceeds from sales of property and equipment | 2,241 | 1,416 | | 3,657 |
| Proceeds from sales of rental equipment | 79,991 | 21,435 | | 101,426 |

| | | | | |
|---|---|---|---|---|
| Investment in subsidiaries | (45,126) | | 45,126 | |
| Net cash used in investing activities | (293,130) | (48,639) | 45,126 | (296,643) |
| Cash flows from financing activities: | | | | |
| Purchases of treasury stock | (1,467) | | | (1,467) |
| Dividends paid | (18,325) | | | (18,325) |
| Borrowing on senior secured credit facility | 1,235,630 | | | 1,235,630 |
| Payments on senior secured credit facility | (1,078,171) | | | (1,078,171) |
| Payments of deferred financing cost | (909) | | | (909) |
| Payments on capital lease obligations | | (179) | | (179) |
| Capital contributions | | 45,126 | (45,126) | |
| Net cash provided by financing activities | 136,758 | 44,947 | (45,126) | 136,579 |
| Net decrease in cash | (1,746) | | | (1,746) |
| Cash, beginning of year | 17,607 | | | 17,607 |
| Cash, end of year | $ 15,861 | $ | $ | $ 15,861 |

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**

| | Year Ended December 31, 2013 | | | |
|---|---|---|---|---|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| | (Amounts in thousands) | | | |
| Cash flows from operating activities: | | | | |
| Net income | $ 44,140 | $ 2,497 | $ (2,497) | $ 44,140 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization on property and equipment | 14,871 | 2,084 | | 16,955 |
| Depreciation on rental equipment | 100,627 | 21,321 | | 121,948 |
| Amortization of deferred financing costs | 1,094 | | | 1,094 |
| Accretion of note discount, net of premium amortization | 231 | | | 231 |
| Provision for losses on accounts receivable | 2,568 | 626 | | 3,194 |
| Provision for inventory obsolescence | 220 | | | 220 |
| Provision for deferred income taxes | 16,702 | | | 16,702 |
| Stock-based compensation expense | 2,618 | | | 2,618 |
| Gain from sales of property and equipment, net | (2,220) | (329) | | (2,549) |
| Gain from sales of rental equipment, net | (32,235) | (6,340) | | (38,575) |
| Writedown of goodwill for tax-deductible goodwill in excess of book goodwill | 877 | | | 877 |
| Equity in earnings of guarantor subsidiaries | (2,497) | | 2,497 | |
| Changes in operating assets and liabilities: | | | | |
| Receivables, net | 8,252 | (1,749) | | 6,503 |
| Inventories, net | (62,300) | (5,454) | | (67,754) |
| Prepaid expenses and other assets | (744) | (71) | | (815) |
| Accounts payable | 26,000 | 5,659 | | 31,659 |
| Manufacturer flooring plans payable | (1,327) | (450) | | (1,777) |
| Accrued expenses payable and other liabilities | 3,916 | | | 3,916 |
| Deferred compensation payable | 65 | | | 65 |
| Net cash provided by operating activities | 120,858 | 17,794 | | 138,652 |
| Cash flows from investing activities: | | | | |
| Purchases of property and equipment | (26,576) | (2,903) | | (29,479) |
| Purchases of rental equipment | (229,952) | (37,513) | | (267,465) |
| Proceeds from sales of property and equipment | 2,363 | 396 | | 2,759 |

