

MCGRATH RENTCORP
Form 10-Q
October 30, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

QUARTERLY REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2018

Commission file number 0-13292

McGRATH RENTCORP

(Exact name of registrant as specified in its Charter)

California 94-2579843
(State or other jurisdiction (I.R.S. Employer

of incorporation or organization) Identification No.)
5700 Las Positas Road, Livermore, CA 94551-7800

(Address of principal executive offices)

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

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

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Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 29, 2018, 24,175,940 shares of Registrant’s Common Stock were outstanding.

FORWARD LOOKING STATEMENTS

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

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

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

Part I - Financial Information

Item 1. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

McGrath RentCorp

Results of review of interim financial statements

We have reviewed the accompanying condensed consolidated balance sheet of McGrath RentCorp and subsidiaries (the “Company”) as of September 30, 2018, and the related condensed consolidated statements of income and comprehensive income for the three- and nine-month periods ended September 30, 2018 and 2017, cash flows for the nine-month periods ended September 30, 2018 and 2017, and the related notes (collectively referred to as the “interim financial statements”). Based on our reviews, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the consolidated balance sheet of the Company as of December 31, 2017, and the related consolidated statements of income, comprehensive income, changes in shareholders’ equity, and cash flows for the year then ended (not presented herein); and in our report dated February 27, 2018, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2017, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

Basis for review results

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

/s/ GRANT THORNTON LLP

San Jose, California

October 30, 2018

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McGRATH RENTCORP

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(in thousands, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues				
Rental	\$ 82,155	\$ 73,781	\$ 233,683	\$ 211,712
Rental related services	23,880	21,856	60,797	58,587
Rental operations	106,035	95,637	294,480	270,299
Sales	36,085	38,684	67,722	67,166
Other	1,027	1,067	3,013	2,342
Total revenues	143,147	135,388	365,215	339,807
Costs and Expenses				
Direct costs of rental operations:				
Depreciation of rental equipment	18,407	17,492	54,287	52,113
Rental related services	18,618	16,611	47,404	44,756
Other	17,674	15,396	52,696	46,794
Total direct costs of rental operations	54,699	49,499	154,387	143,663
Costs of sales	24,398	27,114	42,680	44,488
Total costs of revenues	79,097	76,613	197,067	188,151
Gross profit	64,050	58,775	168,148	151,656
Selling and administrative expenses	28,226	28,489	85,833	83,702
Income from operations	35,824	30,286	82,315	67,954
Other income (expense):				
Interest expense	(3,142)	(2,986)	(9,133)	(8,724)
Foreign currency exchange gain (loss)	(129)	36	(505)	273
Income before provision for income taxes	32,553	27,336	72,677	59,503
Provision for income taxes	7,774	10,574	17,520	23,307
Net income	\$ 24,779	\$ 16,762	\$ 55,157	\$ 36,196
Earnings per share:				
Basic	\$ 1.03	\$ 0.70	\$ 2.29	\$ 1.51
Diluted	\$ 1.01	\$ 0.69	\$ 2.25	\$ 1.50
Shares used in per share calculation:				
Basic	24,172	24,015	24,128	23,984
Diluted	24,563	24,228	24,550	24,201
Cash dividends declared per share	\$ 0.340	\$ 0.260	\$ 1.020	\$ 0.780

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

McGRATH RENTCORP

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

(in thousands)	Three Months Ended September		Nine Months Ended September	
	30, 2018	2017	30, 2018	2017
Net income	\$ 24,779	\$ 16,762	\$ 55,157	\$ 36,196
Other comprehensive income (loss):				
Foreign currency translation adjustment	82	(11)	222	(119)
Tax benefit (provision)	(15)	7	(54)	43
Comprehensive income	\$ 24,846	\$ 16,758	\$ 55,325	\$ 36,120

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

McGrath RentCorp

CONDENSED CONSOLIDATED BALANCE SHEETS

(unaudited)

