

MCGRATH RENTCORP
Form 10-K
February 26, 2019

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, 2018

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 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

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

Title of each class	Name of each exchange on which registered
Common Stock	NASDAQ Global Select Market

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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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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

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 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, 2018 (based upon the closing sale price of the registrant's common stock as reported on the NASDAQ Global Select Market on June 30, 2018): \$1,515,726,679.

As of February 25, 2019, 24,182,321 shares of Registrant's Common Stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

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McGrath RentCorp's definitive proxy statement with respect to its 2019 Annual Meeting of Shareholders to be held on June 5, 2019 which will be filed with the Securities and Exchange Commission within 120 days after the end of its fiscal year ended December 31, 2018, is incorporated by reference into Part III (Items 10, 11, 12, and 13).

Exhibit index appears on page 88

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 “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-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”). The Mobile Modular business segment includes the Mobile Modular Portable Storage division, which represented approximately 8% of the Company’s 2018 total revenues.

No single customer accounted for more than 10% of total revenues during 2018, 2017 and 2016. Revenue from foreign country customers accounted for 4% of the Company’s revenues in 2018 and 2017, and 5% in 2016.

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.

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•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, and operating and accounting systems.

Employees

As of December 31, 2018, the Company had 1,066 employees, of whom 87 were primarily administrative and executive personnel, with 577, 199, 127 and 76 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. In addition, the public may read and copy materials filed by the Company at the SEC’s Public Reference Room located at 100 F Street, N.E., Washington, D.C. 20549. The public may also obtain additional information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

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

RELOCATABLE MODULAR BUILDINGS

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 2018, Mobile Modular purchased 33% 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 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 less than 2% of rental equipment, and has been, on average, 14 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 more than 35 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.

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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. Modulars 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 modulars, 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, 2018, Mobile Modular owned 53,035 new or previously rented modulares and portable storage containers with an aggregate cost of \$817,375 million including accessories, or an average cost per unit of \$15,411. 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, 2018, fleet utilization was 79.3% and average fleet utilization during 2018 was 78.2%. The Mobile Modular segment includes the results of operations of Mobile Modular Portable Storage, which represented approximately 8% of the Company's 2018 total revenues.

Sales

In addition to operating its rental fleet, Mobile Modular sells modulares 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 2018 Mobile Modular's largest sale represented approximately 5% of Mobile Modular's sales, 2% 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 modulares 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 larger national 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 modulares. Part of the Company's strategy for modulares is to create facilities and infrastructure capabilities that its competitors cannot easily duplicate. The Company's facilities and related infrastructure enable it to modify modulares 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

Percentage of:	2018	2017	2016	2015	2014
Modular Rental Revenues (Mobile Modular)	33%	33%	34%	33%	32%
Modular Sales Revenues (Mobile Modular & Enviroplex)	70%	76%	67%	43%	49%
Modular Rental and Sales Revenues (Mobile Modular & Enviroplex)	44%	47%	43%	35%	37%
Consolidated Rental and Sales Revenues ¹	24%	26%	23%	16%	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.

ELECTRONIC TEST EQUIPMENT

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, 2018, the original cost of electronic test equipment inventory was comprised of 75% general purpose electronic test equipment and 25% 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 (formerly Agilent Technologies) 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 and Viavi Solutions (formerly JDS Uniphase 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.

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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, 2018, TRS-RenTelco had an electronic test equipment rental inventory including accessories with an aggregate cost of \$285.1 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 62.1% as of December 31, 2018 and averaged 62.7% 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 23% of total annual gross profit for our electronics division. For 2018, gross profit on equipment sales was approximately 23% 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 2018, approximately 19% of the electronic test equipment revenues were derived from sales. The largest electronic test equipment sale during 2018 represented approximately 5% 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.

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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.

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LIQUID AND SOLID CONTAINMENT TANKS AND BOXES

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 that Adler Tanks builds 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, 2018, Adler Tanks had rental equipment inventory including accessories with an aggregate cost of \$313.6 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 56.4% at December 31, 2018 and averaged 59.9% during the year.

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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 BakerCorp (acquired by United Rentals 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 11. 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

(dollar amounts in thousands)	Year Ended December 31,							
	2018	2017	2016	2015	2014			
Relocatable Modular Buildings (operating under Mobile Modular and Enviroplex)								
Revenues								
Rental	\$ 159,136	\$ 142,584	\$ 130,496	\$ 115,986	\$ 96,457			
Rental related services	54,696	50,448	49,206	45,616	35,263			
Total Modular rental operations	213,832	193,032	179,702	161,602	131,720			
Sales — Mobile Modular	39,467	37,435	29,393	22,248	29,394			
Sales — Enviroplex	29,046	31,369	22,121	10,612	17,457			
Total Modular sales	68,513	68,804	51,514	32,860	46,851			
Other	1,275	799	417	434	461			
Total Modular revenues	\$283,620	\$262,635	\$231,633	\$194,896	\$179,032			
Percentage of rental revenues	49.9 %	49.3 %	48.1 %	42.4 %	35.8 %			
Percentage of total revenues	56.9 %	56.8 %	54.6 %	48.2 %	43.9 %			
Rental equipment, at cost (year-end)	\$817,375	\$775,400	\$769,190	\$736,875	\$664,340			
Rental equipment, net book value (year-end)	\$572,032	\$543,857	\$544,421	\$529,483	\$473,960			
Number of units (year-end)	53,035	52,188	50,577	47,995	43,792			
Utilization (year-end) ¹	79.3 %	77.8 %	77.3 %	76.9 %	75.0 %			
Average utilization ¹	78.2 %	76.8 %	76.6 %	75.8 %	72.3 %			
Average rental equipment, at cost ²	\$756,513	\$747,478	\$724,333	\$667,953	\$597,904			
Annual yield on average rental equipment, at cost ⁴	21.0 %	19.1 %	18.0 %	17.4 %	16.1 %			
Gross margin on rental revenues	59.8 %	56.1 %	56.6 %	53.4 %	49.4 %			
Gross margin on sales	30.7 %	28.0 %	29.0 %	26.5 %	27.1 %			
Electronic Test Equipment (operating under TRS-RenTelco)								
Revenues								
Rental	\$89,937	\$82,812	\$82,307	\$89,208	\$99,020			
Rental related services	3,300	2,858	2,846	3,055	3,331			
Total Electronics rental operations	93,237	85,670	85,153	92,263	102,351			
Sales	23,061	20,334	21,582	21,137	24,323			
Other	2,359	2,040	1,882	1,617	1,628			
Total Electronics revenues	\$118,657	\$108,044	\$108,617	\$115,017	\$128,302			
Percentage of rental revenues	28.2 %	28.6 %	30.3 %	32.6 %	36.7 %			

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Percentage of total revenues	23.8	%	23.4	%	25.6	%	28.4	%	31.4	%
Rental equipment, at cost (year-end)	\$285,052		\$262,325		\$246,325		\$262,945		\$261,995	
Rental equipment, net book value (year-end)	\$131,450		\$109,482		\$90,172		\$102,191		\$105,729	
Utilization (year-end) ¹	62.1	%	61.7	%	61.0	%	58.7	%	59.8	%
Average utilization ¹	62.7	%	62.9	%	60.6	%	60.5	%	60.4	%
Average rental equipment, at cost ³	\$275,891		\$252,332		\$254,019		\$265,832		\$262,968	
Annual yield on average rental equipment, at cost ⁴	32.6	%	32.8	%	32.4	%	33.6	%	37.7	%
Gross margin on rental revenues	43.6	%	44.0	%	39.8	%	39.9	%	46.4	%
Gross margin on sales	54.6	%	56.9	%	50.9	%	48.6	%	49.7	%