| | | | | |
|---|---|---|---|---|
| Proceeds from sales of rental equipment | 95,378 | 19,217 | | 114,595 |
| Investment in subsidiaries | (3,201) | | 3,201 | |
| Net cash used in investing activities | (161,988) | (20,803) | 3,201 | (179,590) |
| Cash flows from financing activities: | | | | |
| Excess tax benefit from stock-based awards | 307 | | | 307 |
| Purchases of treasury stock | (890) | | | (890) |
| Dividends paid | (832) | (23) | | (855) |
| Proceeds from issuance of senior unsecured notes | 107,250 | | | 107,250 |
| Borrowing on senior secured credit facility | 1,058,990 | | | 1,058,990 |
| Payments on senior secured credit facility | (1,114,249) | | | (1,114,249) |
| Payments of deferred financing cost | (733) | | | (733) |
| Payments on capital lease obligations | | (169) | | (169) |
| Capital contributions | | 3,201 | (3,201) | |
| Net cash provided by financing activities | 49,843 | 3,009 | (3,201) | 49,651 |
| Net increase in cash | 8,713 | | | 8,713 |
| Cash, beginning of year | 8,894 | | | 8,894 |
| Cash, end of year | $ 17,607 | $ | $ | $ 17,607 |

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS**

| | Year Ended December 31, 2012 | | | |
|---|---|---|---|---|
| | H&E Equipment Services | Guarantor Subsidiaries | Elimination | Consolidated |
| | (Amounts in thousands) | | | |
| Cash flows from operating activities: | | | | |
| Net income (loss) | $ 28,836 | $ (181) | $ 181 | $ 28,836 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | | | |
| Depreciation and amortization on property and equipment | 11,580 | 1,901 | | 13,481 |
| Depreciation on rental equipment | 83,219 | 19,747 | | 102,966 |
| Amortization of deferred financing costs and note discount accretion | 1,555 | | | 1,555 |
| Amortization of intangible assets | | 66 | | 66 |
| Provision for losses on accounts receivable | | 3,480 | | 3,480 |
| Provision for inventory obsolescence | 126 | | | 126 |
| Provision for deferred income taxes | 12,973 | | | 12,973 |
| Stock-based compensation expense | 1,862 | | | 1,862 |
| Loss on early extinguishment of debt | 10,180 | | | 10,180 |
| Gain from sales of property and equipment, net | (1,216) | (376) | | (1,592) |
| Gain from sales of rental equipment, net | (24,123) | (5,436) | | (29,559) |
| Writedown of goodwill for tax-deductible goodwill in excess of book goodwill | 1,944 | | | 1,944 |
| Equity in loss of guarantor subsidiaries | 181 | | (181) | |
| Changes in operating assets and liabilities: | | | | |
| Receivables, net | (31,505) | (8,303) | | (39,808) |
| Inventories, net | (40,310) | (2,827) | | (43,137) |
| Prepaid expenses and other assets | (9) | 25 | | 16 |
| Accounts payable | (24,308) | (2,578) | | (26,886) |
| Manufacturer flooring plans payable | (7,860) | 381 | | (7,479) |
| Accrued expenses payable and other liabilities | 12,363 | (331) | | 12,032 |
| Deferred compensation payable | (33) | | | (33) |
| Net cash provided by operating activities | 35,455 | 5,568 | | 41,023 |
| Cash flows from investing activities: | | | | |
| Purchases of property and equipment | (34,181) | (3,180) | | (37,361) |
| Purchases of rental equipment | (224,802) | (43,427) | | (268,229) |

| | | | | |
|---|---|---|---|---|
| Proceeds from sales of property and equipment | 1,574 | 484 | | 2,058 |
| Proceeds from sales of rental equipment | 70,926 | 19,616 | | 90,542 |
| Investment in subsidiaries | (21,097) | | 21,097 | |
| Net cash used in investing activities | (207,580) | (26,507) | 21,097 | (212,990) |
| Cash flows from financing activities: | | | | |
| Excess tax benefit from stock-based awards | 293 | | | 293 |
| Purchases of treasury stock | (694) | | | (694) |
| Dividends paid | (244,381) | | | (244,381) |
| Principal payments on senior unsecured notes | (257,576) | | | (257,576) |
| Proceeds from issuance of senior unsecured notes | 520,725 | | | 520,725 |
| Borrowing on senior secured credit facility | 1,032,285 | | | 1,032,285 |
| Payments on senior secured credit facility | (890,621) | | | (890,621) |
| Payments of deferred financing cost | (3,227) | | | (3,227) |
| Payments on capital lease obligations | | (158) | | (158) |
| Capital contributions | | 21,097 | (21,097) | |
| Net cash provided by financing activities | 156,804 | 20,939 | (21,097) | 156,646 |
| Net decrease in cash | (15,321) | | | (15,321) |
| Cash, beginning of year | 24,215 | | | 24,215 |
| Cash, end of year | $ 8,894 | $ | $ | $ 8,894 |

