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H&E Equipment Services, Inc.  
Form 10-Q  
October 27, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2016

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	81-0553291
(State or Other Jurisdiction of	(I.R.S. Employer
Incorporation or Organization)	Identification No.)
7500 Pecue Lane,	70809
Baton Rouge, Louisiana	(ZIP Code)
(Address of Principal Executive Offices)	

(225) 298 5200

(Registrant's Telephone Number, Including Area Code)

None

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(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Indicate by check mark whether the registrant 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 No

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 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 Exchange Act). Yes No

As of October 21, 2016, there were 35,557,785 shares of H&E Equipment Services, Inc. common stock, \$0.01 par value, outstanding.

H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES

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## PART I—FINANCIAL INFORMATION

## Item 1. Financial Statements.

## H&amp;E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share amounts)

	Balances at	
	September 30,	December 31,
	2016 (Unaudited)	2015
<b>ASSETS</b>		
Cash	\$7,034	\$7,159
Receivables, net of allowance for doubtful accounts of \$4,027 and \$4,729, respectively	138,833	147,328
Inventories, net of reserves for obsolescence of \$902 and \$934, respectively	73,998	96,818
Prepaid expenses and other assets	8,894	10,054
Rental equipment, net of accumulated depreciation of \$424,551 and \$390,317, respectively	922,486	893,393
Property and equipment, net of accumulated depreciation and amortization of \$116,658 and \$107,170, respectively	107,216	110,785
Deferred financing costs, net of accumulated amortization of \$11,957 and \$11,347, respectively	2,167	2,777
Goodwill	31,197	31,197
Total assets	\$1,291,825	\$1,299,511
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Amounts due on senior secured credit facility	\$209,762	\$184,857
Accounts payable	48,227	66,777
Manufacturer flooring plans payable	38,226	62,433
Accrued expenses payable and other liabilities	51,502	55,551
Dividends payable	56	32
Senior unsecured notes, net of unaccreted discount of \$2,391 and \$2,694, respectively	627,609	627,306
Capital leases payable	1,756	1,907
Deferred income taxes	173,449	155,886
Deferred compensation payable	1,826	2,174
Total liabilities	1,152,413	1,156,923
<b>Commitments and Contingencies</b>		
<b>Stockholders' equity:</b>		
Preferred stock, \$0.01 par value, 25,000,000 shares authorized; no shares issued	—	—

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Common stock, \$0.01 par value, 175,000,000 shares authorized; 39,500,053 and

39,333,571 shares issued at September 30, 2016 and December 31, 2015, respectively, and 35,558,750 and 35,428,868 shares outstanding at September 30, 2016 and December 31, 2015, respectively

	394	392
Additional paid-in capital	222,817	220,879
Treasury stock at cost, 3,941,303 and 3,904,703 shares of common stock		
held at September 30, 2016 and December 31, 2015, respectively	(60,951 )	(60,405 )
Retained deficit	(22,848 )	(18,278 )
Total stockholders' equity	139,412	142,588
Total liabilities and stockholders' equity	\$1,291,825	\$1,299,511

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

## H&amp;E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Amounts in thousands, except per share amounts)

	Three Months Ended		Nine Months Ended	
	September 30, 2016	2015	September 30, 2016	2015
<b>Revenues:</b>				
Equipment rentals	\$ 118,535	\$ 118,055	\$ 330,023	\$ 328,072
New equipment sales	44,764	66,552	151,836	175,465
Used equipment sales	20,630	29,111	71,973	83,113
Parts sales	27,335	28,968	81,958	84,400
Services revenues	16,076	16,727	49,322	47,452
Other	17,346	17,440	48,679	48,121
Total revenues	244,686	276,853	733,791	766,623
<b>Cost of revenues:</b>				
Rental depreciation	41,528	40,963	120,700	121,121
Rental expense	18,378	19,210	53,162	52,522
New equipment sales	40,147	60,000	135,152	156,068
Used equipment sales	14,364	20,262	49,751	56,761
Parts sales	19,708	21,098	59,184	61,224
Services revenues	5,445	5,582	16,736	16,017
Other	16,991	16,901	48,129	47,329
Total cost of revenues	156,561	184,016	482,814	511,042
Gross profit	88,125	92,837	250,977	255,581
Selling, general and administrative expenses	55,962	54,704	172,385	162,584
Gain on sales of property and equipment, net	927	339	2,301	1,769
Income from operations	33,090	38,472	80,893	94,766
<b>Other income (expense):</b>				
Interest expense	(13,469 )	(13,481 )	(40,229 )	(40,675 )
Other, net	386	501	1,505	1,083
Total other expense, net	(13,083 )	(12,980 )	(38,724 )	(39,592 )
Income before provision for income taxes	20,007	25,492	42,169	55,174
Provision for income taxes	8,342	10,720	17,427	22,836
Net income	\$ 11,665	\$ 14,772	\$ 24,742	\$ 32,338
<b>Net income per common share:</b>				
Basic	\$0.33	\$0.42	\$0.70	\$0.92
Diluted	\$0.33	\$0.42	\$0.70	\$0.92
<b>Weighted average common shares outstanding:</b>				
Basic	35,424	35,308	35,373	35,258
Diluted	35,504	35,350	35,461	35,317
Dividends declared per common share outstanding	\$0.275	\$0.275	\$0.825	\$0.775



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

## H&amp;E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Amounts in thousands)

	Nine Months Ended	
	September 30,	
	2016	2015
<b>Cash flows from operating activities:</b>		
Net income	\$24,742	\$32,338
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization of property and equipment	20,321	17,895
Depreciation of rental equipment	120,700	121,121
Amortization of deferred financing costs	789	774
Accretion of note discount, net of premium amortization	124	126
Provision for losses on accounts receivable	2,723	2,446
Provision for inventory obsolescence	82	201
Change in deferred income taxes	17,193	22,514
Stock-based compensation expense	2,308	2,036
Gain from sales of property and equipment, net	(2,301 )	(1,769 )
Gain from sales of rental equipment, net	(21,450 )	(24,962 )
<b>Changes in operating assets and liabilities:</b>		
Receivables	5,772	15,282
Inventories	(15,220 )	(18,673 )
Prepaid expenses and other assets	1,160	(3,702 )
Accounts payable	(18,549 )	599
Manufacturer flooring plans payable	(24,207 )	(33,696 )
Accrued expenses payable and other liabilities	(4,436 )	(11,484 )
Deferred compensation payable	(348 )	51
Net cash provided by operating activities	109,403	121,097
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(16,753 )	(22,317 )
Purchases of rental equipment	(152,644)	(137,184)
Proceeds from sales of property and equipment	2,689	2,582
Proceeds from sales of rental equipment	62,259	68,187
Net cash used in investing activities	(104,449)	(88,732 )
<b>Cash flows from financing activities:</b>		
Purchases of treasury stock	(546 )	(470 )
Borrowings on senior secured credit facility	767,550	768,572
Payments on senior secured credit facility	(742,645)	(778,903)
Payments of deferred financing costs	—	(725 )
Dividends paid	(29,287 )	(27,370 )
Payments of capital lease obligations	(151 )	(143 )
Net cash used in financing activities	(5,079 )	(39,039 )
Net decrease in cash	(125 )	(6,674 )

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Cash, beginning of period	7,159	15,861
Cash, end of period	\$7,034	\$9,187

## H&amp;E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited)

(Amounts in thousands)

	Nine Months Ended September 30, 2016      2015	
<b>Supplemental schedule of noncash investing and financing activities:</b>		
Noncash asset purchases:		
Assets transferred from new and used inventory to rental fleet	\$37,958	\$49,482
Purchases of property and equipment included in accrued expenses		
payable and other liabilities	\$(387 )	\$—
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for:		
Interest	\$50,180	\$50,787
Income taxes paid, net of refunds received	\$271	\$368

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

H&E EQUIPMENT SERVICES, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) Organization and Nature of Operations

Basis of Presentation

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

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such regulations. In the opinion of management, all adjustments (consisting of all normal and recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three and nine month periods ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016, and therefore, the results and trends in these interim condensed consolidated financial statements may not be the same for the entire year. These interim condensed consolidated financial statements should be read in conjunction with the annual audited consolidated financial statements and related notes in our Annual Report on Form 10-K for the year ended December 31, 2015, from which the consolidated balance sheet amounts as of December 31, 2015 were derived.

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

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

Nature of Operations

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

(2) Significant Accounting Policies

We describe our significant accounting policies in note 2 of the notes to consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2015. During the nine month period ended September 30, 2016, there were no significant changes to those accounting policies.

Use of Estimates

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

## Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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. The FASB agreed to a one-year deferral of the original effective date of this guidance and, as a result, it will become effective for fiscal years and interim periods after December 15, 2017. However, entities may adopt the new guidance as of the original effective date (for fiscal years and interim periods beginning after December 15, 2016). We expect to adopt ASU 2014-09 as of January 1, 2018 and expect to use the modified retrospective application method. While evaluation of the comprehensive standard, including several subsequent amendments and clarifications to the original standard, is ongoing, we do not expect that the adoption of this standard will have a material impact on the Company’s consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842) (“ASU 2016-02”). The new standard is intended to provide enhanced transparency and comparability by requiring lessees to record right-of-use assets and corresponding lease liabilities on the balance sheet, with the exception of leases with a term of 12 months or less, which permits a lessee to make an accounting policy election by class of underlying asset not to recognize lease assets and liabilities. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, and early adoption is permitted. The new standard requires the recognition and measurement of leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

In March 2016, the FASB Issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting (“ASU 2016-09”). The updated guidance changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods, with early application permitted. We are currently evaluating the effect the guidance will have on our consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASU 2016-13”). This ASU modifies the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, which will result in the more timely recognition of losses. ASU 2016-13 will be effective for us as of January 1, 2020. We are currently reviewing the effect of ASU No. 2016-13.