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(dollar amounts in thousands)	Year Ended December 31,									
	2018	2017	2016	2015	2014					
Liquid and Solid Containment Tanks and Boxes										
(operating under Adler Tanks)										
Revenues										
Rental	\$69,701	\$64,021	\$58,585	\$68,502	\$74,098					
Rental related services	24,911	24,762	23,807	24,643	25,538					
Total Tanks and Boxes rental operations	94,612	88,783	82,392	93,145	99,636					
Sales	1,044	2,362	1,314	1,388	1,074					
Other	397	210	124	98	78					
Total Tanks and Boxes revenues	\$96,053	\$91,355	\$83,830	\$94,631	\$100,788					
Percentage of rental revenues	21.9	% 22.1	% 21.6	% 25.0	% 27.5					
Percentage of total revenues	19.3	% 19.8	% 19.8	% 23.4	% 24.7					
Rental equipment, at cost (year-end)	\$313,573	\$309,808	\$308,542	\$310,263	\$303,303					
Rental equipment, net book value (year-end)	\$197,533	\$208,981	\$221,778	\$237,927	\$246,061					
Utilization (year-end) ¹	56.4	% 57.5	% 50.7	% 49.7	% 63.9					
Average utilization ¹	59.9	% 56.0	% 50.1	% 58.3	% 62.9					
Average rental equipment, at cost ²	\$310,401	\$307,558	\$307,416	\$304,001	\$289,928					
Annual yield on average rental equipment, at cost ⁴	22.4	% 20.8	% 19.1	% 22.5	% 25.6					
Gross margin on rental revenues	61.1	% 58.7	% 55.5	% 61.9	% 65.4					
Gross margin on sales	3.7	% 15.2	% (2.1))% (25.1))% 2.0					
Total revenues	\$498,330	\$462,034	\$424,080	\$404,544	\$408,122					

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 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 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

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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.

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. 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, 2018, we had \$35.1 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 result 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.

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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.

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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, 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 \$2.0 million per year for each 1% increase in the average interest rate we pay based on the \$198.6 million balance of variable rate debt outstanding at December 31, 2018. 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.

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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, 2018 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 larger national 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, 2018, 54% 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 modulares 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 modulares 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 2018,

Mobile Modular purchased 33% 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 (formerly Agilent Technologies) 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, we anticipate the amount of our international business may increase if our focus on international market opportunities continues. 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;

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currency fluctuations; and
potential adverse tax consequences.

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

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

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

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

Our rental tanks and boxes are used by our customers to store non-hazardous and certain hazardous liquids and solids on the customer's site. Our customers are generally responsible for proper operation of our tank and box rental equipment while on rent and returning a cleaned and undamaged container upon completion of use, but exceptions may be granted and we cannot always assure that these responsibilities are fully met in all cases. Although we require the customer to carry commercial general liability insurance in a minimum amount of \$5,000,000, such policies often contain pollution exclusions and other exceptions. Furthermore, we cannot be certain our liability insurance will always be sufficient. In addition, if an accident were to occur involving our rental equipment or a spill of substances were to occur when the tank or box was in transport or on rent with our customer, a claim could be made against us as owner of the rental equipment.

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

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

The liquid and solid containment rental industry is highly competitive. We compete against national, regional and local companies, including United Rentals, Rain For Rent and Mobile Mini, all of which may be larger than we are 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

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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 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, 2018, 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

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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 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).

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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 MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND
5. 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 26, 2019, 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, 2018 and 2017. As of December 31 2018, 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, 2018 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

(in thousands, except per share data)	Year Ended December 31,				
	2018	2017	2016	2015	2014
Operations Data					
Revenues					
Rental	\$318,774	\$289,417	\$271,388	\$273,696	\$269,575
Rental related services	82,907	78,068	75,859	73,314	64,132
Rental operations	401,681	367,485	347,247	347,010	333,707
Sales	92,618	91,500	74,410	55,385	72,248
Other	4,031	3,049	2,423	2,149	2,167
Total revenues	498,330	462,034	424,080	404,544	408,122
Costs and expenses					
Direct costs of rental operations					
Depreciation of rental equipment	73,139	69,908	72,197	75,213	72,678
Rental related services	64,298	60,029	59,044	57,144	50,969
Other	68,678	65,472	60,130	58,511	54,826
Total direct costs of rental operations	206,115	195,409	191,371	190,868	178,473
Costs of sales	58,964	60,280	48,542	36,769	47,430
Total costs of revenues	265,079	255,689	239,913	227,637	225,903
Gross profit	233,251	206,345	184,167	176,907	182,219
Selling and administrative expenses	115,770	111,605	104,908	99,950	96,859
Income from operations	117,481	94,740	79,259	76,957	85,360
Other income (expense):					
Interest expense	(12,297)	(11,622)	(12,207)	(10,092)	(9,280)
Gain on sale of property, plant and equipment	—	—	—	—	812
Foreign currency exchange gain (loss)	(489)	334	(121)	(488)	(331)
Income before (benefit) provision for income taxes	104,695	83,452	66,931	66,377	76,561
Provision (benefit) for income taxes	25,289	(70,468)	28,680	25,907	30,852
Net income	\$79,406	\$153,920	\$38,251	\$40,470	\$45,709
Earnings per share:					
Basic	\$3.29	\$6.41	\$1.60	\$1.60	\$1.77
Diluted	\$3.24	\$6.34	\$1.60	\$1.59	\$1.75
Shares used in per share calculations:					
Basic	24,141	23,999	23,900	25,369	25,914
Diluted	24,540	24,269	23,976	25,457	26,175
Balance Sheet Data (at period end)					

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Rental equipment, at cost	\$ 1,416,000	\$ 1,347,533	\$ 1,324,057	\$ 1,310,083	\$ 1,229,638
Rental equipment, net	\$ 901,015	\$ 862,320	\$ 856,371	\$ 869,601	\$ 825,750
Total assets	\$ 1,217,316	\$ 1,147,854	\$ 1,128,276	\$ 1,152,709	\$ 1,116,407
Notes payable	\$ 298,564	\$ 303,414	\$ 326,266	\$ 381,281	\$ 322,338
Shareholders' equity	\$ 571,535	\$ 524,184	\$ 394,287	\$ 379,687	\$ 424,531
Shares issued and outstanding	24,182	24,052	23,948	23,851	26,051
Book value per share	\$ 23.63	\$ 21.79	\$ 16.46	\$ 15.92	\$ 16.30
Total liabilities to equity	1.13	1.19	1.86	2.04	1.63
Debt (notes payable) to equity	0.52	0.58	0.83	1.00	0.76
Return on average equity	14.6	% 37.1	% 9.8	% 9.8	% 11.1
Cash dividends declared per common share	\$ 1.36	\$ 1.04	\$ 1.02	\$ 1.00	\$ 0.98

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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

(dollar amounts in thousands)	Year Ended December 31,				
	2018	2017	2016	2015	2014
Net income	\$79,406	\$153,920	\$38,251	\$40,470	\$45,709
Provision (benefit) for income taxes	25,289	(70,468)	28,680	25,907	30,852
Interest expense	12,297	11,622	12,207	10,092	9,280
Depreciation and amortization	81,975	78,416	81,179	84,280	81,125
EBITDA	198,967	173,490	160,317	160,749	166,966
Impairment of rental assets	39	1,639	—	—	—
Share-based compensation	4,111	3,198	3,091	3,399	3,854
Adjusted EBITDA ¹	\$203,117	\$178,327	\$163,408	\$164,148	\$170,820

Adjusted EBITDA margin ²	41	%	39	%	39	%	41	%	42	%
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Reconciliation of Adjusted EBITDA to Net Cash Provided by Operating Activities

(dollar amounts in thousands)	Year Ended December 31,				
	2018	2017	2016	2015	2014
Adjusted EBITDA ¹	\$203,117	\$178,327	\$163,408	\$164,148	\$170,820
Interest paid	(12,598)	(11,825)	(12,436)	(10,041)	(9,074)
Income taxes paid, net of refunds received	(18,157)	(29,504)	(15,555)	(2,498)	(22,275)
Gain on sale of used rental equipment	(19,559)	(17,733)	(13,739)	(11,902)	(15,368)
Gain on sale of property, plant and equipment	—	—	—	—	(812)
Foreign currency exchange (gain) loss	489	(334)	121	488	331
Amortization of debt issuance cost	20	50	51	52	14
Change in certain assets and liabilities:					
Accounts receivable, net	(15,144)	(8,995)	(1,860)	5,777	(13,782)
Income taxes receivable	—	—	11,000	(11,000)	—
Prepaid expenses and other assets	(9,351)	3,124	1,949	12,910	(13,528)
Accounts payable and other liabilities	3,592	7,559	7,220	(10,531)	21,524
Deferred income	10,258	1,720	536	7,149	5,136
Net cash provided by operating activities	\$142,667	\$122,389	\$140,695	\$144,552	\$122,986

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, 2018, the actual ratio was 4.11 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, 2018, the actual ratio was 1.47 to 1.