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**Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A. Controls and Procedures**

**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 Annual Report on Form 10-K. Based on this evaluation, our principal executive officer and principal financial officer have concluded that, as of December 31, 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.

**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 fourth quarter ended December 31, 2014 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

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**Management s Report on Internal Control Over Financial Reporting**

The management of H&E Equipment Services, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Our internal control system was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Any evaluation or projection of effectiveness to future periods is also subject to risk that controls may become inadequate due to changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2014, based on the framework in *Internal Control Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ). Based on that evaluation, management concluded that, as of December 31, 2014, our internal control over financial reporting was effective based on these criteria.

The effectiveness of our internal control over financial reporting as of December 31, 2014, has been audited by BDO USA, LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

Date: February 26, 2015

/s/ John M. Engquist
John M. Engquist
Chief Executive Officer

/s/ Leslie S. Magee
Leslie S. Magee
Chief Financial Officer

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**Report of Independent Registered Public Accounting Firm**

Board of Directors and Shareholders

H&E Equipment Services, Inc.

Baton Rouge, Louisiana

We have audited H&E Equipment Services, Inc. s internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). H&E Equipment Services, Inc. s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, H&E Equipment Services, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of H&E Equipment Services, Inc. and subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2014, and our report dated February 26, 2015, expressed an unqualified opinion thereon.

/s/ BDO USA, LLP

Dallas, Texas
February 26, 2015

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**Item 9B. Other Information**

None.

## PART III

**Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this Item is incorporated herein by reference from the Company s definitive proxy statement for use in connection with the 2015 Annual Meeting of Stockholders (the Proxy Statement ) to be filed within 120 days after the end of the Company s fiscal year ended December 31, 2014.

We have adopted a code of conduct that applies to our Chief Executive Officer and Chief Financial Officer. This code of conduct is available on the Company s internet website at www.he-equipment.com. The information on our website is not a part of or incorporated by reference into this Annual Report on Form 10-K. If the Company makes any amendments to this code other than technical, administrative or other non-substantive amendments, or grants any waivers, including implicit waivers, from a provision of this code to the Company s Chief Executive Officer or Chief Financial Officer, the Company will disclose the nature of the amendment or waiver, its effective date and to whom it applies by posting such information on the Company s internet website at www.he-equipment.com.

**Item 11. Executive Compensation**

The information required by this Item is incorporated herein by reference from the Proxy Statement.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this Item is incorporated herein by reference from the Proxy Statement.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this Item is incorporated herein by reference from the Proxy Statement.

**Item 14. Principal Accountant Fees and Services**

The information required by this Item is incorporated herein by reference from the Proxy Statement.

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## PART IV

### Item 15. Exhibits and Financial Statement Schedules

(a) Documents filed as part of this report:

(1) Financial Statements

The Company s consolidated financial statements listed below have been filed as part of this report:


| | Page |
|---|---|
| Report of Independent Registered Public Accounting Firm Internal Control over Financial Reporting | 92 |
| Report of Independent Registered Public Accounting Firm Consolidated Financial Statements | 54 |
| Consolidated Balance Sheets as of December 31, 2014 and 2013 | 55 |
| Consolidated Statements of Income for the years ended December 31, 2014, 2013 and 2012 | 56 |
| Consolidated Statements of Stockholders Equity for the years ended December 31, 2014, 2013 and 2012 | 57 |
| Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012 | 58 |
| Notes to Consolidated Financial Statements | 60 |


(2) Financial Statement Schedule for the years ended December 31, 2014, 2013 and 2012:


| | |
|---|---|
| Schedule II Valuation and Qualifying Accounts | 95 |


All other schedules are omitted because they are not applicable or not required, or the information appears in the Company s consolidated financial statements or notes thereto.