In August 2016, the FASB issued ASU No. 2016-15, Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”), which aims to eliminate diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics. ASU 2016-15 is effective for annual reporting periods, and interim periods therein, beginning after December 15, 2017. The Company does not expect the adoption of this guidance to have a material impact on its consolidated financial statements.





## Guidance Adopted in the First Quarter of 2016

In April 2015, the FASB issued ASU No. 2015-03, Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”), which requires debt issuance costs to be presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability, consistent with the presentation of a debt discount. The guidance in the new standard is limited to the presentation of debt issuance costs and does not affect the recognition and measurement of debt issuance costs. In August 2015, the FASB issued ASU No. 2015-15, Interest-Imputation of Interest (Subtopic 835-30): Presentation and Subsequent Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements - Amendments to SEC Paragraphs Pursuant to Staff Announcements (“ASU 2015-15”). ASU 2015-15 amends Subtopic 835-30 to include that the SEC would not object to the deferral and presentation of debt issuance costs as an asset and subsequent amortization of debt issuance costs over the term of the line-of-credit arrangement, whether or not there are any outstanding borrowings on the line-of-credit arrangement. This guidance became effective for us in the first quarter of 2016 and was applied on a retrospective basis. As a result of adopting this guidance, total assets and total liabilities as of December 31, 2015 changed as shown below (amounts in thousands).

	Deferred		Senior		Total
	Financing		Unsecured		Liabilities
	Costs	Assets	Notes	Liabilities	and
		Total	Total	Total	Stockholders’
					Equity
Previously reported	\$ 4,353	\$ 1,301,087	\$ 628,882	\$ 1,158,499	\$ 1,301,087
Reclassification of debt issuance costs	(1,576 )	(1,576 )	(1,576 )	(1,576 )	(1,576 )
Current presentation	\$ 2,777	\$ 1,299,511	\$ 627,306	\$ 1,156,923	\$ 1,299,511

## (3) Fair Value of Financial Instruments

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

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

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

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

The carrying value of financial instruments reported in the accompanying condensed consolidated balance sheets for cash, accounts receivable, accounts payable and accrued expenses payable and other liabilities approximate fair value due to the immediate or short-term nature or maturity of these financial instruments. The fair value of our letter of

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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 September 30, 2016 and December 31, 2015 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.

	September 30, 2016	
	Carrying	Fair
	Amount	Value
Manufacturer flooring plans payable with interest computed		
at 4.50% (Level 3)	\$38,226	\$33,497
Senior unsecured notes with interest computed		
at 7.0% (Level 1)	627,609	648,900
Capital leases payable with interest computed		
at 5.929% to 9.55% (Level 3)	1,756	1,172
Letter of credit (Level 3)	—	155

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	December 31, 2015	
	Carrying Amount	Fair Value
Manufacturer flooring plans payable with interest computed		
at 5.00% (Level 3)	\$62,433	\$54,710
Senior unsecured notes with interest computed		
at 7.0% (Level 1)	627,306	617,400
Capital leases payable with interest computed		
at 5.929% to 9.55% (Level 3)	1,907	1,329
Letter of credit (Level 3)	—	145

During the three and nine month periods ended September 30, 2016 and 2015, 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.

(4) Stockholders' Equity

The following table summarizes the activity in Stockholders' Equity for the nine month period ended September 30, 2016 (amounts in thousands, except share data):

	Common Stock		Additional Paid-in Capital	Treasury Stock	Retained Deficit	Total Stockholders' Equity
	Shares Issued	Amount				
Balances at December 31, 2015	39,333,571	\$ 392	\$ 220,879	\$(60,405)	\$(18,278)	\$ 142,588
Stock-based compensation	—	—	2,308	—	—	2,308
Tax deficiency associated with stock-based awards	—	—	(370 )	—	—	(370 )
Cash dividends declared on common						
stock (\$0.825 per share)	—	—	—	—	(29,312)	(29,312 )
Issuance of common stock	166,482	2	—	—	—	2
Repurchases of 29,815 shares of restricted common stock		—	—	(546 )	—	(546 )
Net income	—	—	—	—	24,742	24,742
Balances at September 30, 2016	39,500,053	\$ 394	\$ 222,817	\$(60,951)	\$(22,848)	\$ 139,412

(5) Stock-Based Compensation

We account for our stock-based compensation plan using the fair value recognition provisions of Accounting Standards Codification (“ASC”) 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).

Over the last ten years prior to June 2016, we had been granting awards under our 2006 Stock-Based Incentive Compensation Plan, as amended (the “Prior Stock Plan”). The Prior Stock Plan expired pursuant to its terms in June 2016, and the Company is no longer be able to grant equity awards under the Prior Stock Plan. At our annual meeting of stockholders in May 2016, our stockholders approved our 2016 Stock-Based Incentive Compensation Plan (the “2016 Plan”). Shares available for future stock-based payment awards under our 2016 Plan were 1,973,495 shares as of September 30, 2016. To the extent that awards granted under the Prior Stock Plan are forfeited or otherwise terminate for any reason whatsoever without an actual distribution or issuance of shares, the plan limit will be increased by such number of shares.

Non-vested Stock

The following table summarizes our non-vested stock activity for the nine months ended September 30, 2016. All awards granted prior to May 16, 2016 were made pursuant to the Prior Stock Plan, and all grants subsequent to May 16, 2016 have been made pursuant to the 2016 Plan.

	Number of Shares	Weighted Average Grant Date Fair Value
Non-vested stock at December 31, 2015	322,355	\$ 19.90
Granted	227,532	\$ 17.39
Vested	(133,783)	\$ 18.85
Forfeited	(9,027 )	\$ 18.99
Non-vested stock at September 30, 2016	407,077	\$ 18.87

As of September 30, 2016, we had unrecognized compensation expense of approximately \$5.6 million related to non-vested stock that we expect to be recognized over a weighted-average period of approximately 2.4 years. The following table summarizes compensation expense related to non-vested stock, which is included in selling, general and administrative expenses in the accompanying condensed consolidated statements of income for the three and nine months ended September 30, 2016 and 2015 (amounts in thousands):

	For the Three Months Ended		For the Nine Months Ended	
	September 30, 2016	2015	September 30, 2016	2015
Compensation expense	\$ 641	\$ 531	\$2,308	\$2,036

Stock Options

At September 30 2016, there is no unrecognized compensation expense as all stock option awards have fully vested. The following table represents stock option activity for the nine months ended September 30, 2016:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Contractual Life In Years
--	------------------------	--	--

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Outstanding options at December 31, 2015	51,000	\$ 17.80	
Granted	—	—	
Exercised	—	—	
Canceled, forfeited or expired	(45,000)	\$ 17.60	
Outstanding options at September 30, 2016	6,000	\$ 19.27	0.8
Options exercisable at September 30, 2016	6,000	\$ 19.27	0.8

The closing price of our common stock at September 30, 2016 was \$16.76. Options outstanding at September 30, 2016, all of which were granted pursuant to the Prior Stock Plan, have grant date fair values that exceed the September 30, 2016 closing stock price.

(6) Earnings per Share

Earnings per common share for the three and nine months ended September 30, 2016 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.

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 was approximately 0.9% and 0.8% of total outstanding shares for each of the three and nine

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months ended September 30, 2016 and 2015, respectively, 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 for the periods presented. The following table sets forth the computation of basic and diluted net income per common share for the three and nine months ended September 30, 2016 and 2015 (amounts in thousands, except per share amounts):

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
<b>Basic net income per share:</b>				
Net income	\$11,665	\$14,772	\$24,742	\$32,338
Weighted average number of common				
shares outstanding	35,424	35,308	35,373	35,258
Net income per share of common stock – basic	\$0.33	\$0.42	\$0.70	\$0.92
<b>Diluted net income per share:</b>				
Net income	\$11,665	\$14,772	\$24,742	\$32,338
Weighted average number of common shares outstanding	35,424	35,308	35,373	35,258
Effect of dilutive securities:				
Effect of dilutive stock options	—	—	—	13
Effect of dilutive non-vested restricted stock	80	42	88	46
Weighted average number of common shares				
outstanding – diluted	35,504	35,350	35,461	35,317
Net income per share of common stock – diluted	\$0.33	\$0.42	\$0.70	\$0.92
Common shares excluded from the denominator				
as anti-dilutive:				
Stock options	—	51	5	17
Non-vested restricted stock	1	17	2	7

(7) Senior Secured Credit Facility

We and our subsidiaries are parties to a \$602.5 million senior secured credit facility (the “Credit Facility”) with Wells Fargo Capital Finance, LLC (“Wells Fargo”), as agent (as successor in such capacity to General Electric Capital Corporation (“GE Capital”)), 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, GE Capital, as administrative agent, Bank of America, N.A. as co-syndication agent and documentation agent, Wells Fargo, as co-syndication agent and Deutsche Bank Securities Inc. as joint lead arranger and joint bookrunner. In March 2016, Wells Fargo succeeded and was substituted for GE Capital as the administrative agent under the Amended and Restated Credit Agreement.

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).



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

As of September 30, 2016, we were in compliance with our financial covenants under the Credit Facility. At September 30, 2016, the Company could borrow up to an additional \$385.0 million and remain in compliance with the debt covenants under the Company's Credit Facility.

At September 30, 2016, the interest rate on the Credit Facility was based on a 3.25% U.S. Prime Rate plus 100 basis points or LIBOR plus 200 basis points. The weighted average interest rate at September 30, 2016 was approximately 2.7%. At October 21, 2016, we had \$391.6 million of available borrowings under our Credit Facility, net of \$7.7 million of outstanding letters of credit.

