

**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, 2020

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 28, 2020, 24,111,298 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, and subsidiaries (the “Company”) as of September 30, 2020 and the related condensed consolidated statements of income, comprehensive income, and shareholders’ equity for the three and nine-months ended September 30, 2020 and 2019, cash flows for the nine-months ended September 30, 2020 and 2019 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, 2019, 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 25, 2020, 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, 2019, 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 Jose, California  
October 29, 2020

**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,	
	2020	2019	2020	2019
<b>Revenues</b>				
Rental	\$ 88,138	\$ 90,857	\$ 263,273	\$ 261,658
Rental related services	25,040	30,816	70,026	76,738
Rental operations	113,178	121,673	333,299	338,396
Sales	42,331	50,855	87,366	81,387
Other	939	1,034	2,909	3,226
Total revenues	156,448	173,562	423,574	423,009
<b>Costs and Expenses</b>				
Direct costs of rental operations:				
Depreciation of rental equipment	21,419	20,535	64,640	59,222
Rental related services	18,603	23,007	51,760	57,507
Other	18,553	19,654	56,171	61,128
Total direct costs of rental operations	58,575	63,196	172,571	177,857
Costs of sales	29,669	32,084	57,911	49,984
Total costs of revenues	88,244	95,280	230,482	227,841
Gross profit	68,204	78,282	193,093	195,168
Selling and administrative expenses	30,871	31,534	93,365	92,044
Income from operations	37,333	46,748	99,728	103,124
Other income (expense):				
Interest expense	(1,968)	(3,161)	(6,804)	(9,407)
Foreign currency exchange gain (loss)	130	(132)	(189)	(46)
Income before provision for income taxes	35,495	43,455	92,735	93,671
Provision for income taxes	7,394	10,987	21,926	23,266
Net income	\$ 28,101	\$ 32,468	\$ 70,809	\$ 70,405
Earnings per share:				
Basic	\$ 1.17	\$ 1.34	\$ 2.93	\$ 2.90
Diluted	\$ 1.15	\$ 1.32	\$ 2.88	\$ 2.86
Shares used in per share calculation:				
Basic	24,097	24,268	24,170	24,237
Diluted	24,443	24,632	24,558	24,592
Cash dividends declared per share	\$ 0.420	\$ 0.375	\$ 1.260	\$ 1.125

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

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

<i>(in thousands)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Net income	\$ 28,101	\$ 32,468	\$ 70,809	\$ 70,405
Other comprehensive income (loss):				
Foreign currency translation adjustment	(93)	82	64	42
Tax benefit (provision)	22	(20)	(14)	(12)
Comprehensive income	\$ 28,030	\$ 32,530	\$ 70,859	\$ 70,435

*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, 2020	December 31, 2019
<b>Assets</b>		
Cash	\$ 1,543	\$ 2,342
Accounts receivable, net of allowance for doubtful accounts of \$2,200 in 2020 and \$1,883 in 2019	129,433	128,099
Rental equipment, at cost:		
Relocatable modular buildings	885,314	868,807
Electronic test equipment	335,520	335,343
Liquid and solid containment tanks and boxes	316,110	316,261
	1,536,944	1,520,411
Less accumulated depreciation	(588,819)	(552,911)
Rental equipment, net	948,125	967,500
Property, plant and equipment, net	134,245	131,047
Prepaid expenses and other assets	46,670	45,356
Intangible assets, net	7,167	7,334
Goodwill	28,197	28,197
Total assets	<u>\$ 1,295,380</u>	<u>\$ 1,309,875</u>
<b>Liabilities and Shareholders' Equity</b>		
Liabilities:		
Notes payable	\$ 249,980	\$ 293,431
Accounts payable and accrued liabilities	108,824	109,174
Deferred income	58,555	54,964
Deferred income taxes, net	216,407	218,270
Total liabilities	<u>633,766</u>	<u>675,839</u>
Shareholders' equity:		
Common stock, no par value - Authorized 40,000 shares		
Issued and outstanding - 24,111 shares as of September 30, 2020 and 24,296 shares as of December 31, 2019	106,079	106,360
Retained earnings	555,555	527,746
Accumulated other comprehensive loss	(20)	(70)
Total shareholders' equity	<u>661,614</u>	<u>634,036</u>
Total liabilities and shareholders' equity	<u>\$ 1,295,380</u>	<u>\$ 1,309,875</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, 2019</b>	24,296	\$ 106,360	\$ 527,746	\$ (70)	\$ 634,036
Net income	—	—	20,159	—	20,159
Share-based compensation	—	1,723	—	—	1,723
Common stock issued under stock plans, net of shares withheld for employee taxes	50	—	—	—	—
Repurchased common stock	(164)	(725)	(7,127)	—	(7,852)
Taxes paid related to net share settlement of stock awards	—	(401)	—	—	(401)
Dividends accrued of \$0.42 per share	—	—	(10,219)	—	(10,219)
Other comprehensive income	—	—	—	158	158
<b>Balance at March 31, 2020</b>	24,182	\$ 106,957	\$ 530,559	\$ 88	\$ 637,604
Net income	—	—	22,549	—	22,549
Share-based compensation	—	1,501	—	—	1,501
Common stock issued under stock plans, net of shares withheld for employee taxes	19	—	—	—	—
Repurchased common stock	(116)	(509)	(5,139)	—	(5,648)
Taxes paid related to net share settlement of stock awards	—	(1,939)	—	—	(1,939)
Dividends accrued of \$0.42 per share	—	—	(10,194)	—	(10,194)
Other comprehensive loss	—	—	—	(37)	(37)
<b>Balance at June 30, 2020</b>	24,085	\$ 106,010	\$ 537,775	\$ 51	\$ 643,836
Net income	—	—	28,101	—	28,101
Share-based compensation	—	1,670	—	—	1,670
Common stock issued under stock plans, net of shares withheld for employee taxes	28	—	—	—	—
Repurchased common stock	(2)	(11)	(106)	—	(117)
Taxes paid related to net share settlement of stock awards	—	(1,590)	—	—	(1,590)
Dividends accrued of \$0.42 per share	—	—	(10,215)	—	(10,215)
Other comprehensive loss	—	—	—	(71)	(71)
<b>Balance at September 30, 2020</b>	24,111	\$ 106,079	\$ 555,555	\$ (20)	\$ 661,614

<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, 2018</b>	24,182	\$ 103,801	\$ 467,783	\$ (49)	\$ 571,535
Net income	—	—	18,449	—	18,449
Share-based compensation	—	1,392	—	—	1,392
Common stock issued under stock plans, net of shares withheld for employee taxes	40	—	—	—	—
Taxes paid related to net share settlement of stock awards	—	(1,555)	—	—	(1,555)
Dividends accrued of \$0.375 per share	—	—	(9,151)	—	(9,151)
Other comprehensive loss	—	—	—	(27)	(27)
<b>Balance at March 31, 2019</b>	24,222	\$ 103,638	\$ 477,081	\$ (76)	\$ 580,643
Net income	—	—	19,488	—	19,488
Share-based compensation	—	1,354	—	—	1,354
Common stock issued under stock plans, net of shares withheld for employee taxes	31	—	—	—	—
Taxes paid related to net share settlement of stock awards	—	(8)	—	—	(8)
Dividends accrued of \$0.375 per share	—	—	(9,162)	—	(9,162)
Other comprehensive loss	—	—	—	(6)	(6)
<b>Balance at June 30, 2019</b>	24,253	\$ 104,984	\$ 487,407	\$ (82)	\$ 592,309
Net income	—	—	32,468	—	32,468
Share-based compensation	—	1,350	—	—	1,350
Common stock issued under stock plans, net of shares withheld for employee taxes	32	—	—	—	—
Taxes paid related to net share settlement of stock awards	—	(301)	—	—	(301)
Dividends accrued of \$0.375 per share	—	—	(9,173)	—	(9,173)
Other comprehensive income	—	—	—	62	62
<b>Balance at September 30, 2019</b>	24,285	\$ 106,033	\$ 510,702	\$ (20)	\$ 616,715



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

<i>(in thousands)</i>	<b>Nine Months Ended September 30.</b>	
	<b>2020</b>	<b>2019</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 70,809	\$ 70,405
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	71,249	65,960
Provision for doubtful accounts	1,227	655
Share-based compensation	4,894	4,096
Gain on sale of used rental equipment	(14,110)	(15,168)
Foreign currency exchange loss	189	46
Amortization of debt issuance costs	8	8
Change in:		
Accounts receivable	(2,561)	(16,929)
Prepaid expenses and other assets	(1,314)	(11,734)
Accounts payable and accrued liabilities	(582)	19,304
Deferred income	3,591	10,946
Deferred income taxes	(1,863)	9,280
Net cash provided by operating activities	<u>131,537</u>	<u>136,869</u>
<b>Cash Flows from Investing Activities:</b>		
Purchases of rental equipment	(65,661)	(127,243)
Purchases of property, plant and equipment	(9,639)	(6,845)
Cash paid for acquisition of business assets	—	(7,401)
Proceeds from sales of used rental equipment	33,837	30,844
Net cash used in investing activities	<u>(41,463)</u>	<u>(110,645)</u>
<b>Cash Flows from Financing Activities:</b>		
Net (repayment) borrowing under bank lines of credit	(43,460)	2,897
Repurchase of common stock	(13,617)	—
Taxes paid related to net share settlement of stock awards	(3,930)	(1,864)
Payment of dividends	(29,642)	(26,432)
Net cash used in financing activities	<u>(90,649)</u>	<u>(25,399)</u>
Effect of foreign currency exchange rate changes on cash	(224)	(43)
Net (decrease) increase in cash	(799)	782
Cash balance, beginning of period	2,342	1,508
Cash balance, end of period	<u>\$ 1,543</u>	<u>\$ 2,290</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Interest paid, during the period	<u>\$ 6,829</u>	<u>\$ 9,359</u>
Net income taxes paid, during the period	<u>\$ 24,704</u>	<u>\$ 10,030</u>
Dividends accrued during the period, not yet paid	<u>\$ 10,355</u>	<u>\$ 9,241</u>
Rental equipment acquisitions, not yet paid	<u>\$ 5,827</u>	<u>\$ 9,450</u>

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

**NOTE 1. CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

The condensed consolidated financial statements for the three and nine months ended September 30, 2020 and 2019 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, 2020 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 25, 2020 for the year ended December 31, 2019 (the “2019 Annual Report”).

**NOTE 2. NEW ACCOUNTING PRONOUNCEMENTS**

In December 2019, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes, expected to reduce cost and complexity related to the accounting for income taxes. The ASU removes specific exceptions to the general principles in Topic 740 in GAAP. It eliminates the need for an organization to analyze whether the following apply in a given period: exception to the incremental approach for intra-period tax allocation; exceptions to accounting for basis differences when there are ownership changes in foreign investments; and exception in interim period income tax accounting for year-to-date losses that exceed anticipated losses. The ASU also improves financial statement preparers’ application of income tax-related guidance and simplifies GAAP for: franchise taxes that are partially based on income; transactions with a government that result in a step up in the tax basis of goodwill; separate financial statements of legal entities that are not subject to tax; and enacted changes in tax laws in interim periods. For public business entities, this ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. The Company is evaluating the impact of this guidance on its consolidated financial statements.

