

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549**

**FORM 10-Q**

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

For the quarterly period ended September 30, 2023

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITY AND EXCHANGE ACT OF 1934

Commission file number 000-13292

**McGRATH RENTCORP**

(Exact name of registrant as specified in its Charter)

**California**  
(State or other jurisdiction  
of incorporation or organization)

**94-2579843**  
(I.R.S. Employer  
Identification No.)

**5700 Las Positas Road, Livermore, CA 94551-7800**  
(Address of principal executive offices)

Registrant's telephone number: (925) 606-9200

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock	MGRC	NASDAQ Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 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 every Interactive Data File required to be submitted 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 such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period of complying with any new or revised financial accounting standards provided pursuant to section 13(a) of the Exchange Act.

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 25, 2023, 24,489,445 shares of Registrant's Common Stock were outstanding.

## FORWARD LOOKING STATEMENTS

Statements contained in this Quarterly Report on Form 10-Q (this "Form 10-Q") which are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, regarding McGrath RentCorp's (the "Company's") expectations, strategies, prospects or targets are forward looking statements. These forward-looking statements also can be identified by the use of forward-looking terminology such as "anticipates," "believes," "continues," "could," "estimates," "expects," "intends," "may," "plan," "predict," "project," or "will," or the negative of these terms or other comparable terminology.

Management cautions that forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties that could cause our actual results to differ materially from those projected in such forward-looking statements. Further, our future business, financial condition and results of operations could differ materially from those anticipated by such forward-looking statements and are subject to risks and uncertainties as set forth under "Risk Factors" in this Form 10-Q.

Forward-looking statements are made only as of the date of this Form 10-Q and are based on management's reasonable assumptions, however these assumptions can be wrong or affected by known or unknown risks and uncertainties. No forward-looking statement can be guaranteed and subsequent facts or circumstances may contradict, obviate, undermine or otherwise fail to support or substantiate such statements. Readers should not place undue reliance on these forward-looking statements and are cautioned that any such forward-looking statements are not guarantees of future performance. Except as otherwise required by law, we are under no duty to update any of the forward-looking statements after the date of this Form 10-Q to conform such statements to actual results or to changes in our expectations.

**Item 1. Financial Statements**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Shareholders  
McGrath RentCorp

**Results of review of interim financial statements**

We have reviewed the accompanying condensed consolidated balance sheet of McGrath RentCorp (a California Corporation) and subsidiaries (the “Company”) as of September 30, 2023, and the related condensed consolidated statements of income, comprehensive income, shareholders’ equity, for the three-month and nine-month periods ended September 30, 2023 and 2022, cash flows for the nine-month periods ended September 30, 2023 and 2022, and the related notes (collectively referred to as the “interim financial statements”). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated balance sheet of the Company as of December 31, 2022, and the related consolidated statements of income, comprehensive income, shareholders’ equity, and cash flows for the year then ended (not presented herein); and in our report dated February 22, 2023, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2022, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

**Basis for review results**

These interim financial statements are the responsibility of the Company’s management. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB. We conducted our reviews in accordance with the standards of the PCAOB. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the PCAOB, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

/s/ GRANT THORNTON LLP

San Francisco, California  
October 26, 2023

**MCGRATH RENTCORP**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
**(UNAUDITED)**

<i>(in thousands, except per share amounts)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
<b>Revenues</b>				
Rental	\$ 122,686	\$ 100,871	\$ 350,773	\$ 285,588
Rental related services	40,492	28,198	101,481	69,276
Rental operations	163,178	129,069	452,254	354,864
Sales	77,115	44,414	148,576	95,503
Other	3,213	860	9,424	2,397
Total revenues	243,506	174,343	610,254	452,764
<b>Costs and Expenses</b>				
Direct costs of rental operations:				
Depreciation of rental equipment	22,069	20,174	66,499	60,118
Rental related services	28,532	20,576	71,625	50,116
Other	28,493	28,203	90,188	82,573
Total direct costs of rental operations	79,094	68,953	228,312	192,807
Costs of sales	52,878	28,548	98,431	58,124
Total costs of revenues	131,972	97,501	326,743	250,931
Gross profit	111,534	76,842	283,511	201,833
Selling and administrative expenses	48,508	36,954	153,032	103,368
Other income	(3,559)	—	(3,559)	—
Income from operations	66,585	39,888	134,038	98,465
Interest expense	(11,025)	(3,355)	(28,434)	(8,057)
Foreign currency exchange (loss) gain	(42)	(236)	166	(404)
Income from continuing operations before provision for income taxes	55,518	36,297	105,770	90,004
Provision for income taxes from continuing operations	15,152	9,182	25,934	21,687
Income from continuing operations	40,366	27,115	79,836	68,317
Discontinued operations:				
Income from discontinued operations before provision for income taxes	—	4,635	1,709	9,350
Provision for income taxes from discontinued operations	—	1,183	453	2,170
Gain on sale of discontinued operations, net of tax	—	—	61,513	—
Income from discontinued operations	—	3,452	62,769	7,180
Net income	<u>\$ 40,366</u>	<u>\$ 30,567</u>	<u>\$ 142,605</u>	<u>\$ 75,497</u>
Earnings per share from continuing operations:				
Basic	\$ 1.65	\$ 1.11	\$ 3.26	\$ 2.81
Diluted	\$ 1.65	\$ 1.11	\$ 3.26	\$ 2.79
Earnings per share from discontinued operations:				
Basic	\$ —	\$ 0.14	\$ 2.57	\$ 0.29
Diluted	\$ —	\$ 0.14	\$ 2.56	\$ 0.29
Earnings per share:				
Basic	\$ 1.65	\$ 1.25	\$ 5.83	\$ 3.10
Diluted	\$ 1.65	\$ 1.25	\$ 5.81	\$ 3.08
Shares used in per share calculation:				
Basic	24,487	24,379	24,461	24,342
Diluted	24,525	24,504	24,527	24,516
Cash dividends declared per share	\$ 0.465	\$ 0.455	\$ 1.395	\$ 1.365

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

**MCGRATH RENTCORP**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**(UNAUDITED)**

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<i>(in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net income	\$ 40,366	\$ 30,567	\$ 142,605	\$ 75,497
Other comprehensive income:				
Foreign currency translation adjustment, net of tax impact	11	65	36	129
Comprehensive income	<u>\$ 40,377</u>	<u>\$ 30,632</u>	<u>\$ 142,641</u>	<u>\$ 75,626</u>

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

**MCGRATH RENTCORP**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
**(UNAUDITED)**

<i>(in thousands)</i>	September 30, 2023	December 31, 2022
<b>Assets</b>		
Cash	\$ 1,946	\$ 957
Accounts receivable, net of allowance for credit losses of \$2,683 in 2023 and \$2,300 in 2022	224,269	169,937
Rental equipment, at cost:		
Relocatable modular buildings	1,474,359	1,123,268
Electronic test equipment	383,006	398,267
	1,857,365	1,521,535
Less: accumulated depreciation	(565,497)	(531,218)
Rental equipment, net	1,291,868	990,317
Property, plant and equipment, net	146,484	138,713
Prepaid expenses and other assets	80,853	69,837
Intangible assets, net	67,480	35,431
Goodwill	323,771	106,403
Assets of discontinued operations	—	196,249
Total assets	<u>\$ 2,136,671</u>	<u>\$ 1,707,844</u>
<b>Liabilities and Shareholders' Equity</b>		
<b>Liabilities:</b>		
Notes payable	\$ 667,640	\$ 413,742
Accounts payable and accrued liabilities	223,010	151,208
Deferred income	105,534	82,417
Deferred income taxes, net	229,115	203,361
Liabilities of discontinued operations	—	53,171
Total liabilities	<u>1,225,299</u>	<u>903,899</u>
<b>Shareholders' equity:</b>		
Common stock, no par value - Authorized 40,000 shares		
Issued and outstanding - 24,489 shares as of September 30, 2023 and 24,388 shares as of December 31, 2022	109,253	110,080
Retained earnings	802,161	693,943
Accumulated other comprehensive loss	(42)	(78)
Total shareholders' equity	<u>911,372</u>	<u>803,945</u>
Total liabilities and shareholders' equity	<u>\$ 2,136,671</u>	<u>\$ 1,707,844</u>

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

**MCGRATH RENTCORP**  
**CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
**(UNAUDITED)**

<i>(in thousands, except per share amounts)</i>	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount			
<b>Balance at December 31, 2022</b>	24,388	\$ 110,080	\$ 693,943	\$ (78)	\$ 803,945
Net income	—	—	71,657	—	71,657
Share-based compensation	—	1,493	—	—	1,493
Common stock issued under stock plans, net of shares withheld for employee taxes	78	—	—	—	—
Taxes paid related to net share settlement of stock awards	—	(6,086)	—	—	(6,086)
Dividends accrued of \$0.465 per share	—	—	(11,453)	—	(11,453)
Other comprehensive loss	—	—	—	(18)	(18)
<b>Balance at March 31, 2023</b>	24,466	\$ 105,487	\$ 754,147	\$ (96)	\$ 859,538
Net income	—	—	30,582	—	30,582
Share-based compensation	—	1,889	—	—	1,889
Common stock issued under stock plans, net of shares withheld for employee taxes	19	—	—	—	—
Taxes paid related to net share settlement of stock awards	—	(14)	—	—	(14)
Dividends accrued of \$0.465 per share	—	—	(11,469)	—	(11,469)
Other comprehensive income	—	—	—	43	43
<b>Balance at June 30, 2023</b>	24,485	\$ 107,362	\$ 773,260	\$ (53)	\$ 880,569
Net income	—	—	40,366	—	40,366
Share-based compensation	—	1,891	—	—	1,891
Common stock issued under stock plans, net of shares withheld for employee taxes	4	—	—	—	—
Taxes paid related to net share settlement of stock awards	—	—	—	—	—
Dividends accrued of \$0.465 per share	—	—	(11,465)	—	(11,465)
Other comprehensive income	—	—	—	11	11
<b>Balance at September 30, 2023</b>	24,489	\$ 109,253	\$ 802,161	\$ (42)	\$ 911,372

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

(in thousands, except per share amounts)	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount			
<b>Balance at December 31, 2021</b>	24,260	\$ 108,610	\$ 623,465	\$ (54)	\$ 732,021
Net income	—	—	18,793	—	18,793
Share-based compensation	—	1,760	—	—	1,760
Common stock issued under stock plans, net of shares withheld for employee taxes	75	—	—	—	—
Taxes paid related to net share settlement of stock awards	—	(3,605)	—	—	(3,605)
Dividends accrued of \$0.455 per share	—	—	(11,084)	—	(11,084)
Other comprehensive income	—	—	—	3	3
<b>Balance at March 31, 2022</b>	24,335	\$ 106,765	\$ 631,174	\$ (51)	\$ 737,888
Net income	—	—	26,137	—	26,137
Share-based compensation	—	1,652	—	—	1,652
Common stock issued under stock plans, net of shares withheld for employee taxes	43	—	—	—	—
Taxes paid related to net share settlement of stock awards	—	(2,523)	—	—	(2,523)
Dividends accrued of \$0.455 per share	—	—	(11,181)	—	(11,181)
Other comprehensive income	—	—	—	61	61
<b>Balance at June 30, 2022</b>	24,378	\$ 105,894	\$ 646,130	\$ 10	\$ 752,034
Net income	—	—	30,567	—	30,567
Share-based compensation	—	1,694	—	—	1,694
Common stock issued under stock plans, net of shares withheld for employee taxes	4	—	—	—	—
Taxes paid related to net share settlement of stock awards	—	(125)	—	—	(125)
Dividends accrued of \$0.455 per share	—	—	(11,167)	—	(11,167)
Other comprehensive income	—	—	—	65	65
<b>Balance at September 30, 2022</b>	24,382	\$ 107,463	\$ 665,530	\$ 75	\$ 773,068

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

**MCGRATH RENTCORP**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(UNAUDITED)**

<i>(in thousands)</i>	<b>Nine Months Ended September 30,</b>	
	<b>2023</b>	<b>2022</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 142,605	\$ 75,497
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	81,842	83,272
Deferred income taxes	(30,018)	(4,299)
Provision for credit losses	1,794	307
Share-based compensation	5,273	5,106
Gain on sale of property, plant and equipment	(3,559)	—
Gain on sale of discontinued operations	(61,513)	—
Gain on sale of used rental equipment	(22,964)	(26,705)
Foreign currency exchange (gain) loss	(166)	404
Amortization of debt issuance costs	6	13
Change in:		
Accounts receivable	(27,733)	(30,767)
Prepaid expenses and other assets	(7,390)	(17,313)
Accounts payable and accrued liabilities	32,818	14,384
Deferred income	7,908	33,399
Net cash provided by operating activities	<u>118,903</u>	<u>133,298</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from sale of discontinued operations	268,012	—
Purchases of rental equipment	(171,322)	(130,395)
Purchases of property, plant and equipment	(16,448)	(10,594)
Cash paid for acquisition of businesses	(458,315)	—
Cash paid for acquisition of business assets	(3,474)	—
Proceeds from sales of used rental equipment	49,405	54,193
Proceeds from sales of property, plant and equipment	595	—
Net cash used in investing activities	<u>(331,547)</u>	<u>(86,796)</u>
<b>Cash Flows from Financing Activities:</b>		
Net borrowings (payments) under bank lines of credit	178,892	(7,000)
Borrowings under note purchase agreement	75,000	—
Taxes paid related to net share settlement of stock awards	(6,100)	(6,253)
Payment of dividends	(34,168)	(33,175)
Net cash provided by (used in) financing activities	<u>213,624</u>	<u>(46,428)</u>
Effect of foreign currency exchange rate changes on cash	9	(4)
Net increase in cash	989	70
Cash balance, beginning of period	957	1,491
Cash balance, end of period	<u>\$ 1,946</u>	<u>\$ 1,561</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Interest paid, during the period	<u>\$ 27,818</u>	<u>\$ 8,982</u>
Net income taxes paid, during the period	<u>\$ 9,547</u>	<u>\$ 24,885</u>
Dividends accrued during the period, not yet paid	<u>\$ 12,014</u>	<u>\$ 11,167</u>
Rental equipment acquisitions, not yet paid	<u>\$ 5,765</u>	<u>\$ 9,555</u>
Proceeds to be received on the sale of property, plant and equipment	<u>\$ 6,370</u>	<u>\$ —</u>
Business acquisition payments withheld	<u>\$ 293</u>	<u>\$ —</u>

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

**MCGRATH RENTCORP**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**  
**September 30, 2023**

**NOTE 1. CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

The condensed consolidated financial statements for the three and nine months ended September 30, 2023 and 2022 have not been audited, but in the opinion of management, all adjustments (consisting of normal recurring accruals, consolidating and eliminating entries) necessary for the fair presentation of the consolidated financial position, results of operations and cash flows of McGrath RentCorp (the "Company") have been made. The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to those rules and regulations. The consolidated results for the three and nine months ended September 30, 2023, should not be considered as necessarily indicative of the consolidated results for the entire fiscal year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's latest Annual Report on Form 10-K, filed with the SEC on February 22, 2023 for the year ended December 31, 2022 (the "2022 Annual Report").

**NOTE 2. NEW ACCOUNTING PRONOUNCEMENTS**

On March 27, 2023, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2023-01, Leases (Topic 842): Common Control Arrangements, which requires a lessee involved in a common control lease agreement to amortize leasehold improvements over the useful life of the improvements to the common control group, regardless of the lease term, as long as the lessee controls the use of the underlying asset. If the lessor obtains the right to control the use of the underlying asset through a lease with another entity not within the same control group, the amortization period cannot exceed the period of the common control group. Furthermore, the ASU requires the accounting for a transfer between entities under common control through an adjustment to equity when the lessee no longer controls the use of the underlying asset. The ASU is effective for fiscal years beginning after December 15, 2023. The Company does not expect the adoption of this ASU to have a material impact on the Company's consolidated financial statements.

**NOTE 3. IMPLEMENTED ACCOUNTING PRONOUNCEMENTS**

Effective January 1, 2023, the Company adopted the ASU 2022-02, Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures, which eliminates the separate recognition and measurement guidance for troubled debt restructurings by creditors. In addition, the ASU requires disclosure of current-period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of FASB ASC 326-20, Financial Instruments—Credit Losses—Measured at Amortized Cost. The adoption of this new guidance did not have a material impact on the Company's consolidated financial statements.

Effective January 1, 2023, the Company adopted the ASU 2021-08, Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers, which requires an entity to recognize and measure contract assets and contract liabilities acquired in a business combination in accordance with ASC 606, Revenue from Contracts with Customers. Additionally, the ASU requires revenue contracts, including contract assets and liabilities, to be evaluated on the acquisition date and reported as if the contracts had originated with the acquirer, resulting in a measurement consistent with the recognition on the acquiree's financial statements. The adoption of this new guidance did not have a material impact on the Company's consolidated financial statements.

**NOTE 4. ACQUISITIONS**

On February 1, 2023, the Company completed the acquisition of Vesta Housing Solutions Holdings, Inc. ("Vesta Modular"), a portfolio company of Kinderhook Industries, for \$437.2 million cash consideration on the closing date, which included certain adjustments, including net working capital and certain qualified capital expenditures. In connection with the acquisition, the Company purchased a representation and warranty insurance policy to provide certain recourse in the event of breaches of representations and warranties of Vesta Modular and the seller of Vesta Modular under the stock purchase agreement. Vesta Modular is a leading provider of temporary and permanent modular space solutions serving customers between its modular leasing and modular construction divisions. The acquisition was accounted for as a purchase of a "business" in accordance with criteria in ASC 805, *Business Combinations*, using the purchase method of accounting. Under the purchase method of accounting, the total purchase price is assigned to tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values on the closing date. The excess of the purchase price over those fair values is recorded as goodwill. During the quarter ended September 30, 2023, the purchase price allocation was revised resulting in a \$12.8 million reduction in rental assets, \$10.1 million reduction in deferred income taxes, a \$0.4 million reduction in accounts payable and accrued liabilities, and a \$3.9 million increase in the customer relationships intangible asset. The net impact of

these revisions resulted in a \$1.6 million reduction in Goodwill for Vesta Modular. The financial results of Vesta Modular were a part of the Mobile Modular segment since February 1, 2023, including \$9.5 million of transaction costs.

On March 1, 2023, the Company completed the purchase of assets of Jerald R. Brekke, Inc., DBA Brekke Storage ("Brekke Storage"), for a total purchase price of \$16.4 million. Brekke Storage is a regional provider of portable storage solutions in the Colorado market. The acquisition expanded the Mobile Modular Portable Storage fleet by approximately 2,700 units and provided a new regional operation to serve the Colorado market. The acquisition was accounted for as a purchase of a "business" in accordance with criteria in ASC 805 using the purchase method of accounting. The financial results of Brekke Storage were a part of the Mobile Modular segment since March 1, 2023, including \$0.2 million of transaction costs.

On April 1, 2023, the Company completed the purchase of assets of Dixie Temporary Storage, LLC ("Dixie Storage"), for a purchase price of \$4.9 million. Dixie Storage is a regional provider of portable storage solutions in the South Carolina market and is highly complementary to the Company's portable storage business segment. The acquisition expanded the Mobile Modular Portable Storage fleet by approximately 800 units and provided a new regional operation to serve the South Carolina market. The acquisition was accounted for as a purchase of a "business" in accordance with criteria in ASC 805, *Business Combinations*, using the purchase method of accounting. The financial results of Dixie Storage were a part of the Mobile Modular segment since April 1, 2023, including \$0.1 million of transaction costs.

