AUTODESK INC
Form 424B2
December 10, 2012
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Registration No. 333-185265

This preliminary prospectus supplement is not complete and may be changed. A registration statement relating to these Notes has been filed with the Securities and Exchange Commission and is effective. This preliminary prospectus supplement and the accompanying prospectus are not an offer to sell these Notes and they are not soliciting an offer to buy these Notes in any jurisdiction where the offer or sale is not permitted.

Preliminary Prospectus Supplement

(To Prospectus dated December 4, 2012)

Issued December 10, 2012 (Subject to Completion)

$

$ % notes due 20

$ % notes due 20

Autodesk, Inc. is offering $ of its % notes due , 20 (the 20 notes) and $ of its % notes due , 20 (the 20 notes and, together with the 20 notes, the notes). The 20 notes will bear interest at a rate of % per annum. The 20 notes will bear interest at a rate of % per annum. We will pay interest semi-annually on the notes on and of each year, beginning , 2013. The 20 notes will mature on , 20 . The 20 notes will mature on , 20 .

We may redeem some or all of any series of notes at any time at the redemption prices described under the heading Description of Notes Optional Redemption in this prospectus supplement. Upon the occurrence of a change of control repurchase event, we will be required to make an offer to repurchase the notes at a price equal to 101% of their principal amount plus accrued and unpaid interest to, but not including, the date of repurchase.

The notes are our senior unsecured obligations and will rank equally with all of our other senior unsecured indebtedness. There is no sinking fund for the notes. The notes are not, and are not expected to be, listed on any securities exchange.

Investing in the notes involves risks. See **Risk Factors beginning on page S-8 of this prospectus supplement.**

	Price to Public (1)	Underwriting Discounts and Commissions	Proceeds to Autodesk (before expenses)
Per 20 note	%	%	%
20 notes total	$	$	$
Per 20 note	%	%	%
20 notes total	$	$	$
Total	$	$	$

(1) Plus accrued interest, if any, from , 2012, if settlement occurs after that date.

Neither the Securities and Exchange Commission (SEC) nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus to which it relates is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the notes on or about , 2012 only in book-entry form through the facilities of The Depository Trust Company for the accounts of its participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System, and Clearstream Banking S.A.

Joint Book-Running Managers

Citigroup **J.P. Morgan** **Morgan Stanley**

The date of this Prospectus Supplement is December , 2012

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PROSPECTUS SUPPLEMENT

PROSPECTUS

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document consists of two parts. The first part is this prospectus supplement, which describes the specific terms of this offering. The second part is the accompanying prospectus, which describes more general information, some of which may not apply to this offering. You should read both this prospectus supplement and the accompanying prospectus, together with the additional information described under the heading Incorporation by Reference on page S-49 of this prospectus supplement and on page 21 of the accompanying prospectus.

In this prospectus supplement, except as otherwise indicated or unless the context otherwise requires, Autodesk , the company , we , us and our refer to Autodesk, Inc. and its consolidated subsidiaries. If the information set forth in this prospectus supplement differs in any way from the information set forth in the accompanying prospectus, you should rely on the information set forth in this prospectus supplement.

Currency amounts in this prospectus supplement are stated in U.S. dollars.

This prospectus supplement and the accompanying prospectus may be used only for the purpose for which they have been prepared. No one is authorized to give information other than that contained in or incorporated by reference into this prospectus supplement and the accompanying prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. We and the underwriters take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you.

We are not, and the underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed since that date.

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FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus and the information incorporated by reference herein and therein include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Forward-looking statements are any statements that look to future events and consist of, among other things, our business strategies, anticipated future net revenue, future operating margin and other future financial results (by product type and geography) and operating expenses, the effectiveness of our internal reorganization and restructuring efforts, the effectiveness of efforts to reduce our operating expenses, expected market trends, including the growth of cloud, mobile and social computing, the effect of unemployment and availability of credit, the effects of the weak global economic conditions, our backlog, expected trends in certain financial metrics, the impact of acquisitions and investment activities, the effect of fluctuations in exchange rates and our hedging activities on our financial results, our ability to successfully expand adoption of our products, our ability to gain market acceptance of new businesses and sales initiatives, our ability to successfully increase sales of product suites as part of our overall sales strategy, and the impact of economic volatility and geopolitical activities in certain countries, particularly emerging economy countries, and the resulting effect on our financial results. In addition, forward-looking statements also consist of statements involving expectations regarding product acceptance, continuation of our stock repurchase program, statements regarding our liquidity and short-term and long-term cash requirements, as well as, statements involving trend analyses and statements including such words as may, believe, could, anticipate, would, might, plan, expe similar expressions or the negative of these terms or other comparable terminology.

These forward-looking statements speak only as of the date of this prospectus supplement and are subject to business and economic risks. As such, our actual results could differ materially from those set forth in the forward-looking statements as a result of the factors set forth below in the section entitled Risk Factors, and in our reports filed with the SEC. We assume no obligation to update the forward-looking statements to reflect events that occur or circumstances that exist after the date on which they were made.

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SUMMARY

The following summary highlights information contained elsewhere or incorporated by reference in this prospectus supplement and the accompanying prospectus. It does not contain all of the information that you should consider before investing in the notes. For a more complete discussion of the information you should consider before investing in the notes, you should carefully read this entire prospectus supplement, the accompanying prospectus and the documents incorporated by reference herein and therein.

Our Company

We are a leading design software and services company, offering customers productive business solutions through powerful technology products and services. We serve customers in the architecture, engineering and construction; manufacturing; and digital media and entertainment industries. Our sophisticated software products enable our customers to experience their ideas before they become real by allowing them to imagine, design and create their ideas and to visualize, simulate and analyze real-world performance early in the design process by creating digital prototypes. These capabilities allow our customers to optimize and improve their designs, help save time and money, improve quality and foster innovation. Our software products are sold globally, both directly to customers and through a network of resellers and distributors.

Segments

We are organized into four reportable operating segments:

- Platform Solutions and Emerging Business (PSEB), which accounted for 38% of our net revenue in fiscal 2012;
- Architecture, Engineering and Construction (AEC), which accounted for 28% of our net revenue in fiscal 2012;
- Manufacturing (MFG), which accounted for 24% of our net revenue in fiscal 2012; and
- Media and Entertainment (M&E), which accounted for 10% of our net revenue in fiscal 2012.

Our PSEB, AEC and MFG segments derive revenue from the sale of licenses for software products and services to customers who design, build, manage or own building, manufacturing and infrastructure projects. In addition to software products, the PSEB, AEC and MFG segments offer a range of services including consulting, support and training, largely dedicated to enhancing our ability to sell licenses to our software products. Our M&E segment derives revenue from the sale of licenses of software products to creative professionals, post-production facilities, and broadcasters for a variety of applications, including feature films, television programs, commercials, music and corporate videos, interactive game production, web design and interactive web streaming. In addition, our animation products produced by our M&E segment are often used by customers of products from our other segments for the visualization of their designs.

Products and Services

The principal products and services of these segments include the following:

- Flagship products, which accounted for approximately 58% of our net revenue in fiscal 2012, are our core standalone horizontal, vertical and model-based design products including AutoCAD, AutoCAD LT, AutoCAD Civil 3D, AutoCAD Mechanical, AutoCAD Architecture, Autodesk 3ds Max and Autodesk Maya;

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Suites, which accounted for approximately 27% of our net revenue in fiscal 2012, are a combination of products that target a specific user objective (product design, building design, etc.) and support a set of workflows for that objective, including Autodesk Product Design Suites, Autodesk Building Design Suites, Autodesk Educational Suites and Autodesk Entertainment Creation Suites; and

New and Adjacent products, which accounted for approximately 16% of our net revenue in fiscal 2012, are new product offerings as well as products that are not considered flagship or suites including Autodesk Creative Finishing products, Autodesk Moldflow products, Autodesk Navisworks products and Autodesk Robot Structural Analysis.

We were incorporated in California in April 1982 and were reincorporated in Delaware in May 1994. Our principal executive office is located at 111 McInnis Parkway, San Rafael, California 94903 and the telephone number at that address is (415) 507-5000. Our internet address is www.autodesk.com. Information contained in or accessible through our website is not part of or incorporated by reference into this prospectus supplement or the accompanying prospectus.

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The Offering

The summary below describes the principal terms of the notes. Certain of the terms described below are subject to important limitations and exceptions. The Description of Notes section of this prospectus supplement and the Description of Senior Debt Securities section of the accompanying prospectus contain a more detailed description of the terms of the notes.

Issuer	Autodesk, Inc.
Securities Offered	$ aggregate principal amount of our % notes due , 20 . $ aggregate principal amount of our % notes due , 20 .
Maturity Dates	The 20 notes will mature on , 20 . The 20 notes will mature on , 20 .
Interest Rates	The 20 notes will bear interest at a rate of % per annum. The 20 notes will bear interest at a rate of % per annum.
Interest Payment Dates	We will pay interest on the notes on and of each year, beginning on , 2013.
Ranking	The notes will be senior unsecured obligations of ours and will rank equally with all of our other senior unsecured indebtedness from time to time outstanding.
Optional Redemption	We may, at our option, redeem any series of notes, in whole or in part, at any time at the redemption prices determined as set forth under the heading Description of Notes Optional Redemption.
Change of Control Repurchase Event	Upon the occurrence of a change of control repurchase event, as defined under Description of Notes Purchase of Notes upon Change of Control Repurchase Event, each holder will have the right to require us to repurchase all or any part of that holder s notes at a price equal to 101% of their principal amount, plus accrued and unpaid interest to, but not including, the date of repurchase.
Certain Covenants	The indenture governing the notes contains covenants limiting our ability and the ability of our restricted subsidiaries (as defined therein) to:

- create certain liens;

- enter into certain sale and leaseback transactions; and

- consolidate or merge with, or convey, transfer or lease all or substantially all our assets to, another person.

However, each of these covenants is subject to a number of significant qualifications and exceptions. You should read Description of Notes Certain Covenants in this prospectus

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	supplement and Description of Senior Debt Securities Certain Covenants in the accompanying prospectus for a description of these covenants. Exceptions to these covenants will allow us and our subsidiaries to incur liens with respect to material assets owned by us.
Use of Proceeds	We will use a portion of the net proceeds from the sale of the notes for the repayment of approximately $80.0 million in borrowings outstanding under our revolving credit facility plus accrued and unpaid interest. The remainder of the net proceeds will be used for general corporate purposes, including working capital, capital expenditures, possible stock repurchases and potential acquisitions and strategic transactions. Although from time to time we may evaluate potential acquisitions and strategic transactions of businesses, technologies or products, we currently do not have any agreements or understandings with respect to any such material acquisitions or strategic transactions.
Denominations	The notes will be issued in minimum denominations of $2,000 and multiples of $1,000 in excess thereof.
Form of Notes	We will issue the notes in the form of one or more fully registered global notes registered in the name of the nominee of The Depository Trust Company (DTC). Investors may elect to hold the interests in the global notes through any of DTC, the Euroclear System, or Clearstream Banking, S.A., as described under Description of Notes Book-Entry; Delivery and Form; Global Notes and Description of Notes Euroclear and Clearstream, Luxembourg in this prospectus supplement.
Further Issuances	We may, without the consent of existing holders, increase the principal amount of the notes by issuing more notes in the future, on the same terms and conditions (other than the issue date and possibly the price to the public) and with the same CUSIP number (unless the additional notes of a series are not fungible for U.S. federal income tax purposes with such series, in which case the additional notes will have a separate CUSIP number), in each case, as the notes being offered by this prospectus supplement. We do not plan to inform the existing holders if we re-open this series of notes to issue and sell additional notes of this series in the future. Additional notes issued in this manner will be consolidated with and will form a single series with the applicable series of notes being offered hereby.
Risk Factors	You should consider carefully all the information set forth and incorporated by reference in this prospectus supplement and the accompanying prospectus and, in particular, you should evaluate the specific factors set forth under the heading Risk Factors beginning on page S-8 of this prospectus supplement, as well as the other information contained or incorporated herein by reference, before investing in any of the notes offered hereby.

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Conflicts of Interest	Affiliates of certain of the underwriters in this offering may receive more than 5% of the net proceeds of this offering in connection with the consummation of this offering. See Use of Proceeds in this prospectus supplement. In such event, this offering will be made in compliance with the requirements of the Financial Industry Regulatory Authority (FINRA) Rule 5121. Because the notes offered hereby will be rated investment grade, pursuant to FINRA Rule 5121, the appointment of a qualified independent underwriter is not necessary. See Underwriting (Conflicts of Interest) Conflicts of Interest.
Governing Law	The indenture will provide that New York law shall govern any action regarding the notes brought pursuant to the indenture.
Trustee	U.S. Bank National Association.

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Summary Consolidated Financial Data

The following table presents summary consolidated financial data as of and for the periods indicated. The statements of operations for the years ended January 31, 2012, January 31, 2011 and January 31, 2010 and the balance sheet data as of January 31, 2012 and January 31, 2011 have been derived from the audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended January 31, 2012 filed with the SEC, which is incorporated herein by reference. The statements of operations for each of the nine-month periods ended October 31, 2012 and October 31, 2011 and the balance sheet data as of October 31, 2012 have been derived from the unaudited consolidated financial statements included in our Quarterly Report on Form 10-Q for the quarter ended October 31, 2012 filed with the SEC, which is incorporated herein by reference. In the opinion of management, our unaudited summary consolidated financial data reflect all adjustments of a normal recurring nature necessary for a fair statement of such financial data and our interim financial statements have been prepared on the same basis as our audited consolidated financial statements. Interim results are not necessarily indicative of results of operations for the full year. You should read the following table in conjunction with our audited consolidated financial statements and related notes in our Annual Report on Form 10-K for the year ended January 31, 2012 and our unaudited consolidated financial statements and related notes in our Quarterly Report on Form 10-Q for the quarter ended October 31, 2012.

	Fiscal Year Ended			Nine Months Ended (Unaudited)	
	January 31, 2012	January 31, 2011	January 31, 2010	October 31, 2012	October 31, 2011
	(In millions, except per share amounts)				
Consolidated Statements of Operations Data:					
Net revenue:					
License and other	$ 1,357.6	$ 1,172.1	$ 980.7	$ 1,018.6	$ 987.4
Maintenance	858.0	779.7	733.0	686.7	635.8
Total net revenue	2,215.6	1,951.8	1,713.7	1,705.3	1,623.2
Cost of revenue:					
Cost of license and other revenue	187.1	162.2	172.0	145.7	138.8
Cost of maintenance revenue	42.0	34.4	19.8	30.8	32.8
Total cost of revenue	229.1	196.6	191.8	176.5	171.6
Gross profit	1,986.5	1,755.2	1,521.9	1,528.8	1,451.6
Operating expenses:					
Marketing and sales	842.6	776.0	731.9	639.5	609.1
Research and development	566.5	496.2	457.5	450.6	417.0
General and administrative	223.1	200.8	197.7	180.7	163.0
Impairment of goodwill			21.0		
Restructuring (benefits) charges	(1.3)	10.8	48.2	36.7	(1.3)
Total operating expenses	1,630.9	1,483.8	1,456.3	1,307.5	1,187.8
Income from operations	355.6	271.4	65.6	221.3	263.8
Interest and other income, net	7.3	0.6	19.1	2.6	6.2
Income before income taxes	362.9	272.0	84.7	223.9	270.0
Provision for income taxes	(77.6)	(60.0)	(26.7)	(51.0)	(56.7)
Net income	$ 285.3	$ 212.0	$ 58.0	$ 172.9	$ 213.3
Basic net income per share	$ 1.25	$ 0.93	$ 0.25	$ 0.76	$ 0.93
Diluted net income per share	$ 1.22	$ 0.90	$ 0.25	$ 0.75	$ 0.91

Weighted average shares used in computing basic net income per share	227.7	227.6	228.7	227.1	228.2
Weighted average shares used in computing diluted net income per share	233.3	234.2	232.1	231.4	233.7

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	January 31, 2012	As of January 31, 2011	October 31, 2012 (Unaudited)
		(In millions)	
Consolidated Balance Sheet Data:			
Cash and cash equivalents	$ 1,156.9	$ 1,075.1	$ 827.0
Short-term marketable securities	254.4	199.2	502.1
Other current assets	484.6	440.0	395.5
Total assets	3,227.8	2,787.6	3,429.2
Total stockholders equity	1,882.9	1,609.3	2,017.9

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RISK FACTORS

An investment in the notes involves certain risks. In addition to the other information contained in, or incorporated by reference into, this prospectus supplement and the accompanying prospectus, you should carefully consider the following discussion of risks before deciding whether an investment in the notes is suitable for you.

Risks Related to the Offering

The notes are structurally subordinated to the indebtedness and other liabilities of our subsidiaries.

The notes are obligations exclusively of Autodesk, Inc. and not of any of our subsidiaries. A portion of our operations is conducted through our subsidiaries. Our subsidiaries are separate legal entities that have no obligation to pay any amounts due under the notes or to make any funds available therefor, whether by dividends, loans or other payments. Except to the extent we are a creditor with recognized claims against our subsidiaries, all claims of creditors (including trade creditors) of our subsidiaries will have priority with respect to the assets of such subsidiaries over our claims (and therefore the claims of our creditors, including holders of the notes). Consequently, the notes will be effectively subordinated to all liabilities of our subsidiaries and any subsidiaries that we may in the future acquire or establish. As of October 31, 2012, our subsidiaries had approximately $198.6 million of outstanding liabilities, including trade payables but excluding intercompany liabilities, deferred revenue and liabilities of a type not required to be reflected on a balance sheet in accordance with GAAP (as defined below).

The notes are subject to prior claims of any secured creditors, and if a default occurs, we may not have sufficient funds to fulfill our obligations under the notes.

The notes are our unsecured general obligations, ranking equally with other senior unsecured indebtedness. The indenture governing the notes permits us and our subsidiaries to incur additional indebtedness, including secured debt. If we incur any secured debt, our assets will be subject to prior claims by our secured creditors to the extent of the value of the assets securing such indebtedness. In the event of our bankruptcy, liquidation, reorganization or other winding up, assets that secure debt will be available to pay obligations on the notes only after all debt secured by those assets has been repaid in full. Holders of the notes will participate in our remaining assets ratably with all of our unsecured and unsubordinated creditors, including our trade creditors. If we incur any additional obligations that rank equally with the notes, including trade payables, the holders of those obligations will be entitled to share ratably with the holders of the notes and the previously issued notes in any proceeds distributed upon our insolvency, liquidation, reorganization, dissolution or other winding up. This may have the effect of reducing the amount of proceeds paid to you. If there are not sufficient assets remaining to pay all these creditors, all or a portion of the notes then outstanding would remain unpaid.

We may still be able to incur substantially more indebtedness.

The terms of the indenture governing the notes will not prohibit us from incurring substantial indebtedness in the future. If we incur any additional indebtedness that ranks equally with the notes, the holders of that indebtedness will be entitled to share ratably with the holders of the notes in any proceeds distributed in connection with any insolvency, liquidation, reorganization, dissolution or other winding up of our company.

The limited covenants in the indenture for the notes and the terms of the notes do not provide protection against some types of important corporate events and may not protect your investment.

The indenture for the notes does not:

- require us to maintain any financial ratios or specific levels of net worth, revenues, income, cash flow or liquidity and, accordingly, does not protect holders of the notes in the event that we experience significant adverse changes in our financial condition or results of operations;

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- restrict our subsidiaries ability to issue securities or otherwise incur indebtedness that would be senior to our equity interests in our subsidiaries and therefore would be structurally senior to the notes;
- limit our ability to incur secured indebtedness that would effectively rank senior to the notes to the extent of the value of the assets securing the indebtedness;
- limit our ability to incur indebtedness that is equal in right of payment to the notes;
- restrict our ability to repurchase or prepay our securities;
- restrict our ability to make investments or to repurchase or pay dividends or make other payments in respect of our common stock or other securities ranking junior to the notes; or
- restrict our ability to enter into highly leveraged transactions.

In addition, the limitation on liens and limitation on sale and lease-back transactions covenants with respect to principal property contain exceptions that will allow us to create, grant or incur liens or security interests with respect to our facilities in a number of circumstances. As of the date of this prospectus supplement, neither we nor any of our restricted subsidiaries own any principal property.

As a result of the foregoing, when evaluating the terms of the notes, you should be aware that the terms of the indenture and the notes do not restrict our ability to engage in, or to otherwise be a party to, a variety of corporate transactions, circumstances and events, such as certain acquisitions, refinancings or recapitalizations that could substantially and adversely affect our capital structure and the value of the notes. For these reasons, you should not consider the covenants in the indenture as a significant factor in evaluating whether to invest in the notes.

Changes in our credit ratings may adversely affect your investment in the notes.

The major debt rating agencies routinely evaluate our debt. These ratings are not recommendations to purchase, hold or sell the notes, inasmuch as the ratings do not comment as to market price or suitability for a particular investor, are limited in scope, and do not address all material risks relating to an investment in the notes, but rather reflect only the view of each rating agency at the time the rating is issued. The ratings are based on current information furnished to the ratings agencies by us and information obtained by the ratings agencies from other sources. An explanation of the significance of such rating may be obtained from such rating agency. There can be no assurance that such credit ratings will remain in effect for any given period of time or that such ratings will not be lowered, suspended or withdrawn entirely by the rating agencies, if, in each rating agency s judgment, circumstances so warrant. Actual or anticipated changes or downgrades in our credit ratings, including any announcement that our ratings are under further review for a downgrade, could affect the market value and liquidity of the notes and increase our corporate borrowing costs.

There may not be an active market for the notes.

We cannot assure you that a trading market for the notes will ever develop or will be maintained. Further, there can be no assurance as to the liquidity of any market that may develop for the notes, your ability to sell your notes or the prices at which you will be able to sell your notes. Future trading prices of the notes will depend on many factors, including prevailing interest rates, our financial condition and results of operations, the then-current ratings assigned to the notes and the market for similar securities. Any trading markets that develop would be affected by many factors independent of and in addition to the foregoing, including the:

- propensity of existing holders to trade their positions in the notes;
- time remaining to the maturity of the notes;

outstanding amount of the notes;

redemption of the notes; and

level, direction and volatility of market interest rates generally.

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Redemption may adversely affect your return on the notes.

We have the right to redeem some or all of the notes prior to maturity. We may redeem the notes at times when prevailing interest rates may be relatively low. Accordingly, you may not be able to reinvest the redemption in a comparable security at an effective interest rate as high as that of the notes.

The provisions in the indenture that governs the notes relating to change of control transactions will not necessarily protect you in the event of a highly leveraged transaction.

The provisions in the indenture will not necessarily afford you protection in the event of a highly leveraged transaction that may adversely affect you, including a reorganization, restructuring, merger or other similar transaction involving us. These transactions may not involve a change in voting power or beneficial ownership or, even if they do, may not involve a change of the magnitude required under the definition of change of control repurchase event in the indenture to trigger these provisions, notably that the transactions are accompanied or followed within 60 days by a downgrade in the rating of the notes, following which the notes are no longer rated investment grade . Except as described under Description of Notes Purchase of Notes upon Change of Control Repurchase Event, the indenture does not contain provisions that permit the holders of the notes to require us to repurchase the notes in the event of a takeover, recapitalization or similar transaction.

We may not be able to repurchase all of the notes upon a change of control repurchase event, which would result in a default under the notes.

We will be required to repurchase the notes at the option of each holder upon the occurrence of a change of control repurchase event as provided in the indenture governing the notes. However, we may not have sufficient funds to repurchase the notes in cash at the time of any change of control repurchase event. In addition, our ability to repurchase the notes for cash may be limited by law or the terms or other agreements relating to our indebtedness outstanding at the time. Accordingly, we may not be able to satisfy our obligations to repurchase your notes unless we are able to refinance or obtain consents from the holders of such indebtedness. Our failure to repurchase your notes upon a change of control repurchase event would be an event of default under the indenture and could cause a cross-default or acceleration under certain agreements governing our other indebtedness, if any.

The negative covenants in the indenture that govern the notes may have a limited effect.

The indenture governing the notes contains covenants limiting our ability and the ability of our restricted subsidiaries to create certain liens on principal property or the capital stock of restricted subsidiaries, enter into certain sale and leaseback transactions with respect to principal property, and consolidate or merge with, or convey, transfer or lease all or substantially all our assets, taken as a whole, to, another person. The covenants limiting liens and sale and leaseback transactions contain exceptions that will allow us and our restricted subsidiaries to incur liens with respect to material assets. See Description of Notes Certain Covenants in this prospectus supplement and Description of Senior Debt Securities Certain Covenants in the accompanying prospectus. In light of these exceptions and other factors described above, holders of the notes may be structurally or contractually subordinated to new lenders. As of the date of this prospectus supplement, neither we nor any of our restricted subsidiaries own any principal property.

You may not be able to determine when a change of control repurchase event has occurred and may not be able to require us to repurchase notes as a result of a change in the composition of the directors on our board.

The definition of change of control, which is a condition precedent to a change of control repurchase event, includes a phrase relating to the sale, lease or transfer of all or substantially all of our assets. There is no precisely established definition of the phrase substantially all under applicable law. Accordingly, your ability to require us to repurchase your notes as a result of a sale, lease or transfer of less than all of our assets to another individual, group or entity may be uncertain.

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In addition, a Delaware Chancery Court decision found that incumbent directors are permitted to approve as a continuing director any person, including one nominated by a dissident stockholder and not recommended by the board, as long as the approval is granted in good faith and in accordance with the board s fiduciary duties. Accordingly, you may not be able to require us to repurchase your notes as a result of a change in the composition of the directors on our board unless a court were to find that such approval was not granted in good faith or violated the board s fiduciary duties. The court also observed that certain provisions in an indenture, such as continuing director provisions, could function to entrench an incumbent board of directors and could raise enforcement concerns if adopted in violation of a board s fiduciary duties. If such a provision was found unenforceable, you would not be able to require us to repurchase your notes upon a change of control resulting from a change in the composition of our board.