**NOTE 3. IMPLEMENTED ACCOUNTING PRONOUNCEMENTS**

The Company adopted ASU 2016-13, Financial Instruments – Credit Losses (Topic 326) effective January 1, 2020. Under the new guidance, companies are required to present financial assets held at amortized cost and available for sale debt securities net of the amount expected to be collected. The new guidance requires the measurement of expected credit losses to be based on relevant information from past events, including historical experiences, current conditions and reasonable and supportable forecasts that affect collectability. The adoption of this new guidance did not have a material impact on the Company’s condensed consolidated financial statements.

**Trade accounts receivable**

The allowance for doubtful accounts is based on the Company’s assessment of the collectability of customer accounts receivable from operating lease and non-lease revenues. The Company regularly reviews the allowance by considering factors such as historical payment experience and trends, the age of the accounts receivable balances, the Company’s operating segment, customer industry, credit quality and current economic conditions that may affect a customer’s ability to pay. The Company recognized bad debt expense of \$0.4 million and \$1.2 million for the three and nine months ended September 30, 2020, respectively. Bad debt expense for the three and nine months ended September 30, 2019 was \$0.3 million and \$0.7 million, respectively. The allowance for doubtful accounts was \$2.2 million and \$1.9 million at September 30, 2020 and December 31, 2019, respectively.

**Net investment in sales-type leases**

The Company enters into sales-type leases with certain qualified customers to purchase its rental equipment, primarily at its TRS-RenTelco operating segment. Sales-type leases have terms that generally range from 12 to 36 months and are collateralized by a security interest in the underlying rental asset. The net investment in sales-type leases was \$1.9 million at September 30, 2020 and \$2.9 million at December 31, 2019. The Company’s assessment of current expected losses on these receivables was not material and no credit loss expense was provided as of September 30, 2020. The Company regularly reviews the allowance by considering factors such as historical payment experience, the age of the lease receivable balances, credit quality and current economic conditions that may affect a customer’s ability to pay. Lease receivables are considered past due 90 days after invoice. The Company manages the credit risk in net investment in sales-type leases using a number of factors, including, but not limited to the following: historical

payment history, credit score, size of operations, length of time in business, industry, historical profitability, historical cash flows, liquidity and past due amounts. The Company uses credit scores obtained from external credit bureaus as a key indicator for the purposes of determining credit quality of its new customers. The Company does not own available for sale debt securities or other financial assets at September 30, 2020.

#### **NOTE 4. 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 Topic 842, Leases. Revenues determined to be non-lease related are accounted for in accordance with ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). 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.

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. These contract liabilities are included in Deferred income on the Company's consolidated balance sheet and totaled \$20.7 million and \$17.5 million at September 30, 2020 and December 31, 2019, respectively. Sales revenues totaling \$7.1 million and \$15.6 million were recognized during the three and nine months ended September 30, 2020, respectively, which were included in the contract liability balance at December 31, 2019. For certain modular building sales, the customer retains a small portion of the contract price until full completion of the contract, 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 \$0.4 million and \$1.0 million at September 30, 2020 and December 31, 2019, respectively.

##### **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 and liquid and solid containment tanks and boxes leases. 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. Other revenues include interest income on finance leases and rental income on facility leases.

In the three and nine months ended September 30, 2020, the Company's lease revenues were \$100.7 million and \$300.8 million, respectively, consisting of \$100.0 million and \$299.0 million of operating lease revenues, respectively, and \$0.7 million and \$1.8 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 nine months ended September 30, 2020 include \$1.7 million of sales revenues and \$0.2 million of interest income.

##### **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 liquid and solid containment solutions, 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 Topic 842) and non-lease revenues (within the scope of Topic 606) and the underlying service provided for the three months and nine months ended September 30, 2020 and 2019:

<i>(in thousands)</i>	<u>Mobile Modular</u>	<u>TRS- RenTelco</u>	<u>Adler Tanks</u>	<u>Enviroplex</u>	<u>Consolidated</u>
<b>Three Months Ended September 30,</b>					
<b>2020</b>					
Leasing	\$ 58,655	\$ 28,530	\$ 13,532	\$ —	\$ 100,717
Non-lease:					
Rental related services	7,488	668	5,465	—	13,621
Sales	29,275	6,262	230	5,914	41,681
Other	(5)	396	38	—	429
Total non-lease	<u>36,758</u>	<u>7,326</u>	<u>5,733</u>	<u>5,914</u>	<u>55,731</u>
Total revenues	<u>\$ 95,413</u>	<u>\$ 35,856</u>	<u>\$ 19,265</u>	<u>\$ 5,914</u>	<u>\$ 156,448</u>
<b>2019</b>					
Leasing	\$ 61,519	\$ 28,284	\$ 17,412	\$ —	\$ 107,215
Non-lease:					
Rental related services	8,105	717	7,217	—	16,039
Sales	16,676	4,614	140	28,361	49,791
Other	2	475	40	—	517
Total non-lease	<u>24,783</u>	<u>5,806</u>	<u>7,397</u>	<u>28,361</u>	<u>66,347</u>
Total revenues	<u>\$ 86,302</u>	<u>\$ 34,090</u>	<u>\$ 24,809</u>	<u>\$ 28,361</u>	<u>\$ 173,562</u>
<b>Nine Months Ended September 30,</b>					
<b>2020</b>					
Leasing	\$ 175,781	\$ 83,587	\$ 41,458	\$ —	\$ 300,826
Non-lease:					
Rental related services	17,711	1,950	16,110	—	35,771
Sales	51,847	16,271	960	16,616	85,694
Other	34	1,190	59	—	1,283
Total non-lease	<u>69,592</u>	<u>19,411</u>	<u>17,129</u>	<u>16,616</u>	<u>122,748</u>
Total revenues	<u>\$ 245,373</u>	<u>\$ 102,998</u>	<u>\$ 58,587</u>	<u>\$ 16,616</u>	<u>\$ 423,574</u>
<b>2019</b>					
Leasing	\$ 171,995	\$ 79,450	\$ 52,709	\$ —	\$ 304,154
Non-lease:					
Rental related services	15,651	1,958	20,760	—	38,369
Sales	31,401	14,235	1,003	32,238	78,877
Other	69	1,433	107	—	1,609
Total non-lease	<u>47,121</u>	<u>17,626</u>	<u>21,870</u>	<u>32,238</u>	<u>118,855</u>
Total revenues	<u>\$ 219,116</u>	<u>\$ 97,076</u>	<u>\$ 74,579</u>	<u>\$ 32,238</u>	<u>\$ 423,009</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, the Company has not found it necessary to establish such reserves to date as warranty costs have not been significant.

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.

#### NOTE 5. 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,	
	2020	2019	2020	2019
Weighted-average number of shares of common stock for calculating basic earnings per share	24,097	24,268	24,170	24,237
Effect of potentially dilutive securities from equity-based compensation	346	364	388	355
Weighted-average number of shares of common stock for calculating diluted earnings per share	24,443	24,632	24,558	24,592

There were no anti-dilutive securities excluded from the computation of diluted earnings per share in the three and nine months ended September 30, 2020 and 2019.

The Company has 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. The following table presents share repurchase activities during the three and nine months ended September 30, 2020 and 2019. As of September 30, 2020, 1,309,805 shares remained authorized for repurchase under the Repurchase Plan.

<i>(in thousands, except share and per share amounts)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Number of shares repurchased	2,355	—	282,221	—
Aggregate purchase price	\$ 117	\$ —	\$ 13,617	\$ —
Average price per repurchased share	\$ 49.61	\$ —	\$ 48.25	\$ —

**NOTE 6. INTANGIBLE ASSETS**

Intangible assets consist of the following:

<i>(dollar amounts in thousands)</i>	Estimated useful life in years	September 30, 2020	December 31, 2019
Trade name	Indefinite	\$ 5,871	\$ 5,871
Customer relationships	11	10,644	10,644
Non-compete agreements	5	157	157
		16,672	16,672
Less accumulated amortization		(9,505)	(9,338)
		<u>\$ 7,167</u>	<u>\$ 7,334</u>

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 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. In response to the COVID-19 pandemic, the Company last conducted a qualitative analysis of its goodwill and intangible assets in the first quarter 2020 and determined that no impairment triggering event had occurred.

Intangible assets with finite useful lives are amortized over their respective useful lives. Based on the carrying values at September 30, 2020 and assuming no subsequent impairment of the underlying assets, the amortization expense is expected to be \$0.1 million for the remainder of fiscal year 2020, and \$0.2 million in 2021 through 2026.

**NOTE 7. SEGMENT REPORTING**

The Company's four reportable segments are (1) its modular building and portable storage container rental segment ("Mobile Modular"); (2) its electronic test equipment segment ("TRS-RenTelco"); (3) its containment solutions for the storage of hazardous and non-hazardous liquids and solids segment ("Adler Tanks"); and (4) 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 2019 Annual Report. Management focuses on several key measures to evaluate and assess each segment's performance, including rental revenue growth, gross profit, income from operations and income before provision for income taxes. Excluding interest expense, allocations of revenue and expense not directly associated with one of these segments are generally allocated to Mobile Modular, TRS-RenTelco and Adler Tanks based on their pro-rata share of direct revenues. Interest expense is allocated among Mobile Modular, TRS-RenTelco and Adler Tanks 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, 2020 and 2019 for the Company's reportable segments is shown in the following table:

(dollar amounts in thousands)

**Nine Months Ended September 30,**

**2020**

	Mobile Modular	TRS- RenTelco	Adler Tanks	Enviroplex 1	Consolidated
Rental revenues	\$ 141,172	\$ 81,167	\$ 40,934	\$ —	\$ 263,273
Rental related services revenues	51,291	2,296	16,439	—	70,026
Sales and other revenues	52,910	19,535	1,214	16,616	90,275
Total revenues	245,373	102,998	58,587	16,616	423,574
Depreciation of rental equipment	17,177	35,129	12,334	—	64,640
Gross profit	116,928	43,921	26,116	6,128	193,093
Selling and administrative expenses	52,014	18,198	18,998	4,155	93,365
Income from operations	64,914	25,723	7,118	1,973	99,728
Interest (expense) income allocation	(3,982)	(1,606)	(1,651)	435	(6,804)
Income before provision for income taxes	60,932	23,928	5,467	2,408	92,735
Rental equipment acquisitions	31,667	31,643	1,680	—	64,990
Accounts receivable, net (period end)	85,033	23,758	14,567	6,075	129,433
Rental equipment, at cost (period end)	885,314	335,520	316,110	—	1,536,944
Rental equipment, net book value (period end)	613,357	161,120	173,648	—	948,125
Utilization (period end) 2	76.5%	68.4%	45.5%		
Average utilization 2	77.5%	65.6%	45.5%		