(in thousands)	September 30, 2018	December 31, 2017
Assets		
Cash	\$4,399	\$2,501
Accounts receivable, net of allowance for doubtful accounts of \$1,883 in 2018 and \$1,987 in 2017	115,089	105,872
Rental equipment, at cost:		
Relocatable modular buildings	801,129	775,400
Electronic test equipment	284,647	262,325
Liquid and solid containment tanks and boxes	312,487	309,808
	1,398,263	1,347,533
Less accumulated depreciation	(509,656)	(485,213)
Rental equipment, net	888,607	862,320
Property, plant and equipment, net	125,756	119,170
Prepaid expenses and other assets	32,660	22,459
Intangible assets, net	7,480	7,724
Goodwill	27,808	27,808
Total assets	\$1,201,799	\$1,147,854
Liabilities and Shareholders' Equity		
Liabilities:		
Notes payable	\$309,006	\$303,414
Accounts payable and accrued liabilities	92,443	86,408
Deferred income	48,192	39,219
Deferred income taxes, net	197,611	194,629
Total liabilities	647,252	623,670
Shareholders' equity:		
Common stock, no par value - Authorized 40,000 shares Issued and outstanding - 24,176 shares as of September 30, 2018 and 24,052 shares as of December 31, 2017	102,753	102,947
Retained earnings	451,794	421,405
Accumulated other comprehensive income (loss)	—	(168)
Total shareholders' equity	554,547	524,184
Total liabilities and shareholders' equity	\$1,201,799	\$1,147,854

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

McGrath RentCorp

CONDENSED Consolidated Statements of Cash Flows

(unaudited)

(in thousands)	Nine Months Ended September 30,	
	2018	2017
Cash Flows from Operating Activities:		
Net income	\$55,157	\$36,196
Adjustments to reconcile net income to net cash provided by		
operating activities:		
Depreciation and amortization	60,896	58,425
Impairment of rental assets	39	—
Provision for doubtful accounts	297	1,155
Share-based compensation	2,810	2,245
Gain on sale of used rental equipment	(15,044)	(13,006)
Foreign currency exchange (gain) loss	505	(273)
Amortization of debt issuance costs	18	38
Change in:		
Accounts receivable	(9,514)	(11,691)
Prepaid expenses and other assets	(10,195)	(1,261)
Accounts payable and accrued liabilities	148	80
Deferred income	8,741	4,689
Deferred income taxes	2,982	4,544
Net cash provided by operating activities	96,840	81,141
Cash Flows from Investing Activities:		
Purchases of rental equipment	(84,658)	(73,193)
Purchases of property, plant and equipment	(12,521)	(12,784)
Cash paid for business acquisition	(7,543)	—
Proceeds from sales of used rental equipment	30,067	28,478
Net cash used in investing activities	(74,655)	(57,499)
Cash Flows from Financing Activities:		
Net borrowings under bank lines of credit	25,575	16,813
Principal payments on Series A senior notes	(20,000)	(20,000)
Taxes paid related to net share settlement of stock awards	(3,004)	(1,363)
Payment of dividends	(22,719)	(18,628)
Net cash used in financing activities	(20,148)	(23,178)
Effect of foreign currency exchange rate changes on cash	(139)	53
Net increase in cash	1,898	517
Cash balance, beginning of period	2,501	852
Cash balance, end of period	\$4,399	\$1,369
Supplemental Disclosure of Cash Flow Information:		
Interest paid, during the period	\$9,193	\$8,563
Net income taxes paid, during the period	\$16,055	\$23,510
Dividends accrued during the period, not yet paid	\$8,349	\$5,979
Rental equipment acquisitions, not yet paid	\$9,643	\$6,622

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

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McGRATH RENTCORP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2018

NOTE 1. CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The condensed consolidated financial statements for the three and nine months ended September 30, 2018 and 2017 have not been audited, but in the opinion of management, all adjustments (consisting of normal recurring accruals, consolidating and eliminating entries) necessary for the fair presentation of the consolidated financial position, results of operations and cash flows of McGrath RentCorp (the “Company”) have been made. The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) have been condensed or omitted pursuant to those rules and regulations. The consolidated results for the nine months ended September 30, 2018 should not be considered as necessarily indicative of the consolidated results for the entire fiscal year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s latest Annual Report on Form 10-K, filed with the SEC on February 27, 2018 for the year ended December 31, 2017 (the “2017 Annual Report”).

