

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

FORM 10-K

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

For the fiscal year ended December 31, 2019

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

Commission file number 0-13292

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

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

None

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

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

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 the 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 for 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

Aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of June 30, 2019 (based upon the closing sale price of the registrant's common stock as reported on the NASDAQ Global Select Market on June 30, 2019): \$1,492,719,819.

As of February 24, 2020, 24,296,305 shares of Registrant's Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

McGrath RentCorp's definitive proxy statement with respect to its 2020 Annual Meeting of Shareholders to be held on June 3, 2020 which will be filed with the Securities and Exchange Commission within 120 days after the end of its fiscal year ended December 31, 2019, is incorporated by reference into Part III (Items 10, 11, 12, and 13).

Exhibit index appears on page 87

FORWARD LOOKING STATEMENTS

Statements contained in this Annual Report on Form 10-K (“this Form 10-K”) 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-K. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements.

Forward-looking statements are made only as of the date of this Form 10-K 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-K to conform such statements to actual results or to changes in our expectations.

PART I

ITEM 1. BUSINESS.

General Overview

McGrath RentCorp (the “Company”) is a California corporation organized in 1979 with corporate offices located in Livermore, California. The Company’s common stock is traded on the NASDAQ Global Select Market under the symbol “MGRC”. References in this report to the “Company”, “we”, “us”, and “ours” refer to McGrath RentCorp and its subsidiaries, unless the context requires otherwise.

The Company is a diversified business-to-business rental company with four rental divisions: relocatable modular buildings, portable storage containers, electronic test equipment, and liquid and solid containment tanks and boxes. Although the Company’s primary emphasis is on equipment rentals, sales of equipment occur in the normal course of business. The Company is comprised of four reportable business segments: (1) its modular building and portable storage 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 business selling modular buildings used primarily as classrooms in California (“Enviroplex”).

No single customer accounted for more than 10% of total revenues during 2019, 2018 and 2017. Revenue from foreign country customers accounted for 5%, 4% and 4% of the Company’s revenues in 2019 and 2018, and 2017, respectively.

Business Model

The Company invests capital in rental products and generally has recovered its original investment through rents less cash operating expenses in a relatively short period of time compared to the product’s rental life. When the Company’s rental products are sold, the proceeds generally have covered a high percentage of the original investment. With these characteristics, a significant base of rental assets on rent generates a considerable amount of operating cash flows to support continued rental asset growth. The Company’s rental products have the following characteristics:

- The product required by the customer tends to be expensive compared to the Company’s monthly rental charge, with the interim rental solution typically evaluated as a less costly alternative.
- Generally, we believe the Company’s customers have a short-term need for our rental products. The customer’s rental requirement may be driven by a number of factors including time, budget or capital constraints, future uncertainty impacting their ongoing requirements, equipment availability, specific project requirements, peak periods of demand or the customer may want to eliminate the burdens and risks of ownership.

- All of the Company's rental products have long useful lives relative to the typical rental term. Modular buildings ("modulars") have an estimated life of eighteen years compared to the typical rental term of twelve to twenty-four months, electronic test equipment has an estimated life range of one to eight years (depending on the type of product) compared to a typical rental term of one to six months, and liquid and solid containment tanks and boxes have an estimated life of twenty years compared to typical rental terms of one to six months.
- We believe short-term rental rates typically recover the Company's original investment quickly based on the respective product's annual yield, or annual rental revenues divided by the average cost of rental equipment. For modulars the original investment is recovered in approximately five years, in approximately three years for electronic test equipment and in approximately four years for liquid and solid containment tanks and boxes.
- When a product is sold from our rental inventory, a significant portion of the original investment is usually recovered. Effective asset management is a critical element to each of the rental businesses and the residuals realized when product is sold from inventory. Modular asset management requires designing and building the product for a long life, coupled with ongoing repair and maintenance investments, to ensure its long useful rental life and generally higher residuals upon sale. Electronic test equipment asset management requires understanding, selecting and investing in equipment technologies that support market demand and, once invested, proactively managing the equipment at the model level for optimum utilization through its technology life cycle to maximize the rental revenues and residuals realized. Liquid and solid containment tanks and boxes asset management requires selecting and purchasing quality product and making ongoing repair and maintenance investments to ensure its long rental life.

The Company believes that rental revenue growth from an increasing base of rental assets and improved gross profits on rents are the best measures of the health of each of our rental businesses. Additionally, we believe our business model and results are enhanced by operational leverage that is created from large regional sales and inventory centers for modulars, a single U.S. based sales, inventory and operations facility for electronic test equipment, as well as shared senior management and back office functions for financing, human resources, insurance, marketing, information technology and operating and accounting systems.

Employees

As of December 31, 2019, the Company had 1,099 employees, of whom 91 were primarily administrative and executive personnel, with 597, 186, 136 and 89 in the operations of Mobile Modular, Adler Tanks, TRS-RenTelco and Enviroplex, respectively. None of our employees are covered by a collective bargaining agreement, and management believes its relationship with our employees is good.

Available Information

We make the Company's Securities and Exchange Commission ("SEC") filings available at our website www.mgrc.com. These filings include our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Act of 1934, which are available as soon as reasonably practicable after the Company electronically files such material with, or furnishes such material to, the SEC. Information included on our website is not incorporated by reference to this Form 10-K. Furthermore, all reports the Company files with the SEC are available through the SEC's website at www.sec.gov.

We have a Code of Business Conduct and Ethics which applies to all directors, officers and employees. Copies of this code can be obtained at our website www.mgrc.com. Any waivers to the Code of Business Conduct and Ethics and any amendments to such code applicable to our Chief Executive Officer, Chief Financial Officer, Principal Accounting Officer or persons performing similar functions, will be posted on our web site

Description

Modulars are designed for use as classrooms, temporary offices adjacent to existing facilities, sales offices, construction field offices, restroom buildings, health care clinics, child care facilities, office space, and for a variety of other purposes and may be moved from one location to another. Modulars vary from simple single-unit construction site offices to multi-floor modular complexes. The Company's modular rental fleet includes a full range of styles and sizes. The Company considers its modulars to be among the most attractive and well-designed available. The units are constructed with wood or metal siding, sturdily built and physically capable of a long useful life. Modulars are generally provided with installed heat, air conditioning, lighting, electrical outlets and floor covering, and may have customized interiors including partitioning, cabinetry and plumbing facilities.

Mobile Modular purchases new modulars from various manufacturers who build to Mobile Modular's design specifications. During 2019, Mobile Modular purchased 27% of its modular units from one manufacturer. The Company believes that the loss of any of its primary modular manufacturers could have an adverse effect on its operations since Mobile Modular could experience higher prices and longer lead times for delivery of modular units until other manufacturers were able to increase their production capacity.

The Company's modulars are manufactured to comply with state building codes, have a low risk of obsolescence, and can be modified or reconfigured to accommodate a wide variety of customer needs. Historically, as state building codes have changed over the years, Mobile Modular has been able to continue to use existing modulars, with minimal, if any, required upgrades. The Company has no assurance that it will continue to be able to use existing modular equipment with minimal upgrades as building codes change in the future.

Mobile Modular currently operates from regional sales and inventory centers in California, Texas, Florida and Georgia, serving large geographic areas in these states, and sales offices serving Louisiana, North Carolina, Maryland, Virginia and Washington, D.C. The California, Texas, Florida and Georgia regional sales and inventory centers have in-house infrastructure and operational capabilities to support quick and efficient repair, modification, and refurbishment of equipment for the next rental opportunity. The Company believes operating from large regional sales and inventory centers results in better operating margins as operating costs can be spread over a large installed customer base. Mobile Modular actively maintains and repairs its rental equipment, and management believes this ensures the continued use of the modular product over its long life and, when sold, has resulted in higher sale proceeds relative to its capitalized cost. When rental equipment returns from a customer, the necessary repairs and preventative maintenance are performed prior to its next rental. By making these expenditures for repair and maintenance throughout the equipment's life we believe that older equipment can generally rent for rates similar to those of newer equipment. Management believes the condition of the equipment is a more significant factor in determining the rental rate and sale price than its age. Over the last three years, used equipment sold each year represented approximately 2% of rental equipment, and has been, on average, 15 years old with sale proceeds above its net book value.

Competitive Strengths

Market Leadership – The Company believes Mobile Modular is the largest supplier in California, and a significant supplier in Florida and Texas, of modular educational facilities for rental to both public and private schools. Management is knowledgeable about the needs of its educational customers and the related regulatory requirements in the states where Mobile Modular operates, which enables Mobile Modular to meet its customers' specific project requirements.

Expertise – The Company believes that over the 40 years during which Mobile Modular has competed in the modular rental industry, it has developed expertise that differentiates it from its competitors. Mobile Modular has dedicated its attention to continuously developing and improving the quality of its modular units. Mobile Modular has expertise in the licensing and regulatory requirements that govern modulars in the states where it operates, and its management, sales and operational staffs are knowledgeable and committed to providing exemplary customer service. Mobile Modular has expertise in project management and complex applications.

Operating Structure – Part of the Company's strategy for Mobile Modular is to create facilities and infrastructure capabilities that its competitors cannot easily duplicate. Mobile Modular achieves this by building regional sales and inventory centers designed to serve a broad geographic area and a large installed customer base under a single overhead structure, thereby reducing its cost per transaction. The Company's regional facilities and related infrastructure enable Mobile Modular to maximize its modular inventory utilization through efficient and cost effective in-house repair, maintenance and refurbishment for quick redeployment of equipment to meet its customers' needs.

Asset Management – The Company believes Mobile Modular markets high quality, well-constructed and attractive modulars. Mobile Modular requires manufacturers to build to its specifications, which enables Mobile Modular to maintain a standardized

quality fleet. In addition, through its ongoing repair, refurbishment and maintenance programs, the Company believes Mobile Modular's buildings are the best maintained in the industry. The Company depreciates its modular buildings over an 18 year estimated useful life to a 50% residual value. Older buildings continue to be productive primarily because of Mobile Modular's focus on ongoing fleet maintenance. Also, as a result of Mobile Modular's maintenance programs, when a modular unit is sold, a high percentage of the equipment's capitalized cost is recovered. In addition, the fleet's utilization is regionally optimized by managing inventory through estimates of market demand, fulfillment of current rental and sale order activity, modular returns and capital purchases.

Customer Service - The Company believes the modular rental industry to be service intensive and locally based. The Company strives to provide excellent service by meeting its commitments to its customers, being proactive in resolving project issues and seeking to continuously improve the customers' experience. Mobile Modular is committed to offering quick response to requests for information, providing experienced assistance, on time delivery and preventative maintenance of its units. Mobile Modular's goal is to continuously improve its procedures, processes and computer systems to enhance internal operational efficiency. The Company believes this dedication to customer service results in high levels of customer loyalty and repeat business.

Market

Management estimates relocatable modular building rental is an industry that today has equipment on rent or available for rent in the U.S. with an aggregate original cost of over \$5.0 billion. Mobile Modular's largest market segment is for temporary classroom and other educational space needs of public and private schools, colleges and universities in California and Florida, and to a lesser extent in Texas, Louisiana, North Carolina, South Carolina, Georgia, Maryland, Virginia and Washington, D.C. Management believes the demand for rental classrooms is caused by shifting and fluctuating school populations, the limited state funds for new construction, the need for temporary classroom space during reconstruction of older schools, class size reduction and the phasing out of portable classrooms compliant with older building codes (see "Classroom Rentals and Sales to Public Schools (K-12)" below). Other customer applications include sales offices, construction field offices, health care facilities, church sanctuaries and child care facilities. Industrial, manufacturing, entertainment and utility companies, as well as governmental agencies commonly use large multi-modular complexes to serve their interim administrative and operational space needs. Modulares offer customers quick, cost-effective space solutions while conserving their capital. The Company's corporate offices, and California, Texas, Florida and Georgia regional sales and inventory center offices are housed in various sizes of modular units.

Since most of Mobile Modular's customer requirements are to fill temporary space needs, Mobile Modular's marketing emphasis is on rentals rather than sales. Mobile Modular attracts customers through its website at www.mobilemodular.com, internet advertising and direct marketing. Customers are encouraged to visit a regional sales and inventory center to view different models on display and to see a regional office, which is a working example of a modular application.

Because service is a major competitive factor in the rental of modulares, Mobile Modular offers quick response to requests for information, assistance in the choice of a suitable size and floor plan, in-house customization services, rapid delivery, timely installation and field service of its units. On Mobile Modular's website, customers are able to view and select inventory for quotation and request in-field service.

Rentals

Rental periods range from one month to several years with a typical initial contract term between twelve and twenty-four months. In general, monthly rental rates are determined by a number of factors including length of term, market demand, product availability and product type. Upon expiration of the initial term, or any extensions, rental rates are reviewed, and when appropriate, are adjusted based on current market conditions. Most rental agreements are operating leases that provide no purchase options, and when a rental agreement does provide the customer with a purchase option, it is generally on terms management believes to be attractive to Mobile Modular.

The customer is responsible for obtaining the necessary use permits and for the costs of insuring the unit, and is financially responsible for transporting the unit to the site, preparation of the site, installation of the unit, dismantle and return delivery of the unit to Mobile Modular, and certain costs for customization. Mobile Modular maintains the units in good working condition while on rent. Upon return, the units are inspected for damage and customers are billed for items considered beyond normal wear and tear. Generally, the units are then repaired for subsequent use. Repair and maintenance costs are expensed as incurred and can include floor repairs, roof maintenance, cleaning, painting and other cosmetic repairs. The costs of major refurbishment of equipment are capitalized to the extent the refurbishment significantly improves the quality and adds value or life to the equipment.

At December 31, 2019, Mobile Modular owned 56,207 new or previously rented modulares and portable storage containers with an aggregate cost of \$868.8 million including accessories, or an average cost per unit of \$15,457. Utilization is calculated at the end of each month by dividing the cost of rental equipment on rent by the total cost of rental equipment, excluding new equipment

inventory and accessory equipment. At December 31, 2019, fleet utilization was 79.1% and average fleet utilization during 2019 was 79.2%. The Mobile Modular segment includes the results of operations of Mobile Modular Portable Storage, which represented approximately 8% of the Company's 2019 total revenues.

Sales

In addition to operating its rental fleet, Mobile Modular sells modulars to customers. These sales typically arise out of its marketing efforts for the rental fleet and from existing equipment already on rent. Such sales can be of either new or used units from the rental fleet, which permits some turnover of older units. During 2019 Mobile Modular's largest sale represented approximately 7% of Mobile Modular's sales, 3% of the Company's consolidated sales and less than 1% of the Company's consolidated revenues.

Mobile Modular typically provides limited 90-day warranties on used modulars and passes through the manufacturers' one-year warranty on new units to its customers. Warranty costs have not been significant to Mobile Modular's operations to date, and the Company attributes this to its commitment to high quality standards and regular maintenance programs. However, there can be no assurance that warranty costs will continue to be insignificant to Mobile Modular's operations in the future.

Enviroplex manufactures portable classrooms built to the requirements of the California Division of the State Architect ("DSA") and sells directly to California public school districts and other educational institutions.

Seasonality

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.

Competition

Competition in the rental and sale of relocatable modular buildings is intense. 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 addition, a number of other smaller companies operate regionally throughout the country. Mobile Modular operates primarily in California, Texas, Florida, Louisiana, North Carolina, South Carolina, Georgia, Virginia, Maryland and Washington, D.C. Significant competitive factors in the rental business include availability, price, service, reliability, appearance and functionality of the product. Mobile Modular markets high quality, well-constructed and attractive modulars. Part of the Company's strategy for modulars is to create facilities and infrastructure capabilities that its competitors cannot easily duplicate. The Company's facilities and related infrastructure enable it to modify modulars efficiently and cost effectively to meet its customers' needs. Management's goal is to be more responsive at less expense. Management believes this strategy, together with its emphasis on prompt and efficient customer service, gives Mobile Modular a competitive advantage. Mobile Modular is determined to respond quickly to requests for information, and provide experienced assistance for the first-time user, rapid delivery and timely repair of its modular units. Mobile Modular's already high level of efficiency and responsiveness continues to improve as the Company upgrades procedures, processes and computer systems that control its internal operations. The Company anticipates intense competition to continue and believes it must continue to improve its products and services to remain competitive in the market for modulars.

Classroom Rentals and Sales to Public Schools (K-12)

Mobile Modular and Enviroplex provide classroom and specialty space needs serving public and private schools, colleges and universities. Within the educational market, the rental (by Mobile Modular) and sale (by Enviroplex and Mobile Modular) of modulars to public school districts for use as portable classrooms, restroom buildings and administrative offices for kindergarten through grade twelve (K-12) are a significant portion of the Company's revenues. Mobile Modular rents and sells classrooms in California, Florida, Texas, Louisiana, North Carolina, South Carolina, Georgia, Maryland, Virginia and Washington, D.C. Enviroplex sells classrooms in the California market. California is Mobile Modular's largest educational market. Historically, demand in this market has been fueled by shifting and fluctuating student populations, insufficient funding for new school construction, class size reduction programs, modernization of aging school facilities and the phasing out of portable classrooms no longer compliant with current building codes. The following table shows the approximate percentages of the Company's modular rental and sales revenues, and of its consolidated rental and sales revenues for the past five years, that rentals and sales to these schools constitute:

Rentals and Sales to Public Schools (K-12) as a Percentage of Total Rental and Sales Revenues

<u>Percentage of:</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Modular Rental Revenues (<i>Mobile Modular</i>)	32%	33%	33%	34%	33%
Modular Sales Revenues (<i>Mobile Modular & Enviroplex</i>)	64%	70%	76%	67%	43%
Modular Rental and Sales Revenues (<i>Mobile Modular & Enviroplex</i>)	42%	44%	47%	43%	35%
Consolidated Rental and Sales Revenues ¹	25%	24%	26%	23%	16%

¹ Consolidated Rental and Sales Revenue percentage is calculated by dividing Modular rental and sales revenues to public schools (K-12) by the Company's consolidated rental and sales revenues.

School Facility Funding

Funding for public school facilities is derived from a variety of sources including the passage of both statewide and local facility bond measures, operating budgets, developer fees, various taxes including parcel and sales taxes levied to support school operating budgets, and lottery funds. There is no certainty on the timing of the bond sales and it could take additional years before projects funded by these bonds generate meaningful demand for relocatable classrooms.

Description

TRS-RenTelco rents and sells electronic test equipment nationally and internationally from two facilities located in Grapevine, Texas (the “Dallas facility”) and Dollard-des-Ormeaux, Canada (the “Montreal facility”). 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 revenues are primarily affected by the business activity within these industries related to research and development, manufacturing, and communication infrastructure installation and maintenance. The Dallas facility, TRS-RenTelco’s primary operating location, houses the electronic test equipment inventory, sales engineers, calibration laboratories, and operations staff for U.S. and international business. The Montreal facility houses sales engineers and operations staff to serve the Canadian market. As of December 31, 2019, the original cost of electronic test equipment inventory was comprised of 77% general purpose electronic test equipment and 23% communications electronic test equipment.

Engineers, technicians and scientists utilize general purpose electronic test equipment in developing products, controlling manufacturing processes, completing field service applications and evaluating the performance of their own electrical and electronic equipment. These instruments are rented primarily to aerospace, defense, electronics, industrial, research and semiconductor industries. To date, Keysight Technologies, Rhode & Schwarz and Tektronix, a division of Fortive Corporation, have manufactured the majority of TRS-RenTelco’s general purpose electronic test equipment with the remainder acquired from over 60 other manufacturers.

Communications test equipment, including fiber optic test equipment, is utilized by technicians, engineers and installation contractors to evaluate voice, data and multimedia communications networks, to install fiber optic cabling, and in the development and manufacturing of transmission, network and wireless products. These instruments are rented primarily to manufacturers of communications equipment and products, electrical and communications installation contractors, field technicians, and service providers. To date, Anritsu, Viavi Solutions and Fluke Networks, a division of Fortive Corporation, have manufactured a significant portion of TRS-RenTelco’s communications test equipment, with the remainder acquired from over 40 other manufacturers.

TRS-RenTelco’s general purpose test equipment rental inventory includes oscilloscopes, amplifiers, analyzers (spectrum, network and logic), signal source and power source test equipment. The communications test equipment rental inventory includes network and transmission test equipment for various fiber, copper and wireless networks. TRS-RenTelco occasionally rents electronic test equipment from other rental companies and re-rents the equipment to customers.

Competitive Strengths

Market Leadership - The Company believes that TRS-RenTelco is one of the largest electronic test equipment rental and leasing companies offering a broad and deep selection of general purpose and communications test equipment for rent in North America.

Expertise - The Company believes that its knowledge of products, technology and applications expertise provides it with a competitive advantage over others in the industry. Customer requirements are supported by application engineers and technicians that are knowledgeable about the equipment’s uses to ensure the right equipment is selected to meet the customer’s needs. This knowledge can be attributed to the experience of TRS-RenTelco’s management, sales and operational teams.

Operating Structure - TRS-RenTelco is supported by a centralized distribution and inventory center on the grounds of the Dallas-Fort Worth Airport in Texas. The Company believes that the centralization of servicing all customers in North America and internationally by TRS-RenTelco’s experienced logistics teams provides a competitive advantage by minimizing transaction costs and enabling TRS-RenTelco to ensure customer requirements are met.

Asset Management - TRS-RenTelco’s rental equipment inventory is serviced by an ISO 9001-2015 registered and compliant calibration laboratory that repairs and calibrates equipment ensuring that off rent equipment is ready to ship immediately to meet customers’ needs. TRS-RenTelco’s team of technicians, product managers and sales personnel are continuously monitoring and analyzing the utilization of existing products, new technologies, general economic conditions and estimates of customer demand to ensure the right equipment is purchased and sold, at the right point in the equipment’s technology life cycle. The Company believes this enables it to maximize utilization of equipment and the cash flow generated by the rental and sales revenue of each model of equipment. TRS-RenTelco strives to maintain strong relationships with equipment manufacturers, which enables it to leverage those relationships to gain rental opportunities.

Customer Service - The Company believes that its focus on providing excellent service to its customers provides a competitive advantage. TRS-RenTelco strives to provide exemplary service to fulfill its commitments to its customers. TRS-RenTelco prides

itself in providing solutions to meet customers' needs by having equipment available and responding quickly and thoroughly to their requests. TRS-RenTelco's sophisticated in-house laboratory ensures the equipment is fully functional and meets its customers' delivery requirements. Service needs of TRS-RenTelco's customers are supported 24 hours a day, 7 days a week by its customer care specialists. TRS-RenTelco's goal is to provide service beyond its customers' expectations, which, the Company believes, results in customer loyalty and repeat business.