On July 1, 2023, the Company completed the purchase of assets of Inland Leasing and Storage, LLC ("Inland Leasing"), for a purchase price of \$3.8 million. Inland Leasing is a regional provider of portable storage solutions in the Colorado market and is highly complementary to the Company's portable storage business segment. The acquisition grew the Mobile Modular Portable Storage fleet by approximately 600 units, which will further support the Colorado market. The acquisition was accounted for as a purchase of "assets" in accordance with criteria in ASC 805 and the assessment of the fair value of the purchased assets was allocated primarily to rental equipment totaling \$3.0 million and intangible assets totaling \$0.7 million. Supplemental pro forma information has not been provided as the historical financial results of Inland Leasing were not significant. Incremental transaction costs associated with the asset purchase were not significant.

The following tables summarize the preliminary purchase price allocations reflecting estimated fair values of assets acquired and liabilities assumed in the Vesta Modular, Brekke Storage and Dixie Storage business acquisitions, with excess amounts allocated to goodwill. The estimated fair values of the assets acquired and liabilities assumed at the acquisition date are determined based on preliminary valuations and analyses. Accordingly, the Company has made provisional estimates for the assets acquired and liabilities assumed. The valuation of intangible assets acquired is based on certain valuation assumptions including cash flow projections, discount rates, contributory asset charges and other valuation model inputs. The valuation of tangible long-lived assets acquired is dependent upon various analyses including an analysis of the condition and estimated remaining economic lives of the assets acquired.

**Vesta Modular:**

*(dollar amounts in thousands)*

Rental equipment	\$	213,929
Intangible assets:		
Goodwill		211,730
Customer relationships		29,900
Non-compete		7,100
Trade name		800
Cash		11
Accounts receivable		22,401
Property, plant and equipment		1,437
Prepaid expenses and other assets		3,550
Accounts payable and accrued liabilities		(27,153)
Deferred income		(14,273)
Deferred income taxes		(12,222)
Total purchase price	\$	437,210

**Brekke Storage:***(dollar amounts in thousands)*

Rental equipment	\$	10,798
Intangible assets:		
Goodwill		4,083
Customer relationships		949
Non-compete		59
Property, plant and equipment		875
Deferred income		(382)
Total purchase price	\$	16,382

**Dixie Storage:***(dollar amounts in thousands)*

Rental equipment	\$	2,758
Intangible assets:		
Goodwill		1,555
Customer relationships		259
Non-compete		22
Property, plant and equipment		318
Deferred income		(161)
Total purchase price	\$	4,751

The value assigned to identifiable intangible assets was determined based on discounted estimated future cash flows associated with such assets to their present value. The combined acquired goodwill of \$217.4 million reflects the strategic fit of Vesta Modular, Brekke Storage and Dixie Storage with the Company's modular and portable storage business operations. The Company amortizes the acquired customer relationships over their expected useful lives of 11 years for Vesta Modular, 8 years for Brekke Storage and 9 years for Dixie Storage. The expected useful life for the non-compete agreements is 5 years. The trade name intangible acquired from the Vesta Modular acquisition will be amortized over its useful life of nine months. Goodwill is expected to have an indefinite life and will be subject to future impairment testing. The goodwill is deductible for tax purposes over 15 years.

The following unaudited pro forma financial information shows the combined results of continuing operations of the Company and Vesta Modular as if the acquisition occurred as of the beginning of the periods presented. The pro forma results include the effects of the amortization of the purchased intangible assets and depreciation expense of acquired rental equipment valuation step up, interest expense on the debt incurred to finance the acquisitions. A pro forma adjustment has been made to reflect the income taxes that would have been recorded at the combined federal and state statutory rate of 26.5% on the acquisitions' combined net income. The pro forma results for the nine months ended September 30, 2023 and 2022, have been adjusted to include transaction related costs. This pro forma data is presented for informational purposes only and does not purport to be indicative of the results of the future operations or the results that would have occurred had the acquisitions taken place in the periods noted below:

	<i>(Unaudited)</i>	
	Nine months ended September 30,	
	2023	2022
<i>(dollar amounts in thousands, except for per share amounts)</i>		
Pro-forma total revenues	\$ 617,897	\$ 550,813
Pro-forma net income	\$ 79,540	\$ 63,204
Pro-forma basic earnings per share	\$ 3.25	\$ 2.60
Pro-forma diluted earnings per share	\$ 3.25	\$ 2.58
<b>Vesta Modular</b>		
Actual total revenues	\$ 82,186	
Actual net income	\$ 17,627	
Actual basic earnings per share	\$ 0.72	
Actual diluted earnings per share	\$ 0.72	

**NOTE 5. DISCONTINUED OPERATIONS**

On February 1, 2023, the Company completed the sale of Adler Tank Rentals, LLC to Ironclad Environmental Solutions, Inc. ("Ironclad"), a portfolio company of Kinderhook Industries, for a sale price of \$268.0 million. The total transaction costs incurred from the divestiture was \$8.9 million, with \$6.7 million incurred during the nine months ended September 30, 2023, and \$2.2 million incurred during the year ended December 31, 2022. The divestiture of the Company's Adler Tanks business represents the Company's strategic shift to concentrate its operations on its core modular and storage businesses. The sale price was subject to certain adjustments, including net working capital, certain qualified capital expenditures and certain transaction expenses to be borne by the Company. In connection with the sale, the Company entered into a number of ancillary agreements, including an escrow agreement associated with net working capital adjustments, a restricted covenant agreement, a transition services agreement, and a number of leases whereby Ironclad or one of its affiliates would be a lessee to certain properties owned by the Company that the Adler Tanks business would continue to utilize after the sale. These ancillary agreements do not provide for continued involvement by the Company in Adler Tanks. In accordance with ASC 205-20, Presentation of Financial Statements - *Discontinued Operations* and ASC 360, *Property, Plant and Equipment*, the Company determined that the criteria for the presentation of discontinued operations and held-for-sale, respectively, were met during the first quarter of 2023.

The following table presents the results of Adler Tanks as reported in income from discontinued operations within the condensed consolidated statements of income for the nine months ended September 30, 2023 and 2022:

<i>(dollar amounts in thousands)</i>	Nine Months Ended September 30,	
	2023	2022
<b>Revenues</b>		
Rental	\$ 6,520	\$ 47,638
Rental related services	2,584	19,221
Rental operations	9,104	66,859
Sales	269	2,235
Other	65	1,082
Total revenues	9,438	70,176
<b>Costs and Expenses</b>		
Direct costs of rental operations:		
Depreciation of rental equipment	1,325	11,996
Rental related services	2,020	14,851
Other	1,270	9,783
Total direct costs of rental operations	4,614	36,630
Costs of sales	159	1,613
Total costs of revenues	4,773	38,243
<b>Gross Profit</b>		
Rental	3,926	25,859
Rental related services	564	4,370
Rental operations	4,490	30,229
Sales	110	622
Other	65	1,082
Total gross profit	4,665	31,933
Selling and administrative expenses	2,582	20,642
Income from operations	2,083	11,291
Interest expense allocation	(374)	(1,941)
Income from discontinued operations before provision for income taxes	1,709	9,350
Provision for income taxes from discontinued operations	453	2,170
Income from discontinued operations	\$ 1,256	\$ 7,180
<b>Other Selected Information</b>		
Adjusted EBITDA	\$ 3,682	\$ 25,443

The following table presents the carrying value of the divested business' assets and liabilities as presented within assets and liabilities of discontinued operations on the condensed consolidated balance sheets as of December 31, 2022:

<i>(in thousands)</i>	<b>December 31, 2022</b>
<b>Assets</b>	
Accounts receivable, net of allowance for credit losses of \$450	\$ 20,086
Rental equipment, net	137,738
Property, plant and equipment, net	6,632
Prepaid expenses and other assets	191
Intangible assets, net	5,700
Goodwill	25,902
Total assets of discontinued operations	<u>\$ 196,249</u>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	\$ 9,621
Deferred income taxes, net	43,550
Total liabilities of discontinued operations	<u>\$ 53,171</u>

For the nine months ended September 30, 2023 and 2022, significant operating and investing items related to Adler Tanks were as follows:

<i>(in thousands)</i>	<b>September 30, 2023</b>	<b>September 30, 2022</b>
Operating activities of discontinued operations:		
Depreciation and amortization	\$ 1,457	\$ 13,290
Gain on sale of used rental equipment	(111)	(478)
Investing activities of discontinued operations:		
Proceeds from sales of used rental equipment	269	1,675
Purchases of rental equipment	(25)	(2,878)
Purchases of property, plant and equipment	(40)	(88)

The following table presents the reconciliation of income from discontinued operations to Adjusted EBITDA for the nine months ended September 30, 2023 and 2022:

<i>(in thousands)</i>	<b>September 30, 2023</b>	<b>September 30, 2022</b>
Income from discontinued operations	\$ 1,256	\$ 7,180
Provision for income taxes from discontinued operations	453	2,170
Interest expense	374	1,941
Depreciation and amortization	1,457	13,290
EBITDA	3,540	24,581
Share-based compensation	118	862
Transaction costs	24	—
Adjusted EBITDA from discontinued operations	<u>\$ 3,682</u>	<u>\$ 25,443</u>

#### NOTE 6. REVENUE RECOGNITION

The Company's accounting for revenues is governed by two accounting standards. The majority of the Company's revenues are considered lease or lease related and are accounted for in accordance with Accounting Standards Codification (ASC) 842, Leases. Revenues determined to be non-lease related are accounted for in accordance with ASC 606, Revenue from Contracts with Customers. The Company accounts for revenues when approval and commitment from both parties have been obtained, the rights of the parties are identified, payment terms are identified, the contract has commercial substance and collectability of consideration is probable. The Company typically recognizes non-lease related revenues at a point in time because the customer does not simultaneously consume the benefits of the Company's promised goods and services, or performance obligations, and obtains control when delivery and installation are complete. For contracts that have multiple performance obligations, the transaction price is allocated to each performance obligation in the contract based on the Company's best estimate of the standalone selling prices of each distinct performance obligation in the contract. The standalone selling price is typically determined based upon the expected cost plus an estimated margin of each performance obligation.

Revenue from contracts that satisfies the criteria for over time recognition is recognized as work is performed by using the ratio of costs incurred to estimated total contract costs for each contract. The majority of revenue for these contracts is derived from long-term projects which typically span multiple quarters. The timing of revenue recognition, billings, and cash collections results in billed contract receivables and contract assets on the Company's consolidated balance sheet. In the Company's contracts, amounts are billed as work progresses in accordance with agreed-upon contractual terms, either at periodic intervals or upon achievement of contractual milestones. Billings can occur subsequent to revenue recognition, resulting in contract assets, or in advance, resulting in contract liabilities. These contract assets and liabilities are reported on the consolidated balance sheet on a contract-by-contract basis at the end of each reporting period. The contract liabilities included in Deferred income on the Company's consolidated balance sheet totaled \$34.2 million and \$27.4 million at September 30, 2023 and December 31, 2022, respectively. Sales revenues totaling \$8.0 million and \$19.0 million were recognized during the three and nine months ended September 30, 2023, respectively, which were included in the contract liability balance at December 31, 2022. For certain modular building sales, the customer retains a small portion of the contract price until full completion of the contract, or revenue is recognizable prior to customer billing, which results in revenue earned in excess of billings. These unbilled contract assets are included in Accounts receivable on the Company's consolidated balance sheet and totaled \$1.2 million and \$0.6 million at September 30, 2023 and December 31, 2022, respectively.

The Company generally rents and sells to customers on 30 day payment terms. The Company does not typically offer variable payment terms or accept non-monetary consideration. Amounts billed and due from the Company's customers are classified as Accounts receivable on the Company's consolidated balance sheet. For certain sales of modular buildings, progress payments from the customer are received during the manufacturing of new equipment, or the preparation of used equipment. The advance payments are not considered a significant financing component because the payments are used to meet working capital needs during the contract and to protect the Company from the customer failing to adequately complete their obligations under the contract.

### **Lease Revenues**

Rental revenues from operating leases are recognized on a straight-line basis over the term of the lease for all operating segments. Rental billings for periods extending beyond period end are recorded as deferred income and are recognized in the period earned. Rental related services revenues are primarily associated with relocatable modular buildings. For modular building leases, rental related services revenues for modifications, delivery, installation, dismantle and return delivery are lease related because the payments are considered minimum lease payments that are an integral part of the negotiated lease agreement with the customer. These revenues are recognized on a straight-line basis over the term of the lease. Certain leases are accounted for as finance leases. For these leases, sales revenue and the related accounts receivable are recognized upon delivery and installation of the equipment and the unearned interest is recognized over the lease term on a basis which results in a constant rate of return on the unrecovered lease investment. As of the nine months ended September 30, 2023, the Company's future minimum lease payments to be received under non-cancelable finance leases were \$4.1 million. Of the total investment in sales-type leases, non-current future minimum lease payments are expected to be \$0.9 million in 2024, \$0.7 million in 2025, and \$0.2 million in 2026. The Company's assessment of current expected losses on these receivables was not material and therefore no credit loss expense was provided as of the nine months ended September 30, 2023. Other revenues include interest income on finance leases and rental income on facility leases.

In the three and nine months ended September 30, 2023, the Company's lease revenues were \$147.2 million and \$424.6 million, respectively, consisting of \$146.7 million and \$422.5 million of operating lease revenues, respectively, and \$0.5 million and \$2.1 million of finance lease revenues, respectively. The Company has entered into finance leases to finance certain equipment sales to customers. The lease agreements have a bargain purchase option at the end of the lease term. For these leases, sales revenue and the related accounts receivable are recognized upon delivery and installation of the equipment and the unearned interest is recognized over the lease term on a straight-line basis, which results in a constant rate of return on the unrecovered lease investment. The Company's finance lease revenues for the three and nine months ended September 30, 2023 include \$0.4 million and \$1.8 million of sales revenues, respectively, and \$0.1 million and \$0.3 million of interest income, respectively.

### **Non-Lease Revenues**

Non-lease revenues are recognized in the period when control of the performance obligation is transferred, in an amount that reflects the consideration the Company expects to be entitled to receive in exchange for those goods or services. For portable storage containers and electronic test equipment, rental related services revenues for delivery and return delivery are considered non-lease revenues.

Sales revenues are typically recognized at a point in time, which occurs upon the completion of delivery, installation and acceptance of the equipment by the customer. Accounting for non-lease revenues requires judgment in determining the point in time the customer gains control of the equipment and the appropriate accounting period to recognize revenue.

Sales taxes charged to customers are reported on a net basis and are excluded from revenues and expenses.

The following table disaggregates the Company's revenues by lease (within the scope of ASC 842) and non-lease revenues (within the scope of ASC 606) and the underlying service provided for the three and nine months ended September 30, 2023 and 2022:

<i>(in thousands)</i>	<b>Mobile Modular</b>	<b>TRS- RenTelco</b>	<b>Enviroplex</b>	<b>Adler Tanks (Discontinued)</b>	<b>Consolidated</b>
<b>Three Months Ended September 30,</b>					
<b>2023</b>					
Leasing	\$ 113,955	\$ 29,711	\$ —	\$ —	\$ 143,666
Non-lease:					
Rental related services	18,251	664	—	—	18,915
Sales	58,867	8,341	9,515	—	76,723
Other	3,809	393	—	—	4,202
Total non-lease	80,927	9,398	9,515	—	99,840
Total revenues	<u>\$ 194,882</u>	<u>\$ 39,109</u>	<u>\$ 9,515</u>	<u>\$ —</u>	<u>\$ 243,506</u>
<b>2022</b>					
Leasing	\$ 86,428	\$ 32,265	\$ —	\$ 17,825	\$ 136,518
Non-lease:					
Rental related services	10,427	684	—	7,069	18,180
Sales	28,922	5,291	9,978	976	45,167
Other	61	287	—	323	671
Total non-lease	39,410	6,262	9,978	8,368	64,018
Total revenues	<u>\$ 125,838</u>	<u>\$ 38,527</u>	<u>\$ 9,978</u>	<u>\$ 26,193</u>	<u>\$ 200,536</u>
<b>Nine Months Ended September 30,</b>					
<b>2023</b>					
Leasing	\$ 324,033	\$ 90,388	\$ —	\$ 6,612	\$ 421,033
Non-lease:					
Rental related services	41,133	1,952	—	2,557	45,642
Sales	115,828	19,545	11,379	269	147,021
Other	4,807	1,189	—	—	5,996
Total non-lease	161,768	22,686	11,379	2,826	198,659
Total revenues	<u>\$ 485,801</u>	<u>\$ 113,074</u>	<u>\$ 11,379</u>	<u>\$ 9,438</u>	<u>\$ 619,692</u>
<b>2022</b>					
Leasing	\$ 240,693	\$ 92,585	\$ —	\$ 48,548	\$ 381,826
Non-lease:					
Rental related services	22,960	1,919	—	18,890	43,769
Sales	64,113	14,031	15,545	2,234	95,923
Other	94	824	—	504	1,422
Total non-lease	87,167	16,774	15,545	21,628	141,114
Total revenues	<u>\$ 327,860</u>	<u>\$ 109,359</u>	<u>\$ 15,545</u>	<u>\$ 70,176</u>	<u>\$ 522,940</u>

Customer returns of rental equipment prior to the end of the rental contract term are typically billed a cancellation fee, which is recorded as rental revenue in the period billed. Sales of new relocatable modular buildings, portable storage containers, electronic test equipment and related accessories and liquid and solid containment tanks and boxes not manufactured by the Company are typically covered by warranties provided by the manufacturer of the products sold. The Company typically provides limited 90-day warranties for certain sales of used rental equipment and one-year warranties on equipment manufactured by Enviroplex. Although the Company's policy is to provide reserves for warranties when required for specific circumstances, warranty costs have not been significant to date.

The Company's incremental cost of obtaining lease contracts, which consists of salesperson commissions, are deferred and amortized over the initial lease term for modular leases. Incremental costs for obtaining a contract for all other operating segments are expensed in the period incurred because the lease term is typically less than 12 months.

**Other Income**

Other income consists of the net gain on sales of property, plant and equipment. These sales are generally recognized at a point in time, with contractually defined performance obligations that are typically transferred upon the closing date of the sale. These types of sales are infrequent in occurrence and reported on the condensed consolidated statements of income within the scope of ASC 610, Other Income. Proceeds to be received on the sale of property, plant and equipment are included in Accounts receivable on the Company's condensed consolidated balance sheets.

## NOTE 7. EARNINGS PER SHARE

Basic earnings per share (“EPS”) is computed as net income divided by the weighted-average number of shares of common stock outstanding for the period. Diluted EPS is computed assuming conversion of all potentially dilutive securities including the dilutive effect of stock options, unvested restricted stock awards and other potentially dilutive securities. The table below presents the weighted-average number of shares of common stock used to calculate basic and diluted earnings per share:

<i>(in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Weighted-average number of shares of common stock for calculating basic earnings per share	24,487	24,379	24,461	24,342
Effect of potentially dilutive securities from equity-based compensation	38	125	66	174
Weighted-average number of shares of common stock for calculating diluted earnings per share	24,525	24,504	24,527	24,516

There were 1,800 anti-dilutive securities excluded from the computation of diluted earnings per share for the nine months ended September 30, 2023, and 7,315 anti-dilutive securities excluded from the computation of diluted earnings per share for the same period in 2022.