Risks Related to Our Business

We operate in a rapidly changing environment that involves significant risks, a number of which are beyond our control. In addition to the other information contained in this prospectus supplement, the following discussion highlights some of these risks and the possible impact of these factors on our business, financial condition and future results of operations. If any of the following risks actually occur, our business, financial condition or results of operations may be adversely impacted. In addition, these risks and uncertainties may impact the forward-looking statements described elsewhere in this prospectus supplement and in the documents incorporated herein by reference. They could affect our actual results of operations, causing them to differ materially from those expressed in forward-looking statements.

Global economic conditions may further impact our business, financial results and financial condition.

As our business has expanded globally, we have increasingly become subject to risks arising from adverse changes in global economic and political conditions. The past several years have been characterized by weak global economic conditions, a tightening in the credit markets, high unemployment, a low level of liquidity in many financial markets, increased government deficit spending and debt levels, uncertainty about certain governments abilities to repay such debt or to address certain fiscal issues (such as the so called fiscal cliff in the United States), and extreme volatility in many financial instrument markets. While there have been a number of mixed indicators, a weakening demand environment, the continuing sovereign debt crisis, financial market volatility and other factors in Europe and emerging markets seem to indicate a broad, renewed slow-down is taking place.

Over the past several years, many of our customers have experienced tighter credit, negative financial news and weaker financial performance of their businesses and have reduced their workforces, thereby reducing the number of licenses and the number of maintenance contracts they purchase from us. In addition, a number of our customers rely, directly and indirectly, on government spending. Current debt balances of many countries without proportionate increases in revenues has caused many countries to reduce spending and in some cases has forced those countries to restructure their debt in an effort to avoid defaulting under those obligations. This has not only impacted those countries but others that are holders of such debt and those assisting in such restructuring.

These actions may impact, and over the past several years have negatively impacted, our business, financial results and financial condition. In addition, these factors are causing, and over the past several years have caused, us to restructure our business and in turn we have and will incur restructuring charges. Moreover, our financial performance may be negatively impacted by:

- lack of credit available to and the insolvency of key channel partners, impairing our distribution channels and cash flows;
- counterparty failures negatively impacting our treasury functions, including timely access to our cash reserves and third-party fulfillment of hedging transactions;
- counterparty failures negatively affecting our insured risks;

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- inability of banks to honor our existing line of credit, which could increase our borrowing expenses or eliminate our ability to obtain short-term financing; and

- decreased borrowing and spending by our end users on small and large projects in the industries we serve, thereby reducing demand for our products.

The actions that we are taking to reorganize our business in alignment with our current operating strategy and in response to our related business slowdown may be costly and may not be as effective as anticipated.

We recently implemented a number of important organizational changes relating to our operating plan and new business initiatives. These changes were made in order to address major business initiatives including our desire to accelerate the business move to the cloud, transform our customers experience, increase industry focus to meet customer demands, and develop more effective marketing. In order to achieve these organizational changes and to further our strategy, including our continuing shift to cloud, social and mobile computing, we recently implemented a company-wide restructuring plan. While these reorganization efforts are intended to better align our product development and marketing teams and our sales teams, we encountered challenges in the execution of these efforts which have negatively affected our financial results, at least in the short term. If we are unable to successfully complete our reorganizational efforts we may need to undertake additional restructuring efforts, and our business and operating results may be harmed. In taking any future restructuring actions, we may incur, and over the past several years have incurred, additional costs that negatively impact our operating margins.

We are taking actions to reduce our cost structure to more closely align our costs with our revenue levels. In taking these actions, we have attempted to balance the cost of such initiatives against their longer term benefits. As a result of these actions, we will incur additional costs in the short term that may have the effect of reducing our operating margins. If we do not achieve the proper balance of these cost reduction initiatives, we may eliminate critical elements of our operations, the loss of which could negatively impact our ability to benefit from an economic recovery. We cannot assure that our cost cutting efforts will achieve appropriate levels of expenses and we may take additional actions in the future.

In addition, we are taking actions to stimulate demand through a number of programs. Although we are attempting to balance the cost of these programs against their longer term benefits, it is possible that we will make such investments without a corresponding increase in demand for our products. This would further reduce our operating margins and have a negative impact on our financial results.

Existing and increased competition and rapidly evolving technological changes may reduce our revenue and profits.

The software industry has limited barriers to entry, and the availability of computing devices with continually expanding performance at progressively lower prices contributes to the ease of market entry. The markets in which we compete are characterized by vigorous competition, both by entry of competitors with innovative technologies and by consolidation of companies with complementary products and technologies. In addition, some of our competitors in certain markets have greater financial, technical, sales and marketing and other resources. Furthermore, a reduction in the number and availability of compatible third-party applications, or our inability to rapidly adapt to technological and customer preference changes, including those related to cloud computing, mobile devices, and new computing platforms, may adversely affect the sale of our products. Because of these and other factors, competitive conditions in the industry are likely to intensify in the future. Increased competition could result in price reductions, reduced net revenue and profit margins and loss of market share, any of which would likely harm our business.

We believe that our future results largely depend upon our ability to offer products that compete favorably with respect to reliability, performance, ease of use, range of useful features, continuing product enhancements, reputation and price.

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Our financial results fluctuate within each quarter and from quarter to quarter making our future revenue and financial results difficult to predict.

Our quarterly financial results have fluctuated in the past and likely will continue to do so in the future. These fluctuations could cause our stock price to change significantly or experience declines. In addition to the other factors described in or incorporated by reference into this prospectus supplement, some of the factors that could cause our financial results to fluctuate include:

- general market, economic, business and political conditions in particular geographies, including Europe and emerging economies,
- the ability of governments around the world to adopt fiscal policies, meet their financial and debt obligations, and to finance infrastructure projects,
- lower growth or contraction of our upgrade or maintenance programs,
- failure to achieve and maintain planned cost reductions and productivity increases,
- the effectiveness of our internal business reorganization,
- restructuring or other accounting charges and unexpected costs or other operating expenses,
- fluctuations in foreign currency exchange rates and the effectiveness of our hedging activity,
- failure to expand our AutoCAD and AutoCAD LT products customer base to related design products,
- our inability to rapidly adapt to technological and customer preference changes, including those related to cloud computing, mobile devices, and new computing platforms,
- the timing of the introduction of new products by us or our competitors,
- the success of new business or sales initiatives and increasing our portfolio of product suites (suites),
- failure to maintain our revenue growth and profitability,
- the financial and business condition of our reseller and distribution channels,
- weak or negative growth in the industries we serve, including architecture, engineering and construction, manufacturing and digital media and entertainment markets,

failure to accurately predict the impact of acquired businesses or to identify and realize the anticipated benefits of acquisitions, and successfully integrate such acquired businesses and technologies,

perceived or actual technical or other problems with a product or combination of products,

unexpected or negative outcomes of matters and expenses relating to litigation or regulatory inquiries,

failure to achieve anticipated levels of customer acceptance of key new applications,

pricing pressure or changes in product pricing or product mix,

platform changes,

timing of product releases and retirements,

failure to continue momentum of frequent release cycles or to move a significant number of customers from prior product versions in connection with our programs to retire major products,

changes in tax laws or regulations, tax arrangements with foreign governments or accounting rules, such as increased use of fair value measures and the potential requirement that U.S. registrants prepare financial statements in accordance with International Financial Reporting Standards (IFRS),

changes in sales compensation practices,

dependence on and the timing of large transactions, failure to effectively implement our copyright legalization programs, especially in developing countries,

failure to achieve sufficient sell-through in our channels for new or existing products,

renegotiation or termination of royalty or intellectual property arrangements,

interruptions or terminations in the business of our consultants or third party developers,

the timing and degree of expected investments in growth and efficiency opportunities,

failure to achieve continued success in technology advancements, and

catastrophic events or natural disasters, such as the earthquakes and tsunami in Japan in March 2011 and Superstorm Sandy in October 2012.

We have also experienced fluctuations in financial results in interim periods in certain geographic regions due to seasonality or regional economic conditions. In particular, our financial results in Europe during our third quarter are usually affected by a slower summer period, and our Asia Pacific operations typically experience seasonal slowing in our third and fourth quarters.

Our operating expenses are based in part on our expectations for future revenue and are relatively fixed in the short term. Accordingly, any revenue shortfall below expectations have had, and in the future could have, an immediate and significant adverse effect on our profitability. Greater than anticipated expenses or a failure to maintain rigorous cost controls would also negatively affect profitability. Further, gross margins may be adversely affected if our sales of Creative Finishing products and consulting services, which historically have had lower margins, grow at a faster rate than sales of our higher-margin products and services.

If we do not maintain good relationships with the members of our distribution channel, or achieve anticipated levels of sell-through, our ability to generate revenue will be adversely affected. If our distribution channel suffers financial losses, becomes financially unstable or insolvent, is negatively impacted by the recent consolidation between two important distributors, or is not provided the right mix of incentives to sell our products, our ability to generate revenue will be adversely affected.

We sell our software products both directly to end-users and through a network of distributors and resellers. For the three and nine months ended October 31, 2012, approximately 84% and 85%, respectively, of our revenue was derived from indirect channel sales through distributors and resellers, and we expect that the majority of our revenue will continue to be derived from indirect channel sales in the future. Our ability to effectively distribute our products depends in part upon the financial and business condition of our distributor and reseller network. Computer software distributors and resellers typically are not highly capitalized, have previously experienced difficulties during times of economic contraction and experienced difficulties during the past several years. We have processes to ensure that we assess the creditworthiness of distributors and resellers prior to our sales to them. In the past we have taken steps to support them, and may take additional steps in the future, such as extending credit terms and providing temporary discounts. These steps, if taken, could harm our financial results. If our distributors and resellers were to become insolvent, they would not be able to maintain their business and sales, or provide customer support services, which would negatively impact our business and revenue.

We rely significantly upon major distributors and resellers in both the U.S. and international regions, including the distributor Tech Data Corporation and its global affiliates (Tech Data). Tech Data accounted for 24% and 23%, of our total net revenue for the three and nine months ended October 31, 2012, respectively, as compared to 16% of our total net revenue for both the three and nine months ended October 31, 2011. In October 2011, Tech Data purchased certain assets of Mensch and Maschine Software (MuM), which has been a distributor of our products in Europe. The acquisition concentrates additional sales through Tech Data, which on a consolidated basis would have accounted for 20% and 22% of our total net revenue for the three and nine months ended October 31, 2011, respectively, if the acquisition had taken place at the beginning of fiscal 2012.

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Although we believe that we are not substantially dependent on Tech Data, including following the acquisition of certain assets of MuM, if Tech Data were to experience a significant disruption with its business or if our relationship with Tech Data were to significantly deteriorate, it is possible that our ability to sell to end users would be, at least temporarily, negatively impacted. This could in turn negatively impact our financial results.

Over time, we have modified and will continue to modify aspects of our relationship with our distributors and resellers, such as their incentive programs, pricing to them and our distribution model to motivate and reward them for aligning their businesses with our strategy and business objectives. Changes in these relationships and underlying programs could negatively impact their business and harm our business. In addition, the loss of or a significant reduction in business with those distributors or resellers or the failure to achieve anticipated levels of sell-through with any one of our major international distributors or large resellers could harm our business. In particular, if one or more of such distributors or resellers were unable to meet their obligations with respect to accounts payable to us, we could be forced to write off such accounts and may be required to delay the recognition of revenue on future sales to these customers. These events could have a material adverse effect on our financial results.

A significant portion of our revenue is generated through maintenance revenue; decreases in maintenance attach or renewal rates or a decrease in the number of new licenses we sell negatively impacts our future revenue and financial results.

Our maintenance customers have no obligation to attach maintenance to their initial license or renew their maintenance contract after the expiration of their initial maintenance period, which is typically one year. Our customers attach and renewal rates may decline or fluctuate as a result of a number of factors, including the overall global economy, the health of their businesses, and the perceived value of the maintenance program. If our customers do not attach maintenance to their initial license or renew their maintenance contract for our products, our maintenance revenue will decline and our financial results will suffer.

In addition, a portion of the growth of our maintenance revenue has typically been associated with growth of the number of licenses that we sell. Any reduction in the number of licenses that we sell, even if our customers attach rates do not change, will have a negative impact on our future maintenance revenue. This in turn would impact our business and harm our financial results.

We recognize maintenance revenue ratably over the term of the maintenance contracts, which is predominantly one year, but may also range up to five years. Decreases in net maintenance billings will negatively impact future maintenance revenue, however future maintenance revenue will also be impacted by other factors such as the amount, timing and mix of contract terms of future billings.

We are dependent on international revenue and operations, exposing us to significant regulatory, global economic, intellectual property, collections, currency exchange rate, taxation, political instability and other risks, which could adversely impact our financial results.

We are dependent on our international operations for a significant portion of our revenue. Our international revenue, including that from emerging economies, is subject to general economic and political conditions in foreign markets, including conditions in foreign markets resulting from economic and political conditions in the U.S. Our revenue is also impacted by the relative geographical and country mix of our revenue over time. These factors have recently adversely impacted and may in the future adversely impact our international revenue, and consequently our business as a whole. Our dependency on international revenue makes us much more exposed to global economic and political trends, which can negatively impact our financial results, even if our results in the U.S. are strong for a particular period. Further, a significant portion of our earnings from our international operations may not be freely transferable to the U.S. due to remittance restrictions, adverse tax consequences or other factors. Our intent is that amounts related to foreign earnings permanently reinvested outside the U.S. will remain outside the U.S. and we will meet our U.S. liquidity needs through ongoing cash flows, external borrowings, or both. However, if, in the future, amounts held by foreign subsidiaries are needed to fund the our

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operations in the U.S., the repatriation of such amounts to the U.S. could result in a significant incremental tax liability in the period in which the decision to repatriate occurs and payment of any such tax liability would reduce the cash available to fund our operations.

We anticipate that our international operations will continue to account for a significant portion of our net revenue, and, as we expand our international development, sales and marketing expertise, will provide significant support to our overall efforts in countries outside of the U.S. Risks inherent in our international operations include fluctuating currency exchange rates, including risks related to any hedging activities we undertake, unexpected changes in regulatory requirements and practices, delays resulting from difficulty in obtaining export licenses for certain technology, tariffs, quotas and other trade barriers and restrictions, transportation delays, operating in locations with a higher incidence of corruption and fraudulent business practices, particularly in emerging economies, increasing enforcement by the U.S. under the Foreign Corrupt Practices Act, adoption of stricter anti-corruption laws in certain countries, including the United Kingdom, difficulties in staffing and managing foreign sales and development operations, longer collection cycles for accounts receivable, potential changes in tax laws, including possible U.S. tax law changes that, if enacted, could significantly impact how U.S. multinational companies are taxed on foreign subsidiary earnings, tax arrangements with foreign governments, including our ability to meet and review the terms of those tax arrangements, and laws regarding the management of and access to data and public networks, possible future limitations upon foreign owned businesses, increased financial accounting and reporting burdens and complexities, inadequate local infrastructure, greater difficulty in protecting intellectual property, and other factors beyond our control, including popular uprisings, terrorism, war, natural disasters and diseases.

Some of our business partners also have international operations and are subject to the risks described above. Even if we are able to successfully manage the risks of international operations, our business may be adversely affected if our business partners are not able to successfully manage these risks.

Our business could suffer as a result of risks, costs and charges associated with strategic acquisitions and investments.

We regularly acquire or invest in businesses, software products and technologies that are complementary to our business through acquisitions, strategic alliances or equity or debt investments. The risks associated with such acquisitions include, among others, the difficulty of assimilating products, operations and personnel, inheriting liabilities such as intellectual property infringement claims, the failure to realize anticipated revenue and cost projections, the requirement to test and assimilate the internal control processes of the acquired business in accordance with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 and the diversion of management s time and attention. Our recent increase in the number of acquisitions further exacerbates these risks.

In addition, such acquisitions and investments involve other risks such as:

- the inability to retain customers, vendors, distributors, business partners, and other entities associated with the acquired business;
- the potential impact on relationships with existing customers, vendors and distributors as business partners as a result of acquiring another business;
- the potential that due diligence of the acquired business or product does not identify significant problems;
- the potential any one or multiple of the investments become impaired in a given reporting period;
- the potential for incompatible business cultures; and
- significant transaction or integration-related costs.

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We may not be successful in overcoming such risks, and such acquisitions and investments may negatively impact our business. In addition, such acquisitions and investments have in the past and may in the future contribute to potential fluctuations in our quarterly financial results. These fluctuations could arise from transaction-related costs and charges associated with eliminating redundant expenses or write-offs of impaired assets recorded in connection with acquisitions and investments. These costs or charges could negatively impact our financial results for a given period, cause quarter to quarter variability in our financial results or negatively impact our financial results for several future periods.

Net revenue or earnings shortfalls or the volatility of the market generally may cause the market price of our securities to decline.

The market price for our securities may be affected by a number of factors, including the other factors described in or incorporated by reference into this prospectus supplement and the following:

- shortfalls in our expected financial results, including net revenue, earnings or key performance metrics;
- uncertainty about certain governments abilities to repay debt or effect fiscal policy;
- changes in estimates of future results or recommendations by securities analysts;
- the announcement of new products or product enhancements by us or our competitors;
- quarterly variations in our or our competitors results of operations;
- unusual events such as significant acquisitions, divestitures, regulatory actions and litigation;
- changes in laws, rules or regulations applicable to our business;
- general socio-economic, political or market conditions; and
- other factors, including factors unrelated to our operating performance, such as instability affecting the economy or the operating performance of our competitors.

Significant changes in the price of our securities could expose us to additional costly and time-consuming litigation.

Historically, after periods of volatility in the market price of a company s securities, a company becomes more susceptible to securities class action litigation. This type of litigation is often expensive and diverts management s attention and resources.

We are exposed to fluctuations in currency exchange rates that could negatively impact our financial results and cash flows.

Because we conduct a substantial portion of our business outside the U.S. and we make certain business and resource decisions based on assumptions about foreign currency, we face exposure to adverse movements in foreign currency exchange rates. These exposures may change over time as business practices evolve and economic conditions change, and they could have a material adverse impact on our financial results and cash flows.

We use derivative instruments to manage a portion of our earnings exposure and cash flow exposure to fluctuations in foreign currency exchange rates. As part of our risk management strategy, we use foreign currency contracts to manage a portion of our exposures of underlying assets, liabilities and other obligations, which exist as part of our ongoing business operations. These foreign currency instruments have maturities that extend for 1 to 12 months in the future, and provide us with some protection against currency exposures. However, our attempts to hedge against these risks may not be successful, resulting in an adverse impact on our financial results.

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The fluctuations of currencies in which we conduct business can both increase and decrease our overall revenue and expenses for any given fiscal period. Although our foreign currency cash flow hedge program extends beyond the current quarter in order to reduce our exposure to foreign currency volatility, we do not attempt to completely mitigate this risk, and in any case, will incur transaction fees in adopting such hedging programs. Such volatility, even when it increases our revenues or decreases our expenses, impacts our ability to accurately predict our future results and earnings.

Our strategy to develop and introduce new products, including new product features, and service offering exposes us to risks such as limited customer acceptance, costs related to product defects and large expenditures that may not result in additional net revenue.

Rapid technological changes, as well as changes in customer requirements and preferences, characterize the software industry. Just as the transition from mainframes to personal computers transformed the industry thirty years ago, we believe our industry is undergoing a similar transition from the personal computer to cloud, mobile and social computing. In response, we are focused on providing cloud-based services and delivery of our solutions on mobile devices and new hardware platforms to enable our customers to be more agile and collaborative on their projects. We devote significant resources to the development of new technologies, such as our cloud-based and mobile services, design and entertainment products and our digital prototyping and collaboration products. In addition, we frequently introduce new business models or methods that require a considerable investment of technical and financial resources such as an increase in our portfolio of, and focus on, suites. We are making such investments through our internal reorganization efforts and further development and enhancement of our existing products, as well as through acquisitions of new product lines. Such investments may not result in sufficient revenue generation to justify their costs. Customer adoption of our cloud, mobile, and social computing services may not occur as rapidly as anticipated, or competitors may introduce new products and services that achieve acceptance among our current customers, adversely affecting our competitive position.

In particular, a critical component of our growth strategy is to have customers of our AutoCAD and AutoCAD LT products expand their portfolios to include our suites. Over time, we aim to migrate customers using standalone Autodesk products to expand their portfolio with our suites offerings. Should sales of licenses of our AutoCAD and AutoCAD LT or standalone Autodesk flagship products decrease without a corresponding increase in suites product revenue or without purchases of customer seats to our suites, our results of operations will be adversely affected. Also, changes in the delivery of our software and services to our customers may change the way in which we recognize revenue relating to the software and services, with a potential negative impact on financial performance. Additionally, the software products we offer are complex, and despite extensive testing and quality control, may contain errors or defects. These errors or defects could result in the need for corrective releases to our software products, damage to our reputation, loss of revenue, an increase in product returns or lack of market acceptance of our products, any of which would likely harm our business.

Further, given the rapid speed of changing customer expectations and advancement of technology inherent in the software industry, the extensive and complex efforts required to create useful and widely accepted products and the rapid evolution of cloud computing, mobile devices, new computing platforms and other technologies, our executive management team must act quickly, continuously and with vision. Although we have articulated a strategy that we believe will fulfill these challenges, if we fail to execute properly on that strategy, adapt that strategy as market conditions evolve, or fail to internalize and execute on that strategy, we may fail to meet our customers expectations, fail to compete with our competitors products and technology and lose the confidence of our channel partners and employees. This in turn could adversely affect our business and financial performance.

From time to time we realign or introduce new business and sales initiatives; if we fail to successfully execute and manage these initiatives, our results of operations could be negatively impacted.

As part of our effort to accommodate our customers needs and demands and the rapid evolution of technology, we from time to time evolve our business and sales initiatives such as realigning our development and marketing organizations, and expanding our portfolio of suites and our offering of software as a service, and realigning our internal resources in an effort to improve efficiency. Specifically, we recently undertook organizational changes in order to address major business initiatives including our desire to accelerate our move to the cloud, transform our customers experience, increase industry focus to meet customer demands, and develop more effective marketing. These reorganizational efforts included changes to the structure and alignment of our product development and marketing teams and re-organizing our sales teams by industry. We may take such actions without clear indications that they will prove successful and at times have met with short-term challenges in the execution of such initiatives. Market acceptance of any new business or sales initiative is dependent on our ability to match our customers needs at the right time and price. Often we have limited prior experience and operating history in these new areas of emphasis. If any of our assumptions about expenses, revenue or revenue recognition principles from these initiatives proves incorrect, or our attempts to improve efficiency are not successful, our actual results may vary materially from those anticipated, and our financial results will be negatively impacted.

Because we derive a substantial portion of our net revenue from a small number of products, including our AutoCAD-based software products including suites, if these products are not successful, our revenue will be adversely affected.

We derive a substantial portion of our net revenue from sales of licenses of a limited number of our products, including AutoCAD software, products based on AutoCAD, which include our suites that serve specific markets, upgrades to those products and products that are interoperable with AutoCAD. Any factor adversely affecting sales of these products, including the product release cycle, market acceptance, product competition, performance and reliability, reputation, price competition, economic and market conditions and the availability of third-party applications, would likely harm our financial results. During the three and nine months ended October 31, 2012, combined revenue from our AutoCAD and AutoCAD LT products, not including Suites having AutoCAD or AutoCAD LT as a component, represented 33% and 34%, respectively, of our total net revenue.

A breach of security in our products or computer systems may compromise the integrity of our products, harm our reputation, create additional liability and adversely impact our financial results.

We make significant efforts to maintain the security and integrity of our product source code and computer systems. There appears to be an increasing number of computer hackers developing and deploying a variety of destructive software programs (such as viruses, worms, and the like) that could attack our products and computer systems. Despite significant efforts to create security barriers to such programs, it is virtually impossible for us to entirely eliminate this risk. Like all software products, our software is vulnerable to such attacks. In the past, hackers have targeted our software and they may do so in the future. The impact of such an attack could disrupt the proper functioning of our software products, cause errors in the output of our customers work, allow unauthorized access to sensitive, proprietary or confidential information of ours or our customers and other destructive outcomes. Moreover, as we continue to invest in new lines of consumer products and services we are exposed to increased security risks and the potential for unauthorized access to, or improper use of, the information of our consumer users. If any of the foregoing were to occur, our reputation may suffer, customers may stop buying our products, we could face lawsuits and potential liability and our financial performance could be negatively impacted.

We rely on third-parties to provide us with a number of operational services, including hosting and delivery, certain of our customer services and other operations; any interruption or delay in service from these third parties, breaches of security or privacy, or failures in data collection could expose us to liability, harm our reputation and adversely impact our financial performance.

We rely on hosted computer services from third parties for services that we provide our customers and computer operations for our internal use. As we gather customer data and host certain customer data in third-party facilities, a security breach could compromise the integrity or availability or result in the theft of customer data. In addition, our operations could be negatively affected in the event of a security breach, and we could be subject to the loss or theft of confidential or proprietary information, including source code.

Unauthorized access to this data may be obtained through break-ins, breach of our secure network by an unauthorized party, employee theft or misuse, or other misconduct. We rely on a number of third party suppliers in the operation of our business for the provision of various services and materials that we use in the operation of our business and production of our products. Although we seek to diversify our third party suppliers, we may from time to time rely on a single or limited number of suppliers, or upon suppliers in a single country, for these services or materials. The inability of such third parties to satisfy our requirements could disrupt our business operations or make it more difficult for us to implement our business strategy. If any of these situations were to occur, our reputation could be harmed, we could be subject to third party liability, including under data protection and privacy laws in certain jurisdictions, and our financial performance could be negatively impacted.

If we are not able to adequately protect our proprietary rights, our business could be harmed.