**2019**

Rental revenues	\$ 133,736	\$ 76,050	\$ 51,872	\$ —	\$ 261,658
Rental related services revenues	52,946	2,425	21,367	—	76,738
Sales and other revenues	32,434	18,601	1,340	32,238	84,613
Total revenues	219,116	97,076	74,579	32,238	423,009
Depreciation of rental equipment	16,449	30,533	12,240	—	59,222
Gross profit	102,029	44,673	36,380	12,086	195,168
Selling and administrative expenses	48,013	18,101	22,054	3,876	92,044
Income from operations	54,016	26,572	14,326	8,210	103,124
Interest (expense) income allocation	(5,948)	(1,662)	(2,598)	801	(9,407)
Income before provision for income taxes	48,068	24,864	11,728	9,011	93,671
Rental equipment acquisitions	62,084	66,525	3,884	—	132,493
Accounts receivable, net (period end)	88,893	22,515	19,382	7,324	138,114
Rental equipment, at cost (period end)	865,254	321,677	315,838	—	1,502,769
Rental equipment, net book value (period end)	607,949	162,196	188,465	—	958,610
Utilization (period end) 2	79.5%	67.1%	51.0%		
Average utilization 2	79.1%	66.0%	56.2%		

1. Gross Enviroplex sales revenues were \$17,893 and \$32,237 for the nine months ended September 30, 2020 and 2019, respectively. There were \$1,277 inter-segment sales to Mobile Modular in the nine months ended September 30, 2020, which required elimination in consolidation. There were no inter-segment sales in the nine months ended September 30, 2019.
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 for Mobile Modular and Adler Tanks, excluding new equipment inventory. The Average utilization for the period is calculated using the average costs of rental equipment.

No single customer accounted for more than 10% of total revenues for the nine months ended September 30, 2020 and 2019. Revenues from foreign country customers accounted for 2% and 3% 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, 2019, as filed with the SEC on February 25, 2020 (the “2019 Annual Report”). In preparing the following MD&A, we presume that readers have access to and have read the MD&A in our 2019 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.*

*The full impact of the COVID-19 pandemic continues to evolve as of the date of this report. As such, there is continued uncertainty as to the full magnitude that the pandemic will have on the Company’s financial condition, liquidity, and future results of operations. Management is actively monitoring the impact of the global situation on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the continuing evolution of the COVID-19 pandemic and the global responses to curb its spread, the Company is not able to fully estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2020. The following discussions are subject to the future effects of the COVID-19 pandemic.*

### General

The Company, incorporated in 1979, is a leading rental provider of relocatable modular buildings for classroom and office space, electronic test equipment for general purpose and communications needs, and liquid and solid containment tanks and boxes. The Company’s primary emphasis is on equipment rentals. The Company is comprised of four reportable business segments: (1) its modular building and portable storage container rental segment (“Mobile Modular”); (2) its electronic test equipment segment (“TRS-RenTelco”); (3) its containment solutions for the storage of hazardous and non-hazardous liquids and solids segment (“Adler Tanks”); and (4) 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 8% of the Company’s total revenues in the nine months ended September 30, 2020. Mobile Modular Portable Storage offers portable storage units and high security portable office units for rent, lease and purchase.

In the nine months ended September 30, 2020, Mobile Modular, TRS-RenTelco, Adler Tanks and Enviroplex contributed 65%, 26%, 6% and 3% of the Company’s income before provision for taxes (the equivalent of “pretax income”), respectively, compared to 51%, 27%, 12% and 10% for the same period in 2019.

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 and Enviroplex) are derived from rentals and sales to education and commercial customers, with a majority of revenues generated by education customers. Modular revenues are primarily 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 2019 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.

Revenues of Adler Tanks are derived from the rental and sale of fixed axle tanks (“tanks”) and vacuum containers, dewatering containers and roll-off containers (collectively referred to as “boxes”). These tanks and boxes are rented to a broad range of industries and applications including oil and gas exploration and field services, refinery, chemical and industrial plant maintenance, environmental remediation and field services, infrastructure building construction, marine services, pipeline construction and maintenance, tank terminals services, wastewater treatment, and waste management and landfill services for the containment of hazardous and non-hazardous liquids and solids.

The Company’s rental operations include rental and rental related service revenues which comprised approximately 79% and 80% of consolidated revenues in the nine months ended September 30, 2020 and 2019, respectively. Of the total rental operations revenues for the nine months ended September 30, 2020, Mobile Modular, TRS-RenTelco and Adler Tanks comprised 58%, 25% and 17%, respectively, compared to 55%, 23% and 22%, respectively, in the same period of 2019. 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, TRS-RenTelco and Adler Tanks business segments sell modular units, electronic test equipment and liquid and solid containment tanks and boxes, 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, 2020 and 2019, sales and other revenues of modular, electronic test equipment and liquid and solid containment tanks and boxes comprised approximately 21% and 20% of the Company’s consolidated revenues, respectively. Of the total sales and other revenues for the nine months ended September 30, 2020 and 2019, Mobile Modular and Enviroplex together comprised 77% and 76%, respectively, TRS-RenTelco comprised 21% and 22%, respectively, and Adler Tanks comprised 2% in both periods. 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.

### **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 and share-based compensation. 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, 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. 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 Net Income to Adjusted EBITDA

<i>(dollar amounts in thousands)</i>	Three Months Ended		Nine Months Ended		Twelve Months Ended	
	September 30,		September 30,		September 30,	
	2020	2019	2020	2019	2020	2019
Net income	\$ 28,101	\$ 32,468	\$ 70,809	\$ 70,405	\$ 97,210	\$ 94,654
Provision for income taxes	7,395	10,987	21,926	23,266	30,979	31,035
Interest expense	1,968	3,161	6,804	9,407	9,728	12,571
Depreciation and amortization	23,586	22,873	71,249	65,960	94,765	87,039
EBITDA	61,050	69,489	170,788	169,038	232,682	225,299
Share-based compensation	1,670	1,350	4,894	4,096	6,690	5,397
Adjusted EBITDA <sup>1</sup>	\$ 62,720	\$ 70,839	\$ 175,682	\$ 173,134	\$ 239,372	\$ 230,696
Adjusted EBITDA margin <sup>2</sup>	40%	41%	41%	41%	42%	41%

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

<i>(dollar amounts in thousands)</i>	Three Months Ended		Nine Months Ended		Twelve Months Ended	
	September 30,		September 30,		September 30,	
	2020	2019	2020	2019	2020	2019
Adjusted EBITDA <sup>1</sup>	\$ 62,720	\$ 70,839	\$ 175,682	\$ 173,134	\$ 239,372	\$ 230,696
Interest paid	(1,798)	(3,149)	(6,829)	(9,359)	(9,945)	(12,764)
Income taxes paid, net of refunds received	(22,551)	(3,857)	(24,704)	(10,030)	(32,202)	(12,132)
Gain on sale of used rental equipment	(4,508)	(6,000)	(14,110)	(15,168)	(20,251)	(19,683)
Foreign currency exchange loss (gain)	(130)	132	189	46	59	30
Amortization of debt issuance costs	3	3	8	8	11	10
Change in certain assets and liabilities:						
Accounts receivable, net	(3,493)	(16,272)	(1,334)	(16,274)	8,630	(22,201)
Prepaid expenses and other assets	327	9,512	(1,314)	(11,734)	(3,110)	(10,890)
Accounts payable and other liabilities	5,669	(363)	358	15,300	2,315	17,167
Deferred income	(2,224)	(5,963)	3,591	10,946	(2,217)	12,463
Net cash provided by operating activities	\$ 34,015	\$ 44,882	\$ 131,537	\$ 136,869	\$ 182,662	\$ 182,696

1. Adjusted EBITDA is defined as net income before interest expense, provision for income taxes, depreciation, amortization and share-based compensation.  
2. Adjusted EBITDA margin is calculated as Adjusted EBITDA divided by total revenues for the period.

Adjusted EBITDA is a component of two restrictive financial covenants for the Company's unsecured Credit Facility, the Note Purchase Agreement, Series B Senior Notes and Series C 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, 2020, the actual ratio was 4.30 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, 2020, the actual ratio was 1.04 to 1.

At September 30, 2020, 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.

## **Recent Developments**

### **Dividends**

On September 18, 2020, the Company announced that the Board of Directors declared a quarterly cash dividend of \$0.42 per common share for the quarter ended September 30, 2020, an increase of 12% over the prior year's comparable quarter.

### **Credit Facility and Note Purchase Agreement**

On March 31, 2020, the Company renewed its \$420 million credit facility with a syndicate of banks. The five year facility matures on March 31, 2025 and replaced the Company's existing \$420 million line of credit. BofA Securities, Inc. served as Sole Bookrunner and Joint Lead Arranger. Bank of America, N.A. served as Administrative Agent, U.S. Bank National Association served as Joint Lead Arranger and Syndication Agent, and MUFG Union Bank N.A. and Wells Fargo Bank, N.A. served as Syndication Agents.

On March 31, 2020, the Company entered into an amended and restated \$250 million note purchase and private shelf agreement with Prudential Private Capital (the "Note Purchase Agreement"). In addition to governing the terms of the current \$40 million Series B Senior Notes and \$60 million Series C Senior Notes outstanding, the new agreement allows for the issuance of up to an additional \$150 million of senior notes on terms to be determined at such time that any additional notes are issued.

On October 1, 2020, the Company entered into a rate lock agreement with Prudential Private Capital, pursuant to which, the Company agreed to a fixed interest rate of 2.57% for future issuance, if any, of senior unsecured notes in the aggregate amount of \$40.0 million with a 7-year maturity. If issued, the funding for such notes would occur on or before March 17, 2021 and would be subject to the terms and conditions of the Note Purchase Agreement.

### **Covid-19**

The outbreak of a new strain of coronavirus, COVID-19, which began in December 2019, has continued to spread globally including to every state in the United States. The Center for Disease Control ("CDC") and World Health Organization ("WHO") have recognized this outbreak as a pandemic, which has caused shutdowns to businesses and cities worldwide while disrupting supply chains, business operations, travel, consumer confidence and business sentiment. Each of the states in which the Company operates, and in some cases the localities as well, have previously issued orders requiring the closure of non-essential business and/or requiring residents to stay at home, however, currently none of the Company's locations are required to be closed by local or state order. The Company is following guidelines established by the CDC and WHO and orders issued by state and local governments where the Company operates. The Company has taken a number of precautionary health and safety measures to safeguard its employees and customers, while maintaining business continuity to enable each of its operating segments and branch locations to continue providing services to customers identified as essential businesses under the relevant state and local rules. The Company has implemented remote work policies, restricted travel, separated work groups, enhanced cleaning and hygiene protocols in all of its facilities, products and vehicles, and requires distancing protocols for production and logistical personnel. The Company is continuing to monitor and assessing orders issued by federal, state and local governments to ensure compliance with evolving COVID-19 guidelines. The Company also continues to monitor the impact of COVID-19 on its existing customers who themselves may be impacted by governmental shutdowns and other impacts due to the governmental orders.