Market

Electronic test equipment rental is a market which we estimate has equipment on rent worldwide or available for rent with an aggregate original cost in excess of \$1 billion. There is a broad customer base for the rental of such instruments, including aerospace, communications, defense, electrical contractor, electronics, industrial, installer contractor, network systems and research companies.

TRS-RenTelco markets its electronic test equipment throughout the United States, Canada, and, to a limited extent, other countries. TRS-RenTelco attracts customers through its outside sales force, website at www.TRSRenTelco.com, telemarketing program, trade show participation, paid internet search and electronic mail campaigns. A key part of the sales process is TRS-RenTelco's knowledgeable inside sales engineering team that effectively matches test equipment solutions to meet specific customer's requirements.

The Company believes that customers rent electronic test equipment for many reasons. Customers frequently need equipment for short-term projects, to evaluate new products, and for backup to avoid costly downtime. Delivery times for the purchase of such equipment can be lengthy; thus, renting allows the customer to obtain the equipment expeditiously. The Company also believes that the relative certainty of rental costs can facilitate cost control and be useful in the bidding of and pass-through of contract costs. Finally, renting rather than purchasing may better satisfy the customer's budgetary constraints.

Rentals

TRS-RenTelco rents electronic test equipment typically for rental periods of one to six months, although in some instances, rental terms can be up to a year or longer. Monthly rental rates typically are between 2% and 10% of the current manufacturers' list price. TRS-RenTelco depreciates its equipment over 1 to 8 years with no residual value.

At December 31, 2019, TRS-RenTelco had an electronic test equipment rental inventory including accessories with an aggregate cost of \$335.3 million. Utilization is calculated each month by dividing the cost of the rental equipment on rent by the total cost of rental equipment, excluding accessory equipment. Utilization was 64.5% as of December 31, 2019 and averaged 66.2% during the year.

Sales

Profit from equipment sales is a material component of TRS-RenTelco's overall annual earnings. Gross profit from sales of both used and new equipment over the last five years generally has ranged from approximately 20% to 24% of total annual gross profit for our electronics division. For 2019, gross profit on equipment sales was approximately 20% of total division gross profit. Equipment sales are driven by the turnover of older technology rental equipment, to maintain target utilization at a model number level, and new equipment sales opportunities. In 2019, approximately 17% of the electronic test equipment revenues were derived from sales. The largest electronic test equipment sale during 2019 represented less than 4% of electronic test equipment sales, 1% of the Company's consolidated sales and less than 1% of consolidated revenues. There is intense competition in the sales of electronic test equipment from a world-wide network of test equipment brokers and resellers, legacy rental companies, and equipment manufacturers. We believe the annual world-wide sale of electronic test equipment is in excess of \$8.0 billion per year.

Seasonality

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 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 factors may impact the quarterly results of each year's first and fourth quarter.

Competition

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. TRS-RenTelco competes with these and other test equipment rental companies on the basis of product availability, price, service and reliability. Although no single competitor holds a dominant market share, we face intense competition from these established entities and new entrants in the market. Some of our competitors may offer similar equipment for lease, rental or sales at lower prices and may offer more extensive servicing, or financing options.

Description

Adler Tanks' rental inventory is comprised of tanks and boxes used for various containment solutions to store hazardous and non-hazardous liquids and solids in applications such as: 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. The tanks and boxes are comprised of the following products:

- fixed axle steel tanks ("tanks") for the storage of groundwater, wastewater, volatile organic liquids, sewage, slurry and bio sludge, oil and water mixtures and chemicals, which are available in a variety of sizes including 21,000 gallon, 16,000 gallon and 8,000 gallon sizes;
- vacuum containers ("boxes"), which provide secure containment of sludge and solid materials and may be used for additional on-site storage or for transporting materials off-site enabling vacuum trucks to remain in operation;
- dewatering boxes for the separation of water contained in sludge and slurry; and
- roll-off and trash boxes for the temporary storage and transport of solid waste.

Adler Tanks purchases tanks and boxes from various manufacturers located throughout the country.

Competitive Strengths

Market Leadership - The Company believes that Adler Tanks is one of the largest participants in the liquid and solid containment tanks and boxes rental business in North America. Adler Tanks has national reach from branches serving the Northeast, Mid-Atlantic, Midwest, Southeast, Southwest and West.

Expertise and Customer Service - The Company believes that Adler Tanks has highly experienced operating management and branch employees. Adler Tanks employees are knowledgeable about the operation of its rental equipment and customer applications. The Company believes that Adler Tanks provides a superior level of customer service due to its strong relationship building skills and the quality of its responsiveness.

Asset Management - The Company believes that Adler Tanks markets a high quality, well-constructed and well-maintained rental product. The Company depreciates its tanks and boxes over a 20 year estimated useful life to 0% residual value. We believe that if maintained, older tanks and boxes will continue to produce similar rental rates as newer equipment. The fleet's utilization is regionally optimized by understanding key vertical market customer demand, seasonality factors, competitor's product availability, expected equipment returns and manufacturer's production capacity.

Market

Liquid and solid containment equipment rental is a market in the U.S with a large and diverse number of market segments 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, electrical grid transformer maintenance, tank terminals services, wastewater treatment, and waste management and landfill services.

The tank and box rental products may be utilized throughout the U.S. and are not subject to any local or regional construction code or approval standards.

Rentals

Adler Tanks rents tanks and boxes typically for rental periods of one to six months, although in some instances, rental terms can be up to a year or longer. Monthly rental rates typically are between 2% and 10% of the equipment's original acquisition cost. At December 31, 2019, Adler Tanks had rental equipment inventory including accessories with an aggregate cost of \$316.3 million. Utilization is calculated each month by dividing the cost of the rental equipment on rent by the total cost of rental equipment, excluding accessory equipment. Utilization was 48.4% at December 31, 2019 and averaged 54.7% during the year.

Seasonality

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 due to inclement weather in certain regions of the country impacting the industries that we serve.

Competition

The liquid and solid containment rental industry is highly competitive including national, regional and local companies. Some of our national competitors, notably United Rentals (acquired BakerCorp in July 2018), Rain For Rent and Mobile Mini, may be larger than we are and may have greater financial and other 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 and retain customers and provide their products and services at lower rental rates. Adler Tanks competes with these companies based upon product availability, product quality, price, service and reliability. We may encounter increased competition in the markets that we serve from existing competitors or from new market entrants in the future.

REPORTABLE SEGMENTS

For segment information regarding the Company's four reportable business segments: Mobile Modular, TRS-RenTelco, Adler Tanks and Enviroplex, see "Note 12. Segment Reporting" to the audited consolidated financial statements of the Company included in "Item 8. Financial Statements and Supplementary Data."

PRODUCT HIGHLIGHTS

The following table shows the revenue components, percentage of rental and total revenues, rental equipment (at cost), rental equipment (net book value), number of relocatable modular units, year-end and average utilization, average rental equipment (at cost), annual yield on average rental equipment (at cost) and gross margin on rental revenues and sales by product line for the past five years.

Product Highlights

<i>(dollar amounts in thousands)</i>	Year Ended December 31,				
	2019	2018	2017	2016	2015
Relocatable Modular Buildings <i>(operating under Mobile Modular and Enviroplex)</i>					
Revenues					
Rental	\$ 182,316	\$ 159,136	\$ 142,584	\$ 130,496	\$ 115,986
Rental related services	69,395	54,696	50,448	49,206	45,616
Total Modular rental operations	251,711	213,832	193,032	179,702	161,602
Sales — Mobile Modular	47,043	39,467	37,435	29,393	22,248
Sales — Enviroplex	39,814	29,046	31,369	22,121	10,612
Total Modular sales	86,857	68,513	68,804	51,514	32,860
Other	2,256	1,275	799	417	434
Total Modular revenues	\$ 340,824	\$ 283,620	\$ 262,635	\$ 231,633	\$ 194,896
Percentage of rental revenues	51.5%	49.9%	49.3%	48.1%	42.4%
Percentage of total revenues	59.8%	56.9%	56.8%	54.6%	48.2%
Rental equipment, at cost (year-end)	\$ 868,807	\$ 817,375	\$ 775,400	\$ 769,190	\$ 736,875
Rental equipment, net book value (year-end)	\$ 610,048	\$ 572,032	\$ 543,857	\$ 544,421	\$ 529,483
Number of units (year-end)	56,207	53,035	52,188	50,577	47,995
Utilization (year-end) ¹	79.1%	79.3%	77.8%	77.3%	76.9%
Average utilization ¹	79.2%	78.2%	76.8%	76.6%	75.8%
Average rental equipment, at cost ²	\$ 795,250	\$ 756,513	\$ 747,478	\$ 724,333	\$ 667,953
Annual yield on average rental equipment, at cost ⁴	22.9%	21.0%	19.1%	18.0%	17.4%
Gross margin on rental revenues	59.8%	59.8%	56.1%	56.6%	53.4%
Gross margin on sales	33.9%	30.7%	28.0%	29.0%	26.5%
Electronic Test Equipment <i>(operating under TRS-RenTelco)</i>					
Revenues					
Rental	\$ 103,704	\$ 89,937	\$ 82,812	\$ 82,307	\$ 89,208
Rental related services	3,260	3,300	2,858	2,846	3,055
Total Electronics rental operations	106,964	93,237	85,670	85,153	92,263
Sales	22,106	23,061	20,334	21,582	21,137
Other	2,413	2,359	2,040	1,882	1,617
Total Electronics revenues	\$ 131,483	\$ 118,657	\$ 108,044	\$ 108,617	\$ 115,017
Percentage of rental revenues	29.3%	28.2%	28.6%	30.3%	32.6%
Percentage of total revenues	23.1%	23.8%	23.4%	25.6%	28.4%
Rental equipment, at cost (year-end)	\$ 335,343	\$ 285,052	\$ 262,325	\$ 246,325	\$ 262,945
Rental equipment, net book value (year-end)	\$ 172,413	\$ 131,450	\$ 109,482	\$ 90,172	\$ 102,191
Utilization (year-end) ¹	64.5%	62.1%	61.7%	61.0%	58.7%
Average utilization ¹	66.2%	62.7%	62.9%	60.6%	60.5%
Average rental equipment, at cost ³	\$ 306,426	\$ 275,891	\$ 252,332	\$ 254,019	\$ 265,832
Annual yield on average rental equipment, at cost ⁴	33.8%	32.6%	32.8%	32.4%	33.6%
Gross margin on rental revenues	43.8%	43.6%	44.0%	39.8%	39.9%
Gross margin on sales	56.2%	54.6%	56.9%	50.9%	48.6%

(dollar amounts in thousands)

	Year Ended December 31,				
	2019	2018	2017	2016	2015
Liquid and Solid Containment Tanks and Boxes					
<i>(operating under Adler Tanks)</i>					
Revenues					
Rental	\$ 67,869	\$ 69,701	\$ 64,021	\$ 58,585	\$ 68,502
Rental related services	28,383	24,911	24,762	23,807	24,643
Total Tanks and Boxes rental operations	96,252	94,612	88,783	82,392	93,145
Sales	1,266	1,044	2,362	1,314	1,388
Other	405	397	210	124	98
Total Tanks and Boxes revenues	\$ 97,923	\$ 96,053	\$ 91,355	\$ 83,830	\$ 94,631
Percentage of rental revenues	19.2%	21.9%	22.1%	21.6%	25.0%
Percentage of total revenues	17.2%	19.3%	19.8%	19.8%	23.4%
Rental equipment, at cost (year-end)	\$ 316,261	\$ 313,573	\$ 309,808	\$ 308,542	\$ 310,263
Rental equipment, net book value (year-end)	\$ 185,039	\$ 197,533	\$ 208,981	\$ 221,778	\$ 237,927
Utilization (year-end) ¹	48.4%	56.4%	57.5%	50.7%	49.7%
Average utilization ¹	54.7%	59.9%	56.0%	50.1%	58.3%
Average rental equipment, at cost ²	\$ 313,810	\$ 310,401	\$ 307,558	\$ 307,416	\$ 304,001
Annual yield on average rental equipment, at cost ⁴	21.6%	22.4%	20.8%	19.1%	22.5%
Gross margin on rental revenues	58.3%	61.1%	58.7%	55.5%	61.9%
Gross margin on sales	25.1%	3.7%	15.2%	(2.1)%	(25.1)%
Total revenues	\$ 570,230	\$ 498,330	\$ 462,034	\$ 424,080	\$ 404,544

1 Utilization is calculated each month by dividing the cost of rental equipment on rent by the total cost of rental equipment. Average utilization is calculated using the average cost of equipment for the year.

2 Average rental equipment, at cost for modulars and tanks and boxes excludes new equipment inventory and accessory equipment.

3 Average rental equipment, at cost, for electronics excludes accessory equipment.

4 Annual yield on average rental equipment, at cost is calculated by dividing the total annual rental revenues by the average rental equipment, at cost.

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.

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

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

- general economic conditions in the geographies and industries where we rent and sell our products;
- legislative and educational policies where we rent and sell our products;
- the budgetary constraints of our customers;
- seasonality of our rental businesses and our end-markets;
- success of our strategic growth initiatives;
- costs associated with the launching or integration of new or acquired businesses;
- the timing and type of equipment purchases, rentals and sales;
- the nature and duration of the equipment needs of our customers;
- the timing of new product introductions by us, our suppliers and our competitors;
- the volume, timing and mix of maintenance and repair work on our rental equipment;
- 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, the industries in which we operate or the global financial markets;
- investors' reaction to our press releases, public announcements or filings with the SEC;
- the stock price performance of our competitors or other comparable companies;
- any changes in research analysts' coverage, recommendations or earnings estimates for us or for the stocks of other companies in our industry;

- any sales of common stock by our directors, executive officers and our other large shareholders, particularly in light of the limited trading volume of our stock;
- any merger and acquisition activity that involves us or our competitors; and
- other announcements or developments affecting us, our industry, customers, suppliers or competitors.

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

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

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

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

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

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 December 31, 2019, we had \$35.5 million of goodwill and intangible assets, net, on our consolidated balance sheets. Goodwill represents the excess of cost over the fair value of net assets acquired in business combinations. Under accounting principles generally accepted in the United States of America, we assess potential impairment of our goodwill and intangible assets at least annually, as well as on an interim basis to the extent that factors or indicators become apparent that could reduce the fair value of any of our businesses below book value. Impairment may result from significant changes in the manner of use of the acquired asset, negative industry or economic trends and significant underperformance relative to historic or projected operating results.

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

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

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

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

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

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

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

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

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

We are subject to national, state, provincial and local environmental laws and regulations concerning, among other things, solid and liquid waste and hazardous substances handling, storage and disposal and employee health and safety. These laws and regulations are complex and frequently change. We could incur unexpected costs, penalties and other civil and criminal liability if we fail to comply with applicable environmental or health and safety laws. We also could incur costs or liabilities related to waste disposal or remediating soil or groundwater contamination at our properties, at our customers' properties or at third party landfill and disposal sites. These liabilities can be imposed on the parties generating, transporting or disposing of such substances or on the owner or operator of any affected property, often without regard to whether the owner or operator knew of, or was responsible for, the presence of hazardous substances.

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

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

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

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

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

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

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

Our facilities, rental equipment and distribution systems may be subject to catastrophic loss due to fire, flood, hurricane, earthquake, terrorism or other natural or man-made disasters. In particular, our headquarters, three operating facilities, and certain of our rental equipment are located in areas of California, with above average seismic activity and could be subject to catastrophic loss caused by an earthquake. Our rental equipment and facilities in Texas, Louisiana, Florida, North Carolina and Georgia are located in areas subject to hurricanes and other tropical storms. In addition to customers' insurance on rented equipment, we carry property insurance on our rental equipment in inventory and operating facilities as well as business interruption insurance. We believe our insurance policies have adequate limits and deductibles to mitigate the potential loss exposure of our business. We do not maintain financial reserves for policy deductibles and our insurance policies contain exclusions that are customary for our industry, including exclusions for earthquakes, flood and terrorism. If any of our facilities or a significant amount of our rental equipment were to experience a catastrophic loss, it could disrupt our operations, delay orders, shipments and revenue recognition and result in expenses to repair or replace the damaged rental equipment and facility not covered by insurance, which could have a material adverse effect on our results of operations.

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 \$1.9 million per year for each 1% increase in the average interest rate we pay based on the \$193.4 million balance of variable rate debt outstanding at December 31, 2019. 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 the most recent economic recession, many states and local governments experienced large budget deficits resulting in severe budgetary constraints among public school districts. To the extent public school districts' funding is reduced for the rental and purchase of modular buildings, our business could be harmed and our results of operations negatively impacted. We believe that interruptions or delays in the passage of facility bond measures or completion of state budgets, an insufficient amount of state funding, a significant reduction of funding to public schools, or changes negatively impacting enrollment may reduce the rental and sale demand for our educational products. Any reductions in funding available to the school districts from the states in which we do business may cause school districts to experience budget shortfalls and to reduce their demand for our products despite growing student populations, class size reduction initiatives and modernization and reconstruction project needs, which could reduce our revenues and operating income and consequently have a material adverse effect on the Company's financial condition.

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

Various states that we operate enacted laws and constitutional amendments to provide funding for school districts to limit the number of students that may be grouped in a single classroom. School districts with class sizes in excess of state limits have been and continue to be a significant source of our demand for modular classrooms. In California, efforts to address aging infrastructure and deferred maintenance have resulted in modernization and reconstruction projects by public school districts including seismic retrofitting, asbestos abatement and various building repairs and upgrades, which has been another source of demand for our modular classrooms. The most recent economic recession caused state and local budget shortfalls, which reduced school districts' funding and their ability to comply with state class size reduction requirements. If educational priorities and policies shift away from class-size

reduction or modernization and reconstruction projects, demand and pricing for our products and services may decline, not grow as quickly as, or not reach the levels that we anticipate. Significant equipment returns may result in lower utilization until equipment can be redeployed or sold, which may cause rental rates to decline and negatively affect our revenues and operating income.

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

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

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

Building codes are generally reviewed every three years. All aspects of a given code are subject to change including, but not limited to, such items as structural specifications for earthquake safety, energy efficiency and environmental standards, fire and life safety, transportation, lighting and noise limits. 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 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 December 31, 2019, 63% 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.

The impact of the coronavirus on our operations, and the operations of our customers, suppliers and logistics providers, may harm our business.

We are monitoring the potential impact of the coronavirus outbreak in China. This includes evaluating the impact on our customers, suppliers, and logistics providers as well as evaluating governmental actions being taken to curtail the spread of the virus. The significance of the impact on us is yet uncertain; however, a material adverse effect on our customers, suppliers, or logistics providers could impact our operating results.

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, 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 twelve months ended December 31, 2019, oil and gas exploration and production accounted for approximately 10% of Adler Tanks' rental revenues, and approximately 2% 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 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES.

The Company's corporate and administrative offices are located in Livermore, California in approximately 26,000 square feet. The Company's four reportable business segments currently conduct operations from the following locations:

Mobile Modular – Five inventory centers, at which relocatable modular buildings and storage containers are displayed, refurbished and stored are located in Livermore, California (137 acres in the San Francisco Bay Area), Mira Loma, California (79 acres in the Los Angeles area), Pasadena, Texas (50 acres in the Houston area), in Grand Prairie, Texas (43 acres in Dallas area), Auburndale, Florida (123 acres in the Orlando area) and Arcade, Georgia (48 acres in the Atlanta area). The inventory centers conduct rental and sales operations from modular buildings, serving as working models of the Company's modular product. The Company also has a leased modular sales office in Charlotte, North Carolina from which the states of North Carolina, South Carolina, Virginia and Maryland are served.

TRS-RenTelco – Electronic test equipment rental and sales operations are conducted from a 117,000 square foot leased facility in Grapevine, Texas (Dallas area) and a sales office in Dollard-des-Ormeaux, Quebec (Montreal, Canada area).

Adler Tanks – Adler Tanks operates from branch offices serving the Northeast, Mid-Atlantic, Midwest, Southeast, Southwest and West. A number of our branch offices are leased and have remaining lease terms of one to three years, or are leased on a month to month basis. We believe satisfactory alternative properties can be found in all of our markets if we do not renew our existing leased properties.

Enviroplex – The Company's wholly owned subsidiary, Enviroplex, manufactures modular buildings used primarily as classrooms in California from its 108,000 square foot facility in Stockton, California (San Francisco Bay Area).

ITEM 3. LEGAL PROCEEDINGS.

The Company is involved in various lawsuits and routine claims arising out of the normal course of its business. The Company maintains insurance coverage for its operations and employees with appropriate aggregate, per occurrence and deductible limits as the

Company reasonably determines necessary or prudent with current operations and historical experience. The major policies include coverage for property, general liability, auto, directors and officers, health, and workers' compensation insurances. In the opinion of management, the ultimate amount of liability not covered by insurance, if any, under any pending litigation and claims, individually or in the aggregate, will not have a material adverse effect on the financial position or operating results of the Company.

ITEM 4. MINE SAFETY DISCLOSURES.

Not Applicable

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

The Company's common stock is traded in the NASDAQ Global Select Market under the symbol "MGRC". As of February 25, 2020, the Company's common stock was held by approximately 40 shareholders of record, which does not include shareholders whose shares are held in street or nominee name. The Company believes that when holders in street or nominee name are added, the number of holders of the Company's common stock exceeds 500.

Stock Repurchase Plan

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 2,000,000 shares of the Company's outstanding common stock. 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 program may be modified, extended or terminated by the board of directors at any time. There were no repurchases of common stock during the twelve months ended December 31, 2019 and 2018. As of December 31 2019, 1,592,026 shares remain authorized for repurchase.

ITEM 6. SELECTED FINANCIAL DATA.

The following table summarizes the Company's selected financial data for the five years ended December 31, 2019 and should be read in conjunction with the detailed audited consolidated financial statements and related notes included in "Item 8. Financial Statements and Supplementary Data" and "Item 7. Management's Discussion and Analysis of Financial Condition and Result of Operations".