(3) Exhibits

See Exhibit Index on pages 97-100.

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## SCHEDULE II: VALUATION AND QUALIFYING ACCOUNTS

## FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

| Description | Balance at Beginning of Year | Additions Charged to Costs and Expenses | Recoveries (Deductions) | Balance at End of Year |
|---|---|---|---|---|
| Year Ended December 31, 2014 | | | | |
| Allowance for doubtful accounts receivable | $ 3,651 | $ 2,859 | $ (3,222) | $ 3,288 |
| Allowance for inventory obsolescence | 647 | 159 | (159) | 647 |
| | $ 4,298 | $ 3,018 | $ (3,381) | $ 3,935 |
| Year Ended December 31, 2013 | | | | |
| Allowance for doubtful accounts receivable | $ 4,593 | $ 3,194 | $ (4,136) | $ 3,651 |
| Allowance for inventory obsolescence | 618 | 220 | (191) | 647 |
| | $ 5,211 | $ 3,414 | $ (4,327) | $ 4,298 |
| Year Ended December 31, 2012 | | | | |
| Allowance for doubtful accounts receivable | $ 5,581 | $ 3,480 | $ (4,468) | $ 4,593 |
| Allowance for inventory obsolescence | 861 | 126 | (369) | 618 |
| | $ 6,442 | $ 3,606 | $ (4,837) | $ 5,211 |

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on February 26, 2015.

H&E EQUIPMENT SERVICES, INC.

By: /s/ John M. Engquist
John M. Engquist
Its: Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

| Signature | Capacity | Date |
|---|---|---|
| By: /s/ John M. Engquist | Chief Executive Officer and Director | February 26, 2015 |
| John M. Engquist | (Principal Executive Officer) | |
| By: /s/ Leslie S. Magee | Chief Financial Officer | February 26, 2015 |
| Leslie S. Magee | (Principal Financial and Accounting Officer) | |
| By: /s/ Gary W. Bagley | Chairman and Director | February 26, 2015 |
| Gary W. Bagley | | |
| By: /s/ Paul N. Arnold | Director | February 26, 2015 |
| Paul N. Arnold | | |
| By: /s/ Bruce C. Bruckmann | Director | February 26, 2015 |
| Bruce C. Bruckmann | | |
| By: /s/ Patrick L. Edsell | Director | February 26, 2015 |
| Patrick L. Edsell | | |
| By: /s/ Thomas J. Galligan III | Director | February 26, 2015 |
| Thomas J. Galligan III | | |

| | | | |
|---|---|---|---|
| By: /s/ Lawrence C. Karlson<br>Lawrence C. Karlson | | Director | February 26, 2015 |
| By: /s/ John T. Sawyer<br>John T. Sawyer | | Director | February 26, 2015 |