The Company has in the past made purchases of shares of its common stock from time to time in over-the-counter market (NASDAQ) transactions, through privately negotiated, large block transactions and through a share repurchase plan, in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934. In August 2015, the Company’s Board of Directors authorized the Company to repurchase up to 2,000,000 shares of the Company’s outstanding common stock (the “Repurchase Plan”). The amount and time of the specific repurchases are subject to prevailing market conditions, applicable legal requirements and other factors, including management’s discretion. All shares repurchased by the Company are canceled and returned to the status of authorized but unissued shares of common stock. There can be no assurance that any authorized shares will be repurchased, and the Repurchase Plan may be modified, extended or terminated by the Company’s Board of Directors at any time. There were no shares repurchased during the three and nine months ended September 30, 2023 and 2022. As of September 30, 2023, 1,309,805 shares remained authorized for repurchase under the Repurchase Plan.

## NOTE 8. GOODWILL AND INTANGIBLE ASSETS

Changes in the carrying amount of goodwill were as follows:

<i>(dollar amounts in thousands)</i>	Mobile Modular	Adler Tanks (Discontinued)	Total
<b>Balance at December 31, 2021</b>	\$ 106,491	\$ 25,902	\$ 132,393
Changes to Design Space purchase accounting	(88)	—	(88)
<b>Balance at December 31, 2022</b>	106,403	25,902	132,305
Goodwill acquired through business combination	218,951	—	218,951
Changes to Vesta Modular purchase accounting	(1,583)	—	(1,583)
Derecognition of goodwill divested	—	(25,902)	(25,902)
<b>Balance at September 30, 2023</b>	\$ 323,771	\$ —	\$ 323,771

Intangible assets consist of the following:

<i>(dollar amounts in thousands)</i>	Estimated useful life in years	Average remaining life in years	Cost	Accumulated amortization	Net book value
<b>September 30, 2023</b>					
Customer relationships	8 to 11	8.0	\$73,217	\$(14,765)	\$58,452
Non-compete agreements	5	4.0	10,556	(2,613)	7,943
Trade name	0.75 to 8	5.0	2,000	(1,086)	914
Total amortizing			85,773	(18,464)	67,309
Trade name - non-amortizing	Indefinite		171	—	171
Total			\$85,944	\$(18,464)	\$67,480
<b>December 31, 2022</b>					
Customer relationships	8 to 11	6.3	\$50,284	\$(18,098)	\$32,186
Non-compete agreements	5	3.2	3,296	(1,159)	2,137
Customer backlog	—	—	1,900	(1,900)	—
Trade name	8	6.3	1,200	(263)	937
Total amortizing			56,680	(21,420)	35,260
Trade name - non-amortizing	Indefinite		5,871	—	5,871
Total			\$62,551	\$(21,420)	\$41,131

The Company assesses potential impairment of its goodwill and intangible assets when there is evidence that events or circumstances have occurred that would indicate the recovery of an asset's carrying value is unlikely. The Company also assesses potential impairment of its goodwill and intangible assets with indefinite lives on an annual basis regardless of whether there is evidence of impairment. If indicators of impairment were to be present in intangible assets used in operations and future discounted cash flows were not expected to be sufficient to recover the asset's carrying amount, an impairment loss would be charged to expense in the period identified. The amount of an impairment loss that would be recognized is the excess of the asset's carrying value over its fair value. Factors the Company considers important, which may cause impairment include, among others, significant changes in the manner of use of the acquired asset, negative industry or economic trends, and significant underperformance relative to historical or projected operating results. The Company last conducted a qualitative analysis of its goodwill and intangible assets in the fourth quarter 2022, with no indicators of impairment. In addition, no impairment triggering events occurred during the nine months ended September 30, 2023. Determining fair value of a reporting unit is judgmental and involves the use of significant estimates and assumptions. The Company bases its fair value estimates on assumptions that it believes are reasonable but are uncertain and subject to changes in market conditions.

Intangible assets with finite useful lives are amortized over their respective useful lives. Amortization expense in the nine months ended September 30, 2023 and 2022, was \$7.8 million and \$4.4 million, respectively. Based on the carrying values at September 30, 2023 and assuming no subsequent impairment of the underlying assets, the amortization expense is expected to be \$2.9 million for the remainder of fiscal year 2023, \$10.3 million in 2024, \$10.2 million in 2025, \$9.8 million in 2026, \$9.6 million in 2027 and \$8.2 million in 2028.

## NOTE 9. SEGMENT REPORTING

The Company historically operated four reportable segments and divested its Adler Tanks business segment on February 1, 2023, see Note 5 to the consolidated financial statements for more information on the divestiture of Adler Tanks. The three reportable segments from continuing operations are (1) its modular building and portable storage container rental segment (“Mobile Modular”); (2) its electronic test equipment segment (“TRS-RenTelco”); and (3) its classroom manufacturing segment selling modular buildings used primarily as classrooms in California (“Enviroplex”). The operations of each of these segments are described in Part I – Item 1, “Business,” and the accounting policies of the segments are described in “Note 1 – Summary of Significant Accounting Policies” in the Company’s 2022 Annual Report. Management focuses on several key measures to evaluate and assess each segment’s performance, including rental revenue growth, gross profit and gross margins, income from operations, income before provision for income taxes and adjusted EBITDA. Excluding interest expense, allocations of revenue and expense not directly associated with one of these segments are generally allocated to Mobile Modular and TRS-RenTelco based on their pro-rata share of direct revenues. Interest expense is allocated amongst Mobile Modular and TRS-RenTelco based on their pro-rata share of average rental equipment at cost, intangible assets, accounts receivable, deferred income and customer security deposits. The Company does not report total assets by business segment. Summarized financial information for the nine months ended September 30, 2023 and 2022 for the Company’s reportable segments and discontinued operations are shown in the following table:

<i>(dollar amounts in thousands)</i>	<b>Mobile Modular</b>	<b>TRS- RenTelco</b>	<b>Enviroplex<sup>1</sup></b>	<b>Adler Tanks (Discontinued)<sup>3</sup></b>	<b>Consolidated</b>
<b>Nine Months Ended September 30,</b>					
<b>2023</b>					
Rental revenues	\$ 264,398	\$ 86,375	\$ —	\$ 6,520	\$ 357,293
Rental related services revenues	99,158	2,323	—	2,584	104,065
Sales and other revenues	122,245	24,376	11,379	334	158,334
Total revenues	485,801	113,074	11,379	9,438	619,692
Depreciation of rental equipment	29,766	36,733	—	1,325	67,824
Gross profit	233,970	47,184	2,357	4,665	288,176
Selling and administrative expenses	124,642	23,576	4,814	2,582	155,614
Other income	(2,740)	(819)	—	—	(3,559)
Income (loss) from operations	112,068	24,427	(2,457)	2,083	136,121
Interest (expense) income allocation	(24,129)	(6,008)	1,703	(374)	(28,808)
Income (loss) before provision for income taxes	87,939	18,585	(754)	1,709	107,479
Adjusted EBITDA	172,222	64,031	(2,207)	3,682	237,728
Rental equipment acquisitions	142,067	21,801	—	—	163,868
Accounts receivable, net (period end)	186,354	29,086	8,829	—	224,269
Rental equipment, at cost (period end)	1,474,359	383,006	—	—	1,857,365
Rental equipment, net book value (period end)	1,141,194	150,674	—	—	1,291,868
Utilization (period end) <sup>2</sup>	79.7%	60.3%			
Average utilization <sup>2</sup>	79.5%	59.0%			
<b>2022</b>					
Rental revenues	\$ 195,598	\$ 89,990	\$ —	\$ 47,638	\$ 333,226
Rental related services revenues	66,947	2,329	—	19,221	88,497
Sales and other revenues	65,315	17,040	15,545	3,317	101,217
Total revenues	327,860	109,359	15,545	70,176	522,940
Depreciation of rental equipment	23,329	36,789	—	11,996	72,114
Gross profit	149,405	48,824	3,604	31,933	233,766
Selling and administrative expenses	79,245	19,930	4,193	20,642	124,010
Other income	—	—	—	—	—
Income (loss) from operations	70,160	28,894	(589)	11,291	109,756
Interest (expense) income allocation	(6,616)	(2,160)	719	(1,941)	(9,998)
Income before provision for income taxes	63,544	26,330	130	9,350	99,354
Adjusted EBITDA	106,156	66,675	(377)	25,443	197,897
Rental equipment acquisitions	73,895	57,169	—	3,067	134,131
Accounts receivable, net (period end)	139,730	24,353	7,691	18,185	189,959
Rental equipment, at cost (period end)	1,085,060	396,068	—	309,607	1,790,735
Rental equipment, net book value (period end)	780,939	177,221	—	141,662	1,099,822
Utilization (period end) <sup>2</sup>	81.2%	65.2%			
Average utilization <sup>2</sup>	78.5%	64.8%			

1. Gross Enviroplex sales revenues were \$11,597 and \$16,401 for the nine months ended September 30, 2023 and 2022, respectively. There were \$218 inter-segment sales to Mobile Modular in the nine months ended September 30, 2023 and \$856 inter-segment sales during the same period in 2022, which required elimination in consolidation.

2. Utilization is calculated each month by dividing the cost of rental equipment on rent by the total cost of rental equipment, excluding accessory equipment, and new equipment inventory. The Average utilization for the period is calculated using the average costs of rental equipment.
3. The financial results of Adler Tanks included in this table are through the date of the business divestiture, which occurred on February 1, 2023.

No single customer accounted for more than 10% of total revenues for the nine months ended September 30, 2023 and 2022. Revenues from foreign country customers accounted for 3% and 4% of the Company's total revenues for the same periods, respectively.

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

This Form 10-Q, including the following Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”), contains forward-looking statements under federal securities laws. Forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties. Our actual results could differ materially from those indicated by forward-looking statements as a result of various factors. These factors include, but are not limited to, those set forth under this Item, those discussed in Part II—Item 1a, “Risk Factors” and elsewhere in this Form 10-Q and those that may be identified from time to time in our reports and registration statements filed with the SEC.

This discussion should be read in conjunction with the Condensed Consolidated Financial Statements and related Notes included in Part I—Item 1 of this Form 10-Q and the Consolidated Financial Statements and related Notes and the Management’s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2022, as filed with the SEC on February 22, 2023 (the “2022 Annual Report”). In preparing the following MD&A, we presume that readers have access to and have read the MD&A in our 2022 Annual Report, pursuant to Instruction 2 to paragraph (b) of Item 303 of Regulation S-K. We undertake no duty to update any of these forward-looking statements after the date of filing of this Form 10-Q to conform such forward-looking statements to actual results or revised expectations, except as otherwise required by law.

### General

The Company, incorporated in 1979, is a leading rental provider of relocatable modular buildings for classroom and office space and electronic test equipment for general purpose and communications needs. The Company’s primary emphasis is on equipment rentals. The Company is comprised of three reportable business segments: (1) its modular building and portable storage container rental segment (“Mobile Modular”); (2) its electronic test equipment segment (“TRS-RenTelco”); and (3) its classroom manufacturing segment selling modular buildings used primarily as classrooms in California (“Enviroplex”).

The Mobile Modular business segment includes the results of operations of the Mobile Modular Portable Storage division, which represented approximately 12% of the Company’s total revenues from continuing operations in the nine months ended September 30, 2023. Mobile Modular Portable Storage offers portable storage units and high security portable office units for rent, lease and purchase. Vesta Modular was acquired on February 1, 2023, Brekke Storage was acquired on March 1, 2023, Dixie Storage was acquired on April 1, 2023, and Inland Storage was acquired on July 1, 2023, with their results included in the Mobile Modular segment since those dates. See Note 4 to the consolidated financial statements for the nine months ended September 30, 2023, for more details about the business acquisitions.

In the nine months ended September 30, 2023, Mobile Modular, TRS-RenTelco and Enviroplex contributed 83%, 18% and negative 1% of the Company’s income from continuing operations before provision for taxes (the equivalent of “pretax income”), respectively, compared to 70%, 29% and 1% for the same period in 2022.

The Company generates its revenues primarily from the rental of its equipment on operating leases and from sales of equipment occurring in the normal course of business. The Company requires significant capital outlay to purchase its rental inventory and recovers its investment through rental and sales revenues. Rental revenues and certain other service revenues negotiated as part of lease agreements with customers and related costs are recognized on a straight-line basis over the terms of the leases. Sales revenues and related costs are recognized upon delivery and installation of the equipment to customers. Sales revenues are less predictable and can fluctuate from quarter to quarter and year to year depending on customer demands and requirements. Generally, rental revenues less cash operating costs recover the equipment’s capitalized cost in a short period of time relative to the equipment’s potential rental life and when sold, sale proceeds are usually above its net book value.

The Company’s modular revenues (consisting of revenues from Mobile Modular, Mobile Modular Portable Storage, Kitchens To Go and Enviroplex) are derived from rentals and sales to commercial and education customers. Modular revenues are affected by demand for classrooms, which in turn is affected by shifting and fluctuating school populations, the levels of state funding to public schools, the need for temporary classroom space during reconstruction of older schools and changes in policies regarding class size. As a result of any reduced funding, lower expenditures by these schools may result in certain planned programs to increase the number of classrooms, such as those that the Company provides, to be postponed or terminated. However, reduced expenditures may also result in schools reducing their long-term facility construction projects in favor of using the Company’s modular classroom solutions. At this time, the Company can provide no assurances as to whether public schools will either reduce or increase their demand for the Company’s modular classrooms as a result of fluctuations in state funding of public schools. Looking forward, the Company believes that any interruption in the passage of facility bonds or contraction of class size reduction programs by public schools may have a material adverse effect on both rental and sales revenues of the Company. (For more information, see “Item 1. Business – Relocatable Modular Buildings – Classroom Rentals and Sales to Public Schools (K-12)” in the Company’s 2022 Annual Report and “Item 1a. Risk Factors – Significant reductions of, or delays in, funding to public schools have caused the demand and pricing for our modular classroom units

to decline, which has in the past caused, and may cause in the future, a reduction in our revenues and profitability” in Part II – Other Information of this Form 10-Q.)

Revenues of TRS-RenTelco are derived from the rental and sale of general purpose and communications test equipment to a broad range of companies, from Fortune 500 to middle and smaller market companies primarily in the aerospace, defense, communications, manufacturing and semiconductor industries. Electronic test equipment revenues are primarily affected by the business activity within these industries related to research and development, manufacturing, and communication infrastructure installation and maintenance.

The Company’s rental operations include rental and rental related service revenues which comprised approximately 74% and 78% of consolidated revenues from continuing operations in the nine months ended September 30, 2023 and 2022, respectively. Of the total continuing rental operations revenues for the nine months ended September 30, 2023, Mobile Modular and TRS-RenTelco comprised 80% and 20%, respectively, compared to 74% and 26%, respectively, in the same period of 2022. The Company’s direct costs of rental operations include depreciation of rental equipment, rental related service costs, impairment of rental equipment (if applicable), and other direct costs of rental operations (which include direct labor, supplies, repairs, insurance, property taxes, license fees, cost of sub-rentals and amortization of certain lease costs).

The Company’s Mobile Modular and TRS-RenTelco business segments sell modular units and electronic test equipment, respectively, which are either new or previously rented. In addition, Enviroplex sells new modular buildings used primarily as classrooms in California. For the nine months ended September 30, 2023 and 2022, sales and other revenues of modular and electronic test equipment comprised approximately 26% and 22% of the Company’s consolidated revenues from continuing operations, respectively. Of the total sales and other revenues from continuing operations for the nine months ended September 30, 2023 and 2022, Mobile Modular and Enviroplex together comprised 84% and 83%, respectively, and TRS-RenTelco comprised 16% and 17%, respectively. The Company’s cost of sales includes the carrying value of the equipment sold and the direct costs associated with the equipment sold, such as delivery, installation, modifications and related site work.

Selling and administrative expenses primarily include personnel and benefit costs, which include share-based compensation, depreciation and amortization, bad debt expense, advertising costs, and professional service fees. The Company believes that sharing of common facilities, financing, senior management, and operating and accounting systems by all of the Company’s operations results in an efficient use of overhead. Historically, the Company’s operating margins have been impacted favorably to the extent its costs and expenses are leveraged over a large installed customer base. However, there can be no assurances as to the Company’s ability to maintain a large installed customer base or ability to sustain its historical operating margins.

## **Recent Developments**

### **Note Purchase Agreement**

On September 27, 2023, the Company issued and sold to the purchasers \$75.0 million aggregate principal amount of 6.25% Series F Notes (the “Series F Senior Notes”) pursuant to the terms of the Second Amended and Restated Note Purchase and Private Shelf Agreement, dated June 8, 2023 (the “Note Purchase Agreement”), among the Company, PGIM, Inc. and the noteholders party thereto.

The Series F Senior Notes are an unsecured obligation of the Company and bear interest at a rate of 6.25% per annum and mature on September 27, 2030. Interest on the Series F Senior Notes is payable semi-annually beginning on March 27, 2024 and continuing thereafter on September 27 and March 27 of each year until maturity. The principal balance is due when the notes mature on September 27, 2030. The full net proceeds from the Series F Senior Notes will primarily be used to fulfill income tax obligations incurred from the divestiture of Adler Tanks. At September 30, 2023, the principal balance outstanding under the Series F Senior Notes was \$75.0 million.

### **Dividends**

On September 15, 2023, the Company announced that the Board of Directors declared a quarterly cash dividend of \$0.465 per common share for the quarter ended September 30, 2023, an increase of 2% over the prior year’s comparable quarter.

### Three Months Ended September 30, 2023 Compared to Three Months Ended September 30, 2022

#### Overview

Consolidated revenues for the three months ended September 30, 2023, increased 21% to \$243.5 million, from \$200.5 million in the same period in 2022. Consolidated net income for the three months ended September 30, 2023, increased 32% to \$40.4 million, from \$30.6 million for the same period in 2022. The increase in consolidated net income during the current period was primarily attributed to higher gross profit from Mobile Modular, partly offset by higher selling, general and administrative expenses. Earnings per diluted share for the three months ended September 30, 2023, increased by \$0.40 to \$1.65, compared to \$1.25 for the same period in 2022. During the three months ended September 30, 2023, the Company sold two properties, which resulted in a net gain on sale of \$3.6 million. The gain on sale, which was reflected in Other income, contributed \$0.11 in earnings per diluted share.

There were no revenues from discontinued operations for the three months ended September 30, 2023, compared to \$26.2 million for the same period in 2022. There was no income or earnings per diluted share from discontinued operations for the three months ended September 30, 2023. Income from discontinued operations for the same period in 2022 was \$3.5 million and earnings per diluted share from discontinued operations for the three months ended September 30, 2022 was \$0.14. For additional information on discontinued operations and the divestiture of Adler Tanks, refer to Note 5 of the condensed consolidated financial statements.