As of the date of this filing, significant uncertainty continues to exist concerning the magnitude of the impact and duration of the COVID-19 pandemic. While the Company's operating segments and branch locations currently continue to operate, the Company's results of operations may be negatively impacted by project delays; early returns of equipment currently on rent with customers; overall decreased customer demand for new rental orders, rental related services and sales of new and used rental equipment; and payment delay, or non-payment, by customers who are significantly impacted by COVID-19. In light of the uncertain and rapidly evolving situation relating to the COVID-19 pandemic, the Company has taken a number of precautionary measures to manage its resources conservatively by reducing and/or deferring non-essential capital expenditures and operating expenses to mitigate the adverse impact of the pandemic. The Company will continue to assess its capital expenditure needs against its cash availability during the crisis to make the most strategic decisions for its business. Furthermore, the Company believes that its recently renewed \$420 million credit facility, coupled with its ability to access additional capital through the issuance of up to \$150 million in additional

senior notes, will strengthen the Company's liquidity position and serve to mitigate some of the operational risk related to decreased customer demand for new rental orders and sales resulting from the COVID-19 pandemic.

While the Company has not seen a significant impact from COVID-19 in the financial results for the third quarter of 2020 as set forth in the below section discussing the results of operations for the third quarter of 2020, the Company is currently unable to determine or predict the full nature, duration or scope of the overall impact the COVID-19 pandemic will have on its business, results of operations, liquidity or capital resources. The Company will continue to actively monitor the situation and may take further actions that alter its business operations as may be required by federal, state or local authorities or that the Company determines are in the best interests of employees, customers and shareholders.

### Three Months Ended September 30, 2020 Compared to Three Months Ended September 30, 2019

#### Overview

Consolidated revenues for the three months ended September 30, 2020 decreased 10% to \$156.4 million from \$173.6 million in the same period in 2019. Consolidated net income for the three months ended September 30, 2020 decreased 13% to \$28.1 million, from \$32.5 million for the same period in 2019. Earnings per diluted share for the three months ended September 30, 2020 decreased 13% to \$1.15 from \$1.32 for the same period in 2019.

For the three months ended September 30, 2020, on a consolidated basis:

- Gross profit decreased \$10.1 million, or 13%, to \$68.2 million in 2020. Mobile Modular's gross profit increased \$3.5 million, or 9%, primarily due to higher gross profit on sales and rental revenues, partly offset by lower gross profit on rental related services revenues. TRS-RenTelco's gross profit decreased \$1.2 million, or 8%, primarily due to lower gross profit on rental and sales revenues. Adler Tanks' gross profit decreased \$3.8 million, or 31%, primarily due to lower gross profit on rental and rental related services revenues. Enviroplex's gross profit decreased \$8.6 million, primarily due to \$22.4 million lower sales revenues in 2020 compared to 2019, which had a large concentration of sales in the third quarter of 2019.
- Selling and administrative expenses decreased \$0.7 million, or 2%, to \$30.9 million, primarily due to lower travel, meals and meeting costs.
- Interest expense decreased 38%, to \$2.0 million in 2020, compared to the same period in 2019, due to 28% lower net average interest rates of 2.96% in 2020 compared to 4.08% in 2019, and 14% lower average debt levels of the Company.
- Pre-tax income contribution by Mobile Modular, TRS-RenTelco and Adler Tanks was 67%, 24% and 6%, respectively, compared to 46%, 22% and 10%, respectively, for the comparable 2019 period. These results are discussed on a segment basis below. Enviroplex pre-tax income contribution was 3% and 22% in 2020 and 2019, respectively.
- The provision for income taxes resulted in an effective tax rate of 20.8% and 25.3% for the quarters ended September 30, 2020 and 2019, respectively.
- Adjusted EBITDA decreased \$8.1 million, or 11%, to \$62.7 million in 2020.

## Mobile Modular

For the three months ended September 30, 2020, Mobile Modular's total revenues increased \$9.1 million, or 11%, to \$95.4 million compared to the same period in 2019, primarily due to higher sales and rental revenues, partly offset by lower rental related services revenues. The revenue increase, together with higher gross profit on sales and rental revenues, partly offset by higher selling and administrative expenses and lower gross profit on rental related services revenues, resulted in a 19% increase in pre-tax income to \$23.7 million for the three months ended September 30, 2020, from \$20.0 million for the same period in 2019.

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 9/30/20 compared to Three Months Ended 9/30/19 (Unaudited)

	Three Months Ended September 30,		Increase (Decrease)	
	2020	2019	\$	%
<i>(dollar amounts in thousands)</i>				
<b>Revenues</b>				
Rental	\$ 47,134	\$ 46,738	\$ 396	1%
Rental related services	18,684	22,574	(3,890)	(17)%
Rental operations	65,818	69,312	(3,494)	(5)%
Sales	29,275	16,676	12,599	76%
Other	320	314	6	2%
Total revenues	95,413	86,302	9,111	11%
<b>Costs and Expenses</b>				
Direct costs of rental operations:				
Depreciation of rental equipment	5,771	5,572	199	4%
Rental related services	13,510	16,799	(3,289)	(20)%
Other	11,780	12,804	(1,024)	(8)%
Total direct costs of rental operations	31,061	35,175	(4,114)	(12)%
Costs of sales	21,726	11,963	9,763	82%
Total costs of revenues	52,787	47,138	5,649	12%
<b>Gross Profit</b>				
Rental	29,583	28,362	1,221	4%
Rental related services	5,174	5,775	(601)	(10)%
Rental operations	34,757	34,137	620	2%
Sales	7,549	4,713	2,836	60%
Other	320	314	6	2%
Total gross profit	42,626	39,164	3,462	9%
Selling and administrative expenses	17,739	16,966	773	5%
Income from operations	24,887	22,198	2,689	12%
Interest expense allocation	(1,156)	(2,187)	(1,031)	(47)%
Pre-tax income	\$ 23,731	\$ 20,011	\$ 3,720	19%
<b>Other Selected Information</b>				
Average rental equipment <sup>1</sup>	\$ 829,460	\$ 802,718	\$ 26,742	3%
Average rental equipment on rent	\$ 632,780	\$ 637,142	\$ (4,362)	(1)%
Average monthly total yield <sup>2</sup>	1.89%	1.94%		(3)%
Average utilization <sup>3</sup>	76.3%	79.4%		(4)%
Average monthly rental rate <sup>4</sup>	2.48%	2.45%		1%
Period end rental equipment <sup>1</sup>	\$ 832,643	\$ 812,534	\$ 20,109	2%
Period end utilization <sup>3</sup>	76.5%	79.5%		(4)%

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.

Mobile Modular's gross profit for the three months ended September 30, 2020 increased \$3.5 million, or 9%, to \$42.6 million. For the three months ended September 30, 2020 compared to the same period in 2019:

- **Gross Profit on Rental Revenues** – Rental revenues increased \$0.4 million, or 1%, primarily due to 1% higher average monthly rental rates, partly offset by 1% lower average rental equipment on rent in 2020. As a percentage of rental revenues, depreciation was 12% in both 2020 and 2019, and other direct costs were 25% in 2020 and 27% in 2019, which resulted in gross margin percentages of 63% in 2020 and 61% in 2019. The higher rental revenues and higher rental margins, resulted in gross profit on rental revenues increasing \$1.2 million, or 4%, to \$29.6 million in 2020.
- **Gross Profit on Rental Related Services** – Rental related services revenues decreased \$3.9 million, or 17%, compared to 2019. Most of these service revenues are negotiated with the initial modular building lease and are recognized on a straight-line basis with the associated costs over the initial term of the lease. The decrease in rental related services revenues was primarily attributable to lower amortization of modular building delivery and return delivery and dismantle revenues and lower repair revenues. The lower revenues, partly offset by higher gross margin percentage of 28% in 2020, compared to 26% in 2019, resulted in rental related services gross profit decreasing \$0.6 million, or 10%, to \$5.2 million in 2020.
- **Gross Profit on Sales** – Sales revenues increased \$12.6 million, or 76%, compared to 2019, due to higher new equipment sales. The higher sales revenues, partly offset by lower gross margin percentage of 26% in 2020 compared to 28% in 2019, resulted in gross profit on sales increasing \$2.8 million, or 60%, to \$7.5 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.

For the three months ended September 30, 2020, selling and administrative expenses increased \$0.8 million, or 5%, to \$17.7 million, primarily due to higher allocated corporate expenses.

## TRS-RenTelco

For the three months ended September 30, 2020, TRS-RenTelco's total revenues increased \$1.8 million, or 5%, to \$35.9 million compared to the same period in 2019, primarily due to higher sales and rental revenues. Pre-tax income decreased \$1.1 million, or 11%, to \$8.7 million for the three months ended September 30, 2020 compared to the same period in 2019, primarily due to lower gross profit on rental and sales revenues.

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 9/30/20 compared to Three Months Ended 9/30/19 (Unaudited)

	Three Months Ended September 30,		Increase (Decrease)	
	2020	2019	\$	%
<i>(dollar amounts in thousands)</i>				
<b>Revenues</b>				
Rental	\$ 27,619	\$ 26,938	\$ 681	3%
Rental related services	800	863	(63)	(7)%
Rental operations	28,419	27,801	618	2%
Sales	6,912	5,678	1,234	22%
Other	525	611	(86)	(14)%
Total revenues	35,856	34,090	1,766	5%
<b>Costs and Expenses</b>				
Direct costs of rental operations:				
Depreciation of rental equipment	11,547	10,849	698	6%
Rental related services	673	695	(22)	(3)%
Other	4,820	4,088	732	18%
Total direct costs of rental operations	17,040	15,632	1,408	9%
Costs of sales	3,853	2,277	1,576	69%
Total costs of revenues	20,893	17,909	2,984	17%
<b>Gross Profit</b>				
Rental	11,252	12,001	(749)	(6)%
Rental related services	127	168	(41)	(24)%
Rental operations	11,379	12,169	(790)	(6)%
Sales	3,059	3,401	(342)	(10)%
Other	525	611	(86)	(14)%
Total gross profit	14,963	16,181	(1,218)	(8)%
Selling and administrative expenses	5,962	6,038	(76)	(1)%
Income from operations	9,001	10,143	(1,142)	(11)%
Interest expense allocation	(459)	(277)	182	66%
Foreign currency exchange gain (loss)	130	(132)	262	198%
Pre-tax income	\$ 8,672	\$ 9,734	\$ (1,062)	(11)%
<b>Other Selected Information</b>				
Average rental equipment <sup>1</sup>	\$ 336,015	\$ 314,428	\$ 21,587	7%
Average rental equipment on rent	\$ 225,606	\$ 210,275	\$ 15,331	7%
Average monthly total yield <sup>2</sup>	2.74%	2.86%		(4)%
Average utilization <sup>3</sup>	67.1%	66.9%		0%
Average monthly rental rate <sup>4</sup>	4.08%	4.27%		(4)%
Period end rental equipment <sup>1</sup>	\$ 334,129	\$ 320,710	\$ 13,419	4%
Period end utilization <sup>3</sup>	68.4%	67.1%		2%