We rely on a combination of patent, copyright and trademark laws, trade secret protections, confidentiality procedures and contractual provisions to protect our proprietary rights. Despite such efforts to protect our proprietary rights, unauthorized parties from time to time have copied aspects of our software products or have obtained and used information that we regard as proprietary. Policing unauthorized use of our software products is time-consuming and costly. While we have recovered some revenue resulting from the unauthorized use of our software products, we are unable to measure the extent to which piracy of our software products exists and we expect that software piracy will remain a persistent problem. Furthermore, our means of protecting our proprietary rights may not be adequate.

Additionally, we actively protect the secrecy of our confidential information and trade secrets, including our source code. If unauthorized disclosure of our source code occurs, we could potentially lose future trade secret protection for that source code. The loss of future trade secret protection could make it easier for third-parties to compete with our products by copying functionality, which could adversely affect our financial performance and our reputation. We also seek to protect our confidential information and trade secrets through the use of non-disclosure agreements with our customers, contractors, vendors and partners. However, it is possible that our confidential information and trade secrets may be disclosed or published without our authorization. If this were to occur, it may be difficult and/or costly for us to enforce our rights, and our financial performance and reputation could be negatively impacted.

We may face intellectual property infringement claims that could be costly to defend and result in our loss of significant rights.

As more software patents are granted worldwide, the number of products and competitors in our industry segments grows and the functionality of products in different industry segments overlaps, we expect that software product developers will be increasingly subject to infringement claims. Infringement or misappropriation claims have in the past been, and may in the future be, asserted against us, and any such assertions could harm our business. Additionally, certain patent holders without products have become more aggressive in threatening and pursuing litigation in attempts to obtain fees for licensing the right to use patents. Any such claims or threats, whether with or without merit, have been and could in the future be time-consuming to defend, result in costly litigation and diversion of resources, cause product shipment delays or require us to enter into royalty or licensing agreements. In addition, such royalty or license agreements, if required, may not be available on acceptable terms, if at all, which would likely harm our business.

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Our investment portfolio is composed of a variety of investment vehicles in a number of countries that are subject to interest rate trends, market volatility and other economic factors. If general economic conditions further cause interest rates to decline, credit ratings of our investments to deteriorate, or illiquidity in the financial marketplace, we may continue to experience a decline in interest income, an inability to sell our investments, or impairment in the value of our investments.

It is our policy to invest our cash, cash equivalents and marketable securities in highly liquid instruments with, and in the custody of, financial institutions with high credit ratings and to limit the amounts invested with any one institution, type of security and issuer. However, we are subject to general economic conditions, interest rate trends and volatility in the financial marketplace that can affect the income that we receive from our investments, the net realizable value of our investments (including our cash, cash equivalents and marketable securities) and our ability to sell them. In the U.S., for example, the yields on our portfolio securities are very low due to general economic conditions. Any one of these factors could reduce our interest income, or result in material charges, which in turn could impact our overall net income and earnings per share.

If we were to experience a loss on any of our investments that loss may cause us to record an other-than-temporary impairment charge. The effect of this charge could impact our overall net income and earnings per share. In any of these scenarios, our liquidity may be negatively impacted, which in turn may prohibit us from making investments in our business, taking advantage of opportunities and potentially meeting our financial obligations as they come due.

We are subject to legal proceedings and regulatory inquiries, and we may be named in additional legal proceedings or become involved in regulatory inquiries in the future, all of which are costly, distracting to our core business and could result in an unfavorable outcome, or a material adverse effect on our business, financial condition, results of operations, cash flows or the trading price for our securities.

We are involved in legal proceedings and receive inquiries from regulatory agencies. As the global economy has changed and our business has evolved, we have seen an increase in litigation activity and regulatory inquiries. Like many other high technology companies, the number and frequency of inquiries from U.S. and foreign regulatory agencies we have received regarding our business and our business practices, and the business practices of others in our industry, have increased in recent years. In the event that we are involved in significant disputes or are the subject of a formal action by a regulatory agency, we could be exposed to costly and time consuming legal proceedings that could result in any number of outcomes. While outcomes of such actions vary, any claims or regulatory actions initiated by or against us, whether successful or not, could result in expensive costs of defense, costly damage awards, injunctive relief, increased costs of business, fines or orders to change certain business practices, significant dedication of management time, diversion of significant operational resources, or otherwise harm our business. In any of these cases, our financial results could be negatively impacted.

While we believe we currently have adequate internal control over financial reporting, we are required to evaluate our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002 and any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and have an adverse effect on the price of our securities.

Pursuant to Section 404, we are required to furnish a report by our management on our internal control over financial reporting. The report contains, among other matters, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management.

While we have determined that our internal control over financial reporting was effective as of January 31, 2012, as indicated in our Management Report on Internal Control over Financial Reporting, included in our Annual Report on Form 10-K, we must continue to monitor and assess our internal control over financial reporting. If our management identifies one or more material weaknesses in our internal control over financial reporting and such weakness remains uncorrected at fiscal year-end, we will be unable to assert such internal control is effective at fiscal year-end. If we are unable to assert that our internal control over financial reporting is effective at fiscal year-end (or if our independent registered public accounting firm is unable to express an opinion on the effectiveness of our internal controls or concludes that we have a material weakness in our internal controls), we could lose investor confidence in the accuracy and completeness of our financial reports, which would likely have an adverse effect on our business and the price of our securities.

In preparing our financial statements we make certain assumptions, judgments and estimates that affect amounts reported in our consolidated financial statements, which, if not accurate, may significantly impact our financial results.

We make assumptions, judgments and estimates for a number of items, including the fair value of financial instruments, goodwill, long-lived assets and other intangible assets, the realizability of deferred tax assets and the fair value of stock awards. We also make assumptions, judgments and estimates in determining the accruals for employee related liabilities including commissions, bonuses, and sabbaticals; and in determining the accruals for uncertain tax positions, partner incentive programs, product returns reserves, allowances for doubtful accounts, asset retirement obligations and legal contingencies. These assumptions, judgments and estimates are drawn from historical experience and various other factors that we believe are reasonable under the circumstances as of the date of the consolidated financial statements. Actual results could differ materially from our estimates, and such differences could significantly impact our financial results.

Changes in existing financial accounting standards or practices, or taxation rules or practices may adversely affect our results of operations.

Changes in existing accounting or taxation rules or practices, new accounting pronouncements or taxation rules, or varying interpretations of current accounting pronouncements or taxation practice could have a significant adverse effect on our results of operations or the manner in which we conduct our business. Further, such changes could potentially affect our reporting of transactions completed before such changes are effective.

For example, the U.S.-based Financial Accounting Standards Board (FASB) is currently working together with the International Accounting Standards Board (IASB) on several projects to further align accounting principles and facilitate more comparable financial reporting between companies who are required to follow U.S. Generally Accepted Accounting Principles (GAAP) under SEC regulations and those who are required to follow IFRS outside of the U.S. These efforts by the FASB and IASB may result in different accounting principles under GAAP that may result in materially different financial results for us in areas including, but not limited to principles for recognizing revenue and lease accounting.

In addition, the SEC has not yet made a determination regarding how or if IFRS will be incorporated into the financial reporting system for U.S. companies. A change in accounting principles from GAAP to IFRS may have a material impact on the way in which we report financial results.

It is not clear if or when these potential changes in accounting principles may become effective, whether we have the proper systems and controls in place to accommodate such changes and the impact that any such changes may have on our consolidated financial position, results of operations and cash flows. In addition, as we evolve and change our business and sales models, we are currently unable to determine how these potential changes may impact our new models, particularly in the area of revenue recognition.

Our financial results could be negatively impacted if our tax positions are successfully challenged by tax authorities.

We are a U.S.-based multinational company subject to tax in multiple U.S. and foreign tax jurisdictions. Our effective tax rate is based on our expected geographic mix of earnings, statutory rates, intercompany transfer pricing, and enacted tax rules. Significant judgment is required in determining our effective tax rate and in evaluating our tax positions on a worldwide basis. We believe our tax positions, including intercompany transfer pricing policies, are consistent with the tax laws in the jurisdictions in which we conduct our business. It is possible that these positions may be challenged by jurisdictional tax authorities and may have a significant impact on our effective tax rate.

Our business could be adversely affected if we are unable to attract and retain key personnel.

Our success and ability to invest and grow depend largely on our ability to attract and retain highly skilled technical, professional, managerial, sales and marketing personnel. Historically, competition for these key personnel has been intense. The loss of services of any of our key personnel (including key personnel joining our company through acquisitions), the inability to retain and attract qualified personnel in the future, or delays in hiring required personnel, particularly engineering and sales personnel, could make it difficult to meet key objectives, such as timely and effective product introductions and financial goals.

We rely on third party technologies and if we are unable to use or integrate these technologies, our product and service development may be delayed and our financial results negatively impacted.

We rely on certain software that we license from third parties, including software that is integrated with internally developed software and used in our products to perform key functions. These third-party software licenses may not continue to be available on commercially reasonable terms, and the software may not be appropriately supported, maintained or enhanced by the licensors. The loss of licenses to, or inability to support, maintain and enhance any such software could result in increased costs, or in delays or reductions in product shipments until equivalent software can be developed, identified, licensed and integrated, which would likely harm our business.

Disruptions with licensing relationships and third party developers could adversely impact our business.

We license certain key technologies from third parties. Licenses may be restricted in the term or the use of such technology in ways that negatively affect our business. Similarly, we may not be able to obtain or renew license agreements for key technology on favorable terms, if at all, and any failure to do so could harm our business.

Our business strategy has historically depended in part on our relationships with third-party developers who provide products that expand the functionality of our design software. Some developers may elect to support other products or may experience disruption in product development and delivery cycles or financial pressure during periods of economic downturn. In particular markets, such disruptions have in the past, and would likely in the future, negatively impact these third-party developers and end users, which could harm our business.

Additionally, technology created by outsourced product development, whether outsourced to third parties or developed externally and transferred to us through business or technology acquisitions, have certain additional risks such as effective integration into existing products, adequate transfer of technology know-how and ownership and protection of transferred intellectual property.

As a result of our strategy of partnering with other companies for product development, our product delivery schedules could be adversely affected if we experience difficulties with our product development partners.

We partner with certain independent firms and contractors to perform some of our product development activities. We believe our partnering strategy allows us to, among other things, achieve efficiencies in developing new products and maintaining and enhancing existing product offerings. Our partnering strategy creates a dependency on such independent developers. Independent developers, including those who currently develop products for us in the U.S. and throughout the world, may not be able or willing to provide development support to us in the future. In addition, use of development resources through consulting relationships, particularly in non-U.S. jurisdictions with developing legal systems, may be adversely impacted by, and expose us to risks relating to, evolving employment, export and intellectual property laws. These risks could, among other things, expose our intellectual property to misappropriation and result in disruptions to product delivery schedules.

We regularly invest resources to update and improve our internal information technology systems. Should our investments not succeed, or if delays or other issues with new or existing internal technology systems disrupt our operations, our business could be harmed.

We rely on our network and data center infrastructure, internal technology systems and our websites for our development, marketing, operational, support, sales, accounting and financial reporting activities. We are continually investing resources to update and improve these systems and environments in order to meet the growing requirements of our business and customers. Such improvements are often complex, costly and time consuming. In addition, such improvements can be challenging to integrate with our existing technology systems, or uncover problems with our existing technology systems. Unsuccessful implementation of hardware or software updates and improvements could result in disruption in our business operations, loss of revenue, errors in our accounting and financial reporting or damage to our reputation.

Our business may be significantly disrupted upon the occurrence of a catastrophic event.

Our business is highly automated and relies extensively on the availability of our network and data center infrastructure, our internal technology systems and our websites. We also rely on hosted computer services from third parties for services that we provide to our customers and computer operations for our internal use. The failure of our systems or hosted computer services due to a catastrophic event, such as an earthquake, fire, flood, tsunami, weather event, telecommunications failure, power failure, cyber attack or war, could adversely impact our business, financial results and financial condition. We have developed disaster recovery plans and maintain backup systems in order to reduce the potential impact of a catastrophic event, however there can be no assurance that these plans and systems would enable us to return to normal business operations. In addition, any such event could negatively impact a country or region in which we sell our products. This could in turn decrease that country s or region s demand for our products, thereby negatively impacting our financial results.

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USE OF PROCEEDS

We estimate that the net proceeds from the sale of the notes will be approximately $ after deducting the underwriting discounts and estimated offering expenses payable by us. We intend to use a portion of the net proceeds of this offering for the repayment of approximately $80.0 million in borrowings outstanding under our revolving credit facility plus accrued and unpaid interest. Borrowed amounts outstanding under our revolving credit facility accrue interest at a rate of 1.5% per year and the facility terminates on May 26, 2016. Pursuant to the terms of the credit facility, we may reborrow amounts repaid.

The remaining net proceeds of this offering will be used for general corporate purposes, including working capital, capital expenditures, possible stock repurchases and potential acquisitions and strategic transactions. Although from time to time we may evaluate potential acquisitions and strategic transactions of businesses, technologies or products, we currently do not have any agreements or understandings with respect to any such material acquisitions or strategic transactions. Pending these uses, we intend to invest the net proceeds from this offering primarily in cash, cash equivalents, investment grade securities or other short-term marketable securities. As of the date of this prospectus supplement, we cannot specify with certainty all of the particular uses of the net proceeds we will have upon completion of the offering, and our management will retain broad discretion over the use of proceeds.

Affiliates of certain of the underwriters, including Citigroup Global Markets Inc., J.P. Morgan Securities LLC and Morgan Stanley & Co. LLC, are lenders in our credit facility and will receive a portion of the net proceeds from the sale of the notes through repayment of borrowings outstanding.

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CAPITALIZATION

The following table presents our unaudited cash, cash equivalents and short-term investments, short-term debt and capitalization as of October 31, 2012:

on an actual basis; and

as adjusted to give effect to the sale of the notes offered hereby, after deducting the underwriting discounts and estimated offering expenses, and the use of proceeds therefrom as described in Use of Proceeds.

You should read this table in conjunction with the information contained in our Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes in our Annual Report on Form 10-K for the fiscal year ended January 31, 2012 and our Quarterly Report on Form 10-Q for the quarter ended October 31, 2012, which are incorporated by reference into this prospectus supplement and the accompanying prospectus.

	As of October 31, 2012	
	Actual	**As Adjusted**
	(Unaudited)	
	(In millions)	
Cash, cash equivalents and short-term investments	$ 1,329.1	$
Short-term debt:		
Credit Agreement	$ 110.0	$
Long-term debt:		
% Notes due 20 offered hereby		
% Notes due 20 offered hereby		
Total long-term debt		
Total stockholders equity	2,017.9	
Total capitalization	$ 2,017.9	$

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DESCRIPTION OF NOTES

The following description of the particular terms of the notes offered by this prospectus supplement should be read in conjunction with the description of the general terms and provisions of the debt securities under the caption Description of Senior Debt Securities beginning on page 7 of the accompanying prospectus.

The notes will be issued as separate series of debt securities under an indenture, dated , 2012, between Autodesk and U.S. Bank National Association, as trustee (the trustee), as supplemented by a supplemental indenture to be entered into concurrently with the delivery of the notes (as so supplemented, the indenture). The following summary of provisions of the indenture and the notes does not purport to be complete and is subject to, and qualified in its entirety by reference to, all of the provisions of the indenture, including definitions therein of certain terms and provisions made a part of the indenture by reference to the Trust Indenture Act of 1939, as amended (the Trust Indenture Act). This summary may not contain all information that you may find useful. You should read the indenture and the notes, copies of which are available from Autodesk upon request. Capitalized terms used and not defined in this summary have the meanings specified in the indenture. References to Autodesk in this section of this prospectus supplement are only to Autodesk, Inc. and not to any of its subsidiaries.

General

The notes will have the following basic terms:

- the notes will be senior unsecured obligations of Autodesk and will rank equally with all other existing and future unsecured and unsubordinated debt obligations of Autodesk, including indebtedness it may incur from time to time under its senior unsecured $400 million revolving credit facility that expires in May 2016 (the credit facility);
- the notes will be effectively subordinated in right of payment to all existing and future secured indebtedness of Autodesk to the extent of the value of the assets securing such indebtedness;
- the notes will be senior in right of payment to any existing and future indebtedness of Autodesk that is subordinated to the notes;
- the notes will be structurally subordinated to all liabilities of Autodesk s subsidiaries. As of October 31, 2012, Autodesk s subsidiaries had approximately $198.6 million of outstanding liabilities, including trade payables but excluding intercompany liabilities, deferred revenue and liabilities of a type not required to be reflected on a balance sheet in accordance with GAAP;
- the 20 notes initially will be limited to $ aggregate principal amount (subject to the rights of Autodesk to issue additional notes as described under Further Issuances below);
- the 20 notes initially will be limited to $ aggregate principal amount (subject to the rights of Autodesk to issue additional notes as described under Further Issuances below);
- the 20 notes will accrue interest at a rate of % per year;
- the 20 notes will accrue interest at a rate of % per year;
- the 20 notes will mature on , 20 unless redeemed or repurchased prior to that date;

the 20 notes will mature on , 20 unless redeemed or repurchased prior to that date;

interest will accrue on the notes from the most recent interest payment date to or for which interest has been paid or duly provided for (or if no interest has been paid or duly provided for, from the issue date of the notes), payable semi-annually in arrears on and of each year, beginning on , 2013;

Autodesk may redeem the notes prior to maturity, in whole or in part, as described under Optional Redemption below;

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- Autodesk may be required to repurchase the notes in whole or in part at your option in connection with the occurrence of a change of control repurchase event as described under Purchase of Notes upon Change of Control Repurchase Event below;

- the notes will be issued in registered form in denominations of $2,000 and integral multiples of $1,000 in excess thereof;

- the notes will be represented by one or more global notes registered in the name of a nominee of The Depository Trust Company (DTC), but in certain limited circumstances may be represented by notes in definitive form (see Book-Entry; Delivery and Form; Global Notes below); and

- the notes will be exchangeable and transferable at the office or agency of Autodesk maintained for such purposes (which initially will be the corporate trust office of the trustee).

Interest on the notes will be paid to the person in whose name that note is registered at the close of business on or , as the case may be, immediately preceding the relevant interest payment date. Interest on the notes will be computed on the basis of a 360-day year comprised of twelve 30-day months.

If any interest or other payment date of a note falls on a day that is not a business day, the required payment of principal, premium, if any, or interest will be due on the next succeeding business day as if made on the date that the payment was due, and no interest will accrue on that payment for the period from and after that interest or other payment date, as the case may be, to the date of that payment on the next succeeding business day. The term business day when used with respect to any note, means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in New York, New York (or such other place of payment as may be subsequently specified by Autodesk) are authorized or obligated by law or executive order to close.

Autodesk does not intend to list the notes on any national securities exchange or include the notes in any automated quotation system.

The notes will not be subject to any sinking fund.

Autodesk may, subject to compliance with applicable law, at any time purchase notes in the open market or otherwise.

The indenture does not contain any provisions that would limit Autodesk s ability to incur additional unsecured indebtedness or require the maintenance of financial ratios or specified levels of net worth or liquidity.

Payment and Transfer or Exchange

Principal of and premium, if any, and interest on the notes will be payable, and the notes may be exchanged or transferred, at the office or agency maintained by Autodesk for such purpose (which initially will be the corporate trust office of the trustee). Payment of principal of and premium, if any, and interest on a global note registered in the name of or held by DTC or its nominee will be made in immediately available funds to DTC or its nominee, as the case may be, as the registered holder of such global note. If the notes are no longer represented by a global note, payment of interest on certificated notes in definitive form may, at the option of Autodesk, be made by (i) check mailed directly to holders at their registered addresses or (ii) upon request of any holder of at least $5,000,000 principal amount of notes, wire transfer to an account located in the United States maintained by the payee. See Book-Entry; Delivery and Form; Global Notes below.

A holder may transfer or exchange any certificated notes in definitive form at the same location set forth in the preceding paragraph. No service charge will be made for any registration of transfer or exchange of notes, but Autodesk may require payment of a sum sufficient to cover any transfer tax or other similar governmental charge payable in connection therewith. Autodesk is not required to transfer or exchange any note selected for redemption during a period of 15 days before mailing of a notice of redemption of notes to be redeemed.

The registered holder of a note will be treated as the owner of that note for all purposes.

All amounts of principal of and premium, if any, and interest on the notes paid by Autodesk that remain unclaimed two years after such payment was due and payable will be repaid to Autodesk, and the holders of such notes will thereafter look solely to Autodesk for payment.

Ranking

The notes will be senior unsecured obligations of Autodesk and will rank equally in right of payment with all existing and future unsecured and unsubordinated obligations of Autodesk, including any indebtedness Autodesk may incur from time to time under the credit facility.

The notes will effectively rank junior to all existing and future secured indebtedness of Autodesk to the extent of the assets securing such indebtedness, and to all liabilities of its subsidiaries. As of October 31, 2012, Autodesk did not have any outstanding secured indebtedness. Autodesk derives a portion of its operating income and cash flow from its subsidiaries. Therefore, Autodesk s ability to make payments when due to the holders of the notes is, in large part, dependent upon the receipt of sufficient funds from its subsidiaries. As of October 31, 2012, Autodesk s subsidiaries had approximately $198.6 million of outstanding liabilities, including trade payables but excluding intercompany liabilities, deferred revenue and liabilities of a type not required to be reflected on a balance sheet in accordance with GAAP.

Claims of creditors of Autodesk s subsidiaries generally will have priority with respect to the assets and earnings of such subsidiaries over the claims of Autodesk s creditors, including holders of the notes. Accordingly, the notes will be effectively subordinated to creditors, including trade creditors and preferred stockholders, if any, of Autodesk s subsidiaries.

Optional Redemption

The 20 notes may be redeemed by Autodesk at its option at any time or from time to time prior to their maturity, either in whole or in part, at a redemption price equal to the greater of (i) 100% of the aggregate principal amount of the notes to be redeemed and (ii) the sum of the present values of the Remaining Scheduled Payments, plus in each case, accrued and unpaid interest thereon to, but excluding, the redemption date, subject to the rights of holders of the 20 notes on the relevant record date to receive interest due on the relevant interest payment date.

The 20 notes may be redeemed by Autodesk at its option at any time or from time to time prior to , 20 , either in whole or in part, at a redemption price equal to the greater of (i) 100% of the aggregate principal amount of the notes to be redeemed and (ii) the sum of the present values of the Remaining Scheduled Payments, plus in each case, accrued and unpaid interest thereon to, but excluding, the redemption date, subject to the rights of holders of the 20 notes on the relevant record date to receive interest due on the relevant interest payment date. If the 20 notes are redeemed on or after , 20 , the redemption price will equal 100% of the aggregate principal amount of the notes being redeemed, plus accrued and unpaid interest thereon to, but excluding, the redemption date.

In determining the present values of the Remaining Scheduled Payments, Autodesk will discount such payments to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) using a discount rate equal to the Treasury Rate plus basis points for the 20 notes and basis points for the 20 notes.

The following terms are relevant to the determination of the redemption price.

Comparable Treasury Issue means the United States Treasury security selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the

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applicable notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such notes.

Comparable Treasury Price means, with respect to any redemption date, (1) the arithmetic average of the applicable Reference Treasury Dealer Quotations for such redemption date after excluding the highest and lowest Reference Treasury Dealer Quotations, (2) if Autodesk obtains fewer than four applicable Reference Treasury Dealer Quotations, the arithmetic average of all applicable Reference Treasury Dealer Quotations for such redemption date or (3) if only one Reference Treasury Dealer Quotation is received, such quotation.

Independent Investment Banker means one of the Reference Treasury Dealers, or their respective successors, as may be appointed from time to time by Autodesk; provided, however, that if the foregoing ceases to be a primary U.S. Government securities dealer in the United States (a primary treasury dealer), Autodesk will substitute another primary treasury dealer.

Reference Treasury Dealer means Citigroup Global Markets Inc., J.P. Morgan Securities LLC, Morgan Stanley & Co. LLC and one other primary treasury dealer selected by Autodesk, and each of their respective successors and any other primary treasury dealers selected by Autodesk.

Reference Treasury Dealer Quotations means, with respect to each Reference Treasury Dealer and any redemption date, the arithmetic average, as determined by Autodesk, of the bid and asked prices for the applicable Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to Autodesk by such Reference Treasury Dealer as of 3:30 p.m., New York City time, on the third business day preceding such redemption date.

Remaining Scheduled Payments means, with respect to any note to be redeemed, the remaining scheduled payments of the principal thereof and interest thereon that would be due after the related redemption date but for such redemption; provided, however, that, if such redemption date is not an interest payment date with respect to such note, the amount of the next scheduled interest payment thereon will be reduced by the amount of interest accrued thereon to such redemption date.

Treasury Rate means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity (computed as of the third business day immediately preceding that redemption date) of the applicable Comparable Treasury Issue. In determining this rate, Autodesk will assume a price for the applicable Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the applicable Comparable Treasury Price for such redemption date.

A partial redemption of the notes of each series may be effected pro rata or by lot and may provide for the selection for redemption of portions (equal to the minimum authorized denomination for the notes or any integral multiple thereof) of the principal amount of notes of a denomination larger than the minimum authorized denomination for the notes.

Notice of any redemption will be delivered at least 30 days but not more than 60 days before the redemption date to each holder of the notes to be redeemed. At Autodesk s request, the trustee shall give the notice of redemption on behalf of Autodesk.

Unless Autodesk defaults in payment of the redemption price, on and after the redemption date interest will cease to accrue on the notes, or portions thereof, called for redemption.