At December 31, 2018, 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 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF
7. 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 2018, Mobile Modular, TRS-RenTelco, Adler Tanks and Enviroplex contributed 53%, 28%, 14% and 5%, respectively, of the Company's income before provision for taxes (the equivalent of "pre-tax income"), compared to 50%, 31%, 13% and 6%, respectively, for 2017. Although managed as a separate business segment, Enviroplex's revenues, pre-tax income contribution and total assets are not significant relative to the Company's consolidated financial position.

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 81% of the Company's total revenues in 2018 and for the three years ended December 31, 2018. Over the past three years, modulares, electronic test equipment and tanks and boxes comprised approximately 53%, 24% and 24%, 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 19% of the Company's consolidated revenues in 2018 and for the three years ended December 31, 2018. Over the past three years, modulares, electronic test equipment and tanks and boxes

comprised approximately 71%, 27% 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 modulars to public school districts comprised 24%, 26% and 23% of the Company's consolidated rental and sales revenues for 2018, 2017 and 2016, 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 2019, the Company announced that its board of directors declared a cash dividend of \$0.375 per common share for the quarter ending March 31, 2019, an increase of 10% 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 Year Ended				Percent Change	
	December 31, 2018		2017		2018 over 2017	2017 over 2016
Revenues						
Rental	64 %	64 %	63 %	64 %	10 %	7 %
Rental related services	17	17	17	18	6	3
Rental operations	81	81	80	82	9	6
Sales	19	19	20	18	1	23
Other	—	—	—	—	32	26
Total revenues	100	100	100	100	8	9
Costs and expenses						
Direct costs of rental operations						
Depreciation of rental equipment	16	15	15	17	5	(3)
Rental related services	13	13	13	13	7	6
Other	14	14	14	15	5	4
Total direct costs of rental operations	43	42	42	45	5	2
Cost of sales	12	11	13	12	(2)	24
Total costs	55	53	55	57	4	7
Gross profit	45	47	45	43	13	12
Selling and administrative expenses	24	23	24	24	4	6
Income from operations	21	24	21	19	24	20
Other income (expense):						
Interest expense	3	3	3	3	6	(5)
Foreign currency exchange gain (loss)	—	—	—	—	nm	nm
Income before (benefit) provision for						
income taxes	18	21	18	16	25	25
Provision (benefit) for income taxes	(1)	5	(15)	7	nm	nm
Net income	20 %	16 %	33 %	9 %	(49)%	nm

nm = not meaningful

Twelve Months Ended December 31, 2018 Compared to

Twelve Months Ended December 31, 2017

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		Increase	
	December 31, 2018	2017	(Decrease) \$	%
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 %

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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		Increase	
	December 31, 2018	2017	\$(Decrease)	%
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) %	

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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		Increase	
	December 31, 2018	2017	(Decrease) \$	%
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 %

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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.

Twelve Months Ended December 31, 2017 Compared to

Twelve Months Ended December 31, 2016

Overview

Consolidated revenues in 2017 increased 9%, to \$462.0 million from \$424.1 million in 2016. Consolidated net income in 2017 increased to \$153.9 million, or \$6.34 per diluted share in 2017, compared to \$38.3 million, or \$1.60 per diluted share, in 2016. 2017 results include 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, sales and rental related services revenues as more fully described below.

For 2017 compared to 2016, on a consolidated basis:

• Gross profit increased \$22.2 million, or 12%, to \$206.3 million. Mobile Modular’s gross profit increased \$10.1 million, or 11%, due to higher gross profit on rental, sales and rental related services revenues. Adler Tanks’ gross profit increased \$5.8 million, or 16%, due to higher gross profit on rental, sales and rental related services revenues. TRS-RenTelco’s gross profit increased \$4.5 million, or 10%, due to higher gross profit on rental and sales revenues. Enviroplex’s gross profit increased \$1.8 million, or 25%, primarily due to higher sales revenues. Selling and administrative expenses increased \$6.7 million, or 6%, to \$111.6 million, primarily due to increased salaries and employee benefit costs and professional fees.

• Interest expense decreased \$0.6 million, or 5%, to \$11.6 million, primarily due to 10% lower average debt levels of the Company, partly offset by 5% higher net average interest rate.

• Pre-tax income contribution was 50%, 31% and 13% by Mobile Modular, TRS-RenTelco and Adler Tanks, respectively, in 2017, compared to 53%, 32% and 10%, respectively, in 2016. These results are discussed on a segment basis below. Pre-tax income contribution by Enviroplex was 6% and 5% in 2017 and 2016, 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% compared to a tax provision of 42.9% in 2016. The tax benefit in 2017 was primarily due to the \$102.5 million net impact of the Tax Act. In addition, the Company benefited from \$0.9 million lower re-pricing of state deferred tax liabilities in 2017 compared to 2016 and the adoption of ASU 2016-09, Improvements to Employee Share-Based Payment Accounting, which resulted in the recording of \$0.9 million excess tax benefits as a reduction to the provision for income taxes. These tax benefits, or shortfalls, were historically recorded in equity. In addition, in 2016, the decision to exit the Company’s Bangalore, India branch increased the 2016 provision for income taxes by \$0.7 million as a valuation allowance was recorded against the related deferred tax assets.

• Adjusted EBITDA increased \$14.9 million, or 9%, to \$178.3 million compared to \$163.4 million in 2016. Adjusted EBITDA is a non-GAAP financial measure and is defined as net income before interest expense, provision for income taxes, depreciation, amortization 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 2017, Mobile Modular's total revenues increased \$21.8 million, or 10%, to \$231.3 million compared to 2016, primarily due to higher rental, sales and rental related services 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 \$6.1 million, or 17%, to \$41.7 million in 2017.

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 – 2017 compared to 2016

(dollar amounts in thousands)	Year Ended		Increase	
	December 31, 2017	2016	\$(Decrease)	%
Revenues				
Rental	\$ 142,584	\$ 130,496	\$ 12,088	9 %
Rental related services	50,448	49,206	1,242	3 %
Rental operations	193,032	179,702	13,330	7 %
Sales	37,435	29,393	8,042	27 %
Other	799	417	382	92 %
Total revenues	231,266	209,512	21,754	10 %
Costs and Expenses				
Direct costs of rental operations:				
Depreciation of rental equipment	21,247	21,001	246	1 %
Rental related services	37,755	37,392	363	1 %
Other	41,290	35,683	5,607	16 %
Total direct costs of rental operations	100,292	94,076	6,216	7 %
Costs of sales	27,039	21,620	5,419	25 %
Total costs of revenues	127,331	115,696	11,635	10 %
Gross Profit				
Rental	80,048	73,813	6,235	8 %
Rental related services	12,693	11,814	879	7 %
Rental operations	92,741	85,627	7,114	8 %
Sales	10,395	7,772	2,623	34 %
Other	799	417	382	92 %
Total gross profit	103,935	93,816	10,119	11 %
Selling and administrative expenses	55,583	51,432	4,151	8 %
Income from operations	48,352	42,384	5,968	14 %
Interest expense allocation	(6,671)	(6,804)	133	(2)%
Pre-tax income	\$41,681	\$35,580	\$6,101	17 %
Other Selected Information				
Average rental equipment 1	\$747,478	\$724,333	\$23,145	3 %
Average rental equipment on rent 1	\$574,201	\$554,485	\$19,716	4 %
Average monthly total yield 2	1.59 %	1.50 %		6 %
Average utilization 3	76.8 %	76.6 %		0 %