For the three months ended September 30, 2023, on a consolidated basis from continuing operations:

- Gross profit increased \$34.7 million, or 45%, to \$111.5 million in 2023. Mobile Modular's gross profit increased \$37.2 million, or 66%, largely due to the Vesta Modular acquisition, which contributed to the higher gross profit on rental, sales, and rental related services revenues. TRS-RenTelco's gross profit decreased \$2.3 million, or 13%, primarily due to lower gross profit on rental revenues. Enviroplex's gross profit decreased \$0.2 million, primarily due to lower sales revenue in 2023.
- Selling and administrative expenses increased \$11.6 million to \$48.5 million, primarily due to an increase in employees' salaries and benefit costs of \$6.6 million, due in part to the increased employee headcount from the Vesta Modular acquisition, and an increase of \$1.3 million in marketing and administrative costs.
- Interest expense increased \$7.7 million to \$11.0 million, which was primarily attributed to \$242.4 million higher average debt levels of the Company and a higher effective interest rate in 2023 of 6.52%, compared to 3.85% for the same period in 2022. The increase in average debt during the three-month period was primarily the result of the funding of the Vesta Modular, Brekke Storage, Dixie Storage and Inland Leasing acquisitions.
- Pre-tax income contribution by Mobile Modular and TRS-RenTelco was 85% and 13%, respectively, compared to 69% and 28%, respectively, for the comparable 2022 period. These results are discussed on a segment basis below. Enviroplex pre-tax income contribution was 2% and 3% in 2023 and 2022, respectively.
- The provision for income taxes resulted in an effective tax rate of 27.3% and 25.3%, for the quarters ended September 30, 2023 and 2022, respectively.
- Adjusted EBITDA increased \$30.6 million, or 47%, to \$95.3 million in 2023.

## Mobile Modular

For the three months ended September 30, 2023, Mobile Modular's total revenues increased \$69.0 million, or 55%, to \$194.9 million compared to the same period in 2022, largely due to contributions from the Vesta Modular acquisition, which contributed to the higher rental, rental related services, and sales revenues. The revenue increase, together with higher gross profit on rental, rental related services and sales revenues, partly offset by higher selling and administrative expenses, resulted in a \$22.2 million increase in pre-tax income to \$47.2 million for the three months ended September 30, 2023, from \$25.0 million for the same period in 2022.

The following table summarizes results for each revenue and gross profit category, income from operations, pre-tax income and other selected information.

### Mobile Modular – Three Months Ended 9/30/23 compared to Three Months Ended 9/30/22 (Unaudited)

	Three Months Ended September 30,		Increase (Decrease)	
	2023	2022	\$	%
<i>(dollar amounts in thousands)</i>				
<b>Revenues</b>				
Rental	\$ 94,028	\$ 69,111	\$ 24,917	36 %
Rental related services	39,716	27,353	12,363	45 %
Rental operations	133,744	96,464	37,280	39 %
Sales	58,867	28,922	29,945	104 %
Other	2,271	452	1,819	nm
Total revenues	194,882	125,838	69,044	55 %
<b>Costs and Expenses</b>				
Direct costs of rental operations:				
Depreciation of rental equipment	10,037	7,747	2,290	30 %
Rental related services	27,927	19,973	7,954	40 %
Other	23,353	22,837	516	2 %
Total direct costs of rental operations	61,317	50,557	10,760	21 %
Costs of sales	39,821	18,696	21,125	113 %
Total costs of revenues	101,138	69,253	31,885	46 %
<b>Gross Profit</b>				
Rental	60,638	38,527	22,111	57 %
Rental related services	11,789	7,380	4,409	60 %
Rental operations	72,427	45,907	26,520	58 %
Sales	19,046	10,226	8,820	86 %
Other	2,271	452	1,819	nm
Total gross profit	93,744	56,585	37,159	66 %
Selling and administrative expenses	39,832	28,798	11,034	38 %
Other income	(2,740)	—	(2,740)	nm
Income from operations	56,652	27,787	28,865	104 %
Interest expense allocation	(9,411)	(2,795)	6,616	nm
Pre-tax income	\$ 47,241	\$ 24,992	\$ 22,249	89 %
<b>Other Selected Information</b>				
Adjusted EBITDA	\$ 72,953	\$ 39,901	\$ 33,052	83 %
Average rental equipment <sup>1</sup>	\$ 1,350,562	\$ 1,030,792	\$ 319,770	31 %
Average rental equipment on rent	\$ 1,072,246	\$ 825,129	\$ 247,117	30 %
Average monthly total yield <sup>2</sup>	2.32 %	2.23 %		4 %
Average utilization <sup>3</sup>	79.4 %	80.1 %		(1) %
Average monthly rental rate <sup>4</sup>	2.92 %	2.79 %		5 %
Period end rental equipment <sup>1</sup>	\$ 1,361,508	\$ 1,036,770	\$ 324,738	31 %
Period end utilization <sup>3</sup>	79.7 %	81.2 %		(2) %

1. Average and Period end rental equipment represents the cost of rental equipment, excluding new equipment inventory and accessory equipment.

2. Average monthly total yield is calculated by dividing the averages of monthly rental revenues by the cost of rental equipment, for the period.

3. Period end utilization is calculated by dividing the cost of rental equipment on rent by the total cost of rental equipment, excluding new equipment inventory and accessory equipment.

4. Average utilization for the period is calculated using the average month end costs of rental equipment.

4. Average monthly rental rate is calculated by dividing the averages of monthly rental revenues by the cost of rental equipment on rent, for the period.

nm = Not meaningful

Mobile Modular's gross profit for the three months ended September 30, 2023 increased \$37.2 million, or 66%, to \$93.7 million. For the three months ended September 30, 2023 compared to the same period in 2022:

- **Gross Profit on Rental Revenues** – Rental revenues increased \$24.9 million, or 36%, due to 30% higher average rental equipment on rent and 5% higher average monthly rental rates in 2023. As a percentage of rental revenues, depreciation was 11% in both 2023 and 2022, and other direct costs were 25% in 2023 and 33% in 2022, which resulted in gross margin percentages of 64% in 2023, compared to 56% in 2022. The higher rental revenues and higher rental margins, resulted in gross profit on rental revenues increasing \$22.1 million, or 57%, to \$60.6 million in 2023. Vesta Modular contributed \$14.8 million and \$10.2 million in rental revenues and gross profit on rental revenues in 2023, respectively.
- **Gross Profit on Rental Related Services** – Rental related services revenues increased \$12.4 million, or 45%, compared to 2022. The increase in rental related services revenues was primarily attributable to higher amortization of modular building delivery and return delivery and dismantle revenues and increased delivery revenues at Portable Storage. The higher revenues and higher gross margin percentage of 30% in 2023, compared to 27% in 2022, resulted in rental related services gross profit increasing \$4.4 million, or 60%, to \$11.8 million in 2023. Vesta Modular contributed \$4.0 million and \$1.8 million in rental related services revenues and gross profit on rental related services revenues in 2023, respectively.
- **Gross Profit on Sales** – Sales revenues increased \$29.9 million, compared to 2022, due to higher new equipment sales. The lower gross margin percentage of 32% in 2023 compared to 35% in 2022, and higher sales revenue resulted in gross profit on sales increasing \$8.8 million, or 86%, to \$19.0 million. The lower gross margin on sales in 2023 was primarily due to a higher mix of new versus used sales. Vesta Modular contributed \$16.2 million and \$5.1 million in sales revenues and gross profit on sales in 2023, respectively. Sales occur routinely as a normal part of Mobile Modular's rental business; however, these sales and related gross margins can fluctuate from quarter to quarter and year to year depending on customer requirements, equipment availability and funding.

For the three months ended September 30, 2023, selling and administrative expenses increased \$11.0 million, or 38%, to \$39.8 million, primarily due to \$5.8 million higher employee salaries and benefit costs, largely due to the addition of Vesta Modular employees, \$2.7 million higher allocated corporate expenses, and \$1.0 million increased marketing and administrative expenses.

## TRS-RenTelco

For the three months ended September 30, 2023, TRS-RenTelco's total revenues increased \$0.6 million to \$39.1 million, compared to the same period in 2022, primarily due to higher sales and other revenues. Lower gross profit on rental revenues and higher selling and administrative expenses, resulted in a 28% decrease in pre-tax income to \$7.3 million for the three months ended September 30, 2023, from \$10.1 million for the same period in 2022.

The following table summarizes results for each revenue and gross profit category, income from operations, pre-tax income and other selected information.

### TRS-RenTelco – Three Months Ended 9/30/23 compared to Three Months Ended 9/30/22 (Unaudited)

	Three Months Ended September 30,		Increase (Decrease)	
	2023	2022	\$	%
<i>(dollar amounts in thousands)</i>				
<b>Revenues</b>				
Rental	\$ 28,658	\$ 31,760	\$ (3,102)	(10)%
Rental related services	776	845	(69)	(8)%
Rental operations	29,434	32,605	(3,171)	(10)%
Sales	8,733	5,514	3,219	58%
Other	942	408	534	131%
Total revenues	39,109	38,527	582	2%
<b>Costs and Expenses</b>				
Direct costs of rental operations:				
Depreciation of rental equipment	12,032	12,427	(395)	(3)%
Rental related services	605	603	2	nm
Other	5,140	5,366	(226)	(4)%
Total direct costs of rental operations	17,777	18,396	(619)	(3)%
Costs of sales	5,651	2,133	3,518	165%
Total costs of revenues	23,428	20,529	2,899	14%
<b>Gross Profit</b>				
Rental	11,486	13,967	(2,481)	(18)%
Rental related services	171	242	(71)	(29)%
Rental operations	11,657	14,209	(2,552)	(18)%
Sales	3,082	3,381	(299)	(9)%
Other	942	408	534	131%
Total gross profit	15,681	17,998	(2,317)	(13)%
Selling and administrative expenses	6,999	6,726	273	4%
Other income	(819)	—	(819)	nm
Income from operations	9,501	11,272	(1,771)	(16)%
Interest expense allocation	(2,207)	(928)	1,279	nm
Foreign currency exchange loss	(42)	(236)	(194)	nm
Pre-tax income	\$ 7,252	\$ 10,108	\$ (2,856)	(28)%
<b>Other Selected Information</b>				
Adjusted EBITDA	\$ 21,858	\$ 23,894	\$ (2,036)	(9)%
Average rental equipment <sup>1</sup>	\$ 385,353	\$ 389,675	\$ (4,322)	(1)%
Average rental equipment on rent	\$ 229,062	\$ 254,471	\$ (25,409)	(10)%
Average monthly total yield <sup>2</sup>	2.46%	2.71%		(9)%
Average utilization <sup>3</sup>	59.4%	65.3%		(9)%
Average monthly rental rate <sup>4</sup>	4.17%	4.16%		0%
Period end rental equipment <sup>1</sup>	\$ 383,952	\$ 392,916	\$ (8,964)	(2)%
Period end utilization <sup>3</sup>	60.3%	65.2%		(8)%

1. Average and Period end rental equipment represents the cost of rental equipment, excluding new equipment inventory and accessory equipment.

2. Average monthly total yield is calculated by dividing the averages of monthly rental revenues by the cost of rental equipment, for the period.

3. Period end utilization is calculated by dividing the cost of rental equipment on rent by the total cost of rental equipment, excluding new rental equipment inventory and accessory equipment. Average utilization for the period is calculated using the average month end costs of rental equipment.

4. Average monthly rental rate is calculated by dividing the averages of monthly rental revenues by the cost of rental equipment on rent, for the period.

nm = Not meaningful

TRS-RenTelco's gross profit for the three months ended September 30, 2023 decreased \$2.3 million, or 13%, to \$15.7 million. For the three months ended September 30, 2023 compared to the same period in 2022:

- **Gross Profit on Rental Revenues** – Rental revenues decreased \$3.1 million, or 10%, depreciation expense decreased \$0.4 million, or 3%, and other direct costs decreased by \$0.2 million, or 4%, resulting in a 18% decrease in gross profit on rental revenues to \$11.5 million. As a percentage of rental revenues, depreciation was 42% and 39% in 2023 and 2022, respectively, and other direct costs were 18% and 17%, in 2023 and 2022, respectively, which resulted in a gross margin percentage of 40% and 44% in 2023 and 2022, respectively. The decrease in rental revenues was primarily due to a 10% reduction in average rental equipment on rent and comparable average monthly rental rates in 2023, as compared to 2022.
- **Gross Profit on Sales** – Sales revenues increased \$3.2 million, or 58%, to \$8.7 million in 2023. Gross profit on sales decreased 9%, to \$3.1 million, with a gross margin percentage of 35% in 2023, compared to 61% in 2022. Sales occur as a normal part of TRS-RenTelco's rental business; however, these sales and related gross margins can fluctuate from quarter to quarter depending on customer requirements and related mix of equipment sold, equipment availability and funding.

For the three months ended September 30, 2023, selling and administrative expenses increased \$0.3 million, or 4%, to \$7.0 million.

## Nine Months Ended September 30, 2023 Compared to Nine Months Ended September 30, 2022

### Overview

Consolidated revenues for the nine months ended September 30, 2023, increased 19% to \$619.7 million, from \$522.9 million in the same period in 2022. Consolidated net income for the nine months ended September 30, 2023, excluding the gain on sale of discontinued operations from the divestiture of Adler Tanks, increased 7% to \$81.1 million, from \$75.5 million for the same period in 2022. The increase in consolidated net income during the current period was primarily attributed to higher gross profit from the Mobile Modular division, partly offset by higher selling, general and administrative expenses. Earnings per diluted share for the nine months ended September 30, 2023, increased by \$2.73 to \$5.81, which was primarily the result of the \$61.5 million gain on sale of discontinued operations, compared to \$3.08 for the same period in 2022. During the nine months ended September 30, 2023, the Company sold two properties, which resulted in a net gain on sale of \$3.6 million. The gain on sale, which was reflected in Other income, contributed \$0.11 in earnings per diluted share.

Revenues from discontinued operations for the nine months ended September 30, 2023, was \$9.4 million, compared to \$70.2 million for the same period in 2022. Income from discontinued operations for the nine months ended September 30, 2023, was \$62.8 million, which included the net gain on sale of discontinued operations of \$61.5 million, compared to \$7.2 million for the same period in 2022. Earnings per diluted share from discontinued operations for the nine months ended September 30, 2023 was \$2.56, compared to \$0.29 for the same period in 2022. For additional information on discontinued operations and the divestiture of Adler Tanks, refer to Note 5 of the condensed consolidated financial statements.

For the nine months ended September 30, 2023, on a consolidated basis from continuing operations:

- Gross profit increased \$81.7 million, or 40%, to \$283.5 million in 2023. Mobile Modular's gross profit increased \$84.6 million, or 57%, largely due to the Vesta Modular acquisition, which contributed to the higher gross profit on rental, sales, and rental related services revenues. TRS-RenTelco's gross profit decreased \$1.6 million, or 3%, primarily due to lower gross profit on rental revenues. Enviroplex's gross profit decreased \$1.2 million, or 35%, primarily due to \$4.2 million lower sales in 2023.
- Selling and administrative expenses increased \$49.7 million to \$153.0 million, primarily due to \$20.9 million higher marketing and administrative costs, which included \$14.3 million in acquisition and divestiture related transaction costs, and an increase in employees' salaries and benefit costs of \$18.9 million, partly attributable to the increased employee headcount from the Vesta Modular acquisition.
- Interest expense increased \$20.4 million to \$28.4 million, which was primarily attributed to \$208.1 million higher average debt levels of the Company and a higher effective interest rate in 2023 of 5.96%, compared to 3.11% for the same period in 2022. The \$208.1 million increase in average debt during the nine month period was primarily the result of the funding of the Vesta Modular, Brekke Storage, Dixie Storage and Inland Leasing acquisitions.
- Pre-tax income contribution by Mobile Modular and TRS-RenTelco was 83% and 18%, respectively, compared to 70% and 29%, respectively, for the comparable 2022 period. These results are discussed on a segment basis below. Enviroplex pre-tax income contribution was negative 1% and 1% in 2023 and 2022, respectively.
- The provision for income taxes resulted in an effective tax rate of 24.5% and 24.1%, for the periods ended September 30, 2023 and 2022, respectively.
- Adjusted EBITDA increased \$61.6 million, or 36%, to \$234.0 million in 2023, compared to \$172.5 million in 2022.

## Mobile Modular

For the nine months ended September 30, 2023, Mobile Modular's total revenues increased \$157.9 million, or 48%, to \$485.8 million, compared to the same period in 2022, primarily due to higher rental, sales, and rental related services revenues. The revenue increase, together with higher gross profit on rental, sales and rental related services revenues, partly offset by higher selling and administrative expenses resulted in a 38% increase in pre-tax income to \$87.9 million for the nine months ended September 30, 2023, from \$63.5 million for the same period in 2022.

The following table summarizes results for each revenue and gross profit category, income from operations, pre-tax income and other selected information.

### Mobile Modular – Nine Months Ended 9/30/23 compared to Nine Months Ended 9/30/22 (Unaudited)

	Nine Months Ended September 30,		Increase (Decrease)	
	2023	2022	\$	%
<i>(dollar amounts in thousands)</i>				
<b>Revenues</b>				
Rental	\$ 264,398	\$ 195,598	\$ 68,800	35 %
Rental related services	99,158	66,947	32,211	48 %
Rental operations	363,556	262,545	101,011	38 %
Sales	115,829	64,113	51,716	81 %
Other	6,416	1,202	5,214	nm
Total revenues	485,801	327,860	157,941	48 %
<b>Costs and Expenses</b>				
Direct costs of rental operations:				
Depreciation of rental equipment	29,766	23,329	6,437	28 %
Rental related services	69,618	48,269	21,349	44 %
Other	74,345	67,072	7,273	11 %
Total direct costs of rental operations	173,729	138,670	35,059	25 %
Costs of sales	78,102	39,785	38,317	96 %
Total costs of revenues	251,831	178,455	73,376	41 %
<b>Gross Profit</b>				
Rental	160,287	105,197	55,090	52 %
Rental related services	29,540	18,678	10,862	58 %
Rental operations	189,827	123,875	65,952	53 %
Sales	37,727	24,328	13,399	55 %
Other	6,416	1,202	5,214	nm
Total gross profit	233,970	149,405	84,565	57 %
Selling and administrative expenses	124,642	79,245	45,397	57 %
Other income	(2,740)	—	(2,740)	nm
Income from operations	112,068	70,160	41,908	60 %
Interest expense allocation	(24,129)	(6,616)	17,513	nm
Pre-tax income	\$ 87,939	\$ 63,544	\$ 24,395	38 %
<b>Other Selected Information</b>				
Adjusted EBITDA	\$ 172,222	\$ 106,156	\$ 66,066	62 %
Average rental equipment <sup>1</sup>	\$ 1,275,330	\$ 1,019,105	\$ 256,225	25 %
Average rental equipment on rent	\$ 1,013,601	\$ 799,911	\$ 213,690	27 %
Average monthly total yield <sup>2</sup>	2.30 %	2.13 %		8 %
Average utilization <sup>3</sup>	79.5 %	78.5 %		1 %
Average monthly rental rate <sup>4</sup>	2.90 %	2.72 %		7 %
Period end rental equipment <sup>1</sup>	\$ 1,361,508	\$ 1,036,770	\$ 324,738	31 %
Period end utilization <sup>3</sup>	79.7 %	81.2 %		(2) %

1. Average and Period end rental equipment represents the cost of rental equipment, excluding new equipment inventory and accessory equipment.