Purchase of Notes upon Change of Control Repurchase Event

If a change of control repurchase event occurs, unless Autodesk has exercised its right to redeem the 20 notes or 20 notes as described above, each holder of the applicable notes will have the right to require

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Autodesk to repurchase all or any part (in excess of $2,000 and in integral multiples of $1,000) of that holder s 20 notes or 20 notes, as applicable, at a repurchase price in cash equal to 101% of the aggregate principal amount of the notes repurchased plus any accrued and unpaid interest on the notes repurchased to, but excluding, the date of repurchase. Within 30 days following any change of control repurchase event or, at the option of Autodesk, prior to any change of control, but after the public announcement of the change of control or event that may constitute the change of control, Autodesk will deliver a notice to each holder, with a copy to the trustee, describing the transaction or transactions that constitute or may constitute the change of control repurchase event and Autodesk s obligation to repurchase the notes on the payment date specified in the notice, which date will be no earlier than 30 days and no later than 60 days from the date such notice is delivered (a change of control notice). The notice shall, if delivered prior to the date of consummation of the change of control, state that Autodesk s obligation to repurchase the notes is conditioned on a change of control repurchase event occurring on or prior to the payment date specified in the notice. Autodesk will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent those laws and regulations are applicable in connection with the repurchase of the notes as a result of a change of control repurchase event. To the extent that the provisions of any securities laws or regulations conflict with the change of control repurchase event provisions of the notes, Autodesk will comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations under the change of control repurchase event provisions of the notes by virtue of such conflict.

On the repurchase date following a change of control repurchase event, Autodesk will, to the extent lawful:

(1) accept for payment all the notes or portions of the notes properly tendered pursuant to its change of control notice;

(2) deposit with the paying agent an amount equal to the aggregate repurchase price in respect of all the notes or portions of the notes properly tendered; and

(3) deliver or cause to be delivered to the trustee the notes properly accepted, together with an officers certificate stating the aggregate principal amount of notes being repurchased by Autodesk.

The paying agent will promptly deliver to each holder of notes properly tendered the repurchase price for the notes, and the trustee will promptly authenticate and mail (or cause to be transferred by book-entry) to each holder a new note equal in principal amount to any unpurchased portion of any notes surrendered.

Autodesk will not be required to repurchase the notes upon a change of control repurchase event if a third party agrees to repurchase the notes in the manner, at the times and otherwise in compliance with the requirements for Autodesk under the indenture for the notes and such third party repurchases all notes properly tendered and not withdrawn by the holders.

The change of control repurchase event feature of the notes may in certain circumstances make more difficult or discourage a sale or takeover of Autodesk and, thus, the removal of incumbent management. The change of control repurchase event feature is a result of negotiations between Autodesk and the underwriters. Autodesk has no present intention to engage in a transaction involving a change of control, although it is possible that Autodesk could decide to do so in the future. Subject to the limitations discussed below, Autodesk could, in the future, enter into certain transactions, including acquisitions, refinancings or other recapitalizations, that would not constitute a change of control under the indenture, but that could increase the amount of indebtedness outstanding at such time or otherwise affect the capital structure of Autodesk or credit ratings of the notes. Restrictions on the ability of Autodesk to incur liens and enter into sale and leaseback transactions are contained in the covenants as described under Certain Covenants Limitation on Liens and Certain Covenants Limitation on Sale and Leaseback Transactions. Except for the limitations contained in such covenants and the covenant relating to repurchases upon the occurrence of a change of control repurchase event, however, the indenture will not contain any covenants or provisions that may afford holders of the notes protection in the event of a highly leveraged transaction.

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The phrase all or substantially all, as used with respect to the assets of Autodesk and its subsidiaries in the definition of change of control, is subject to interpretation under applicable state law, and its applicability in a given instance would depend upon the facts and circumstances. As a result, there may be a degree of uncertainty in ascertaining whether a sale or transfer of all or substantially all the assets of Autodesk and its subsidiaries has occurred in a particular instance, in which case a holder s ability to obtain the benefit of these provisions could be unclear. In addition, it should be noted that recent case law suggests that, in the event that incumbent directors are replaced as a result of a contested election, issuers may nevertheless avoid triggering a change of control under a clause similar to clause (4) of the definition of change of control, if the outgoing directors were to approve the new directors for the purpose of such change of control clause.

Autodesk may not have sufficient funds to repurchase all the notes upon a change of control repurchase event. In addition, even if it has sufficient funds, Autodesk may be prohibited from repurchasing the notes under the terms of its future debt instruments. Furthermore, a change of control could constitute an event of default under its credit facility. See Risk Factors Risks Related to the Notes We may not be able to repurchase all of the notes upon a change of control repurchase event.

For purposes of the foregoing discussion of a repurchase at the option of holders, the following definitions are applicable:

change of control means the occurrence of any of the following: (1) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of Autodesk and its subsidiaries taken as a whole to any person (as that term is used in Section 13(d)(3) of the Exchange Act) other than Autodesk or one of its subsidiaries; (2) the adoption of a plan by Autodesk s board of directors relating to Autodesk s liquidation or dissolution; (3) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any person (as defined above) becomes the beneficial owner, directly or indirectly, of more than 50% of the aggregate of the total voting power of the voting stock of Autodesk or other voting stock into which Autodesk s voting stock is reclassified, consolidated, exchanged or changed, measured by voting power rather than number of shares; provided, however, that a person shall not be deemed beneficial owner of, or to own beneficially, (A) any securities tendered pursuant to a tender or exchange offer made by or on behalf of such person or any of such person s affiliates until such tendered securities are accepted for purchase or exchange thereunder, or (B) any securities if such beneficial ownership (i) arises solely as a result of a revocable proxy delivered in response to a proxy or consent solicitation made pursuant to the applicable rules and regulations under the Exchange Act, and (ii) is not also then reportable on Schedule 13D (or any successor schedule) under the Exchange Act; (4) the first day on which a majority of the members of the board of directors of Autodesk are not continuing directors; or (5) Autodesk consolidates with, or merges with or into, any person, or any person consolidates with, or merges with or into, Autodesk, in any such event pursuant to a transaction in which any of the outstanding voting stock of Autodesk or the outstanding voting stock of such other person is converted into or exchanged for cash, securities or other property, other than any such transaction where the shares of Autodesk s voting stock outstanding immediately prior to such transaction constitute, or are converted into or exchanged for, a majority of the voting stock of the surviving person or any direct or indirect parent company of any surviving person immediately after giving effect to such transaction.

Notwithstanding the foregoing, a transaction will not be deemed to involve a change of control if (a) Autodesk becomes a direct or indirect wholly owned subsidiary of a holding company and (b)(i) the holders of the voting stock of such holding company immediately following that transaction are substantially the same as the holders of Autodesk s voting stock immediately prior to that transaction or (ii) no person (as that term is used in Section 13(d)(3) of the Exchange Act) (other than a holding company satisfying the requirements of this sentence) becomes the beneficial owner (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than 50% of the voting power of the voting stock of such holding company immediately following such transaction.

change of control repurchase event means the occurrence of both a change of control and a ratings event.

continuing directors means, as of any date of determination, any member of the board of directors of Autodesk who (1) was a member of such board of directors on the date of the indenture, as supplemented; or (2) was nominated for election, elected or appointed to such board of directors with the approval of a majority of the continuing directors who were members of such board of directors at the time of such nomination, election or appointment (either by specific vote or by approval by Autodesk s board of directors in a proxy statement in which such member was named as a nominee for election as a director without objection by its board of directors to such nomination).

Under a Delaware Chancery Court interpretation of the foregoing definition of continuing director, a board of directors may approve, for purposes of such definition, a slate of stockholder-nominated directors without endorsing them, or while simultaneously recommending and endorsing its own slate instead. The foregoing interpretation would permit Autodesk s board of directors to approve a slate of directors that included a majority of dissident directors nominated pursuant to a proxy contest, and the ultimate election of such dissident slate would not constitute a change of control repurchase event that would trigger your right to require Autodesk to repurchase your notes as described above.

investment grade means a rating of Baa3 or better by Moody s (or its equivalent under any successor rating categories of Moody s); a rating of BBB- or better by S&P (or its equivalent under any successor rating categories of S&P); or, if applicable, the equivalent investment grade credit rating from any substitute rating agency.

Moody s means Moody s Investors Service, Inc.

rating agency means (1) each of Moody s and S&P; and (2) if either of Moody s or S&P ceases to rate the notes or fails to make a rating of the notes publicly available for reasons outside of the control of Autodesk, a substitute rating agency.

rating category means (i) with respect to S&P, any of the following categories: BBB, BB, B, CCC, CC, C and D (or equivalent successor categories); (ii) with respect to Moody s, any of the following categories: Baa, Ba, B, Caa, Ca, C and D (or equivalent successor categories); and (iii) the equivalent of any such category of S&P or Moody s used by another rating agency. In determining whether the rating of the notes has decreased by one or more gradations, gradations within rating categories (+ and for S&P; 1, 2 and 3 for Moody s; or the equivalent gradations for another rating agency) shall be taken into account (e.g., with respect to S&P, a decline in a rating from BB+ to BB, as well as from BB to B+, will constitute a decrease of one gradation).

ratings event means, that the series of notes ceases to be rated investment grade by both rating agencies on any day during the period (the trigger period) commencing on the earlier of (a) the first public notice of the occurrence of a change of control or (b) the public announcement by Autodesk of its intention to effect a change of control, and ending 60 days following consummation of such change of control (which period shall be extended so long as the rating of the series of notes is under publicly announced consideration for a possible rating downgrade by either of the rating agencies on such 60^{th} day, such extension to last with respect to each such rating agency until the date on which such rating agency considering such possible downgrade either (x) rates the series of notes below investment grade or (y) publicly announces that it is no longer considering the notes for possible downgrade, provided that no such extension will occur if on such 60^{th} day the series of notes are rated investment grade by at least one of such rating agencies in question and are not subject to review for possible downgrade by such rating agency). If either rating agency is not providing a rating of the series of notes on any day during the trigger period for any reason, the rating of such rating agency shall be deemed to have ceased to be rated investment grade during the trigger period.

S&P means Standard & Poor s Ratings Services, a division of The McGraw-Hill Companies, Inc.

substitute rating agency means a nationally recognized statistical rating organization within the meaning of Section 3(a)(62) of the Exchange Act, selected by us (as certified by a resolution of Autodesk s board of directors or a committee thereof) as a replacement agency for Moody s or S&P, or both of them, as the case may be.

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voting stock of any specified person (as that term is used in Section 13(d)(3) of the Exchange Act) as of any date means the capital stock of such person that is at the time entitled to vote generally in the election of the board of directors of such person.

Further Issuances

Autodesk may from time to time, without notice to or the consent of the holders of the notes, create and issue additional 20 notes or 20 notes having the same terms as, and ranking equally and ratably with, the 20 notes or the 20 notes, as applicable, in all respects (except for the issue date and, if applicable, the payment of interest accruing prior to the issue date of such additional notes and the first payment of interest following the issue date of such additional notes). Such additional notes may be consolidated and form a single series with, and will have the same terms as to ranking, redemption, waivers, amendments or otherwise, as the 20 notes or the 20 notes, as applicable, and will vote together as one class on all matters with respect to the 20 notes or the 20 notes, as the case may be; provided that if the additional notes are not fungible with the outstanding notes for U.S. federal income tax purposes, the additional notes will have a separate CUSIP number.

Certain Covenants

Except as set forth below, neither Autodesk nor any of its subsidiaries will be restricted by the indenture from:

- incurring any indebtedness or other obligation,
- paying dividends or making distributions on the capital stock of Autodesk or of such subsidiaries, or
- purchasing or redeeming capital stock of Autodesk or such subsidiaries.

In addition, Autodesk will not be required to maintain any financial ratios or specified levels of net worth or liquidity or to repurchase or redeem or otherwise modify the terms of the notes upon a change of control or other events involving Autodesk or any of its subsidiaries which may adversely affect the creditworthiness of the notes, except to the limited extent provided under Purchase of Notes upon Change of Control Repurchase Event. Among other things, the indenture will not contain covenants designed to afford holders of the notes any protections in the event of a highly leveraged or other transaction involving Autodesk that may adversely affect holders of the notes, except to the limited extent provided under Purchase of Notes upon Change of Control Repurchase Event.

The indenture will contain the following principal covenants:

Limitation on Liens

Autodesk will not incur, and will not permit any of its restricted subsidiaries to incur, any indebtedness secured by a mortgage, security interest, pledge, lien, charge or other similar encumbrance (collectively, Liens) upon (a) any Principal Property of Autodesk or any of its restricted subsidiaries or (b) any shares of stock or indebtedness of any of its restricted subsidiaries (whether such Principal Property or shares or indebtedness of any restricted subsidiary are now existing or owned or hereafter created or acquired), in each case, unless prior to or at the same time, the notes (together with, at the option of Autodesk, any other indebtedness or guarantees of Autodesk or any of its subsidiaries ranking equally in right of payment with the notes or such guarantee) are equally and ratably secured with or, at the option of Autodesk, prior to, such secured indebtedness.

The foregoing restriction does not apply to:

(1) Liens on property, shares of stock or indebtedness existing with respect to any person at the time such person becomes a subsidiary of Autodesk or a subsidiary of any subsidiary of Autodesk, provided that such Lien was not incurred in anticipation of such person becoming a subsidiary;

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(2) Liens on property, shares of stock or indebtedness existing at the time of acquisition by Autodesk or any of its subsidiaries or a subsidiary of any subsidiary of Autodesk of such property, shares of stock or indebtedness or Liens on property, shares of stock or indebtedness to secure the payment of all or any part of the purchase price of such property, shares of stock or indebtedness, or Liens on property, shares of stock or indebtedness to secure any indebtedness for borrowed money incurred prior to, at the time of, or within 18 months after, the latest of the acquisition of such property, shares of stock or indebtedness or, in the case of property, the completion of construction, the completion of improvements or the commencement of substantial commercial operation of such property for the purpose of financing all or any part of the purchase price of the property and related costs and expenses, the construction or the making of the improvements;

(3) Liens securing indebtedness of Autodesk or any of Autodesk s subsidiaries owing to Autodesk or any of its subsidiaries;

(4) Liens existing on the date of the initial issuance of the notes (other than any additional notes);

(5) Liens on property or assets of a person existing at the time such person is merged into or consolidated with Autodesk or any of its subsidiaries, at the time such person becomes a subsidiary of Autodesk, or at the time of a sale, lease or other disposition of all or substantially all of the properties or assets of a person to Autodesk or any of its subsidiaries, provided that such Lien was not incurred in anticipation of the merger, consolidation, or sale, lease, other disposition or other such transaction;

(6) Liens created in connection with a project financed with, and created to secure, a Non-recourse Obligation;

(7) Liens created to secure the notes;

(8) Liens imposed by law, such as materialmens , workmen or repairmen, carriers , warehousemen s and mechanic s Liens and other similar Liens, in each case for sums not yet overdue by more than 30 calendar days or being contested in good faith by appropriate proceedings or other Liens arising out of judgments or awards against such Person with respect to which such Person shall then be proceeding with an appeal or other proceedings for review and Liens arising solely by virtue of any statutory or common law provision relating to banker s Liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a creditor depository institution;

(9) Liens for taxes, assessments or other governmental charges not yet due or payable or subject to penalties for non-payment or which are being contested in good faith by appropriate proceedings;

(10) Liens to secure the performance of bids, trade contracts, leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature;

(11) pledges or deposits under workmen s compensation, unemployment insurance, or similar legislation and liens of judgments thereunder which are not currently dischargeable, or deposits to secure public or statutory obligations, or deposits in connection with obtaining or maintaining self-insurance or to obtain the benefits of any law, regulation or arrangement pertaining to workmen s compensation, unemployment insurance, old age pensions, social security or similar matters, or deposits of cash or obligations of the U.S. to secure surety, appeal or customs bonds, or deposits in litigation or other proceedings such as, but not limited to, interpleader proceedings;

(12) Liens consisting of easements, rights-of-way, zoning restrictions, restrictions on the use of real property, and defects and irregularities in the title thereto, landlords Liens and other similar Liens none of which interfere materially with the use of the

property covered thereby in the ordinary course of business and which do not, in Autodesk s opinion, materially detract from the value of such properties;

(13) Liens in favor of the United States or any state, territory or possession thereof (or the District of Columbia), or any department, agency, instrumentality or political subdivision of the United States or any state, territory or possession thereof (or the District of Columbia), to secure partial, progress,

advance or other payments pursuant to any contract or statute or to secure any indebtedness incurred for the purpose of financing all or any part of the purchase price or the cost of constructing or improving the property subject to such Liens; or

(14) any extensions, renewals or replacements of any Lien referred to in clauses (1) through (13) without increase of the principal of the indebtedness secured by such Lien (except to the extent of any fees or other costs associated with any such extension, renewal or replacement); provided, however, that any Liens permitted by any of clauses (1) through (13) shall not extend to or cover any property of Autodesk or any of its subsidiaries, as the case may be, other than the property specified in such clauses and improvements to such property.

Notwithstanding the restrictions set forth in the preceding paragraph, Autodesk and its restricted subsidiaries will be permitted to incur indebtedness secured by Liens which would otherwise be subject to the foregoing restrictions without equally and ratably securing the notes, provided that, after giving effect to such indebtedness, the aggregate amount of all indebtedness secured by Liens (not including Liens permitted under clauses (1) through (14) above), together with all attributable debt outstanding pursuant to the second paragraph of the Limitation on Sale and Leaseback Transactions covenant described below, does not exceed 15% of the Consolidated Net Tangible Assets of Autodesk. Autodesk and its restricted subsidiaries also may, without equally and ratably securing the notes, create or incur Liens that extend, renew, substitute or replace (including successive extensions, renewals, substitutions or replacements), in whole or in part, any Lien permitted pursuant to the preceding sentence.

Limitation on Sale and Leaseback Transactions

Autodesk will not, and will not permit any of its restricted subsidiaries to, enter into any sale and leaseback transaction for the sale and leasing back of any Principal Property, whether now owned or hereafter acquired, unless:

(1) such transaction was entered into prior to the date of the initial issuance of the notes (other than any additional notes);

(2) such transaction was for the sale and leasing back to Autodesk or any of its wholly owned subsidiaries of any Principal Property by one of its restricted subsidiaries;

(3) such transaction involves a lease for not more than three years (or which may be terminated by Autodesk or its subsidiaries within a period of not more than three years);

(4) Autodesk would be entitled to incur indebtedness secured by a Lien with respect to such sale and leaseback transaction without equally and ratably securing the notes pursuant to the second paragraph of the Limitation on Liens covenant described above; or

(5) Autodesk or any restricted subsidiary applies an amount equal to the net proceeds from the sale of such Principal Property to the purchase of other property or assets used or useful in its business (including the purchase or development of other Principal Property) or to the retirement of indebtedness that is pari passu with the notes (including the notes) within 365 days before or after the effective date of any such sale and leaseback transaction, provided that, in lieu of applying such amount to the retirement of pari passu indebtedness, Autodesk may deliver notes to the trustee for cancellation, such notes to be credited at the cost thereof to it.

Notwithstanding the restrictions set forth in the preceding paragraph, Autodesk and its restricted subsidiaries may enter into any sale and leaseback transaction which would otherwise be subject to the foregoing restrictions, if after giving effect thereto the aggregate amount of all attributable debt with respect to such transactions, together with all indebtedness outstanding pursuant to the third paragraph of the Limitation on Liens covenant described above, does not exceed 15% of the Consolidated Net Tangible Assets of Autodesk. As of the date of this prospectus, neither we nor any of our restricted subsidiaries own any Principal Property.

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Definitions

The indenture contains the following defined terms:

attributable debt means, with respect to any sale and leaseback transaction, at the time of determination, the lesser of (1) the fair market value of such Principal Property as determined in good faith by Autodesk s board of directors, and (2) the total obligation (discounted to the present value at the implicit interest factor, determined in accordance with GAAP, included in the rental payments) of the lessee for rental payments (other than amounts required to be paid on account of property taxes as well as maintenance, repairs, insurance, water rates and other items which do not constitute payments for property rights) during the remaining portion of the base term of the lease included in such transaction.

Consolidated Net Tangible Assets means, as of the time of determination, the aggregate amount of the assets of Autodesk and the assets of its consolidated subsidiaries after deducting (1) all goodwill, trade names, trademarks, service marks, patents, unamortized debt discount and expense and other intangible assets and (2) all current liabilities, as reflected on the most recent consolidated balance sheet prepared by Autodesk in accordance with GAAP contained in an annual report on Form 10-K or a quarterly report on Form 10-Q filed or any amendment thereto (and not subsequently disclaimed as not being reliable by Autodesk) pursuant to the Exchange Act by Autodesk prior to the time as of which Consolidated Net Tangible Assets is being determined or, if Autodesk is not required to so file, as reflected on its most recent consolidated balance sheet prepared by Autodesk in accordance with GAAP.

GAAP means generally accepted accounting principles in the United States of America in effect from time to time.

guarantee means any obligation, contingent or otherwise, of any person directly or indirectly guaranteeing any indebtedness of any other person and any obligation, direct or indirect, contingent or otherwise, of such person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) such indebtedness of such other person (whether arising by virtue of partnership arrangements, or by agreement to keep well, to purchase assets, goods, securities or services, to take or pay or to maintain financial statement conditions or otherwise) or (2) entered into for purposes of assuring in any other manner the obligee of such indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); provided, however, that the term guarantee will not include endorsements for collection or deposit in the ordinary course of business. The term guarantee, when used as a verb, has a correlative meaning.

incur means issue, assume, guarantee or otherwise become liable for.

indebtedness means, with respect to any person, indebtedness of such person for borrowed money (including, without limitation, indebtedness for borrowed money evidenced by notes, bonds, debentures or similar instruments).

Non-recourse Obligation means indebtedness or other obligations substantially related to (1) the acquisition of assets not previously owned by Autodesk or any direct or indirect subsidiaries of Autodesk or (2) the financing of a project involving the development or expansion of properties of Autodesk or any direct or indirect subsidiaries of Autodesk, as to which the obligee with respect to such indebtedness or obligation has no recourse to Autodesk or any direct or indirect subsidiary of Autodesk or such subsidiary s assets other than the assets which were acquired with the proceeds of such transaction or the project financed with the proceeds of such transaction (and the proceeds thereof).

person means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization or government or political subdivision thereof.

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Principal Property means the land, improvements, buildings and fixtures owned by Autodesk or any of its wholly-owned domestic subsidiaries that constitutes Autodesk s principal offices in San Rafael, California, any research and development facility and any service and support facility (in each case including associated office facilities) located within the territorial limits of the States of the United States of America, except such as Autodesk s board of directors (or authorized committee thereof) by resolution determines in good faith (taking into account, among other things, the importance of such property to the business, financial condition and earnings of Autodesk and its subsidiaries taken as a whole) not to be of material importance to Autodesk s and its subsidiaries business, taken as a whole.

restricted subsidiary means any domestic subsidiary that owns any Principal Property other than:

(1) Any subsidiary primarily engaged in financing receivables or in the finance business; or

(2) Any of our less than 80%-owned subsidiaries if the common stock of such subsidiary is traded on any national securities exchange or on the over-the-counter markets.

subsidiary means, with respect to any person (the parent) at any date, any corporation, limited liability company, partnership, association or other entity the accounts of which would be consolidated with those of the parent in the parent s consolidated financial statements if such financial statements were prepared in accordance with GAAP as of that date, as well as any other corporation, limited liability company, partnership, association or other entity of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power or, in the case of a partnership, more than 50% of the general partnership interests are, as of that date, owned, controlled or held by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent.

Events of Default

Each of the following, in addition to the events of default described in the accompanying prospectus, is an event of default under the indenture with respect to the notes:

(1) a failure to pay principal of or premium, if any, on any note when due at its stated maturity date, upon optional redemption or otherwise;

(2) a failure by Autodesk to repurchase notes tendered for repurchase following the occurrence of a change of control repurchase event in conformity with the covenant set forth under Purchase of Notes upon Change of Control Repurchase Event ; and

(3) (a) a failure to make any payment at maturity, including any applicable grace period, on any indebtedness of Autodesk (other than indebtedness of Autodesk owing to any of its subsidiaries) outstanding in an amount in excess of $50 million and continuance of this failure to pay or (b) a default on any indebtedness of Autodesk (other than indebtedness owing to any of its subsidiaries), which default results in the acceleration of such indebtedness in an amount in excess of $50 million without such indebtedness having been discharged or the acceleration having been cured, waived, rescinded or annulled, in the case of clause (a) or (b) above, for a period of 30 days after written notice thereof to Autodesk by the trustee or to Autodesk and the trustee by the holders of not less than 25% in principal amount of outstanding notes (including any additional notes); provided, however, that if any failure, default or acceleration referred to in clause (a) or (b) above ceases or is cured, waived, rescinded or annulled, then the event of default will be deemed cured.

Same-Day Settlement and Payment

The notes will trade in the same-day funds settlement system of DTC until maturity or until Autodesk issues the notes in certificated form. DTC will therefore require secondary market trading activity in the notes to settle in immediately available funds. Autodesk can give no assurance as to the effect, if any, of settlement in immediately available funds on trading activity in the notes.

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Book-Entry; Delivery and Form; Global Notes

The notes will be represented by one or more global notes in definitive, fully registered form without interest coupons. Each global note will be deposited with the trustee as custodian for DTC and registered in the name of a nominee of DTC in New York, New York for the accounts of participants in DTC.

Investors may hold their interests in a global note directly through DTC if they are DTC participants, or indirectly through organizations that are DTC participants. Except in the limited circumstances described below, holders of notes represented by interests in a global note will not be entitled to receive their notes in fully registered certificated form.

DTC has advised as follows: DTC is a limited-purpose trust company organized under New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities of institutions that have accounts with DTC (participants) and to facilitate the clearance and settlement of securities transactions among its participants in such securities through electronic book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of securities certificates. DTC s participants include securities brokers and dealers (which may include the initial purchasers), banks, trust companies, clearing corporations and certain other organizations. Access to DTC s book-entry system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, whether directly or indirectly.

Ownership of Beneficial Interests

Upon the issuance of each global note, DTC will credit, on its book-entry registration and transfer system, the respective principal amount of the individual beneficial interests represented by the global note to the accounts of participants. Ownership of beneficial interests in each global note will be limited to participants or persons that may hold interests through participants. Ownership of beneficial interests in each global note will be shown on, and the transfer of those ownership interests will be effected only through, records maintained by DTC (with respect to participants interests) and such participants (with respect to the owners of beneficial interests in the global note other than participants).