### (8) Senior Unsecured Notes

The following table reconciles our Senior Unsecured Notes to our Condensed Consolidated Balance Sheets (amounts in thousands):

Balance at December 31, 2014	\$628,714
Accretion of discount through December 31, 2015	1,055
Amortization of note premium through December 31, 2015	(887 )
Reclass of deferred financing costs to debt discount (see	
footnote 2)	(1,576 )
Balance at December 31, 2015	\$627,306
Accretion of discount through September 30, 2016	791
Amortization of note premium through September 30, 2016	(666 )
Amortization of deferred financing costs through	
September 30, 2016	178
Balance at September 30, 2016	\$627,609

### (9) Segment Information

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



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

	Three Months Ended		Nine Months Ended	
	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
<b>Segment Revenues:</b>				
Equipment rentals	\$ 118,535	\$ 118,055	\$ 330,023	\$ 328,072
New equipment sales	44,764	66,552	151,836	175,465
Used equipment sales	20,630	29,111	71,973	83,113
Parts sales	27,335	28,968	81,958	84,400
Services revenues	16,076	16,727	49,322	47,452
Total segmented revenues	227,340	259,413	685,112	718,502
Non-segmented revenues	17,346	17,440	48,679	48,121
Total revenues	\$ 244,686	\$ 276,853	\$ 733,791	\$ 766,623
<b>Segment Gross Profit:</b>				
Equipment rentals	\$ 58,629	\$ 57,882	\$ 156,161	\$ 154,429
New equipment sales	4,617	6,552	16,684	19,397
Used equipment sales	6,266	8,849	22,222	26,352
Parts sales	7,627	7,870	22,774	23,176
Services revenues	10,631	11,145	32,586	31,435
Total segmented gross profit	87,770	92,298	250,427	254,789
Non-segmented gross profit	355	539	550	792
Total gross profit	\$ 88,125	\$ 92,837	\$ 250,977	\$ 255,581

	Balances at	
	September 30, 2016	December 31, 2015
<b>Segment identified assets:</b>		
Equipment sales	\$ 55,853	\$ 77,365
Equipment rentals	922,486	893,393
Parts and services	18,145	19,453
Total segment identified assets	996,484	990,211
Non-segment identified assets	295,341	309,300
Total assets	\$ 1,291,825	\$ 1,299,511

The Company operates primarily in the United States and our sales to international customers for the three month period ended September 30, 2016 and 2015 were 0.3% and 0.5%, respectively, of total revenues. Our sales to international customers for the nine month periods ended September 30, 2016 and 2015 were 0.4% and 0.6%, respectively, of total revenues. No one customer accounted for more than 10% of our revenues on an overall or segment basis for any of the periods presented.

(10) Condensed Consolidating Financial Information of Guarantor Subsidiaries

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

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

## CONDENSED CONSOLIDATING BALANCE SHEET

	As of September 30, 2016			
	H&E Equipment Guarantor			
	Services	Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
<b>Assets:</b>				
Cash	\$7,034	\$—	\$—	\$7,034
Receivables, net	112,891	25,942	—	138,833
Inventories, net	66,822	7,176	—	73,998
Prepaid expenses and other assets	8,721	173	—	8,894
Rental equipment, net	763,627	158,859	—	922,486
Property and equipment, net	95,580	11,636	—	107,216
Deferred financing costs, net	2,167	—	—	2,167
Investment in guarantor subsidiaries	228,976	—	(228,976 )	—
Goodwill	1,671	29,526	—	31,197
<b>Total assets</b>	<b>\$1,287,489</b>	<b>\$ 233,312</b>	<b>\$(228,976 )</b>	<b>\$ 1,291,825</b>
<b>Liabilities and Stockholders' Equity:</b>				
Amounts due on senior secured credit facility	\$209,762	\$—	\$—	\$209,762
Accounts payable	45,274	2,953	—	48,227
Manufacturer flooring plans payable	38,056	170	—	38,226
Accrued expenses payable and other liabilities	52,008	(506 )	—	51,502
Dividends payable	93	(37 )	—	56
Senior unsecured notes	627,609	—	—	627,609
Capital leases payable	—	1,756	—	1,756
Deferred income taxes	173,449	—	—	173,449
Deferred compensation payable	1,826	—	—	1,826
<b>Total liabilities</b>	<b>1,148,077</b>	<b>4,336</b>	<b>—</b>	<b>1,152,413</b>
<b>Stockholders' equity</b>	<b>139,412</b>	<b>228,976</b>	<b>(228,976 )</b>	<b>139,412</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$1,287,489</b>	<b>\$ 233,312</b>	<b>\$(228,976 )</b>	<b>\$ 1,291,825</b>

## CONDENSED CONSOLIDATING BALANCE SHEET

	As of December 31, 2015			
	H&E Equipment Guarantor			
	Services	Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
<b>Assets:</b>				
Cash	\$7,159	\$—	\$—	\$7,159
Receivables, net	124,157	23,171	—	147,328
Inventories, net	88,831	7,987	—	96,818
Prepaid expenses and other assets	9,909	145	—	10,054
Rental equipment, net	750,773	142,620	—	893,393
Property and equipment, net	99,342	11,443	—	110,785
Deferred financing costs, net	2,777	—	—	2,777
Investment in guarantor subsidiaries	211,542	—	(211,542 )	—
Goodwill	1,671	29,526	—	31,197
<b>Total assets</b>	<b>\$1,296,161</b>	<b>\$ 214,892</b>	<b>\$ (211,542 )</b>	<b>\$ 1,299,511</b>
<b>Liabilities and Stockholders' Equity:</b>				
Amount due on senior secured credit facility	\$184,857	\$—	\$—	\$184,857
Accounts payable	63,959	2,818	—	66,777
Manufacturer flooring plans payable	62,433	—	—	62,433
Dividends payable	62	(30 )	—	32
Accrued expenses payable and other liabilities	56,896	(1,345 )	—	55,551
Senior unsecured notes	627,306	—	—	627,306
Capital leases payable	—	1,907	—	1,907
Deferred income taxes	155,886	—	—	155,886
Deferred compensation payable	2,174	—	—	2,174
<b>Total liabilities</b>	<b>1,153,573</b>	<b>3,350</b>	<b>—</b>	<b>1,156,923</b>
<b>Stockholders' equity</b>	<b>142,588</b>	<b>211,542</b>	<b>(211,542 )</b>	<b>142,588</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$1,296,161</b>	<b>\$ 214,892</b>	<b>\$ (211,542 )</b>	<b>\$ 1,299,511</b>

## CONDENSED CONSOLIDATING STATEMENT OF INCOME

Three Months Ended September 30, 2016  
H&E Equipment Guarantor

	Services	Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
<b>Revenues:</b>				
Equipment rentals	\$96,310	\$ 22,225	\$ —	\$ 118,535
New equipment sales	37,110	7,654	—	44,764
Used equipment sales	16,778	3,852	—	20,630
Parts sales	23,807	3,528	—	27,335
Services revenues	13,693	2,383	—	16,076
Other	14,072	3,274	—	17,346
Total revenues	201,770	42,916	—	244,686
<b>Cost of revenues:</b>				
Rental depreciation	34,168	7,360	—	41,528
Rental expense	15,127	3,251	—	18,378
New equipment sales	33,206	6,941	—	40,147
Used equipment sales	11,762	2,602	—	14,364
Parts sales	17,221	2,487	—	19,708
Services revenues	4,686	759	—	5,445
Other	13,716	3,275	—	16,991
Total cost of revenues	129,886	26,675	—	156,561
<b>Gross profit (loss):</b>				
Equipment rentals	47,015	11,614	—	58,629
New equipment sales	3,904	713	—	4,617
Used equipment sales	5,016	1,250	—	6,266
Parts sales	6,586	1,041	—	7,627
Services revenues	9,007	1,624	—	10,631
Other	356	(1 )	—	355
Gross profit	71,884	16,241	—	88,125
Selling, general and administrative expenses	45,810	10,152	—	55,962
Equity in earnings of guarantor subsidiaries	3,892	—	(3,892 )	—
Gain on sales of property and equipment, net	782	145	—	927
Income from operations	30,748	6,234	(3,892 )	33,090
<b>Other income (expense):</b>				
Interest expense	(11,074 )	(2,395 )	—	(13,469 )
Other, net	333	53	—	386
Total other expense, net	(10,741 )	(2,342 )	—	(13,083 )
Income before income taxes	20,007	3,892	(3,892 )	20,007
Income tax expense	8,342	—	—	8,342
Net income	\$11,665	\$ 3,892	\$ (3,892 )	\$ 11,665

## CONDENSED CONSOLIDATING STATEMENT OF INCOME

Three Months Ended September 30, 2015

H&amp;E Equipment Guarantor

	Services	Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
<b>Revenues:</b>				
Equipment rentals	\$96,768	\$ 21,287	\$ —	\$ 118,055
New equipment sales	57,311	9,241	—	66,552
Used equipment sales	22,124	6,987	—	29,111
Parts sales	25,429	3,539	—	28,968
Services revenues	14,206	2,521	—	16,727
Other	14,110	3,330	—	17,440
Total revenues	229,948	46,905	—	276,853
<b>Cost of revenues:</b>				
Rental depreciation	34,194	6,769	—	40,963
Rental expense	15,705	3,505	—	19,210
New equipment sales	51,569	8,431	—	60,000
Used equipment sales	15,501	4,761	—	20,262
Parts sales	18,547	2,551	—	21,098
Services revenues	4,811	771	—	5,582
Other	13,657	3,244	—	16,901
Total cost of revenues	153,984	30,032	—	184,016
<b>Gross profit:</b>				
Equipment rentals	46,869	11,013	—	57,882
New equipment sales	5,742	810	—	6,552
Used equipment sales	6,623	2,226	—	8,849
Parts sales	6,882	988	—	7,870
Services revenues	9,395	1,750	—	11,145
Other	453	86	—	539
Gross profit	75,964	16,873	—	92,837
Selling, general and administrative expenses	44,810	9,894	—	54,704
Equity in earnings of guarantor subsidiaries	3,663	—	(3,663 )	—
Gain on sales of property and equipment, net	232	107	—	339
Income from operations	35,049	7,086	(3,663 )	38,472
<b>Other income (expense):</b>				
Interest expense	(10,023 )	(3,458 )	—	(13,481 )
Other, net	466	35	—	501
Total other expense, net	(9,557 )	(3,423 )	—	(12,980 )
Income before income taxes	25,492	3,663	(3,663 )	25,492
Income tax expense	10,720	—	—	10,720
Net income	\$14,772	\$ 3,663	\$ (3,663 )	\$ 14,772