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Average monthly rental rate 4	2.07	%	1.96	%	6	%
Period end rental equipment 1	\$746,852		\$744,099		\$2,753	0 %
Period end utilization 3	77.8	%	77.3	%	1	%

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 2017 increased 11% to \$103.9 million from \$93.8 million in 2016. For the year ended December 31, 2017 compared to the year ended December 31, 2016:

• **Gross Profit on Rental Revenues** – Rental revenues increased \$12.1 million, or 9%, compared to 2016, due to 4% higher average rental equipment on rent and 6% higher average monthly rental rates. As a percentage of rental revenues, depreciation was 15% in 2017 compared to 16% in 2016 and other direct costs were 29% in 2017 and 27% in 2016, which resulted in gross margin percentage of 56% in 2017 compared to 57% in 2016. The increased other direct costs in 2017 were partly attributable to a \$1.6 million impairment of rental assets, deemed beyond economic repair in the Southern California region. The higher rental revenues, partly offset by lower rental margins, resulted in gross profit on rental revenues increasing 8%, to \$80.0 million from \$73.8 million in 2016.

• **Gross Profit on Rental Related Services** – Rental related services revenues increased \$1.2 million, or 3%, compared to 2016. 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 services performed during the lease, and higher delivery and return delivery at Mobile Modular Portable Storage. The higher revenues and higher gross margin percentage of 25% in 2017 compared to 24% in 2016 resulted in rental related services gross profit increasing 7%, to \$12.7 million from \$11.8 million in 2016.

• **Gross Profit on Sales** – Sales revenues increased \$8.0 million, or 27%, compared to 2016. Gross profit on sales increased \$2.6 million, or 34%, due to higher used equipment sales revenues and higher gross margins of 28% in 2017 compared to 26% in 2016. 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 2017, Mobile Modular's selling and administrative expenses increased \$4.2 million, or 8%, to \$55.6 million from \$51.4 million in 2016, primarily due to increased employee headcount, salaries and benefit costs, higher marketing and administrative costs and higher corporate allocated expenses.

TRS-RenTelco

For 2017, TRS-RenTelco's total revenues decreased \$0.6 million, or 1%, to \$108.0 million compared to 2016, primarily due to lower sales revenues, partly offset by higher rental revenues. Pre-tax income increased \$4.8 million, or 23%, to \$26.1 million for 2017, primarily due to higher gross profit on rental and sales revenues and foreign currency exchange gain, 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 – 2017 compared to 2016

(dollar amounts in thousands)	Year Ended		Increase	
	December 31, 2017	2016	(Decrease) \$	%
Revenues				
Rental	\$82,812	\$82,307	\$505	1 %
Rental related services	2,858	2,846	12	0 %
Rental operations	85,670	85,153	517	1 %
Sales	20,334	21,582	(1,248)	(6)%
Other	2,040	1,882	158	8 %
Total revenues	108,044	108,617	(573)	(1)%
Costs and Expenses				
Direct costs of rental operations:				
Depreciation of rental equipment	32,891	35,256	(2,365)	(7)%
Rental related services	2,589	2,640	(51)	(2)%
Other	13,503	14,320	(817)	(6)%
Total direct costs of rental operations	48,983	52,216	(3,233)	(6)%
Costs of sales	8,772	10,604	(1,832)	(17)%
Total costs of revenues	57,755	62,820	(5,065)	(8)%
Gross Profit				
Rental	36,418	32,730	3,688	11 %
Rental related services	269	206	63	31 %
Rental operations	36,687	32,936	3,751	11 %
Sales	11,562	10,979	583	5 %
Other	2,040	1,882	158	8 %
Total gross profit	50,289	45,797	4,492	10 %
Selling and administrative expenses	22,171	21,896	275	1 %
Income from operations	28,118	23,901	4,217	18 %
Interest expense allocation	(2,320)	(2,465)	145	(6)%
Foreign currency exchange loss	334	(121)	455	nm
Pre-tax income	\$26,132	\$21,315	\$4,817	23 %
Other Selected Information				
Average rental equipment 1	\$252,332	\$254,019	\$(1,687)	(1)%
Average rental equipment on rent 1	\$158,830	\$153,985	\$4,845	3 %
Average monthly total yield 2	2.74 %	2.70 %		1 %

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Average utilization 3	62.9	%	60.6	%	4	%
Average monthly rental rate 4	4.35	%	4.45	%	(2)	%
Period end rental equipment 1	\$261,552		\$245,700		\$15,852	6 %
Period end utilization 3	61.7	%	61.0	%	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 2017 increased 10% to \$50.3 million from \$45.8 million in 2016. For the year ended December 31, 2017 compared to the year ended December 31, 2016:

• **Gross Profit on Rental Revenues** – Rental revenues increased \$0.5 million, or 1%, to \$82.8 million with depreciation expense decreasing \$2.4 million, or 7%, and other direct costs decreasing \$0.8 million, or 6%, resulting in an increase in gross profit on rental revenues of \$3.7 million, or 11%, to \$36.4 million in 2017. As a percentage of rental revenues, depreciation was 40% in 2017 compared to 43% in 2016 and other direct costs was 16% in 2017 compared to 17% in 2016, which resulted in gross margin percentage of 44% in 2017 compared to 40% in 2016. The rental revenues increase was due to 3% higher average rental equipment on rent, partly offset by 2% lower average monthly rental rates.

• **Gross Profit on Sales** – Sales revenues decreased \$1.2 million, or 6%, compared to 2016. The higher gross margin percentage of 57% in 2017, compared to 51% in 2016 was primarily due to higher gross margin on used equipment sales. The higher gross margin was partly offset by lower sales revenues, which resulted in gross profit on sales increasing 5%, to \$11.6 million from \$11.0 million in 2016. 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 2017, TRS-RenTelco's selling and administrative expenses increased \$0.3 million, or 1%, to \$22.2 million from \$21.9 million in 2016, primarily due to higher salaries and employee benefit costs, partly offset by lower allocated corporate expenses.

Adler Tanks

For 2017, Adler Tanks' total revenues increased \$7.5 million, or 9%, to \$91.4 million compared to 2016, primarily due to higher rental and sales revenues during 2017. The revenue increase together with higher gross profit on rental, sales and rental related services revenues, partly offset by higher selling and administrative expenses, resulted in a pre-tax income increase of \$4.0 million, or 61%, to \$10.6 million for the year ended December 31, 2017.

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 – 2017 compared to 2016

(dollar amounts in thousands)	Year Ended		Increase	
	December 31, 2017	2016	(Decrease) \$	%
Revenues				
Rental	\$64,021	\$58,585	\$5,436	9 %
Rental related services	24,762	23,807	955	4 %
Rental operations	88,783	82,392	6,391	8 %
Sales	2,362	1,314	1,048	80 %
Other	210	124	86	69 %
Total revenues	91,355	83,830	7,525	9 %
Costs and Expenses				
Direct costs of rental operations:				
Depreciation of rental equipment	15,770	15,940	(170)	(1) %
Rental related services	19,685	19,012	673	4 %
Other	10,679	10,127	552	5 %
Total direct costs of rental operations	46,134	45,079	1,055	2 %
Costs of sales	2,003	1,342	661	49 %
Total costs of revenues	48,137	46,421	1,716	4 %
Gross Profit (Loss)				
Rental	37,572	32,518	5,054	16 %
Rental related services	5,076	4,795	281	6 %
Rental operations	42,648	37,313	5,335	14 %
Sales	360	(28)	388	nm
Other	210	124	86	69 %
Total gross profit	43,218	37,409	5,809	16 %
Selling and administrative expenses	29,542	27,610	1,932	7 %
Income from operations	13,676	9,799	3,877	40 %
Interest expense allocation	(3,071)	(3,200)	129	(4) %
Pre-tax income	\$10,605	\$6,599	\$4,006	61 %
Other Selected Information				
Average rental equipment 1	\$307,558	\$307,416	\$142	0 %
Average rental equipment on rent 1	\$172,140	\$154,165	\$17,975	12 %
Average monthly total yield 2	1.73 %	1.59 %		9 %
Average utilization 3	56.0 %	50.1 %		12 %