So long as DTC or its nominee is the registered holder and owner of a global note, DTC or such nominee, as the case may be, will be considered the sole legal owner of the notes represented by the global note for all purposes under the indenture, the notes and applicable law. Except as set forth below, owners of beneficial interests in a global note will not be entitled to receive certificated notes and will not be considered to be the owners or holders of any notes under the global note. Autodesk understands that under existing industry practice, in the event an owner of a beneficial interest in a global note desires to take any actions that DTC, as the holder of the global note, is entitled to take, DTC would authorize the participants to take such action, and that participants would authorize beneficial owners owning through such participants to take such action or would otherwise act upon the instructions of beneficial owners owning through them. No beneficial owner of an interest in a global note will be able to transfer the interest except in accordance with DTC s applicable procedures, in addition to those provided for under the indenture. Because DTC can only act on behalf of participants, who in turn act on behalf of others, the ability of a person having a beneficial interest in a global note to pledge that interest to persons that do not participate in the DTC system, or otherwise to take actions in respect of that interest, may be impaired by the lack of physical certificate of that interest.

All payments on the notes represented by a global note registered in the name of and held by DTC or its nominee will be made to DTC or its nominee, as the case may be, as the registered owner and holder of the global note.

Autodesk expects that DTC or its nominee, upon receipt of any payment of principal, premium, if any, or interest in respect of a global note, will credit participants accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of the global note as shown on the records of DTC or its nominee. Autodesk also expects that payments by participants to owners of beneficial interests in the global note held through such participants will be governed by standing instructions and customary practices as is now the case with securities held for accounts for customers registered in the names of nominees for such customers. These payments, however, will be the responsibility of such participants and indirect participants, and neither Autodesk, the underwriters, the trustee nor any paying agent will have any responsibility or liability for any aspect of the records relating to, or payments made on account of beneficial ownership interests in any global note or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests or for any other aspect of the relationship between DTC and its participants or the relationship between such participants and the owners of beneficial interests in the global note.

Unless and until it is exchanged in whole or in part for certificated notes, each global note may not be transferred except as a whole by DTC to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC. Transfers between participants in DTC will be effected in the ordinary way in accordance with DTC rules and will be settled in same-day funds.

Autodesk expects that DTC will take any action permitted to be taken by a holder of notes (including the presentation of notes for exchange as described below) only at the direction of one or more participants to whose account the DTC interests in a global note are credited and only in respect of such portion of the aggregate principal amount of the notes as to which such participant or participants has or have given such direction.

Although Autodesk expects that DTC will agree to the foregoing procedures in order to facilitate transfers of interests in each global note among participants of DTC, DTC is under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither Autodesk, the underwriters, nor the trustee will have any responsibility for the performance or nonperformance by DTC or their participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Under certain circumstances described in the accompanying prospectus, DTC may exchange the global notes for notes in certificated form of like tenor and of an equal principal amount, in authorized denominations. These certificated notes will be registered in such name or names as DTC shall instruct the trustee. It is expected that such instructions may be based upon directions received by DTC from participants with respect to ownership of beneficial interests in global securities.

The information in this section concerning DTC and DTC s book-entry system has been obtained from sources that Autodesk believes to be reliable, but Autodesk does not take responsibility for its accuracy.

Euroclear and Clearstream, Luxembourg

If the depositary for a global security is DTC, you may hold interests in the global notes through Clearstream Banking, société anonyme, which is referred to as Clearstream. Luxembourg, or Euroclear Bank S.A./N.V., as operator of the Euroclear System, which is referred to as Euroclear, in each case, as a participant in DTC. Euroclear and Clearstream, Luxembourg will hold interests, in each case, on behalf of their participants through customers securities accounts in the names of Euroclear and Clearstream, Luxembourg on the books of their respective depositaries, which in turn will hold such interests in customers securities in the depositaries names on DTC s books.

Payments, deliveries, transfers, exchanges, notices and other matters relating to the notes made through Euroclear or Clearstream, Luxembourg must comply with the rules and procedures of those systems. Those systems could change their rules and procedures at any time. Autodesk has no control over those systems or their participants, and it takes no responsibility for their activities. Transactions between participants in Euroclear or Clearstream, Luxembourg, on the one hand, and other participants in DTC, on the other hand, would also be subject to DTC s rules and procedures.

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Investors will be able to make and receive through Euroclear and Clearstream, Luxembourg payments, deliveries, transfers, exchanges, notices and other transactions involving any securities held through those systems only on days when those systems are open for business. Those systems may not be open for business on days when banks, brokers and other institutions are open for business in the United States.

In addition, because of time-zone differences, U.S. investors who hold their interests in the notes through these systems and wish, on a particular day, to transfer their interests, or to receive or make a payment or delivery or exercise any other right with respect to their interests, may find that the transaction will not be effected until the next business day in Luxembourg or Brussels, as applicable. Thus, investors who wish to exercise rights that expire on a particular day may need to act before the expiration date. In addition, investors who hold their interests through both DTC and Euroclear or Clearstream, Luxembourg may need to make special arrangements to finance any purchase or sales of their interests between the U.S. and European clearing systems, and those transactions may settle later than transactions within one clearing system.

Governing Law

The indenture and the notes will be governed by, and construed in accordance with, the laws of the State of New York.

Regarding the Trustee

U.S. Bank National Association is the trustee under the indenture and has also been appointed by Autodesk to act as registrar, transfer agent and paying agent for the notes. Autodesk and its affiliates maintain various commercial and service relationships with the trustee and its affiliates in the ordinary course of business, including asset and investment management and insurance services.

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MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

This section is a discussion of the material U.S. federal income tax considerations relating to the purchase, ownership, and disposition of the notes. This summary does not provide a complete analysis of all potential tax considerations. The information provided below is based on existing U.S. federal tax authorities, all of which are subject to change or differing interpretations, possibly with retroactive effect. There can be no assurances that the Internal Revenue Service (the IRS) will not challenge one or more of the tax consequences described herein, and we have not obtained, nor do we intend to obtain, a ruling from the IRS with respect to the U.S. federal income tax consequences of purchasing, owning or disposing of the notes. The summary generally applies only to beneficial owners of the notes that purchase their notes in this offering for an amount equal to the issue price of the notes, which is the first price at which a substantial amount of the notes is sold for money to the public (not including sales to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers), and that hold the notes as capital assets (generally, for investment). This discussion does not purport to deal with all aspects of U.S. federal income taxation that may be relevant to a particular beneficial owner in light of the beneficial owner s circumstances (for example, persons subject to the alternative minimum tax provisions of the Internal Revenue Code of 1986, as amended (the Code), or a U.S. Holder (as defined below) whose functional currency is not the U.S. dollar). Also, it is not intended to be wholly applicable to all categories of investors, some of which may be subject to special rules (such as dealers in securities or currencies, traders in securities that elect to use a mark-to-market method of accounting, banks, thrifts, or other financial institutions, regulated investment companies, real estate investment trusts, insurance companies, tax-exempt entities, tax-deferred or other retirement accounts, certain former citizens or residents of the United States, persons holding notes as part of a hedging, conversion or integrated transaction or a straddle, or persons deemed to sell notes under the constructive sale provisions of the Code). Finally, the summary does not describe the effects of the U.S. federal estate and gift tax laws or the effects of any applicable foreign, state or local laws.

INVESTORS CONSIDERING THE PURCHASE OF NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS REGARDING THE APPLICATION OF THE U.S. FEDERAL INCOME TAX LAWS TO THEIR PARTICULAR SITUATIONS AND THE CONSEQUENCES OF U.S. FEDERAL TAX LAWS OTHER THAN INCOME TAX LAWS, FOREIGN, STATE AND LOCAL LAWS, AND TAX TREATIES.

As used herein, the term U.S. Holder means a beneficial owner of the notes that, for U.S. federal income tax purposes, is (1) an individual who is a citizen or resident of the United States, (2) a corporation, or an entity treated as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States, any state of the United States, or the District of Columbia, (3) an estate the income of which is subject to U.S. federal income taxation regardless of its source or (4) a trust if it (a) is subject to the primary supervision of a U.S. court and the control of one of more U.S. persons or (b) has a valid election in effect under applicable U.S. Treasury regulations to be treated as a U.S. person.

A Non-U.S. Holder is a beneficial owner of the notes (other than a partnership or an entity or arrangement treated as a partnership for U.S. federal income tax purposes) that is not a U.S. Holder.

If a partnership (including an entity or arrangement, domestic or foreign, treated as a partnership for U.S. federal income tax purposes) is a beneficial owner of a note, the tax treatment of a partner in the partnership will depend upon the status of the partner and the activities of the partnership. A beneficial owner of a note that is a partnership, and partners in such partnership, should consult their own tax advisors about the U.S. federal income and estate tax consequences of purchasing, owning and disposing of the notes.

U.S. Holders

Taxation of Interest

A U.S. Holder will be required to recognize as ordinary income any interest paid or accrued on the notes, in accordance with the U.S. Holder s regular method of tax accounting. In general, if the principal amount of the

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notes exceeds the issue price of the notes by more than a de minimis amount, the notes will have original issue discount equal to such excess, and a U.S. Holder will be required to include the original issuance discount in gross income over the term of the notes, irrespective of the holder s regular method of tax accounting. We expect and the following discussion assumes that the notes will not be issued with original issue discount for U.S. federal income tax purposes.

In certain circumstances, we may make payments to holders of the notes in addition to principal and stated interest. The original issue discount rules allow contingent payments to be disregarded in computing a holder s interest income if the contingency is remote or, in certain circumstances, if it is significantly more likely than not that the contingency will not occur. We believe that there is only a remote possibility that we will be required to repurchase all or any part of the notes for 101% of their stated principal amount plus accrued and unpaid interest as a result of a Change of Control Repurchase Event as described under Description of Notes Purchase of Notes upon Change of Control Repurchase Event. We do not intend to treat the notes as subject to the special rules governing certain contingent payment debt instruments (which, if applicable, would affect the timing, amount and character of income with respect to a note). Our determination in this regard, while not binding on the IRS, is binding on U.S. Holders unless they disclose their contrary position. If, contrary to expectations, we redeem the notes for an amount in excess of their stated principal amount plus accrued and unpaid interest, U.S. Holders would be required to recognize additional gain on the sale or exchange of such notes. The remainder of this discussion assumes that the notes are not treated as contingent payment debt instruments.

Sale, Exchange, Redemption or Other Taxable Disposition of Notes

A U.S. Holder generally will recognize capital gain or loss if the holder disposes of a note in a sale, exchange, redemption or other taxable disposition. The U.S. Holder s gain or loss generally will equal the difference between the proceeds received by the holder (other than amounts attributable to accrued but unpaid interest) and the holder s tax basis in the note. The U.S. Holder s tax basis in the note generally will equal the amount the holder paid for the note. The portion of any proceeds that is attributable to accrued interest will not be taken into account in computing the U.S. Holder s capital gain or loss. Instead, that portion will be recognized as ordinary interest income to the extent that the U.S. Holder has not previously included the accrued interest in income. The gain or loss recognized by a U.S. Holder on a disposition of the note will be long-term capital gain or loss if the holder has held the note for more than one year, or short-term capital gain or loss if the holder held the note for one year or less, at the time of the disposition. Long-term capital gains of non-corporate taxpayers are currently taxed at a maximum 15% federal rate (effective for tax years through 2012, after which the maximum rate is scheduled to increase). Short-term capital gains are taxed at ordinary income rates. The deductibility of capital losses is subject to limitation.

Medicare Tax

For taxable years beginning after December 31, 2012, recently enacted legislation requires certain individuals, estates or trusts to pay a 3.8% tax on, among other things, interest on and capital gains from the sale or other disposition of notes. U.S. Holders should consult their tax advisors regarding the effect, if any, of this legislation on their ownership and disposition of the notes.

Non-U.S. Holders

The following discussion is limited to the U.S. federal income tax consequences relevant to a Non-U.S. Holder (as defined above).

Taxation of Interest

Subject to the discussion below under Income or Gains Effectively Connected with a U.S. Trade or Business, payments of interest to Non-U.S. Holders are generally subject to U.S. federal income tax at a rate of

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30% (or a reduced or zero rate under the terms of an applicable income tax treaty between the United States and the Non-U.S. Holder s country of residence), collected by means of withholding by the payor. Payments of interest on the notes to most Non-U.S. Holders, however, will qualify as portfolio interest, and thus will be exempt from U.S. federal income tax, including withholding of such tax, if the Non-U.S. Holders certify their nonresident status as described below. The portfolio interest exception will not apply to payments of interest to a Non-U.S. Holder that:

- owns, actually or constructively, shares of our stock representing at least 10% of the total combined voting power of all classes of our stock entitled to vote; or

- is a controlled foreign corporation that is related, directly or indirectly, to us through sufficient actual or constructive stock ownership.

In general, a foreign corporation is a controlled foreign corporation if more than 50% of its stock is owned, actually or constructively, by one or more U.S. persons that each owns, actually or constructively, at least 10% of the corporation s voting stock.

The portfolio interest exception, entitlement to treaty benefits and exemption from backup withholding described below apply only if the holder certifies its nonresident status. A Non-U.S. Holder can meet this certification requirement by providing a properly-executed IRS Form W-8BEN or appropriate substitute form to us or our paying agent prior to the payment. If the holder holds the note through a financial institution or other agent acting on the holder s behalf, the holder will be required to provide appropriate documentation to the agent. The holder s agent will then be required to provide certification to us or our paying agent, either directly or through other intermediaries. For payments made to a foreign partnership (including an entity or arrangement treated as a partnership for U.S. federal income tax purposes), the certification requirements generally apply to the partners rather than the partnership, and the partnership must provide the partners documentation to us or our paying agent. In addition, a Non-U.S. Holder that is seeking a reduction in withholding pursuant to the terms of an applicable income tax treaty will need to certify on IRS Form W-8BEN that it is eligible for the benefits of such treaty.

Sale, Exchange, Redemption or Other Disposition of Notes

Non-U.S. Holders generally will not be subject to U.S. federal income or withholding tax on any gain realized on the sale, exchange, redemption or other disposition of notes (other than with respect to payments attributable to accrued interest, which will be taxed as described above under Taxation of Interest). However, the gain would be subject to U.S. federal income tax if:

- the gain is effectively connected with the conduct by the Non-U.S. Holder of a U.S. trade or business (and, generally, if required by an applicable income tax treaty, the gain is attributable to a U.S. permanent establishment maintained by the Non-U.S. Holder), in which case it would be subject to tax as described below under Income or Gains Effectively Connected with a U.S. Trade or Business; or

- the Non-U.S. Holder is an individual who is present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are satisfied, in which case, except as otherwise provided by an applicable income tax treaty, the gain would be subject to a flat 30% tax, which may be offset by U.S. source capital losses, even though the individual is not considered a resident of the United States.

Income or Gains Effectively Connected with a U.S. Trade or Business

The preceding discussion of the U.S. federal income and withholding tax considerations of the purchase, ownership or disposition of notes by a Non-U.S. Holder assumes that the holder is not engaged in a U.S. trade or business. If any interest on the notes or gain from the sale, exchange, redemption or other disposition of the notes is effectively connected with a U.S. trade or business conducted by the Non-U.S. Holder, then the income or gain will generally be subject to U.S. federal income tax on a net income basis at regular graduated rates in the same manner as the income or gain of a U.S. Holder. If the Non-U.S. Holder is eligible for the benefits of a tax treaty between the U.S. and the holder s country of residence, any effectively connected income or gain will generally be subject to U.S. federal income tax only if it is also attributable to a permanent establishment or fixed base maintained by the holder in the United States. Payments of interest that are effectively connected with a U.S. trade or business (and, if required by an applicable income tax treaty, attributable to a permanent establishment or fixed base), and therefore included in the gross income of a Non-U.S. Holder, will not be subject to the 30% withholding tax provided that the holder claims exemption from withholding. To claim exemption from withholding in the case of U.S. trade or business income, the holder must certify its qualification, which can be done by filing a properly completed and executed Form W-8ECI, or any successor from as the IRS designates, as applicable, prior to the payment. If the Non-U.S. Holder is a corporation, that portion of its earnings and profits that is effectively connected with its U.S. trade or business would also generally be subject to a branch profits tax. The branch profits tax rate is generally 30%, although an applicable tax treaty might provide for a lower rate.

Medicare Tax

Non-U.S. Holders that are foreign estates or trusts may be subject to the Medicare tax described above under U.S. Holders Medicare Tax. Such Non-U.S. Holders should consult their tax advisors regarding the applicability of the Medicare tax to any of their income or gains in respect of the notes.

Backup Withholding and Information Reporting

The Code and the Treasury regulations require those who make specified payments to report the payments to the IRS. Among the specified payments are interest and proceeds paid by brokers to their customers. The required information returns enable the IRS to determine whether the recipient properly included the payments in income. This reporting regime is reinforced by backup withholding rules. These rules require the payors to withhold tax from payments subject to information reporting if the recipient fails to cooperate with the reporting regime by failing to provide a correct taxpayer identification number to the payor, furnishing an incorrect identification number, or repeatedly failing to report interest or dividends on tax returns. The backup withholding tax rate is currently 28 percent.

Payments of interest to U.S. Holders (other than exempt payees) and payments made to U.S. Holders (other than exempt payees) by a broker upon a sale or other disposition of the notes generally will be subject to information reporting. Such payments generally also will be subject to backup withholding unless the holder provides the payor with a correct taxpayer identification number and complies with applicable certification requirements.

We must report annually to the IRS the interest paid to each Non-U.S. Holder and the tax withheld, if any, with respect to such interest, including any tax withheld pursuant to the rules described above under Non-U.S. Holders Taxation of Interest . Copies of these reports may be made available to tax authorities in the country where the Non-U.S. Holder resides. Payments to Non-U.S. Holders of interest on the notes may be subject to backup withholding unless the Non-U.S. Holder certifies its non-U.S. status on a properly executed IRS Form W-8BEN or appropriate substitute form. Payments made to Non-U.S. Holders by a broker upon a sale of the notes will not be subject to information reporting or backup withholding as long as the Non-U.S. Holder certifies its non-U.S. status or otherwise establishes an exemption.

Any amounts withheld from a payment to a U.S. Holder or Non-U.S. Holder of notes under the backup withholding rules can be credited against any U.S. federal income tax liability of the holder, provided the required information is timely furnished to the IRS.

Each prospective investor should consult its own tax advisor regarding the particular U.S. federal, state, local, and foreign tax consequences of purchasing, holding, and disposing of our notes, including the consequences of any proposed change in applicable laws.

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UNDERWRITING (CONFLICTS OF INTEREST)

Under the terms and subject to the conditions contained in an underwriting agreement dated the date of this prospectus supplement, the underwriters named below, for whom Citigroup Global Markets Inc., J.P. Morgan Securities LLC and Morgan Stanley & Co. LLC are acting as representatives, have severally agreed to purchase, and we have agreed to sell to them, severally, the principal amount of notes set forth opposite their names below:

Underwriters	Principal amount of 20 notes	Principal amount of 20 notes
Citigroup Global Markets Inc.	$	$
J.P. Morgan Securities LLC	$	$
Morgan Stanley & Co. LLC	$	$
Total	$	$

The underwriters are offering the notes subject to their acceptance of the notes from us and subject to prior sale. The underwriting agreement provides that the obligations of the several underwriters to pay for and accept delivery of the notes offered by this prospectus supplement are subject to the approval of certain legal matters by their counsel and to certain other conditions. The underwriters are obligated to take and pay for all of the notes offered by this prospectus supplement if any such notes are taken.

The underwriters initially propose to offer part of the notes directly to the public at the public offering prices set forth on the cover page of this prospectus supplement and part to certain dealers at a price that represents a concession not in excess of % of the principal amount of the 20 notes and % of the principal amount of the 20 notes. Any such dealers may resell any notes purchased from the underwriters to certain other brokers or dealers at a discount not to exceed % of the principal amount of the 20 notes and % of the principal amount of the 20 notes. After the initial offering of the notes, the offering price and other selling terms may from time to time be varied by the representatives. The underwriters may offer and sell notes through certain of their affiliates.

The following table shows the underwriting discount that we will pay to the underwriters in connection with this offering:

	Paid by Us
Per 20 note	%
20 notes total	$
Per 20 note	%
20 notes total	$
Total	$

Expenses associated with this offering to be paid by us, other than underwriting discounts, are estimated to be approximately $ million.

In connection with the offering of the notes, the underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the notes. Specifically, the underwriters may overallot in connection with the offering of the notes, creating a syndicate short position. In addition, the underwriters may bid for, and purchase, notes in the open market to cover syndicate short positions or to stabilize the price of the notes. The underwriters may also impose a penalty bid. This occurs when a certain underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased notes sold by or for the account of such underwriter in stabilizing or short covering transactions. Finally, the underwriting syndicate may reclaim selling concessions allowed for distributing the notes in the offering of the notes, if the

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syndicate repurchases previously distributed notes in syndicate covering transactions, stabilization transactions or otherwise. Any of these activities may stabilize or maintain the market price of the notes above independent market levels. The underwriters are not required to engage in any of these activities, and may end any of them at any time.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended, or to contribute to payments which the underwriters may be required to make in respect of any such liabilities.

The notes are a new issue of securities with no established trading market. We do not intend to apply for listing of the notes on any national securities exchange or for quotation of the notes on any automated dealer quotation system. We have been advised by the underwriters that they presently intend to make a market in the notes after completion of the offering. However, they are under no obligation to do so and may discontinue any market-making activities at any time without any notice. We cannot assure the liquidity of the trading market for the notes or that an active public market for the notes will develop. If an active public trading market for the notes does not develop, the market price and liquidity of the notes may be adversely affected.

The underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to us and to persons and entities with relationships with us. Such underwriters and their affiliates have received, or will receive, customary fees, expenses and commissions for these activities and services.

In the ordinary course of their various business activities, the underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of ours (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with us. The underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

Conflicts of Interest

Affiliates of certain of the underwriters, including Citigroup Global Markets Inc., J.P. Morgan Securities LLC and Morgan Stanley & Co. LLC, are lenders in our credit facility, for which such underwriters and affiliates have been paid customary fees. A portion of our outstanding borrowings under the credit facility will be repaid with the net proceeds of the sale of the notes. Because more than 5% of the net proceeds of the offering may be paid to affiliates of the underwriters participating in the distribution of the notes, this offering is being made in compliance with FINRA Rule 5121, as administered by the Financial Industry Regulatory Authority. Since the notes being offered hereby are rated investment grade, pursuant to FINRA Rule 5121, the appointment of a qualified independent underwriter is not necessary in connection with this offering.

Selling Restrictions

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State) an offer to the public of the notes may not be made in that Relevant

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Member State, except that an offer to the public in that Relevant Member State of the notes may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- to any legal entity which is a qualified investor as defined in the Prospectus Directive;

- to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the representatives for any such offer; or

- in any other circumstances falling within Article 3(2) of the Prospectus Directive, provided that no such offer of notes shall result in a requirement for the publication by us or any underwriter of a prospectus pursuant to Article 3 of the Prospectus

For the purposes of this provision, the expression an offer to the public in relation to the notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase the notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression Prospectus Directive means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in the Relevant Member State, and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

United Kingdom

Each underwriter has represented and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the notes in circumstances in which Section 21(1) of the FSMA does not apply to us; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.

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LEGAL MATTERS

Certain legal matters in connection with the offering of the notes will be passed upon for Autodesk, Inc. by Wilson Sonsini Goodrich & Rosati, Professional Corporation, Palo Alto, California, and for the underwriters by Davis Polk & Wardwell LLP, Menlo Park, California.

EXPERTS

Ernst & Young LLP, independent registered public accounting firm, has audited our consolidated financial statements and schedule included in our Annual Report on Form 10-K for the year ended January 31, 2012, as set forth in their report, which is incorporated by reference in this prospectus supplement and elsewhere in the registration statement. Our financial statements and schedules are incorporated by reference in reliance on Ernst & Young LLP s report, given on their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC s website at http://www.sec.gov. Copies of certain information filed by us with the SEC are also available on our website at www.autodesk.com. Information accessible on or through our website is not a part of this prospectus supplement or the accompanying prospectus. You may also read and copy any document we file at the SEC s public reference room, 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room.

This prospectus supplement is part of a registration statement we filed with the SEC. This prospectus supplement omits some information contained in the registration statement in accordance with SEC rules and regulations. You should review the information and exhibits in the registration statement for further information on us and our consolidated subsidiaries and the notes we are offering. Statements in this prospectus supplement concerning any document we filed as an exhibit to the registration statement or that we otherwise filed with the SEC are not intended to be comprehensive and are qualified by reference to these filings. You should review the complete document to evaluate these statements.

INCORPORATION BY REFERENCE

The SEC allows us to incorporate by reference much of the information we file with the SEC, which means that we can disclose important information to you by referring you to those publicly available documents. The information that we incorporate by reference in this prospectus supplement or the accompanying prospectus is considered to be part of this prospectus supplement or the accompanying prospectus, as applicable. Because we are incorporating by reference future filings with the SEC, this prospectus supplement and the accompanying prospectus are continually updated and those future filings may modify or supersede some of the information included or incorporated by reference herein and therein. This means that you must look at all of the SEC filings that we incorporate by reference to determine if any of the statements in this prospectus supplement or the accompanying prospectus or in any document previously incorporated by reference have been modified or superseded. This prospectus supplement incorporates by reference the documents listed below and any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act (in each case, other than those documents or the portions of those documents furnished pursuant to Items 2.02 or 7.01 of any Current Report on Form 8-K), until the offering of the notes under the registration statement is terminated or completed:

Annual Report on Form 10-K for the fiscal year ended January 31, 2012, including the information specifically incorporated by reference into the Form 10-K from our definitive proxy statement for the 2012 Annual Meeting of Stockholders;

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Quarterly Reports on Form 10-Q for the fiscal quarters ended April 30, 2012, July 31, 2012 and October 31, 2012; and

Current Reports on Form 8-K filed on March 13, 2012, June 8, 2012 and August 23, 2012 (to the extent information is disclosed pursuant to Item 2.05 therein).