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



TRS-RenTelco's gross profit for the three months ended September 30, 2020 decreased \$1.2 million, or 8%, to \$15.0 million. For the three months ended September 30, 2020 compared to the same period in 2019:

- **Gross Profit on Rental Revenues** – Rental revenues increased \$0.7 million, or 3%, and depreciation expense increased \$0.7 million, or 6%, resulting in a 6% decrease in gross profit on rental revenues to \$11.3 million. As a percentage of rental revenues, depreciation was 42% in 2020 and 40% in 2019, and other direct costs were 17% in 2020 and 15% in 2019, which resulted in a gross margin percentage of 41% in 2020 compared to 45% in 2019. The rental revenues increase was due to 7% higher average rental equipment on rent in 2020 as compared to 2019, partly offset by 4% lower average monthly rental rates. The lower rental rates were primarily related to business mix, with more general purpose equipment and less communications equipment on rent compared to the prior year.
- **Gross Profit on Sales** – Sales revenues increased \$1.2 million, or 22%, to \$6.9 million in 2020. Gross profit on sales decreased \$0.3 million, or 10%, to \$3.1 million with gross margin percentage of 44% in 2020, compared to 60% in 2019. 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, 2020, selling and administrative expenses decreased \$0.1 million, or 1%, to \$6.0 million.

## Adler Tanks

For the three months ended September 30, 2020, Adler Tanks' total revenues decreased \$5.5 million, or 22%, to \$19.3 million compared to the same period in 2019, primarily due to lower rental, rental related services revenues, partly offset by higher sales revenues. Lower gross profit on rental, rental related services and sales revenues, partly offset by lower selling and administrative expenses, resulted in a \$1.9 million, or 46%, decrease in pre-tax income to \$2.2 million for the three months ended September 30, 2020, compared to the same period in 2019.

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

### Adler Tanks – Three Months Ended 9/30/20 compared to Three Months Ended 9/30/19 (Unaudited)

<i>(dollar amounts in thousands)</i>	Three Months Ended September 30,		Increase (Decrease)	
	2020	2019	\$	%
<b>Revenues</b>				
Rental	\$ 13,385	\$ 17,181	\$ (3,796)	(22)%
Rental related services	5,556	7,379	(1,823)	(25)%
Rental operations	18,941	24,560	(5,619)	(23)%
Sales	230	140	90	64%
Other	94	109	(15)	(14)%
Total revenues	19,265	24,809	(5,544)	(22)%
<b>Costs and Expenses</b>				
Direct costs of rental operations:				
Depreciation of rental equipment	4,101	4,114	(13)	(0)%
Rental related services	4,420	5,513	(1,093)	(20)%
Other	1,953	2,762	(809)	(29)%
Total direct costs of rental operations	10,474	12,389	(1,915)	(15)%
Costs of sales	251	126	125	99%
Total costs of revenues	10,725	12,515	(1,790)	(14)%
<b>Gross Profit (Loss)</b>				
Rental	7,331	10,305	(2,974)	(29)%
Rental related services	1,136	1,866	(730)	(39)%
Rental operations	8,467	12,171	(3,704)	(30)%
Sales	(21)	14	(35)	(250)%
Other	94	109	(15)	(14)%
Total gross profit	8,540	12,294	(3,754)	(31)%
Selling and administrative expenses	5,821	7,160	(1,339)	(19)%
Income from operations	2,719	5,134	(2,415)	(47)%
Interest expense allocation	(472)	(952)	(480)	(50)%
Pre-tax income	\$ 2,247	\$ 4,182	\$ (1,935)	(46)%
<b>Other Selected Information</b>				
Average rental equipment <sup>1</sup>	\$ 314,933	\$ 314,314	\$ 619	0%
Average rental equipment on rent	\$ 138,919	\$ 171,335	\$ (32,416)	(19)%
Average monthly total yield <sup>2</sup>	1.42%	1.82%		(22)%
Average utilization <sup>3</sup>	44.1%	54.5%		(19)%
Average monthly rental rate <sup>4</sup>	3.21%	3.34%		(4)%
Period end rental equipment <sup>1</sup>	\$ 314,815	\$ 314,844	\$ (29)	(0)%
Period end utilization <sup>3</sup>	45.5%	51.0%		(11)%

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.

Adler Tanks' gross profit for the three months ended September 30, 2020 decreased \$3.8 million, or 31%, to \$8.5 million. For the three months ended September 30, 2020 compared to the same period in 2019:

- **Gross Profit on Rental Revenues** – Rental revenues decreased \$3.8 million, or 22%, due to 19% lower average rental equipment on rent and 4% lower average monthly rental rates in 2020 compared to 2019. COVID-19 related business disruptions and a decrease in the price of oil and gas, contributed to weaker activities in multiple geographic and market segments, which resulted in decreased rental revenues compared to 2019. As a percentage of rental revenues, depreciation was 31% in 2020 and 24% in 2019, and other direct costs were 15% and 16% in 2020 and 2019, respectively, which resulted in gross margin percentages of 55% and 60% in 2020 and 2019, respectively. The lower rental revenues, and lower rental margins resulted in a 29% decrease in gross profit on rental revenues to \$7.3 million in 2020.
- **Gross Profit on Rental Related Services** – Rental related services revenues decreased \$1.8 million, or 25%, to \$5.6 million compared to 2019. Lower rental related services revenues and lower gross margin percentage of 20% in 2020, compared to 25% in 2019 resulted in rental related services gross profit decreasing 39% to \$1.1 million in 2020.

For the three months ended September 30, 2020, selling and administrative expenses decreased 19% to \$5.8 million compared to the same period in 2019, primarily due to decreased corporate allocated expenses, lower marketing and administrative costs and decreased salaries and employee benefit costs.

**Nine Months Ended September 30, 2020 Compared to  
Nine Months Ended September 30, 2019**

**Overview**

Consolidated revenues for the nine months September 30, 2020 increased \$0.6 million to \$423.6 million from the same period in 2019. Consolidated net income for the nine months ended September 30, 2020 increased 1% to \$70.8 million, from \$70.4 million for the same period in 2019. Earnings per diluted share for the nine months ended September 30, 2020 increased 1% to \$2.88 from the same period in 2019.

For the nine months ended September 30, 2020, on a consolidated basis:

- Gross profit decreased \$2.1 million, or 1%, to \$193.1 million in 2020. Mobile Modular's gross profit increased \$14.9 million, or 15%, primarily due to higher gross profit on rental, sales and rental related services revenues. TRS-RenTelco's gross profit decreased \$0.8 million, or 2%, primarily due to lower gross profit on sales and rental revenues, partly offset by higher gross profit on rental related services revenues. Adler Tanks' gross profit decreased \$10.3 million, or 28%, primarily due to lower gross profit on rental, rental related services and sales revenues. Enviroplex's gross profit decreased \$5.9 million, primarily due to \$15.6 million lower sales revenues of \$16.6 million in 2020 compared to 2019, which had a large concentration of sales in the third quarter of 2019.
- Selling and administrative expenses increased 1% to \$93.4 million from \$92.0 million for the same period in 2019, primarily due to increased employee salaries and employee benefit costs.
- Interest expense decreased 28% to \$6.8 million, due to 23% lower net average interest rates of 3.22% in 2020, compared to 4.16% in 2019, and 6% lower debt levels of the Company.
- Pre-tax income contribution by Mobile Modular, TRS-RenTelco and Adler Tanks was 65%, 26% and 6%, respectively, compared to 51%, 27% and 12%, respectively, for the comparable 2019 period. These results are discussed on a segment basis below. Pre-tax income contribution by Enviroplex was 3% in 2020, compared to 10% in 2019.
- The provision for income taxes resulted in an effective tax rate of 23.6% and 24.8% for the nine months ended September 30, 2020 and 2019, respectively
- Adjusted EBITDA increased \$2.5 million, or 1%, to \$175.7 million in 2020.

## Mobile Modular

For the nine months ended September 30, 2020, Mobile Modular's total revenues increased \$26.3 million, or 12%, to \$245.4 million compared to the same period in 2019, primarily due to higher sales and rental revenues partly offset by lower rental related services revenues during the period. 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 27% increase in pre-tax income to \$60.9 million for the nine months ended September 30, 2020, from \$48.1 million for the same period in 2019.

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 9/30/20 compared to Nine Months Ended 9/30/19 (Unaudited)

	Nine Months Ended September 30,		Increase (Decrease)	
	2020	2019	\$	%
<i>(dollar amounts in thousands)</i>				
<b>Revenues</b>				
Rental	\$ 141,172	\$ 133,736	\$ 7,436	6%
Rental related services	51,291	52,946	(1,655)	(3)%
Rental operations	192,463	186,682	5,781	3%
Sales	51,847	31,401	20,446	65%
Other	1,063	1,033	30	3%
Total revenues	245,373	219,116	26,257	12%
<b>Costs and Expenses</b>				
Direct costs of rental operations:				
Depreciation of rental equipment	17,177	16,449	728	4%
Rental related services	37,222	39,454	(2,232)	(6)%
Other	36,773	39,721	(2,948)	(7)%
Total direct costs of rental operations	91,172	95,624	(4,452)	(5)%
Costs of sales	37,274	21,463	15,811	74%
Total costs of revenues	128,446	117,087	11,359	10%
<b>Gross Profit</b>				
Rental	87,222	77,566	9,656	12%
Rental related services	14,069	13,492	577	4%
Rental operations	101,291	91,058	10,233	11%
Sales	14,573	9,938	4,635	47%
Other	1,064	1,033	31	3%
Total gross profit	116,928	102,029	14,899	15%
Selling and administrative expenses	52,014	48,013	4,001	8%
Income from operations	64,914	54,016	10,898	20%
Interest expense allocation	(3,982)	(5,948)	(1,966)	(33)%
Pre-tax income	\$ 60,932	\$ 48,068	\$ 12,864	27%
<b>Other Selected Information</b>				
Average rental equipment <sup>1</sup>	\$ 822,723	\$ 789,664	\$ 33,059	4%
Average rental equipment on rent	\$ 637,962	\$ 624,827	\$ 13,135	2%
Average monthly total yield <sup>2</sup>	1.89%	1.88%		1%
Average utilization <sup>3</sup>	77.5%	79.1%		(2)%
Average monthly rental rate <sup>4</sup>	2.46%	2.38%		3%
Period end rental equipment <sup>1</sup>	\$ 832,634	\$ 812,534	\$ 20,100	2%
Period end utilization <sup>3</sup>	76.5%	79.5%		(4)%

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.