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## Exhibit Index

| | |
|---|---|
| 2.1 | Agreement and Plan of Merger, dated February 2, 2006, among the Company, H&E LLC and Holdings (incorporated by reference to Exhibit 2.1 to Current Report on Form 8-K of H&E Equipment Services, Inc. (File No. 000-51759), filed February 3, 2006). |
| 2.2 | Agreement and Plan of Merger, dated as of May 15, 2007, by and among H&E Equipment Services, Inc., HE-JWB Acquisition, Inc., J.W. Burress, Incorporated, the Burress Shareholders (as defined therein), and Richard S. Dudley, as Burress Shareholders Representative (as defined therein) (incorporated by reference to Exhibit 2.1 to Current Report on Form 8-K of H&E Equipment Services, Inc. (File No. 000-51759), filed on May 17, 2007. |
| 2.3 | Amendment No. 1 to Agreement and Plan of Merger, dated as of August 31, 2007, by and among H&E Equipment Services, Inc., HE-JWB Acquisition, Inc., J.W. Burress, Incorporated, the Burress Shareholders (as defined therein), and Richard S. Dudley, as Burress Shareholders Representative (as defined therein) (incorporated by reference to Exhibit 2.1 to Current Report on Form 8-K of H&E Equipment Services, Inc. (File No. 000-51759), filed on September 4, 2007). |
| 2.4 | Acquisition Agreement, dated as of January 4, 2005, among H&E Equipment Services, L.L.C., Eagle Merger Corp., Eagle High Reach Equipment, LLC, Eagle High Reach Equipment, Inc., SBN Eagle LLC, SummitBridge National Investments, LLC and the shareholders of Eagle High Reach Equipment, Inc. (incorporated by reference to Exhibit 2.1 to Form 8-K of H&E Equipment Services L.L.C. (File Nos. 333-99587 and 333-99589), filed January 5, 2006). |
| 3.1 | Amended and Restated Certificate of Incorporation of H&E Equipment Services, Inc. (incorporated by reference to Exhibit 3.4 to Registration Statement on Form S-1 of H&E Equipment Services, Inc. (File No. 333-128996), filed January 20, 2006). |
| 3.2 | Amended and Restated Bylaws of H&E Equipment Services, Inc. (incorporated by reference to Exhibit 3.1 to Current Report on Form 8-K of H&E Equipment Services, Inc. (File No. 000-51759), filed June 5, 2007). |
| 3.3 | Amended and Restated Articles of Organization of Gulf Wide Industries, L.L.C. (incorporated by reference to Exhibit 3.2 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. (File No. 333-99589), filed September 13, 2002). |
| 3.4 | Amended Articles of Organization of Gulf Wide Industries, L.L.C., Changing Its Name To H&E Equipment Services L.L.C. (incorporated by reference to Exhibit 3.3 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. (File No. 333-99589), filed September 13, 2002). |
| 3.5 | Amended and Restated Operating Agreement of H&E Equipment Services L.L.C. (incorporated by reference to Exhibit 3.8 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. (File No. 333-99589), filed September 13, 2002). |
| 3.6 | Certificate of Incorporation of H&E Finance Corp. (incorporated by reference to Exhibit 3.4 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. (File No. 333-99589), filed September 13, 2002). |
| 3.7 | Certificate of Incorporation of Great Northern Equipment, Inc. (incorporated by reference to Exhibit 3.5 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. (File No. 333-99589), filed September 13, 2002). |

3.8 Articles of Incorporation of Williams Bros. Construction, Inc. (incorporated by reference to Exhibit 3.6 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. (File No. 333-99589), filed September 13, 2002).

3.9 Articles of Amendment to Articles of Incorporation of Williams Bros. Construction, Inc. Changing its Name to GNE Investments, Inc. (incorporated by reference to Exhibit 3.7 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. (File No. 333-99589), filed September 13, 2002).

3.10 Bylaws of H&E Finance Corp. (incorporated by reference to Exhibit 3.9 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. (File No. 333-99589), filed September 13, 2002).