You may request a copy of these filings, at no cost, by writing or telephoning us at the following address:

Autodesk, Inc.

111 McInnis Parkway,

San Rafael, California 94903

Attn: Investor Relations

(415) 507-5000

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Prospectus

AUTODESK, INC.

Senior Debt Securities

We may issue senior debt securities from time to time in one or more offerings. This prospectus describes the general terms of these senior debt securities and the general manner in which these senior debt securities will be offered. We will provide the specific terms of these senior debt securities in supplements to this prospectus. The prospectus supplements will also describe the specific manner in which these senior debt securities will be offered and may also supplement, update or amend information contained in this prospectus. You should read this prospectus and any applicable prospectus supplement, including the documents incorporated by reference herein and therein, before you invest.

We may offer these senior debt securities in amounts, at prices and on terms determined at the time of offering. The senior debt securities may be sold directly to you, through agents, or through underwriters and dealers. If agents, underwriters or dealers are used to sell the senior debt securities, we will name them and describe their compensation in a prospectus supplement.

Our Common Stock is listed on the NASDAQ Global Select Market under the symbol ADSK.

Investing in these senior debt securities involves certain risks. See Risk Factors included in or incorporated by reference into any accompanying prospectus supplement and in the documents incorporated by reference in this prospectus for a discussion of the factors you should carefully consider before deciding to purchase these senior debt securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these senior debt securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is December 4, 2012

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, which we refer to as the SEC, utilizing a shelf registration process. Under this shelf registration process, we may from time to time sell the senior debt securities described in this prospectus in one or more offerings.

This prospectus provides you with a general description of the senior debt securities we may offer. Each time we sell senior debt securities, we will provide one or more prospectus supplements that will contain specific information about the terms of the offering. The prospectus supplement may also add, update or change information contained in this prospectus. You should read both this prospectus and any accompanying prospectus supplement together with the additional information described under the headings Where You Can Find More Information and Incorporation by Reference in this prospectus and any prospectus supplement.

We have not authorized anyone to provide you with information that is different from that contained or incorporated by reference in this prospectus, any accompanying prospectus supplement or any related free writing prospectus filed by us with the SEC. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. This prospectus and any accompanying prospectus supplement or any related free writing prospectus do not constitute an offer to sell or the solicitation of an offer to buy any senior debt securities other than the senior debt securities described in the accompanying prospectus supplement or an offer to sell or the solicitation of an offer to buy such senior debt securities in any circumstances in which such offer or solicitation is unlawful. You should assume that the information appearing in this prospectus, any prospectus supplement, the documents incorporated by reference and any related free writing prospectus is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed materially since those dates.

Unless the context otherwise indicates, references in this prospectus to Autodesk , we , our and us refer, collectively, to Autodesk, Inc., a Delaware corporation, and its consolidated subsidiaries.

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FORWARD-LOOKING STATEMENTS

This prospectus, any prospectus supplement, and the information incorporated by reference in this prospectus and any prospectus supplement include or may include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Forward-looking statements are generally written in the future tense and/or are preceded by words such as will, may, should, could, expect, suggest, believe, anticipa plan, or other similar words.

Forward-looking statements are not guarantees of future performance and involve risks and uncertainties. The forward-looking statements contained in this prospectus, any prospectus supplement, and the information incorporated by reference in this prospectus are based on information currently available to us and expectations and assumptions that we deem reasonable at the time the statements were made. We do not undertake any obligation to update any forward-looking statements in this prospectus, any prospectus supplement, and the information incorporated by reference in this prospectus or in any of our other communications, except as required by law. All such forward-looking statements should be read as of the time the statements were made and with the recognition that these forward-looking statements may not be complete or accurate at a later date.

Many factors may cause actual results to differ materially from those expressed or implied by the forward-looking statements contained in this prospectus, any prospectus supplement, and the information incorporated by reference herein and therein, including those detailed in the Risk Factors section of any Annual Report on Form 10-K and any Quarterly Report on Form 10-Q incorporated by reference in this prospectus and in the section of any related prospectus supplement entitled Risk Factors.

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OUR BUSINESS

We are a leading design software and services company, offering customers productive business solutions through powerful technology products and services. We serve customers in the architecture, engineering and construction; manufacturing; and digital media and entertainment industries. Our sophisticated software products enable our customers to experience their ideas before they become real by allowing them to imagine, design and create their ideas and to visualize, simulate and analyze real-world performance early in the design process by creating digital prototypes. These capabilities allow our customers to optimize and improve their designs, help save time and money, improve quality and foster innovation. Our software products are sold globally, both directly to customers and through a network of resellers and distributors.

Segments

We are organized into four reportable operating segments:

- Platform Solutions and Emerging Business (PSEB), which accounted for 38% of our net revenue in fiscal 2012;
- Architecture, Engineering and Construction (AEC), which accounted for 28% of our net revenue in fiscal 2012;
- Manufacturing (MFG), which accounted for 24% of our net revenue in fiscal 2012; and
- Media and Entertainment (M&E), which accounted for 10% of our net revenue in fiscal 2012.

Our PSEB, AEC and MFG segments derive revenue from the sale of licenses for software products and services to customers who design, build, manage or own building, manufacturing and infrastructure projects. In addition to software products, the PSEB, AEC and MFG segments offer a range of services including consulting, support and training, largely dedicated to enhancing our ability to sell licenses to our software products. Our M&E segment derives revenue from the sale of licenses of software products to creative professionals, post-production facilities, and broadcasters for a variety of applications, including feature films, television programs, commercials, music and corporate videos, interactive game production, web design and interactive web streaming. In addition, our animation products produced by our M&E segment are often used by customers of products from our other segments for the visualization of their designs.

Products and Services

The principal products and services of these segments include the following:

- Flagship products, which accounted for approximately 58% of our net revenue in fiscal 2012, are our core standalone horizontal, vertical and model-based design products including AutoCAD, AutoCAD LT, AutoCAD Civil 3D, AutoCAD Mechanical, AutoCAD Architecture, Autodesk 3ds Max and Autodesk Maya;
- Suites, which accounted for approximately 27% of our net revenue in fiscal 2012, are a combination of products that target a specific user objective (product design, building design, etc.) and support a set of workflows for that objective, including Autodesk Product Design Suites, Autodesk Building Design Suites, Autodesk Educational Suites and Autodesk Entertainment Creation Suites; and
- New and Adjacent products, which accounted for approximately 16% of our net revenue in fiscal 2012, are new product offerings as well as products that are not considered flagship or suites, including Autodesk Creative Finishing products, Autodesk Moldflow products, Autodesk Navisworks products and Autodesk Robot Structural Analysis.

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We were incorporated in California in April 1982 and were reincorporated in Delaware in May 1994. Our principal executive office is located at 111 McInnis Parkway, San Rafael, California 94903 and the telephone number at that address is (415) 507-5000. Our internet address is www.autodesk.com. Information contained in or accessible through our website is not part of or incorporated by reference into this prospectus.

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RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratio of earnings to fixed charges for each of the periods indicated. You should read this table in conjunction with our consolidated financial statements and notes in our Annual Report on Form 10-K for the fiscal year ended January 31, 2012 filed with the SEC on March 15, 2012 and our Quarterly Report on Form 10-Q for the fiscal quarter ended October 31, 2012 filed with the SEC on December 4, 2012, which are incorporated by reference in this prospectus.

	Nine Months Ended October 31,	Fiscal Year Ended				
	2012	January 31, 2012	January 31, 2011	January 31, 2010	January 31, 2009	January 31, 2008
Ratio of earnings to fixed charges (1)	18.5x	17.1x	12.1x	3.5x	6.1x	14.0x

(1) For purposes of determining the ratios above, earnings consist of income from continuing operations before income taxes and fixed charges. Fixed charges consist of interest expense and an estimate of interest as a component of rental expense.

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USE OF PROCEEDS

We intend to use the net proceeds from the sale of any senior debt securities offered under this prospectus for general corporate purposes unless otherwise indicated in the applicable prospectus supplement. General corporate purposes may include the acquisition of companies or businesses, repayment and refinancing of debt, working capital, capital expenditures, stock repurchases and the payment of dividends. We have not determined the amount of net proceeds to be used specifically for such purposes. As a result, management will retain broad discretion over the allocation of the net proceeds.

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DESCRIPTION OF SENIOR DEBT SECURITIES

We may offer senior debt securities under this prospectus. The following description summarizes the general terms and provisions of the senior debt securities. We will describe the specific terms of the senior debt securities and the extent, if any, to which the general provisions summarized below apply to any series of senior debt securities in the prospectus supplement relating to the series and any applicable free writing prospectus that we authorize to be delivered. When we refer to the Company, we, our, and us in this section, we mean Autodesk, Inc. excluding unless the context otherwise requires or as otherwise expressly stated, our subsidiaries.

We may issue senior debt securities from time to time, in one or more series under an indenture to be entered into between us and a trustee to be named in a prospectus supplement, which we refer to as the trustee. The form of the indenture is filed as an exhibit to the registration statement of which this prospectus forms a part. This prospectus briefly outlines some of the provisions of the indenture. The following summary of the material provisions of the indenture is qualified in its entirety by the provisions of the indenture, including definitions of certain terms used in the indenture. Wherever we refer to particular sections or defined terms of the indenture, those sections or defined terms are incorporated by reference in this prospectus or the applicable prospectus supplement. You should review the indenture that is filed as an exhibit to the registration statement of which this prospectus forms a part for additional information.

The indenture will not limit the amount of senior debt securities that we may issue. The indenture will provide that senior debt securities may be issued up to an aggregate principal amount authorized from time to time by us and may be payable in any currency or currency unit designated by us in the indenture or in amounts determined by reference to an index.

General

The senior debt securities will constitute our unsecured and unsubordinated general obligations and will rank pari passu with our other unsecured and unsubordinated obligations. Any secured debt or other secured obligations will be effectively senior to the senior debt securities to the extent of the value of the assets securing such debt or other obligations.

The applicable prospectus supplement and/or free writing prospectus will include any additional or different terms of the senior debt securities being offered, including the following terms, as applicable:

- the title of the senior debt securities;
- any limit upon the aggregate principal amount of the senior debt securities;
- the percentage of their principal amount (i.e. price) at which the senior debt securities will be issued;
- the date or dates on which the principal and premium, if any, of the senior debt securities is payable;
- the rate or rates (which may be fixed or variable) at which the senior debt securities will bear interest, or the manner of calculating such rate or rates, if applicable;
- the date or dates from which such interest will accrue, the interest payment dates on which such interest will be payable or the manner of determination of such interest payment dates, and the related record dates;
- any trustees, authenticating agents or paying agents, if different from those set forth in this prospectus;

the right, if any, to extend the interest payment periods or defer the payment of interest and the duration of that extension or deferral;

the period or periods within which, the price or prices at which and the terms and conditions upon which senior debt securities may be redeemed, in whole or in part, at our option;

the obligation, if any, of us to redeem, purchase or repay senior debt securities pursuant to any sinking fund or analogous provisions as at the option of a holder thereof;

the form of the senior debt securities;

if other than denominations of $2,000 or any integral multiple of $1,000 in excess thereof, the denominations in which the senior debt securities will be issuable;

the currencies and/or currency units in which payment of the principal of, and premium, if any, and interest on, the senior debt securities will be payable;

if the principal amount payable at the stated maturity of the senior debt securities will not be determinable as of any one or more dates prior to such stated maturity, the amount which will be deemed to be such principal amount as of any such date for any purpose;

the terms of any repurchase or remarketing rights;

whether the senior debt securities will be issued in global form, the terms upon which the senior debt securities will be exchanged for definitive form, the depositary for the senior debt securities and the form of legend;

any conversion or exchange features of the senior debt securities;

if other than the principal amount thereof, the portion of the principal amount of the senior debt securities which shall be payable upon declaration of acceleration of the maturity thereof;

any restrictive covenants or events of default in addition to or in lieu of those set forth in this prospectus;

any provisions granting special rights to holders when a specified event occurs;

if the amount of principal or any premium or interest on the senior debt securities may be determined with reference to an index or pursuant to a formula, the manner in which such amounts will be determined;

any special tax implications of the senior debt securities;

whether and upon what terms the senior debt securities may be defeased if different from the provisions set forth in this prospectus;

with regard to the senior debt securities that do not bear interest, the dates for certain required reports to the applicable trustee; and

- any and all additional, eliminated or changed terms that will apply to the senior debt securities.

We may from time to time, without notice to or the consent of the holders of any series of senior debt securities, create and issue further senior debt securities of any such series ranking equally with the senior debt securities of such series in all respects (or in all respects other than (1) the payment of interest accruing prior to the issue date of such further senior debt securities or (2) the first payment of interest following the issue date of such further senior debt securities). Such further senior debt securities may be consolidated and form a single series with the senior debt securities of such series and have the same terms as to status, redemption or otherwise as the senior debt securities of such series, provided that if such additional debt securities are not fungible with the initial debt securities of such series for U.S. federal income tax purposes, such additional debt securities will have a separate CUSIP number.

You may present senior debt securities for exchange or transfer in the manner, at the places and subject to the restrictions set forth in the senior debt securities and the applicable prospectus supplement. We will provide you those services without charge, although you may have to pay any tax or other governmental charge payable in connection with any exchange or transfer, as set forth in the indenture.

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Senior debt securities will bear interest at a fixed rate or a floating rate. Senior debt securities bearing no interest or interest at a rate that at the time of issuance is below the prevailing market rate (called original issue discount securities) may be sold at a discount below their stated principal amount. Material U.S. federal income tax considerations applicable to any such discounted senior debt securities or to certain senior debt securities issued at par which are treated as having been issued at a discount for U.S. federal income tax purposes will be described in the applicable prospectus supplement.

We may issue senior debt securities with the principal amount payable on any principal payment date, or the amount of interest payable on any interest payment date, to be determined by reference to one or more currency exchange rates, securities or baskets of securities, commodity prices or indices. You may receive a payment of principal on any principal payment date, or a payment of interest on any interest payment date, that is greater than or less than the amount of principal or interest otherwise payable on such dates, depending on the value on such dates of the applicable currency, security or basket of securities, commodity or index. Information as to the methods for determining the amount of principal or interest payable on any date, the currencies, securities or baskets of securities, commodities or indices to which the amount payable on such date is linked and certain related tax considerations will be set forth in the applicable prospectus supplement.

Certain Covenants

Certain Covenants. The indenture will contain certain covenants regarding, among other matters, corporate existence and reports to holders of senior debt securities. Unless we indicate otherwise in a prospectus supplement, the senior debt securities will not contain any additional financial or restrictive covenants, including covenants relating to total indebtedness, interest coverage, stock repurchases, recapitalizations, dividends and distributions to shareholders or current ratios. The provisions of the indenture will not afford holders of senior debt securities issued thereunder protection in the event of a sudden or significant decline in our credit quality or in the event of a takeover, recapitalization or highly leveraged or similar transaction involving us or any of our affiliates that may adversely affect such holders except to the extent set forth therein.

Consolidation, Merger and Sale of Assets. Unless we indicate otherwise in a prospectus supplement, we will not consolidate with, merge with or into, or sell, convey, transfer, lease or otherwise dispose of all or substantially all of our and our subsidiaries property and assets taken as a whole to another Person (as defined in the indenture) unless:

- the Person (if other than us) formed by such consolidation, merger, sale, conveyance, transfer or lease or disposition (the Surviving Person) shall be a corporation or limited liability company organized and validly existing under the laws of the United States of America or any jurisdiction thereof, and such Surviving Person shall (if other than us) expressly assume, by a supplemental indenture, executed and delivered to the trustee, all of our obligations under the indenture and the senior debt securities;

- immediately after giving effect to such transaction, no Default or Event of Default (each as defined in the indenture) shall have occurred and be continuing; and

- we deliver to the trustee an officer s certificate and opinion of counsel, in each case stating that any such supplemental indenture complies with this provision and that all conditions precedent provided for in the indenture or any applicable supplemental indenture relating to such transaction have been complied with.

The restrictions in the second and third bullets shall not be applicable to:

- the merger or consolidation of us with an affiliate of ours if our board of directors determines in good faith that the purpose of such transaction is principally to change our state of incorporation or convert our form of organization to another form; or

- the merger of us with or into a single direct or indirect wholly owned subsidiary of ours pursuant to Section 251(g) (or any successor provision) of the General Corporation Law of the State of Delaware (or similar provision of our state of incorporation).

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The Surviving Person will succeed to, and be substituted for, us under the indenture and the senior debt securities and, except in the case of a lease, we shall be released of all obligations under the indenture and the senior debt securities.

No Protection in the Event of a Change of Control. Unless we indicate otherwise in a prospectus supplement with respect to a particular series of senior debt securities, the senior debt securities will not contain any provisions that may afford holders of the senior debt securities protection in the event we have a change of control or in the event of a highly leveraged transaction (whether or not such transaction results in a change of control).

Events of Default

The indenture defines an Event of Default with respect to any series of senior debt securities issued pursuant to the indenture. Events of Default on the senior debt securities are any of the following:

- default in the payment of any interest on senior debt securities when it becomes due and payable, and the continuance of such default for a period of 30 days (unless the entire amount of such payment is deposited by us with the trustee or a paying agent prior to the expiration of such 30-day period);

- default in the payment of the principal of, or any premium on, senior debt securities when due and payable;

- default in the performance or breach of any other covenant by us in the indenture (other than a covenant that has been included in the indenture solely for the benefit of another series of debt securities), which default continues uncured for a period of 90 days after we receive, by registered or certified mail, written notice from the trustee or we and the trustee receive, by registered or certified mail, written notice from the holders of not less than 25% in principal amount of the senior debt securities of the affected series outstanding as provided in the indenture;

- certain events in bankruptcy, insolvency or reorganization with respect to us; and

- any other Event of Default provided for in such series of senior debt securities as may be specified in the applicable prospectus supplement.

An Event of Default under one series of senior debt securities issued pursuant to the indenture does not necessarily constitute an Event of Default under any other series of senior debt securities. The indenture provides that the trustee may withhold notice to the holders of any series of senior debt securities issued thereunder of any default (other than payment defaults of which it has knowledge) if the trustee s board of directors, executive committee, or a trust committee of directors or trustees and/or certain officers of the trustee in good faith determine it is in the interest of such holders to do so.

Remedies If an Event of Default Occurs. The indenture provides that if an Event of Default has occurred with respect to a series of senior debt securities and has not been cured, the trustee or the holders of not less than 25% in principal amount of the senior debt securities of that series may declare the entire principal amount of all the senior debt securities of that series to be due and immediately payable. This is called a declaration of acceleration of maturity. If an Event of Default occurs because of certain events in bankruptcy, insolvency or reorganization with respect to us, the principal amount of all the senior debt securities will be automatically accelerated, without any action by the trustee or any holder. At any time after the principal of a series of senior debt securities shall have been declared due and payable, and before any judgment or decree for the payment of the amount due shall have been obtained or entered for such series of senior debt securities as provided in the indenture, the holders of a majority in aggregate principal amount of the senior debt securities of the affected series may by written notice to us and the trustee may, on behalf of the holders of the senior debt securities of the affected series, rescind and annul such acceleration and its consequences if:

we have paid or caused to be paid or deposited with the trustee an amount sufficient to pay all matured installments of interest upon the series of senior debt securities and the principal of and premium, if any, on the series of senior debt securities that shall have become due otherwise than by acceleration (with interest upon such principal and premium, if any, and, to the extent that such payment is enforceable under applicable law, upon overdue installments of interest, at the rate expressed in the series of senior debt securities to the date of such payment or deposit), and

any and all Events of Default under the indenture with respect to such series, other than the nonpayment of principal on the series of senior debt securities that shall have become due solely by such declaration of acceleration, shall have been remedied or waived as provided in the indenture.

The indenture will provide that, except during the continuance of an Event of Default, the trustee will perform only such duties as are specifically set forth in the indenture. During the existence of an Event of Default, the trustee must exercise such rights and powers vested in it as a prudent person would exercise under the circumstances in the conduct of such person s own affairs. Subject to such provisions, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request of any holder of the notes, unless such holder shall have offered to the trustee security and indemnity satisfactory to it against any loss, liability or expense.

Before you bypass the trustee and bring your own lawsuit or other formal legal action or take other steps to enforce your rights or protect your interests relating to the senior debt securities, the following must occur:

you must give the trustee written notice that an Event of Default has occurred and remains uncured;

the holders of not less than 25% in principal amount of all outstanding senior debt securities of the affected series must make a written request that the trustee take action because of the Event of Default, and must offer indemnity to the trustee against the costs, expenses and other liabilities of taking that action; and

the trustee must have failed to take action for 60 days after receipt of the above notice and offer of indemnity and during such 60-day period, the trustee has not received a contrary instruction from holders of a majority in principal amount of all outstanding senior debt securities.

However, you are entitled at any time to bring a lawsuit for the payment of money due on your senior debt securities on or after the due date of that payment.

We will furnish to the trustee every year a written statement of two of our officers certifying that to their knowledge we are in compliance with the indenture and the senior debt securities, or else specifying any default. Additionally, upon becoming aware of any default, we will deliver a statement specifying such default to the trustee within thirty (30) days.

Satisfaction and Discharge

The indenture will cease to be of further effect as to any series of senior debt securities and the trustee, upon our demand and at our expense, will execute appropriate instruments acknowledging the satisfaction and discharge of the indenture with respect to such series upon compliance with certain conditions, including:

(1) either

our having delivered or caused to be delivered to the trustee for cancellation all senior debt securities of a series theretofore authenticated under the indenture; or

all senior debt securities of any series outstanding under the indenture not theretofore delivered to the trustee for cancellation shall have become due and payable or are by their terms to become due and payable within one year or are to be called for redemption within one year under arrangements satisfactory to the trustee and we shall have deposited with the trustee sufficient cash or U.S. government or U.S. government agency notes or bonds that will generate enough cash to pay, at maturity or upon redemption, all such senior debt securities of any series outstanding under the indenture;

(2) our having paid all sums payable by us under the indenture, as and when the same shall be due and payable; and

(3) our having delivered to the trustee an officer s certificate and an opinion of counsel, each stating that all conditions relating to the satisfaction and discharge of the indenture have been satisfied.

Defeasance

Unless the applicable prospectus supplement provides otherwise, the following discussion of legal defeasance and discharge and covenant defeasance will apply to any series of senior debt securities issued under the indenture.

Full Defeasance. We can legally release ourselves from any payment or other obligations on the senior debt securities of any series (called full defeasance) if the following conditions are met:

- we deposit in trust for your benefit and the benefit of all other direct holders of the senior debt securities of the same series a combination of money and U.S. government or U.S. government agency notes or bonds that will generate enough cash to make interest, principal, any premium and any other payments on the senior debt securities of that series on their various due dates;

- there is a change in current U.S. federal income tax law or an IRS ruling that permits us to make the above deposit without causing you to be taxed on the senior debt securities any differently than if we did not make the deposit and instead repaid the senior debt securities ourselves when due; and

- we deliver to the trustee a legal opinion of our counsel confirming the tax law change or ruling described above;

- we deliver to the trustee an officer s certificate and a legal opinion of our counsel, each stating that all conditions precedent relating to such full defeasance have been fulfilled; and

- no Event of Default shall have occurred and be continuing, and no event which with notice or lapse of time or both would become an Event of Default shall have occurred and be continuing, on the date of such deposit.

If we ever accomplished full defeasance, as described above, you would have to rely solely on the trust deposit for repayment of the senior debt securities. You could not look to us for repayment in the event of any shortfall.

However, even if we make the deposit in trust and deliver an opinion as discussed above, a number of our obligations relating to the senior debt securities will remain. These include, among others, our obligation:

- to register the transfer and exchange of senior debt securities;

- to replace mutilated, destroyed, lost or stolen senior debt securities;

- to maintain paying agencies; and

- to hold money for payment in trust.

Purchasers of the senior debt securities should consult their own advisers with respect to the tax consequences to them of any deposit and discharge, including the applicability and effect of tax laws other than the U.S. federal income tax law.

Covenant Defeasance. Without any change in current U.S. federal income tax law, we can make the same type of deposit described above and be released from some of the covenants on the senior debt securities of any series. This is called covenant defeasance. In that event, you would lose the protection of those covenants but

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would gain the protection of having money and securities set aside in trust to repay the senior debt securities. In order to achieve covenant defeasance, the following conditions must be met:

- we deposit in trust for your benefit and the benefit of all other direct holders of the senior debt securities of the same series a combination of money and U.S. government or U.S. government agency notes or bonds that will generate enough cash to make interest, principal, any premium and any other payments on the senior debt securities of that series on their various due dates;

- we deliver to the trustee a legal opinion of our counsel confirming that under current U.S. federal income tax law we may make the above deposit and be released from the relevant covenants without causing you to be taxed on the senior debt securities any differently than if we did not make the deposit and were not released from the covenants and instead repaid the senior debt securities ourselves when due;

- we deliver to the trustee an officer s certificate and a legal opinion of our counsel, each stating that all conditions precedent relating to such full defeasance have been fulfilled; and

- no Event of Default shall have occurred and be continuing, and no event which with notice or lapse of time or both would become an Event of Default shall have occurred and be continuing, on the date of such deposit.

If we accomplish covenant defeasance, you can still look to us for repayment of the senior debt securities if there were a shortfall in the trust deposit. In fact, if one of the Events of Default occurred (such as our bankruptcy) and the senior debt securities become immediately due and payable, there may be such a shortfall. Depending on the event causing the default, you may not be able to obtain payment of the shortfall.

Modification and Waiver

There are three types of changes we can make to the indenture.