Selected Consolidated Financial Data

<i>(in thousands, except per share data)</i>	Year Ended December 31,				
	2019	2018	2017	2016	2015
Operations Data					
Revenues					
Rental	\$ 353,889	\$ 318,774	\$ 289,417	\$ 271,388	\$ 273,696
Rental related services	101,038	82,907	78,068	75,859	73,314
Rental operations	454,927	401,681	367,485	347,247	347,010
Sales	110,229	92,618	91,500	74,410	55,385
Other	5,074	4,031	3,049	2,423	2,149
Total revenues	570,230	498,330	462,034	424,080	404,544
Costs and expenses					
Direct costs of rental operations					
Depreciation of rental equipment	80,391	73,139	69,908	72,197	75,213
Rental related services	76,241	64,298	60,029	59,044	57,144
Other	79,365	68,678	65,472	60,130	58,511
Total direct costs of rental operations	235,997	206,115	195,409	191,371	190,868
Costs of sales	68,068	58,964	60,280	48,542	36,769
Total costs of revenues	304,065	265,079	255,689	239,913	227,637
Gross profit	266,165	233,251	206,345	184,167	176,907
Selling and administrative expenses	124,793	115,770	111,605	104,908	99,950
Income from operations	141,372	117,481	94,740	79,259	76,957
Other income (expense):					
Interest expense	(12,331)	(12,297)	(11,622)	(12,207)	(10,092)
Foreign currency exchange gain (loss)	84	(489)	334	(121)	(488)
Income before provision (benefit) for income taxes	129,125	104,695	83,452	66,931	66,377
Provision (benefit) for income taxes	32,319	25,289	(70,468)	28,680	25,907
Net income	\$ 96,806	\$ 79,406	\$ 153,920	\$ 38,251	\$ 40,470
Earnings per share:					
Basic	\$ 3.99	\$ 3.29	\$ 6.41	\$ 1.60	\$ 1.60
Diluted	\$ 3.93	\$ 3.24	\$ 6.34	\$ 1.60	\$ 1.59
Shares used in per share calculations:					
Basic	24,250	24,141	23,999	23,900	25,369
Diluted	24,623	24,540	24,269	23,976	25,457
Balance Sheet Data (at period end)					
Rental equipment, at cost	\$ 1,520,411	\$ 1,416,000	\$ 1,347,533	\$ 1,324,057	\$ 1,310,083
Rental equipment, net	\$ 967,500	\$ 901,015	\$ 862,320	\$ 856,371	\$ 869,601
Total assets	\$ 1,309,875	\$ 1,217,316	\$ 1,147,854	\$ 1,128,276	\$ 1,152,709
Notes payable	\$ 293,431	\$ 298,564	\$ 303,414	\$ 326,266	\$ 381,281
Shareholders' equity	\$ 634,036	\$ 571,535	\$ 524,184	\$ 394,287	\$ 379,687
Shares issued and outstanding	24,296	24,182	24,052	23,948	23,851
Book value per share	\$ 26.10	\$ 23.63	\$ 21.79	\$ 16.46	\$ 15.92
Total liabilities to equity	1.07	1.13	1.19	1.86	2.04
Debt (notes payable) to equity	0.46	0.52	0.58	0.83	1.00
Return on average equity	16.1%	14.6%	37.1%	9.8%	9.8%
Cash dividends declared per common share	\$ 1.50	\$ 1.36	\$ 1.04	\$ 1.02	\$ 1.00

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, non-cash impairment costs 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

	Year Ended December 31,				
	2019	2018	2017	2016	2015
Net income	\$ 96,806	\$ 79,406	\$ 153,920	\$ 38,251	\$ 40,470
Provision (benefit) for income taxes	32,319	25,289	(70,468)	28,680	25,907
Interest expense	12,331	12,297	11,622	12,207	10,092
Depreciation and amortization	89,476	81,975	78,416	81,179	84,280
EBITDA	230,932	198,967	173,490	160,317	160,749
Impairment of rental assets	—	39	1,639	—	—
Share-based compensation	5,892	4,111	3,198	3,091	3,399
Adjusted EBITDA ¹	\$ 236,824	\$ 203,117	\$ 178,327	\$ 163,408	\$ 164,148
Adjusted EBITDA margin ²	42%	41%	39%	39%	41%

Reconciliation of Adjusted EBITDA to Net Cash Provided by Operating Activities

(dollar amounts in thousands)

	Year Ended December 31,				
	2019	2018	2017	2016	2015
Adjusted EBITDA ¹	\$ 236,824	\$ 203,117	\$ 178,327	\$ 163,408	\$ 164,148
Interest paid	(12,475)	(12,598)	(11,825)	(12,436)	(10,041)
Income taxes paid, net of refunds received	(17,528)	(18,157)	(29,504)	(15,555)	(2,498)
Gain on sale of used rental equipment	(21,309)	(19,559)	(17,733)	(13,739)	(11,902)
Foreign currency exchange (gain) loss	(84)	489	(334)	121	488
Amortization of debt issuance cost	11	20	50	51	52
Change in certain assets and liabilities:					
Accounts receivable, net	(6,310)	(15,144)	(8,995)	(1,860)	5,777
Income taxes receivable	—	—	—	11,000	(11,000)
Prepaid expenses and other assets	(13,530)	(9,351)	3,124	1,949	12,910
Accounts payable and other liabilities	17,257	3,592	7,559	7,220	(10,531)
Deferred income	5,138	10,258	1,720	536	7,149
Net cash provided by operating activities	\$ 187,994	\$ 142,667	\$ 122,389	\$ 140,695	\$ 144,552

- 1 Adjusted EBITDA is defined as net income before interest expense, provision for income taxes, depreciation, amortization, non-cash impairment costs 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, Series B Senior Notes 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"). 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 "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation - 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 December 31, 2019, the actual ratio was 4.27 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 December 31, 2019, the actual ratio was 1.24 to 1.

At December 31, 2019, the Company was in compliance with each of these aforementioned covenants. There are no anticipated trends that the Company is aware of that would indicate non-compliance with these covenants, though, significant deterioration in our financial performance could impact the Company's ability to comply with these covenants.

ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements that involve risks and uncertainties. The Company’s actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth in this section as well as those discussed under Part I, “Item 1A. Risk Factors” and elsewhere in this document. This discussion should be read together with the financial statements and the related notes thereto set forth in “Item 8. Financial Statements and Supplementary Data.”

Results of Operations

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 rental 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”). In 2019, Mobile Modular, TRS-RenTelco, Adler Tanks and Enviroplex contributed 54%, 27%, 11% and 8%, respectively, of the Company’s income before provision for taxes (the equivalent of “pre-tax income”), compared to 53%, 28%, 14% and 5%, respectively, for 2018.

The Company generates its revenues primarily from the rental of its equipment on operating leases with 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 revenue and certain other service revenues negotiated as part of the lease agreements with customers and related costs are recognized on a straight-line basis over the terms of the lease. Sales revenue and related costs are recognized upon delivery and installation of the equipment to the customers. Sales revenues are less predictable and can fluctuate from period to period depending on customer demands and requirements. Generally, rental revenues less cash operating costs recover the equipment’s capitalized cost in a shorter 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 rental operations include rental and rental related services revenues which comprised approximately 80% of the Company’s total revenues in 2019 and for the three years ended December 31, 2019. Over the past three years, modulares, electronic test equipment and tanks and boxes comprised approximately 54%, 23% and 23%, respectively, of the cumulative rental operations revenues. The Company’s direct costs of rental operations include depreciation of rental equipment, rental related service costs, impairment of rental equipment, and other direct costs of rental operations (which include direct labor, supplies, repairs, insurance, property taxes, license fees and amortization of certain lease costs).

The Company sells modular, electronic test equipment and liquid and solid containment tanks and boxes that are new, or previously rented. The Company’s Enviroplex subsidiary manufactures and sells modular classrooms. The renting and selling of some modular equipment requires a dealer’s license, which the Company has obtained from the appropriate governmental agencies. Sales and other revenues of modulares, electronic test equipment and tanks and boxes have comprised approximately 20% of the Company’s consolidated revenues in 2019 and for the three years ended December 31, 2019. Over the past three years, modulares, electronic test equipment and tanks and boxes comprised approximately 74%, 24% and 2% of sales and other revenues, respectively. The Company’s cost of sales includes the carrying value of the equipment sold and the direct costs associated with the equipment sold such as delivery, installation, modifications and related site work.

The rental and sale of modulares to public school districts comprised 25%, 24% and 26% of the Company’s consolidated rental and sales revenues for 2019, 2018 and 2017, respectively. (For more information, see “Item 1. Business – Relocatable Modular Buildings – Classroom Rentals and Sales to Public Schools (K-12)” above.)

Selling and administrative expenses primarily include personnel and benefit costs, which includes share-based compensation, depreciation and amortization of property, plant and equipment and intangible assets, 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 assurance as to the Company’s ability to maintain a large installed customer base or ability to sustain its historical operating margins.

Recent Developments

In February 2020, the Company announced that its board of directors declared a cash dividend of \$0.42 per common share for the quarter ending March 31, 2020, an increase of 12% over the prior year's comparable quarter.

Percentage of Revenue Table

The following table sets forth for the periods indicated the results of operations as a percentage of the Company's total revenues and the percentage of changes in the amount of such of items as compared to the amount in the indicated prior period:

	Percent of Total Revenues				Percent Change	
	Three Years 2019–2017	2019	Year Ended December 31, 2018	2017	2019 over 2018	2018 over 2017
Revenues						
Rental	63%	62%	64%	63%	11%	10%
Rental related services	17	18	17	17	22	6
Rental operations	80	80	81	80	13	9
Sales	19	19	19	20	19	1
Other	1	1	—	—	26	32
Total revenues	100	100	100	100	14	8
Costs and expenses						
Direct costs of rental operations						
Depreciation of rental equipment	15	14	15	15	10	5
Rental related services	13	13	13	13	19	7
Other	14	14	14	14	16	5
Total direct costs of rental operations	42	41	42	42	14	5
Cost of sales	12	12	11	13	15	(2)
Total costs	54	53	53	55	15	4
Gross profit	46	47	47	45	14	13
Selling and administrative expenses	23	22	23	24	8	4
Income from operations	23	25	24	21	20	24
Other income (expense):						
Interest expense	2	2	3	3	0	6
Foreign currency exchange gain (loss)	—	—	—	—	<i>nm</i>	<i>nm</i>
Income before (benefit) provision for income taxes	21	23	21	18	23	25
Provision (benefit) for income taxes	(1)	6	5	(15)	28	<i>nm</i>
Net income	22%	17%	16%	33%	22%	(49)%

nm = not meaningful

**Twelve Months Ended December 31, 2019 Compared to
Twelve Months Ended December 31, 2018**

Overview

Consolidated revenues in 2019 increased 14%, to \$570.2 million from \$498.3 million in 2018. Consolidated net income in 2019 increased to \$96.8 million, or \$3.93 per diluted share in 2019, compared to \$79.4 million, or \$3.24 per diluted share, in 2018. The Company's year over year total revenue increase was primarily due to higher rental, rental related services and sales revenues as more fully described below.

For 2019 compared to 2018, on a consolidated basis:

- Gross profit increased \$32.9 million, or 14%, to \$266.2 million. Mobile Modular's gross profit increased \$22.9 million, or 19%, due to higher gross profit on rental, rental related services and sales revenues. TRS-RenTelco's gross profit increased \$6.0 million, or 11%, primarily due to higher gross profit on rental revenues. Enviroplex's gross profit increased \$5.0 million, or 53%, due to \$10.8 million higher sales revenues and higher gross margins of 37.1% compared to 33.3% in 2018. Adler Tanks' gross profit decreased \$1.0 million, or 2%, due to lower gross profit on rental revenues, partly offset by higher gross profit on rental related services and sales revenues.
- Selling and administrative expenses increased \$9.0 million, or 8%, to \$124.8 million, primarily due to increased salaries and employee benefit costs.
- Interest expense was flat at \$12.3 million, as 3% higher net average interest rate was offset by 3% lower average debt levels of the Company.
- Pre-tax income contribution was 54%, 27% and 11% by Mobile Modular, TRS-RenTelco and Adler Tanks, respectively, in 2019, compared to 53%, 28% and 14%, respectively, in 2018. These results are discussed on a segment basis below. Pre-tax income contribution by Enviroplex was 8% and 5% in 2019 and 2018, respectively.
- The provision for income taxes resulted in an effective tax rate of 25.0% and 24.2% for the twelve months ended December 31, 2019 and 2018, respectively.
- Adjusted EBITDA increased \$33.7 million, or 17%, to \$236.8 million in 2019. Adjusted EBITDA is a non-GAAP financial measure and is defined as net income before interest expense, provision for income taxes, depreciation, amortization, non-cash impairment costs and share-based compensation. A reconciliation of Adjusted EBITDA to net cash provided by operating activities and net income to Adjusted EBITDA can be found in "Item 6. Selected Financial Data." on page 30.

Mobile Modular

For 2019, Mobile Modular's total revenues increased \$46.4 million, or 18%, to \$301.0 million compared to 2018, primarily due to higher rental, rental related services and sales revenues. The revenue increase, together with higher gross profit on rental, rental related services and sales revenues, partly offset by higher selling and administrative expenses, resulted in an increase in pre-tax income of \$14.4 million, or 26%, to \$70.0 million in 2019.

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

Mobile Modular – 2019 compared to 2018

	Year Ended December 31,		Increase (Decrease)	
	2019	2018	\$	%
Revenues				
Rental	\$ 182,316	\$ 159,136	\$ 23,180	15%
Rental related services	69,395	54,696	14,699	27%
Rental operations	251,711	213,832	37,879	18%
Sales	47,043	39,467	7,576	19%
Other	2,256	1,275	981	77%
Total revenues	301,010	254,574	46,436	18%
Costs and Expenses				
Direct costs of rental operations:				
Depreciation of rental equipment	22,071	21,200	871	4%
Rental related services	51,787	41,701	10,086	24%
Other	51,136	42,812	8,324	19%
Total direct costs of rental operations	124,994	105,713	19,281	18%
Costs of sales	32,398	28,111	4,287	15%
Total costs of revenues	157,392	133,824	23,568	18%
Gross Profit				
Rental	109,109	95,123	13,986	15%
Rental related services	17,608	12,995	4,613	35%
Rental operations	126,717	108,118	18,599	17%
Sales	14,645	11,357	3,288	29%
Other	2,256	1,275	981	77%
Total gross profit	143,618	120,750	22,868	19%
Selling and administrative expenses	65,699	58,017	7,682	13%
Income from operations	77,919	62,733	15,186	24%
Interest expense allocation	(7,946)	(7,132)	814	11%
Pre-tax income	\$ 69,973	\$ 55,601	\$ 14,372	26%
Other Selected Information				
Average rental equipment ¹	\$ 795,250	\$ 756,513	\$ 38,737	5%
Average rental equipment on rent	\$ 629,459	\$ 591,236	\$ 38,223	6%
Average monthly total yield ²	1.90%	1.75%		9%
Average utilization ³	79.2%	78.20%		1%
Average monthly rental rate ⁴	2.41%	2.24%		8%
Period end rental equipment ¹	\$ 814,367	\$ 775,492	\$ 38,875	5%
Period end utilization ³	79.1%	79.3%		0%

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 the 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 2019 increased \$22.9 million, or 19%, to \$143.6 million. For the year ended December 31, 2019 compared to the year ended December 31, 2018:

- **Gross Profit on Rental Revenues** – Rental revenues increased \$23.2 million, or 15%, due to 6% higher average rental equipment on rent and 8% higher average monthly rental rates. As a percentage of rental revenues, depreciation was 12% in 2019 compared to 13% in 2018 and other direct costs were 28% in 2019 and 27% in 2018, which resulted in gross margin percentage of 60% in 2019 and 2018. The higher rental revenues and comparable rental margins resulted in gross profit on rental revenues increasing \$14.0 million, or 15%, to \$109.1 million in 2019.
- **Gross Profit on Rental Related Services** – Rental related services revenues increased \$14.7 million, or 27%, compared to 2018. Most of these service revenues are negotiated with the initial lease and are recognized on a straight-line basis with the associated costs over the initial term of the lease. The increase in rental related services revenues was primarily attributable to higher amortization of modular building delivery and return delivery and dismantle revenues and increased services performed during the lease. The higher revenues and higher gross margin percentage of 25% in 2019 compared to 24% in 2018 resulted in rental related services gross profit increasing \$4.6 million, or 35%, to \$17.6 million in 2019.
- **Gross Profit on Sales** – Sales revenues increased \$7.6 million, or 19%, primarily due to higher new and used equipment sales. The higher sales revenues, together with higher gross margins of 31% in 2019 compared to 29% in 2018, resulted in sales gross profit increasing \$3.3 million, or 29%, to \$14.6 million in 2019. Sales occur routinely as a normal part of Mobile Modular's rental business; however, these sales can fluctuate from period to period depending on customer requirements, equipment availability and funding.

For 2019, Mobile Modular's selling and administrative expenses increased \$7.7 million, or 13%, to \$65.7 million, primarily due to increased employee headcount, salaries and benefit costs and higher allocated corporate expenses.

TRS-RenTelco

For 2019, TRS-RenTelco's total revenues increased \$12.8 million, or 11%, to \$131.5 million compared to 2018, primarily due to higher rental revenues, partly offset by lower sales revenues. Pre-tax income increased \$5.5 million, or 19%, to \$34.2 million for 2019, primarily due to higher gross profit on rental revenues, partly offset by higher selling and administrative expenses.

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

TRS-RenTelco – 2019 compared to 2018

	Year Ended December 31,		Increase (Decrease)	
	2019	2018	\$	%
<i>(dollar amounts in thousands)</i>				
Revenues				
Rental	\$ 103,704	\$ 89,937	\$ 13,767	15%
Rental related services	3,260	3,300	(40)	(1)%
Rental operations	106,964	93,237	13,727	15%
Sales	22,106	23,061	(955)	(4)%
Other	2,413	2,359	54	2%
Total revenues	131,483	118,657	12,826	11%
Costs and Expenses				
Direct costs of rental operations:				
Depreciation of rental equipment	41,948	36,011	5,937	16%
Rental related services	2,791	2,698	93	3%
Other	16,303	14,699	1,604	11%
Total direct costs of rental operations	61,042	53,408	7,634	14%
Costs of sales	9,693	10,476	(783)	(7)%
Total costs of revenues	70,735	63,884	6,851	11%
Gross Profit				
Rental	45,453	39,227	6,226	16%
Rental related services	469	602	(133)	(22)%
Rental operations	45,922	39,829	6,093	15%
Sales	12,413	12,585	(172)	(1)%
Other	2,413	2,359	54	2%
Total gross profit	60,748	54,773	5,975	11%
Selling and administrative expenses	24,645	22,823	1,822	8%
Income from operations	36,103	31,950	4,153	13%
Interest expense allocation	(1,970)	(2,696)	(726)	(27)%
Foreign currency exchange gain (loss)	84	(489)	573	nm
Pre-tax income	\$ 34,217	\$ 28,765	\$ 5,452	19%
Other Selected Information				
Average rental equipment ¹	\$ 306,426	\$ 275,891	\$ 30,535	11%
Average rental equipment on rent	\$ 202,832	\$ 173,019	\$ 29,813	17%
Average monthly total yield ²	2.82%	2.72%		4%
Average utilization ³	66.2%	62.7%		6%
Average monthly rental rate ⁴	4.26%	4.33%		(2)%
Period end rental equipment ¹	\$ 333,613	\$ 283,905	\$ 49,708	18%
Period end utilization ³	64.5%	62.1%		4%

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 the 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 2019 increased \$6.0 million, or 11%, to \$60.7 million. For the year ended December 31, 2019 compared to the year ended December 31, 2018:

- **Gross Profit on Rental Revenues** – Rental revenues increased \$13.8 million, or 15%, to \$103.7 million with depreciation expense increasing \$5.9 million, or 16%, and other direct costs increasing \$1.6 million, or 11%, resulting in an increase in gross profit on rental revenues of \$6.2 million, or 16%, to \$45.5 million in 2019. As a percentage of rental revenues, depreciation was 40% in 2019 and 2018 and other direct costs was 16% in 2019 and 2018, which resulted in gross margin percentage of 44% in 2019 and 2018. The rental revenues increase was due to 17% higher average rental equipment on rent, partly offset by 2% lower average monthly rental rates.
- **Gross Profit on Sales** – Sales revenues decreased \$1.0 million, or 4%, to \$22.1 million in 2019. Gross profit on sales decreased \$0.2 million with gross margin percentage increasing to 56% from 55% in 2018, primarily due to higher gross 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 period to period depending on customer requirements, equipment availability and funding.

For 2019, TRS-RenTelco's selling and administrative expenses increased \$1.8 million, or 8%, to \$24.6 million, primarily due to higher salaries and employee benefit costs and higher allocated corporate expenses.

Adler Tanks

For 2019, Adler Tanks' total revenues increased \$1.9 million, or 2%, to \$97.9 million compared to 2018, primarily due to higher rental related services and sales revenues, partly offset by lower rental revenues. Pre-tax income decreased \$0.5 million, primarily due to lower gross profit on rental revenues, partly offset by higher gross profit on rental related services and lower selling and administrative expenses.

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

Adler Tanks – 2019 compared to 2018

	Year Ended December 31,		Increase (Decrease)	
	2019	2018	\$	%
<i>(dollar amounts in thousands)</i>				
Revenues				
Rental	\$ 67,869	\$ 69,701	\$ (1,832)	(3)%
Rental related services	28,383	24,911	3,472	14%
Rental operations	96,252	94,612	1,640	2%
Sales	1,266	1,044	222	21%
Other	405	397	8	2%
Total revenues	97,923	96,053	1,870	2%
Costs and Expenses				
Direct costs of rental operations:				
Depreciation of rental equipment	16,372	15,928	444	3%
Rental related services	21,663	19,899	1,764	9%
Other	11,926	11,167	759	7%
Total direct costs of rental operations	49,961	46,994	2,967	6%
Costs of sales	948	1,004	(56)	(6)%
Total costs of revenues	50,909	47,998	2,911	6%
Gross Profit				
			-	
Rental	39,571	42,607	(3,036)	(7)%
Rental related services	6,720	5,012	1,708	34%
Rental operations	46,291	47,619	(1,328)	(3)%
Sales	318	39	279	nm
Other	405	397	8	2%
Total gross profit	47,014	48,055	(1,041)	(2)%
Selling and administrative expenses	29,321	30,026	(705)	(2)%
Income from operations	17,693	18,029	(336)	(2)%
Interest expense allocation	(3,436)	(3,252)	184	6%
Pre-tax income	\$ 14,257	\$ 14,777	\$ (520)	(4)%
Other Selected Information				
Average rental equipment ¹	\$ 313,810	\$ 310,401	\$ 3,409	1%
Average rental equipment on rent	\$ 171,664	\$ 185,809	\$ (14,145)	(8)%
Average monthly total yield ²	1.80%	1.87%		(4)%
Average utilization ³	54.7%	59.9%		(9)%
Average monthly rental rate ⁴	3.29%	3.13%		5%
Period end rental equipment ¹	\$ 314,976	\$ 312,186	\$ 2,790	1%
Period end utilization ³	48.4%	56.4%		(14)%

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 the 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 2019 decreased \$1.0 million, or 2%, to \$47.0 million. For the year ended December 31, 2019 compared to year ended December 31, 2018:

- **Gross Profit on Rental Revenues** – Rental revenues decreased \$1.8 million, or 3%, to \$67.9 million, due to 8% lower average rental equipment on rent, partly offset by 5% higher average monthly rental rates in 2019 as compared to 2018. As a percentage of rental revenues, depreciation was 24% and 23% in 2019 and 2018, respectively, and other direct costs were 18% and 16% in 2019 and 2018, respectively, which resulted in gross margin percentages of 58% in 2019 compared to 61% in 2018. The lower rental revenues, together with lower rental margins resulted in gross profit on rental revenues decreasing \$3.0 million, or 7%, to \$39.6 million in 2019.
- **Gross Profit on Rental Related Services** – Rental related services revenues increased \$3.5 million, or 14%, compared to 2018, primarily due to increased cleaning and repair revenues. The higher revenues together with higher gross margin percentage of 24% in 2019 compared to 20% in 2018 resulted in rental related services gross profit increasing \$1.7 million, or 34%, to \$6.7 million in 2019.

