

MCGRATH RENTCORP
Form 10-Q
November 05, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2009

Commission file number 0-13292

McGRATH RENTCORP

(Exact name of registrant as specified in its Charter)

California
(State or other jurisdiction of
incorporation or organization)

5700 Las Positas Road, Livermore, CA 94551-7800

94-2579843
(I.R.S. Employer
Identification No.)

Edgar Filing: MCGRATH RENTCORP - Form 10-Q

(Address of principal executive offices)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of November 5, 2009, 23,763,668 shares of Registrant's Common Stock were outstanding.

FORWARD LOOKING STATEMENTS

Statements contained in this Quarterly Report on Form 10-Q (this Form 10-Q) which are not historical facts are forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. All statements, other than statements of historical facts regarding McGrath RentCorp's (the Company's) business strategy, future operations, financial position, estimated revenues or losses, projected costs, prospects, plans and objectives are forward looking statements. These forward-looking statements appear in a number of places and can be identified by the use of forward-looking terminology such as may, will, should, expect, plan, anticipate, believe, estimate, predict, future, intend, hopes or certain or the negative of these terms or other variations or comparable terminology.

Management cautions that forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties that could cause our actual results to differ materially from those projected in such forward-looking statements including, without limitation, the following: the effect of the current recession and the credit crisis on our suppliers, our customers, and our results of operations and the Company's ability to access additional capital in the current uncertain capital and credit market; the level of the Company's future rentals and sales, customer demand and cost of raw materials; the Company's ability to retain and recruit key personnel; the impact of the current recession on the Company's business and its debt covenants and the impact on the Company's flexibility in running its business under such constraints, including the effect of an event of default on the Company's results of operations; the Company's ability to maintain its competitive strengths and to effectively compete against its competitors; the Company's short-term decisions and long-term strategies for the future and its ability to implement and maintain such decisions and strategies, including its strategies: (i) to focus on rental revenue growth from an increasing base of rental assets, (ii) to actively maintain, repair, redeploy, manage and anticipate the need for various models of rental equipment cost-effectively and to maximize the level of proceeds from the sale of such products, and (iii) to create internal facilities and infrastructure capabilities that can provide prompt and efficient customer service, experienced assistance, rapid delivery and timely maintenance of the Company's equipment; the demand by the educational market (and the K-12 market in particular) for the Company's modular products; the Company's ability to successfully integrate, expand and operate the Adler Tank Rentals, LLC business and other future acquisitions and to manage the risks related to those business, including environmental risk; the effect of delays or interruptions in the passage of statewide and local facility bond measures on the Company's operations; the effect of changes in applicable law, and policies relating to the use of temporary buildings on the Company's modular rental and sales revenues, including with respect to class size and building standards; the effects of changes in the level of state funding to public schools and the use of classrooms that meet the Department of Housing requirements; the Company's ability to maintain and upgrade its equipment to comply with changes in applicable law and customer preference; the Company's strategy to effectively implement its expansion into North Carolina, Georgia, Maryland and Virginia and other new markets in the U.S.; the Company's reliance on its information technology systems; manufacturers' ability to produce products to the Company's specification on a timely basis; the Company's ability to maintain good relationships with school districts, manufacturers, and other suppliers; the effect of interest rate fluctuations; the Company's ability to manage its credit risk and accounts receivable; the timing and amounts of future capital expenditures and the Company's ability to meet its needs for working capital including its ability to negotiate lines of credit; the Company's ability to track technology trends to make good buy-sell decisions with respect to electronic test equipment; the effect of changes to the Company's accounting policies and impact of evolving interpretation and implementation of such policies; the risk of litigation and claims against the Company, including under environmental and health and safety and products liability laws; the impact of a change in the Company's overall effective tax rate as a result of the Company's mix of business levels in various tax jurisdictions in which it does business; the adequacy of the Company's insurance coverage; the impact of a failure by third parties to manufacture our products timely or properly; the level of future warranty costs of modular equipment that we sell; the effect of seasonality on the Company's business; the growth of the Company's business in international markets and the Company's ability to succeed in those markets; and the Company's ability to pass on increases in its costs of rental equipment, including manufacturing costs, operating expenses and interest expense through increases in rental rates and selling prices. Further, our future business, financial condition and results of operations could differ materially from those anticipated by such forward-looking statements and are subject to risks and uncertainties including the risks set forth above, those discussed under in Part II Item 1A Risk Factors and elsewhere in this Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2008 as filed with the Securities and Exchange Commission on February 25, 2009 (the 2008 Annual Report), and those that may be identified from time to time in our reports and registration statements filed with the Securities and Exchange Commission. Moreover, neither we assume nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements.