## CONDENSED CONSOLIDATING STATEMENT OF INCOME

Nine Months Ended September 30, 2016

H&amp;E Equipment Guarantor

	Services	Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
<b>Revenues:</b>				
Equipment rentals	\$270,927	\$ 59,096	\$ —	\$ 330,023
New equipment sales	124,450	27,386	—	151,836
Used equipment sales	59,515	12,458	—	71,973
Parts sales	71,323	10,635	—	81,958
Services revenues	42,140	7,182	—	49,322
Other	39,619	9,060	—	48,679
Total revenues	607,974	125,817	—	733,791
<b>Cost of revenues:</b>				
Rental depreciation	100,111	20,589	—	120,700
Rental expense	44,135	9,027	—	53,162
New equipment sales	110,594	24,558	—	135,152
Used equipment sales	41,565	8,186	—	49,751
Parts sales	51,660	7,524	—	59,184
Services revenues	14,470	2,266	—	16,736
Other	39,069	9,060	—	48,129
Total cost of revenues	401,604	81,210	—	482,814
<b>Gross profit:</b>				
Equipment rentals	126,681	29,480	—	156,161
New equipment sales	13,856	2,828	—	16,684
Used equipment sales	17,950	4,272	—	22,222
Parts sales	19,663	3,111	—	22,774
Services revenues	27,670	4,916	—	32,586
Other	550	—	—	550
Gross profit	206,370	44,607	—	250,977
Selling, general and administrative expenses	142,402	29,983	—	172,385
Equity in earnings of guarantor subsidiaries	8,388	—	(8,388 )	—
Gain on sales of property and equipment, net	1,948	353	—	2,301
Income from operations	74,304	14,977	(8,388 )	80,893
<b>Other income (expense):</b>				
Interest expense	(33,460 )	(6,769 )	—	(40,229 )
Other, net	1,325	180	—	1,505
Total other expense, net	(32,135 )	(6,589 )	—	(38,724 )
Income before income taxes	42,169	8,388	(8,388 )	42,169
Income tax expense	17,427	—	—	17,427
Net income	\$24,742	\$ 8,388	\$ (8,388 )	\$ 24,742

## CONDENSED CONSOLIDATING STATEMENT OF INCOME

Nine Months Ended September 30, 2015

H&amp;E Equipment Guarantor

	Services	Subsidiaries	Elimination	Consolidated
	(Amounts in thousands)			
<b>Revenues:</b>				
Equipment rentals	\$271,270	\$ 56,802	\$ —	\$ 328,072
New equipment sales	156,657	18,808	—	175,465
Used equipment sales	66,072	17,041	—	83,113
Parts sales	73,516	10,884	—	84,400
Services revenues	40,279	7,173	—	47,452
Other	39,012	9,109	—	48,121
Total revenues	646,806	119,817	—	766,623
<b>Cost of revenues:</b>				
Rental depreciation	101,237	19,884	—	121,121
Rental expense	43,301	9,221	—	52,522
New equipment sales	139,121	16,947	—	156,068
Used equipment sales	45,672	11,089	—	56,761
Parts sales	53,435	7,789	—	61,224
Services revenues	13,719	2,298	—	16,017
Other	38,211	9,118	—	47,329
Total cost of revenues	434,696	76,346	—	511,042
<b>Gross profit (loss):</b>				
Equipment rentals	126,732	27,697	—	154,429
New equipment sales	17,536	1,861	—	19,397
Used equipment sales	20,400	5,952	—	26,352
Parts sales	20,081	3,095	—	23,176
Services revenues	26,560	4,875	—	31,435
Other	801	(9 )	—	792
Gross profit	212,110	43,471	—	255,581
Selling, general and administrative expenses	135,966	26,618	—	162,584
Equity in earnings of guarantor subsidiaries	7,023	—	(7,023 )	—
Gain on sales of property and equipment, net	1,306	463	—	1,769
Income from operations	84,473	17,316	(7,023 )	94,766
<b>Other income (expense):</b>				
Interest expense	(30,261 )	(10,414 )	—	(40,675 )
Other, net	962	121	—	1,083
Total other expense, net	(29,299 )	(10,293 )	—	(39,592 )
Income before income taxes	55,174	7,023	(7,023 )	55,174
Income tax expense	22,836	—	—	22,836
Net income	\$32,338	\$ 7,023	\$ (7,023 )	\$ 32,338

## CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Nine Months Ended September 30, 2016  
H&E Equipment Guarantor

Services      Subsidiaries      Elimination      Consolidated  
(Amounts in thousands)

Cash flows from operating activities:				
Net income	\$24,742	\$ 8,388	\$ (8,388 )	\$ 24,742
Adjustments to reconcile net income to net cash provided				
by operating activities:				
Depreciation and amortization on property and equipment	18,022	2,299	—	20,321
Depreciation of rental equipment	100,111	20,589	—	120,700
Amortization of deferred financing costs	789	—	—	789
Accretion of note discount, net of premium amortization	124	—	—	124
Provision for losses on accounts receivable	2,507	216	—	2,723
Provision for inventory obsolescence	82	—	—	82
Change in deferred income taxes	17,193	—	—	17,193
Stock-based compensation expense	2,308	—	—	2,308
Gain from sales of property and equipment, net	(1,948 )	(353 )	—	(2,301 )
Gain from sales of rental equipment, net	(17,219 )	(4,231 )	—	(21,450 )
Equity in earnings of guarantor subsidiaries	(8,388 )	—	8,388	—
Changes in operating assets and liabilities:				
Receivables	8,759	(2,987 )	—	5,772
Inventories	(12,001 )	(3,219 )	—	(15,220 )
Prepaid expenses and other assets	1,188	(28 )	—	1,160
Accounts payable	(18,684 )	135	—	(18,549 )
Manufacturer flooring plans payable	(24,377 )	170	—	(24,207 )
Accrued expenses payable and other liabilities	(5,275 )	839	—	(4,436 )
Deferred compensation payable	(348 )	—	—	(348 )
Net cash provided by operating activities	87,585	21,818	—	109,403
Cash flows from investing activities:				
Purchases of property and equipment	(14,143 )	(2,610 )	—	(16,753 )
Purchases of rental equipment	(112,346)	(40,298 )	—	(152,644 )
Proceeds from sales of property and equipment	2,218	471	—	2,689
Proceeds from sales of rental equipment	50,528	11,731	—	62,259
Investment in subsidiaries	(9,046 )	—	9,046	—
Net cash used in investing activities.	(82,789 )	(30,706 )	9,046	(104,449 )
Cash flows from financing activities:				
Purchases of treasury stock	(546 )	—	—	(546 )
Borrowings on senior secured credit facility	767,550	—	—	767,550
Payments on senior secured credit facility	(742,645)	—	—	(742,645 )
Dividends paid	(29,280 )	(7 )	—	(29,287 )
Payments on capital lease obligations	—	(151 )	—	(151 )
Capital contributions	—	9,046	(9,046 )	—
Net cash provided by (used in) financing activities	(4,921 )	8,888	(9,046 )	(5,079 )
Net decrease in cash	(125 )	—	—	(125 )
Cash, beginning of period	7,159	—	—	7,159

Cash, end of period	\$7,034	\$ —	\$ —	\$ 7,034
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## CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Nine Months Ended September 30, 2015  
H&E Equipment Guarantor

Services Subsidiaries Elimination Consolidated  
(Amounts in thousands)

Cash flows from operating activities:				
Net income	\$32,338	\$ 7,023	\$ (7,023 )	\$ 32,338
Adjustments to reconcile net income to net cash provided				
by operating activities:				
Depreciation and amortization on property and equipment	15,710	2,185	—	17,895
Depreciation of rental equipment	101,237	19,884	—	121,121
Amortization of deferred financing costs	774	—	—	774
Accretion of note discount, net of premium amortization	126	—	—	126
Provision for losses on accounts receivable	2,236	210	—	2,446
Provision for inventory obsolescence	201	—	—	201
Change in deferred income taxes	22,514	—	—	22,514
Stock-based compensation expense	2,036	—	—	2,036
Gain from sales of property and equipment, net	(1,306 )	(463 )	—	(1,769 )
Gain from sales of rental equipment, net	(19,366 )	(5,596 )	—	(24,962 )
Equity in earnings of guarantor subsidiaries	(7,023 )	—	7,023	-
Changes in operating assets and liabilities:				
Receivables	8,097	7,185	—	15,282
Inventories	(16,696 )	(1,977 )	—	(18,673 )
Prepaid expenses and other assets	(3,652 )	(50 )	—	(3,702 )
Accounts payable	412	187	—	599
Manufacturer flooring plans payable	(33,696 )	—	—	(33,696 )
Accrued expenses payable and other liabilities	(12,276 )	792	—	(11,484 )
Deferred compensation payable	51	—	—	51
Net cash provided by operating activities	91,717	29,380	—	121,097
Cash flows from investing activities:				
Purchases of property and equipment	(19,997 )	(2,320 )	—	(22,317 )
Purchases of rental equipment	(104,735)	(32,449 )	—	(137,184 )
Proceeds from sales of property and equipment	2,050	532	—	2,582
Proceeds from sales of rental equipment	53,784	14,403	—	68,187
Investment in subsidiaries	9,398	—	(9,398 )	—
Net cash used in investing activities.	(59,500 )	(19,834 )	(9,398 )	(88,732 )
Cash flows from financing activities:				
Purchases of treasury stock	(470 )	—	—	(470 )
Borrowings on senior secured credit facility	768,572	—	—	768,572
Payments on senior secured credit facility	(778,903)	—	—	(778,903 )
Dividends paid	(27,365 )	(5 )	—	(27,370 )
Payments of deferred financing costs	(725 )	—	—	(725 )
Payments on capital lease obligations	—	(143 )	—	(143 )
Capital contributions	—	(9,398 )	9,398	-
Net cash used in financing activities	(38,891 )	(9,546 )	9,398	(39,039 )
Net decrease in cash	(6,674 )	—	—	(6,674 )