For 2019, Adler Tanks' selling and administrative expenses decreased \$0.7 million, or 2%, to \$29.3 million, primarily due to decreased employee headcount, salaries and benefit costs.

Overview

Consolidated revenues in 2018 increased 8%, to \$498.3 million from \$462.0 million in 2017. Consolidated net income in 2018 decreased to \$79.4 million, or \$3.24 per diluted share in 2018, compared to \$153.9 million, or \$6.34 per diluted share, in 2017. 2017 results included an increase to net income of \$102.5 million, or \$4.23 per diluted share, due to the tax benefit associated with the enactment by the U.S. government of the Tax Cuts and Jobs Act of 2017 on December 22, 2017 (the "Tax Act"), which is discussed below. The Company's year over year total revenue increase was primarily due to higher rental and rental related services revenues as more fully described below.

For 2018 compared to 2017, on a consolidated basis:

- Gross profit increased \$26.9 million, or 13%, to \$233.3 million. Mobile Modular's gross profit increased \$16.8 million, or 16%, due to higher gross profit on rental, sales and rental related services revenues. Adler Tanks' gross profit increased \$4.8 million, or 11%, due to higher gross profit on rental revenues, partly offset by lower gross profit on sales and rental related services revenues. TRS-RenTelco's gross profit increased \$4.5 million, or 9%, due to higher gross profit on rental and sales revenues. Enviroplex's gross profit increased \$0.8 million, or 9%, primarily due to higher gross margin on sales revenues.
- Selling and administrative expenses increased \$4.2 million, or 4%, to \$115.8 million, primarily due to increased salaries and employee benefit costs across all divisions.
- Interest expense increased \$0.7 million, or 6%, to \$12.3 million, primarily due to 11% higher net average interest rate, partly offset by 5% lower average debt levels of the Company.
- Pre-tax income contribution was 53%, 28% and 14% by Mobile Modular, TRS-RenTelco and Adler Tanks, respectively, in 2018, compared to 50%, 31% and 13%, respectively, in 2017. These results are discussed on a segment basis below. Pre-tax income contribution by Enviroplex was 5% and 6% in 2018 and 2017, respectively.
- The Tax Act, among other things, reduced the federal income tax rate from 35% to 21% effective January 1, 2018, and required a one-time mandatory repatriation of foreign earnings. As a result of the Tax Act, the Company re-measured its net deferred tax liabilities and recognized a net benefit of \$102.8 million. In addition, a one-time transition income tax estimated at \$0.3 million related to repatriation of foreign earnings was recorded. The provision for income taxes resulted in a tax benefit of 84.4% in 2017 compared to a tax provision of 24.2% in 2018. The tax benefit in 2017 was primarily due to the \$102.5 million net impact of the Tax Act. In addition, in 2018 the Company benefited from the recording of \$2.0 million excess tax benefits relating to stock-based compensation as a reduction to the provision for income taxes compared to \$0.9 million in 2017. These tax benefits, or shortfalls, were recorded in equity prior to 2017.
- Adjusted EBITDA increased \$24.8 million, or 14%, to \$203.1 million compared to \$178.3 million in 2017. Adjusted EBITDA is a non-GAAP financial measure and is defined as net income before interest expense, provision for income taxes, depreciation, amortization, non-cash impairment costs and share-based compensation. A reconciliation of Adjusted EBITDA to net cash provided by operating activities and net income to Adjusted EBITDA can be found in "Item 6. Selected Financial Data." on page 33.

Mobile Modular

For 2018, Mobile Modular's total revenues increased \$23.3 million, or 10%, to \$254.6 million compared to 2017, primarily due to higher rental, rental related services and sales revenues. The revenue increase, together with higher gross profit on rental and sales revenues, partly offset by higher selling and administrative expenses, resulted in an increase in pre-tax income of \$13.9 million, or 33%, to \$55.6 million in 2018.

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

Mobile Modular – 2018 compared to 2017

(dollar amounts in thousands)

	Twelve Months Ended December 31,		Increase (Decrease)	
	2018	2017	\$	%
Revenues				
Rental	\$ 159,136	\$ 142,584	\$ 16,552	12%
Rental related services	54,696	50,448	4,248	8%
Rental operations	213,832	193,032	20,800	11%
Sales	39,467	37,435	2,032	5%
Other	1,275	799	476	60%
Total revenues	254,574	231,266	23,308	10%
Costs and Expenses				
Direct costs of rental operations:				
Depreciation of rental equipment	21,200	21,247	(47)	(0)%
Rental related services	41,701	37,755	3,946	10%
Other	42,812	41,290	1,522	4%
Total direct costs of rental operations	105,713	100,292	5,421	5%
Costs of sales	28,111	27,039	1,072	4%
Total costs of revenues	133,824	127,331	6,493	5%
Gross Profit				
Rental	95,123	80,048	15,075	19%
Rental related services	12,995	12,693	302	2%
Rental operations	108,118	92,741	15,377	17%
Sales	11,357	10,395	962	9%
Other	1,275	799	476	60%
Total gross profit	120,750	103,935	16,815	16%
Selling and administrative expenses	58,017	55,583	2,434	4%
Income from operations	62,733	48,352	14,381	30%
Interest expense allocation	(7,132)	(6,671)	461	7%
Pre-tax income	\$ 55,601	\$ 41,681	\$ 13,920	33%
Other Selected Information				
Average rental equipment ¹	\$ 756,513	\$ 747,478	\$ 9,035	1%
Average rental equipment on rent ¹	\$ 591,236	\$ 574,201	\$ 17,035	3%
Average monthly total yield ²	1.75%	1.59%		10%
Average utilization ³	78.2%	76.8%		2%
Average monthly rental rate ⁴	2.24%	2.07%		8%
Period end rental equipment ¹	\$ 775,492	\$ 746,852	\$ 28,640	4%
Period end utilization ³	79.3%	77.8%		2%

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

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

³ Period end utilization is calculated by dividing the cost of rental equipment on rent by the total cost of rental equipment excluding new equipment inventory and accessory equipment. Average utilization for the period is calculated using the average month end costs of the 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 2018 increased 16% to \$120.8 million from \$103.9 million in 2017. For the year ended December 31, 2018 compared to the year ended December 31, 2017:

- **Gross Profit on Rental Revenues** – Rental revenues increased \$16.6 million, or 12%, compared to 2017, due to 3% higher average rental equipment on rent and 8% higher average monthly rental rates. As a percentage of rental revenues, depreciation was 13% in 2018 compared to 15% in 2017 and other direct costs were 27% in 2018 and 29% in 2017, which resulted in gross margin percentage of 60% in 2018 compared to 56% in 2017. Other direct costs in 2017 included a \$1.6 million impairment of rental assets, deemed beyond economic repair in the Southern California region. The higher rental revenues and higher rental margins resulted in gross profit on rental revenues increasing 19%, to \$95.1 million from \$80.0 million in 2017.
- **Gross Profit on Rental Related Services** – Rental related services revenues increased \$4.2 million, or 8%, compared to 2017. Most of these service revenues are negotiated with the initial lease and are recognized on a straight-line basis with the associated costs over the initial term of the lease. The increase in rental related services revenues was primarily attributable to higher repair revenue and increased services performed during the lease. The higher revenues, partly offset by lower gross margin percentage of 24% in 2018 compared to 25% in 2017 resulted in rental related services gross profit increasing 2%, to \$13.0 million from \$12.7 million in 2017.
- **Gross Profit on Sales** – Sales revenues increased \$2.0 million, or 5%, compared to 2017. Gross profit on sales increased \$1.0 million, or 9%, due to higher used equipment sales revenues and higher gross margins of 29% in 2018 compared to 28% in 2017. Sales occur routinely as a normal part of Mobile Modular's rental business; however, these sales can fluctuate from period to period depending on customer requirements, equipment availability and funding.

For 2018, Mobile Modular's selling and administrative expenses increased \$2.4 million, or 4%, to \$58.0 million, primarily due to increased employee salaries and benefit costs and higher allocated corporate expenses.

TRS-RenTelco

For 2018, TRS-RenTelco's total revenues increased \$10.6 million, or 10%, to \$118.7 million compared to 2017, primarily due to higher rental and sales revenues. Pre-tax income increased \$2.6 million, or 10%, to \$28.8 million for 2018, primarily due to higher gross profit on rental and sales revenues, partly offset by foreign currency exchange loss in 2018 and higher selling and administrative expenses.

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

TRS-RenTelco – 2018 compared to 2017

(dollar amounts in thousands)

	Twelve Months Ended December 31,		Increase (Decrease)	
	2018	2017	\$	%
Revenues				
Rental	\$ 89,937	\$ 82,812	\$ 7,125	9%
Rental related services	3,300	2,858	442	15%
Rental operations	93,237	85,670	7,567	9%
Sales	23,061	20,334	2,727	13%
Other	2,359	2,040	319	16%
Total revenues	118,657	108,044	10,613	10%
Costs and Expenses				
Direct costs of rental operations:				
Depreciation of rental equipment	36,011	32,891	3,120	9%
Rental related services	2,698	2,589	109	4%
Other	14,699	13,503	1,196	9%
Total direct costs of rental operations	53,408	48,983	4,425	9%
Costs of sales	10,476	8,772	1,704	19%
Total costs of revenues	63,884	57,755	6,129	11%
Gross Profit				
Rental	39,227	36,418	2,809	8%
Rental related services	602	269	333	124%
Rental operations	39,829	36,687	3,142	9%
Sales	12,585	11,562	1,023	9%
Other	2,359	2,040	319	16%
Total gross profit	54,773	50,289	4,484	9%
Selling and administrative expenses	22,823	22,171	652	3%
Income from operations	31,950	28,118	3,832	14%
Interest expense allocation	(2,696)	(2,320)	376	16%
Foreign currency exchange gain (loss)	(489)	334	(823)	nm
Pre-tax income	\$ 28,765	\$ 26,132	\$ 2,633	10%
Other Selected Information				
Average rental equipment ¹	\$ 275,891	\$ 252,332	\$ 23,559	9%
Average rental equipment on rent ¹	\$ 173,019	\$ 158,830	\$ 14,189	9%
Average monthly total yield ²	2.72%	2.74%		(1)%
Average utilization ³	62.7%	62.9%		0%
Average monthly rental rate ⁴	4.33%	4.35%		0%
Period end rental equipment ¹	\$ 283,905	\$ 261,552	\$ 22,353	9%
Period end utilization ³	62.1%	61.7%		1%

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 the 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 2018 increased 9% to \$54.8 million from \$50.3 million in 2017. For the year ended December 31, 2018 compared to the year ended December 31, 2017:

- **Gross Profit on Rental Revenues** – Rental revenues increased \$7.1 million, or 9%, to \$89.9 million with depreciation expense increasing \$3.1 million, or 9%, and other direct costs increasing \$1.2 million, or 9%, resulting in an increase in gross profit on rental revenues of \$2.8 million, or 8%, to \$39.2 million in 2018. As a percentage of rental revenues, depreciation was 40% in 2018 and 2017 and other direct costs was 16% in 2018 and 2017, which resulted in gross margin percentage of 44% in 2018 and 2017. The rental revenues increase was due to 9% higher average rental equipment on rent.
- **Gross Profit on Sales** – Sales revenues increased \$2.7 million, or 13%, compared to 2017. The lower gross margin percentage of 55% in 2018, compared to 57% in 2017 was primarily due to lower gross margin on new and used equipment sales. The higher sales revenues, partly offset by lower gross margin, resulted in gross profit on sales increasing 9%, to \$12.6 million from \$11.6 million in 2017. Sales occur routinely as a normal part of TRS-RenTelco's rental business; however, these sales and related gross margins can fluctuate from period to period depending on customer requirements, equipment availability and funding.

For 2018, TRS-RenTelco's selling and administrative expenses increased \$0.7 million, or 3%, to \$22.8 million, primarily due to higher salaries and employee benefit costs and higher allocated corporate expenses.

Adler Tanks

For 2018, Adler Tanks' total revenues increased \$4.7 million, or 5%, to \$96.1 million compared to 2017, primarily due to higher rental revenues, partly offset by lower sales revenues during 2018. The revenue increase together with higher gross profit on rental revenues, partly offset by lower gross profit on sales and rental related services revenues, and higher selling and administrative expenses resulted in a pre-tax income increase of \$4.2 million, or 39%, to \$14.8 million for the year ended December 31, 2018.

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

Adler Tanks – 2018 compared to 2017

(dollar amounts in thousands)

	Twelve Months Ended December 31,		Increase (Decrease)	
	2018	2017	\$	%
Revenues				
Rental	\$ 69,701	\$ 64,021	\$ 5,680	9%
Rental related services	24,911	24,762	149	1%
Rental operations	94,612	88,783	5,829	7%
Sales	1,044	2,362	(1,318)	(56)%
Other	397	210	187	89%
Total revenues	96,053	91,355	4,698	5%
Costs and Expenses				
Direct costs of rental operations:				
Depreciation of rental equipment	15,928	15,770	158	1%
Rental related services	19,899	19,685	214	1%
Other	11,167	10,679	488	5%
Total direct costs of rental operations	46,994	46,134	860	2%
Costs of sales	1,004	2,003	(999)	(50)%
Total costs of revenues	47,998	48,137	(139)	(0)%
Gross Profit				
Rental	42,607	37,572	5,035	13%
Rental related services	5,012	5,076	(64)	(1)%
Rental operations	47,619	42,648	4,971	12%
Sales	39	360	(321)	(89)%
Other	397	210	187	89%
Total gross profit	48,055	43,218	4,837	11%
Selling and administrative expenses	30,026	29,542	484	2%
Income from operations	18,029	13,676	4,353	32%
Interest expense allocation	(3,252)	(3,071)	181	6%
Pre-tax income	\$ 14,777	\$ 10,605	\$ 4,172	39%
Other Selected Information				
Average rental equipment ¹	\$ 310,401	\$ 307,558	\$ 2,843	1%
Average rental equipment on rent ¹	\$ 185,809	\$ 172,140	\$ 13,669	8%
Average monthly total yield ²	1.87%	1.73%		8%
Average utilization ³	59.9%	56.0%		7%
Average monthly rental rate ⁴	3.13%	3.10%		1%
Period end rental equipment ¹	\$ 312,186	\$ 308,877	\$ 3,309	1%
Period end utilization ³	56.4%	57.5%		(2)%

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

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

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

Average utilization for the period is calculated using the average month end costs of the 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 2018 increased \$4.8 million, or 11%, to \$48.1 million compared to the same period in 2017. For the year ended December 31, 2018 compared to year ended December 31, 2017:

- **Gross Profit on Rental Revenues** – Rental revenues increased \$5.7 million, or 9%, to \$69.7 million, due to 8% higher average rental equipment on rent and 1% higher average rental rates in 2018 as compared to 2017. As a percentage of rental revenues, depreciation was 23% and 25% in 2018 and 2017, respectively, and other direct costs were 16% and 17% in 2018 and 2017, respectively, which resulted in gross margin percentages of 61% in 2018 compared to 59% in 2017. The higher rental revenues, together with higher rental margins resulted in gross profit on rental revenues increasing \$5.0 million, or 13%, to \$42.6 million in 2018.
- **Gross Profit on Rental Related Services** – Rental related services revenues increased \$0.1 million, or 1%, compared to 2017. Lower gross margin percentage of 20% in 2018 compared to 21% in 2017, partly offset by higher revenue, resulted in rental related services gross profit decreasing \$0.1 million, or 1%, to \$5.0 million from \$5.1 million in 2017.

For 2018, Adler Tanks' selling and administrative expenses increased \$0.5 million, or 2% to \$30.0 million from \$29.5 million in the same period in 2017, primarily due to increased employee headcount, salaries and benefit costs.

Liquidity and Capital Resources

The Company's rental businesses are capital intensive and generate significant cash flows. Cash flows for the Company in 2019 as compared to 2018 are summarized as follows:

Cash Flows from Operating Activities: The Company's operations provided net cash flow of \$188.0 million for 2019 as compared to \$142.7 million in 2018. The 32% increase was primarily attributable to higher operating profit, increased accounts payable and accrued liabilities and other balance sheet changes.

Cash Flows from Investing Activities: Net cash used in investing activities was \$143.1 million for 2019 as compared to \$104.5 million in 2018. The \$38.6 million increase was primarily due to \$44.6 million higher purchases of rental equipment of \$167.7 million in 2019, compared to \$123.1 million in 2018, partly offset by \$3.6 million lower purchases of property, plant and equipment and \$2.7 million higher proceeds from sales of used rental equipment.

Cash Flows from Financing Activities: Net cash used in financing activities was \$44.0 million in 2019 as compared to \$39.1 million in 2018. The \$4.9 million increase was primarily due to \$20.3 million lower net borrowings under bank lines of credit and \$4.6 million higher dividend payments, partly offset by \$20.0 million lower payment of principal Series A Senior Notes.

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 bank borrowings. Sales occur routinely as a normal part of the Company's rental businesses. 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, offer additional notes 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.

As the following table indicates, cash flow provided by operating activities and proceeds from sales of used rental equipment have been greater than rental equipment purchases over the past three years.

Funding of Rental Asset Growth

(amounts in thousands)	Year Ended December 31,			Three Year Totals
	2019	2018	2017	
Cash provided by operating activities	\$ 187,994	\$ 142,667	\$ 122,389	\$ 453,050
Proceeds from sales of used rental equipment	44,447	41,786	38,344	124,577
Cash available for purchase of rental equipment	232,441	184,453	160,733	577,627
Purchases of rental equipment	(167,703)	(123,071)	(94,579)	(385,353)
Cash paid for acquisition of business assets	(7,808)	(7,543)	—	(15,351)
Cash available for other uses	\$ 56,930	\$ 53,839	\$ 66,154	\$ 176,923

In addition to increasing its rental assets, the Company had other capital expenditures for property, plant and equipment of \$12.1 million in 2019, \$15.7 million in 2018 and \$14.6 million in 2017, and has used cash to provide returns to its shareholders in the form of cash dividends. The Company paid cash dividends of \$35.5 million, \$30.9 million and \$24.9 million in the years ended December 31, 2019, 2018 and 2017, respectively.

The Company has in the past made repurchases of shares of its common stock from time to time in the over-the-counter market (NASDAQ) and/or through privately negotiated, block transactions under an authorization from the Board of Directors. Shares repurchased by the Company are canceled and returned to the status of authorized but unissued stock. There were no repurchases of common stock during the twelve months ended December 31, 2019, 2018 and 2017. As of February 25, 2020, 1,592,026 shares remain authorized for repurchase.

Unsecured Revolving Lines of Credit

In March 2016, the Company renewed its credit agreement with a syndicate of banks (the "Credit Facility"). The five-year facility matures on March 31, 2021 and replaced the Company's prior \$420.0 million unsecured revolving credit facility. The Credit Facility provides for a \$420.0 million unsecured revolving credit facility (which may be increased to \$620.0 million with \$200.0 million of additional 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.

In March 2016, the Company entered into a Credit Facility Letter Agreement and a Credit Line Note in favor of MUFG Union Bank, N.A., extending its line of credit facility related to its cash management services (“Sweep Service Facility”) and increasing the facility size from \$10.0 million to \$12.0 million. The Sweep Service Facility matures on the earlier of March 31, 2021, or the date the Company ceases to utilize MUFG Union Bank, N.A. for its cash management services.

At December 31, 2019, 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 \$193.5 million was outstanding, and had capacity to borrow up to an additional \$238.5 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 Amended Credit Facility):

- 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 December 31, 2019, the actual ratio was 4.27 to 1.
- Permit the Consolidated Leverage Ratio of funded debt to EBITDA at any time during any period of four consecutive fiscal quarters to be greater than 2.75 to 1. At December 31, 2019, the actual ratio was 1.24 to 1.
- Permit Tangible Net Worth as of the end of any fiscal quarter of the Company to be less than the sum of (i) \$246.1 million plus (ii) 25% of the Company’s Consolidated Net Income (as defined in the Amended Credit Facility) (but only if a positive number) for each fiscal quarter ended subsequent to December 31, 2011 plus (iii) 90% of the net cash proceeds from the issuance of the Company’s capital stock after December 31, 2011. At December 31, 2019, such sum was \$388.1 million and the actual Tangible Net Worth of the Company was \$598.5 million.

At December 31, 2019, 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.

3.68% Senior Notes Due in 2021

On March 17, 2014, the Company issued and sold to the Purchasers 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 Note Purchase Agreement, as amended. 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 principal balance is due when the notes mature in 2021. The full net proceeds from the Series B Senior Notes were used for working capital and other general corporate purposes. At December 31, 2019, 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 Purchasers 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 Note Purchase Agreement, as amended. 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 in 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 December 31, 2019, the principal balance outstanding under the Series C Senior Notes was \$60.0 million.

Among other restrictions, the Note Purchase Agreement, 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 (as defined in the Note Purchase Agreement) to fixed charges as of the end of any fiscal quarter to be less than 2.50 to 1. At December 31, 2019, the actual ratio was 4.27 to 1.
- Permit the Consolidated Leverage Ratio of funded debt to EBITDA (as defined in the Note Purchase Agreement) at any time during any period of four consecutive quarters to be greater than 2.75 to 1. At December 31, 2019, the actual ratio was 1.24 to 1.
- Permit tangible net worth, calculated as of the last day of each fiscal quarter, to be less than the sum of (i) \$229.0 million, plus (ii) 25% of net income for such fiscal quarter subsequent to December 31, 2010, plus (iii) 90% of the net cash proceeds from the issuance of the Company’s capital stock after December 31, 2010. At December 31, 2019, such sum was \$388.1 million and the actual tangible net worth of the Company was \$598.5 million.