2. Average monthly total yield is calculated by dividing the averages of monthly rental revenues by the cost of rental equipment, for the period.

3. Period end utilization is calculated by dividing the cost of rental equipment on rent by the total cost of rental equipment, excluding new equipment inventory and accessory equipment.

4. Average utilization for the period is calculated using the average month end costs of rental equipment.

4. Average monthly rental rate is calculated by dividing the averages of monthly rental revenues by the cost of rental equipment on rent, for the period.

nm = Not meaningful

Mobile Modular's gross profit for the nine months ended September 30, 2023 increased \$84.6 million, or 57%, to \$234.0 million. For the nine months ended September 30, 2023 compared to the same period in 2022:

- **Gross Profit on Rental Revenues** – Rental revenues increased \$68.8 million, or 35%, primarily due to 27% higher average rental equipment on rent and 7% higher average rental rates in 2023. The increase in rental revenue and average equipment on rent was due in part to the Vesta Modular acquisition. As a percentage of rental revenues, depreciation was 11% and 12% in 2023 and 2022, respectively, and other direct costs were 28% in 2023 and 34% in 2022, which resulted in gross margin percentages of 61% in 2023 and 54% in 2022. The higher rental revenues and rental margins resulted in gross profit on rental revenues increasing \$55.1 million, or 52%, to \$160.3 million in 2023. Vesta Modular contributed \$37.4 million and \$24.7 million in rental revenues and gross profit on rental revenues in 2023, respectively.
- **Gross Profit on Rental Related Services** – Rental related services revenues increased \$32.2 million, or 48%, compared to 2022. The increase in rental related services revenues was primarily attributable to higher amortization of modular building delivery and return delivery and dismantle revenues, higher site related revenues and revenues derived from other services performed during the lease and increased delivery and return delivery revenues at Portable Storage. The higher revenues and higher gross margin percentage of 30% in 2023, compared to 28% in 2022, resulted in rental related services gross profit increasing \$10.9 million, or 58%, to \$29.5 million in 2023. Vesta Modular contributed \$11.4 million and \$4.4 million in rental related services revenues and gross profit on rental related services revenues in 2023, respectively.
- **Gross Profit on Sales** – Sales revenues increased \$51.7 million, or 81%, compared to 2022, due to higher new equipment sales with gross margin percentage of 33% in 2023 compared to 38% in 2022, primarily due to a higher mix of new versus used equipment sales revenues. Gross profit on sales increased \$13.4 million, or 55%, to \$37.7 million. Sales occur routinely as a normal part of Mobile Modular's rental business; however, these sales and related gross margins can fluctuate from quarter to quarter and year to year depending on customer requirements, equipment availability and funding. Vesta Modular contributed \$33.4 million and \$9.7 million in sales revenues and gross profit on sales revenues in 2023, respectively.

For the nine months ended September 30, 2023, selling and administrative expenses increased \$45.4 million, or 57%, to \$124.6 million, primarily due to increased employee salaries and benefit costs of \$16.5 million, due in part to the addition of Vesta Modular employees, \$13.2 million higher allocated corporate expenses, which includes \$5.4 million in allocated divestiture transaction costs, and a \$11.3 million increase in marketing and administrative expenses, which includes \$7.7 million in acquisition related transaction costs.

## TRS-RenTelco

For the nine months ended September 30, 2023, TRS-RenTelco's total revenues increased \$3.7 million, to \$113.1 million, compared to the same period in 2022, primarily due to higher sales and other revenues, partly offset by lower rental revenues. Pre-tax income decreased \$7.7 million, or 29%, to \$18.6 million for the nine months ended September 30, 2023, compared to the same period in 2022, primarily due to lower gross profit on rental revenues and \$3.6 million higher selling and administrative expenses.

The following table summarizes results for each revenue and gross profit category, income from operations, pre-tax income and other selected information.

### TRS-RenTelco – Nine Months Ended 9/30/23 compared to Nine Months Ended 9/30/22 (Unaudited)

	Nine Months Ended September 30,		Increase (Decrease)	
	2023	2022	\$	%
<i>(dollar amounts in thousands)</i>				
<b>Revenues</b>				
Rental	\$ 86,375	\$ 89,990	\$ (3,615)	(4)%
Rental related services	2,323	2,329	(6)	(0)%
Rental operations	88,698	92,319	(3,621)	(4)%
Sales	21,368	15,845	5,523	35%
Other	3,008	1,195	1,813	nm
Total revenues	113,074	109,359	3,715	3%
<b>Costs and Expenses</b>				
Direct costs of rental operations:				
Depreciation of rental equipment	36,733	36,789	(56)	nm
Rental related services	2,007	1,847	160	9%
Other	15,843	15,501	342	2%
Total direct costs of rental operations	54,583	54,137	446	1%
Costs of sales	11,307	6,398	4,909	77%
Total costs of revenues	65,890	60,535	5,355	9%
<b>Gross Profit</b>				
Rental	33,799	37,700	(3,901)	(10)%
Rental related services	316	482	(166)	nm
Rental operations	34,115	38,182	(4,067)	(11)%
Sales	10,061	9,447	614	6%
Other	3,008	1,195	1,813	nm
Total gross profit	47,184	48,824	(1,640)	(3)%
Selling and administrative expenses	23,576	19,930	3,646	18%
Other income	(819)	—	(819)	nm
Income from operations	24,427	28,894	(4,467)	(15)%
Interest expense allocation	(6,008)	(2,160)	3,848	nm
Foreign currency exchange loss	166	(404)	(570)	nm
Pre-tax income	\$ 18,585	\$ 26,330	\$ (7,745)	(29)%
<b>Other Selected Information</b>				
Adjusted EBITDA	\$ 64,031	\$ 66,675	\$ (2,644)	(4)%
Average rental equipment <sup>1</sup>	\$ 391,993	\$ 379,181	\$ 12,812	3%
Average rental equipment on rent	\$ 231,273	\$ 245,641	\$ (14,368)	(6)%
Average monthly total yield <sup>2</sup>	2.43%	2.63%		(8)%
Average utilization <sup>3</sup>	59.0%	64.8%		(9)%
Average monthly rental rate <sup>4</sup>	4.15%	4.07%		2%
Period end rental equipment <sup>1</sup>	\$ 383,952	\$ 392,916	\$ (8,964)	(2)%
Period end utilization <sup>3</sup>	60.3%	65.2%		(8)%

1. Average and Period end rental equipment represents the cost of rental equipment, excluding new equipment inventory and accessory equipment.

2. Average monthly total yield is calculated by dividing the averages of monthly rental revenues by the cost of rental equipment, for the period.

3. Period end utilization is calculated by dividing the cost of rental equipment on rent by the total cost of rental equipment, excluding new equipment inventory and accessory equipment.

Average utilization for the period is calculated using the average month end costs of rental equipment.

4. Average monthly rental rate is calculated by dividing the averages of monthly rental revenues by the cost of rental equipment on rent, for the period.

nm = Not meaningful

TRS-RenTelco's gross profit for the nine months ended September 30, 2023 decreased \$1.6 million, or 3%, to \$47.2 million. For the nine months ended September 30, 2023 compared to the same period in 2022:

- **Gross Profit on Rental Revenues** – Rental revenues decreased \$3.6 million, or 4%, to \$86.4 million. The rental revenue decrease, coupled with comparable depreciation expense and higher other direct costs, resulted in a 10% decrease in gross profit on rental revenues to \$33.8 million. As a percentage of rental revenues, depreciation was 43% and 41% in 2023 and 2022, respectively, and other direct costs were 18% and 17% in 2023 and 2022, respectively, which resulted in a gross margin percentage of 39% and 42% in 2023 and 2022, respectively. The rental revenues decrease was due to 6% lower average rental equipment on rent, partly offset by 2% higher average monthly rental rates in 2023, as compared to 2022. The higher rental rates were reflective of higher rates for both general purpose and telecommunication equipment on rent compared to the prior year.
- **Gross Profit on Sales** – Sales revenues increased \$5.5 million, or 35%, to \$21.4 million in 2023. Gross profit on sales increased \$0.6 million, or 6%, to \$10.1 million, with a gross margin percentage of 47% in 2023, compared to 60% in 2022. Sales occur as a normal part of TRS-RenTelco's rental business; however, these sales and related gross margins can fluctuate from quarter to quarter depending on customer requirements and related mix of equipment sold, equipment availability and funding.

For the nine months ended September 30, 2023, selling and administrative expenses increased \$3.6 million, or 18%, to \$23.6 million, primarily due to higher allocated corporate expenses.

### Adjusted EBITDA

To supplement the Company's financial data presented on a basis consistent with accounting principles generally accepted in the United States of America ("GAAP"), the Company presents "Adjusted EBITDA", which is defined by the Company as net income before interest expense, provision for income taxes, depreciation, amortization, share-based compensation and transaction costs. The Company presents Adjusted EBITDA as a financial measure as management believes it provides useful information to investors regarding the Company's liquidity and financial condition and because management, as well as the Company's lenders, use this measure in evaluating the performance of the Company.

Management uses Adjusted EBITDA as a supplement to GAAP measures to further evaluate period-to-period operating performance, compliance with financial covenants in the Company's revolving lines of credit and senior notes and the Company's ability to meet future capital expenditure and working capital requirements. Management believes the exclusion of non-cash charges, including share-based compensation, and transaction costs is useful in measuring the Company's cash available for operations and performance of the Company. Because management finds Adjusted EBITDA useful, the Company believes its investors will also find Adjusted EBITDA useful in evaluating the Company's performance.

Adjusted EBITDA should not be considered in isolation or as a substitute for net income, cash flows, or other consolidated income or cash flow data prepared in accordance with GAAP or as a measure of the Company's profitability or liquidity. Adjusted EBITDA is not in accordance with or an alternative for GAAP, and may be different from non-GAAP measures used by other companies. Unlike EBITDA, which may be used by other companies or investors, Adjusted EBITDA does not include share-based compensation charges and transaction costs. The Company believes that Adjusted EBITDA is of limited use in that it does not reflect all of the amounts associated with the Company's results of operations as determined in accordance with GAAP and does not accurately reflect real cash flow. In addition, other companies may not use Adjusted EBITDA or may use other non-GAAP measures, limiting the usefulness of Adjusted EBITDA for purposes of comparison. The Company's presentation of Adjusted EBITDA should not be construed as an inference that the Company will not incur expenses that are the same as or similar to the adjustments in this presentation. Therefore, Adjusted EBITDA should only be used to evaluate the Company's results of operations in conjunction with the corresponding GAAP measures. The Company compensates for the limitations of Adjusted EBITDA by relying upon GAAP results to gain a complete picture of the Company's performance. Because Adjusted EBITDA is a non-GAAP financial measure, as defined by the SEC, the Company includes in the tables below reconciliations of Adjusted EBITDA to the most directly comparable financial measures calculated and presented in accordance with GAAP.

## Reconciliation of Income from Continuing Operations to Adjusted EBITDA

<i>(dollar amounts in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,	
	2023	2022	2023	2022	2023	2022
	Income from continuing operations	\$ 40,366	\$ 27,115	\$ 79,836	\$ 68,317	\$ 114,828
Provision for income taxes from continuing operations	15,152	9,182	25,934	21,687	35,624	32,331
Interest expense	11,025	3,355	28,434	8,057	32,607	10,653
Depreciation and amortization	26,884	23,491	80,385	69,982	104,043	93,065
EBITDA	93,427	63,143	214,589	168,043	287,102	231,231
Share-based compensation	1,891	1,461	5,155	4,244	7,658	6,278
Transaction costs <sup>3</sup>	10	167	14,302	167	18,188	899
Adjusted EBITDA <sup>1</sup>	\$ 95,328	\$ 64,771	\$ 234,046	\$ 172,454	\$ 312,948	\$ 238,408
Adjusted EBITDA margin <sup>2</sup>	39%	37%	38%	38%	39%	39%

- Adjusted EBITDA is defined as income from operations before interest expense, provision for income taxes, depreciation, amortization, share-based compensation and transaction costs.
- Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by total revenues for the period.
- Transaction costs include acquisition and divestiture related legal and professional fees and other costs specific to these transactions.

For the nine months ended September 30, 2023, total Adjusted EBITDA from both continuing and discontinued operations was \$237.7 million, excluding the gain on divestiture of Adler Tanks, compared to \$197.9 million for the same period in 2022. For the nine months ended September 30, 2023 and 2022, the total Adjusted EBITDA from continuing operations was \$234.0 million and \$172.5 million, respectively, and the total Adjusted EBITDA from discontinued operations was \$3.7 million and \$25.4 million, respectively. The reconciliation of income from discontinued operations to Adjusted EBITDA can be found in Note 5 of the condensed consolidated financial statements.

The following table reconciles Adjusted EBITDA on a combined basis, including both continuing and discontinued operations, to the net cash provided by operating activities on the Company's condensed consolidated statement of cash flows.

## Reconciliation of Adjusted EBITDA to Net Cash Provided by Operating Activities

<i>(dollar amounts in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,	
	2023	2022	2023	2022	2023	2022
	Adjusted EBITDA <sup>1</sup>	\$ 95,328	\$ 74,887	\$ 237,728	\$ 197,897	\$ 328,697
Interest paid	(11,016)	(3,161)	(27,818)	(8,982)	(33,611)	(12,831)
Income taxes paid, net of refunds received	(2,616)	(7,807)	(9,547)	(24,885)	(12,024)	(25,898)
Gain on sale of used rental equipment	(8,714)	(10,612)	(22,964)	(26,705)	(34,238)	(34,358)
Foreign currency exchange loss	42	236	(166)	404	(192)	429
Amortization of debt issuance costs	2	4	6	13	9	17
Change in certain assets and liabilities:						
Accounts receivable, net	(26,223)	(22,630)	(25,939)	(30,460)	(26,003)	(21,128)
Prepaid expenses and other assets	1,114	(6,458)	(7,390)	(17,313)	(6,561)	(12,720)
Accounts payable and other liabilities	917	12,232	(32,915)	9,930	(34,250)	5,302
Deferred income	(1,382)	14,564	7,908	33,399	(1,790)	22,353
Net cash provided by operating activities	\$ 47,452	\$ 51,255	\$ 118,903	\$ 133,298	\$ 180,037	\$ 192,755

- Adjusted EBITDA is defined as income from operations before interest expense, provision for income taxes, depreciation, amortization, share-based compensation and transaction costs.

Adjusted EBITDA is a component of two restrictive financial covenants for the Company's unsecured Credit Facility, the Note Purchase Agreement, Series D Senior Notes, Series E Senior Notes and Series F Senior Notes (as defined and more fully described under the heading "Liquidity and Capital Resources" in this MD&A). These instruments contain financial covenants requiring the Company to not:

- Permit the Consolidated Fixed Charge Coverage Ratio (as defined in the Credit Facility and the Note Purchase Agreement (as defined and more fully described under the heading "Liquidity and Capital Resources" in this MD&A)) of Adjusted

EBITDA (as defined in the Credit Facility and the Note Purchase Agreement) to fixed charges as of the end of any fiscal quarter to be less than 2.50 to 1. At September 30, 2023, the actual ratio was 3.68 to 1.

- Permit the Consolidated Leverage Ratio of funded debt (as defined in the Credit Facility and the Note Purchase Agreement) to Adjusted EBITDA at any time during any period of four consecutive quarters to be greater than 2.75 to 1. At September 30, 2023, the actual ratio was 2.03 to 1.

At September 30, 2023, the Company was in compliance with each of the aforementioned covenants. There are no anticipated trends that the Company is aware of that would indicate non-compliance with these covenants, although, significant deterioration in our financial performance could impact the Company's ability to comply with these covenants.

### **Liquidity and Capital Resources**

The Company's rental businesses are capital intensive and generate significant cash flows. Cash flows for the Company for the nine months ended September 30, 2023 compared to the same period in 2022 are summarized as follows:

*Cash Flows from Operating Activities:* The Company's operations provided net cash of \$118.9 million in 2023, compared to net cash provided of \$133.3 million in 2022. The \$14.4 million decrease in net cash provided by operating activities was primarily attributable to \$25.7 million lower deferred income taxes, partially offset by a \$18.4 million increase in accounts payable and accrued liabilities, a result of higher income taxes payable.

*Cash Flows from Investing Activities:* Net cash used in investing activities was \$331.5 million in 2023, compared to \$86.8 million in 2022. The \$244.8 million increase in cash used was primarily due to the \$458.3 million paid for the business acquisitions of Vesta Modular, Brekke Storage and Dixie Storage in 2023, partly offset by \$268.0 million in proceeds from the sale of discontinued operations from the divestiture of Adler Tanks.

*Cash Flows from Financing Activities:* Net cash provided by financing activities was \$213.6 million in 2023, compared to net cash used of \$46.4 million in 2022. The \$260.1 million change in net cash during 2023 was primarily attributable to increased borrowings under bank lines of credit and note purchase agreements, as the borrowings were primarily attributed to the funding of the Vesta Modular, Brekke Storage and Dixie Storage business acquisitions and capital needs for the tax obligations arising from the divestiture of Adler Tanks.

Significant capital expenditures are required to maintain and grow the Company's rental assets. During the last three years, the Company has financed its working capital and capital expenditure requirements through cash flow from operations, proceeds from the sale of rental equipment and from borrowings. Sales occur routinely as a normal part of the Company's rental business. However, these sales can fluctuate from period to period depending on customer requirements and funding. Although the net proceeds received from sales may fluctuate from period to period, the Company believes its liquidity will not be adversely impacted from lower sales in any given year because it believes it has the ability to increase its bank borrowings and conserve its cash in the future by reducing the amount of cash it uses to purchase rental equipment, pay dividends, or repurchase the Company's common stock.

### **Unsecured Revolving Lines of Credit**

On July 15, 2022, the Company entered into an amended and restated credit agreement with Bank of America, N.A., as Administrative Agent, Swing Line Lender, L/C Issuer and lender, and other lenders named therein (the "Credit Facility"). The Credit Facility provides for a \$650.0 million unsecured revolving credit facility (which may be further increased to \$950.0 million by adding one or more tranches of term loans and/or increasing the aggregate revolving commitments), which includes a \$40.0 million sublimit for the issuance of standby letters of credit and a \$20.0 million sublimit for swingline loans. The proceeds of the Credit Facility are available to be used for general corporate purposes, including permitted acquisitions. The Credit Facility permits the Company's existing indebtedness to remain, which includes the Company's \$20.0 million Treasury Sweep Note due July 15, 2027, the Company's existing senior notes issued pursuant to the Note Purchase and Private Shelf Agreement with Prudential Investment Management, Inc., dated as of April 21, 2011 (as amended): (i) the \$60.0 million aggregate outstanding principal of notes issued November 5, 2015 and due November 5, 2022, (ii) the \$40.0 million aggregate outstanding principal of notes issued March 17, 2021 and due March 17, 2028, and (iii) the \$60.0 million aggregate outstanding principal of notes issued June 16, 2021 and due June 16, 2026. In addition, the Company may incur additional senior note indebtedness in an aggregate amount not to exceed \$250.0 million. The Credit Facility matures on July 15, 2027 and replaced the Company's prior \$420.0 million credit facility dated March 31, 2020 with Bank of America, N.A., as agent, as amended. All obligations outstanding under the prior credit facility as of the date of the Credit Facility were refinanced by the Credit Facility on July 15, 2022.