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Cash, beginning of period	15,861	—	—	15,861
Cash, end of period	\$9,187	\$ —	\$ —	\$ 9,187

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

The following discussion summarizes the financial position of H&E Equipment Services, Inc. and its subsidiaries as of September 30, 2016, and its results of operations for the three and nine month periods ended September 30, 2016, and should be read in conjunction with (i) the unaudited condensed consolidated financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q and (ii) the audited consolidated financial statements and accompanying notes to our Annual Report on Form 10-K for the year ended December 31, 2015. The following discussion contains, in addition to historical information, forward-looking statements that include risks and uncertainties (see discussion of “Forward-Looking Statements” included elsewhere in this Quarterly Report on Form 10-Q). Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those factors set forth under Item 1A – “Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2015.

### Overview

#### Background

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

As of October 21, 2016, we operated 76 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 55 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 H&E Equipment Services, Inc., which survived the reincorporation merger as the operating company. Effective

February 3, 2006, H&E LLC and H&E Holdings no longer existed under operation of law pursuant to the reincorporation merger.

#### Critical Accounting Policies

Item 7, included in Part II of our Annual Report on Form 10-K for the year ended December 31, 2015, presents the accounting policies and related estimates that we believe are the most critical to understanding our consolidated financial statements, financial condition, and results of operations and cash flows, and which require complex management judgment and assumptions, or involve uncertainties. There have been no changes to these critical accounting policies and estimates during the nine month period ended September 30, 2016. These policies include, among others, revenue recognition, the adequacy of the allowance for doubtful accounts, the propriety of our estimated useful life of rental equipment and property and equipment, the potential impairment of long-lived assets including goodwill and intangible assets, obsolescence reserves on inventory, the allocation of purchase price related to business combinations, reserves for claims, including self-insurance reserves, and deferred income taxes, including the valuation of any related deferred tax assets.



Information regarding our other significant accounting policies is included in note 2 to our consolidated financial statements in Item 8 of Part II of our Annual Report on Form 10-K for the year ended December 31, 2015 and in note 2 to the condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

## Business Segments

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

**Equipment Rentals.** Our rental operation primarily rents our four core types of construction and industrial equipment. We have a well-maintained rental fleet and our own dedicated sales force, focused by equipment type. We actively manage the size, quality, age and composition of our rental fleet based on our analysis of key measures such as time utilization (which we analyze as equipment usage based on: (1) 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.

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

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

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

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

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

For additional information about our business segments, see note 9 to the condensed consolidated financial statements in this Quarterly Report on Form 10-Q.

## Revenue Sources

We generate all of our total revenues from our five business segments and our non-segmented equipment support activities. Equipment rentals and new equipment sales account for more than half of our total revenues. For the nine month period ended September 30, 2016, approximately 45.0% of our total revenues were attributable to equipment rentals, 20.7% of our total revenues were attributable to new equipment sales, 9.8% were attributable to used equipment sales, 11.2% were attributable to parts sales, 6.7% were attributable to our services revenues and 6.6% were attributable to non-segmented other revenues.

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

**Equipment Rentals.** Our rental operation primarily rents our four core types of construction and industrial equipment. We have a well-maintained rental fleet and our own dedicated sales force, focused by equipment type. We actively manage the size, quality, age and composition of our rental fleet based on our analysis of key measures such as time utilization (which we analyze 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.

**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 nine month period ended September 30, 2016, our total cost of revenues was \$482.8 million. Our operating expenses consist principally of selling, general and administrative expenses. For the nine month period ended September 30, 2016, our selling, general and administrative expenses were \$172.4 million. In addition, we have interest expense related to our debt instruments. Operating expenses and all other income and expense items below the gross profit line of our 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.

**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 capital leases and software. 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"), our 7.0% senior unsecured notes due 2022 (the "Notes") and our capital lease obligations. 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 and accretion (amortization) of debt discount (premium) are 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.

## Rental Fleet

A substantial portion of our overall value is in our rental fleet equipment. The net book value of our rental equipment at September 30, 2016 was \$922.5 million, or approximately 71.4% of our total assets. Our rental fleet as of September 30, 2016 consisted of 29,086 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 \$1.35 billion. As of September 30, 2016, our rental fleet composition was as follows (dollars in millions):

	Units		Cost		% of	
	Units	%	Cost	%	Original	Average
	Total	Acquisition	Acquisition	Acquisition	Age in	Months
Hi-Lift or Aerial Work Platforms	19,313	66.4 %	\$ 830.0	61.6 %	34.2	
Cranes	363	1.2 %	125.1	9.3 %	47.3	
Earthmoving	3,258	11.2 %	289.4	21.5 %	22.1	
Industrial Lift Trucks	889	3.1 %	31.5	2.3 %	31.2	
Other	5,263	18.1 %	72.0	5.3 %	26.5	
Total	29,086	100.0 %	\$ 1,348.0	100.0 %	31.5	

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 \$61.7 million, or 4.8%, for the nine month period ended September 30, 2016. The average age of our rental fleet equipment increased by approximately 0.1 months for the nine month period ended September 30, 2016.

Our average rental rates for the nine month period ended September 30, 2016 were 0.4% lower than in the nine month period ended September 30, 2015 (see further discussion on rental rates in "Results of Operations" below). Our average rental rates for the three month period ended September 30, 2016 were 0.7% lower compared to the same period last year, but 1.0% higher than the previous three month period ended June 30, 2016.

The rental equipment mix among our four core product lines for the nine month period ended September 30, 2016 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 for the year ended December 31, 2015.

• **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.

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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. However, the recent decline in oil and natural gas prices, and uncertainty regarding future price levels, has caused, and may continue to cause, some of our customers in those markets to adjust their activity and spending levels.

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

## Results of Operations

The tables included in the period-to-period comparisons below provide summaries of our revenues and gross profits for our business segments and non-segmented revenues for the three and nine months ended September 30, 2016 and 2015. The period-to-period comparisons of our financial results are not necessarily indicative of future results.

### Three Months Ended September 30, 2016 Compared to the Three Months Ended September 30, 2015

#### Revenues.

	Three Months Ended September 30,		Total Dollar Increase (Decrease)	Total Percentage Increase (Decrease)	
	2016	2015	(Decrease)	(Decrease)	
	(in thousands, except percentages)				
<b>Segment Revenues:</b>					
Equipment rentals	\$ 118,535	\$ 118,055	\$ 480	0.4	%
New equipment sales	44,764	66,552	(21,788 )	(32.7	)%
Used equipment sales	20,630	29,111	(8,481 )	(29.1	)%
Parts sales	27,335	28,968	(1,633 )	(5.6	)%
Services revenues	16,076	16,727	(651 )	(3.9	)%
Non-Segmented revenues	17,346	17,440	(94 )	(0.5	)%
Total revenues	\$ 244,686	\$ 276,853	\$ (32,167 )	(11.6	)%

Total Revenues. Our total revenues were \$244.7 million for the three month period ended September 30, 2016 compared to \$276.9 million for the three month period ended September 30, 2015, a decrease of \$32.2 million, or 11.6%. Revenues for all reportable segments and non-segmented other revenues are further discussed below.

Equipment Rental Revenues. Our revenues from equipment rentals for the three month period ended September 30, 2016 increased approximately \$0.5 million to \$118.5 million from approximately \$118.1 million in the three month period ended September 30, 2015. Rental revenues from aerial work platform equipment increased \$1.3 million, while rental revenues from other equipment rentals and earthmoving equipment increased \$0.6 million and \$0.3 million, respectively. These equipment rental revenues increases were partially offset by a \$1.8 million decrease in crane rental



revenues. Our average rental rates for the three month period ended September 30, 2016 decreased 0.7% compared to the same three month period last year, but increased approximately 1.0% from the three month period ended June 30, 2016.

Rental equipment dollar utilization (annual rental revenues divided by the average original rental fleet equipment costs) for the three month period ended September 30, 2016 was 35.4% compared to 36.4% in the three month period ended September 30, 2015, a decrease of 1.0%. The decrease in comparative rental equipment dollar utilization was the result of a decrease in rental equipment time utilization combined with a 0.7% decrease in average rental rates. Rental equipment time utilization as a percentage of original equipment cost was approximately 72.1% for the three month period ended September 30, 2016 compared to 73.7% in the three month period ended September 30, 2015, a decrease of 1.6%. The decrease in equipment rental time utilization based on original equipment cost is reflective of lower utilization in the Company's oil and gas markets and the significant flooding event in Louisiana

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in mid-August. Our rental equipment time utilization based on the number of rental equipment units available for rent was 68.0% for the three month period ended September 30, 2016, compared to approximately 70.2% in the same period last year, a decrease of 2.2%.