At December 31, 2019, 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.

Contractual Obligations and Commitments

At December 31, 2019, the Company's material contractual obligations and commitments consisted of outstanding borrowings under our credit facilities expiring in 2021, outstanding amounts under our 3.68% and 3.84% senior notes due in 2021 and 2022, respectively, and operating leases for facilities. The operating lease amounts exclude property taxes and insurance. The table below provides a summary of the Company's contractual obligations and reflects expected payments due as of December 31, 2019 and does not reflect changes that could arise after that date.

Payments Due by Period

	<i>(dollar amounts in thousands)</i>				
	Total	Within 1 Year	Within 2 to 3 Years	Within 4 to 5 Years	More than 5 Years
Revolving lines of credit	\$ 193,459	\$ —	\$ 193,459	\$ —	\$ —
3.68% Series B senior notes due in 2021	42,944	1,472	41,472	—	—
3.84% Series C senior notes due in 2022	66,918	2,310	64,608	—	—
Operating leases for facilities	9,495	2,732	4,175	2,295	293
Total contractual obligations	\$ 312,816	\$ 6,514	\$ 303,714	\$ 2,295	\$ 293

The Company believes that its needs for working capital and capital expenditures through 2019 and beyond will be adequately met by operating cash flow, proceeds from the sale of rental equipment, and bank borrowings.

Please see the Company's Consolidated Statements of Cash Flows on page 62 for a more detailed presentation of the sources and uses of the Company's cash.

Critical Accounting Policies

In response to the SEC's Release No. 33-8040, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies," the Company has identified the most critical accounting policies upon which its financial status depends. The Company determined its critical accounting policies by considering those policies that involve the most complex or subjective decisions or assessments. The Company has identified that its most critical accounting policies are those related to revenue recognition, depreciation, maintenance, repair and refurbishment, impairment of rental equipment and impairment of goodwill and intangible assets. Descriptions of these accounting policies are found in both the notes to the consolidated financial statements and at relevant sections in this Management's Discussion and Analysis.

Revenue recognition:

Lease revenue - 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 building 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 sales-type 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 sales-type leases and rental income on facility leases.

Non-lease revenue - Sales revenue is recognized upon delivery and installation of the equipment to customers. Certain leases are accounted for as sales-type 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. 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 obtain 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.

Depreciation - The estimated useful lives and estimated residual values used for rental equipment are based on the Company's experience as to the economic useful life and sale value of its products. Additionally, to the extent information is publicly available, the Company also compares its depreciation policies to other companies with similar rental products for reasonableness.

The lives and residual values of rental equipment are subject to periodic evaluation. For modular equipment, external factors to consider may include, but are not limited to, changes in legislation, regulations, building codes, local permitting, and supply or demand. Internal factors for modulars may include, but are not limited to, change in equipment specifications, condition of equipment, or maintenance policies. For electronic test equipment, external factors to consider may include, but are not limited to, technological advances, changes in manufacturers' selling prices, and supply or demand. Internal factors for electronic test equipment may include, but are not limited to, change in equipment specifications, condition of equipment or maintenance policies. For liquid and solid containment tanks and boxes, external factors to consider may include, but are not limited to, changes in Federal and State legislation, the types of materials stored and the frequency of movements and uses. Internal factors for liquid and solid containment tanks and boxes may include, but are not limited to, change in equipment specifications and maintenance policies.

Changes in useful lives or residual values will impact depreciation expense and any gain or loss from the sale of used equipment. Depending on the magnitude of such changes, the impact on the financial statements could be significant.

Maintenance, repair and refurbishment - Maintenance and repairs are expensed as incurred. The direct material and labor costs of value-added additions or major refurbishment of modular buildings are capitalized to the extent the refurbishment significantly improves the quality and adds value or life to the equipment. Judgment is involved as to when these costs should be capitalized. The Company's policies narrowly limit the capitalization of value-added items to specific additions such as restrooms, sidewalls and ventilation upgrades. In addition, only major refurbishment costs incurred near the end of the estimated useful life of the rental equipment, which extend its useful life, and are subject to certain limitations, are capitalized. Changes in these policies could impact the Company's financial results.

Impairment of rental equipment - The carrying value of the Company's rental equipment is its capitalized cost less accumulated depreciation. To the extent events or circumstances indicate that the carrying value cannot be recovered, an impairment loss is recognized to reduce the carrying value to fair value. The Company determines fair value based upon the condition of the equipment and the projected net cash flows from its rental and sale considering current market conditions. Additionally, if the Company decides to sell or otherwise dispose of the rental equipment, it is carried at the lower of cost or fair value less costs to sell or dispose. Due to uncertainties inherent in the valuation process and market conditions, it is reasonably possible that actual results of operating and disposing of rental equipment could be materially different than current expectations.

Impairment of goodwill and intangible assets - The Company assesses the carrying amount of its recorded goodwill and intangible assets annually or in interim periods if circumstances indicate an impairment may have occurred. The impairment review is performed by first assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. The two-step process requires management to make certain judgments in determining what assumptions to use in the calculation. The first step in the evaluation consists of estimating the fair value of the reporting unit based on discounted cash flows using revenue and after tax profit estimates. Management then compares its estimate of the fair value of the reporting unit with the reporting unit's carrying amount, which includes goodwill and intangible assets. If the estimated fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, then goodwill and intangible assets are not impaired and no further testing is required. If the carrying value of the net assets assigned to the reporting unit were to exceed its fair value, then the second step is performed in order to determine the implied fair value of the reporting unit's goodwill and intangible assets and an impairment loss is recorded for an amount equal to the difference between the implied fair value and the carrying value of the goodwill and intangible assets.

Impact of Inflation

Although the Company cannot precisely determine the effect of inflation, from time to time it has experienced increases in costs of rental equipment, manufacturing costs, operating expenses and interest. Because a majority of its rentals are relatively short-term, the Company has generally been able to pass on such increased costs through increases in rental rates and selling prices, but there can be no assurance that the Company will be able to continue to pass on increased costs to customers in the future.

Off Balance Sheet Transactions

As of December 31, 2019, the Company did not have any “off-balance-sheet arrangements,” as defined in Item 303(a)(4)(ii) of Regulation S-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The Company is exposed to cash flow and fair value risk due to changes in interest rates with respect to its 3.68% and 3.84% senior notes due in 2021 and 2022, respectively, and its revolving lines of credit. Weighted average variable rates are based on implied forward rates in the yield curve at December 31, 2019. The estimate of fair value of the Company’s fixed rate debt is based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities. The table below presents principal cash flows by expected annual maturities, related weighted average interest rates and estimated fair value for the Company’s Series B and Series C Senior Notes and the Company’s revolving lines of credit under the Credit Facility and Sweep Service Facility as of December 31, 2019.

(dollar amounts in thousands)

	2021	2022	Thereafter	Total	Estimated Fair Value
Revolving lines of credit	\$ 193,459	\$ —	\$ —	\$ 193,459	\$ 193,459
Weighted average interest rate	3.59%	—	—	3.59%	
3.68% Series B senior notes due in 2021	\$ 40,000	\$ —	\$ —	\$ 40,000	\$ 40,817
Stated interest rate	3.68%	—	—	3.68%	
3.84% Series C senior notes due in 2022	\$ —	\$ 60,000	\$ —	\$ 60,000	\$ 60,611
Stated interest rate	—	3.84%	—	3.84%	

The Company formed a wholly owned Canadian subsidiary, TRS-RenTelco Inc., in 2004 in conjunction with the TRS acquisition and a wholly owned Indian subsidiary, TRS-RenTelco India Private Limited, in 2013. The Company commenced the closure of its Indian operations during 2017. The Canadian operations of the Company subject it to foreign currency risks (i.e. the possibility that the financial results could be better or worse than planned because of changes in foreign currency exchange rates). Currently, the Company does not use derivative instruments to hedge its economic exposure with respect to assets, liabilities and firm commitments denominated in foreign currencies. In 2019, the Company experienced minimal impact on net income due to foreign exchange rate fluctuations. Although there can be no assurances, given the size of the Canadian operations, the Company does not expect future foreign exchange gains and losses to be significant.

The Company has no derivative financial instruments that expose the Company to significant market risk.

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Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for the preparation and integrity of the consolidated financial statements appearing in our Annual Report filed on Form 10-K. The consolidated financial statements were prepared in conformity with United States generally accepted accounting principles and include amounts based on management's estimates and judgments. All other financial information in this report has been presented on a basis consistent with the information included in the financial statements.

The Company's management is also responsible for establishing and maintaining adequate internal control over financial reporting as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company maintains a system of internal control that is designed to provide reasonable assurance as to the reliable preparation and presentation of the consolidated financial statements, as well as to safeguard assets from unauthorized use or disposition.

The Company's system of internal control over financial reporting is embodied in the Company's Code of Business Conduct and Ethics. It sets the tone of our organization and includes factors such as integrity and ethical values. Our internal control over financial reporting is supported by formal policies and procedures, which are reviewed, modified and improved as changes occur in business conditions and operations.

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

The Audit Committee of the Board of Directors, which is composed solely of outside directors, meets periodically with members of management and the independent auditors to review and discuss internal control over financial reporting, as well as accounting and financial reporting matters. The independent auditors report to the Audit Committee and accordingly have full and free access to the Audit Committee at any time.

The Company's management conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2019 based on the criteria set forth in the 2013 *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation, management has concluded that, as of December 31, 2019, the Company's internal control over financial reporting was effective based on those criteria.

Board of Directors and Shareholders
McGrath RentCorp

Opinion on internal control over financial reporting

We have audited the internal control over financial reporting of McGrath RentCorp (a California corporation) and subsidiaries (the “Company”) as of December 31, 2019, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated financial statements of the Company as of and for the year ended December 31, 2019, and our report dated February 25, 2020 expressed an unqualified opinion on those financial statements.

Basis for opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

Definition and limitations of internal control over financial reporting

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

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

/s/ GRANT THORNTON LLP

San Jose, California
February 25, 2020

Board of Directors and Shareholders
McGrath RentCorp

Opinion on the financial statements

We have audited the accompanying consolidated balance sheets of McGrath RentCorp (a California corporation) and subsidiaries (the “Company”) as of December 31, 2019 and 2018, the related consolidated statements of income, comprehensive income, shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Company’s internal control over financial reporting as of December 31, 2019, based on criteria established in the 2013 *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”), and our report dated February 25, 2020 expressed an unqualified opinion.

Basis for opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical audit matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Valuation of TRS-RenTelco rental equipment

As described further in note 1 to the financial statements, the Company evaluates the carrying value of rental equipment for impairment whenever events and circumstances have occurred that would indicate the carrying amount may not be fully recoverable. We identified the valuation of the Company’s TRS-RenTelco rental equipment as a critical audit matter.

The principal consideration for our determination of the valuation of the TRS-RenTelco rental equipment as a critical audit matter is that the TRS-RenTelco rental equipment can be sensitive to new developments in technology, which creates the risk that equipment could become obsolete or impaired. Management’s impairment analysis relies on estimates of future financial performance of its rental equipment. These estimates include assumptions based upon historical and projected results including utilization, rental pricing and the equipment’s useful life and expected sales proceeds. The failure to achieve these projections might be indicators of potential impairment.

Our audit procedures related to the impairment of TRS-RenTelco rental equipment included the following, among others.

- We tested the design and operating effectiveness of controls relating to the impairment process, determination of the assumptions, and review of equipment that didn’t meet assumed performance thresholds.
- We evaluated the appropriateness of useful lives assigned to the rental equipment.

- We analyzed trends in utilization and yield at a disaggregated product level, both year-over-year and quarter-over-quarter to evaluate if indicators of impairment were present for any particular product.
- For a sample of assets, we inspected underlying documents and compared to the information in management’s analysis for accuracy.
- We independently identified any underperforming assets by recalculating management’s analysis performed by using actual margins on sales proceeds.
- For assets discussed above, we inquired of management with respect to the assets and factors driving assessment of realizability and corroborated explanations received.

/s/ GRANT THORNTON LLP

We have served as the Company’s auditor since 2002.

San Jose, California
February 25, 2020

MCGRATH RENTCORP
CONSOLIDATED BALANCE SHEETS

<i>(in thousands)</i>	December 31,	
	2019	2018
Assets		
Cash	\$ 2,342	\$ 1,508
Accounts receivable, net of allowance for doubtful accounts of \$1,883 in 2019 and 2018	128,099	121,016
Rental equipment, at cost:		
Relocatable modular buildings	868,807	817,375
Electronic test equipment	335,343	285,052
Liquid and solid containment tanks and boxes	316,261	313,573
	1,520,411	1,416,000
Less accumulated depreciation	(552,911)	(514,985)
Rental equipment, net	967,500	901,015
Property, plant and equipment, net	131,047	126,899
Prepaid expenses and other assets	45,356	31,816
Intangible assets, net	7,334	7,254
Goodwill	28,197	27,808
Total assets	\$ 1,309,875	\$ 1,217,316
Liabilities and Shareholders' Equity		
Liabilities:		
Notes payable	\$ 293,431	\$ 298,564
Accounts payable and accrued liabilities	109,174	90,844
Deferred income	54,964	49,709
Deferred income taxes, net	218,270	206,664
Total liabilities	675,839	645,781
Shareholders' equity:		
Common stock, no par value - Authorized 40,000 shares		
Issued and outstanding - 24,296 shares as of December 31, 2019 and 24,182 shares as of December 31, 2018	106,360	103,801
Retained earnings	527,746	467,783
Accumulated other comprehensive loss	(70)	(49)
Total shareholders' equity	634,036	571,535
Total liabilities and shareholders' equity	\$ 1,309,875	\$ 1,217,316

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

MCGRATH RENTCORP
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	2019	2018	2017
<i>(in thousands, except per share amounts)</i>			
Revenues			
Rental	\$353,889	\$318,774	\$289,417
Rental related services	101,038	82,907	78,068
Rental operations	454,927	401,681	367,485
Sales	110,229	92,618	91,500
Other	5,074	4,031	3,049
Total revenues	<u>570,230</u>	<u>498,330</u>	<u>462,034</u>
Costs and Expenses			
Direct costs of rental operations:			
Depreciation of rental equipment	80,391	73,139	69,908
Rental related services	76,241	64,298	60,029
Other	79,365	68,678	65,472
Total direct costs of rental operations	<u>235,997</u>	<u>206,115</u>	<u>195,409</u>
Costs of sales	68,068	58,964	60,280
Total costs of revenues	<u>304,065</u>	<u>265,079</u>	<u>255,689</u>
Gross profit	266,165	233,251	206,345
Selling and administrative expenses	124,793	115,770	111,605
Income from operations	141,372	117,481	94,740
Other income (expense):			
Interest expense	(12,331)	(12,297)	(11,622)
Foreign currency exchange gain (loss)	84	(489)	334
Income before provision for income taxes	129,125	104,695	83,452
Provision (benefit) for income taxes	32,319	25,289	(70,468)
Net income	<u>\$96,806</u>	<u>\$79,406</u>	<u>\$153,920</u>
Earnings per share:			
Basic	\$3.99	\$3.29	\$6.41
Diluted	\$3.93	\$3.24	\$6.34
Shares used in per share calculation:			
Basic	24,250	24,141	23,999
Diluted	24,623	24,540	24,269
Cash dividends declared per share	\$1.50	\$1.36	\$1.04

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

MCGRATH RENTCORP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>(in thousands)</i>	Year Ended December 31,		
	2019	2018	2017
Net income	\$ 96,806	\$ 79,406	\$ 153,920
Other comprehensive income (loss):			
Foreign currency translation adjustment	(29)	161	(174)
Tax benefit (provision)	8	(42)	61
Comprehensive income	\$ 96,785	\$ 79,525	\$ 153,807

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

MCGRATH RENTCORP
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

<i>(in thousands, except per share amounts)</i>	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount			
Balance at December 31, 2016	23,948	\$ 101,821	\$ 292,521	\$ (55)	\$ 394,287
Net income	—	—	153,920	—	153,920
Share-based compensation	—	3,198	—	—	3,198
Common stock issued under stock plans, net of shares withheld for employee taxes	104	—	—	—	—
Taxes paid related to net share settlement of stock awards	—	(2,072)	—	—	(2,072)
Dividends accrued at \$1.04 per share	—	—	(25,036)	—	(25,036)
Other comprehensive loss	—	—	—	(113)	(113)
Balance at December 31, 2017	24,052	102,947	421,405	(168)	524,184
Net income	—	—	79,406	—	79,406
Share-based compensation	—	4,111	—	—	4,111
Common stock issued under stock plans, net of shares withheld for employee taxes	130	—	—	—	—
Taxes paid related to net share settlement of stock awards	—	(3,257)	—	—	(3,257)
Dividends accrued at \$1.36 per share	—	—	(33,028)	—	(33,028)
Other comprehensive gain	—	—	—	119	119
Balance at December 31, 2018	24,182	103,801	467,783	(49)	571,535
Net income	—	—	96,806	—	96,806
Share-based compensation	—	5,892	—	—	5,892
Common stock issued under stock plans, net of shares withheld for employee taxes	114	—	—	—	—
Taxes paid related to net share settlement of stock awards	—	(3,333)	—	—	(3,333)
Dividends accrued at \$1.50 per share	—	—	(36,843)	—	(36,843)
Other comprehensive loss	—	—	—	(21)	(21)
Balance at December 31, 2019	24,296	\$ 106,360	\$ 527,746	\$ (70)	\$ 634,036

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

MCGRATH RENTCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(in thousands)</i>	Year Ended December 31,		
	2019	2018	2017
Cash Flows from Operating Activities:			
Net income	\$ 96,806	\$ 79,406	\$ 153,920
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	89,476	81,975	78,416
Impairment of rental assets	—	39	1,639
Provision for doubtful accounts	1,013	581	1,480
Share-based compensation	5,892	4,111	3,198
Gain on sale of used rental equipment	(21,309)	(19,559)	(17,733)
Foreign currency exchange (gain) loss	(84)	489	(334)
Amortization of debt issuance costs	11	20	50
Change in:			
Accounts receivable	(7,323)	(15,725)	(10,475)
Prepaid expenses and other assets	(13,530)	(9,351)	3,124
Accounts payable and accrued liabilities	20,298	(1,612)	4,015
Deferred income	5,138	10,258	1,720
Deferred income taxes	11,606	12,035	(96,631)
Net cash provided by operating activities	187,994	142,667	122,389
Cash Flows from Investing Activities:			
Purchases of rental equipment	(167,703)	(123,071)	(94,579)
Purchases of property, plant and equipment	(12,080)	(15,664)	(14,617)
Cash paid for acquisition of business assets	(7,808)	(7,543)	—
Proceeds from sales of used rental equipment	44,447	41,786	38,344
Net cash used in investing activities	(143,144)	(104,492)	(70,852)
Cash Flows from Financing Activities:			
Net borrowings (repayment) under bank lines of credit	(5,144)	15,130	(2,902)
Principal payments on Series A senior notes	—	(20,000)	(20,000)
Taxes paid related to net share settlement of stock awards	(3,333)	(3,257)	(2,072)
Payment of dividends	(35,539)	(30,939)	(24,876)
Net cash used in financing activities	(44,016)	(39,066)	(49,850)
Effect of foreign currency exchange rate changes on cash	—	(102)	(38)
Net increase (decrease) in cash	834	(993)	1,649
Cash balance, beginning of period	1,508	2,501	852
Cash balance, end of period	\$ 2,342	\$ 1,508	\$ 2,501
Supplemental Disclosure of Cash Flow Information:			
Interest paid, during the period	\$ 12,475	\$ 12,598	\$ 11,825
Net income taxes paid, during the period	\$ 17,528	\$ 18,157	\$ 29,504
Dividends accrued during the period, not yet paid	\$ 9,489	\$ 8,388	\$ 6,260
Rental equipment acquisitions, not yet paid	\$ 6,496	\$ 9,695	\$ 6,405

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

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

McGrath RentCorp and its wholly-owned subsidiaries (the “Company”) is a California corporation organized in 1979. The Company is a diversified business to business rental company with four rental divisions; relocatable modular buildings, portable storage containers, electronic test equipment and liquid and solid containment tanks and boxes. Although the Company’s primary emphasis is on equipment rentals, sales of equipment occur in the normal course of business. The Company is comprised of four reportable business segments: modular building and portable storage segment (“Mobile Modular”), electronic test equipment segment (“TRS-RenTelco”), containment solutions for the storage of hazardous and non-hazardous liquids and solids segment (“Adler Tanks”) and classroom manufacturing division selling modular classrooms in California (“Enviroplex”).

Principles of Consolidation

The consolidated financial statements include the accounts of McGrath RentCorp and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

Revenue Recognition

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 building 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 sales-type 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 sales-type leases and rental income on facility leases.

Non-lease revenues - Sales revenue is recognized upon delivery and installation of the equipment to customers. Certain leases are accounted for as sales-type 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 revenue is recognized when earned and primarily includes interest income on sales-type leases, rental income on facility leases and certain logistics services.

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

Depreciation of Rental Equipment

Rental equipment is depreciated on a straight-line basis for financial reporting purposes and on an accelerated basis for income tax purposes. The costs of major refurbishment of relocatable modular buildings, portable storage containers and tanks and boxes are capitalized to the extent the refurbishment significantly adds value to, or extends the life of the equipment. Maintenance and repairs are expensed as incurred.

The estimated useful lives and residual values of the Company’s rental equipment used for financial reporting purposes are as follows:

Relocatable modular buildings	18 years, 50% residual value
Relocatable modular accessories	3 to 18 years, no residual value
Blast resistant modules	20 years, no residual value
Portable storage containers	25 years, 62.5% residual value
Electronic test equipment and accessories	1 to 8 years, no residual value
Liquid and solid containment tanks and boxes and accessories	3 to 20 years, no residual value

Costs of Rental Related Services

Costs of rental related services are primarily associated with relocatable modular building leases and liquid and solid containment tank and boxes. Modular building leases primarily consist of costs for services to be provided under the negotiated lease agreement for delivery, installation, modifications, skirting, additional site-related work, and dismantle and return delivery. Costs related to these services are recognized on a straight-line basis over the term of the lease. Costs of rental related services associated with liquid and solid containment solutions consists of costs of delivery, removal and cleaning of the tanks and boxes. These costs are recognized in the period the service is performed.