Mobile Modular's gross profit for the nine months ended September 30, 2020 increased \$14.9 million, or 15%, to \$116.9 million. For the nine months ended September 30, 2020 compared to the same period in 2019:

- **Gross Profit on Rental Revenues** - Rental revenues increased \$7.4 million, or 6%, primarily due to 3% higher average monthly rental rates and 2% higher average rental equipment on rent in 2020 as compared to 2019. As a percentage of rental revenues, depreciation was 12% in 2020 and 14% in 2019, and other direct costs were 26% in 2020 and 29% in 2019, which resulted in gross margin percentage of 62% in 2020 compared to 58% in 2019. The higher rental revenues and higher rental margins resulted in gross profit on rental revenues increasing \$9.7 million, or 12%, to \$87.2 million in 2020.
- **Gross Profit on Rental Related Services** - Rental related services revenues decreased \$1.7 million, or 3%, compared to 2019. Most of these service revenues are negotiated with the initial modular building lease and are recognized on a straight-line basis with the associated costs over the initial term of the lease. The decrease in rental related services revenues was primarily attributable to lower amortization of modular building delivery and return delivery and dismantle revenues and lower repair revenues. The lower revenues, offset by higher gross margin percentage of 27% in 2020 compared to 26% in 2019, resulted in rental related services gross profit increasing \$0.6 million, or 4% to \$14.1 million in 2020.
- **Gross Profit on Sales** - Sales revenues increased \$20.4 million, or 65%, primarily due to higher new and used equipment sales compared to 2019. The higher sales revenues, partly offset by lower gross margin percentage of 28% in 2020 compared to 32% in 2019 resulted in sales gross profit increasing \$4.6 million, or 47%, to \$14.6 million in 2020. 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 nine months ended September 30, 2020, selling and administrative expenses increased \$4.0 million, or 8%, to \$52.0 million, primarily due to higher allocated corporate expenses and increased salaries and employee benefit costs.

## TRS-RenTelco

For the nine months ended September 30, 2020, TRS-RenTelco's total revenues increased \$5.9 million, or 6%, to \$103.0 million compared to the same period in 2019, primarily due to higher rental and sales revenues. Pre-tax income decreased 4%, to \$23.9 million for the nine months ended September 30, 2020 compared to \$24.9 million for the same period in 2019, primarily due to lower gross profit on sales revenues.

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 9/30/20 compared to Nine Months Ended 9/30/19 (Unaudited)

	Nine Months Ended September 30,		Increase (Decrease)	
	2020	2019	\$	%
<i>(dollar amounts in thousands)</i>				
<b>Revenues</b>				
Rental	\$ 81,167	\$ 76,050	\$ 5,117	7%
Rental related services	2,296	2,425	(129)	(5)%
Rental operations	83,463	78,475	4,988	6%
Sales	17,943	16,745	1,198	7%
Other	1,592	1,856	(264)	(14)%
Total revenues	102,998	97,076	5,922	6%
<b>Costs and Expenses</b>				
Direct costs of rental operations:				
Depreciation of rental equipment	35,129	30,533	4,596	15%
Rental related services	1,836	2,008	(172)	(9)%
Other	12,762	12,206	556	5%
Total direct costs of rental operations	49,727	44,747	4,980	11%
Costs of sales	9,350	7,656	1,694	22%
Total costs of revenues	59,077	52,403	6,674	13%
<b>Gross Profit</b>				
Rental	33,276	33,311	(35)	(0)%
Rental related services	460	417	43	10%
Rental operations	33,736	33,728	8	0%
Sales	8,593	9,089	(496)	(5)%
Other	1,592	1,856	(264)	(14)%
Total gross profit	43,921	44,673	(752)	(2)%
Selling and administrative expenses	18,198	18,101	97	1%
Income from operations	25,723	26,572	(849)	(3)%
Interest expense allocation	(1,606)	(1,662)	56	(3)%
Foreign currency exchange (loss) gain	(189)	(46)	143	<i>nm</i>
Pre-tax income	\$ 23,928	\$ 24,864	\$ (936)	(4)%
<b>Other Selected Information</b>				
Average rental equipment <sup>1</sup>	\$ 337,330	\$ 299,210	\$ 38,120	13%
Average rental equipment on rent	\$ 221,195	\$ 197,503	\$ 23,692	12%
Average monthly total yield <sup>2</sup>	2.67%	2.82%		(5)%
Average utilization <sup>3</sup>	65.6%	66.0%		(1)%
Average monthly rental rate <sup>4</sup>	4.08%	4.28%		(5)%
Period end rental equipment <sup>1</sup>	\$ 334,129	\$ 320,710	\$ 13,419	4%
Period end utilization <sup>3</sup>	68.4%	67.1%		2%

1. Average and Period end rental equipment represents the cost of rental equipment, excluding 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 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, 2020 decreased \$0.8 million, or 2%, to \$43.9 million. For the nine months ended September 30, 2020 compared to the same period in 2019:

- **Gross Profit on Rental Revenues** – Rental revenues increased \$5.1 million, or 7%, with depreciation expense increasing \$4.6 million, or 15%, to \$35.1 million and other direct costs increasing \$0.6 million, or 5%, to \$12.8 million, resulting in comparable gross profit on rental revenues of \$33.3 million. As a percentage of rental revenues, depreciation was 43% in 2020, compared to 40% in 2019, and other direct costs were 16% in 2020 and 2019, which resulted in a gross margin percentage of 41% in 2020, compared to 44% in 2019. The rental revenues increase was due to 12% higher average rental equipment on rent, partly offset by 5% lower average monthly rental rates, compared to 2019.
- **Gross Profit on Sales** – Sales revenues increased \$1.2 million, or 7%, to \$17.9 million in 2020. Gross profit on sales decreased \$0.5 million with gross margin percentage decreasing to 48% from 54% in 2019, primarily due to lower margins on used equipment sales. Sales occur routinely 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, equipment availability and funding.

For the nine months ended September 30, 2020, selling and administrative expenses increased \$0.1 million, or 1%, to \$18.2 million compared to the same period in 2019.



## Adler Tanks

For the nine months ended September 30, 2020, Adler Tanks' total revenues decreased \$16.0 million, or 21%, to \$58.6 million compared to the same period in 2019, primarily due to lower rental and rental related services revenues during the period. The revenue decrease together with lower total gross profit, partly offset by lower selling and administrative expenses, resulted in a 53% decrease in pre-tax income to \$5.5 million for the nine months ended September 30, 2020, from \$11.7 million for the same period in 2019.

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

### Adler Tanks – Nine Months Ended 9/30/20 compared to Nine Months Ended 9/30/19 (Unaudited)

	Nine Months Ended September 30,		Increase (Decrease)	
	2020	2019	\$	%
<i>(dollar amounts in thousands)</i>				
<b>Revenues</b>				
Rental	\$ 40,934	\$ 51,872	\$ (10,938)	(21)%
Rental related services	16,439	21,367	(4,928)	(23)%
Rental operations	57,373	73,239	(15,866)	(22)%
Sales	960	1,003	(43)	(4)%
Other	254	337	(83)	(25)%
Total revenues	58,587	74,579	(15,992)	(21)%
<b>Costs and Expenses</b>				
Direct costs of rental operations:				
Depreciation of rental equipment	12,334	12,240	94	1%
Rental related services	12,702	16,045	(3,343)	(21)%
Other	6,636	9,201	(2,565)	(28)%
Total direct costs of rental operations	31,672	37,486	(5,814)	(16)%
Costs of sales	799	713	86	12%
Total costs of revenues	32,471	38,199	(5,728)	(15)%
<b>Gross Profit</b>				
Rental	21,964	30,431	(8,467)	(28)%
Rental related services	3,737	5,322	(1,585)	(30)%
Rental operations	25,701	35,753	(10,052)	(28)%
Sales	161	290	(129)	(44)%
Other	254	337	(83)	(25)%
Total gross profit	26,116	36,380	(10,264)	(28)%
Selling and administrative expenses	18,998	22,054	(3,056)	(14)%
Income from operations	7,118	14,326	(7,208)	(50)%
Interest expense allocation	(1,651)	(2,598)	(947)	(36)%
Pre-tax income	\$ 5,467	\$ 11,728	\$ (6,261)	(53)%
<b>Other Selected Information</b>				
Average rental equipment <sup>1</sup>	\$ 314,859	\$ 313,475	\$ 1,384	0%
Average rental equipment on rent	\$ 143,142	\$ 176,304	\$ (33,162)	(19)%
Average monthly total yield <sup>2</sup>	1.44%	1.84%		(22)%
Average utilization <sup>3</sup>	45.5%	56.2%		(19)%
Average monthly rental rate <sup>4</sup>	3.18%	3.27%		(3)%
Period end rental equipment <sup>1</sup>	\$ 314,815	\$ 314,844	\$ (29)	(0)%
Period end utilization <sup>3</sup>	45.5%	51.0%		(11)%

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 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.

Adler Tanks' gross profit for the nine months ended September 30, 2020 decreased \$10.3 million, or 28%, to \$26.1 million. For the nine months ended September 30, 2020 compared to the same period in 2019:

- **Gross Profit on Rental Revenues** – Rental revenues decreased \$10.9 million, or 21%, primarily due to 19% lower average rental equipment on rent, and 3% lower average monthly rental rates in 2020 as compared to 2019. COVID-19 related business disruptions and a decrease in the price of oil and gas, contributed to weaker activities in multiple geographic and market segments, which resulted in decreased rental revenues compared to 2019. As a percentage of rental revenues, depreciation was 30% in 2020 and 24% in 2019, and other direct costs were 16% and 18% in 2020 and 2019, respectively, which resulted in gross margin percentages of 54% and 59% in 2020 and 2019, respectively. The lower rental revenues and lower rental margins resulted in gross profit on rental revenues decreasing \$8.5 million, or 28%, to \$22.0 million in 2020.
- **Gross Profit on Rental Related Services** – Rental related services revenues decreased \$4.9 million, or 23%, compared to 2019. The lower revenues and lower gross margin percentage of 23% in 2020 compared to 25% in 2019, resulted in rental related services gross profit decreasing \$1.6 million, or 30%, to \$3.7 million in 2020.

For the nine months ended September 30, 2020, selling and administrative expenses decreased \$3.1 million, or 14%, to \$19.0 million compared to the same period in 2019, primarily due to lower salaries and employee benefit costs, decreased marketing and administrative costs and lower corporate allocated expenses.