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|---|---|
| 3.11 | Bylaws of Great Northern Equipment, Inc. (incorporated by reference to Exhibit 3.10 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. (File No. 333-99589), filed September 13, 2002). |
| 3.12 | Bylaws of Williams Bros. Construction, Inc. (incorporated by reference to Exhibit 3.11 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. (File No. 333-99589), filed September 13, 2002). |
| 3.13 | Articles of Incorporation of H&E California Holding, Inc., as amended (incorporated by reference to Exhibit 3.13 to Registration Statement on Form S-4 of H&E Equipment Services, Inc. (File No. 333-185334), filed December 7, 2012). |
| 3.14 | Bylaws of H&E California Holding, Inc., as amended (incorporated by reference to Exhibit 3.14 to Registration Statement on Form S-4 of H&E Equipment Services, Inc. (File No. 333-185334), filed December 7, 2012). |
| 3.15 | Certificate of Formation of H&E Equipment Services (California), LLC, as amended (incorporated by reference to Exhibit 3.15 to Registration Statement on Form S-4 of H&E Equipment Services, Inc. (File No. 333-185334), filed December 7, 2012). |
| 3.16 | Bylaws of H&E Equipment Services (California), LLC (incorporated by reference to Exhibit 3.16 to Registration Statement on Form S-4 of H&E Equipment Services, Inc. (File No. 333-185334), filed December 7, 2012). |
| 3.17 | Amended and Restated Articles of Incorporation of H&E Equipment Services (Mid-Atlantic), Inc. (incorporated by reference to Exhibit 3.17 to Registration Statement on Form S-4 of H&E Equipment Services, Inc. (File No. 333-185334), filed December 7, 2012). |
| 3.18 | Bylaws of H&E Equipment Services (Mid-Atlantic), Inc. (incorporated by reference to Exhibit 3.18 to Registration Statement on Form S-4 of H&E Equipment Services, Inc. (File No. 333-185334), filed December 7, 2012). |
| 4.1 | Amended and Restated Security Holders Agreement, dated as of February 3, 2006, among the Company and certain other parties thereto (incorporated by reference to Exhibit 4.1 to Current Report on Form 8-K of H&E Equipment Services, Inc. (File No. 000-51759), filed February 3, 2006). |
| 4.2 | Amended and Restated Investor Rights Agreement, dated as of February 3, 2006, among the Company and certain other parties thereto (incorporated by reference to Exhibit 4.2 to Current Report on Form 8-K of H&E Equipment Services, Inc. (File No. 000-51759), filed February 3, 2006). |
| 4.3 | Amended and Restated Registration Rights Agreement, dated as of February 3, 2006, among the Company and certain other parties thereto (incorporated by reference to Exhibit 4.3 to Current Report on Form 8-K of H&E Equipment Services, Inc. (File No. 000-51759), filed February 3, 2006). |
| 4.4 | Form of H&E Equipment Services, Inc. common stock certificate (incorporated by reference to Exhibit 4.3 to Registration Statement on Form S-1 of H&E Equipment Services, Inc. (File No. 333-128996), filed January 5, 2006). |
| 4.5 | Indenture, dated August 20, 2012, by and among H&E Equipment Services, Inc., the guarantors party thereto and The Bank of New York Mellon Trust Company, N.A, as Trustee, relating to the 7% Senior Notes due 2022 (incorporated by reference from Exhibit 4.1 to Current Report on Form 8-K of H&E Equipment Services, Inc. (File No. 000-51759), filed August 20, 2012). |

| | |
|---|---|
| 4.6 | Registration Rights Agreement, dated August 20, 2012, by and among the Company, GNE Investments, Inc., Great Northern Equipment, Inc., H&E California Holding, Inc., H&E Equipment Services (California), LLC, H&E Equipment Services (Mid-Atlantic), Inc., H&E Finance Corp., Deutsche Bank Securities Inc., Credit Suisse Securities (USA) LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated (incorporated by reference from Exhibit 4.2 to Current Report on Form 8-K of H&E Equipment Services, Inc. (File No. 000-51759), filed August 20, 2012). |