Impairment of Long-Lived Assets

The Company evaluates the carrying value of rental equipment and identifiable definite lived intangible assets for impairment whenever events or circumstances have occurred that would indicate the carrying amount may not be fully recoverable. A key element in determining the recoverability of long-lived assets is the Company's outlook as to the future market conditions for its rental equipment. If the carrying amount is not fully recoverable, an impairment loss is recognized to reduce the carrying amount to fair value. The Company determines fair value based upon the condition of the rental equipment and the projected net cash flows from its rental and sale considering current market conditions. Goodwill and identifiable indefinite lived assets are evaluated for potential impairment annually or when circumstances indicate potential impairment may have occurred. Impairment losses, if any, are determined based upon the excess of carrying value over the estimated fair value of the asset. There were no impairments of long-lived assets during the year ended December 31, 2019. The Company recorded an impairment of modular rental equipment of \$0.1 million and \$1.6 million for the years ended December 31, 2018 and 2017, respectively.

Other Direct Costs of Rental Operations

Other direct costs of rental operations include direct labor, supplies, repairs, insurance, property taxes, license fees, impairment of rental equipment and certain modular lease costs charged to customers in the negotiated rental rate, which are recognized on a straight-line basis over the term of the lease.

Cost of Sales

Cost of sales in the Consolidated Statements of Income includes the carrying value of the equipment sold and all direct costs associated with the sale.

Warranty Reserves

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.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation. Depreciation is recognized on a straight-line basis for financial reporting purposes, and on an accelerated basis for income tax purposes. Depreciation expense for property, plant and equipment is included in "Selling and administrative expenses" and "Rental related services" in the Consolidated Statements of Income. Maintenance and repairs are expensed as incurred.

Property, plant and equipment consist of the following:

<i>(dollar amounts in thousands)</i>	Estimated useful life in years	December 31,	
		2019	2018
Land	Indefinite	\$ 54,423	\$ 50,689
Land improvements	20 – 50	52,325	50,064
Buildings	30	29,848	29,359
Furniture, office and computer equipment	3 – 10	36,610	33,081
Vehicles and machinery	5 – 25	41,877	38,199
		215,083	201,392
Less accumulated depreciation		(84,308)	(77,118)
		130,775	124,274
Construction in progress		272	2,625
		\$ 131,047	\$ 126,899

Property, plant and equipment depreciation expense was \$8.2 million, \$8.0 million and \$7.6 million for the years ended December 31, 2019, 2018 and 2017, respectively. Construction in progress at December 31, 2019 and 2018 consisted primarily of costs related to acquisition of land and land improvements and information technology upgrades.

Capitalized Software Costs

The Company capitalizes certain development costs incurred in connection with its internal use software. Costs incurred in the preliminary stages of development are expensed as incurred. Once an application has reached the development stage, direct internal and external costs are capitalized until the software is substantially complete and ready for its intended use. These costs generally include external direct costs of materials and services consumed in the project and internal costs, such as payroll and benefits of those employees directly associated with the development of the software. Maintenance, training and post implementation costs are expensed as incurred. The Company also capitalizes costs related to specific upgrades and enhancements when it is probable the expenditures will result in additional functionality. Capitalized software costs are included in property, plant and equipment. The Company capitalized \$3.0 million and \$0.1 million in internal use software during the years ended December 31, 2019 and 2018, respectively.

Advertising Costs

Advertising costs are expensed as incurred. Total advertising expenses were \$3.6 million, \$3.2 million and \$2.9 million for the years ended December 31, 2019, 2018 and 2017.

Income Taxes

Income taxes are accounted for using an asset and liability approach. Deferred tax assets and liabilities are recorded for the effect of temporary differences between the tax basis of assets and liabilities and their reported amounts in the consolidated financial statements. Deferred tax assets and deferred tax liabilities are adjusted to the extent necessary to reflect tax rates expected to be in effect when temporary differences reverse. Adjustments may be required to deferred tax assets and deferred tax liabilities due to changes in tax laws and audit adjustments by tax authorities. A valuation allowance would be established if, based on the weight of available evidence, management believes that it is more likely than not that some portion or all of a recorded deferred tax asset would not be realized in future periods. To the extent adjustments are required in any given period, the adjustments would be included within the "Provision for income taxes" in the Consolidated Statements of Income.

Goodwill and Intangible Assets

Purchase prices of acquired businesses are allocated to the assets and liabilities acquired based on the estimated fair values on the respective acquisition dates. Based on these values, the excess purchase prices over the fair value of the net assets acquired are allocated to goodwill and other intangible assets. Intangible assets related to customer relationships are amortized over eleven years. At December 31, 2019 and 2018, goodwill and trade name intangible assets which have indefinite lives totaled \$34.1 million and \$33.7 million, respectively.

The Company assesses potential impairment of its goodwill and intangible assets when there is evidence that events or circumstances have occurred that would indicate the recovery of an asset's carrying value is unlikely. The Company also assesses

potential impairment of its goodwill and intangible assets with indefinite lives on an annual basis regardless of whether there is evidence of impairment. If indicators of impairment were to be present in intangible assets used in operations and future discounted cash flows were not expected to be sufficient to recover the assets' carrying amount, an impairment loss would be charged to expense in the period identified. The amount of an impairment loss would be recognized as the excess of the asset's carrying value over its fair value. Factors the Company considers important, which may cause impairment include, among others, significant changes in the manner of use of the acquired asset, negative industry or economic trends, and significant underperformance relative to historical or projected operating results.

The impairment review of the Company's goodwill is performed by first assessing qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step impairment test. In the first step, the fair value of the reporting unit is compared to its carrying value to determine if the goodwill is impaired. If the fair value of the reporting unit exceeds the carrying value of the net assets assigned to that unit, then goodwill is not impaired and no further testing is required. If the carrying value of the net assets assigned to the reporting unit were to exceed its fair value, then the second step is performed in order to determine the implied fair value of the reporting unit's goodwill and an impairment loss is recorded for an amount equal to the difference between the implied fair value and the carrying value of the goodwill.

The Company conducted its annual impairment analysis in the fourth quarter of its fiscal year. The impairment analysis did not result in an impairment charge for the fiscal years ended 2019, 2018 or 2017. Determining the fair value of a reporting unit is judgmental and involves the use of significant estimates and assumptions. The Company based its fair value estimates on assumptions that it believes are reasonable but are uncertain and subject to changes in market conditions.

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 effects of stock options, unvested restricted stock awards and other potentially dilutive securities. The table below presents the weighted-average common stock used to calculate basic and diluted earnings per share:

<i>(in thousands)</i>	Year Ended December 31,		
	2019	2018	2017
Weighted-average common stock for calculating basic earnings per share	24,250	24,141	23,999
Effect of potentially dilutive securities from equity-based compensation	373	399	270
Weighted-average common stock for calculating diluted earnings per share	24,623	24,540	24,269

In 2017, there were 7,000 options to purchase common stock that were not included in the computation of diluted earnings per share, as their effect would have been anti-dilutive. There were no shares excluded in 2019 and 2018.

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 2,000,000 shares of the Company's outstanding common stock. 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 program may be modified, extended or terminated by the Board of Directors at any time. There were no repurchases of common stock during the twelve months ended December 31, 2019, 2018 and 2017. As of December 31, 2019, 1,592,026 shares remain authorized for repurchase.

Accounts Receivable and Concentration of Credit Risk

The Company's accounts receivable consist of amounts due from customers for rentals, sales, financed sales and unbilled amounts for the portion of modular building end-of-lease services earned, which were negotiated as part of the lease agreement. Unbilled receivables related to end-of-lease services, which consists of dismantle and return delivery of buildings, were \$37.2 million at December 31, 2019 and \$32.3 million at December 31, 2018. The Company sells primarily on 30-day terms, individually performs

credit evaluation procedures on its customers on each transaction and will require security deposits from its customers when a significant credit risk is identified. The Company records an allowance for doubtful accounts in amounts equal to the estimated losses expected to be incurred in the collection of the accounts receivable. The estimated losses are based on historical collection experience in conjunction with an evaluation of the current status of the existing accounts. Customer accounts are written off against the allowance for doubtful accounts when an account is determined to be uncollectable. The allowance for doubtful accounts activity was as follows:

<i>(in thousands)</i>	2019	2018
Beginning balance, January 1	\$ 1,883	\$ 1,920
Provision for doubtful accounts	1,013	581
Write-offs, net of recoveries	(1,013)	(618)
Ending balance, December 31	\$ 1,883	\$ 1,883

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of trade accounts receivable. From time to time, the Company maintains cash balances in excess of the Federal Deposit Insurance Corporation limits.

Fair Value of Financial Instruments

The Company believes that the carrying amounts for cash, accounts receivable, accounts payable and notes payable approximate their fair values except for fixed rate debt included in notes payable which has an estimated fair value of \$101.4 million and \$99.0 million compared to the recorded value of \$100.0 million as of December 31, 2019 and 2018, respectively. The estimates of fair value of the Company's fixed rate debt are based on the borrowing rates currently available to the Company for bank loans with similar terms and average maturities.

Foreign Currency Transactions and Translation

The Company's Canadian subsidiary, TRS-RenTelco Inc., a British Columbia corporation ("TRS-Canada"), functions as a branch sales office for TRS-RenTelco in Canada. The functional currency for TRS-Canada is the U.S. dollar. Foreign currency transaction gains and losses of TRS-Canada are reported in the results of operations in the period in which they occur.

The Company's Indian subsidiary, TRS-RenTelco India Private Limited ("TRS-India"), functioned as a rental and sales office for TRS-RenTelco in India, which commenced its closure during 2017. The functional currency for TRS-India is the Indian Rupee. All assets and liabilities of TRS-India are translated into U.S. dollars at period-end exchange rates and all income statement amounts are translated at the average exchange rate for each month within the year.

Currently, the Company does not use derivative instruments to hedge its economic exposure with respect to assets, liabilities and firm commitments as the foreign currency transactions and risks to date have not been significant.

Share-Based Compensation

The Company measures and recognizes the compensation expense for all share-based awards made to employees and directors, including stock options, stock appreciation rights ("SARs") and restricted stock units ("RSUs"), based upon estimated fair values. The fair value of stock options and SARs is estimated on the date of grant using the Black-Scholes option pricing model and for RSUs based upon the fair market value of the underlying shares of common stock as of the date of grant. The Company recognizes share-based compensation cost ratably on a straight-line basis over the requisite service period, which generally equals the vesting period. For performance-based RSUs, compensation costs are recognized when vesting conditions are met. In addition, the Company estimates the probable number of shares of common stock that will be earned and the corresponding compensation cost until the achievement of the performance goal is known. The Company records share-based compensation costs in "Selling and administrative expenses" in the Consolidated Statements of Income. The Company recognizes a benefit from share-based compensation in the Consolidated Statements of Shareholders' Equity if an incremental tax benefit is realized. Further information regarding share-based compensation can be found in "Note 6 –Benefit Plans".

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions in determining reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during each period presented. Actual results could differ from those estimates. The most significant estimates included in the financial statements are the future cash flows and fair values used to determine the recoverability of the rental equipment and

identifiable definite lived intangible assets carrying value, the various assets' useful lives and residual values, and the allowance for doubtful accounts.

NOTE 2. NEW ACCOUNTING PRONOUNCEMENTS

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2016-13, Financial Instruments – Credit Losses (Topic 326), requiring companies to present assets held at amortized cost and available for sale debt securities net of the amount expected to be collected. This 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. This guidance does not apply to receivables arising from operating leases and will be effective for fiscal years and interim periods beginning after December 15, 2019. The Company does not expect the adoption of this ASU to have a material impact on its consolidated financial statements.

In December 2019, the FASB issued 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 Generally Accepted Accounting Principles (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. The Company is evaluating the impact of this guidance on its consolidated financial statements.

NOTE 3. IMPLEMENTED ACCOUNTING PRONOUNCEMENTS

Lessee

The Company adopted ASU No. 2016-02, Leases (Subtopic 842-10) effective January 1, 2019. Under the new guidance, lessees are required to recognize the following for all leases (with the exception of short-term leases) on the commencement date: a) lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and b) right-of-use ("ROU") asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The Company adopted the new guidance using the transition method that allowed it to initially apply this guidance on the adoption date. The adoption did not result in a cumulative-effect adjustment to the Company's opening retained earnings. Because of the transition method the Company used to adopt the new guidance, historical financial information was not updated and the financial disclosures required under the new standard are not provided for periods prior to January 1, 2019. The new guidance contains additional optional transition practical expedients intended to simplify adoption. The Company elected the package of practical expedients that allows for not reassessing: (1) whether any expired or existing contracts are or contain leases, (2) the lease classification for any expired or existing leases and (3) initial direct costs for any expired or existing leases.

The Company leases real estate for certain of its branch offices and rental equipment storage yards, vehicles and equipment used in its rental operations. The Company determines if an arrangement is a lease at inception. The Company has leases with lease and non-lease components, which are accounted for separately. ROU assets and liabilities are recognized on the commencement date based on the present value of lease payments over the lease term. Variable lease payments are excluded from the ROU assets and lease liabilities and are recognized in the period in which the obligation for those payments is incurred, which are not material. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. The Company uses the interest rate stated in the lease as the discount rate. If the interest rate is not stated, the Company uses its incremental borrowing rate based on information available on lease commencement date in determining the present value of lease payments. Many of the Company's real estate lease agreements include options to extend the lease, which are not included in the minimum lease terms unless they are reasonably certain to be exercised. These leases include one or more options to renew, with renewal terms that may extend the lease term from one to three years. The amount of payments associated with such options is not material. Short-term leases are leases having a term of twelve months or less and exclude leases with a lease term of one month or less. The Company recognizes short-term leases on a straight-line basis and does not record a related ROU asset or liability for such leases. The adoption of the new guidance resulted in the recording of \$10.0 million of ROU assets and operating lease liabilities, which were recorded in Prepaid expenses and other assets and Accounts payable and accrued liabilities on the Company's Condensed Consolidated Balance Sheet.

During the year ended December 31, 2019, operating lease expense was \$3.8 million, which includes short term lease expense of \$0.2 million. At December 31, 2019, the weighted-average remaining lease term for operating leases was 3.8 years and the

weighted average discount rate was 4.38%. The Company had no sub-lease income during the year ended December 31, 2019, and did not have any finance leases as of December 31, 2019.

Supplemental cash flow information related to leases was as follows:

<i>(in thousands)</i>	Year Ended December 31, 2019	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$	3,568
Right of use assets obtained in exchange for lease obligations:		
Operating leases	\$	2,728

As of December 31, 2019, maturities of operating lease liabilities were as follows:

<i>(in thousands)</i>		
<u>Year ended December 31,</u>		
2020	\$	3,350
2021		2,794
2022		1,958
2023		1,458
2024		915
Thereafter		293
Total lease payments		10,768
Less imputed interest		(823)
	\$	9,945

Lessor

As a lessor, the Company's recognition of lease revenue remained consistent with previous guidance. As a result, the adoption of the lease standard did not have an impact on the Company's current and previously reported results in the Company's Condensed Consolidated Statements of Income.

The Company's equipment rentals for each of its operating segments are governed by agreements that detail the lease terms and conditions. The determination of whether these contracts with customers contain a lease generally does not require significant judgement. The Company accounts for these rentals as operating leases. These leases do not include material amounts of variable payments and the Company has made the accounting policy election to exclude all taxes assessed by a governmental authority. The Company generally does not provide an option for the lessee to purchase the rented equipment at the end of the lease term, thus, does not generate material revenue from sales of equipment under such options. Initial lease terms vary in length based upon customer needs and generally range from one to sixty months. Customers have the option to keep equipment on rent beyond the initial lease term on a month-to-month basis based upon their needs. All of the Company's rental products have long useful lives relative to the typical rental term with the original investment typically recovered in approximately three to five years. The rental products are typically rented for a majority of the time owned and a significant portion of the original investment is recovered when sold from inventory. The Company's lease agreements do not contain residual value guarantees or restrictive covenants.

As of December 31, 2019, maturities of operating lease payments to be received in 2020 and thereafter were as follows:

<i>(in thousands)</i>		
<u>Year Ended December 31,</u>		
2020	\$	92,821
2021		30,926
2022		8,922
2023		2,145
2024		877
Thereafter		37
	\$	135,728

In the year ended December 31, 2019, the Company's lease revenues were \$411.0 million, consisting of \$407.6 of operating lease revenues and \$3.4 million of finance lease revenues. 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 basis, which results in a constant rate of return on the unrecovered lease investment. For the year ended December 31, 2019, the Company's finance lease revenues included \$3.1 million of sales revenues and \$0.3 million of interest income. The minimum lease payments receivable and the net investment are included in Accounts receivable on the Company's Consolidated Balance Sheet for such leases, which were as follows:

<i>(in thousands)</i>	December 31, 2019	
Gross minimum lease payments receivable	\$	3,218
Less – unearned interest		(289)
Net investment in finance lease receivables	\$	2,929

As of December 31, 2019, the future minimum lease payments under non-cancelable finance leases to be received in 2020 and thereafter were as follows:

<i>(in thousands)</i>		
<u>Year Ended December 31,</u>		
2020	\$	2,345
2021		629
2022		184
2023		50
2024		10
Thereafter		—
Total minimum future lease payments to be received	\$	3,218

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 840, 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), which was adopted by the Company on January 1, 2018. The Company utilized the modified retrospective method of adoption and there was no impact on its condensed consolidated financial statements, nor was there a cumulative effect of initially applying the new standard. 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 obtain 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 \$17.5 million and \$15.7 million at December 31, 2019 and 2018, respectively. Sales revenues totaling \$10.2 million were recognized during the year ended December 31, 2019, which were included in the contract liability balance at December 31, 2018. 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 \$1.0 million and \$1.4 million at December 31, 2019 and 2018, 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 building 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 sales-type 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 sales-type leases and rental income on facility leases.

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 840) and non-lease revenues (within the scope of Topic 606) and the underlying service provided for the three years ended December 31, 2019, 2018 and 2017:

<i>(in thousands)</i>	<u>Mobile Modular</u>	<u>TRS- RenTelco</u>	<u>Adler Tanks</u>	<u>Enviroplex</u>	<u>Consolidated</u>
Year Ended December 31,					
2019					
Leasing	\$ 234,032	\$ 108,044	\$ 68,917	\$ —	\$ 410,993
Non-lease:					
Rental related services	18,964	2,599	27,634	—	49,197
Sales	47,045	18,995	1,266	39,814	107,120
Other	969	1,845	106	—	2,920
Total non-lease	<u>66,978</u>	<u>23,439</u>	<u>29,006</u>	<u>39,814</u>	<u>159,237</u>
Total revenues	<u>\$ 301,010</u>	<u>\$ 131,483</u>	<u>\$ 97,923</u>	<u>\$ 39,814</u>	<u>\$ 570,230</u>
2018					
Leasing	\$ 200,214	\$ 94,345	\$ 70,653	\$ —	\$ 365,212
Non-lease:					
Rental related services	14,870	2,607	24,276	—	41,753
Sales	39,467	19,895	1,044	29,046	89,452
Other	23	1,810	80	—	1,913
Total non-lease	<u>54,360</u>	<u>24,312</u>	<u>25,400</u>	<u>29,046</u>	<u>133,118</u>
Total revenues	<u>\$ 254,574</u>	<u>\$ 118,657</u>	<u>\$ 96,053</u>	<u>\$ 29,046</u>	<u>\$ 498,330</u>
2017					
Leasing	\$ 180,612	\$ 85,930	\$ 64,676	\$ —	\$ 331,218
Non-lease:					
Rental related services	13,331	2,358	24,322	—	40,011
Sales	37,434	18,137	2,362	31,369	89,302
Other	(111)	1,619	(5)	—	1,503
Total non-lease	<u>50,654</u>	<u>22,114</u>	<u>26,679</u>	<u>31,369</u>	<u>130,816</u>
Total revenues	<u>\$ 231,266</u>	<u>\$ 108,044</u>	<u>\$ 91,355</u>	<u>\$ 31,369</u>	<u>\$ 462,034</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 building 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. NOTES PAYABLE

Notes payable consists of the following:

<i>(in thousands)</i>	December 31,	
	2019	2018
Unsecured revolving lines of credit	\$ 193,459	\$ 198,603
3.68% Series B senior notes due in 2021	40,000	40,000
3.84% Series C senior notes due in 2022	60,000	60,000
	293,459	298,603
Unamortized debt issuance cost	(28)	(39)
	\$ 293,431	\$ 298,564

As of December 31, 2019, the future minimum payments under the unsecured revolving lines of credit, 3.68% Series B senior notes due in 2021 and 3.84% Series C senior notes due in 2022 are as follows:

<i>(in thousands)</i>	
<u>Year Ended December 31,</u>	
2020	\$ —
2021	233,459
2022	60,000
	\$ 293,459

Unsecured Revolving Lines of Credit

In March 2016, the Company renewed its credit agreement with a syndicate of banks (the "Credit Facility"). The five-year facility matures on March 31, 2021 and replaced the Company's prior \$420.0 million unsecured revolving credit facility. The Credit Facility provides for a \$420.0 million unsecured revolving credit facility (which may be increased to \$620.0 million with \$200.0 million of additional commitments), which includes a \$25.0 million sublimit for the issuance of standby letters of credit and a \$10.0 million sublimit for swing-line loans.

In March 2016, the Company entered into a Credit Facility Letter Agreement and a Credit Line Note in favor of MUFG Union Bank, N.A., extending its line of credit facility related to its cash management services ("Sweep Service Facility") and increasing the facility size from \$10.0 million to \$12.0 million. The Sweep Service Facility matures on the earlier of March 31, 2021, or the date the Company ceases to utilize MUFG Union Bank, N.A. for its cash management services.

At December 31, 2019, 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 \$193.5 million was outstanding, and had capacity to borrow up to an additional \$238.5 million. The Amended 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 Amended Credit Facility):

- 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 December 31, 2019, the actual ratio was 4.27 to 1.
- Permit the Consolidated Leverage Ratio of funded debt to EBITDA at any time during any period of four consecutive fiscal quarters to be greater than 2.75 to 1. At December 31, 2019, the actual ratio was 1.24 to 1.
- Permit Tangible Net Worth as of the end of any fiscal quarter of the Company to be less than the sum of (i) \$246.1 million plus (ii) 25% of the Company's Consolidated Net Income (as defined in the Amended Credit Facility) (but only if a positive number) for each fiscal quarter ended subsequent to December 31, 2011 plus (iii) 90% of the net cash proceeds from the issuance of the Company's capital stock after December 31, 2011. At December 31, 2019, such sum was \$388.1 million and the actual Tangible Net Worth of the Company was \$598.5 million.