Changes Requiring Approval of the Holder. First, there are changes that cannot be made to the senior debt securities without specific approval of the holder. The following is a list of those types of changes:

- change the stated maturity of the principal of or any installment of principal of or interest on any senior debt securities of such series;

- reduce the principal amount of or the rate of interest thereon or any premium payable upon redemption of any senior debt securities of such series;

- reduce the amount of principal payable at maturity or upon acceleration, redemption or a change of control or following an Event of Default;

- change the place or currency of payment for the senior debt securities;

- change the terms of or waive any redemption provisions;

- impair the holder s right to sue for the enforcement of any payment on or with respect to the senior debt securities;

reduce the percentage in principal amount of the senior debt securities of any series, the approval of whose holders is needed to modify or amend the indenture or the senior debt securities;

reduce the percentage in principal amount of the senior debt securities of any series, the approval of whose holders is needed to waive compliance with certain provisions of the indenture or to waive certain defaults; and

modify any other aspect of the provisions dealing with modification and waiver of the indenture, except to increase the percentage required for any modification or to provide that other provisions of the indenture may not be modified or waived without consent of the holder of each security of such series affected by the modification.

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Changes Not Requiring Approval. The second type of change does not require any approval of or vote by holders of the senior debt securities. This type is limited to the following types of changes:

- cure any ambiguity, defect or inconsistency;
- make such other provisions in regard to matters or questions arising under the indenture or under any supplemental indenture as our board of directors may deem necessary or desirable, and which does not in each case adversely affect the interests of the holders of the senior debt securities of a series;
- comply with covenants in the indenture regarding mergers and sales of assets;
- provide for uncertificated senior debt securities in addition to or in place of certificated senior debt securities;
- add to the covenants of the Company or add any additional Events of Default for the benefit of any series of senior debt securities, or secure any series of the senior debt securities;
- provide for the issuance of senior debt securities and establish the form, terms and conditions of such series, or issue additional senior debt securities of any series;
- evidence and provide for a successor trustee and add to or change the provisions of the indenture to provide for or facilitate the administration of the trusts under the indenture; and
- comply with requirements of the SEC in order to effect or maintain the qualification of the indenture under the Trust Indenture Act of 1939, as amended (the Trust Indenture Act).

We may also make changes that affect only senior debt securities to be issued under the indenture at any time after the changes take effect without the approval of holders of senior debt securities previously issued under the indenture. We may make changes or obtain waivers that affect only certain series of senior debt securities without the approval of holder of unaffected senior debt securities under the indenture.

Changes Requiring a Majority Vote. Any other change to the indenture and the senior debt securities would require the following approval:

- if the change affects only senior debt securities of one series, it must be approved by the holders of a majority in outstanding principal amount of the senior debt securities of that series;
- if the change affects the senior debt securities as well as the senior debt securities of one or more other series issued under the indenture, it must be approved by the holders of a majority in outstanding principal amount of each series of senior debt securities affected by the change; and
- in each case, the required approval must be given by written consent.

The same vote would be required for us to obtain a waiver of a past default. However, we cannot obtain a waiver of a payment default or a waiver with respect to any other aspect of the indenture and the senior debt securities listed in the first category described previously under

Changes Requiring Approval of the Holder unless we obtain your individual consent to the waiver.

Further Details Concerning Voting

The senior debt securities will not be considered outstanding, and therefore will not be eligible to vote, if we have deposited or set aside in trust for you money for their payment or redemption. The senior debt securities will also not be eligible to vote if they have been fully defeased as described above under Defeasance Full Defeasance.

We will generally be entitled to set any day as a record date for the purpose of determining the holders of outstanding senior debt securities that are entitled to vote or take other action under the indenture. In certain

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limited circumstances, the trustee will be entitled to set a record date for action by holders. If we or the trustee sets a record date for a vote or other action to be taken by holders of senior debt securities, that vote or action may be taken only by persons who are holders of outstanding senior debt securities on the record date and must be taken within 180 days following the record date or another period that we may specify (or as the trustee may specify, if it set the record date). We may shorten this period from time to time.

No Personal Liability of Incorporators, Stockholders, Officers, Directors

The indenture provides that no recourse shall be had under any obligation, covenant or agreement of ours in the indenture or in any of the senior debt securities or because of the creation of any indebtedness represented thereby, against any of our incorporators, stockholders, officers or directors, past, present or future, or any predecessor or successor entity thereof under any law, statute or constitutional provision or by the enforcement of any assessment or by any legal or equitable proceeding or otherwise. Each holder, by accepting the senior debt securities, waives and releases all such liability.

Concerning the Trustee

The trustee will be appointed by us as paying agent, registrar and custodian with regard to the senior debt securities. The trustee or its affiliates may from time to time in the future provide banking and other services to us in exchange for a fee.

The indenture provides that, prior to the occurrence of an Event of Default with respect to the senior debt securities of a series and after the curing or waiving of all such Events of Default with respect to that series, the trustee will not be liable except for the performance of such duties as are specifically set forth in the indenture. If an Event of Default has occurred and has not been cured or waived, the trustee will exercise such rights and powers vested in it under the indenture and will use the same degree of care and skill in its exercise as a prudent person would exercise under the circumstances in the conduct of such person s own affairs.

The indenture and the provisions of the Trust Indenture Act incorporated by reference therein contain limitations on the rights of the trustee thereunder, should it become a creditor of ours or any of our subsidiaries, to obtain payment of claims in certain cases or to realize on certain property received by it in respect of any such claims, as security or otherwise. The trustee is permitted to engage in other transactions, provided that if it acquires any conflicting interest (as defined in the Trust Indenture Act), it must eliminate such conflict or resign.

Unclaimed Funds

All funds deposited with the trustee or any paying agent for the payment of principal, interest, premium or additional amounts in respect of the senior debt securities that remain unclaimed for a period ending on the earlier of 10 business days prior to the date the money would be turned over to the applicable state and two years after the date upon which the principal of, or premium, if any, or interest on such senior debt securities shall have become due and payable will be repaid to us. Thereafter, any right of any holder of senior debt securities to such funds shall be enforceable only against us, and the trustee and paying agents will have no liability therefor.

Governing Law

The indenture and the senior debt securities will be governed by, and construed in accordance with, the laws of the State of New York.

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FORMS OF SENIOR DEBT SECURITIES

Each senior debt security will be represented either by a certificate issued in definitive form to a particular investor or by one or more global securities representing the entire issuance of senior debt securities. Unless the applicable prospectus supplement provides otherwise, certificated senior debt securities will be issued in definitive form and global securities will be issued in registered form. Definitive senior debt securities name you or your nominee as the owner of the senior debt security, and in order to transfer or exchange these senior debt securities or to receive payments other than interest or other interim payments, you or your nominee must physically deliver the senior debt securities to the trustee, registrar, paying agent or other agent, as applicable. Global senior debt securities name a depositary or its nominee as the owner of the senior debt securities represented by these global senior debt securities. The depositary maintains a computerized system that will reflect each investor s beneficial ownership of the senior debt securities through an account maintained by the investor with its broker/dealer, bank, trust company or other representative, as we explain more fully below.

Registered Global Securities

We may issue the registered senior debt securities in the form of one or more fully registered global senior debt securities that will be deposited with a depositary or its nominee identified in the applicable prospectus supplement and registered in the name of that depositary or nominee. In those cases, one or more registered global senior debt securities will be issued in a denomination or aggregate denominations equal to the portion of the aggregate principal or face amount of the senior debt securities to be represented by registered global securities. Unless and until it is exchanged in whole for senior debt securities in definitive registered form, a registered global security may not be transferred except as a whole by and among the depositary for the registered global security, the nominees of the depositary or any successors to the depositary or those nominees.

Any specific terms of the depositary arrangement with respect to any senior debt securities to be represented by a registered global security will be described in the prospectus supplement relating to those senior debt securities. We anticipate that the following provisions will apply to all depositary arrangements.

Ownership of beneficial interests in a registered global security will be limited to persons, called participants, that have accounts with the depositary or persons that may hold interests through participants. Upon the issuance of a registered global security, the depositary will credit, on its book-entry registration and transfer system, the participants accounts with the respective principal or face amounts of the senior debt securities beneficially owned by the participants. Any dealers, underwriters or agents participating in the distribution of the senior debt securities will designate the accounts to be credited. Ownership of beneficial interests in a registered global security will be shown on, and the transfer of ownership interests will be effected only through, records maintained by the depositary, with respect to interests of participants, and on the records of participants, with respect to interests of persons holding through participants. The laws of some states may require that some purchasers of senior debt securities take physical delivery of these senior debt securities in definitive form. These laws may impair your ability to own, transfer or pledge beneficial interests in registered global securities.

So long as the depositary, or its nominee, is the registered owner of a registered global security, that depositary or its nominee, as the case may be, will be considered the sole owner or holder of the senior debt securities represented by the registered global security for all purposes under the indenture. Except as described below, owners of beneficial interests in a registered global security will not be entitled to have the senior debt securities represented by the registered global security registered in their names, will not receive or be entitled to receive physical delivery of the senior debt securities in definitive form and will not be considered the owners or holders of the senior debt securities under the indenture. Accordingly, each person owning a beneficial interest in a registered global security must rely on the procedures of the depositary for that registered global security and, if that person is not a participant, on the procedures of the participant through which the person owns its interest, to exercise any rights of a holder under the indenture. We understand that under existing industry practices, if we request any action of holders or if an owner of a beneficial interest in a registered global security desires to give

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or take any action that a holder is entitled to give or take under the indenture, the depositary for the registered global security would authorize the participants holding the relevant beneficial interests to give or take that action, and the participants would authorize beneficial owners owning through them to give or take that action or would otherwise act upon the instructions of beneficial owners holding through them.

Principal, premium, if any, and interest payments on senior debt securities represented by a registered global security registered in the name of a depositary or its nominee will be made to the depositary or its nominee, as the case may be, as the registered owner of the registered global security. None of us, the trustees, or any agent of ours or agent of the trustees will have any responsibility or liability for any aspect of the records relating to payments made on account of beneficial ownership interests in the registered global security or for maintaining, supervising or reviewing any records relating to those beneficial ownership interests.

We expect that the depositary for any of the senior debt securities represented by a registered global security, upon receipt of any payment of principal, premium, interest or other distribution of underlying senior debt securities or other property to holders on that registered global security, will immediately credit participants accounts in amounts proportionate to their respective beneficial interests in that registered global security as shown on the records of the depositary. We also expect that payments by participants to owners of beneficial interests in a registered global security held through participants will be governed by standing customer instructions and customary practices, as is now the case with the senior debt securities held for the accounts of customers or registered in street name, and will be the responsibility of those participants.

If the depositary for any of the senior debt securities represented by a registered global security is at any time unwilling or unable to continue as depositary or ceases to be a clearing agency registered under the Exchange Act, and a successor depositary registered as a clearing agency under the Exchange Act is not appointed by us within 90 days, we will issue senior debt securities in definitive form in exchange for the registered global security that had been held by the depositary. Any senior debt securities issued in definitive form in exchange for a registered global security will be registered in the name or names that the depositary gives to the relevant trustee or other relevant agent of ours or theirs. It is expected that the depositary s instructions will be based upon directions received by the depositary from participants with respect to ownership of beneficial interests in the registered global security that had been held by the depositary.

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PLAN OF DISTRIBUTION

We may sell senior debt securities:

- through underwriters;
- through dealers;
- through agents;
- directly to purchasers; or
- through a combination of any of these methods of sale.

In addition, we may issue the senior debt securities as a dividend or distribution or in a subscription rights offering to our existing security holders.

We may directly solicit offers to purchase senior debt securities or agents may be designated to solicit such offers. We will, in the prospectus supplement relating to such offering, name any agent that could be viewed as an underwriter under the Securities Act and describe any commissions that we must pay. Any such agent will be acting on a best efforts basis for the period of its appointment or, if indicated in the applicable prospectus supplement, on a firm commitment basis. This prospectus may be used in connection with any offering of our senior debt securities through any of these methods or other methods described in the applicable prospectus supplement.

The distribution of the senior debt securities may be effected from time to time in one or more transactions:

- at a fixed price or prices which may be changed from time to time;
- at market prices prevailing at the time of sale;
- at prices related to such prevailing market prices; or
- at negotiated prices.

Each prospectus supplement will describe the method of distribution of the senior debt securities and any applicable restrictions.

The prospectus supplement with respect to the senior debt securities of a particular series will describe the terms of the offering of the senior debt securities, including the following:

- the name of the agent or any underwriters;

- the public offering or purchase price;
- any discounts and commissions to be allowed or paid to the agent or underwriters;
- all other items constituting underwriting compensation;
- any discounts and commissions to be allowed or paid to dealers; and
- any exchanges on which the senior debt securities will be listed.

If any underwriters or agents are utilized in the sale of the senior debt securities in respect of which this prospectus is delivered, we will enter into an underwriting agreement or other agreement with them at the time of sale to them, and we will set forth in the prospectus supplement relating to such offering the names of the underwriters or agents and the terms of the related agreement with them.

If a dealer is utilized in the sale of the senior debt securities in respect of which the prospectus is delivered, we will sell such senior debt securities to the dealer, as principal. The dealer may then resell such senior debt securities to the public at varying prices to be determined by such dealer at the time of resale.

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If we offer senior debt securities in a subscription rights offering to our existing security holders, we may enter into a standby underwriting agreement with dealers, acting as standby underwriters. We may pay the standby underwriters a commitment fee for the senior debt securities they commit to purchase on a standby basis. If we do not enter into a standby underwriting arrangement, we may retain a dealer-manager to manage a subscription rights offering for us.

Agents, underwriters, dealers and other persons may be entitled under agreements which they may enter into with us to indemnification by us against certain civil liabilities, including liabilities under the Securities Act.

If so indicated in the applicable prospectus supplement, we will authorize underwriters or other persons acting as our agents to solicit offers by certain institutions to purchase senior debt securities from us pursuant to delayed delivery contracts providing for payment and delivery on the date stated in the prospectus supplement. Each contract will be for an amount not less than, and the aggregate amount of senior debt securities sold pursuant to such contracts shall not be less nor more than, the respective amounts stated in the prospectus supplement. Institutions with whom the contracts, when authorized, may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions and other institutions, but shall in all cases be subject to our approval. Delayed delivery contracts will not be subject to any conditions except that:

- the purchase by an institution of the senior debt securities covered under that contract shall not at the time of delivery be prohibited under the laws of the jurisdiction to which that institution is subject; and

- if the senior debt securities are also being sold to underwriters acting as principals for their own account, the underwriters shall have purchased such senior debt securities not sold for delayed delivery. The underwriters and other persons acting as our agents will not have any responsibility in respect of the validity or performance of delayed delivery contracts.

Certain agents, underwriters and dealers, and their associates and affiliates may be customers of, engage in other transactions with, and/or perform services, including investment banking services, for us or one or more of our respective affiliates in the ordinary course of business.

In order to facilitate the offering of the senior debt securities, any underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the senior debt securities or any other senior debt securities the prices of which may be used to determine payments on such senior debt securities. Specifically, any underwriters may overallot in connection with the offering, creating a short position for their own accounts. In addition, to cover overallotments or to stabilize the price of the senior debt securities or of any such other senior debt securities, the underwriters may bid for, and purchase, the senior debt securities or any such other senior debt securities in the open market. Finally, in any offering of the senior debt securities through a syndicate of underwriters, the underwriting syndicate may reclaim selling concessions allowed to an underwriter or a dealer for distributing the senior debt securities in the offering if the syndicate repurchases previously distributed senior debt securities in transactions to cover syndicate short positions, in stabilization transactions or otherwise. Any of these activities may stabilize or maintain the market price of the senior debt securities above independent market levels. Any such underwriters are not required to engage in these activities and may end any of these activities at any time.

Under Rule 15c6-1 of the Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. The applicable prospectus supplement may provide that the original issue date for your senior debt securities may be more than three scheduled business days after the trade date for your senior debt securities. Accordingly, in such a case, if you wish to trade senior debt securities on any date prior to the third business day before the original issue date for your senior debt securities, you will be required, by virtue of the fact that your senior debt securities initially are expected to settle in more than three scheduled business days after the trade date for your senior debt securities, to make alternative settlement arrangements to prevent a failed settlement.

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The senior debt securities may be new issues of senior debt securities and may have no established trading market. The senior debt securities may or may not be listed on a national senior debt securities exchange. We can make no assurance as to the liquidity of or the existence of trading markets for any of the senior debt securities.

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LEGAL MATTERS

Unless the applicable prospectus supplement indicates otherwise, the validity of the senior debt securities in respect of which this prospectus is being delivered will be passed upon by Wilson Sonsini Goodrich & Rosati, Professional Corporation, Palo Alto, California.

EXPERTS

Ernst & Young LLP, independent registered public accounting firm, has audited our consolidated financial statements and schedule included in our Annual Report on Form 10-K for the year ended January 31, 2012, as set forth in their report, which is incorporated by reference in this prospectus and elsewhere in the registration statement. Our financial statements and schedules are incorporated by reference in reliance on Ernst & Young LLP s report, given on their authority as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC s website at http://www.sec.gov. Copies of certain information filed by us with the SEC are also available on our website at www.autodesk.com. Information accessible on or through our website is not a part of this prospectus. You may also read and copy any document we file at the SEC s public reference room, 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room.

This prospectus is part of a registration statement we filed with the SEC. This prospectus omits some information contained in the registration statement in accordance with SEC rules and regulations. You should review the information and exhibits in the registration statement for further information on us and our consolidated subsidiaries and the senior debt securities we are offering. Statements in this prospectus concerning any document we filed as an exhibit to the registration statement or that we otherwise filed with the SEC are not intended to be comprehensive and are qualified by reference to these filings. You should review the complete document to evaluate these statements.

INCORPORATION BY REFERENCE

The SEC allows us to incorporate by reference much of the information we file with the SEC, which means that we can disclose important information to you by referring you to those publicly available documents. The information that we incorporate by reference in this prospectus is considered to be part of this prospectus. Because we are incorporating by reference future filings with the SEC, this prospectus is continually updated and those future filings may modify or supersede some of the information included or incorporated by reference in this prospectus. This means that you must look at all of the SEC filings that we incorporate by reference to determine if any of the statements in this prospectus or in any document previously incorporated by reference have been modified or superseded. This prospectus incorporates by reference the documents listed below and any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act (in each case, other than those documents or the portions of those documents furnished pursuant to Items 2.02 or 7.01 of any Current Report on Form 8-K), until the offering of the senior debt securities under the registration statement is terminated or completed:

Annual Report on Form 10-K for the fiscal year ended January 31, 2012, including the information specifically incorporated by reference into the Form 10-K from our definitive proxy statement for the 2012 Annual Meeting of Stockholders;

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Quarterly Reports on Form 10-Q for the fiscal quarters ended April 30, 2012, July 31, 2012 and October 31, 2012; and

Current Reports on Form 8-K filed on March 13, 2012, June 8, 2012 and August 23, 2012 (to the extent information is disclosed pursuant to Item 2.05 therein).

You may request a copy of these filings, at no cost, by writing or telephoning us at the following address:

Autodesk, Inc.

111 McInnis Parkway,

San Rafael, California 94903

Attn: Investor Relations

(415) 507-5000

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$ % notes due 20

$ % notes due 20

PROSPECTUS SUPPLEMENT

Citigroup **J.P. Morgan** **Morgan Stanley**

, 2012

> 02 - Mary G. F. Bitterman **o o** 03 - Mark A. Burak **o o** 04 - Michael J. Chun **o o**
05 - Clinton R. Churchill

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06 - David A. Heenan

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08 - Robert Huret

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09 - Allan R. Landon

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12 - Donald M. Takaki

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13 - Barbara J. Tanabe

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14 - Robert W. Wo, Jr.

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B Proposal The Board of Directors recommends a vote FOR Proposal 2.

		For	Against	Abstain
2.	Ratification of Selection of An Independent Registered Public Accounting Firm (Ernst & Young).	o	o	o

C Proposal The Board of Directors recommends a vote FOR Proposal 3.

		For	Against	Abstain		
3.	Approval of the Material Terms of Amended Performance Measures under the Company's 2004 Stock and Incentive Compensation Plan	o	o	o	4.	In their discretion, the proxies are authorized to vote upon such other business as may properly come before the meeting or any adjournment(s) or postponement(s) thereof.

PLEASE COMPLETE SECTIONS A E ON BOTH SIDES OF THIS CARD.

2009 Annual Meeting Admission Ticket
2009 Annual Meeting of
Bank of Hawaii Corporation Shareholders
April 24, 2009, 8:30 a.m.
111 S. King Street, 6th floor
Honolulu, Hawaii
Upon arrival, please present this admission ticket and photo identification at the registration desk.

IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.

Notice of 2009 Annual Meeting of Shareholders

111 S. King Street, 6th floor, Honolulu, Hawaii
Proxy Solicited by Board of Directors for Annual Meeting April 24, 2009

Mark A. Rossi and Cynthia G. Wyrick, or either of them, with full power of substitution, are hereby authorized to represent and vote the shares of the undersigned, with all the powers which the undersigned would possess if personally present, at the Annual Meeting of Shareholders of Bank of Hawaii Corporation to be held on April 24, 2009 at 8:30 a.m. or at any postponement or adjournment thereof.

THIS PROXY WILL BE VOTED AS DIRECTED. THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR EACH OF THE PROPOSALS. IF NO CHOICE IS SPECIFIED, THE PROXY WILL BE VOTED FOR ALL NOMINEES AND PROPOSALS, AND ACCORDING TO THE DISCRETION OF THE PROXY HOLDERS ON ANY OTHER MATTERS THAT MAY COME BEFORE THE MEETING OR ANY ADJOURNMENT THEREOF.

Important Notice Regarding the Availability of Proxy Materials for the Annual Shareholders' Meeting to be Held April 24, 2009:

The Proxy Statement and the Bank of Hawaii Corporation 2008 Annual Report on Form 10-K for the year ended December 31, 2008 are available at www.envisionreports.com/boh.

(Items to be voted appear on reverse side.)

D Non-Voting Items

Consent to Electronic Delivery: By marking this box, I consent to access future Annual Reports and Proxy Statements of Bank of Hawaii Corporation electronically over the Internet. I understand that unless I request otherwise or revoke my consent, Bank of Hawaii Corporation will notify me when any such communications are available and how to access them. I understand that costs associated with the use of the Internet will be my responsibility. To revoke my consent, I can contact Bank of Hawaii Corporation's transfer agent, Computershare Investor Services, at 1-888-660-5443.	o

Change of Address Please print new address below.

E Authorized Signatures This section must be completed for your vote to be counted. Date and Sign Below

Please sign exactly as name(s) appears hereon. Joint owners should each sign. When signing as attorney, executor, administrator, corporate officer, trustee, guardian, or custodian, please give full title.

Date (mm/dd/yyyy) Please print date below.	Signature 1 Please keep signature within the box.	Signature 2 Please keep signature within the box.

PLEASE COMPLETE SECTIONS A E ON BOTH SIDES OF THIS CARD.

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style="padding-left:0pt;padding-Right:0.75pt;padding-Top:0.75pt;padding-Bottom:0pt;width:0.62%;">

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.

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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;

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- 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 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.

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

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

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

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

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

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

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

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

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

Our facilities, rental equipment and distribution systems may be subject to catastrophic loss due to fire, flood, hurricane, earthquake, terrorism or other natural or man-made disasters. In particular, our headquarters, three operating facilities, and certain of our rental equipment are located in areas of California, with above average seismic activity and could be subject to catastrophic loss caused by an earthquake. Our rental equipment and facilities in Texas, 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.

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 modulars for our customers. We rely on our subcontractor service companies to meet customer demands for timely shipment and return, and the loss or inadequate number of subcontractor service companies may cause prices to increase, while negatively impacting our reputation and operating performance. During periods of rising prices for labor, raw materials or fuel, and in particular, when the prices increase rapidly or to levels significantly higher than normal, we may incur significant increases in our acquisition costs for new modular units and incur higher operating costs that we may not be able to recoup from our customers, which would reduce our profitability.

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

We are dependent on third parties to manufacture our products even though we are able to purchase products from a variety of third-party suppliers. Mobile Modular purchases new modulars from various manufacturers who build to Mobile Modular's design specifications. With the exception of Enviroplex, none of the principal suppliers are affiliated with the Company. During 2018,

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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 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 recoup these costs from our customers, which would reduce our profitability.

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

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

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

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

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

Many of our rental transactions are short-term in nature with pricing established on a daily basis. The length of time that a customer needs equipment can often be difficult to determine and can be impacted by a number of factors such as weather, customer funding and project delays. In addition, our equipment is primarily used in the oil and gas, industrial plant services, environmental remediation and infrastructure and building construction industries. Changes in the economic conditions facing any of those industries could result in a significant number of units returning off rent, both for us and our competitors.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS
None.

ITEM 2. PROPERTIES.
The Company's corporate and administrative offices are located in Livermore, California in approximately 26,000 square feet. The Company's four reportable business segments currently conduct operations from the following locations:

Mobile Modular – Five inventory centers, at which relocatable modular buildings and storage containers are displayed, refurbished and stored are located in Livermore, California (137 acres in the San Francisco Bay Area), Mira Loma, California (79 acres in the Los Angeles area), Pasadena, Texas (50 acres in the Houston area), in 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 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

The Company's common stock is traded in the NASDAQ Global Select Market under the symbol “MGRC”. As of February 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)					

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

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

Results of Operations

General

The Company, incorporated in 1979, is a leading rental provider of relocatable modular buildings for classroom and office space, electronic test equipment for general purpose and communications needs, and liquid and solid containment tanks and boxes. The Company's primary emphasis is on equipment rentals. The Company is comprised of four reportable business segments: (1) its modular building and portable storage container rental segment ("Mobile Modular"); (2) its electronic test equipment rental segment ("TRS-RenTelco"); (3) its containment solutions for the storage of hazardous and non-hazardous liquids and solids segment ("Adler Tanks"); and (4) its classroom manufacturing segment selling modular buildings used primarily as classrooms in California ("Enviroplex"). In 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, modulars, 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 modulars, 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, modulars, 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				Percent Change	
		Year Ended December 31,				
	Three Years 2018–2016	2018	2017	2016	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

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

Average monthly rental rate [4]	2.24	%	2.07	%		8 %
Period end rental equipment [1]	$775,492		$746,852		$28,640	4 %
Period end utilization [3]	79.3	%	77.8	%		2 %

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

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

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

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

Mobile Modular's gross profit for 2018 increased 16% to $120.8 million from $103.9 million in 2017. For the year ended December 31, 2018 compared to the year ended December 31, 2017:

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

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

TRS-RenTelco

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

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

TRS-RenTelco – 2018 compared to 2017

(dollar amounts in thousands)	Twelve Months Ended December 31, 2018	2017	Increase (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) %

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

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TRS-RenTelco’s gross profit for 2018 increased 9% to $54.8 million from $50.3 million in 2017. For the year ended December 31, 2018 compared to the year ended December 31, 2017:

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

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

Adler Tanks

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

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

Adler Tanks – 2018 compared to 2017

(dollar amounts in thousands)	Twelve Months Ended December 31, 2018	2017	Increase (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 %

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 December 31,		Increase (Decrease)	
	2017	2016	$	%
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 %

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.