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

In August 2018, the Financial Accounting Standards Board (“FASB”) issued Accounting Standard Update (“ASU”) No. 2018-15, Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. Under this ASU, entities should account for costs associated with implementing a cloud computing arrangements that is considered a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The Company is evaluating the impact of this guidance on its consolidated financial statements.

In February 2016, FASB issued ASU No. 2016-02, Leases (Subtopic 842-10). Under the new guidance, lessees will be 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 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. Under the new guidance, lessor accounting is largely unchanged. The amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. While the Company is still evaluating the potential impact of this guidance, as a lessor the Company does not believe the accounting for operating lease revenues will be materially affected by this standard. The Company

anticipates the lessee accounting to increase its total assets and liabilities; however, the Company is currently evaluating the magnitude of the impact the adoption of this guidance will have on the Company's consolidated financial statements. We expect to use the transition method that allows us to initially apply this guidance at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Consequently, financial information will not be updated and the financial disclosures requirement under the new standard will not be provided for periods prior to January 1, 2019. The standard contains additional optional transition practical expedients intended to simplify adoption that the Company is still evaluating. The Company is currently implementing processes and systems to assist in the ongoing lease data collection and analysis and evaluating the impact on its accounting policies and internal controls.

NOTE 3. IMPLEMENTED ACCOUNTING PRONOUNCEMENTS

Revenue from Contracts with Customers

The Company's accounting for revenues is governed by two accounting standards. The majority of the Company's revenues are considered 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 is 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 \$11.0 million and \$6.8 million at September 30, 2018 and December 31, 2017, respectively. Sales revenues totaling \$2.1 million and \$5.6 million were recognized during the three and nine months ended September 30, 2018, respectively, which were included in the contract liability balance at December 31, 2017. For certain modular building sales, the customer retains a small portion of the contract price until full completion of the contract, which results in revenue earned in excess of billings. These unbilled contract assets are included in Accounts receivable on the Company's consolidated balance sheet and totaled \$0.3 million and \$2.0 million at September 30, 2018 and December 31, 2017, 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.

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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 and nine months ended September 30, 2018 and 2017:

	Mobile	TRS-	Adler		
(in thousands)	Modular	RenTelco	Tanks	Enviroplex	Consolidated
Three Months Ended September 30, 2018					
Leasing	\$52,036	\$ 23,206	\$ 18,942	\$ —	\$ 94,184
Non-lease:					
Rental related services	5,697	642	6,781	—	13,120
Sales	17,140	3,828	294	14,102	35,364
Other	18	461	—	—	479
Total non-lease	22,855	4,931	7,075	14,102	48,963
Total revenues	\$74,891	\$ 28,137	\$26,017	\$ 14,102	\$ 143,147
2017					
Leasing	\$45,824	\$ 22,033	\$ 16,700	\$ —	\$ 84,557
Non-lease:					
Rental related services	5,528	623	6,255	—	12,406
Sales	17,533	4,186	461	15,781	37,961
Other	2	462	—	—	464
Total non-lease	23,063	5,271	6,716	15,781	50,831
Total revenues	\$68,887	\$ 27,304	\$23,416	\$ 15,781	\$ 135,388
Nine Months Ended September 30, 2018					
Leasing	\$ 146,672	\$ 69,183	\$ 51,889	\$ —	\$ 267,744
Non-lease:					
Rental related services	11,226	1,816	17,674	—	30,716
Sales	30,694	14,179	629	19,831	65,333
Other	21	1,349	52	—	1,422
Total non-lease	41,941	17,344	18,355	19,831	97,471
Total revenues	\$ 188,613	\$ 86,527	\$ 70,244	\$ 19,831	\$ 365,215
2017					
Leasing	\$ 133,184	\$ 63,106	\$ 46,629	\$ —	\$ 242,919
Non-lease:					
Rental related services	10,634	1,666	17,929	—	30,229
Sales	30,001	13,080	1,572	20,692	65,345
Other	9	1,305	—	—	1,314
Total non-lease	40,644	16,051	19,501	20,692	96,888
Total revenues	\$ 173,828	\$ 79,157	\$ 66,130	\$ 20,692	\$ 339,807

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.