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Average monthly rental rate 4	3.10	%	3.17	%	(2)%
Period end rental equipment 1	\$308,877		\$306,701		\$2,176 1 %
Period end utilization 3	57.5	%	50.7	%	13%

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.

nm = Not meaningful

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Adler Tanks' gross profit for 2017 increased \$5.8 million, or 16%, to \$43.2 million from \$37.4 million for the same period in 2016. For the year ended December 31, 2017 compared to year ended December 31, 2016:

◆ **Gross Profit on Rental Revenues** – Rental revenues increased \$5.4 million, or 9%, due to 12% higher average rental equipment on rent, partly offset by 2% lower average rental rates in 2017 as compared to 2016. As a percentage of rental revenues, depreciation was 25% and 27% in 2017 and 2016, respectively, and other direct costs were 17% in 2017 and 2016, which resulted in gross margin percentages of 59% in 2017 compared to 56% in 2016. The higher rental revenues, together with higher rental margins resulted in gross profit on rental revenues increasing \$5.1 million, or 16%, to \$37.6 million in 2017.

◆ **Gross Profit on Rental Related Services** – Rental related services revenues increased \$1.0 million, or 4%, compared to 2016. The higher revenues and higher gross margin percentage of 21% in 2017 compared to 20% in 2016, resulted in rental related services gross profit increasing \$0.3 million, or 6%, to \$5.1 million from \$4.8 million in 2016.

For 2017, Adler Tanks' selling and administrative expenses increased \$1.9 million, to \$29.5 million from \$27.6 million in the same period in 2016, primarily due to increased employee headcount, salaries and benefit costs and higher corporate allocated expenses.

Liquidity and Capital Resources

The Company's rental businesses are capital intensive and generate significant cash flows. Cash flows for the Company in 2018 as compared to 2017 are summarized as follows:

Cash Flows from Operating Activities: The Company's operations provided net cash flow of \$142.7 million for 2018 as compared to \$122.4 million in 2017. The 17% increase was primarily attributable to improved operating profit, higher decrease in accounts receivable, lower increase in prepaid expenses and other assets, an increase in deferred income and other balance sheet changes.

Cash Flows from Investing Activities: Net cash used in investing activities was \$104.5 million for 2018 as compared to \$70.9 million in 2017. The \$33.6 million increase was primarily due to \$28.5 million higher purchases of rental equipment of \$123.1 million in 2018, compared to \$94.6 million in 2017, \$7.5 million cash payment for the acquisition of business assets, \$1.0 million higher purchases of property, plant and equipment, partly offset by higher proceeds from sales of used rental equipment.

Cash Flows from Financing Activities: Net cash used in financing activities was \$39.1 million in 2018 as compared to \$49.9 million in 2017. The \$10.8 million decrease was primarily due to \$18.0 million higher net borrowings under the Company's bank lines of credit, partly offset by \$6.0 million higher payment of dividends.

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 and notes offerings. 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
	2018	2017	2016	Year Totals
Cash provided by operating activities	\$ 142,667	\$ 122,389	\$ 140,695	\$ 405,751
Proceeds from sales of used rental equipment	41,786	38,344	29,406	109,536
Cash available for purchase of rental equipment	184,453	160,733	170,101	515,287
Purchases of rental equipment	(123,071)	(94,579)	(79,038)	(296,688)
Cash paid for acquisition of business assets	(7,543)	—	—	(7,543)
Cash available for other uses	\$ 53,839	\$ 66,154	\$ 91,063	\$ 211,056

In addition to increasing its rental assets, the Company had other capital expenditures for property, plant and equipment of \$15.7 million in 2018, \$14.6 million in 2017 and \$10.5 million in 2016, and has used cash to provide returns to its shareholders in the form of cash dividends. The Company paid cash dividends of \$30.9 million, \$24.9 million and \$24.4 million in the years ended December 31, 2018, 2017 and 2016, 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, 2018, 2017 and 2016. As of February 25, 2019, 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, 2018, 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 \$198.6 million was outstanding, and had capacity to borrow up to an additional \$233.4 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, 2018, the actual ratio was 4.11 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, 2018, the actual ratio was 1.47 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, 2018, such sum was \$366.8 million and the actual Tangible Net Worth of the Company was \$536.5 million.

At December 31, 2018, 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.

4.03% Senior Notes Due in 2018

On April 21, 2011, the Company entered into a Note Purchase and Private Shelf Agreement (the “Note Purchase Agreement”) with Prudential Investment Management, Inc. (“PIM”), The Prudential Insurance Company of America and Prudential Retirement Insurance and Annuity Company (collectively, the “Purchaser”), pursuant to which the Company agreed to sell an aggregate principal amount of \$100.0 million of its 4.03% Series A Senior Notes (the “Series A Senior Notes”) to the Purchaser. The Series A Senior Notes were an unsecured obligation of the Company, due on April 21, 2018. Interest on these notes was due semi-annually in arrears and the principal was due in five equal annual installments, with the first payment due on April 21, 2014. In addition, the Note Purchase Agreement allowed for the issuance and sale of additional senior notes to the Purchaser (the “Shelf Notes”) in the aggregate principal amount of \$100.0 million, to mature no more than 12 years after the date of original issuance thereof, to have an average life of no more than 10 years and to bear interest on the unpaid balance. The final \$20.0 million principal payment under the Series A Senior Notes was made in April 2018 with no amount remaining outstanding as of December 31, 2018.

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, 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 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

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proceeds from the Series C Senior Notes were used to reduce the outstanding balance on the Company's revolving credit line. At December 31, 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 (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, 2018, the actual ratio was 4.11 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, 2018, the actual ratio was 1.47 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, 2018, such sum was \$366.8 million and the actual tangible net worth of the Company was \$536.5 million.

At December 31, 2018, 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.

On February 9, 2016, the Company entered into an amendment to the Note Purchase Agreement ("2016 Amendment") with the Purchaser. Pursuant to the 2016 Amendment, (i) the issuance period for the shelf notes to be issued and sold pursuant to the Note Purchase Agreement is extended until the earlier of February 9, 2019 or the termination of the issuance and sale of the shelf notes upon the 30 days' prior notice of either PIM or the Company, and (ii) the definition of the "Available Facility Amount," which is the aggregate amount of the shelf notes that may be authorized for purchase pursuant to the Note Purchase Agreement was amended to equal a formula based on: \$250 million, minus the aggregate principal amount of the shelf notes then outstanding and purchased pursuant to the Note Purchase Agreement, minus the shelf notes accepted by the Company for purchase, but not yet purchased, by the Purchaser pursuant to the Note Purchase Agreement; provided, however, the aggregate amount of the shelf notes purchased by any corporation or other entity controlling, controlled by, or under common control with, PIM shall not exceed \$200 million.

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, 2018, 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, 2018 and does not reflect changes that could arise after that date.

Payments Due by Period

(dollar amounts in thousands)

		Within	Within	More than	
	Total	1 Year	2 to 3 Years	4 to 5 Years	5 Years
Revolving lines of credit	\$198,603	\$—	\$198,603	\$—	\$—
3.68% Series B senior notes due in 2021	44,416	1,472	42,944	—	—
3.84% Series C senior notes due in 2022	69,222	2,310	4,608	62,304	—
Operating leases for facilities	10,479	2,979	3,824	2,534	1,142
Total contractual obligations	\$322,720	\$6,761	\$249,979	\$64,838	\$1,142

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.

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Please see the Company's Consolidated Statements of Cash Flows on page 63 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, 2018, 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, 2018. 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, 2018.