**New Equipment Sales Revenues.** Our new equipment sales for the three month period ended September 30, 2016 decreased \$21.8 million, or 32.7%, to \$44.8 million from \$66.6 million for the three month period ended September 30, 2015, largely as a result of a \$17.6 million decrease in sales of new cranes. The decrease in new crane sales is due primarily to decreased demand for new cranes among the Company's customers operating in the Company's oil and gas markets. Sales of new other equipment and new earthmoving equipment decreased \$3.4 million and \$1.1 million, respectively, while sales of new lift trucks decreased \$0.2 million. Partially offsetting these new equipment sales decreases was a \$0.5 million increase in new aerial work platform equipment sales.

**Used Equipment Sales Revenues.** Our used equipment sales decreased \$8.5 million, or 29.1%, to \$20.6 million for the three month period ended September 30, 2016, from \$29.1 million for the same three month period in 2015. Sales of used cranes and used aerial work platform equipment decreased \$4.3 million and \$2.6 million, respectively, and sales of used earthmoving equipment and used other equipment decreased \$1.6 million and \$0.5 million, respectively. Sales of used lift trucks increased \$0.5 million. The decrease in used equipment sales revenues is largely due to a decrease in sales of used equipment from the Company's rental fleet and the mix of used equipment sold.

**Parts Sales Revenues.** Our parts sales for the three month period ended September 30, 2016 decreased \$1.6 million, or 5.6%, to \$27.3 million from approximately \$29.0 million for the same three month period last year. The decrease in parts sales revenues was driven primarily by lower earthmoving equipment and crane parts sales revenues.

**Services Revenues.** Our services revenues for the three month period ended September 30, 2016 decreased approximately \$0.7 million, or 3.9%, to approximately \$16.1 million from \$16.7 million for the same three month period last year. The decrease in services revenues was due primarily to decreases in services revenues related to cranes and other equipment.

**Non-Segmented Other Revenues.** Our non-segmented other revenues consisted primarily of equipment support activities including transportation, hauling, parts freight and damage waiver charges. For the three month period ended September 30, 2016, our other revenues were approximately \$17.3 million, a decrease of \$0.1 million, or 0.5%, from \$17.4 million in the same three month period in 2015.

**Gross Profit.**

	Three Months		Total Dollar Increase	Total Percentage Increase	
	Ended September 30,				
	2016	2015	(Decrease)	(Decrease)	
(in thousands, except percentages)					
<b>Segment Gross Profit:</b>					
Equipment rentals	\$58,629	\$57,882	\$ 747	1.3	%
New equipment sales	4,617	6,552	(1,935 )	(29.5 )	%
Used equipment sales	6,266	8,849	(2,583 )	(29.2 )	%
Parts sales	7,627	7,870	(243 )	(3.1 )	%
Services revenues	10,631	11,145	(514 )	(4.6 )	%
Non-Segmented revenues	355	539	(184 )	(34.1 )	%

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Total gross profit	\$88,125	\$92,837	\$ (4,712 )	(5.1 )%
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Total Gross Profit. Our total gross profit was \$88.1 million for the three month period ended September 30, 2016 compared to \$92.8 million for the same three month period in 2015, a decrease of 4.7 million, or 5.1%. Total gross profit margin for the three month period ended September 30, 2016 was approximately 36.0%, an increase of 2.5% from the 33.5% gross profit margin for the same three month period in 2015. 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 three month period ended September 30, 2016 increased \$0.7 million, or 1.3%, to \$58.6 million from \$57.9 million in the same three month period in 2015. The increase in equipment rentals gross profit was the net result of a \$0.5 million increase in rental revenues combined with a \$0.8 million decrease in rental expenses, which was partially offset by an increase of \$0.6 million in rental equipment depreciation expense. Gross profit margin on equipment rentals for the three month period ended September 30, 2016 was 49.5% compared to 49.0% for the same period in 2015, an increase of 0.5%. As a percentage of equipment rental revenues, rental expenses were 15.5% for the three month period ended September 30, 2016 compared to 16.3% for the same period last year, a decrease of 0.8%, resulting primarily from lower

maintenance and repair costs on aerial work platform equipment as a percentage of aerial work platform equipment rental revenues. Depreciation expense was 35.0% of equipment rental revenues for the three month period ended September 30, 2016 compared to 34.7% for the same period in 2015, an increase of 0.3%, primarily as a result of rental fleet mix.

**New Equipment Sales Gross Profit.** Our new equipment sales gross profit for the three month period ended September 30, 2016 decreased \$1.9 million, or 29.5%, to \$4.6 million compared to approximately \$6.5 million for the same three month period in 2015 on a total new equipment sales decrease of \$21.8 million. Gross profit margin on new equipment sales was 10.3% for the three month period ended September 30, 2016 compared to 9.8% for the same three month period in 2015, an increase of 0.5%, primarily driven by higher gross margins on new crane sales, resulting primarily from the mix of new cranes sold.

**Used Equipment Sales Gross Profit.** Our used equipment sales gross profit for the three month period ended September 30, 2016 decreased \$2.6 million, or 29.2%, to \$6.3 million from approximately \$8.8 million in the same period in 2015 on a used equipment sales decrease of \$8.5 million. Gross profit margin on used equipment sales was 30.4% in each of the three month periods ended September 30, 2015 and 2014. Our used equipment sales from the rental fleet, which comprised approximately 86.1% and 81.7% of our used equipment sales for the three month periods ended September 30, 2016 and 2015, respectively, were approximately 150.8% and 152.5% of net book value for the three month periods ended September 30, 2016 and 2015, respectively.

**Parts Sales Gross Profit.** For the three month period ended September 30, 2016, our parts sales gross profit decreased approximately \$0.2 million, or 3.1%, to \$7.6 million from \$7.9 million for the same three month period in 2015 on a \$1.6 million decrease in parts sales revenues. Gross profit margin for the three month period ended September 30, 2016 was 27.9%, an increase of approximately 0.7% from 27.2% in the same three month period in 2015, as a result of the mix of parts sold.

**Services Revenues Gross Profit.** For the three month period ended September 30, 2016, our services revenues gross profit decreased \$0.5 million, or 4.6%, to \$10.6 million from \$11.1 million for the same three month period in 2015 on a \$0.7 million decrease in services revenues. Gross profit margin for the three month period ended September 30, 2016 was approximately 66.1%, a decrease of 0.5% from 66.6% in the same three month period in 2015, as a result of services revenues mix.

**Non-Segmented Other Revenues Gross Profit.** Our non-segmented other revenues gross profit decreased \$0.2 million, or 34.1%, to approximately \$0.3 million for the three month period ended September 30, 2016 compared to a gross profit of \$0.5 million for the same period in 2015 on a \$0.1 million decrease in non-segmented other revenues. Gross margin for the three month period ended September 30, 2016 was 2.0% compared to a gross margin of 3.1% in the same three month period last year, a decrease of 1.1%, primarily reflective of higher hauling costs in the current period.

**Selling, General and Administrative Expenses (“SG&A”).** SG&A expenses increased \$1.3 million, or approximately 2.3%, to \$56.0 million for the three month period ended September 30, 2016 compared to \$54.7 million for the three month period ended September 30, 2015. The increase in SG&A expenses was attributable to several factors. Employee salaries, wages, payroll taxes and related employee benefit expenses increased approximately \$0.5 million. Facility costs increased \$0.6 million, comprised primarily of additional rent expense related to new branches opened since the third quarter of last year. Legal and other professional services increased \$0.6 million and non-payroll taxes, primarily property taxes, increased approximately \$0.7 million. Promotional expenses increased \$0.2 million and depreciation expense increased \$0.2 million. Partially offsetting these increases were decreases in liability insurance costs of \$0.5 million and \$0.3 million in bad debt expense. Employee education, training and related travel costs decreased \$0.7 million. Of the \$1.3 million increase in SG&A expenses, approximately \$1.2 million was attributable to branches opened since July 1, 2015 with less than three full months of comparable operations in the third quarters of 2015 and 2016. As a percentage of total revenues, SG&A expenses were 22.9% for the three month period ended

September 30, 2016, an increase of 3.1% from 19.8% for the same three month period in 2015, primarily as a result of the cost increases noted above.

Other Income (Expense). For the three month period ended September 30, 2016, our net other expenses increased \$0.1 million to \$13.1 million compared to \$13.0 million for the same three month period in 2015. Interest expense was approximately \$13.5 million in each of the three month periods ended September 30, 2016 and 2015. Miscellaneous other income was \$0.4 million in the three month period ended September 30, 2016 compared to \$0.5 million in the same period last year, a decrease of \$0.1 million.

Income Taxes. We recorded income tax expense of approximately \$8.3 million for the three month period ended September 30, 2016 compared to income tax expense of \$10.7 million for the three month period ended September 30, 2015. Our effective income tax rate was approximately 41.7% for the three month period ended September 30, 2016 compared to 42.1% for the same three month period last year, a decrease of 0.4%. The decrease in our effective tax rate is primarily related to higher state income taxes in the prior year period. Based on available evidence, both positive and negative, we believe it is more likely than not that our deferred tax assets at September 30, 2016 are fully realizable through future reversals of existing taxable temporary differences and future taxable income, and are not subject to any limitations.

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Nine Months Ended September 30, 2016 Compared to the Nine Months Ended September 30, 2015

Revenues.

	Nine Months Ended September 30,		Total Dollar Increase (Decrease)	Total Percentage Increase (Decrease)	
	2016	2015	(Decrease)	(Decrease)	
(in thousands, except percentages)					
<b>Segment Revenues:</b>					
Equipment rentals	\$ 330,023	\$ 328,072	\$ 1,951	0.6	%
New equipment sales	151,836	175,465	(23,629 )	(13.5	)%
Used equipment sales	71,973	83,113	(11,140 )	(13.4	)%
Parts sales	81,958	84,400	(2,442 )	(2.9	)%
Services revenues	49,322	47,452	1,870	3.9	%
Non-Segmented revenues	48,679	48,121	558	1.2	%
Total revenues	\$ 733,791	\$ 766,623	\$ (32,832 )	(4.3	)%

Total Revenues. Our total revenues were \$733.8 million for the nine month period ended September 30, 2016 compared to \$766.6 million for the nine month period ended June 30, 2015, a decrease of \$32.8 million, or 4.3%. Revenues for all reportable segments are further discussed below.