Amounts borrowed under the Credit Facility bear interest at the Company's option at either: (i) LIBOR plus a defined margin, or (ii) the Agent bank's prime rate ("base rate") plus a margin. The applicable margin for each type of loan is measured based upon the Consolidated Leverage Ratio at the end of the prior fiscal quarter and ranges from 1.00% to 1.75% for LIBOR loans and 0% to 0.75% for base rate loans. In addition, the Company pays an unused commitment fee for the portion of the \$420.0 million credit facility that is not used. These fees are based upon the Consolidated Leverage Ratio and range from 0.15% to 0.30%. As of December 31, 2019 and 2018, the applicable margins were 1.25% for LIBOR based loans, 0.25% for base rate loans and 0.20% for

unused fees. Amounts borrowed under the Sweep Service Facility are based upon the MUFG Union Bank, N.A. base rate plus an applicable margin and an unused commitment fee for the portion of the \$12.0 million facility not used. The applicable base rate margin and unused commitment fee rates for the Sweep Service Facility are the same as for the Amended Credit Facility. The following information relates to the lines of credit for each of the following periods:

3.68% Senior Notes Due in 2021

On March 17, 2014, the Company issued and sold to the Purchasers 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 Note Purchase Agreement, as amended. The Series B Senior Notes are an unsecured obligation of the Company, 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 principal balance is due when the notes mature in 2021. The full net proceeds from the Series B Senior Notes were used for working capital and other general corporate purposes. At December 31, 2019 and 2018, 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 Purchasers 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 Note Purchase Agreement, as amended. The Series C Senior Notes are an unsecured obligation of the Company, 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 in 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 December 31, 2019 and 2018, the principal balance outstanding under the Series C Senior Notes was \$60.0 million.

Among other restrictions, the Note Purchase Agreement, under which the Series A Senior Notes, 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 December 31, 2019, the actual ratio was 4.27 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 December 31, 2019, the actual ratio was 1.24 to 1.
- Permit Tangible Net Worth, calculated as of the last day of each fiscal quarter, to be less than the sum of (i) \$229.0 million, plus (ii) 25% of net income for such fiscal quarter subsequent to December 31, 2010, plus (iii) 90% of the net cash proceeds from the issuance of the Company's capital stock after December 31, 2010. At December 31, 2019, such sum was \$388.1 million and the actual Tangible Net Worth of the Company was \$598.5 million.

At December 31, 2019, 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, though, significant deterioration in the Company's financial performance could impact its ability to comply with these covenants.

NOTE 6. INCOME TAXES

Income before provision (benefit) for income taxes consisted of the following:

<i>(in thousands)</i>	Year Ended December 31,		
	2019	2018	2017
U.S.	\$ 129,045	\$ 104,881	\$ 83,525
Foreign	80	(186)	(73)
	\$ 129,125	\$ 104,695	\$ 83,452

The provision (benefit) for income taxes consisted of the following:

(in thousands)	Year Ended December 31,		
	2019	2018	2017
Current:			
U.S. Federal	\$ 11,744	\$ 7,270	\$ 21,171
State	7,353	4,253	2,976
Foreign	1,616	1,731	2,016
	<u>20,713</u>	<u>13,254</u>	<u>26,163</u>
Deferred:			
U.S. Federal	10,719	10,355	(103,518)
State	895	1,637	6,948
Foreign	(8)	43	(61)
	<u>11,606</u>	<u>12,035</u>	<u>(96,631)</u>
Total	\$ 32,319	\$ 25,289	\$ (70,468)

The reconciliation of the U.S. federal statutory tax rate to the Company's effective tax rate is as follows:

	Year Ended December 31,		
	2019	2018	2017
U.S. federal statutory rate	21.0%	21.0%	35.0%
State taxes, net of federal benefit	5.0	5.0	4.1
State deferred tax rate change, net of federal benefit	0.1	0.7	0.5
Valuation allowance	0.0	(0.5)	0.1
Share-based compensation	(1.6)	(1.9)	(1)
Enactment of the Tax Cuts and Jobs Act	(0.1)	(0.1)	(123)
Other	0.6	0.0	(0.2)
	<u>25.0%</u>	<u>24.2%</u>	<u>(84.4)%</u>

The following table shows the deferred income taxes related to the temporary differences between the tax bases of assets and liabilities and the respective amounts included in "Deferred income taxes, net" on the Company's Consolidated Balance Sheets:

(in thousands)	December 31,	
	2019	2018
Deferred tax liabilities:		
Accelerated depreciation	\$ 221,627	\$ 208,539
Prepaid costs currently deductible	5,668	4,845
Other	5,011	4,703
Total deferred tax liabilities	<u>232,306</u>	<u>218,087</u>
Deferred tax assets:		
Accrued costs not yet deductible	8,860	7,796
Allowance for doubtful accounts	486	486
Deferred revenues	2,512	1,774
Share-based compensation	2,178	1,367
Total deferred tax assets, net of valuation allowance of \$0.2 million in 2019 and 2018	<u>14,036</u>	<u>11,423</u>
Deferred income taxes, net	\$ 218,270	\$ 206,664

The Tax Cuts and Jobs Act (the "Tax Act") was enacted in December 2017. Among other provisions, the Tax Act reduced the U.S. federal corporate tax rate from 35% to 21% in 2018, required companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and created new taxes on certain foreign-source earnings. As of December 31, 2019, the Company completed its accounting for the tax effects of enactment of the Tax Act without any material adjustments to its previous estimates.

As of December 31, 2019 the Company did not have a deferred tax liability related to its foreign earnings because it did not have any specific plans to repatriate funds from its international subsidiaries. The Company may do so in the future if a dividend can be remitted with no material tax impact.

In December 2016, the Company decided to exit the Bangalore, India branch operations of its TRS-RenTelco electronics division. The wind down of operations in India began in 2017. As a result, a valuation allowance was recorded against the deferred tax assets that resulted primarily from accumulated net operating loss carry forwards in India that management estimated the benefit of which will not be realized. As of December 31, 2019, the Company's foreign net operating losses for tax purposes were \$0.6 million. If not realized, these carry forwards will begin to expire in 2023.

For income tax purposes, deductible compensation related to share-based awards is based on the value of the award when realized, which may be different than the compensation expense recognized by the company for financial statement purposes which is based on the award value on the date of grant. The difference between the value of the award upon grant, and the value of the award when ultimately realized, creates either additional tax expense or benefit. In 2019, 2018 and 2017 exercise of share-based awards by employees resulted in an excess tax benefit of \$2.1 million, \$2.0 million and \$0.9 million, respectively.

The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Company evaluated all of its tax positions for which the statute of limitations remained open and determined there were no material unrecognized tax benefits as of December 31, 2019 and 2018. In addition, there have been no material changes in unrecognized benefits during 2019, 2018 and 2017.

The Company is subject to income taxes in the U.S. federal jurisdiction, and various states and foreign jurisdictions. Tax regulations within each jurisdiction are subject to interpretation of the related tax laws and regulations and require the application of significant judgment. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for the years before 2015.

Our income tax returns are subject to examination by federal, state and foreign tax authorities. There may be differing interpretations of tax laws and regulations, and as a result, disputes may arise with these tax authorities involving the timing and amount of deductions and allocation of income.

The Company recognizes interest and penalties related to unrecognized tax benefits in the provision (benefit) for income taxes in the accompanying Consolidated Statements of Income for all periods presented. Such interest and penalties were not significant for the years ended December 31, 2019, 2018 and 2017.

NOTE 7. BENEFIT PLANS

Stock Plans

The Company adopted the 2016 Stock Incentive Plan (the "2016 Plan"), effective June 8, 2016, under which 2,000,000 shares of the common stock of the Company, plus the number of shares that remain available for grants of awards under the Company's 2007 Stock Option Plan (the "2007 Plan") and become available as a result of forfeiture, termination, or expiration of awards previously granted under the 2007 Plan, were reserved for the grant of equity awards to its employees, directors and consultants. The equity awards have a maximum term of 7 years at an exercise price of not less than 100% of the fair market value of the Company's common stock on the date the equity award is granted. The 2016 Plan replaced the 2007 Plan.

The 2016 Plan provides for the grant of awards in the form of stock options, stock appreciation rights, restricted stock units ("RSUs"), the vesting of which may be performance-based or service-based, and other rights and benefits. Each RSU issued reduces the number of shares of the Company's common stock available for grant under the 2016 Plan by two shares. There were no modifications to the 2016 Plan and no awards classified as liabilities in the year ended December 31, 2019.

For the years ended December 31, 2019, 2018 and 2017, the share-based compensation expense was \$5.9 million, \$4.1 million and \$3.2 million, respectively, before provision for income taxes. The Company recorded a tax benefit of approximately \$1.6 million, \$1.1 million and \$1.3 million, respectively, related to the aforementioned share-based compensation expenses. There was no capitalized share-based compensation expense in the years ended December 31, 2019, 2018 and 2017.

Stock Options

As of December 31, 2019, a cumulative total of 8,458,600 shares subject to options have been granted with exercise prices ranging from \$3.47 to \$40.37. Of these, options have been exercised for the purchase of 6,214,548 shares, while options for 1,663,912 shares have been terminated, and options for 580,140 shares with exercise prices ranging from \$24.60 to \$40.37 remained outstanding under the stock plans. These options vest over five years and expire seven years after grant. To date, no options have been issued to

any of the Company's non-employee advisors. As of December 31, 2019, 1,708,914 shares remained available for issuance of awards under the stock plans.

A summary of the Company's option activity and related information for the three years ended December 31, 2019 is as follows:

	Number of options	Weighted-average price	Weighted-average remaining contractual term (in years)	Aggregate intrinsic value (in millions)
Balance at December 31, 2016	1,584,435	\$ 28.14		
Options granted	299,600	34.66		
Options exercised	(398,275)	28.94		
Options cancelled/forfeited/expired	(276,900)	28.04		
Balance at December 31, 2017	1,208,860	28.14		
Options granted	—	—		
Options exercised	(332,810)	29.49		
Options cancelled/forfeited/expired	(30,450)	28.27		
Balance at December 31, 2018	845,600	28.14		
Options granted	—	—		
Options exercised	(260,860)	29.55		
Options cancelled/forfeited/expired	(4,600)	30.59		
Balance at December 31, 2019	580,140	\$ 29.57	3.31	\$ 27.2
Exercisable at December 31, 2019	289,350	\$ 29.35	3.00	\$ 13.6
Expected to vest after December 31, 2019	289,003	\$ 29.80	3.61	\$ 13.5

The intrinsic value of stock options at any point in time is calculated as the difference between the exercise price of the underlying awards and the quoted price of the Company's common stock. The aggregate intrinsic value of options exercised and sold under the Company's stock option plans was \$9.1 million, \$9.0 million and \$5.0 million for the years ended December 31, 2019, 2018 and 2017, respectively, determined as of the date of option exercise. As of December 31, 2019, there was approximately \$1.4 million of total unrecognized compensation cost related to unvested share-based compensation option arrangements granted under the Company's stock plans, which is expected to be recognized over a weighted-average period of 1.1 years.

The following table indicates the options outstanding and options exercisable by exercise price with the weighted-average remaining contractual life for the options outstanding and the weighted-average exercise price at December 31, 2019:

Exercise price	Options Outstanding			Options Exercisable	
	Number outstanding at December 31, 2019	Weighted-average remaining contractual life (Years)	Weighted-average grant date value	Number exercisable at December 31, 2019	Weighted-average grant date value
\$20 – 25	256,640	3.17	\$ 24.60	128,440	\$ 24.60
\$25 – 30	6,150	3.13	\$ 25.13	1,120	\$ 25.14
\$30 – 35	306,810	3.40	\$ 33.48	155,710	\$ 33.04
\$35 – 40	6,800	4.00	\$ 39.19	4,080	\$ 39.19
\$40 – 45	3,740	4.67	\$ 40.37	—	\$ —
\$20 – 45	580,140	3.31	\$ 29.57	289,350	\$ 29.35

The Company utilizes the Black-Scholes option-pricing model to estimate the fair value of share-based compensation at the date of grant, which requires the use of accounting judgment and financial estimates, including estimates of the expected term option holders will retain their vested stock options before exercising them, the estimated volatility of the Company's stock price over the expected term and the expected number of options that will be forfeited prior to the completion of their vesting requirements. Application of alternative assumptions could produce significantly different estimates of the fair value of share-based compensation amounts recognized in the Consolidated Statements of Income.

The fair value of each option granted was estimated on the date of grant using the Black-Scholes option-pricing model using the following weighted-average assumptions:

	Year Ended December 31,		
	2019	2018	2017
Expected term (in years)	—	—	5.0
Expected volatility	—	—	26.1%
Expected dividend yields	—	—	3.0%
Risk-free interest rates	—	—	2.0%

The Company monitors option exercise behavior to determine the appropriate homogenous groups for estimation purposes. The Company's option activity is separated into two categories: directors and employees. The expected term of the options represents the estimated period of time until exercise and is based on historical experience, giving consideration to the option terms, vesting schedules and expectations of future behavior. Expected stock volatility was based on historical stock price volatility of the Company and the risk-free interest rates were based on U.S. Treasury yields in effect on the date of the option grant for the estimated period the options will be outstanding. The expected dividend yield was based upon the current dividend annualized as a percentage of the grant exercise price.

No options were granted in 2019 and 2018. The weighted average grant date fair value per share was \$6.28 during the year ended December 31, 2017.

Restricted Stock Units

The following table summarizes the activity of the Company's RSUs, which includes service-based and performance-based awards, for the three years ended December 31, 2019:

	Number of shares	Weighted-average grant date fair value	Aggregate intrinsic value (in millions)
Balance at December 31, 2016	125,240	30.66	
RSUs granted	70,960	34.53	
RSUs vested	(36,336)	26.99	
RSUs cancelled/forfeited/expired	(66,200)	32.63	
Balance at December 31, 2017	93,664	33.62	
RSUs granted	97,260	49.47	
RSUs vested	(30,214)	33.16	
RSUs cancelled/forfeited/expired	(21,200)	33.88	
Balance at December 31, 2018	139,510	44.73	
RSUs granted	83,440	59.98	
RSUs vested	(25,862)	48.31	
RSUs cancelled/forfeited/expired	(840)	59.84	
Balance at December 31, 2019	196,248	\$ 50.68	\$ 15.0

Performance-based RSUs issued prior to 2018 vest over five years, with 60% of the shares immediately vesting after three years when the performance criteria has been determined to have been met and 20% of the remaining shares vesting annually at the anniversary of the performance determination date, subject to continuous employment of the participant. The 2018 and 2019 performance-based RSU grants vest after three years with 100% of the shares vesting immediately when performance criteria has been determined to have been met. There were 200,839 performance-based RSUs expected to vest as of December 31, 2019. Service-based RSUs issued to the Company's directors generally vest over twelve to fourteen months. Service-based RSUs issued to the Company's management vest over three years. There were 81,984 service-based RSUs expected to vest as of December 31, 2019. No forfeitures are currently expected. The total fair value of RSUs that vested during the years ended December 31, 2019, 2018 and 2017 based on the weighted average grant date values was \$1.2 million, \$1.0 million and \$1.0 million, respectively.

Share-based compensation expense for RSUs for the year ended December 31, 2019, 2018 and 2017 was \$4.7 million, \$2.6 million and \$1.4, respectively. As of December 31, 2019, the total unrecognized compensation expense related to unvested RSUs was \$6.9 million and is expected to be recognized over a weighted-average period of 2.1 years.

Employee Stock Ownership and 401(k) Plans

The McGrath RentCorp Employee Stock Ownership and 401(k) Plan (the “KSOP”) provides that each participant may annually contribute an elected percentage of his or her salary, not to exceed the statutory limit. Each employee who has at least three months of service with the Company and is 21 years or older, is eligible to participate in the KSOP. The Company, at its discretion, may make matching contributions. Contributions are expensed in the year approved by the Board of Directors. Dividends on the Company’s stock held by the KSOP are treated as ordinary dividends and, in accordance with existing tax laws, are deducted by the Company in the year paid. For the year ended December 31, 2019 dividends deducted by the Company were \$0.4 million, which resulted in a tax benefit of approximately \$0.1 million in 2019.

At December 31, 2019, the KSOP held 241,956 shares, or 1% of the Company’s total common shares outstanding. These shares are included in basic and diluted earnings per share calculations.

NOTE 8. SHAREHOLDERS’ EQUITY

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 2,000,000 shares of the Company’s outstanding common stock. 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 program may be modified, extended or terminated by the board of directors at any time. There were no repurchases of common stock during the twelve months ended December 31, 2019 and 2018. As of December 31, 2019, 1,592,026 shares remain authorized for repurchase under this authorization.

NOTE 9. COMMITMENTS AND CONTINGENCIES

The Company leases certain facilities under various operating leases. Most of the lease agreements provide the Company with the option of renewing its lease at the end of the lease term, at the fair rental value. In most cases, management expects that in the normal course of business, facility leases will be renewed or replaced by other leases. Minimum payments under these leases, exclusive of property taxes and insurance, are as follows:

<i>(in thousands)</i>	
<u>Year Ended December 31,</u>	
2020	\$ 2,732
2021	2,370
2022	1,805
2023	1,290
2024	1,005
Thereafter	293
	<u>\$ 9,495</u>

Facility rent expense was \$3.9 million in 2019 and \$3.5 million in 2018 and 2017.

The Company is involved in various lawsuits and routine claims arising out of the normal course of its business. The Company maintains insurance coverage for its operations and employees with appropriate aggregate, per occurrence and deductible limits as the Company reasonably determines necessary or prudent with current operations and historical experience. The major policies include coverage for property, general liability, auto, directors and officers, health, and workers’ compensation insurances. The Company records a provision for a liability when it believes that it is both probable that a liability has been incurred and the amount can be reasonably estimated. Significant judgment is required to determine both probability and the estimated amount. The Company reviews these provisions at least quarterly and adjusts these provisions to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and updated information. Litigation is inherently unpredictable and is subject to significant uncertainties, some of which are beyond the Company’s control. In the opinion of management, there was not at least a reasonable possibility that the ultimate amount of liability not covered by insurance, if any, under any pending litigation and claims, individually or in the aggregate, will have a material adverse effect on the financial position or operating results of the Company.

The Company's health plans is self-funded high deductible plans with annual stop-loss insurance of \$200,000 per claim. Beginning in 2019, the Company's workers compensation insurance is underwritten by an insurance company with no stop-loss value and \$350,000 for prior claim years. Insurance providers are responsible for making claim payments that exceed these amounts on an individual claim basis. In addition, the Company has stop loss insurance that pays for claim payments made during a twelve month coverage period that exceeds certain specified thresholds in the aggregate. The Company records an expense when health and workers compensation claim payments are made and accrues for the portion of claims incurred, but not yet paid at period end. The Company makes these accruals based upon a combination of historical claim payments, loss development experience and actuarial estimates. A high degree of judgment is required in developing the underlying assumptions and the resulting amounts to be accrued. In addition, our assumptions will change as the Company's loss experience develops. All of these factors have the potential for impacting the amounts previously accrued and the Company may be required to increase or decrease the amounts previously accrued. At December 31, 2019 and 2018, accruals for the Company's health and workers' compensation high deductible plans were \$2.8 million and \$3.0 million, respectively.

NOTE 10. INTANGIBLE ASSETS

Intangible assets consist of the following:

<i>(dollar amounts in thousands)</i>	Estimated useful life in years	December 31, 2019	December 31, 2018
Trade name	Indefinite	\$ 5,871	\$ 5,871
Customer relationships	11	10,644	9,849
Non-compete agreements	5	157	—
		<u>16,672</u>	<u>15,720</u>
Less accumulated amortization		<u>(9,338)</u>	<u>(8,466)</u>
		<u>\$ 7,334</u>	<u>\$ 7,254</u>

Intangible assets with finite useful lives are amortized over their respective useful lives. Amortization expense in each of the years ended December 31, 2019, 2018 and 2017 was \$0.9 million. Based on the carrying values at December 31, 2019 and assuming no subsequent impairment of the underlying assets, the annual amortization is expected to be \$0.2 million in 2020 and \$0.2 million in 2021 through 2026.

NOTE 11. ACQUISITION

On August 15, 2019, the Company completed the purchase of the container rental business of ATP Containers LLC, dba TuffBox Container ("TuffBox") for \$7.8 million. The Company accounted for this transaction as a business combination and the initial assessment of the fair value of the purchased assets was allocated primarily to rental equipment totaling \$5.5 million and intangible assets totaling \$1.3 million, which included \$0.4 million allocated to goodwill. The goodwill represents the future economic benefits to be derived from the geographic market expansion of the Company's portable storage division. The goodwill was recorded in the Mobile Modular segment and is fully deductible for income tax purposes.

The TuffBox operating results are included in the Mobile Modular segment results since the date of acquisition. Supplemental pro forma prior year information has not been provided as the historical financial results of TuffBox were not significant. Incremental transaction costs associated with the acquisition were not significant.

NOTE 12. RELATED PARTY TRANSACTIONS

There were no related party transactions in the years ended December 31, 2019 and 2018, or amounts owed to related parties at such dates.