On August 19, 2022, the Company entered into an amended and restated Credit Facility Letter Agreement and a Credit Line Note in favor of MUFG Union Bank, N.A., which provides for a \$20.0 million line of credit facility related to its cash management services (“Sweep Service Facility”). The Sweep Service Facility matures on the earlier of July 15, 2027, or the date the Company ceases to utilize MUFG Union Bank, N.A. for its cash management services. The Sweep Service Facility replaced the Company’s prior \$12.0 million sweep service facility, dated as of March 30, 2020.

At September 30, 2023, under the Credit Facility and Sweep Service Facility, the Company had unsecured lines of credit that permit it to borrow up to \$650.0 million of which \$492.7 million was outstanding and had capacity to borrow up to an additional \$157.3 million. The Credit Facility contains financial covenants requiring the Company to not (all defined terms used below not otherwise defined herein have the meaning assigned to such terms in the Credit Facility):

- Permit the Consolidated Fixed Charge Coverage Ratio as of the end of any fiscal quarter to be less than 2.50 to 1. At September 30, 2023, the actual ratio was 3.68 to 1.
- Permit the Consolidated Leverage Ratio at any time during any period of four consecutive fiscal quarters to be greater than 2.75 to 1. At September 30, 2023, the actual ratio was 2.03 to 1.

At September 30, 2023, the Company was in compliance with each of the aforementioned covenants. There are no anticipated trends that the Company is aware of that would indicate non-compliance with these covenants, although significant deterioration in our financial performance could impact the Company’s ability to comply with these covenants.

#### ***Note Purchase and Private Shelf Agreement***

On June 8, 2023, the Company entered into a Second Amended and Restated Note Purchase and Private Shelf Agreement (the “Note Purchase Agreement”) with PGIM, Inc. (“PGIM”) and the holders of Series D and Series E Notes previously issued pursuant to the Prior Amended and Restated NPA, among the Company and the other parties to the Note Purchase Agreement. The Note Purchase Agreement amended and restated, and superseded in its entirety, the Prior NPA. Pursuant to the Prior NPA, the Company issued (i) \$40.0 million aggregate principal amount of its 2.57% Series D Senior Notes, due March 17, 2028, and (ii) \$60.0 million aggregate principal amount of its 2.35% Series E Senior Notes, due June 16, 2026, to which the terms of the Note Purchase Agreement shall apply.

In addition, pursuant to the Note Purchase Agreement, the Company may authorize the issuance and sale of additional senior notes (the “Shelf Notes”) in the aggregate principal amount of (x) \$300 million minus (y) the amount of other notes (such as the Series D Senior Notes, Series E Senior Notes and Series F Senior Notes, each defined below) then outstanding, to be dated the date of issuance thereof, to mature, in case of each Shelf Note so issued, no more than 15 years after the date of original issuance thereof, to have an average life, in the case of each Shelf Note so issued, of no more than 15 years after the date of original issuance thereof, to bear interest on the unpaid balance thereof from the date thereof at the rate per annum, and to have such other particular terms, as shall be set forth, in the case of each Shelf Note so issued, in accordance with the Note Purchase Agreement. Shelf Notes may be issued and sold from time to time at the discretion of the Company’s Board of Directors and in such amounts as the Board of Directors may determine, subject to prospective purchasers’ agreement to purchase the Shelf Notes. The Company will sell the Shelf Notes directly to such purchasers. The full net proceeds of each Shelf Note will be used in the manner described in the applicable Request for Purchase with respect to such Shelf Note.

#### ***6.25% Senior Notes Due in 2030***

On September 27, 2023, the Company issued and sold to the purchasers \$75.0 million aggregate principal amount of 6.25% Series F Notes (the “Series F Senior Notes”) pursuant to the terms of the Second Amended and Restated Note Purchase and Private Shelf Agreement, dated June 8, 2023 (the “Note Purchase Agreement”), among the Company, PGIM, Inc. and the noteholders party thereto.

The Series F Senior Notes are an unsecured obligation of the Company and bear interest at a rate of 6.25% per annum and mature on September 27, 2030. Interest on the Series F Senior Notes is payable semi-annually beginning on March 27, 2024 and continuing thereafter on September 27 and March 27 of each year until maturity. The principal balance is due when the notes mature on September 27, 2030. The full net proceeds from the Series F Senior Notes will primarily be used to fulfill the income tax obligations incurred from the divestiture of Adler Tanks. At September 30, 2023, the principal balance outstanding under the Series F Senior Notes was \$75.0 million.

#### ***2.57% Senior Notes Due in 2028***

On March 17, 2021, the Company issued and sold to the purchasers \$40.0 million aggregate principal amount of 2.57% Series D Notes (the "Series D Senior Notes") pursuant to the terms of the Amended and Restated Note Purchase and Private Shelf Agreement, dated March 31, 2020 (the "Note Purchase Agreement"), among the Company, PGIM, Inc. and the noteholders party thereto.

The Series D Senior Notes are an unsecured obligation of the Company and bear interest at a rate of 2.57% per annum and mature on March 17, 2028. Interest on the Series D Senior Notes is payable semi-annually beginning on September 17, 2021 and continuing thereafter on March 17 and September 17 of each year until maturity. The principal balance is due when the notes mature on March 17, 2028. The full net proceeds from the Series D Senior Notes were used to pay off the Company's \$40 million Series B Senior Notes. At September 30, 2023, the principal balance outstanding under the Series D Senior Notes was \$40.0 million.

### ***2.35% Senior Notes Due in 2026***

On June 16, 2021, the Company issued and sold to the purchasers \$60.0 million aggregate principal amount of 2.35% Series E Notes (the "Series E Notes") pursuant to the terms of the Amended and Restated Note Purchase and Private Shelf Agreement, dated March 31, 2020 (the "Note Purchase Agreement"), among the Company, PGIM, Inc. and the noteholders party thereto.

The Series E Senior Notes are an unsecured obligation of the Company and bear interest at a rate of 2.35% per annum and mature on June 16, 2026. Interest on the Series E Senior Notes is payable semi-annually beginning on December 16, 2021 and continuing thereafter on June 16 and December 16 of each year until maturity. The principal balance is due when the notes mature on June 16, 2026. The full net proceeds from the Series E Senior Notes were used to pay down the Company's credit facility. At September 30, 2023, the principal balance outstanding under the Series E Senior Notes was \$60.0 million.

Among other restrictions, the Note Purchase Agreement, which has superseded in its entirety the Prior NPA, under which the Series D Senior Notes, Series E Senior Notes and Series F Senior Notes were sold, contains financial covenants requiring the Company to not (all defined terms used below not otherwise defined herein have the meaning assigned to such terms in the Note Purchase Agreement):

- Permit the Consolidated Fixed Charge Coverage Ratio of EBITDA to fixed charges as of the end of any fiscal quarter to be less than 2.50 to 1. At September 30, 2023, the actual ratio was 3.68 to 1.
- Permit the Consolidated Leverage Ratio of funded debt to EBITDA at any time during any period of four consecutive quarters to be greater than 2.75 to 1. At September 30, 2023, the actual ratio was 2.03 to 1.

At September 30, 2023, the Company was in compliance with each of the aforementioned covenants. There are no anticipated trends that the Company is aware of that would indicate non-compliance with these covenants, although significant deterioration in our financial performance could impact the Company's ability to comply with these covenants.

Although no assurance can be given, the Company believes it will continue to be able to negotiate general bank lines of credit and issue senior notes adequate to meet capital requirements not otherwise met by operational cash flows and proceeds from sales of rental equipment.

### ***Common Stock Purchase***

The Company has in the past made purchases of shares of its common stock from time to time in over-the-counter market (NASDAQ) transactions, through privately negotiated, large block transactions and through a share repurchase plan, in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934. In August 2015, the Company's Board of Directors authorized the Company to repurchase up to 2,000,000 shares of the Company's outstanding common stock (the "Repurchase Plan"). The amount and time of the specific repurchases are subject to prevailing market conditions, applicable legal requirements and other factors, including management's discretion. All shares repurchased by the Company are canceled and returned to the status of authorized but unissued shares of common stock. There can be no assurance that any authorized shares will be repurchased and the Repurchase Plan may be modified, extended or terminated by the Company's Board of Directors at any time. There were no shares repurchased in the nine months ended September 30, 2023 and 2022. As of September 30, 2023, 1,309,805 shares remained authorized for repurchase under the Repurchase Plan.

### **Contractual Obligations and Commitments**

We believe that our contractual obligations and commitments have not changed materially from those included in our 2022 Annual Report.

**Critical Accounting Estimates**

There were no material changes in our judgments and assumptions associated with the development of our critical accounting estimates during the period ended September 30, 2023. Refer to our 2022 Annual Report for a discussion of our critical accounting policies and estimates.

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

There have been no material changes in the Company's market risk exposures from those reported in our 2022 Annual Report.

**Item 4. Controls and Procedures**

The Company's management, under the supervision and with the participation of the Company's Chief Executive Officer (the "CEO") and Chief Financial Officer (the "CFO"), the Company's principal executive officer and principal financial officer, respectively, performed an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of September 30, 2023. Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were effective as of September 30, 2023. There were no changes in the Company's internal control over financial reporting 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

The Company is subject to various legal proceedings and claims arising in the ordinary course of business. The Company's management does not expect that the outcome in the current proceedings, individually or collectively, will have a material adverse effect on the Company's financial condition, operating results or cash flows.

### Item 1a. Risk Factors

You should carefully consider the following discussion of various risks and uncertainties. We believe these risk factors are the most relevant to our business and could cause our results to differ materially from the forward-looking statements made by us. Our business, financial condition, and results of operations could be seriously harmed if any of these risks or uncertainties actually occur or materialize. In that event, the market price for our common stock could decline, and you may lose all or part of your investment. The risk factors below are intended to supersede in their entirety the risk factors contained in "Item 1. A Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2022.

#### **RISKS RELATED TO OUR STRATEGY AND OPERATION:**

#### **Our future operating results may fluctuate, fail to match past performance or fail to meet expectations, which may result in a decrease in our stock price.**

Our operating results may fluctuate in the future, may fail to match our past performance or fail to meet the expectations of analysts and investors. Our results and related ratios, such as gross margin, operating income percentage and effective tax rate may fluctuate as a result of a number of factors, some of which are beyond our control including but not limited to:

- general economic conditions in the geographies and industries where we rent and sell our products;
- legislative and educational policies where we rent and sell our products;
- the budgetary constraints of our customers;
- seasonality of our rental businesses and our end-markets;
- success of our strategic growth initiatives;
- costs associated with the launching or integration of new or acquired businesses;
- the timing and type of equipment purchases, rentals and sales;
- the nature and duration of the equipment needs of our customers;
- the timing of new product introductions by us, our suppliers and our competitors;
- the volume, timing and mix of maintenance and repair work on our rental equipment;
- supply chain delays or disruptions;
- our equipment mix, availability, utilization and pricing;
- inflation in the cost of materials, labor and new rental equipment;
- the mix, by state and country, of our revenues, personnel and assets;
- rental equipment impairment from excess, obsolete or damaged equipment;
- movements in interest rates or tax rates;
- changes in, and application of, accounting rules;
- changes in the regulations applicable to our business operations; and
- claims and litigation matters.

As a result of these factors, our historical financial results are not necessarily indicative of our future results or stock price.

**Our stock price has fluctuated and may continue to fluctuate in the future, which may result in a decline in the value of your investment in our common stock.**

The market price of our common stock fluctuates on the NASDAQ Global Select Market and is likely to be affected by a number of factors including but not limited to:

- our operating performance and the performance of our competitors, and in particular any variations in our operating results or dividend rate from our stated guidance or from investors' expectations;
- any changes in general conditions in the global economy, the industries in which we operate or the global financial markets;
- investors' reaction to our press releases, public announcements or filings with the SEC;
- the stock price performance of our competitors or other comparable companies;
- any changes in research analysts' coverage, recommendations or earnings estimates for us or for the stocks of other companies in our industry;
- any sales of common stock by our directors, executive officers and our other large shareholders, particularly in light of the limited trading volume of our stock;
- any merger and acquisition activity that involves us or our competitors; and
- other announcements or developments affecting us, our industry, customers, suppliers or competitors.

In addition, in recent years the U.S. stock market has experienced significant price and volume fluctuations. These fluctuations are often unrelated to the operating performance of particular companies. Additionally, the most recent global credit crisis adversely affected the prices of most publicly traded stocks as many stockholders became more willing to divest their stock holdings at lower values to increase their cash flow and reduce exposure to such fluctuations. These broad market fluctuations and any other negative economic trends may cause declines in the market price of our common stock and may be based upon factors that have little or nothing to do with our Company or its performance, and these fluctuations and trends could materially reduce our stock price.

**Our ability to retain our executive management and to recruit, retain and motivate key qualified employees is critical to the success of our business.**

If we cannot successfully recruit and retain qualified personnel, our operating results and stock price may suffer. We believe that our success is directly linked to the competent people in our organization, including our executive officers, senior managers and other key personnel, and in particular, Joe Hanna, our Chief Executive Officer. Personnel turnover can be costly and could materially and adversely impact our operating results and can potentially jeopardize the success of our current strategic initiatives. We need to attract and retain highly qualified personnel to replace personnel when turnover occurs, as well as add to our staff levels as growth occurs. Our business and stock price likely will suffer if we are unable to fill, or experience delays in filling open positions, or fail to retain key personnel.

**Failure by third parties to manufacture and deliver our products to our specifications or on a timely basis may harm our reputation and financial condition.**

We depend on third parties to manufacture our products even though we are able to purchase products from a variety of third-party suppliers. In the future, we may be limited as to the number of third-party suppliers for some of our products. Although in general we make advance purchases of some products to help ensure an adequate supply, currently we do not have any long-term purchase contracts with any third-party supplier. We may experience supply problems as a result of financial or operating difficulties or failure of our suppliers, or shortages and discontinuations resulting from product obsolescence or other shortages or allocations by our suppliers. Unfavorable economic conditions may also adversely affect our suppliers or the terms on which we purchase products. In the future, we may not be able to negotiate arrangements with third parties to secure products that we require in sufficient quantities or on reasonable terms. If we cannot negotiate arrangements with third parties to produce our products or if the third parties fail to produce our products to our specifications or in a timely manner, our reputation and financial condition could be harmed.

**We are subject to information technology system failures, network disruptions and breaches in data security which could subject us to liability, reputational damage or interrupt the operation of our business.**

We rely upon our information technology systems and infrastructure for our business. We sustained an immaterial cybersecurity attack in 2021 involving ransomware that impacted certain of our systems but was unsuccessful in its ability to disrupt our network. Our investigation revealed that an unauthorized third party copied some personal information relating to certain current and former employees, directors, contractor workers and their dependents and certain other persons. Upon detection, we promptly undertook steps

to address the incident, restored network systems and resumed normal operations. The attack did not result in any material disruption to our operations or ability to service our customers and did not affect our financial performance.

In the future, we could experience additional breaches of our security measures resulting in the theft of confidential information or reputational damage from industrial espionage attacks, malware or other cyber-attacks, which may compromise our system infrastructure or lead to data leakage, either internally or at our third-party providers. Similarly, additional data privacy breaches by those who access our systems may pose a risk that sensitive data, including intellectual property, trade secrets or personal information belonging to us, our employees, customers or other business partners, may be exposed to unauthorized persons or to the public.

The immaterial breach of our information technology system that we suffered in 2021 and any future breaches could subject us to reputational damage. Cyber-attacks are increasing in their frequency, sophistication and intensity, and have become increasingly difficult to detect. We expend significant resources to minimize the risk of security breaches, including deploying additional personnel and protection technologies, training employees annually, and engaging third-party experts and contractors. Significant and increasing investments of time and resources by management and Board have been, and will continue to be, required to anticipate and address cybersecurity risks and incidents. However, given that the techniques used to obtain unauthorized access or to sabotage systems change frequently, and often are not identified until they are launched against a target, we may be unable to anticipate these techniques or implement adequate preventative measures in time to stop a cyber incident. Thus there can be no assurance that our efforts to protect our data and information technology systems will prevent future breaches in our systems (or that of our third-party providers). Such breaches could adversely affect our business and result in financial and reputational harm to us, theft of trade secrets and other proprietary information, legal claims or proceedings, liability under laws that protect the privacy of personal information, and regulatory penalties.

**Disruptions in our information technology systems or failure to protect these systems against security breaches could adversely affect our business and results of operations. Additionally, if these systems fail, become unavailable for any period of time or are not upgraded, this could limit our ability to effectively monitor and control our operations and adversely affect our operations.**

Our information technology systems facilitate our ability to transact business, monitor and control our operations and adjust to changing market conditions. We sustained an immaterial cybersecurity attack in 2021 involving ransomware that impacted certain of our systems, but was unsuccessful in its ability to disrupt our network. Upon detection, we promptly undertook steps to address the incident, restored network systems and resumed normal operations. Any future cybersecurity attack causing disruption in our information technology systems or the failure of these systems to operate as expected could, depending on the magnitude of the problem, adversely affect our operating results by limiting our capacity to effectively transact business, monitor and control our operations and adjust to changing market conditions in a timely manner.

As part of our business, we develop, receive and retain confidential data about our company and our customers. In addition, because of recent advances in technology and well-known efforts on the part of computer hackers and cyber-terrorists to breach data security of companies, we face risks associated with failure to adequately protect critical corporate, customer and employee data, which could adversely impact our customer relationships, our reputation, and even violate privacy laws.

Further, the delay or failure to implement information system upgrades and new systems effectively could disrupt our business, distract management's focus and attention from our business operations and growth initiatives, and increase our implementation and operating costs, any of which could negatively impact our operations and operating results.

**We have engaged in acquisitions and may engage in future acquisitions that could negatively impact our results of operations, financial condition and business.**

During 2023, the Company acquired Vesta Modular, a portfolio company of Kinderhook Industries, that is a leading provider of temporary and permanent modular space solutions, the assets of Brekke Storage and Inland Leasing, that are regional providers of portable storage solutions in the Colorado market, and the assets of Dixie Storage, a regional provider of portable storage solutions in the South Carolina market. We anticipate that we will continue to consider acquisitions in the future that meet our strategic growth plans. We are unable to predict whether or when any prospective acquisition will be completed. Acquisitions involve numerous risks, including the following:

- difficulties in integrating the operations, technologies, products and personnel of the acquired companies;
- diversion of management's attention from normal daily operations of our business;
- difficulties in entering markets in which we have no or limited direct prior experience and where competitors in such markets may have stronger market positions;
- difficulties in complying with regulations applicable to any acquired business, such as environmental regulations, and managing risks related to an acquired business;

- timely completion of necessary financing and required amendments, if any, to existing agreements;
- an inability to implement uniform standards, controls, procedures and policies;
- undiscovered and unknown problems, defects, damaged assets liabilities, or other issues related to any acquisition that become known to us only after the acquisition;
- negative reactions from our customers to an acquisition;
- disruptions among employees related to any acquisition which may erode employee morale;
- loss of key employees, including costly litigation resulting from the termination of those employees;
- an inability to realize cost efficiencies or synergies that we may anticipate when selecting acquisition candidates;
- recording of goodwill and non-amortizable intangible assets that will be subject to future impairment testing and potential periodic impairment charges;
- incurring amortization expenses related to certain intangible assets; and
- becoming subject to litigation.