Equipment Rental Revenues. Our revenues from equipment rentals for the nine month period ended September 30, 2016 increased approximately \$1.9 million, or 0.6%, to \$330.0 million from \$328.1 million in the nine month period ended September 30, 2015. Rental revenues from earthmoving equipment increased \$2.6 million and other equipment rental revenues increased \$2.2 million. Additionally, rental revenues from aerial work platform equipment and lift trucks increased \$1.7 million and \$0.5 million, respectively. Partially offsetting these rental revenue increases was a \$5.0 million decrease in crane rental revenues. Our average rental rates for the nine month period ended September 30, 2016 decreased approximately 0.4% compared to the same nine month period last year.

Rental equipment dollar utilization (annual rental revenues divided by the average original rental fleet equipment costs) for the nine month period ended September 30, 2016 was 33.9% compared to 34.3% in the nine month period ended September 30, 2015, a decrease of 0.4%. The decrease in comparative rental equipment dollar utilization was the result of a decrease in rental equipment time utilization, combined with a 0.4% decline in average rental rates. Rental equipment time utilization as a percentage of original equipment cost was 69.5% for the nine month period ended September 30, 2016 compared to approximately 70.5% in the same nine month period a year ago, a decrease of 1.0%. The decrease in equipment rental time utilization based on original equipment cost is largely reflective of multiple significant rain and flooding events in the Company's Louisiana, Texas and Arkansas markets during the current year period combined with lower utilization in the Company's oil and gas markets. Rental equipment time utilization based on the number of rental equipment units available for rent was 66.8% for the nine month period ended September 30, 2016, compared to approximately 67.4% in the same period last year, a decrease of 0.6%.

New Equipment Sales Revenues. Our new equipment sales for the nine month period ended September 30, 2016 decreased \$23.6 million, or 13.5%, to \$151.8 million from \$175.5 million for the nine month period ended September 30, 2015, largely driven by a \$34.1 million decrease in new crane sales. The decrease in new crane sales is due primarily to decreased demand for new cranes among the Company's customers operating in the Company's oil and gas markets. Also, sales of new other equipment decreased by \$4.8 million. Partially offsetting these new equipment sales decreases were a \$13.5 million increase in sales of new earthmoving equipment and increases in sales of new lift

trucks and new aerial work platform equipment of \$1.1 million and \$0.6 million, respectively.

Used Equipment Sales Revenues. Our used equipment sales decreased \$11.1 million, or 13.4%, to approximately \$72.0 million for the nine month period ended September 30, 2016, from \$83.1 million for the same nine month period in 2015. Sales of used cranes decreased \$7.6 million, while sales of used aerial work platform equipment and used other equipment decreased \$2.9 million and \$1.0 million, respectively. Partially offsetting these used equipment sales decreases were increases in used lift truck sales and used earthmoving equipment sales of \$0.3 million and \$0.1 million, respectively. The overall decrease in used equipment sales is largely due to a decrease in sales of used equipment from the Company's rental fleet in the current year period compared to last year.

Parts Sales Revenues. Our parts sales decreased \$2.4 million, or 2.9%, to \$82.0 million for the nine month period ended September 30, 2016 from \$84.4 million for the same nine month period in 2015. The decrease in parts revenues was driven primarily by lower crane and earthmoving equipment parts sales revenues.

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Services Revenues. Our services revenues for the nine month period ended September 30, 2016 increased \$1.9 million, or 3.9%, to \$49.3 million from approximately \$47.5 million for the same nine month period last year. The increase in services revenues was due to higher demand for services in the first and second quarters of the current 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 nine month period ended September 30, 2016, our other revenues were \$48.7 million, an increase of approximately \$0.6 million, or 1.2%, from \$48.1 million in the same nine month period in 2015. The increase was primarily due to an increase in damage waiver income and hauling revenues.

Gross Profit.

	Nine Months Ended September 30,		Total Dollar Increase	Total Percentage Increase	
	2016	2015	(Decrease)	(Decrease)	
	(in thousands, except percentages)				
<b>Segment Gross Profit:</b>					
Equipment rentals	\$156,161	\$154,429	\$ 1,732	1.1	%
New equipment sales	16,684	19,397	(2,713 )	(14.0	)%
Used equipment sales	22,222	26,352	(4,130 )	(15.7	)%
Parts sales	22,774	23,176	(402 )	(1.7	)%
Services revenues	32,586	31,435	1,151	3.7	%
Non-Segmented revenues	550	792	(242 )	(30.6	)%
Total gross profit	\$250,977	\$255,581	\$ (4,604 )	(1.8	)%

Total Gross Profit. Our total gross profit was approximately \$251.0 million for the nine month period ended September 30, 2016 compared to \$255.6 million for the same nine month period in 2015, a decrease of \$4.6 million, or 1.8%. Total gross profit margin for the nine month period ended September 30, 2016 was 34.2%, an increase of 0.9% from the 33.3% gross profit margin for the same nine month period in 2015. 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 nine month period ended September 30, 2016 increased \$1.7 million, or 1.1%, to approximately \$156.2 million from \$154.4 million in the same nine month period in 2015. The increase in equipment rentals gross profit was the result of a \$1.9 million increase in rental revenues for the nine month period ended September 30, 2016 and a \$0.4 million decrease in rental equipment depreciation expense, which was partially offset by a \$0.6 million increase in rental expenses. Gross profit margin on equipment rentals for the nine month period ended September 30, 2016 was approximately 47.3% compared to 47.1% for the same period in 2015, an increase of 0.2%. Depreciation expense was 36.6% of equipment rental revenues for the nine month period ended September 30, 2016 compared to 36.9% for the same period in 2015, a decrease of 0.3%, primarily as a result of rental fleet mix. As a percentage of equipment rental revenues, rental expenses were 16.1% for the nine month period ended September 30, 2016 compared to 16.0% for the same period last year, an increase of 0.1%.

New Equipment Sales Gross Profit. Our new equipment sales gross profit for the nine month period ended September 30, 2016 decreased \$2.7 million, or 14.0%, to \$16.7 million compared to approximately \$19.4 million for the same



nine month period in 2015 on a total new equipment sales decrease of \$23.6 million. Gross profit margin on new equipment sales for the nine month period ended September 30, 2016 was 11.0%, a decrease of 0.1% from 11.1% in the same nine month period in 2015.

Used Equipment Sales Gross Profit. Our used equipment sales gross profit for the nine month period ended September 30, 2016 decreased \$4.1 million, or 15.7%, to \$22.2 million from approximately \$26.4 million in the same period in 2015 on a used equipment sales decrease of \$11.1 million. Gross profit margin on used equipment sales for the nine month period ended September 30, 2016 was 30.9%, down 0.8% from 31.7% for the same nine month period in 2015, primarily as a result of the mix of used equipment sold. Our used equipment sales from the rental fleet, which comprised approximately 86.5% and 82.0% of our used equipment sales for the nine month periods ended September 30, 2016 and 2015, respectively, were approximately 152.6% and 157.8% of net book value for the nine month periods ended September 30, 2016 and 2015, respectively.

Parts Sales Gross Profit. For the nine month period ended September 30, 2016, our parts sales revenue gross profit decreased \$0.4 million, or 1.7%, to \$22.8 million from \$23.2 million during the same nine month period in 2015 on a \$2.4 million decrease in parts sales revenues. Gross profit margin for the nine month period ended September 30, 2016 was 27.8%, an increase of 0.3% from 27.5% in the same nine month period in 2015, as a result of the mix of parts sold.

**Services Revenues Gross Profit.** For the nine month period ended September 30, 2016, our services revenues gross profit increased \$1.2 million, or 3.7%, to \$32.6 million from \$31.4 million for the same nine month period in 2015 on a \$1.9 million increase in services revenues. Gross profit margin for the nine month period ended September 30, 2016 was 66.1% compared to 66.0% in the same period last year.

**Non-Segmented Other Revenues Gross Profit.** Our non-segmented other revenues gross profit decreased approximately \$0.2 million, or 30.6%, to a gross profit of \$0.6 million for the nine month period ended June 30, 2016, compared to \$0.8 million in gross profit for the same period in 2015, on a \$0.6 million increase in non-segmented other revenues. Gross margin for the nine month period ended September 30, 2016 was 1.1% compared to a gross margin of 1.6% in the same nine month period last year, a decrease of 0.5%, primarily reflective of lower margins on hauling revenues compared to last year.

**Selling, General and Administrative Expenses.** SG&A expenses increased approximately \$9.8 million, or 6.0%, to \$172.4 million for the nine month period ended September 30, 2016 compared to \$162.6 million for the nine month period ended September 30, 2015. The increase in SG&A expenses was attributable to several factors. Employee salaries, wages, payroll taxes and related employee benefit expenses increased approximately \$4.6 million, primarily as a result of a larger workforce compared to the same period last year and higher employer health insurance costs. Facility costs increased \$2.4 million, comprised primarily of additional rent expense related to new branches opened since the second quarter of last year. Legal and other professional services increased \$1.5 million and depreciation expense increased \$0.8 million. Bad debt expense increased \$0.2 million and non-payroll taxes (primarily property taxes) increased \$1.0 million. Software related costs increased \$0.4 million. Partially offsetting these increases was a \$1.2 million decrease in employee education, training and related travel costs. Of the \$9.8 million increase in SG&A expenses, approximately \$5.3 million was attributable to branches opened since January 1, 2015 with less than nine full months of comparable operations in the first three quarters of 2015 and 2016. As a percentage of total revenues, SG&A expenses were 23.4% for the nine month period ended September 30, 2016, an increase of 2.2% from 21.2% for the same nine month period in 2015, primarily as a result of the cost increases as noted above.