## 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, 2020 compared to the same period in 2019 are summarized as follows:

*Cash Flows from Operating Activities:* The Company's operations provided net cash of \$131.5 million in 2020 compared to \$136.9 million in 2019. The 4% decrease in net cash provided by operating activities was primarily attributable to a lower increase in accounts payable and accrued liabilities, deferred income and accounts receivable, partly offset by lower increase in prepaid expenses and other assets.

*Cash Flows from Investing Activities:* Net cash used in investing activities was \$41.5 million in 2020, compared to \$110.6 million in 2019. The \$69.2 million decrease was primarily due to \$61.6 million lower purchases of rental equipment of \$65.7 million in 2020 compared to 2019, \$7.4 million lower cash paid for the acquisition of business assets and \$3.0 million higher proceeds from sales of used rental equipment, partly offset by \$2.8 million higher purchases of property, plant and equipment.

*Cash Flows from Financing Activities:* Net cash used in financing activities was \$90.6 million in 2020, compared to \$25.4 million in 2019. The \$65.3 million increase was due to \$46.4 million higher net repayment under bank lines of credit, \$13.6 million higher repurchases of common stock and \$3.2 million higher dividend payments.

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 March 31, 2020, 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 \$420.0 million unsecured revolving credit facility (which may be further increased to \$670.0 million by adding one or more tranches of term loans and/or increasing the aggregate revolving commitments), which includes a \$25.0 million sublimit for the issuance of standby letters of credit and a \$10.0 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 \$12.0 million Treasury Sweep Note due March 31, 2025, 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, the "the Prior NPA"): (i) the \$40.0 million aggregate outstanding principal of notes issued March 17, 2014 and due March 17, 2021, and (ii) the \$60.0 million aggregate outstanding principal of notes issued November 5, 2015 and due November 5, 2022. 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 March 31, 2025 and replaced the Company's prior \$420.0 million credit facility dated March 31, 2016 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 March 31, 2020.

On March 30, 2020, the Company entered into an amended and restated Credit Facility Letter Agreement and a Credit Line Note in favor of MUFU Union Bank, N.A., which provides for a \$12.0 million line of credit facility related to its cash management services ("Sweep Service Facility"). The Sweep Service Facility matures on the earlier of March 31, 2025, or the date the Company ceases to utilize MUFU 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 31, 2016.

At September 30, 2020, under the Credit Facility and Sweep Service Facility, the Company had unsecured lines of credit that permit it to borrow up to \$432.0 million of which \$150.0 million was outstanding, and had capacity to borrow up to an additional \$282.0 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, 2020, the actual ratio was 4.30 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, 2020, the actual ratio was 1.04 to 1.

At September 30, 2020, 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 March 31, 2020, the Company entered into an Amended and Restated Note Purchase and Private Shelf Agreement (the "Note Purchase Agreement") with PGIM, Inc. ("PGIM") and the holders of Series B and Series C Notes previously issued pursuant to the Prior 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 3.68% Series B Senior Notes due March 17, 2021, and (ii) \$60.0 million aggregate principal amount of its 3.84% Series C Senior Notes due November 5, 2022, 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) \$250 million minus (y) the amount of other notes (such as the Series B Senior Notes and Series C 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.

On October 1, 2020, the Company entered into a rate lock agreement with Prudential Private Capital, pursuant to which, the Company agreed to a fixed interest rate of 2.57% for future issuance, if any, of senior unsecured notes in the aggregate amount of \$40.0 million with a 7-year maturity. If issued, the funding for such notes would occur on or before March 17, 2021 and would be subject to the terms and conditions of the Note Purchase Agreement.

### ***3.68% Senior Notes Due in 2021***

On March 17, 2014, the Company issued and sold to the purchaser a \$40.0 million aggregate principal amount of its 3.68% Series B Senior Notes (the "Series B Senior Notes") pursuant to the terms of the Prior NPA. The Series B Senior Notes are an unsecured obligation of the Company and bear interest at a rate of 3.68% per annum and mature on March 17, 2021. Interest on the Series B Senior Notes is payable semi-annually beginning on September 17, 2014 and continuing thereafter on March 17 and September 17 of each year until maturity. The full net proceeds from the Series B Senior Notes were used for working capital and other general corporate purposes. At September 30, 2020, the principal balance outstanding under the Series B Senior Notes was \$40.0 million.

### ***3.84% Senior Notes Due in 2022***

On November 5, 2015, the Company issued and sold to the purchaser a \$60.0 million aggregate principal amount of its 3.84% Series C Senior Notes (the "Series C Senior Notes") pursuant to the terms of the Prior NPA. The Series C Senior Notes are an unsecured obligation of the Company and bear interest at a rate of 3.84% per annum and mature on November 5, 2022. Interest on the Series C Senior Notes is payable semi-annually beginning on May 5, 2016 and continuing thereafter on November 5 and May 5 of each year until maturity. The principal balance is due when the notes mature on November 5, 2022. The full net proceeds from the Series C Senior Notes were used to reduce the outstanding balance on the Company's revolving credit line. At September 30, 2020, the principal balance outstanding under the Series C 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 B Senior Notes and Series C 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, 2020, the actual ratio was 4.30 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, 2020, the actual ratio was 1.04 to 1.

At September 30, 2020, 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. Furthermore, the Company believes it has the financial resources to weather the expected short-term impacts of COVID-19. However, the Company has limited insight into the extent to which its business may be impacted by COVID-19, and there are many uncertainties, including how long and how severely the Company will be impacted. An extended and severe impact may materially and adversely affect the Company's future operations, financial position and liquidity.

#### ***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 282,221 shares of common stock repurchased during the nine months ended September 30, 2020 for the aggregate purchase price of \$13.6 million or an average price of \$48.25 per repurchased share. There were no shares repurchased in the nine months ended September 30, 2019. As of September 30, 2020, 1,309,805 shares remained authorized for repurchase under the Repurchase Plan.

#### **Contractual Obligations**

We believe that our contractual obligations have not changed materially from those included in our 2019 Annual Report.

#### **Off-Balance Sheet Arrangements**

We had no material off-balance sheet arrangements as of September 30, 2020.

#### **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 2019 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, 2020. 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, 2020. 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.

## 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, 2019.

#### **The coronavirus (COVID-19) pandemic, or other outbreak of disease or similar public health threat, could materially and adversely affect our business, financial condition and results of operations.**

The novel strain of the coronavirus ("COVID-19") pandemic has resulted in government authorities implementing numerous measures to try to contain the virus, such as travel bans and restrictions, quarantines, shelter in place orders, and shutdowns. These measures have impacted and may further impact our workforce and operations, the operations of our customers, and those of our respective vendors and suppliers. There is considerable uncertainty regarding the impact, and expected duration, of such measures and potential future measures, and restrictions on our access to our facilities or on our support operations or workforce, or similar limitations for our vendors and suppliers. Continued restrictions may have a material adverse effect on our business, financial condition and results of operations.

The outbreak has significantly increased economic and demand uncertainty. The COVID-19 pandemic has caused an economic slowdown that is likely to continue and could cause a global recession.

The spread of COVID-19 has caused us to modify our business practices (including employee travel, employee work locations, and cancellation of physical participation in meetings, events and conferences), and we may take further actions as may be required by government authorities or that we determine are in the best interests of our employees, customers, and communities. Such actions may result in further disruptions to our supply chain, operations and facilities, and workforce. We cannot assure you that such measures will be sufficient to mitigate the risks posed by COVID-19, and our ability to perform critical functions could be harmed.

The spread of COVID-19 has led to disruption and volatility in the global capital markets, which has adversely affected our customers' and suppliers' liquidity, cost of capital and ability to access the capital markets. As a result, the continued spread of COVID-19 could continue to cause further disruption in our supply chain and customer demand, and could adversely affect the ability of our customers to perform, including in making timely payments to us, which could further adversely impact our business, financial condition and results of operations.

We cannot at this time quantify or forecast the full impact of COVID-19 on our business. The degree to which COVID-19 impacts our business, financial condition, and results of operations will depend on future developments, which are highly uncertain, and we cannot assure you as to the duration and spread of the outbreak, its severity, the actions to contain the virus or treat its impact, or how quickly and to what extent normal economic and operating conditions can resume.

#### **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;
- additional outbreaks of COVID-19, which may affect market and economic conditions, along with unknown impacts on our employees, customers, and aspects of operations;
- 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;
- our equipment mix, availability, utilization and pricing;
- 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 us; 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, (including as a result of the current COVID-19 pandemic), 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. Most recently, the COVID-19 pandemic has adversely affected the prices of most publicly traded stocks and has introduced significant volatility into the U.S. stock market. These broad market fluctuations and any other negative economic trends have and may continue to 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.

**A breach of our information technology systems 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 could experience 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, 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. Cyber-attacks are increasing in their frequency, sophistication and intensity, and have become increasingly difficult to detect. There can be no assurance that our efforts to protect our data and information technology systems will prevent breaches in our systems (or that of our third-party providers) that 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. Any 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.

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 potential failure to adequately protect critical corporate, customer and employee data, which, if released, could adversely impact our customer relationships, our reputation, and even violate privacy laws. As part of our business, we develop, receive and retain confidential data about our company and our customers.

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.**

Previously, we acquired Technology Rentals & Services (“TRS”), an electronic test equipment rental business and Adler Tanks, a liquid and solid containment rental business, as well as several smaller acquisitions that were integrated into our current operating segments. 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 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.

**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, 2020, we had \$35.4 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 continue to deteriorate, (including as a result of the current COVID-19 outbreak), 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.

**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 B and Series C 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 \$1.5 million per year for each 1% increase in the average interest rate we pay based on the \$150.0 million balance of variable rate debt outstanding at September 30, 2020. 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.

**Our effective tax rate may change and become less predictable as our business expands, 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. In addition, 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.

**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.

**Failure to comply with internal control attestation requirements could lead to loss of public confidence in our financial statements and negatively impact our stock price.**

As a public reporting company, we are required to comply with the Sarbanes-Oxley Act of 2002, including Section 404, and the related rules and regulations of the SEC, including expanded disclosures and accelerated reporting requirements. Compliance with Section 404 and other related requirements has increased our costs and will continue to require additional management resources. We may need to continue to implement additional finance and accounting systems, procedures and controls to satisfy new reporting

requirements. While our management concluded that our internal control over financial reporting as of December 31, 2019 was effective, there is no assurance that future assessments of the adequacy of our internal controls over financial reporting will be favorable. If we are unable to obtain future unqualified reports as to the effectiveness of our internal control over financial reporting, investors could lose confidence in the reliability of our internal control over financial reporting, which could adversely affect our stock price.

#### **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 prior economic recessions, 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. Prior economic recessions 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. On occasion, state agencies have undertaken studies of indoor air quality and noise levels with a focus on permanent and modular classrooms. These results could impact our existing modular equipment and affect the future construction of our modular product.