Acquisitions are inherently risky, and no assurance can be given that our recent and future acquisitions will be successful or will not adversely affect our business, operating results, or financial condition. The success of our acquisition strategy depends upon our ability to successfully complete acquisitions and integrate any businesses that we acquire into our existing business. The difficulties of integration could be increased by the necessity of coordinating geographically dispersed organizations; maintaining acceptable standards, controls, procedures and policies; integrating personnel with disparate business backgrounds; combining different corporate cultures; and the impairment of relationships with employees and customers as a result of any integration of new management and other personnel. In addition, if we consummate one or more significant future acquisitions in which the consideration consists of stock or other securities, our existing shareholders' ownership could be diluted significantly. If we were to proceed with one or more significant future acquisitions in which the consideration included cash, we could be required to use, to the extent available, a substantial portion of our Credit Facility. If we increase the amount borrowed against our available credit line, we would increase the risk of breaching the covenants under our credit facilities with our lenders. In addition, it would limit our ability to make other investments, or we may be required to seek additional debt or equity financing. Any of these items could adversely affect our results of operations.

**We continually assess the strategic fit of our existing businesses and may divest or otherwise dispose of businesses that are deemed not to fit with our strategic plan or are not achieving the desired return on investment, and we cannot be certain that our business, operating results and financial condition will not be materially and adversely affected.**

A successful divestiture depends on various factors, including reaching an agreement with potential buyers on terms we deem attractive, as well as our ability to effectively transfer liabilities, contracts, facilities, and employees to any purchaser, identify and separate the assets to be divested from the assets that we wish to retain, reduce fixed costs previously associated with the divested assets or business, and collect the proceeds from any divestitures. These efforts require varying levels of management resources, which may divert our attention from other business operations. If we do not realize the expected benefits of any divestiture transaction, our consolidated financial position, results of operations and cash flows could be negatively impacted. In addition, divestitures of businesses involve a number of risks, including significant costs and expenses, the loss of customer relationships and a decrease in revenues and earnings associated with the divested business. Furthermore, divestitures potentially involve significant post-closing separation activities, which could involve the expenditure of material financial resources and significant employee resources. Any divestiture may result in a dilutive impact to our future earnings if we are unable to offset the dilutive impact from the loss of revenue associated with the divestiture, as well as significant write-offs, including those related to goodwill and other intangible assets, which could have a material adverse effect on our results of operations and financial condition.

**If we determine that our goodwill and intangible assets have become impaired, we may incur impairment charges, which would negatively impact our operating results.**

At September 30, 2023, we had \$391.3 million of goodwill and intangible assets, net, on our consolidated balance sheets. Goodwill represents the excess of cost over the fair value of net assets acquired in business combinations. Under accounting principles generally accepted in the United States of America, we assess potential impairment of our goodwill and intangible assets at least annually, as well as on an interim basis to the extent that factors or indicators become apparent that could reduce the fair value of any of our businesses below book value. Impairment may result from significant changes in the manner of use of the acquired asset, negative industry or economic trends and significant underperformance relative to historic or projected operating results.

**Our rental equipment is subject to residual value risk upon disposition and may not sell at the prices or in the quantities we expect.**

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

- the market price for new equipment of a like kind;
- the age of the equipment at the time it is sold, as well as wear and tear on the equipment relative to its age;
- the supply of used equipment on the market;
- technological advances relating to the equipment;
- worldwide and domestic demand for used equipment; and
- general economic conditions.

We include in income from operations the difference between the sales price and the depreciated value of an item of equipment sold. Changes in our assumptions regarding depreciation could change our depreciation expense, as well as the gain or loss realized upon disposal of equipment. Sales of our used rental equipment at prices that fall significantly below our projections or in lesser quantities than we anticipate will have a negative impact on our results of operations and cash flows.

**If we do not effectively manage our credit risk, collect on our accounts receivable or recover our rental equipment from our customers' sites, it could have a material adverse effect on our operating results.**

We generally rent and sell to customers on 30 day payment terms, individually perform credit evaluation procedures on our customers for each transaction and require security deposits or other forms of security from our customers when a significant credit risk is identified. Historically, accounts receivable write-offs and write-offs related to equipment not returned by customers have not been significant and have averaged less than 1% of total revenues over the last five years. If economic conditions deteriorate, we may see an increase in bad debt relative to historical levels, which may materially and adversely affect our operations. Business segments that experience significant market disruptions or declines may experience increased customer credit risk and higher bad debt expense. Failure to manage our credit risk and receive timely payments on our customer accounts receivable may result in write-offs and/or loss of equipment, particularly electronic test equipment. If we are not able to effectively manage credit risk issues, or if a large number of our customers should have financial difficulties at the same time, our receivables and equipment losses could increase above historical levels. If this should occur, our results of operations may be materially and adversely affected.

**Effective management of our rental assets is vital to our business. If we are not successful in these efforts, it could have a material adverse impact on our results of operations.**

Our modular, electronics and liquid and solid containment rental products have long useful lives and managing those assets is a critical element to each of our rental businesses. Generally, we design units and find manufacturers to build them to our specifications for our modular and liquid and solid containment tanks and boxes. Modular asset management requires designing and building the product for a long life that anticipates the needs of our customers, including anticipating potential changes in legislation, regulations, building codes and local permitting in the various markets in which the Company operates. Electronic test equipment asset management requires understanding, selecting and investing in equipment technologies that support market demand, including anticipating technological advances and changes in manufacturers' selling prices. Liquid and solid containment asset management requires designing and building the product for a long life, using quality components and repairing and maintaining the products to prevent leaks. For each of our modular, electronic test equipment and liquid and solid containment assets, we must successfully maintain and repair this equipment cost-effectively to maximize the useful life of the products and the level of proceeds from the sale of such products. To the extent that we are unable to do so, our result of operations could be materially adversely affected.

**The nature of our businesses, including the ownership of industrial property, exposes us to the risk of litigation and liability under environmental, health and safety and products liability laws. Violations of environmental or health and safety related laws or associated liability could have a material adverse effect on our business, financial condition and results of operations.**

We are subject to national, state, provincial and local environmental laws and regulations concerning, among other things, solid and liquid waste and hazardous substances handling, storage and disposal and employee health and safety. These laws and regulations are complex and frequently change. We could incur unexpected costs, penalties and other civil and criminal liability if we fail to comply with applicable environmental or health and safety laws. We also could incur costs or liabilities related to waste disposal or remediating soil or groundwater contamination at our properties, at our customers' properties or at third party landfill and disposal sites. These liabilities can be imposed on the parties generating, transporting or disposing of such substances or on the owner or operator of any

affected property, often without regard to whether the owner or operator knew of, or was responsible for, the presence of hazardous substances.

Several aspects of our businesses involve risks of environmental and health and safety liability. For example, our operations involve the use of petroleum products, solvents and other hazardous substances in the construction and maintaining of modular buildings and for fueling and maintaining our delivery trucks and vehicles. We also own, transport and rent tanks and boxes in which waste materials are placed by our customers. The historical operations at some of our previously or currently owned or leased and newly acquired or leased properties may have resulted in undiscovered soil or groundwater contamination or historical non-compliance by third parties for which we could be held liable. Future events, such as changes in existing laws or policies or their enforcement, or the discovery of currently unknown contamination or non-compliance, may also give rise to liabilities or other claims based on these operations that may be material. In addition, compliance with future environmental or health and safety laws and regulations may require significant capital or operational expenditures or changes to our operations.

Accordingly, in addition to potential penalties for non-compliance, we may become liable, either contractually or by operation of law, for investigation, remediation and monitoring costs even if the contaminated property is not presently owned or operated by us, or if the contamination was caused by third parties during or prior to our ownership or operation of the property. In addition, certain parties may be held liable for more than their “fair” share of environmental investigation and cleanup costs. Contamination and exposure to hazardous substances or other contaminants such as mold can also result in claims for remediation or damages, including personal injury, property damage, and natural resources damage claims. Although expenses related to environmental compliance, health and safety issues, and related matters have not been material to date, we cannot assure that we will not have to make significant expenditures in the future in order to comply with applicable laws and regulations. Violations of environmental or health and safety related laws or associated liability could have a material adverse effect on our business, financial condition and results of operations.

In general, litigation in the industries in which we operate, including class actions that seek substantial damages, arises with increasing frequency. Enforcement of environmental and health and safety requirements is also frequent. Such proceedings are invariably expensive, regardless of the merit of the plaintiffs’ or prosecutors’ claims. We may be named as a defendant in the future, and there can be no assurance, irrespective of the merit of such future actions, that we will not be required to make substantial settlement payments in the future. Further, a significant portion of our business is conducted in California which is one of the most highly regulated and litigious states in the country. Therefore, our potential exposure to losses and expenses due to new laws, regulations or litigation may be greater than companies with a less significant California presence.

The nature of our business also subjects us to property damage and product liability claims, especially in connection with our modular buildings and tank and box rental businesses. Although we maintain liability coverage that we believe is commercially reasonable, an unusually large property damage or product liability claim or a series of claims could exceed our insurance coverage or result in damage to our reputation.

**Our routine business activities expose us to risk of litigation from employees, vendors and other third parties, which could have a material adverse effect on our results of operations.**

We may be subject to claims arising from disputes with employees, vendors and other third parties in the normal course of our business; these risks may be difficult to assess or quantify and their existence and magnitude may remain unknown for substantial periods of time. If the plaintiffs in any suits against us were to successfully prosecute their claims, or if we were to settle any such suits by making significant payments to the plaintiffs, our operating results and financial condition would be harmed. Even if the outcome of a claim proves favorable to us, litigation can be time consuming and costly and may divert management resources. In addition, our organizational documents require us to indemnify our senior executives to the maximum extent permitted by California law. We maintain directors’ and officers’ liability insurance that we believe is commercially reasonable in connection with such obligations, but if our senior executives were named in any lawsuit, our indemnification obligations could magnify the costs of these suits and/or exceed the coverage of such policies.

**If we suffer loss to our facilities, equipment or distribution system due to catastrophe, our insurance policies could be inadequate or depleted, our operations could be seriously harmed, which could negatively affect our operating results.**

Our facilities, rental equipment and distribution systems may be subject to catastrophic loss due to fire, flood, hurricane, earthquake, terrorism or other natural or man-made disasters. In particular, our headquarters, three operating facilities, and certain of our rental equipment are located in areas of California, with above average seismic activity and could be subject to catastrophic loss caused by an earthquake. Our rental equipment and facilities in Texas, Louisiana, Florida, North Carolina and Georgia are located in areas subject to hurricanes and other tropical storms. In addition to customers’ insurance on rented equipment, we carry property insurance on our rental equipment in inventory and operating facilities as well as business interruption insurance. We believe our insurance policies have adequate limits and deductibles to mitigate the potential loss exposure of our business. We do not maintain financial reserves for policy deductibles and our insurance policies contain exclusions that are customary for our industry, including

exclusions for earthquakes, flood and terrorism. If any of our facilities or a significant amount of our rental equipment were to experience a catastrophic loss, it could disrupt our operations, delay orders, shipments and revenue recognition and result in expenses to repair or replace the damaged rental equipment and facility not covered by insurance, which could have a material adverse effect on our results of operations.

#### **INTEREST RATE AND INDEBTEDNESS RISKS:**

**Our debt instruments contain covenants that restrict or prohibit our ability to enter into a variety of transactions and may limit our ability to finance future operations or capital needs. If we have an event of default under these instruments, our indebtedness could be accelerated, and we may not be able to refinance such indebtedness or make the required accelerated payments.**

The agreements governing our Series D and E Senior Notes (as defined and more fully described under the heading “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources”) and our Credit Facility contain various covenants that limit our discretion in operating our business. In particular, we are limited in our ability to merge, consolidate, reorganize or transfer substantially all of our assets, make investments, pay dividends or distributions, redeem or repurchase stock, change the nature of our business, enter into transactions with affiliates, incur indebtedness and create liens on our assets to secure debt. In addition, we are required to meet certain financial covenants under these instruments. These restrictions could limit our ability to obtain future financing, make strategic acquisitions or needed capital expenditures, withstand economic downturns in our business or the economy in general, conduct operations or otherwise take advantage of business opportunities that may arise.

A failure to comply with the restrictions contained in these agreements could lead to an event of default, which could result in an acceleration of our indebtedness. In the event of an acceleration, we may not have or be able to obtain sufficient funds to refinance our indebtedness or make any required accelerated payments. If we default on our indebtedness, our business financial condition and results of operations could be materially and adversely affected.

**The majority of our indebtedness is subject to variable interest rates, which makes us vulnerable to increases in interest rates, which could negatively affect our net income.**

Our indebtedness exposes us to interest rate increases because the majority of our indebtedness is subject to variable rates. At present, we do not have any derivative financial instruments such as interest rate swaps or hedges to mitigate interest rate variability. The interest rates under our credit facilities are reset at varying periods. These interest rate adjustments could cause periodic fluctuations in our operating results and cash flows. Our annual debt service obligations increase by approximately \$4.9 million per year for each 1% increase in the average interest rate we pay based on the \$492.7 million balance of variable rate debt outstanding at September 30, 2023. If interest rates rise in the future, and, particularly if they rise significantly, interest expense will increase and our net income will be negatively affected.

#### **GENERAL RISKS:**

**Our effective tax rate may change and become less predictable as our business expands, or as a result of federal and state tax law changes, making our future earnings less predictable.**

We continue to consider expansion opportunities domestically and internationally for our rental businesses. Since the Company’s effective tax rate depends on business levels, personnel and assets located in various jurisdictions, further expansion into new markets or acquisitions may change the effective tax rate in the future and may make it, and consequently our earnings, less predictable going forward. Further, the enactment of future tax law changes by federal and state taxing authorities may impact the Company’s current period tax provision and its deferred tax liabilities. In addition, the amount and timing of stock-based compensation may also impact the Company’s current tax provision.

**Changes in financial accounting standards may cause lower than expected operating results and affect our reported results of operations.**

Changes in accounting standards and their application may have a significant effect on our reported results on a going-forward basis and may also affect the recording and disclosure of previously reported transactions. New accounting pronouncements and varying interpretations of accounting pronouncements have occurred in the past and may occur in the future. Changes to existing rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business.

**Adverse economic conditions in the United States and globally, as well as geopolitical tensions, could have a negative effect on our business, results of operations, financial condition and liquidity.**

Adverse macroeconomic conditions in the United States and globally, including inflation, slower than expected growth or recession, changes to fiscal and monetary policy, tightening of the credit markets, higher interest rates and currency fluctuations, could negatively impact our business, financial condition, results of operations and liquidity. These factors could negatively affect demand for our business.

Adverse economic conditions in the United States and globally have from time to time caused or exacerbated significant slowdowns in our industry and in the markets in which we operate, which have adversely affected our business and results of operations. Macroeconomic weakness and uncertainty also make it more difficult for us to accurately forecast revenue, gross margin and expenses, and may make it more difficult to refinance debt.

Furthermore, sustained uncertainty about, or worsening of, geopolitical tensions, including further escalation of war between Russia and Ukraine, further escalation of trade tensions between the U.S. and China, escalation of tensions between China and Taiwan, further escalation in the conflict between the State of Israel and Hamas, as well as further escalation of tensions between the State of Israel and various countries in the Middle East and North Africa, could result in a global economic slowdown and long-term changes to global trade. Any or all of these factors could negatively affect our revenue and could materially adversely affect our business, results of operations, financial condition and growth.

**Environmental, social and governance (ESG) matters may impact our business and reputation.**

Governmental authorities, non-governmental organizations, customers, investors, external stakeholders and employees are increasingly sensitive to ESG concerns. This focus on ESG concerns may lead to new requirements that could result in increased costs for our business. Our ability to compete could also be affected by changing customer preferences and requirements, such as growing demand for more environmentally friendly products, supplier practices, or by failure to meet such customer expectations or demand. We risk negative shareholder reaction, including from proxy advisory services, as well as damage to our reputation, if we do not act responsibly, or if we are perceived to not be acting responsibly in key ESG areas. If we do not meet the ESG expectations of our investors, customers and other stakeholders, we could experience reduced demand for our products, loss of customers, and other negative impacts on our business and results of operations.

**SPECIFIC RISKS RELATED TO OUR RELOCATABLE MODULAR BUILDINGS BUSINESS SEGMENT:**

**Significant reductions of, or delays in, funding to public schools have caused the demand and pricing for our modular classroom units to decline, which has in the past caused, and may cause in the future, a reduction in our revenues and profitability.**

Rentals and sales of modular buildings to public school districts for use as classrooms, restroom buildings, and administrative offices for K-12 represent a significant portion of Mobile Modular's rental and sales revenues. Funding for public school facilities is derived from a variety of sources including the passage of both statewide and local facility bond measures, developer fees and various taxes levied to support school operating budgets. Many of these funding sources are subject to financial and political considerations, which vary from district to district and are not tied to demand. Historically, we have benefited from the passage of statewide and local facility bond measures and believe these are essential to our business.

The state of California is our largest market for classroom rentals. The strength of this market depends heavily on public funding from voter passage of both state and local facility bond measures, and the ability of the state to sell such bonds in the public market. A lack of passage of state and local facility bond measures, or the inability to sell bonds in the public markets in the future could reduce our revenues and operating income, and consequently have a material adverse effect on the Company's financial condition. Furthermore, even if voters have approved facility bond measures and the state has raised bond funds, there is no guarantee that individual school projects will be funded in a timely manner.

As a consequence of the most recent economic recession, many states and local governments experienced large budget deficits resulting in severe budgetary constraints among public school districts. To the extent public school districts' funding is reduced for the rental and purchase of modular buildings, our business could be harmed and our results of operations negatively impacted. We believe that interruptions or delays in the passage of facility bond measures or completion of state budgets, an insufficient amount of state funding, a significant reduction of funding to public schools, or changes negatively impacting enrollment may reduce the rental and sale demand for our educational products. Any reductions in funding available to the school districts from the states in which we do business may cause school districts to experience budget shortfalls and to reduce their demand for our products despite growing student populations, class size reduction initiatives and modernization and reconstruction project needs, which could reduce our revenues and operating income and consequently have a material adverse effect on the Company's financial condition.

**Public policies that create demand for our products and services may change, resulting in decreased demand for or the pricing of our products and services, which could negatively affect our revenues and operating income.**

Various states that we operate enacted laws and constitutional amendments to provide funding for school districts to limit the number of students that may be grouped in a single classroom. School districts with class sizes in excess of state limits have been and continue to be a significant source of our demand for modular classrooms. In California, efforts to address aging infrastructure and deferred maintenance have resulted in modernization and reconstruction projects by public school districts including seismic retrofitting, asbestos abatement and various building repairs and upgrades, which has been another source of demand for our modular classrooms. The most recent economic recession caused state and local budget shortfalls, which reduced school districts' funding and their ability to comply with state class size reduction requirements. If educational priorities and policies shift away from class-size reduction or modernization and reconstruction projects, demand and pricing for our products and services may decline, not grow as quickly as, or not reach the levels that we anticipate. Significant equipment returns may result in lower utilization until equipment can be redeployed or sold, which may cause rental rates to decline and negatively affect our revenues and operating income.