**Other Income (Expense).** For the nine month period ended September 30, 2016, our net other expenses decreased \$0.9 million to \$38.7 million, compared to \$39.6 million for the same nine month period in 2015. Interest expense was \$40.2 million for the nine month period ended September 30, 2016 compared to \$40.7 million for the nine month period ended September 30, 2015, a decrease of approximately \$0.4 million. The decrease in interest expense is due to lower average borrowings under the Company's Senior Secured Credit Facility and lower average amounts outstanding on manufacturer flooring plans payable during the current year period compared to last year. Miscellaneous other income was \$1.5 million in the nine month period ended September 30, 2016 compared to \$1.1 million in the same period last year, an increase of \$0.4 million.

**Income Taxes.** We recorded income tax expense of \$17.4 million for the nine month period ended September 30, 2016 compared to income tax expense of \$22.8 million for the nine month period ended September 30, 2015. Our effective income tax rate was 41.3% for the nine month period ended September 30, 2016 compared to 41.4% for the same nine month period last year, a decrease of 0.1%. Based on available evidence, both positive and negative, we believe it is more likely than not that our deferred tax assets at September 30, 2016 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 nine month period ended September 30, 2016, the net cash provided by our operating activities was \$109.4 million. Our reported net income of \$24.7 million, when adjusted for non-cash income and expense items, such as depreciation and amortization, deferred income taxes, net amortization (accretion) of note discount (premium), provision for losses on accounts receivable, provision for inventory obsolescence,

stock-based compensation expense and net gains on the sale of long-lived assets, provided positive cash flows of approximately \$165.2 million. These cash flows from operating activities were also positively impacted by a \$5.8 million decrease in receivables and a \$1.2 million decrease in prepaid expenses and other assets. Partially offsetting these positive cash flows were a \$24.2 million decrease in manufacturing flooring plans payable and an \$18.5 million decrease in accounts payable. Also, inventories increased \$15.2 million and accrued expenses payable and other liabilities decreased \$4.4 million. Deferred compensation payable decreased \$0.3 million.

For the nine month period ended September 30, 2015, the cash provided by our operating activities was \$121.1 million. Our reported net income of \$32.3 million, which, when adjusted for non-cash income and expense items, such as depreciation and amortization, deferred income taxes, net amortization (accretion) of note discount (premium), provision for losses on accounts receivable, provision for inventory obsolescence, stock-based compensation expense and net gains on the sale of long-lived assets, provided positive cash flows of \$172.7 million. These cash flows from operating activities were also positively impacted by a \$15.3 million decrease in receivables and a \$0.6 million increase and a \$0.1 million increase in accounts payable and deferred compensation payable, respectively. Partially offsetting these positive cash flows were an \$18.7 million increase in inventories and a \$33.7 million

decrease in manufacturing flooring plans payable. Also decreasing our operating cash flows were a \$11.5 million decrease in accrued expenses payable and other liabilities and a \$3.7 million increase in prepaid expenses.

Cash flow from investing activities. For the nine month period ended September 30, 2016, the cash provided by our investing activities was exceeded by cash used in our investing activities, resulting in net cash used in our investing activities of approximately \$104.4 million. This was a result of purchases of rental and non-rental equipment totaling \$169.4 million and proceeds from the sale of rental and non-rental equipment of approximately \$64.9 million.

For the nine month period ended September 30, 2015, 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 \$88.7 million. This was a result of purchases of rental and non-rental equipment totaling \$159.5 million, which was partially offset by proceeds from the sale of rental and non-rental equipment of approximately \$70.8 million.

Cash flow from financing activities. For the nine month period ended September 30, 2016, the cash provided by our financing activities was exceeded by our cash used in our financing activities, resulting in net cash used in our financing activities of approximately \$5.1 million. Dividends totaling approximately \$29.3 million, or \$0.825 per common share, were paid during the nine month period ended September 30, 2016. Payments on capital lease obligations were \$0.2 million and we purchased treasury stock totaling approximately \$0.5 million. Partially offsetting these uses of cash were net borrowings under the Credit Facility of \$24.9 million.

For the nine month period ended September 30, 2015, cash provided by our financing activities was exceeded by our cash used in our financing activities, resulting in net cash used in our financing activities of \$39.0 million. Net payments under the Credit Facility were \$10.3 million. Deferred financing costs paid totaled \$0.7 million and dividends totaling \$27.4 million, or \$0.775 per common share, were paid during the nine month period ended September 30, 2015. Purchases of treasury stock were approximately \$0.5 million and payments of capital lease obligations were \$0.1 million.

#### Senior Secured Credit Facility

We and our subsidiaries are parties to a \$602.5 million senior secured credit facility (the "Credit Facility") with Wells Fargo Capital Finance, LLC ("Wells Fargo"), agent (as successor in such capacity to General Electric Capital Corporation ("GE Capital")), 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, GE Capital, as administrative agent, Bank of America, N.A. as co-syndication agent and documentation agent, Wells Fargo, as co-syndication agent and Deutsche Bank Securities Inc. as joint lead arranger and joint bookrunner. In March 2016, Wells Fargo succeeded and was substituted for GE Capital as the administrative agent under the Amended and Restated Credit Agreement.

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).

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

As of September 30, 2016, we were in compliance with our financial covenants under the Credit Facility. At September 30, 2016, the Company could borrow up to an additional \$385.0 million and remain in compliance with the debt covenants under the Company's Credit Facility.

At September 30, 2016, the interest rate on the Credit Facility was based on either a 3.50% U.S. Prime Rate plus 100 basis points or LIBOR plus 200 basis points, as applicable with respect to the type of revolving loan. The weighted average interest rate at September 30, 2016 was approximately 2.7%. At October 21, 2016, we had \$391.6 million of available borrowings under our Credit Facility, net of \$7.7 million of outstanding letters of credit.

#### Cash Requirements Related to Operations

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

The amount of our future capital expenditures will depend on a number of factors including general economic conditions and growth prospects. Our gross rental fleet capital expenditures for the nine month period ended September 30, 2016 were approximately \$190.6 million, including approximately \$38.0 million of non-cash transfers from new and used equipment to rental fleet inventory. Our gross property and equipment capital expenditures for the nine month period ended September 30, 2016 were \$16.8 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 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 October 21, 2016, we had \$391.6 million of available borrowings under the Credit Facility, net of \$7.7 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 Notes, as well as any future debt agreements, contain or may contain restrictive covenants, which may prohibit us from adopting any of these alternatives. Our failure to comply with these covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our debt.

#### Quarterly Dividend

On August 10, 2016, the Company announced a quarterly dividend of \$0.275 per share to stockholders of record, which was paid on September 9, 2016, totaling approximately \$9.8 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.

#### Seasonality

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

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

#### Contractual and Commercial Commitments

There have been no material changes from the information included in our Annual Report on Form 10-K for the year ended December 31, 2015.

#### Off-Balance Sheet Arrangements

There have been no material changes from the information included in our Annual Report on Form 10-K for the year ended December 31, 2015.

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

Our earnings may be affected by changes in interest rates since interest expense on the Credit Facility is currently calculated based upon the index rate plus an applicable margin of 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 September 30, 2016, we had total borrowings outstanding under the Credit Facility of approximately \$209.8 million. A 1.0% increase in the interest rate on the Credit Facility would result in approximately a \$2.1 million increase in interest expense on an annualized basis. At October 21, 2016, we had \$391.6 million of available borrowings under the Credit Facility, net of \$7.7 million of outstanding letters of credit. We did not have significant exposure to changing interest rates as of September 30, 2016 on the fixed-rate Notes. Historically, we have not engaged in derivatives or other financial instruments for trading, speculative or hedging purposes, though we may do so from time to time if such instruments are available to us on acceptable terms and prevailing market conditions are accommodating.

### Item 4. Controls and Procedures

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

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

Our Chief Executive Officer and Chief Financial Officer (our principal executive officer and principal financial officer, respectively) have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, our principal executive officer and principal financial officer have concluded that, as of September 30, 2016, 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 quarter ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A - "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2015, which could materially affect our business, financial condition or future results.

As of the date of this Quarterly Report on Form 10-Q, there have been no material changes with respect to the Company's risk factors previously disclosed on Form 10-K for the year ended December 31, 2015.

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

On July 1, 2016, 24,960 shares of non-vested stock that were issued in 2013 vested at \$19.12 per share. Certain holders of those vested shares returned an aggregate of 8,011 shares of common stock to the Company during the quarter ended September 30, 2016 as payment for their respective withholding taxes. This resulted in an addition of 8,011 shares to treasury stock.

On August 1, 2016, 18,567 shares of non-vested stock that were issued in 2014 vested at \$18.28 per share. Certain holders of those vested shares returned an aggregate of 5,897 shares of common stock to the Company during the quarter ended September 30, 2016 as payment for their respective withholding taxes. This resulted in an addition of 5,897 shares to treasury stock.

On August 3, 2016, 50,279 shares of non-vested stock that were issued in 2015 vested at \$17.92 per share. Certain holders of those vested shares returned an aggregate of 15,907 shares of common stock to the Company during the quarter ended September 30, 2016 as payment for their respective withholding taxes. This resulted in an addition of 15,907 shares to treasury stock.

Item 3. Defaults upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

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

SIGNATURES

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

H&E EQUIPMENT SERVICES, INC.

Dated: October 27, 2016 By: /s/ John M. Engquist  
John M. Engquist

Chief Executive Officer

(Principal Executive Officer)

Dated: October 27, 2016 By: /s/ Leslie S. Magee  
Leslie S. Magee

Chief Financial Officer and Secretary

(Principal Financial and Accounting Officer)

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