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(dollar amounts in thousands)

Estimated

	2021	2022	Thereafter	Total	Fair Value
Revolving lines of credit	\$198,603	\$—	\$—	\$198,603	\$198,603
Weighted average interest rate	3.36 %	—	—	3.36 %	
3.68% Series B senior notes due in 2021	\$40,000	\$—	\$—	\$40,000	\$40,337
Stated interest rate	3.68 %	—	—	3.68 %	
3.84% Series C senior notes due in 2022	\$—	\$60,000	\$—	\$60,000	\$58,649
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 2018, the Company experienced minimal impact on net income due to foreign

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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.

ITEM 8. FINANCIAL STATEMENTS AND
SUPPLEMENTARY DATA.

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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, 2018 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, 2018, the Company's internal control over financial reporting was effective based on those criteria.

Report of Independent Registered Public Accounting Firm

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, 2018, 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, 2018, 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, 2018, and our report dated February 26, 2019 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 26, 2019

Report of Independent Registered Public Accounting Firm

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, 2018 and 2017, 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, 2018, 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, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, 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, 2018, 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 26, 2019 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.

/s/ Grant Thornton LLP

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

San Jose, California

February 26, 2019

McGrath RentCorp

Consolidated Balance Sheets

(in thousands)	December 31,	
	2018	2017
Assets		
Cash	\$ 1,508	\$ 2,501
Accounts receivable, net of allowance for doubtful accounts of \$1,883 in 2018 and \$1,920 in 2017	121,016	105,872
Rental equipment, at cost:		
Relocatable modular buildings	817,375	775,400
Electronic test equipment	285,052	262,325
Liquid and solid containment tanks and boxes	313,573	309,808
	1,416,000	1,347,533
Less accumulated depreciation	(514,985)	(485,213)
Rental equipment, net	901,015	862,320
Property, plant and equipment, net	126,899	119,170
Prepaid expenses and other assets	31,816	22,459
Intangible assets, net	7,254	7,724
Goodwill	27,808	27,808
Total assets	\$ 1,217,316	\$ 1,147,854
Liabilities and Shareholders' Equity		
Liabilities:		
Notes payable	\$ 298,564	\$ 303,414
Accounts payable and accrued liabilities	90,844	86,408
Deferred income	49,709	39,219
Deferred income taxes, net	206,664	194,629
Total liabilities	645,781	623,670
Commitments and contingencies (Note 8)		
Shareholders' equity:		
Common Stock, no par value - Authorized 40,000 shares		
Issued and outstanding - 24,182 shares as of December 31, 2018 and 24,052 shares as of December 31, 2017	103,801	102,947
Retained earnings	467,783	421,405
Accumulated other comprehensive loss	(49)	(168)
Total shareholders' equity	571,535	524,184
Total liabilities and shareholders' equity	\$ 1,217,316	\$ 1,147,854

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

McGrath RentCorp

Consolidated Statements of Income

(in thousands, except per share amounts)	Year Ended December 31,		
	2018	2017	2016
Revenues			
Rental	\$318,774	\$289,417	\$271,388
Rental related services	82,907	78,068	75,859
Rental operations	401,681	367,485	347,247
Sales	92,618	91,500	74,410
Other	4,031	3,049	2,423
Total revenues	498,330	462,034	424,080
Costs and Expenses			
Direct costs of rental operations:			
Depreciation of rental equipment	73,139	69,908	72,197
Rental related services	64,298	60,029	59,044
Other	68,678	65,472	60,130
Total direct costs of rental operations	206,115	195,409	191,371
Cost of sales	58,964	60,280	48,542
Total costs of revenues	265,079	255,689	239,913
Gross profit	233,251	206,345	184,167
Selling and administrative expenses	115,770	111,605	104,908
Income from operations	117,481	94,740	79,259
Other income (expense):			
Interest expense	(12,297)	(11,622)	(12,207)
Foreign currency exchange gain (loss)	(489)	334	(121)
Income before provision (benefit) for income taxes	104,695	83,452	66,931
Provision (benefit) for income taxes	25,289	(70,468)	28,680
Net income	\$79,406	\$153,920	\$38,251
Earnings per share:			
Basic	\$3.29	\$6.41	\$1.60
Diluted	\$3.24	\$6.34	\$1.60
Shares used in per share calculations:			
Basic	24,141	23,999	23,900
Diluted	24,540	24,269	23,976
Cash dividends declared per share	\$1.36	\$1.04	\$1.02

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

McGrath RentCorp

Consolidated Statements of COMPREHENSIVE Income

(in thousands)	Year Ended December 31,		
	2018	2017	2016
Net income	\$79,406	\$153,920	\$38,251
Other comprehensive income (loss):			
Foreign currency translation adjustment	161	(174)	24
Tax benefit (provision)	(42)	61	(12)
Comprehensive income	\$79,525	\$153,807	\$38,263

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

McGrath RentCorp

Consolidated Statements of Shareholders' Equity

	Accumulated				Shareholders'
	Common Stock	Retained	Comprehensive	Total	
(in thousands, except per share amounts)	Shares	Amount	Earnings	Income (Loss)	Equity
Balance at December 31, 2015	23,851	\$ 101,046	\$ 278,708	\$ (67)	\$ 379,687
Net income	—	—	38,251	—	38,251
Share-based compensation	—	3,091	—	—	3,091
Common stock issued under stock plans, net of shares					
withheld for employee taxes	97	37	—	—	37
Tax shortfall from equity awards	—	(1,066)	—	—	(1,066)
Taxes paid related to net share settlement of stock awards	—	(1,287)	—	—	(1,287)
Dividends accrued of \$1.02 per share	—	—	(24,438)	—	(24,438)
Other comprehensive gain	—	—	—	12	12
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 of \$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 of \$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

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

McGrath RentCorp

Consolidated Statements of Cash Flows

(in thousands)	Year Ended December 31,		
	2018	2017	2016
Cash Flows from Operating Activities:			
Net income	\$79,406	\$153,920	\$38,251
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	81,975	78,416	81,179
Impairment of rental assets	39	1,639	—
Provision for doubtful accounts	581	1,480	1,892
Share-based compensation	4,111	3,198	3,091
Gain on sale of used rental equipment	(19,559)	(17,733)	(13,739)
Foreign currency exchanges (gain) loss	489	(334)	121
Amortization of debt issuance costs	20	50	51
Change in:			
Accounts receivable	(15,725)	(10,475)	(3,752)
Income taxes receivable	—	—	11,000
Prepaid expenses and other assets	(9,351)	3,124	3,219
Accounts payable and accrued liabilities	(1,612)	4,015	10,426
Deferred income	10,258	1,720	1,211
Deferred income taxes	12,035	(96,631)	7,745
Net cash provided by operating activities	142,667	122,389	140,695
Cash Flows from Investing Activities:			
Purchases of rental equipment	(123,071)	(94,579)	(79,038)
Purchases of property, plant and equipment	(15,664)	(14,617)	(10,548)
Cash paid for acquisition of business assets	(7,543)	—	—
Proceeds from sales of used rental equipment	41,786	38,344	29,406
Net cash used in investing activities	(104,492)	(70,852)	(60,180)
Cash Flows from Financing Activities:			
Net borrowings (repayments) under bank lines of credit	15,130	(2,902)	(35,066)
Principal payments on Series A senior notes	(20,000)	(20,000)	(20,000)
Proceeds from the exercise of stock options	—	—	37
Taxes paid related to net share settlement of stock awards	(3,257)	(2,072)	(1,287)
Payment of dividends	(30,939)	(24,876)	(24,448)
Net cash used in financing activities	(39,066)	(49,850)	(80,764)
Effect of foreign currency exchange rate changes on cash	(102)	(38)	(2)
Net increase (decrease) in cash	(993)	1,649	(251)
Cash balance, beginning of period	2,501	852	1,103
Cash balance, end of period	\$1,508	\$2,501	\$852
Supplemental Disclosure of Cash Flow Information:			
Interest paid, during the period	\$12,598	\$11,825	\$12,436
Net income taxes paid, during the period	\$18,157	\$29,504	\$15,555
Dividends accrued during the period, not yet paid	\$8,388	\$6,260	\$6,147

Rental equipment acquisitions, not yet paid	\$9,695	\$6,405	\$2,876
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The accompanying notes are an integral part of these consolidated financial statements.