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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.

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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 December 31,		Increase (Decrease)	
	2017	2016	$	%
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 %

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

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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 December 31,		Increase (Decrease)	
	2017	2016	$	%
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%

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 Year
	2018	2017	2016	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 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)	Total	Within 1 Year	Within 2 to 3 Years	Within 4 to 5 Years	More than 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.

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.

(dollar amounts in thousands)	2021	2022	Thereafter	Total	Estimated 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 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.

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

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McGrath RentCorp

Consolidated Balance Sheets

	December 31,	
(in thousands)	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

	Year Ended December 31,		
(in thousands, except per share amounts)	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

	Year Ended December 31,		
(in thousands)	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

(in thousands, except per share amounts)	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' 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.

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McGrath RentCorp

Consolidated Statements of Cash Flows

	Year Ended December 31,		
(in thousands)	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

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.

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	2016
Options to purchase common stock	—	7	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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(in thousands)	Mobile Modular	TRS-RenTelco	Adler 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 31,	
	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-average remaining 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:

	Options Outstanding			Options Exercisable	
Exercise price	Number outstanding at December 31, 2018	Weighted-average remaining contractual life (Years)	Weighted-average grant date value	Number exercisable at December 31, 2018	Weighted-average grant date value
$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	2016
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	$ 44.73	$ 7.2

Performance-based RSUs issued prior to 2018 vest over five years, with 60% of the shares immediately vesting after three years when the performance criteria has been determined to have been met and 20% of the remaining shares vesting annually at the anniversary of the performance determination date, subject to continuous employment of the participant. The 2018 performance-based RSU grants vest after three years with 100% of the shares vesting immediately when performance criteria has been determined to have been met. There were 130,730 performance-based RSUs expected to vest as of December 31, 2018. Service-based RSUs issued to the Company's directors generally vest over twelve to fourteen months. Service–based RSUs issued to the Company's management vest over three years. There were 48,710 service-based RSUs expected to vest as of December 31, 2018. No forfeitures are currently expected. The total fair value of RSUs that vested during the years ended December 31, 2018, 2017 and 2016 based on the weighted average grant date values was $1.0 million, $1.0 million and $1.8 million, respectively.

Share-based compensation expense for RSUs for the year ended December 31, 2018, 2017 and 2016 was $2.6 million, $1.4 million and $1.0, respectively. As of December 31, 2018, the total unrecognized compensation expense related to unvested RSUs was $5.2 million and is expected to be recognized over a weighted-average period of 2.6 years.

Employee Stock Ownership and 401(k) Plans

The McGrath RentCorp Employee Stock Ownership and 401(k) Plan (the "KSOP") provides that each participant may annually contribute an elected percentage of his or her salary, not to exceed the statutory limit. Each employee who has at least three months of service with the Company and is 21 years or older, is eligible to participate in the KSOP. The Company, at its discretion, may make matching contributions. Contributions are expensed in the year approved by the Board of Directors. Dividends on the Company's stock held by the KSOP are treated as ordinary dividends and, in accordance with existing tax laws, are deducted by the Company in the year paid. For the year ended December 31, 2018 dividends deducted by the Company were $0.3 million, which resulted in a tax benefit of approximately $0.1 million in 2018.

At December 31, 2018, the KSOP held 243,007 shares, or 1% of the Company's total common shares outstanding. These shares are included in basic and diluted earnings per share calculations.

NOTE 7. SHAREHOLDERS' EQUITY

The Company has in the past made purchases of shares of its common stock from time to time in over-the-counter market (NASDAQ) transactions, through privately negotiated, large block transactions and through a share repurchase plan, in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934. In August 2015, the Company's Board of Directors authorized the Company to repurchase 2,000,000 shares of the Company's outstanding common stock. The amount and time of the specific repurchases are subject to prevailing market conditions, applicable legal requirements and other factors, including management's discretion. All shares repurchased by the Company are canceled and returned to the status of authorized but unissued shares of common stock. There can be no assurance that any authorized shares will be repurchased and the repurchase program may be modified, extended or terminated by the board of directors at any time. There were no repurchases of common stock during the twelve months ended December 31, 2018 and 2017. As of December 31, 2018, 1,592,026 shares remain authorized for repurchase under this authorization.

NOTE 8. COMMITMENTS AND CONTINGENCIES

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

(in thousands)	
Year Ended December 31,	
2019	$2,979
2020	2,111

2021	1,713
2022	1,445
2023	1,089
Thereafter	1,142
	$10,479

Facility rent expense was $3.5 million in 2018, 2017 and 2016.

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

The Company’s health and workers’ compensation plans are self-funded high deductible plans with annual stop-loss insurance of $200,000 and $350,000 per claim, respectively. Insurance providers are responsible for making claim payments that exceed these amounts on an individual claim basis. In addition, the Company has stop loss insurance that pays for claim payments made during a twelve month coverage period that exceeds certain specified thresholds in the aggregate. The Company records an expense when health and workers compensation claim payments are made and accrues for the portion of claims incurred, but not yet paid at period end. The Company makes these accruals based upon a combination of historical claim payments, loss development experience and actuarial estimates. A high degree of judgment is required in developing the underlying assumptions and the resulting amounts to be accrued. In addition, our assumptions will change as the Company’s loss experience develops. All of these factors have the potential for impacting the amounts previously accrued and the Company may be required to increase or decrease the amounts previously accrued. At December 31, 2018 and 2017, accruals for the Company’s health and workers’ compensation high deductible plans were $3.0 million and $2.9 million, respectively.

NOTE 9. INTANGIBLE ASSETS

Intangible assets consist of the following:

(dollar amounts in thousands)	Estimated useful life (In years)	December 31, 2018	2017
Trade name	Indefinite	$5,871	$5,700
Customer relationships	11	9,849	9,611
		15,720	15,311
Less accumulated amortization		(8,466)	(7,587)
		$7,254	$7,724

Intangible assets with finite useful lives are amortized over their respective useful lives. Amortization expense in each of the years ended December 31, 2018, 2017 and 2016 were $0.9 million. Based on the carrying values at December 31, 2018 and assuming no subsequent impairment of the underlying assets, the annual amortization is expected to be $0.9 million in 2019 and $0.1 million in 2020 through 2025.

NOTE 10. RELATED PARTY TRANSACTIONS

There were no related party transactions in the years ended December 31, 2018 and 2017, or amounts owed to related parties at such dates.

NOTE 11. SEGMENT REPORTING

FASB guidelines establish annual and interim reporting standards for an enterprise's operating segments and related disclosures about its products, services, geographic areas and major customers. In accordance with these guidelines the Company's four reportable segments are Mobile Modular, TRS-RenTelco, Adler Tanks and Enviroplex. Management focuses on several key measures to evaluate and assess each segment's performance including rental revenue growth, gross margin, and income before provision for income taxes. Excluding interest expense, allocations of revenue and expense not directly associated with one of these segments are generally allocated to Mobile Modular, TRS-RenTelco and Adler Tanks, based on their pro-rata share of direct revenues. Interest expense is allocated amongst Mobile Modular, TRS-RenTelco and Adler Tanks based on their pro-rata share of average rental equipment at cost, goodwill, intangible assets, accounts receivable, deferred income and customer security deposits. The Company does not report total assets by business segment. Summarized financial information for the years ended December 31, 2018, 2017 and 2016, for the Company's reportable segments is shown in the following tables:

Segment Data (dollar amounts in thousands)	Mobile Modular	TRS- RenTelco	Adler Tanks	Enviroplex [1]	Consolidated
Year Ended December 31, 2018					
Rental revenues	$159,136	$89,937	$69,701	$ —	$318,774
Rental related services revenues	54,696	3,300	24,911	—	82,907
Sales and other revenues	40,742	25,420	1,441	29,046	96,649
Total revenues	254,574	118,657	96,053	29,046	498,330
Depreciation of rental equipment	21,200	36,011	15,928	—	73,139
Gross profit	120,750	54,773	48,055	9,673	233,251
Selling and administrative expenses	58,017	22,823	30,026	4,904	115,770
Income from operations	62,733	31,950	18,029	4,769	117,481
Interest expense (income) allocation	(7,132)	(2,696)	(3,252)	783	(12,297)
Income before provision for income taxes	55,601	28,765	14,777	5,552	104,695
Rental equipment acquisitions	63,374	65,467	5,257	—	134,098
Accounts receivable, net (period end)	72,295	20,732	19,992	7,997	121,016
Rental equipment, at cost (period end)	817,375	285,052	313,573	—	1,416,000
Rental equipment, net book value (period end)	572,032	131,450	197,533	—	901,015
Utilization (period end) [2]	79.3 %	62.1 %	56.4 %		
Average utilization [2]	78.2 %	62.7 %	59.9 %		

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Segment Data (Continued) (dollar amounts in thousands)	Mobile Modular	TRS- RenTelco	Adler Tanks	Enviroplex [1]	Consolidated
Year Ended December 31,					
2017					
Rental revenues	$ 142,584	$ 82,812	$ 64,021	$ —	$ 289,417
Rental related services revenues	50,448	2,858	24,762	—	78,068
Sales and other revenues	38,234	22,374	2,572	31,369	94,549
Total revenues	231,266	108,044	91,355	31,369	462,034
Depreciation of rental equipment	21,247	32,891	15,770	—	69,908
Gross profit	103,935	50,289	43,218	8,903	206,345
Selling and administrative expenses	55,583	22,171	29,542	4,309	111,605
Income from operations	48,352	28,118	13,676	4,594	94,740
Interest expense (income) allocation	(6,671)	(2,320)	(3,071)	440	(11,622)
Income before benefit for income taxes	41,681	26,132	10,605	5,034	83,452
Rental equipment acquisitions	34,526	58,781	4,800	—	98,107
Accounts receivable, net (period end)	59,274	19,581	18,663	8,354	105,872
Rental equipment, at cost (period end)	775,400	262,325	309,808	—	1,347,533
Rental equipment, net book value (period end)	543,857	109,482	208,981	—	862,320
Utilization (period end) [2]	77.8 %	61.7 %	57.5 %		
Average utilization [2]	76.8 %	62.9 %	56.0 %		
2016					
Rental revenues	$ 130,496	$ 82,307	$ 58,585	$ —	$ 271,388
Rental related services revenues	49,206	2,846	23,807	—	75,859
Sales and other revenues	29,810	23,464	1,438	22,121	76,833
Total revenues	209,512	108,617	83,830	22,121	424,080
Depreciation of rental equipment	21,001	35,256	15,940	—	72,197
Gross profit	93,816	45,797	37,409	7,145	184,167
Selling and administrative expenses	51,432	21,896	27,610	3,970	104,908
Income from operations	42,384	23,901	9,799	3,175	79,259
Interest expense (income) allocation	(6,804)	(2,465)	(3,200)	262	(12,207)
Income before provision for income taxes	35,580	21,315	6,599	3,437	66,931
Rental equipment acquisitions	43,099	30,505	1,030	—	74,634
Accounts receivable, net (period end)	55,916	19,506	16,150	5,305	96,877
Rental equipment, at cost (period end)	769,190	246,325	308,542	—	1,324,057
Rental equipment, net book value (period end)	544,421	90,172	221,778	—	856,371
Utilization (period end) [2]	77.3 %	61.0 %	50.7 %		
Average utilization [2]	76.6 %	60.6 %	50.1 %		

1 Gross Enviroplex sales revenues were $30,407, $31,369 and $22,206 in 2018, 2017 and 2016, respectively. There were $1,361 and $85 inter-segment sales to Mobile Modular in 2018 and 2016, respectively, which have been eliminated in consolidation. There were no inter-segment sales in 2017.

2 Utilization is calculated each month by dividing the cost of rental equipment on rent by the total cost of rental equipment excluding new equipment inventory and accessory equipment. The average utilization for the period is calculated using the average costs of rental equipment.

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

NOTE 12. QUARTERLY FINANCIAL INFORMATION (unaudited)

Quarterly financial information for each of the two years ended December 31, 2018 is summarized below:

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

	2017				
	First	Second	Third	Fourth	Year
Operations Data					
Rental revenues	$67,978	$69,953	$73,781	$77,705	$289,417
Total revenues	94,837	109,582	135,388	122,227	462,034
Gross profit	43,670	49,211	58,775	54,689	206,345
Income from operations	15,822	21,846	30,286	26,786	94,740
Income before provision (benefit) for income taxes	13,259	18,908	27,336	23,949	83,452
Net income	7,973	11,461	16,762	117,724	153,920
Earnings per share:					
Basic	$0.33	$0.48	$0.70	$4.90	$6.41
Diluted	$0.33	$0.48	$0.69	$4.82	$6.34
Dividends declared per share	$0.26	$0.26	$0.26	$0.26	$1.04
Shares used in per share calculations:					
Basic	23,950	23,985	24,015	24,044	23,999
Diluted	24,232	24,092	24,228	24,410	24,269
Balance Sheet Data					
Rental equipment, net	$856,981	$863,207	$865,724	$862,320	$862,320
Total assets	1,130,734	1,150,123	1,156,415	1,147,854	1,147,854
Notes payable	323,483	330,287	323,117	303,414	303,414
Shareholders' equity	396,625	402,365	412,782	524,184	524,184

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

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures. The Company's management under the supervision and with the participation of the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") is responsible for establishing and maintaining "disclosure controls and procedures" (as defined in rules promulgated under the Securities Exchange Act of 1934, as amended) for the Company. Based on their evaluation the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2018.

Changes in Internal Control over Financial Reporting. During the last quarter of the Company's fiscal year ended December 31, 2018, there were no changes in the Company's internal control that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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

Management's Assessment of Internal Control. Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2018, is discussed in the Management's Report on Internal Control Over Financial Reporting included on page 57.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2018 has been audited by Grant Thornton LLP, the Company's independent registered public accounting firm, and its report is included in this Annual Report on Form 10-K.

ITEM 9B. OTHER INFORMATION.

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.

The information required by this Item is incorporated by reference to McGrath RentCorp's definitive Proxy Statement with respect to its 2019 Annual Meeting of Shareholders to be held on June 5, 2019, which will be filed with the Securities and Exchange Commission no later than April 26, 2019.

ITEM 11. EXECUTIVE COMPENSATION.

The information required by this Item is incorporated by reference to McGrath RentCorp's definitive Proxy Statement with respect to its 2019 Annual Meeting of Shareholders to be held on June 5, 2019, which will be filed with the Securities and Exchange Commission no later than April 26, 2019.

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

The information required by this Item is incorporated by reference to 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 no later than April 26, 2019.

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

The information required by this Item is incorporated by reference to McGrath RentCorp's definitive Proxy Statement with respect to its 2019 Annual Meeting of Shareholders to be held on June 5, 2019, which will be filed with the Securities and Exchange Commission no later than April 26, 2019.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES.

The information required by this Item is incorporated by reference to McGrath RentCorp's definitive Proxy Statement with respect to its 2019 Annual Meeting of Shareholders to be held on June 5, 2019, which will be filed with the Securities and Exchange Commission no later than April 26, 2019.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES.
Index of documents filed as part of this report:

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

2.Financial Statement Schedules. None

3.Exhibits. See Index of Exhibits on page 88 of this report.

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

Number	Description	Method of Filing
3.1	Articles of Incorporation of McGrath RentCorp. 'P'	Filed as exhibit 19.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1988 (filed August 14, 1988), and incorporated herein by reference.
3.1.1	Amendment to Articles of Incorporation of McGrath RentCorp. 'P'	Filed as exhibit 3.1 to the Company's Registration Statement on Form S-1 (filed March 28, 1991 Registration No. 33-39633), and incorporated herein by reference.
3.1.2	Amendment to Articles of Incorporation of McGrath RentCorp.	Filed as exhibit 3.1.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 1997 (filed March 31, 1998), and incorporated herein by reference.
3.2	Amended and Restated Bylaws	Filed as exhibit 3.3 to the Company's Current Report on Form 8-K (filed June 17, 2014) and incorporated herein by reference.
4.1	Note Purchase and Private Shelf Agreement between the Company and Prudential Investment Management, Inc., as placement agent, dated June 2, 2004.	Filed as exhibit 10.12 to the Company's Current Report on Form 8-K (filed June 10, 2004), and incorporated herein by reference.
4.1.1	Amendment to Note Purchase and Private Shelf Agreement between the Company and Prudential Investment Management, Inc., as placement agent, effective as of July 11, 2005.	Filed as exhibit 10.19 to the Company's Current Report on Form 8-K (filed July 15, 2005), and incorporated herein by reference.
4.1.2	Amendment to Note Purchase and Private Shelf Agreement between the Company and Prudential Investment Management, Inc., as placement agent, effective as of October 20, 2008.	Filed as exhibit 4.1.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2009 (filed February 26, 2010), and incorporated herein by reference.
4.1.3	Multiparty Guaranty between Enviroplex, Inc., Mobile Modular Management Corporation, Prudential Investment Management, Inc., and such other parties that become Guarantors thereunder, dated June 2, 2004.	Filed as exhibit 10.13 to the Company's Current Report on Form 8-K (filed June 10, 2004), and incorporated herein by reference.
4.1.4	Release from Obligations (TRS-RenTelco Inc.) related to the Note Purchase and Private Shelf Agreement dated June 2, 2004 by and among the Company, certain parties thereto, and Prudential	Filed as exhibit 10.15 to the Company's Quarterly Report on Form 10-Q (filed August 3, 2006) and incorporated

	Investment Management, Inc.	herein by reference.
4.1.5	Indemnity, Contribution and Subordination Agreement between Enviroplex, Inc., Mobile Modular Management Corporation, the Company and such other parties that become Guarantors thereunder, dated June 2, 2004.	Filed as exhibit 10.14 to the Company's Current Report on Form 8-K (filed June 10, 2004), and incorporated herein by reference.
4.1.6	Amendment to Note Purchase and Private Shelf Agreement between the Company and Prudential Investment Management, Inc., as placement agent effective August 4, 2009.	Filed as exhibit 4.1 to the Company's Quarterly Report on Form 10-Q (filed August 6, 2009), and incorporated herein by reference.
4.1.7	Note Purchase and Private Shelf Agreement between the Company and Prudential Investment Management, Inc., dated April 21, 2011.	Filed as exhibit 10.1 to the Company's Current Report on Form 8-K (filed April 21, 2011), and incorporated herein by reference.
4.1.8	Amendment, dated as of March 17, 2014, to the Note Purchase and Private Shelf Agreement dated as of April 21, 2011 among the Company, Prudential Investment Management, Inc., The Prudential Insurance Company of America and Prudential Retirement Insurance and Annuity Company.	Filed as exhibit 10.1 to the Company's Current Report on Form 8-K (filed March 20, 2014) and incorporated herein by reference.
4.1.9	Amendment, dated as of February 9, 2016, to the Note Purchase and Private Shelf Agreement dated as of April 21, 2011 among the Company, Prudential Investment Management, Inc., The Prudential Insurance Company of America and Prudential Retirement Insurance and Annuity Company, as amended on March 17, 2014.	Filed as exhibit 10.1 to the Company's Current Report on Form 8-K (filed February 11, 2016) and incorporated herein by reference.
4.2	Credit Agreement dated as of March 31, 2016 among the Company, Bank of America, N.A. as Administrative Agent, Swing Line Lender and L/C Issuer, and The Other Lenders Party thereto.	Filed as exhibit 10.1 to the Company's Current Report on Form 8-K (filed April 5, 2016) and incorporated herein by reference.
4.2.1	Guaranty dated as of March 31, 2016 among certain domestic subsidiaries of the Company in favor of Bank of America, N.A., in its capacity as the administrative agent for the Lenders.	Filed as exhibit 10.2 to the Company's Current Report on Form 8-K (filed April 5, 2016) and incorporated herein by reference.
4.2.2	$12,000,000 committed Credit Facility Letter Agreement between the Company and MUFG Union Bank, N.A., dated as of March 31, 2016.	Filed as exhibit 10.3 to the Company's Current Report on Form 8-K (filed April 5, 2016) and incorporated herein by reference.
4.2.3	$12,000,000 Credit Line Note, dated March 31, 2016, in favor of MUFG Union Bank, N.A.	Filed as exhibit 10.4 to the Company's Current Report on Form 8-K (filed April 5, 2016) and incorporated herein by reference.
10.1	McGrath RentCorp 1998 Stock Option Plan as amended and restated on November 22, 2002.	Filed as exhibit 10.2 to the Company's Annual Report on Form 10-K for the

year ended December 31, 2002 (filed March 20, 2003), and incorporated herein by reference.

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Number	Description	Method of Filing
10.1.1	Exemplar Incentive Stock Option for Employees Under the 1998 Stock Option Plan.	Filed as exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998 (filed November 12, 1998), and incorporated herein by reference.
10.1.2	Exemplar Non-Qualified Stock Option for Directors under the 1998 Stock Option Plan.	Filed as exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1998 (filed November 12, 1998), and incorporated herein by reference.
10.2	Exemplar Form of the Directors, Officers and Other Agents Indemnification Agreements.	Filed as exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001 (filed March 18, 2002), and incorporated herein by reference.
10.3	McGrath RentCorp Employee Stock Ownership Plan, as amended and restated on December 31, 2008.	Filed as exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (filed February 26, 2009), and incorporated herein by reference.
10.3.1	McGrath RentCorp Employee Stock Ownership Trust Agreement, as amended and restated on December 31, 2008.	Filed as exhibit 10.3.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (filed February 26, 2009), and incorporated herein by reference.
10.4	McGrath RentCorp 2007 Stock Incentive Plan.	Filed as exhibit 10.12 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (filed August 2, 2007), and incorporated herein by reference.
10.4.1	Form of 2007 Stock Incentive Plan Stock Option Award and Agreement.	Filed as exhibit 10.12.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (filed August 2, 2007), and incorporated herein by reference.
10.4.2	Form of 2007 Stock Incentive Plan Non-Qualified Stock Option Award and Agreement.	Filed as exhibit 10.12.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 (filed August 2, 2007), and incorporated herein by reference.
10.4.3	Form of 2007 Stock Incentive Plan Stock Appreciation Right Award and Agreement.	Filed as exhibit 10.4.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (filed May 6, 2010), and incorporated herein by reference.
10.4.4	Form of 2007 Stock Incentive Plan Restricted Stock Unit Award and Agreement.	Filed as exhibit 10.4.4 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (filed May 6, 2010), and incorporated herein by reference.
10.5	McGrath RentCorp Employee Stock Ownership and 401(k) Plan	Filed as exhibit 4.5 to the Company's Registration Statement on Form S-8 (filed August 10, 2012) and incorporated herein by reference.
10.6	McGrath RentCorp Change in Control Severance Plan and Summary Plan Description	Filed as exhibit 10.7 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 (filed July

		31, 2013), and incorporated herein by reference.
10.7	McGrath RentCorp 2016 Stock Incentive Plan	Filed as Appendix A to the Company's Proxy Statement for the 2016 Annual Meeting (filed April 29, 2016), and incorporated herein by reference.
10.7.1	Form of 2016 Stock Incentive Plan Restricted Stock Unit Award and Agreement	Filed as exhibit 10.1.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 (filed August 2, 2016), and incorporated herein by reference.
10.7.2	Form of 2016 Stock Incentive Plan Performance-Based Restricted Stock Unit Award and Agreement	Filed as exhibit 10.1.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 (filed August 2, 2016), and incorporated herein by reference.
10.7.3	Form of 2016 Stock Incentive Plan Stock Appreciation Right Award and Agreement	Filed as exhibit 10.1.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 (filed August 2, 2016), and incorporated herein by reference.
21.1	List of Subsidiaries.	Filed herewith.
23.1	Written Consent of Grant Thornton LLP.	Filed herewith.
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished herewith.

Number	Description	Method of Filing
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	Furnished herewith.
101	The following materials from McGrath RentCorp's annual Report on Form 10-K for the year ended December 31, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Statement of Income, (ii) the Condensed Consolidated Balance Sheet, (iii) the Condensed Consolidated Statement of Cash Flows, and (iv) Notes to Condensed Consolidated Financial Statements.	

'P' = exhibit was filed in paper form

SIGNATURES

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

Date: February 26, 2019 McGrath RentCorp

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

(Principal Executive Officer)

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

(Principal Financial Officer)

by: /s/ David M. Whitney
DAVID M. WHITNEY
Vice President and Controller

(Principal Accounting Officer)

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

Name	Title	Date
/s/ Kim A. Box KIM A. BOX	Director	February 26, 2019
/s/ William J. Dawson WILLIAM J. DAWSON	Director	February 26, 2019
/s/ Elizabeth A. Fetter ELIZABETH A. FETTER	Director	February 26, 2019

/s/ Joseph F. Hanna JOSEPH F. HANNA	Chief Executive Officer, President and Director	February 26, 2019
/s/ Bradley M. Shuster BRADLEY M. SHUSTER	Director	February 26, 2019
/s/ M. Richard Smith M. RICHARD SMITH	Director	February 26, 2019
/s/ Dennis P. Stradford DENNIS P. STRADFORD	Director	February 26, 2019
/s/ Ronald H. Zech RONALD H. ZECH	Chairman of the Board	February 26, 2019

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