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|---|---|
| 4.7 | Registration Rights Agreement, dated February 4, 2013, by and among the Company, GNE Investments, Inc., Great Northern Equipment, Inc., H&E California Holding, Inc., H&E Equipment Services (California), LLC, H&E Equipment Services (Mid-Atlantic), Inc., H&E Finance Corp. and Deutsche Bank Securities Inc. (incorporated by reference from Exhibit 4.1 to Current Report on Form 8-K of H&E Equipment Services, Inc. (File No. 000-51759), filed February 4, 2013). |
| 10.1 | Fourth Amended and Restated Credit Agreement, dated May 21, 2014, by and among the Company, Great Northern Equipment, Inc., and H&E Equipment Services (California), LLC, General Electric Capital Corporation, as agent for the lenders, Bank of America, N.A., as co-syndication agent and documentation agent, Wells Fargo Capital Finance, LLC, as co-syndication agent, Deutsche Bank Securities Inc. as joint lead arranger and joint bookrunner, and the lenders from time to time party thereto (incorporated by reference from Exhibit 10.1 to Current Report on Form 8-K of H&E Equipment Services, Inc. (File No. 000-51759), filed May 23, 2014). |
| 10.2 | Amendment No. 1, dated February 5, 2015 to the Fourth Amended and Restated Credit Agreement by and among the Company, Great Northern Equipment, Inc., and H&E Equipment Services (California), LLC, General Electric Capital Corporation, as agent for the lenders, Bank of America, N.A., as co-syndication agent and documentation agent, Wells Fargo Capital Finance, LLC, as co-syndication agent, Deutsche Bank Securities Inc. as joint lead arranger and joint bookrunner, and the lenders from time to time party thereto (incorporated by reference from Exhibit 10.1 to Current Report on Form 8-K of the H&E Equipment Services, Inc. (File No. 000-51759), filed February 9, 2015). |
| 10.3 | Consulting and Noncompetition Agreement, dated as of June 29, 1999, between Head & Engquist Equipment, L.L.C. and Thomas R. Engquist (incorporated by reference to Exhibit 10.20 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. (File No. 333-99589), filed September 13, 2002). |
| 10.4 | Purchase Agreement by and among H&E Equipment Services L.L.C., H&E Finance Corp., the guarantors party thereto and Credit Suisse First Boston Corporation, dated June 3, 2002 (incorporated by reference to Exhibit 10.21 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. (File No. 333-99587), filed September 13, 2002). |
| 10.5 | Purchase Agreement, among H&E Equipment Services L.L.C., H&E Finance Corp., H&E Holdings L.L.C., the guarantors party thereto and Credit Suisse First Boston Corporation, Inc. dated June 17, 2002 (incorporated by reference to Exhibit 10.21 to Registration Statement on Form S-4 of H&E Equipment Services L.L.C. (File No. 333-99589), filed September 13, 2002). |
| 10.6 | H&E Equipment Services, Inc. Amended and Restated 2006 Stock-Based Incentive Compensation Plan (incorporated by reference to Appendix B to the Definitive Proxy Statement of H&E Equipment Services, Inc. (File No. 000-51759), filed April 28, 2006). |
| 10.7 | Amendment No. 1 to the H&E Equipment Services, Inc. Amended and Restated 2006 Stock-Based Incentive Compensation Plan (incorporated by reference from Exhibit 10.7 to Form 10-K of H&E Equipment Services, Inc. (File No. 000-51759), filed March 3, 2011). |
| 10.8 | Form of Option Letter (incorporated by reference to Exhibit 10.36 to Registration Statement on Form S-1 of H&E Equipment Services, Inc. (File No. 333-128996), filed January 20, 2006). |
| 10.9 | Form of Restricted Stock Award Agreement for Officers of H&E Equipment Services, Inc. (incorporated by reference from Exhibit 10.1 to Form 10-Q of H&E Equipment Services, Inc. (File No. 000-51759), filed November 3, 2011). |

| | |
|---|---|
| 18.1 | BDO Seidman, LLP Preferability Letter. (incorporated by reference to Exhibit 18.1 to Form 10-K of H&E Equipment Services, Inc. (File No. 000-51759), filed March 7, 2008). |
| 21.1 | Subsidiaries of the registrant.* |
| 23.1 | Consent of BDO USA, LLP.* |
| 31.1 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 31.2 | Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.* |
| 32.1 | Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.** |

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|---|---|
| 101.INS | XBRL Instance Document* |
| 101.SCH | XBRL Taxonomy Extension Schema Document* |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document* |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document* |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document* |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document* |

* Filed herewith
** Furnished herewith
Management contract or compensatory plan or arrangement