MCGRATH RENTCORP

NOTES TO 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. 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. There were no impairments of long-lived assets during the year ended December 31, 2016.

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.

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Property, plant and equipment consist of the following:

(dollar amounts in thousands)	Estimated useful life in years	December 31,	
		2018	2017
Land	Indefinite	\$ 50,689	\$ 50,689
Land improvements	20 – 50	50,064	43,337
Buildings	30	29,359	26,862
Furniture, office and computer equipment	3 – 10	33,081	32,118
Vehicles and machinery	5 – 25	38,199	34,597
		201,392	187,603
Less accumulated depreciation		(77,118)	(70,034)
		124,274	117,569
Construction in progress		2,625	1,601
		\$ 126,899	\$ 119,170

Property, plant and equipment depreciation expense was \$8.0 million, \$7.6 million and \$8.1 million for the years ended December 31, 2018, 2017 and 2016, respectively. Construction in progress at December 31, 2018 and 2017 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 \$0.1 million and \$0.8 million in internal use software during the years ended December 31, 2018 and 2017, respectively.

Advertising Costs

Advertising costs are expensed as incurred. Total advertising expenses were \$3.2 million, \$2.9 million and \$2.9 million for the years ended December 31, 2018, 2017 and 2016.

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 have been 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 were allocated to goodwill and other intangible assets. Intangible assets related to customer relationships are amortized over eleven years. At December 31, 2018 and 2017, goodwill and trade name intangible assets which have indefinite lives totaled \$33.7 million.

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 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 and indefinite lived assets 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. In the first step, the fair value of the reporting unit is compared to its carrying value to determine if the goodwill and intangible assets are impaired. If the 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.

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 2018, 2017 or 2016. 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:

(in thousands)	Year Ended December 31,		
	2018	2017	2016
Weighted-average common stock for calculating basic			
earnings per share	24,141	23,999	23,900
Effect of potentially dilutive securities from equity-based			
compensation	399	270	76
Weighted-average common stock for calculating diluted			
earnings per share	24,540	24,269	23,976

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

(in thousands)	Year Ended	
	December 31,	
	2018	2017
Options to purchase common stock	—	661

In May 2008, the Company's Board of Directors authorized the Company to repurchase an aggregate of 2,000,000 shares of the Company's outstanding common stock. 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 an additional 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, 2018 and 2017. As of December 31, 2018, 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 \$32.3 million at December 31, 2018 and \$30.1 million at December 31, 2017. 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:

(in thousands)	2018	2017
Beginning balance, January 1	\$1,920	\$2,087
Provision for doubtful accounts	581	1,480
Write-offs, net of recoveries	(618)	(1,647)
Ending balance, December 31	\$1,883	\$1,920

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 \$99.0 million and \$120.2 million compared to the recorded value of \$100.0 million and \$120.0 million as of December 31, 2018 and 2017, 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”.

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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.

New Accounting Pronouncements

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("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. The amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. The Company leases real estate for some of its branch offices and rental equipment storage yards, and leases vehicles and equipment used in its rental operations. The Company anticipates the new lessee accounting will increase its total assets and liabilities by approximately \$10 million based upon the present value of lease payments over the expected lease term using interest rates explicit in the lease, or the Company's estimated incremental borrowing rate if not stated in the lease. We will 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, which we believe will not be significant. Consequently, historical 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 new guidance contains additional optional transition practical expedients intended to simplify adoption. The Company will use the package of 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 has implemented processes and systems to assist in the ongoing lease data collection, analysis and accounting for leases in accordance with the new guidance.

A majority of the Company's revenues for the year ended December 31, 2018 were accounted for under the current lease accounting guidance under Topic 840 (see Note 2. Implemented Accounting Pronouncements - Revenue from Contracts with Customers for further discussion). In December 2018, the FASB issued ASU No. 2018-20, Leases (Topic 842): Narrow-Scope Improvements for Lessors, which is expected to reduce a lessor's implementation and ongoing costs associated with applying the new leases standard. The ASU also clarifies a specific lessor accounting requirement. Specifically, this ASU addresses the following issues facing lessors when applying the leases standard: Sales taxes and other similar taxes collected from lessees, certain lessor costs paid directly by lessees and recognition of variable payments for contracts with lease and non-lease components. Under the new guidance, lessor accounting is largely unchanged and the Company has concluded that no significant changes are expected to the accounting for revenues upon adoption of Topic 842.

In August 2018, the FASB issued 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 arrangement 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 expects to early adopt this guidance in 2019, which is not expected to have a material impact on its consolidated financial statements.

NOTE 2. 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 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 \$15.7 million and \$6.8 million at December 31, 2018 and 2017, respectively. Sales revenues totaling \$5.8 million were recognized during the year ended December 31, 2018, 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 \$1.4 million and \$2.0 million at December 31, 2018 and 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.

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, 2018, 2017 and 2016:

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	Mobile	TRS-	Adler		
(in thousands)	Modular	RenTelco	Tanks	Enviroplex	Consolidated
Twelve Months Ended December 31,					
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	54,360	24,312	25,400	29,046	133,118
Total revenues	\$254,574	\$118,657	\$96,053	\$ 29,046	\$ 498,330
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	50,654	22,114	26,679	31,369	130,816
Total revenues	\$231,266	\$108,044	\$91,355	\$ 31,369	\$ 462,034
2016					
Leasing	\$168,787	\$87,085	\$59,217	\$ —	\$ 315,089
Non-lease:					
Rental related services	11,326	2,292	23,292	—	36,910
Sales	29,393	17,675	1,314	22,121	70,503
Other	6	1,565	7	—	1,578
Total non-lease	40,725	21,532	24,613	22,121	108,991
Total revenues	\$209,512	\$108,617	\$83,830	\$ 22,121	\$ 424,080

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 3. FINANCED LEASE RECEIVABLES

The Company has entered into sales-type leases to finance certain equipment sales to customers. The lease agreements have a bargain purchase option at the end of the lease term. The minimum lease payments receivable and the net investment included in accounts receivable for such leases are as follows:

(in thousands)	December 31,	
	2018	2017
Gross minimum lease payments receivable	\$2,419	\$2,150
Less – unearned interest	(249)	(201)
Net investment in sales type lease receivables	\$2,170	\$1,949

As of December 31, 2018, the future minimum lease payments under non-cancelable sales-type leases to be received in 2019 and thereafter are as follows:

(in thousands)	
Year Ended December 31,	
2019	\$1,765
2020	419
2021	157
2022	78
Total minimum future lease payments	\$2,419

NOTE 4. NOTES PAYABLE

Notes payable consists of the following:

(in thousands)	December 31,	
	2018	2017
Unsecured revolving lines of credit	\$198,603	\$183,473
4.03% Series A senior notes due in 2018	—	20,000
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
	298,603	303,473
Unamortized debt issuance cost	(39)	(59)
	\$298,564	\$303,414

As of December 31, 2018, 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:

(in thousands)	
Year Ended December 31,	
2019	\$—
2020	—
2021	238,603
2022	60,000
	\$298,603

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, 2017, 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 \$198.6 million was outstanding, and had capacity to borrow up to an additional \$233.4 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, 2018, the actual ratio was 4.11 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, 2018, the actual ratio was 1.47 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, 2018, such sum was \$366.8 million and the actual Tangible Net Worth of the Company was \$536.5 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, 2018 and 2017, 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:

(dollar amounts in thousands)	Year Ended December	
	2018	2017
Maximum amount outstanding	\$228,500	\$215,732
Average amount outstanding	\$204,534	\$199,499
Weighted average interest rate, during the period	3.36 %	2.64 %
Prime interest rate, end of period	5.50 %	4.50 %

4.03% Senior Notes Due in 2018

On April 21, 2011, the Company entered into a Note Purchase and Private Shelf Agreement (the "Note Purchase Agreement") with Prudential Investment Management, Inc. ("PIM"), The Prudential Insurance Company of America and Prudential Retirement Insurance and Annuity Company (collectively, the "Purchaser"), pursuant to which the Company agreed to sell an aggregate principal amount of \$100.0 million of its 4.03% Series A Senior Notes (the "Series A Senior Notes") to the Purchaser. The Series A Senior Notes were an unsecured obligation of the Company, due on April 21, 2018. Interest on these notes was due semi-annually in arrears and the principal was due in five equal annual installments, with the first payment due on April 21, 2014. In addition, the Note Purchase Agreement allowed for the issuance and sale of additional senior notes to the Purchaser (the "Shelf Notes") in the aggregate principal amount of \$100.0 million, to mature no more than 12 years after the date of original issuance thereof, to have an average life of

no more than 10 years and to bear interest on the unpaid balance. The final \$20.0 million principal payment under the Series A Senior Notes was made in April 2018 with no amount remaining outstanding as of December 31, 2018. At December 31, 2017, the principal balance outstanding under the Series A Senior Notes was \$20 million.