NOTE 13. SEGMENT REPORTING

FASB guidelines establish annual and interim reporting standards for an enterprise's operating segments and related disclosures about its products, services, geographic areas and major customers. In accordance with these guidelines the Company's four reportable segments are Mobile Modular, TRS-RenTelco, Adler Tanks and Enviroplex. Management focuses on several key measures to evaluate and assess each segment's performance including rental revenue growth, gross margin, 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 amongst Mobile Modular, TRS-RenTelco and Adler Tanks based on their pro-rata share of average rental equipment at cost, goodwill, 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 years ended December 31, 2019, 2018 and 2017, for the Company's reportable segments is shown in the following tables:

<i>(dollar amounts in thousands)</i>	Mobile Modular	TRS- RenTelco	Adler Tanks	Enviroplex 1	Consolidated
Year Ended December 31,					
2019					
Rental revenues	\$ 182,316	\$ 103,704	\$ 67,869	\$ —	\$ 353,889
Rental related services revenues	69,395	3,260	28,383	—	101,038
Sales and other revenues	49,299	24,519	1,671	39,814	115,303
Total revenues	301,010	131,483	97,923	39,814	570,230
Depreciation of rental equipment	22,071	41,948	16,372	—	80,391
Gross profit	143,618	60,748	47,014	14,785	266,165
Selling and administrative expenses	65,699	24,645	29,321	5,128	124,793
Income from operations	77,919	36,103	17,693	9,657	141,372
Interest expense (income) allocation	7,946	1,970	3,436	(1,021)	12,331
Income before provision for income taxes	69,973	34,217	14,257	10,678	129,125
Rental equipment acquisitions	75,433	89,759	4,826	—	170,018
Accounts receivable, net (period end)	83,182	23,788	17,281	3,848	128,099
Rental equipment, at cost (period end)	868,807	335,343	316,261	—	1,520,411
Rental equipment, net book value (period end)	610,048	172,413	185,039	—	967,500
Utilization (period end) ²	79.1%	64.5%	48.4%		
Average utilization ²	79.2%	66.2%	54.7%		

Segment Data (Continued) (dollar amounts in thousands)	Mobile Modular	TRS- RenTelco	Adler Tanks	Enviroplex 1	Consolidated
Year Ended December 31,					
2018					
Rental revenues	\$ 159,136	\$ 89,937	\$ 69,701	\$ —	\$ 318,774
Rental related services revenues	54,696	3,300	24,911	—	82,907
Sales and other revenues	40,742	25,420	1,441	29,046	96,649
Total revenues	254,574	118,657	96,053	29,046	498,330
Depreciation of rental equipment	21,200	36,011	15,928	—	73,139
Gross profit	120,750	54,773	48,055	9,673	233,251
Selling and administrative expenses	58,017	22,823	30,026	4,904	115,770
Income from operations	62,733	31,950	18,029	4,769	117,481
Interest expense (income) allocation	(7,132)	(2,696)	(3,252)	783	(12,297)
Income before benefit for income taxes	55,601	28,765	14,777	5,552	104,695
Rental equipment acquisitions	63,374	65,467	5,257	—	134,098
Accounts receivable, net (period end)	72,295	20,732	19,992	7,997	121,016
Rental equipment, at cost (period end)	817,375	285,052	313,573	—	1,416,000
Rental equipment, net book value (period end)	572,032	131,450	197,533	—	901,015
Utilization (period end) 2	79.3%	62.1%	56.4%		
Average utilization 2	78.2%	62.7%	59.9%		
2017					
Rental revenues	\$ 142,584	\$ 82,812	\$ 64,021	\$ —	\$ 289,417
Rental related services revenues	50,448	2,858	24,762	—	78,068
Sales and other revenues	38,234	22,374	2,572	31,369	94,549
Total revenues	231,266	108,044	91,355	31,369	462,034
Depreciation of rental equipment	21,247	32,891	15,770	—	69,908
Gross profit	103,935	50,289	43,218	8,903	206,345
Selling and administrative expenses	55,583	22,171	29,542	4,309	111,605
Income from operations	48,352	28,118	13,676	4,594	94,740
Interest expense (income) allocation	(6,671)	(2,320)	(3,071)	440	(11,622)
Income before provision for income taxes	41,681	26,132	10,605	5,034	83,452
Rental equipment acquisitions	34,526	58,781	4,800	—	98,107
Accounts receivable, net (period end)	59,274	19,581	18,663	8,354	105,872
Rental equipment, at cost (period end)	775,400	262,325	309,808	—	1,347,533
Rental equipment, net book value (period end)	543,857	109,482	208,981	—	862,320
Utilization (period end) 2	77.8%	61.7%	57.5%		
Average utilization 2	76.8%	62.9%	56.0%		

1 Gross Enviroplex sales revenues were \$39,814, \$30,407 and \$31,369 in 2019, 2018 and 2017, respectively. There were \$1,361 inter-segment sales to Mobile Modular in 2018, which have been eliminated in consolidation. There were no inter-segment sales in 2019 and 2017.

2 Utilization is calculated each month by dividing the cost of rental equipment on rent by the total cost of rental equipment excluding new equipment inventory and accessory equipment. 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 during 2019, 2018 and 2017. Revenue from foreign country customers accounted for 5%, 4% and 4% of the Company's revenues for the same periods, respectively.

NOTE 14. QUARTERLY FINANCIAL INFORMATION (unaudited)

Quarterly financial information for each of the two years ended December 31, 2019 is summarized below:

(in thousands, except per share amounts)	2019				
	First	Second	Third	Fourth	Year
Operations Data					
Rental revenues	\$ 82,696	\$ 88,105	\$ 90,857	\$ 92,231	\$ 353,889
Total revenues	122,008	127,439	173,562	147,221	570,230
Gross profit	57,005	59,881	78,282	70,997	266,165
Income from operations	27,310	29,066	46,748	38,248	141,372
Income before provision for income taxes	24,251	25,965	43,455	35,454	129,125
Net income	18,449	19,488	32,468	26,401	96,806
Earnings per share:					
Basic	\$ 0.76	\$ 0.80	\$ 1.34	\$ 1.09	\$ 3.99
Diluted	\$ 0.75	\$ 0.79	\$ 1.32	\$ 1.07	\$ 3.93
Dividends declared per share	\$ 0.375	\$ 0.375	\$ 0.375	\$ 0.375	\$ 1.50
Shares used in per share calculations:					
Basic	24,195	24,246	24,268	24,290	24,250
Diluted	24,540	24,579	24,632	24,697	24,623
Balance Sheet Data					
Rental equipment, net	\$ 912,878	\$ 943,152	\$ 958,610	\$ 967,500	\$ 967,500
Total assets	1,239,633	1,280,249	1,306,223	1,309,875	1,309,875
Notes payable	289,464	301,878	301,469	293,431	293,431
Shareholders' equity	580,643	592,309	616,715	634,036	634,036

	2018				
	First	Second	Third	Fourth	Year
Operations Data					
Rental revenues	\$ 74,261	\$ 77,267	\$ 82,155	\$ 85,091	\$ 318,774
Total revenues	105,085	116,983	143,147	133,115	498,330
Gross profit	50,170	53,928	64,050	65,103	233,251
Income from operations	22,042	24,449	35,824	35,166	117,481
Income before provision for income taxes	19,018	21,106	32,553	32,018	104,695
Net income	14,466	15,912	24,779	24,249	79,406
Earnings per share:					
Basic	\$ 0.60	\$ 0.66	\$ 1.03	\$ 1.00	\$ 3.29
Diluted	\$ 0.59	\$ 0.65	\$ 1.01	\$ 0.99	\$ 3.24
Dividends declared per share	\$ 0.34	\$ 0.34	\$ 0.34	\$ 0.34	\$ 1.36
Shares used in per share calculations:					
Basic	24,067	24,145	24,172	24,179	24,141
Diluted	24,478	24,584	24,563	24,514	24,540
Balance Sheet Data					
Rental equipment, net	\$ 865,338	\$ 876,522	\$ 888,607	\$ 901,015	\$ 901,015
Total assets	1,148,858	1,180,209	1,201,799	1,217,316	1,217,316
Notes payable	300,595	314,860	309,006	298,564	298,564
Shareholders' equity	530,284	537,195	554,547	571,535	571,535

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures. The Company's management under the supervision and with the participation of the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") is responsible for establishing and maintaining "disclosure controls and procedures" (as defined in rules promulgated under the Securities Exchange Act of 1934, as amended) for the Company. Based on their evaluation the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2019.

Changes in Internal Control over Financial Reporting. During the last quarter of the Company's fiscal year ended December 31, 2019, there were no changes in the Company's internal control that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Limitations on the Effectiveness of Controls. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected. The Company's disclosure controls and procedures are designed to provide reasonable assurance of achieving their objectives, and the CEO and CFO have concluded that these controls and procedures are effective at the "reasonable assurance" level.

Management's Assessment of Internal Control. Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2019, is discussed in the Management's Report on Internal Control Over Financial Reporting included on page 55.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2019 has been audited by Grant Thornton LLP, the Company's independent registered public accounting firm, and its report is included in this Annual Report on Form 10-K.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required by this Item is incorporated by reference to McGrath RentCorp's definitive Proxy Statement with respect to its 2020 Annual Meeting of Shareholders to be held on June 3, 2020, which will be filed with the Securities and Exchange Commission no later than April 24, 2020.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this Item is incorporated by reference to McGrath RentCorp's definitive Proxy Statement with respect to its 2020 Annual Meeting of Shareholders to be held on June 3, 2020, which will be filed with the Securities and Exchange Commission no later than April 24, 2020.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

The information required by this Item is incorporated by reference to McGrath RentCorp's definitive Proxy Statement with respect to its 2020 Annual Meeting of Shareholders to be held on June 3, 2020, which will be filed with the Securities and Exchange Commission no later than April 24, 2020.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE.

The information required by this Item is incorporated by reference to McGrath RentCorp's definitive Proxy Statement with respect to its 2020 Annual Meeting of Shareholders to be held on June 3, 2020, which will be filed with the Securities and Exchange Commission no later than April 24, 2020.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by this Item is incorporated by reference to McGrath RentCorp's definitive Proxy Statement with respect to its 2020 Annual Meeting of Shareholders to be held on June 3, 2020, which will be filed with the Securities and Exchange Commission no later than April 24, 2020.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.

Index of documents filed as part of this report:

1.The following Consolidated Financial Statements of McGrath RentCorp are included in Item 8.

	<i>Page of this report</i>
<u>Management’s Report on Internal Control over Financial Reporting</u>	55
<u>Reports of Independent Registered Public Accounting Firm:</u>	56
Consolidated Financial Statements	
<u>Consolidated Balance Sheets as of December 31, 2019 and 2018</u>	59
<u>Consolidated Statements of Income for the Years Ended December 31, 2019, 2018 and 2017</u>	60
<u>Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2019, 2018 and 2017</u>	61
<u>Consolidated Statements of Shareholders’ Equity for the Years Ended December 31, 2019, 2018 and 2017</u>	62
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2019, 2018 and 2017</u>	63
<u>Notes to Consolidated Financial Statements</u>	64

2.Financial Statement Schedules. None

3.Exhibits. See Index of Exhibits on page 87 of this report.

Schedules and exhibits required by Article 5 of Regulation S-X other than those listed are omitted because they are not required, are not applicable, or equivalent information has been included in the consolidated financial statements, and notes thereto, or elsewhere herein.

<u>Number</u>	<u>Description</u>	<u>Method of Filing</u>
3.1	Articles of Incorporation of McGrath RentCorp. 'P'	Filed as exhibit 19.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1988 (filed August 14, 1988), and incorporated herein by reference.
3.1.1	Amendment to Articles of Incorporation of McGrath RentCorp. 'P'	Filed as exhibit 3.1 to the Company's Registration Statement on Form S-1 (filed March 28, 1991 Registration No. 33-39633), and incorporated herein by reference.
3.1.2	Amendment to Articles of Incorporation of McGrath RentCorp.	Filed as exhibit 3.1.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 (filed March 31, 1998), and incorporated herein by reference.
3.2	Amended and Restated Bylaws	Filed as exhibit 3.1 to the Company's Current Report on Form 8-K (filed July 24, 2018) and incorporated herein by reference.
4.1	Note Purchase and Private Shelf Agreement between the Company and Prudential Investment Management, Inc., as placement agent, dated June 2, 2004.	Filed as exhibit 10.12 to the Company's Current Report on Form 8-K (filed June 10, 2004), and incorporated herein by reference.
4.1.1	Amendment to Note Purchase and Private Shelf Agreement between the Company and Prudential Investment Management, Inc., as placement agent, effective as of July 11, 2005.	Filed as exhibit 10.19 to the Company's Current Report on Form 8-K (filed July 15, 2005), and incorporated herein by reference.
4.1.2	Amendment to Note Purchase and Private Shelf Agreement between the Company and Prudential Investment Management, Inc., as placement agent, effective as of October 20, 2008.	Filed as exhibit 4.1.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2009 (filed February 26, 2010), and incorporated herein by reference.
4.1.3	Multiparty Guaranty between Enviroplex, Inc., Mobile Modular Management Corporation, Prudential Investment Management, Inc., and such other parties that become Guarantors thereunder, dated June 2, 2004.	Filed as exhibit 10.13 to the Company's Current Report on Form 8-K (filed June 10, 2004), and incorporated herein by reference.
4.1.4	Release from Obligations (TRS-RenTelco Inc.) related to the Note Purchase and Private Shelf Agreement dated June 2, 2004 by and among the Company, certain parties thereto, and Prudential Investment Management, Inc.	Filed as exhibit 10.15 to the Company's Quarterly Report on Form 10-Q (filed August 3, 2006) and incorporated herein by reference.
4.1.5	Indemnity, Contribution and Subordination Agreement between Enviroplex, Inc., Mobile Modular Management Corporation, the Company and such other parties that become Guarantors thereunder, dated June 2, 2004.	Filed as exhibit 10.14 to the Company's Current Report on Form 8-K (filed June 10, 2004), and incorporated herein by reference.
4.1.6	Amendment to Note Purchase and Private Shelf Agreement between the Company and Prudential Investment Management, Inc., as placement agent effective August 4, 2009.	Filed as exhibit 4.1 to the Company's Quarterly Report on Form 10-Q (filed August 6, 2009), and incorporated herein by reference.
4.1.7	Note Purchase and Private Shelf Agreement between the Company and Prudential Investment Management, Inc., dated April 21, 2011.	Filed as exhibit 10.1 to the Company's Current Report on Form 8-K (filed April 21, 2011), and incorporated herein by reference.
4.1.8	Amendment, dated as of March 17, 2014, to the Note Purchase and Private Shelf Agreement dated as of April 21, 2011 among the Company, Prudential Investment Management, Inc., The Prudential Insurance Company of America and Prudential Retirement Insurance and Annuity Company.	Filed as exhibit 10.1 to the Company's Current Report on Form 8-K (filed March 20, 2014) and incorporated herein by reference.
4.1.9	Amendment, dated as of February 9, 2016, to the Note Purchase and Private Shelf Agreement dated as of April 21, 2011 among the Company, Prudential Investment Management, Inc., The Prudential Insurance Company of America and Prudential Retirement Insurance and Annuity Company, as amended on March 17, 2014.	Filed as exhibit 10.1 to the Company's Current Report on Form 8-K (filed February 11, 2016) and incorporated herein by reference.
4.2	Credit Agreement dated as of March 31, 2016 among the Company, Bank of America, N.A. as Administrative Agent, Swing Line Lender and L/C Issuer, and The Other Lenders Party thereto.	Filed as exhibit 10.1 to the Company's Current Report on Form 8-K (filed April 5, 2016) and incorporated herein by reference.
4.2.1	Guaranty dated as of March 31, 2016 among certain domestic subsidiaries of the Company in favor of Bank of America, N.A., in its capacity as the administrative agent for the Lenders.	Filed as exhibit 10.2 to the Company's Current Report on Form 8-K (filed April 5, 2016) and incorporated herein by reference.
4.2.2	\$12,000,000 committed Credit Facility Letter Agreement between the Company and MUFG Union Bank, N.A., dated as of March 31, 2016.	Filed as exhibit 10.3 to the Company's Current Report on Form 8-K (filed April 5, 2016) and incorporated herein by reference.
4.2.3	\$12,000,000 Credit Line Note, dated March 31, 2016, in favor of MUFG Union Bank, N.A.	Filed as exhibit 10.4 to the Company's Current Report on Form 8-K (filed April 5, 2016) and incorporated herein by reference.
4.2.4	Description of Registrant's Securities.	Filed herewith..

<i>Number</i>	<i>Description</i>	<i>Method of Filing</i>
10.1	McGrath RentCorp 1998 Stock Option Plan as amended and restated on November 22, 2002.	Filed as exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2002 (filed March 20, 2003), and incorporated herein by reference.
10.1.1	Exemplar Incentive Stock Option for Employees Under the 1998 Stock Option Plan.	Filed as exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998 (filed November 12, 1998), and incorporated herein by reference.
10.1.2	Exemplar Non-Qualified Stock Option for Directors under the 1998 Stock Option Plan.	Filed as exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998 (filed November 12, 1998), and incorporated herein by reference.
10.2	Exemplar Form of the Directors, Officers and Other Agents Indemnification Agreements.	Filed as exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001 (filed March 18, 2002), and incorporated herein by reference.
10.3	McGrath RentCorp Employee Stock Ownership Plan, as amended and restated on December 31, 2008.	Filed as exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (filed February 26, 2009), and incorporated herein by reference.
10.3.1	McGrath RentCorp Employee Stock Ownership Trust Agreement, as amended and restated on December 31, 2008.	Filed as exhibit 10.3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (filed February 26, 2009), and incorporated herein by reference.
10.4	McGrath RentCorp 2007 Stock Incentive Plan.	Filed as exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (filed August 2, 2007), and incorporated herein by reference.
10.4.1	Form of 2007 Stock Incentive Plan Stock Option Award and Agreement.	Filed as exhibit 10.12.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (filed August 2, 2007), and incorporated herein by reference.
10.4.2	Form of 2007 Stock Incentive Plan Non-Qualified Stock Option Award and Agreement.	Filed as exhibit 10.12.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (filed August 2, 2007), and incorporated herein by reference.
10.4.3	Form of 2007 Stock Incentive Plan Stock Appreciation Right Award and Agreement.	Filed as exhibit 10.4.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (filed May 6, 2010), and incorporated herein by reference.
10.4.4	Form of 2007 Stock Incentive Plan Restricted Stock Unit Award and Agreement.	Filed as exhibit 10.4.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (filed May 6, 2010), and incorporated herein by reference.
10.5	McGrath RentCorp Employee Stock Ownership and 401(k) Plan	Filed as exhibit 4.5 to the Company's Registration Statement on Form S-8 (filed August 10, 2012) and incorporated herein by reference.
10.6	McGrath RentCorp Change in Control Severance Plan and Summary Plan Description	Filed as exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 (filed July 31, 2013), and incorporated herein by reference.
10.7	McGrath RentCorp 2016 Stock Incentive Plan	Filed as Appendix A to the Company's Proxy Statement for the 2016 Annual Meeting (filed April 29, 2016), and incorporated herein by reference.
10.7.1	Form of 2016 Stock Incentive Plan Restricted Stock Unit Award and Agreement	Filed as exhibit 10.1.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 (filed August 2, 2016), and incorporated herein by reference.
10.7.2	Form of 2016 Stock Incentive Plan Performance-Based Restricted Stock Unit Award and Agreement	Filed as exhibit 10.1.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 (filed August 2, 2016), and incorporated herein by reference.
10.7.3	Form of 2016 Stock Incentive Plan Stock Appreciation Right Award and Agreement	Filed as exhibit 10.1.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 (filed August 2, 2016), and incorporated herein by reference.
21.1	List of Subsidiaries.	Filed herewith.
23.1	Written Consent of Grant Thornton LLP.	Filed herewith.
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.

<u>Number</u>	<u>Description</u>	<u>Method of Filing</u>
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished herewith.
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished herewith.
101	The following materials from McGrath RentCorp's annual Report on Form 10-K for the year ended December 31, 2019, 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).	

'P' = exhibit was filed in paper form

SIGNATURES

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

Date: February 25, 2020

McGRATH RENTCORP

by: /s/ Joseph F. Hanna
 JOSEPH F. HANNA
 Chief Executive Officer and President
 (Principal Executive Officer)

by: /s/ Keith E. Pratt
 KEITH E. PRATT
 Executive Vice President and Chief Financial Officer
 (Principal Financial Officer)

by: /s/ David M. Whitney
 DAVID M. WHITNEY
 Vice President and Controller
 (Principal Accounting Officer)

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

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Kim A. Box</u> KIM A. BOX	Director	February 25, 2020
<u>/s/ William J. Dawson</u> WILLIAM J. DAWSON	Director	February 25, 2020
<u>/s/ Elizabeth A. Fetter</u> ELIZABETH A. FETTER	Director	February 25, 2020
<u>/s/ Joseph F. Hanna</u> JOSEPH F. HANNA	Chief Executive Officer, President and Director	February 25, 2020
<u>/s/ Bradley M. Shuster</u> BRADLEY M. SHUSTER	Director	February 25, 2020
<u>/s/ M. Richard Smith</u> M. RICHARD SMITH	Director	February 25, 2020
<u>/s/ Dennis P. Stradford</u> DENNIS P. STRADFORD	Director	February 25, 2020
<u>/s/ Ronald H. Zech</u> RONALD H. ZECH	Chairman of the Board	February 25, 2020

**DESCRIPTION OF THE REGISTRANT'S SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE
SECURITIES EXCHANGE ACT OF 1934**

Description of Securities

The following description of the capital stock of McGrath RentCorp is a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to our Articles of Incorporation, as amended (the "Articles of Incorporation") and our Amended and Restated Bylaws (the "Bylaws"), each of which are exhibits to our Annual Report on Form 10-K, of which this Exhibit 4.1 is a part. For additional information, we encourage you to read the Articles of Incorporation, the Bylaws, and the applicable laws of the state of California.

Authorized Capital Shares

Our authorized capital shares consist of 40,000,000 shares of common stock, no par value ("Common Stock"). As of December 31, 2019, 24,296,305 shares of Common Stock were issued and outstanding.

Voting Rights

Except as provided in Section 708 of the California Corporations Code, each outstanding share, regardless of class, shall be entitled to one vote on each matter submitted to a vote of shareholders. The holders of Common Stock may cumulate their votes in the election of directors upon completion of the notice required by the Bylaws.

Dividend Rights

The holders of the Common Stock are entitled to receive dividends as may be declared from time to time by our board of directors out of funds legally available therefor.

Other Rights and Preferences

The holders of Common Stock may act by unanimous written consent. The Common Stock has no sinking fund, redemption provisions, or preemptive, conversion, or exchange rights. Special meetings of shareholders may be called by shareholders holding shares in the aggregate representing not less than 10% of the votes entitled to vote at the meeting.

Listing

The Common Stock is traded on the NASDAQ Global Select Market under the trading symbol "MGRC."

LIST OF SUBSIDIARIES

Mobile Modular Management Corporation

Enviroplex, Inc.

TRS-RenTelco Inc.

Adler Tank Rentals, LLC

McGrath 180, LLC

McGrath RentCorp Asia PTE. LTD.

TRS-RenTelco India Private Limited

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports dated February 25, 2020, with respect to the consolidated financial statements and internal control over financial reporting included in the Annual Report of McGrath RentCorp on Form 10-K for the year ended December 31, 2019. We consent to the incorporation by reference of said reports in the Registration Statements of McGrath RentCorp on Forms S-8 (File Nos. 333-74089, 333-151815, 333-161128, and 333-183231).

/s/ GRANT THORNTON LLP

San Jose, California
February 25, 2020

McGRATH RENTCORP
SECTION 302 CERTIFICATION

I, Joseph F Hanna, certify that:

1. I have reviewed this annual report on Form 10-K 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 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 controls over financial reporting.

Date: February 25, 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 annual report on Form 10-K 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 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 controls over financial reporting.

Date: February 25, 2020

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

McGRATH RENTCORP**SECTION 906 CERTIFICATION**

In connection with the periodic report of McGrath RentCorp (the "Company") on Form 10-K for the period ended December 31, 2019 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: February 25, 2020

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

McGRATH RENTCORP

SECTION 906 CERTIFICATION

In connection with the periodic report of McGrath RentCorp (the "Company") on Form 10-K for the period ended December 31, 2019 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: February 25, 2020

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