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 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.**

We have agreements relating to the sale of our products to government entities and, as a result, we are subject to various statutes and regulations that apply to companies doing business with the government. 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 Corporation, have a greater range of products and services, greater financial and marketing resources, larger customer bases, and greater name recognition than we have. In July 2020, WillScot Corporation merged with Mobile Mini, Inc. In August 2018, WillScot Corporation completed the acquisition of Modspace. These combined 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, 2020, 64% 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 2019, Mobile Modular purchased 27% 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.

**SPECIFIC RISKS RELATED TO OUR LIQUID AND SOLID CONTAINMENT TANKS AND BOXES BUSINESS SEGMENT:**

**We may be brought into tort or environmental litigation or held responsible for cleanup of spills if the customer fails to perform, or an accident occurs in the use of our rental products, which could materially adversely affect our business, future operating results or financial position.**

Our rental tanks and boxes are used by our customers to store non-hazardous and certain hazardous liquids and solids on the customer's site. Our customers are generally responsible for proper operation of our tank and box rental equipment while on rent and returning a cleaned and undamaged container upon completion of use, but exceptions may be granted and we cannot always assure that these responsibilities are fully met in all cases. Although we require the customer to carry commercial general liability insurance in a minimum amount of \$5,000,000, such policies often contain pollution exclusions and other exceptions. Furthermore, we cannot

be certain our liability insurance will always be sufficient. In addition, if an accident were to occur involving our rental equipment or a spill of substances were to occur when the tank or box was in transport or on rent with our customer, a claim could be made against us as owner of the rental equipment.

In the event of a spill or accident, we may be brought into a lawsuit or enforcement action by either our customer or a third party on numerous potential grounds, including an allegation that an inherent flaw in a tank or box contributed to an accident or that the tank had suffered some undiscovered harm from a previous customer's prior use. In the event of a spill caused by our customers, we may be held responsible for cleanup under environmental laws and regulations concerning obligations of suppliers of rental products to effect remediation. In addition, applicable environmental laws and regulations may impose liability on us for the conduct of third parties, or for actions that complied with applicable regulations when taken, regardless of negligence or fault. Substantial damage awards have also been made in certain jurisdictions against lessors of industrial equipment based upon claims of personal injury, property damage, and resource damage caused by the use of various products. While we take what we believe are reasonable precautions that our rental equipment is in good and safe condition prior to rental and carry insurance to protect against certain risks of loss or accidents, such liability could adversely impact our profitability.

**The liquid and solid containment rental industry is highly competitive, and competitive pressures could lead to a decrease in our market share or in rental rates and our ability to rent, or sell, equipment at favorable prices, which could adversely affect our operating results.**

The liquid and solid containment rental industry is highly competitive. We compete against national, regional and local companies, including United Rentals, Rain For Rent and Mobile Mini, Inc. (merged with WillScot Corporation in July 2020), all of which may be larger than we are, may offer a wider range of products and services and may have greater financial and marketing resources than we have. Some of our competitors also have longer operating histories, lower cost basis of rental equipment, lower cost structures and more established relationships with equipment manufacturers than we have. In addition, certain of our competitors are more geographically diverse than we are and have greater name recognition among customers than we do. As a result, our competitors that have these advantages may be better able to attract customers and provide their products and services at lower rental rates. Some competitors offer different approaches to liquid storage, such as large-volume modular tanks that may have better economics and compete with conventional frac tanks in certain oil and gas field applications. We may in the future encounter increased competition in the markets that we serve from existing competitors or from new market entrants. In July 2018, United Rentals, Inc. completed the acquisition of BakerCorp. This acquisition may create additional competition for customers and provide the combined entity access to greater financial resources than we have.

We believe that equipment quality, service levels, rental rates and fleet size are key competitive factors in the liquid and solid containment rental industry. From time to time, we or our competitors may attempt to compete aggressively by lowering rental rates or prices. Competitive pressures could adversely affect our revenues and operating results by decreasing our market share or depressing rental rates. To the extent we lower rental rates or increase our fleet in order to retain or increase market share, our operating margins would be adversely impacted. In addition, we may not be able to match a larger competitor's price reductions or fleet investment because of its greater financial resources, all of which could adversely impact our operating results through a combination of a decrease in our market share, revenues and operating income.

**Market risk, commodity price volatility, regulatory changes or interruptions and cyclical downturns in the industries using tanks and boxes may result in periods of low demand for our products resulting in excess inventory, impairment charges and reduction of our operating results and cash flows.**

Adler Tanks' revenues are derived from the rental of tanks and boxes to companies involved in oil and gas exploration, extraction and refinement, environmental remediation and wastewater/groundwater treatment, infrastructure and building construction and various industrial services, among others. We expect tank and box rental revenues will primarily be affected by the business activity within these industries. Historically, these industries have been cyclical and have experienced periodic downturns, which have a material adverse impact on the industry's demand for equipment, including the tanks and boxes rented by us. Lower oil or gas prices may have an adverse effect on our liquid and solid containment tanks and boxes business. Any steep decline in both domestic and international oil and gas prices driven by materially higher supply levels and weak demand could have a significant negative impact on the industry's demand for equipment, especially if such market conditions continue for an extended period of time. If the price reduction causes customers to limit or stop exploration, extraction or refinement activities, resulting in lower demand and pricing for renting Adler Tank's products, our financial results could be adversely impacted. Also, a weak U.S. economy may negatively impact infrastructure construction and industrial activity. Any of these factors may result in excess inventory or impairment charges and reduce our operating results and cash flows.

**Changes in regulatory, or governmental, oversight of hydraulic fracturing could materially adversely affect the demand for our rental products and reduce our operating results and cash flows.**

We believe that demand related to hydraulic fracturing has increased the total rental revenues and market size in recent years. Oil and gas exploration and extraction (including use of tanks for hydraulic fracturing to obtain shale oil and shale gas) are subject to numerous local, state and federal regulations. In the three and nine months ended September 30, 2020, oil and gas exploration and production accounted for approximately 5% and 7%, respectively, of Adler Tanks' rental revenues, and approximately 1% of the Company's total revenues. The hydraulic fracturing method of extraction has come under scrutiny in several states and by the Federal government due to the potential adverse effects that hydraulic fracturing, and the liquids and chemicals used, may have on water quality and public health. In addition, the disposal of wastewater from the hydraulic fracturing process into injection wells may increase the rate of seismic activity near drill sites and could result in regulatory changes, delays or interruption of future activity. Changes in these regulations could limit, interrupt, or stop exploration and extraction activities, which would negatively impact the demand for our rental products. Finally, it is possible that changes in the technology utilized in hydraulic fracturing could make it less dependent on liquids and therefore lower the related requirements for the use of our rental products, which would reduce our operating results and cash flows.

**Seasonality of the liquid and solid containment rental industry may impact quarterly results.**

Rental activity may decline in the fourth quarter month of December and the first quarter months of January and February. These months may have lower rental activity in parts of the country where inclement weather may delay, or suspend, a company's project. The impact of these delays may be to decrease the number of tanks, or boxes, on rent until companies are able to resume their projects when weather improves. 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.

**Significant increases in raw material, fuel and labor costs could increase our acquisition and operating costs of rental equipment, which would increase operating costs and decrease profitability.**

Increases in raw material costs such as steel and labor to manufacture liquid and solid containment tanks and boxes would increase the cost of acquiring new equipment. These price increases could materially and adversely impact our financial condition and results of operations if we are not able to recoup these increases through higher rental revenues. In addition, a significant amount of revenues are generated from the transport of rental equipment to and from customers. We own delivery trucks, employ drivers and utilize subcontractors to provide these services. The price of fuel can be unpredictable and beyond our control. During periods of rising fuel and labor costs, and in particular when prices increase rapidly, we may not be able to recoup these costs from our customers, which would reduce our profitability.

**Failure by third parties to manufacture our products timely or properly may harm our ability to meet customer demand and harm our financial condition.**

We are dependent on a variety of third party companies to manufacture equipment to be used in our rental fleet. In some cases, we may not be able to procure equipment on a timely basis to the extent that manufacturers for the quantities of equipment we need are not able to produce sufficient inventory on schedules that meet our delivery requirements. If demand for new equipment increases significantly, especially during a seasonal manufacturing slowdown, manufacturers may not be able to meet customer orders on a timely basis. As a result, we at times may experience long lead-times for certain types of new equipment and we cannot assure that we will be able to acquire the types or sufficient numbers of the equipment we need to grow our rental fleet as quickly as we would like and this could harm our ability to meet customer demand and harm our financial condition.

**We derive a meaningful amount of our revenue in our liquid and solid containment tank and boxes business from a limited number of customers, the loss of one or more of which could have an adverse effect on our business.**

Periodically, a meaningful portion of our revenue in our liquid and solid containment tank and boxes business may be generated from a few major customers. Although we have some long-term relationships with our major customers, we cannot be assured that our customers will continue to use our products or services or that they will continue to do so at historical levels. The loss of any meaningful customer, the failure to collect a material receivable from a meaningful customer, any material reduction in orders by a meaningful customer or the cancellation of a meaningful customer order could significantly reduce our revenues and consequently harm our financial condition and our ability to fund our operations.

**We may not be able to quickly redeploy equipment returning from leases at equivalent prices.**

Many of our rental transactions are short-term in nature with pricing established on a daily basis. The length of time that a customer needs equipment can often be difficult to determine and can be impacted by a number of factors such as weather, customer

funding and project delays. In addition, our equipment is primarily used in the oil and gas, industrial plant services, environmental remediation and infrastructure and building construction industries. Changes in the economic conditions facing any of those industries could result in a significant number of units returning off rent, both for us and our competitors.

If the supply of rental equipment available on the market significantly increases due to units coming off rent, demand for and pricing of our rental products could be adversely impacted. We may experience delays in remarketing our off-rent units to new customers and incur cost to move the units to other regions where demand is stronger. Actions in these circumstances by our competitors may also depress the market price for rental units. These delays and price pressures would adversely affect equipment utilization levels and total revenues, which would reduce our profitability.

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

During the three months ended September 30, 2020, the Company repurchased 2,355 shares of common stock under the Repurchase Plan (as defined below) for an aggregate repurchase price of \$0.1 million, or an average of price of \$49.61 per share. The table below sets forth the information with respect to repurchases of our common stock during the three months ended September 30, 2020.

Period	Total Number of Shares Purchased	Average price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1)
July 1 -July 31	2,355	\$ 49.61	2,355	—
August 1 - August 31	—	\$ —	—	—
September 1- September 30	—	\$ —	—	1,309,805
Total	2,355	\$ 49.61	2,355	1,309,805

- (1) The number represents the number of shares of our common stock that remain available for purchase pursuant to the Company's Board of Directors' authorization as of September 30, 2020.

The Company has 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.

## 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, 2020, 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 29, 2020

### 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, 2020 and 2019, as indicated in our report dated October 29, 2020; 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, 2020 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 Jose, California  
October 29, 2020

**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 29, 2020

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



**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 29, 2020

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

**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, 2020, 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 29, 2020

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

**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, 2020, 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 29, 2020

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