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, 2018 and 2017, 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, 2018 and 2017, 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, 2018, the actual ratio was 4.11 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, 2018, the actual ratio was 1.47 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, 2018, such sum was \$366.8 million and the actual Tangible Net Worth of the Company was \$536.5 million.

At December 31, 2018, 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.

On February 9, 2016, the Company entered into an amendment to the Note Purchase Agreement (“2016 Amendment”) with the Purchaser. Pursuant to the 2016 Amendment, (i) the issuance period for the shelf notes to be issued and sold pursuant to the Note Purchase Agreement is extended until the earlier of February 9, 2019 or the termination of the issuance and sale of the shelf notes upon the 30 days’ prior notice of either PIM or the Company, and (ii) the definition of the “Available Facility Amount,” which is the aggregate amount of the shelf notes that may be authorized for purchase pursuant to the Note Purchase Agreement was amended to equal a formula based on: \$250 million, minus the aggregate principal amount of the shelf notes then outstanding and purchased pursuant to the Note Purchase Agreement, minus the shelf notes accepted by the Company for purchase, but not yet purchased, by the Purchaser pursuant to the Note Purchase Agreement; provided, however, the aggregate amount of the shelf notes purchased by any corporation or other entity controlling, controlled by, or under common control with, PIM shall not exceed \$200 million.

NOTE 5. INCOME TAXES

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

(in thousands)	Year Ended December 31,		
	2018	2017	2016
U.S.	\$104,881	\$83,525	\$67,199
Foreign	(186)	(73)	(268)
	\$104,695	\$83,452	\$66,931

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

(in thousands)	Year Ended December 31,		
	2018	2017	2016
Current:			
U.S. Federal	\$7,270	\$21,171	\$17,203
State	4,253	2,976	2,049
Foreign	1,731	2,016	1,683
	13,254	26,163	20,935
Deferred:			
U.S. Federal	10,355	(103,518)	4,005
State	1,637	6,948	3,039
Foreign	43	(61)	701
	12,035	(96,631)	7,745
Total	\$25,289	\$(70,468)	\$28,680

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

	Year Ended December 31,		
	2018	2017	2016
U.S. federal statutory rate	21.0%	35.0 %	35.0%
State taxes, net of federal benefit	5.0	4.1	4.2
State deferred tax rate change, net of federal benefit	0.7	0.5	2.0
Valuation allowance	(0.5)	0.1	1.1
Share-based compensation	(1.9)	(1.0)	—
Enactment of the Tax Cuts and Jobs Act	(0.1)	(122.9)	—
Other	0.0	(0.2)	0.6
	24.2 %	(84.4)%	42.9%

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,	
	2018	2017
Deferred tax liabilities:		
Accelerated depreciation	\$208,539	\$195,694
Prepaid costs currently deductible	4,845	4,152
Other	4,703	4,405
Total deferred tax liabilities	218,087	204,251

Deferred tax assets:

Accrued costs not yet deductible	7,796	7,880
Allowance for doubtful accounts	486	484
Deferred revenues	1,774	213
Share-based compensation	1,367	1,045
Total deferred tax assets, net of valuation allowance of \$0.2 million in 2018 and \$0.8 million in 2017	11,423	9,622
Deferred income taxes, net	\$206,664	\$194,629

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, 2018, the Company completed its accounting for the tax effects of enactment of the Tax Act without any material adjustments to its previous estimate of the one-time transition tax.

As of December 31, 2018 the Company does not have a deferred tax liability related to its foreign earnings because it does not currently 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 as of December 31, 2018 that management estimated the benefit of which will not be realized. As of December 31, 2018, 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 2018 and 2017, exercise of share-based awards by employees resulted in an excess tax benefit of \$2.0 million and \$0.9 million, respectively. In 2016 share-based awards by employees resulted in a tax shortfall of \$1.1 million, which was recorded to equity.

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, 2018 and 2017. In addition, there have been no material changes in unrecognized benefits during 2018, 2017 and 2016.

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 2014.

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, 2018, 2017 and 2016.

NOTE 6. 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, 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, 2018.

For the years ended December 31, 2018, 2017 and 2016, the share-based compensation expense was \$4.1 million, \$3.2 million and \$3.1 million, respectively, before provision for income taxes. The Company recorded a tax benefit of approximately \$1.1 million, \$1.3 million and \$1.2 million, respectively, related to the aforementioned share-based compensation expenses. There was no capitalized share-based compensation expense in the years ended December 31, 2018, 2017 and 2016.

Stock Options

As of December 31, 2018, 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 5,953,688 shares, while options for 1,659,312 shares have been terminated, and options for 845,600 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, 2018, 1,962,804 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, 2018 is as follows:

	Number of options	Weighted- average price	Weighted- contractual term (in years)	Aggregate intrinsic value (in millions)
Balance at December 31, 2015	1,410,650	\$ 29.91		
Options granted	881,800	25.26		
Options exercised	(368,085)	27.34		
Options cancelled/forfeited/expired	(339,930)	28.62		
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	\$ 29.57	4.18	\$ 18.6
Exercisable at December 31, 2018	303,225	\$ 29.71	3.78	\$ 6.6
Expected to vest after December 31, 2018	517,884	\$ 29.50	4.41	\$ 11.4

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 \$10.6 million, \$6.2 million and \$4.2 million for the years ended December 31, 2018, 2017 and 2016, respectively, determined as of the date of option exercise. As of December 31, 2018, there was approximately \$2.6 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 1.9 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, 2018:

Exercise price	Options Outstanding		Contractual life (Years)	Weighted- average value at grant date	Options Exercisable	
	Number outstanding at December 31, 2018	Weighted- average remaining at December 31, 2018			Number exercisable at December 31, 2018	Weighted- average at December 31, 2018
\$20 – 25	349,990	4.17		\$ 24.60	109,150	\$ 24.60
\$25 – 30	33,970	2.19		\$ 27.99	24,460	\$ 29.10
\$30 – 35	448,300	4.32		\$ 33.31	165,675	\$ 33.03
\$35 – 40	7,900	4.58		\$ 38.83	3,600	\$ 38.56
\$40 – 45	5,440	5.67		\$ 40.37	340	\$ 40.37
\$20 – 45	845,600	4.18		\$ 29.57	303,225	\$ 29.71

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,	
	2018	2017
Expected term (in years)	— 5.0	5.0
Expected volatility	— 26.1 %	28.7 %
Expected dividend yields	— 3.0 %	4.1 %
Risk-free interest rates	— 2.0 %	1.2 %

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 2018. The weighted average grant date fair value per share was \$6.28 and \$4.14 during the years ended December 31, 2017 and 2016, respectively.

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, 2018:

	Number of shares	Weighted- average grant date fair value	Aggregate intrinsic value (in millions)
Balance at December 31, 2015	220,648	\$ 30.70	
RSUs granted	31,900	25.75	
RSUs vested	(59,008)	29.69	
RSUs cancelled/forfeited/expired	(68,300)	29.33	
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