Modifications to Share-based Payments

In May 2017, the FASB issued ASU No. 2017-09, Compensation, Stock Compensation (Topic 718). The amendments in this update provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. An entity should account for the effects of a modification unless all of the following are met: 1) the fair value of the modified award is the same as the fair value of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification; 2) the vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified and; 3) the classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified. The amendments of this update became effective for the interim and annual periods beginning after December 15, 2017. The Company adopted the provisions of this guidance on January 1, 2018, which had no impact on the Company's consolidated financial statements.

NOTE 4. EARNINGS PER SHARE

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

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Weighted-average number of shares of common stock for				
calculating basic earnings per share	24,172	24,015	24,128	23,984
Effect of potentially dilutive securities from equity-based				
compensation	391	213	422	217
Weighted-average number of shares of common stock for				
calculating diluted earnings per share	24,563	24,228	24,550	24,201

The following securities were not included in the computation of diluted earnings per share as their effect would have been anti-dilutive:

Three Months	Nine Months Ended
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	Ended	September	
	September	30,	
(in thousands)	30,	2018	2017
	2018	2017	
Options to purchase shares of common stock	—	14	— 14

NOTE 5. INTANGIBLE ASSETS

Intangible assets consist of the following:

	Estimated	September	December
	useful life	30,	31,
(dollar amounts in thousands)	in years	2018	2017
Trade name	Indefinite	\$ 5,871	\$ 5,700
Customer relationships	11	9,849	9,611
		15,720	15,311
Less accumulated amortization		(8,240)	(7,587)
		\$ 7,480	\$ 7,724

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

The Company typically conducts 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 year ended December 31, 2017. Determining the fair value of a reporting unit is judgmental and involves the use of significant estimates and assumptions. The Company bases its fair value estimates on assumptions that it believes are reasonable but are uncertain and subject to changes in market conditions.

Intangible assets with finite useful lives are amortized over their respective useful lives. Based on the carrying values at September 30, 2018 and assuming no subsequent impairment of the underlying assets, the amortization expense is expected to be \$0.2 million for the remainder of fiscal year 2018, \$0.9 million in the year 2019 and \$0.2 million in 2020.

NOTE 6. ACQUISITION

On August 1, 2018, the Company completed the purchase of the blast resistant module rental business of DropBox, Inc. ("DropBox") for \$7.9 million. The Company accounted for this transaction as a business combination and the fair value of the purchased assets was allocated primarily to rental equipment totaling \$7.7 million. The remaining purchase price was allocated to trade name and customer relationships valued at \$0.2 million, respectively, and deferred revenue of \$0.2 million. At September 30, 2018, \$0.4 million related to the purchase price was included in accounts payable and accrued liabilities.

The DropBox 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 DropBox were not significant. Incremental transaction costs associated with the acquisition were not significant.

NOTE 7. SEGMENT REPORTING

The Company's four reportable segments are (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 segment selling modular buildings used primarily as classrooms in California ("Enviroplex"). The operations of each of these segments are described in Part I – Item 1, "Business," and the accounting policies of the segments are described in "Note 2 – Significant Accounting Policies" in the Company's annual report on Form 10-K for the year ended December 31, 2017. Management focuses on several key measures to evaluate and assess each segment's performance, including rental revenue growth, gross profit, income from operations and income before provision for income taxes. Excluding interest expense, allocations of revenue and expense not directly associated with one of these segments are generally allocated to Mobile Modular, TRS-RenTelco and Adler Tanks based on their pro-rata share of direct revenues. Interest expense is allocated among Mobile Modular, TRS-RenTelco and Adler Tanks based on their pro-rata share of average rental equipment at cost, intangible assets, accounts receivable, deferred income and customer security deposits. The Company does not report total assets by business segment. Summarized financial information for the nine months ended September 30, 2018 and 2017 for the Company's reportable segments is shown in the following table:

	Mobile	TRS-	Adler
(dollar amounts in thousands)	Modular	RenTelco	Tanks