**Failure to comply with applicable regulations could harm our business and financial condition, resulting in lower operating results and cash flows.**

Similar to conventionally constructed buildings, the modular building industry, including the manufacturers and lessors of portable classrooms, are subject to regulations by multiple governmental agencies at the federal, state and local level relating to environmental, zoning, health, safety, energy efficiency, labor and transportation matters, among other matters. Failure to comply with these laws or regulations could impact our business or harm our reputation and result in higher capital or operating expenditures or the imposition of penalties or restrictions on our operations.

As with conventional construction, typically new codes and regulations are not retroactively applied. Nonetheless, new governmental regulations in these or other areas may increase our acquisition cost of new rental equipment, limit the use of or make obsolete some of our existing equipment, or increase our costs of rental operations.

Building codes are generally reviewed every three years. All aspects of a given code are subject to change including, but not limited to, such items as structural specifications for earthquake safety, energy efficiency and environmental standards, fire and life safety, transportation, lighting and noise limits.

Compliance with building codes and regulations entails a certain amount of risk as state and local government authorities do not necessarily interpret building codes and regulations in a consistent manner, particularly where applicable regulations may be unclear and subject to interpretation. These regulations often provide broad discretion to governmental authorities that oversee these matters, which can result in unanticipated delays or increases in the cost of compliance in particular markets. The construction and modular industries have developed many "best practices" which are constantly evolving. Some of our peers and competitors may adopt practices that are more or less stringent than the Company's. When, and if, regulatory standards are clarified, the effect of the clarification may be to impose rules on our business and practices retroactively, at which time, we may not be in compliance with such regulations and we may be required to incur costly remediation. If we are unable to pass these increased costs on to our customers, our profitability, operating cash flows and financial condition could be negatively impacted.

**Expansions of our modular operations into new markets may negatively affect our operating results.**

In the past we have expanded our modular operations into new geographies and states. There are risks inherent in the undertaking of such expansion, including the risk of revenue from the business in any new markets not meeting our expectations, higher than expected costs in entering these new markets, risk associated with compliance with applicable state and local laws and regulations, response by competitors and unanticipated consequences of expansion. In addition, expansion into new markets may be affected by local economic and market conditions. Expansion of our operations into new markets will require a significant amount of attention from our management, a commitment of financial resources and will require us to add qualified management in these markets, which may negatively impact our operating results.

**We are subject to laws and regulations governing government contracts. These laws and regulations expose us to business volatility and risks, including government budgeting cycles and appropriations, potential early termination of contracts, procurement regulations, governmental policy shifts, audits, investigations, sanctions and penalties. Furthermore, these laws and regulations make these government contracts more favorable to government entities than other third parties and any changes in these laws and regulations, or our failure to comply with these laws and regulations could harm our business.**

McGrath derives a portion of its revenues from contracts with U.S. federal government entities, government prime contractors, state entities and local entities, including school districts. Contracts with government entities are subject to budgetary constraints, and our continued performance under our contracts with these agencies and their prime contractors, or award of additional contracts from these agencies or their prime contractors, could be jeopardized by spending reductions or budget cutbacks at these agencies. Such contracts are also subject to unique laws and regulations, and the adoption of new laws or regulations relating to government contracting or changes to existing laws or regulations. New laws, regulations or procurement requirements, or changes to current ones, can significantly increase our costs and risks and reduce our profitability. In addition, any failure on the part of the company to comply with applicable government contract laws and regulations might result in administrative penalties or even in the termination or suspension of these contracts and as a result, the loss of the related revenues, which would harm our business.

Furthermore, the laws governing government contracts differ from the laws governing private contracts. For example, many government contracts contain pricing terms and conditions that are not applicable to private contracts such as clauses that allow government entities not to perform on contractual obligations in the case of a lack of fiscal funding. Also, in the educational markets we serve, we are able to utilize “piggyback” contracts in marketing our products and services and ultimately to book business. The term “piggyback” contract refers to contracts for portable classrooms or other products entered into by public school districts following a formal bid process that allows for the use of the same contract terms and conditions with the successful vendor by other public school districts. As a result, “piggyback” contracts allow us to more readily book orders from our government customers, primarily public school districts, and to reduce the administrative expense associated with booking these orders. The governmental statutes and regulations that allow for use of “piggyback” contracts are subject to change or elimination in their entirety. A change in the manner of use or the elimination of “piggyback” contracts would likely negatively impact our ability to book new business from these government customers and could cause our administrative expenses related to processing these orders to increase significantly. In addition, any failure to comply with these laws and regulations might result in administrative penalties or even in the suspension of these contracts and as a result, the loss of the related revenues which would harm our business and results from operations.

**Seasonality of our educational business may have adverse consequences for our business.**

A significant portion of the modular sale and rental revenues is derived from the educational market. Typically, during each calendar year, our highest numbers of classrooms are shipped for rental and sale orders during the second and third quarters for delivery and installation prior to the start of the upcoming school year. The majority of classrooms shipped in the second and third quarters have rental start dates during the third quarter, thereby making the fourth quarter the first full quarter of rental revenues recognized for these transactions. Although this is the historical seasonality of our business, it is subject to change or may not meet our expectations, which may have adverse consequences for our business.

**We face strong competition in our modular building markets and we may not be able to effectively compete.**

The modular building leasing industry is highly competitive in our states of operation and we expect it to remain so. The competitive market in which we operate may prevent us from raising rental fees or sales prices to pass any increased costs on to our customers. We compete on the basis of a number of factors, including equipment availability, quality, price, service, reliability, appearance, functionality and delivery terms. We may experience pricing pressures in our areas of operation in the future as some of our competitors seek to obtain market share by reducing prices.

Some of our competitors in the modular building leasing industry, notably WillScot Mobile Mini Holdings Corp, have a greater range of products and services, greater financial and marketing resources, larger customer bases, and greater name recognition than we have. These competitors may be better able to respond to changes in the relocatable modular building market, to finance acquisitions, to fund internal growth and to compete for market share, any of which could harm our business.

**We may not be able to quickly redeploy modular units returning from leases, which could negatively affect our financial performance and our ability to expand, or utilize, our rental fleet.**

As of September 30, 2023, 60% of our modular portfolio had equipment on rent for periods exceeding the original committed term. Generally, when a customer continues to rent the modular units beyond the contractual term, the equipment rents on a month-to-month basis. If a significant number of our rented modular units were returned during a short period of time, particularly those units that are rented on a month-to-month basis, a large supply of units would need to be remarketed. Our failure to effectively remarket a large influx of units returning from leases could negatively affect our financial performance and our ability to continue expanding our

rental fleet. In addition, if returned units stay off rent for an extended period of time, we may incur additional costs to securely store and maintain them.

**Significant increases in raw material and labor costs could increase our acquisition cost of new modular rental units and repair and maintenance costs of our fleet, which would increase our operating costs and harm our profitability.**

We incur labor costs and purchase raw materials, including lumber, siding and roofing and other products to perform periodic repairs, modifications and refurbishments to maintain physical conditions of our modular units. The volume, timing and mix of maintenance and repair work on our rental equipment may vary quarter-to-quarter and year-to-year. Generally, increases in labor and raw material costs will also increase the acquisition cost of new modular units and increase the repair and maintenance costs of our fleet. We also maintain a fleet of service trucks and use subcontractor companies for the delivery, set-up, return delivery and dismantle of modulars for our customers. We rely on our subcontractor service companies to meet customer demands for timely shipment and return, and the loss or inadequate number of subcontractor service companies may cause prices to increase, while negatively impacting our reputation and operating performance. During periods of rising prices for labor, raw materials or fuel, and in particular, when the prices increase rapidly or to levels significantly higher than normal, we may incur significant increases in our acquisition costs for new modular units and incur higher operating costs that we may not be able to recoup from our customers, which would reduce our profitability.

**Failure by third parties to manufacture our products timely or properly may harm our reputation and financial condition.**

We are dependent on third parties to manufacture our products even though we are able to purchase products from a variety of third-party suppliers. Mobile Modular purchases new modulars from various manufacturers who build to Mobile Modular's design specifications. With the exception of Enviroplex, none of the principal suppliers are affiliated with the Company. During 2022, Mobile Modular purchased 30% of its modular product from one manufacturer. The Company believes that the loss of any of its primary manufacturers of modulars could have an adverse effect on its operations since Mobile Modular could experience higher prices and longer delivery lead times for modular product until other manufacturers were able to increase their production capacity.

**Failure to properly design, manufacture, repair and maintain the modular product may result in impairment charges, potential litigation and reduction of our operating results and cash flows.**

We estimate the useful life of the modular product to be 18 years with a residual value of 50%. However, proper design, manufacture, repairs and maintenance of the modular product during our ownership is required for the product to reach the estimated useful life of 18 years with a residual value of 50%. If we do not appropriately manage the design, manufacture, repair and maintenance of our modular product, or otherwise delay or defer such repair or maintenance, we may be required to incur impairment charges for equipment that is beyond economic repair costs or incur significant capital expenditures to acquire new modular product to serve demand. In addition, such failures may result in personal injury or property damage claims, including claims based on presence of mold, and termination of leases or contracts by customers. Costs of contract performance, potential litigation, and profits lost from termination could accordingly reduce our future operating results and cash flows.

**Our warranty costs may increase and warranty claims could damage our reputation and negatively impact our revenues and operating income.**

Sales of new relocatable modular buildings not manufactured by us are typically covered by warranties provided by the manufacturer of the products sold. We provide ninety-day warranties on certain modular sales of used rental units and one-year warranties on equipment manufactured by our Enviroplex subsidiary. Historically, our warranty costs have not been significant, and we monitor the quality of our products closely. If a defect were to arise in the installation of our equipment at the customer's facilities or in the equipment acquired from our suppliers or by our Enviroplex subsidiary, we may experience increased warranty claims. Such claims could disrupt our sales operations, damage our reputation and require costly repairs or other remedies, negatively impacting revenues and operating income.

**SPECIFIC RISKS RELATED TO OUR ELECTRONIC TEST EQUIPMENT BUSINESS SEGMENT:**

**Market risk and cyclical downturns in the industries using test equipment may result in periods of low demand for our product resulting in excess inventory, impairment charges and reduction of our operating results and cash flows.**

TRS-RenTelco's revenues are derived from the rental and sale of general purpose and communications test equipment to a broad range of companies, from Fortune 500 to middle and smaller market companies, in the aerospace, defense, communications, manufacturing and semiconductor industries. Electronic test equipment rental and sales revenues are primarily affected by the business activity within these industries related to research and development, manufacturing, and communication infrastructure installation and maintenance. Historically, these industries have been cyclical and have experienced periodic downturns, which can have a material

adverse impact on the industry's demand for equipment, including our rental electronic test equipment. In addition, the severity and length of any downturn in an industry may also affect overall access to capital, which could adversely affect our customers and result in excess inventory and impairment charges. During periods of reduced and declining demand for test equipment, we are exposed to additional receivable risk from non-payment and may need to rapidly align our cost structure with prevailing market conditions, which may negatively impact our operating results and cash flows.

**Seasonality of our electronic test equipment business may impact quarterly results.**

Generally, rental activity declines in the fourth quarter month of December and the first quarter months of January and February. These months may have lower rental activity due to holiday closures, particularly by larger companies, inclement weather and its impact on various field related communications equipment rentals, and companies' operational recovery from holiday closures which may impact the start-up of new projects coming online in the first quarter. These seasonal factors historically have impacted quarterly results in each year's first and fourth quarter, but we are unable to predict how such factors may impact future periods.

**Our rental test equipment may become obsolete or may no longer be supported by a manufacturer, which could result in an impairment charge.**

Electronic test equipment is characterized by changing technology and evolving industry standards that may render our existing equipment obsolete through new product introductions, or enhancements, before the end of its anticipated useful life, causing us to incur impairment charges. We must anticipate and keep pace with the introduction of new hardware, software and networking technologies and acquire equipment that will be marketable to our current and prospective customers.

Additionally, some manufacturers of our equipment may be acquired or cease to exist, resulting in a future lack of support for equipment purchased from those manufacturers. This could result in the remaining useful life becoming shorter, causing us to incur an impairment charge. We monitor our manufacturers' capacity to support their products and the introduction of new technologies, and we acquire equipment that will be marketable to our current and prospective customers. However, any prolonged economic downturn could result in unexpected bankruptcies or reduced support from our manufacturers. Failure to properly select, manage and respond to the technological needs of our customers and changes to our products through their technology life cycle may cause certain electronic test equipment to become obsolete, resulting in impairment charges, which may negatively impact operating results and cash flows.

**If we do not effectively compete in the rental equipment market, our operating results will be materially and adversely affected.**

The electronic test equipment rental business is characterized by intense competition from several competitors, including Electro Rent Corporation, Continental Resources and TestEquity, some of which may have access to greater financial and other resources than we do. Although no single competitor holds a dominant market share, we face competition from these established entities and new entrants in the market. We believe that we anticipate and keep pace with the introduction of new products and acquire equipment that will be marketable to our current and prospective customers. We compete on the basis of a number of factors, including product availability, price, service and reliability. Some of our competitors may offer similar equipment for lease, rental or sale at lower prices and may offer more extensive servicing, or financing options. Failure to adequately forecast the adoption of, and demand for, new or existing products may cause us not to meet our customers' equipment requirements and may materially and adversely affect our operating results.

**If we are not able to obtain equipment at favorable rates, there could be a material adverse effect on our operating results and reputation.**

The majority of our rental equipment portfolio is comprised of general purpose test and measurement instruments purchased from leading manufacturers such as Keysight Technologies, Rhode & Schwarz and Tektronix, a division of Fortive Corporation. We depend on purchasing equipment from these manufacturers and suppliers for use as our rental equipment. If, in the future, we are not able to purchase necessary equipment from one or more of these suppliers on favorable terms, we may not be able to meet our customers' demands in a timely manner or for a rental rate that generates a profit. If this should occur, we may not be able to secure necessary equipment from an alternative source on acceptable terms and our business and reputation may be materially and adversely affected.

**If we are not able to anticipate and mitigate the risks associated with operating internationally, there could be a material adverse effect on our operating results.**

Currently, total foreign country customers and operations account for less than 10% of the Company's revenues. In recent years some of our customers have expanded their international operations faster than domestic operations, and this trend may continue. Over

time, the amount of our international business may increase if we focus on international market opportunities. Operating in foreign countries subjects the Company to additional risks, any of which may adversely impact our future operating results, including:

- international political, economic and legal conditions including tariffs and trade barriers;
- our ability to comply with customs, anti-corruption, import/export and other trade compliance regulations, together with any unexpected changes in such regulations;
- greater difficulty in our ability to recover rental equipment and obtain payment of the related trade receivables;
- additional costs to establish and maintain international subsidiaries and related operations;
- difficulties in attracting and retaining staff and business partners to operate internationally;
- language and cultural barriers;
- seasonal reductions in business activities in the countries where our international customers are located;
- difficulty with the integration of foreign operations;
- longer payment cycles;
- currency fluctuations; and
- potential adverse tax consequences.

**Unfavorable currency exchange rates may negatively impact our financial results in U.S. dollar terms.**

We receive revenues in Canadian dollars from our business activities in Canada. Conducting business in currencies other than U.S. dollars subjects us to fluctuations in currency exchange rates. If the currency exchange rates change unfavorably, the value of net receivables we receive in foreign currencies and later convert to U.S. dollars after the unfavorable change would be diminished. This could have a negative impact on our reported operating results. We currently do not engage in hedging strategies to mitigate this risk.

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

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

- 15.1 [Awareness Letter From Grant Thornton LLP.](#)
- 31.1 [Certification of Chief Executive Officer required by Rule 13a-14\(a\) or Rule 15d-14\(a\) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 31.2 [Certification of Chief Financial Officer required by Rule 13a-14\(a\) or Rule 15d-14\(a\) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.](#)
- 32.1 [Certification of Chief Executive Officer pursuant to Title 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 32.2 [Certification of Chief Financial Officer pursuant to Title 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.](#)
- 101 The following materials from McGrath RentCorp’s Quarterly report on Form 10-Q for the quarter ended September 30, 2023, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) the Condensed Consolidated Statement of Income, (ii) the Condensed Consolidated Balance Sheet, (iii) the Condensed Consolidated Statement of Cash Flows, and (iv) Notes to Condensed Consolidated Financial Statements.
- 104 Cover Page Interactive Data File (embedded within the Inline XBRL document).

**Signatures**

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

Date: October 26, 2023

**McGrath RentCorp**

By: /s/ Keith E. Pratt

Keith E. Pratt

Executive Vice President and Chief Financial Officer

By: /s/ David M. Whitney

David M. Whitney

Vice President, Controller and Principal Accounting Officer

**AWARENESS LETTER FROM GRANT THORNTON LLP**

McGrath RentCorp  
5700 Las Positas Road  
Livermore, California 94551

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited interim financial information of McGrath RentCorp for the periods ended September 30, 2023 and 2022, as indicated in our report dated October 26, 2023; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended September 30, 2023 is incorporated by reference in Registration Statements on Form S-8 (File No. 333-74089, File No. 333-151815, File No. 333-161128, and File No. 333-183231).

We also are aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statement prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

/s/ GRANT THORNTON LLP

San Francisco, California  
October 26, 2023

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**McGRATH RENTCORP**  
**SECTION 302 CERTIFICATION**

I, Joseph F. Hanna, certify that:

1. I have reviewed this quarterly report on Form 10-Q of McGrath RentCorp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 26, 2023

By: /s/ Joseph F. Hanna  
Joseph F. Hanna  
Chief Executive Officer

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**McGRATH RENTCORP**  
**SECTION 302 CERTIFICATION**

I, Keith E. Pratt, certify that:

1. I have reviewed this quarterly report on Form 10-Q of McGrath RentCorp;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 26, 2023

By: /s/ Keith E. Pratt  
Keith E. Pratt  
Chief Financial Officer

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**McGRATH RENTCORP**  
**SECTION 906 CERTIFICATION**

In connection with the quarterly report of McGrath RentCorp (the “Company”) on Form 10-Q for the period ended September 30, 2023, as filed with the Securities and Exchange Commission (the “Report”), I, Joseph F. Hanna, Chief Executive Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, “filed” with the Securities and Exchange Commission for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to liability of that section. This certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

Date: October 26, 2023

By: /s/ Joseph F. Hanna  
Joseph F. Hanna  
Chief Executive Officer

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**McGRATH RENTCORP**  
**SECTION 906 CERTIFICATION**

In connection with the quarterly report of McGrath RentCorp (the "Company") on Form 10-Q for the period ended September 30, 2023, as filed with the Securities and Exchange Commission (the "Report"), I, Keith E. Pratt, Chief Financial Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the United States Code, that to the best of my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended (the "Exchange Act"), or otherwise subject to liability of that section. This certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

Date: October 26, 2023

By: /s/ Keith E. Pratt  
Keith E. Pratt  
Chief Financial Officer

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