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

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

McGrath RentCorp and Subsidiaries:

We have reviewed the accompanying condensed consolidated balance sheet of McGrath RentCorp and Subsidiaries as of September 30, 2009, and the related condensed consolidated statements of income for the three-month periods ended September 30, 2009 and 2008 and the condensed consolidated statements of income and cash flows for the nine-month periods ended September 30, 2009 and 2008. These interim financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of McGrath RentCorp and Subsidiaries as of December 31, 2008, and the related consolidated statements of income, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated February 25, 2009, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2008, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ GRANT THORNTON LLP
San Francisco, California
November 5, 2009

McGRATH RENTCORP

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

<i>(in thousands, except per share amounts)</i>	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
REVENUES				
Rental	\$ 45,898	\$ 50,023	\$ 139,353	\$ 147,105
Rental Related Services	9,159	9,354	26,458	24,186
Rental Operations	55,057	59,377	165,811	171,291
Sales	19,875	26,344	41,410	52,518
Other	568	594	1,908	1,874
Total Revenues	75,500	86,315	209,129	225,683
COSTS AND EXPENSES				
Direct Costs of Rental Operations				
Depreciation of Rental Equipment	14,113	14,648	43,222	42,110
Rental Related Services	6,488	6,805	19,628	17,556
Other	8,486	10,110	25,063	27,791
Total Direct Costs of Rental Operations	29,087	31,563	87,913	87,457
Costs of Sales	14,779	18,298	30,251	35,763
Total Costs of Revenues	43,866	49,861	118,164	123,220
Gross Profit	31,634	36,454	90,965	102,463
Selling and Administrative Expenses	14,300	14,903	45,342	42,677
Income from Operations	17,334	21,551	45,623	59,786
Interest Expense	1,687	2,525	5,523	7,283
Income Before Provision for Income Taxes	15,647	19,026	40,100	52,503
Provision for Income Taxes	6,118	7,458	15,679	20,581
Net Income	\$ 9,529	11,568	\$ 24,421	\$ 31,922
Earnings Per Share:				
Basic	\$ 0.40	\$ 0.49	\$ 1.03	\$ 1.34
Diluted	\$ 0.40	\$ 0.48	\$ 1.02	\$ 1.33
Shares Used in Per Share Calculation:				
Basic	23,752	23,663	23,735	23,761
Diluted	23,876	23,996	23,844	23,997
Cash Dividends Declared Per Share	\$ 0.22	\$ 0.20	\$ 0.66	\$ 0.60

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

McGRATH RENTCORP

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

<i>(in thousands)</i>	September 30, 2009	December 31, 2008
<u>ASSETS</u>		
Cash	\$ 283	\$ 1,325
Accounts Receivable, net of allowance for doubtful accounts of \$1,700 in 2009 and \$1,400 in 2008	77,649	86,011
Income Taxes Receivable	1,987	7,927
Rental Equipment, at cost:		
Relocatable Modular Buildings	502,643	503,678
Electronic Test Equipment	245,972	255,778
Liquid and Solid Containment Tanks and Boxes	73,008	46,288
	821,623	805,744
Less Accumulated Depreciation	(274,261)	(253,506)
Rental Equipment, net	547,362	552,238
Property, Plant and Equipment, net	74,562	76,763
Prepaid Expenses and Other Assets	14,801	18,633
Intangible Assets, net	13,556	14,136
Goodwill	27,661	27,464
Total Assets	\$ 757,861	\$ 784,497
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Liabilities:		
Notes Payable	\$ 261,500	\$ 305,500
Accounts Payable and Accrued Liabilities	47,656	55,471
Deferred Income	27,399	28,055
Deferred Income Taxes, net	159,202	145,590
Total Liabilities	495,757	534,616
Shareholders' Equity:		
Common Stock, no par value Authorized 40,000 shares Issued and Outstanding 23,764 shares in 2009 and 23,709 shares in 2008	49,227	45,754
Retained Earnings	212,877	204,127
Total Shareholders' Equity	262,104	249,881
Total Liabilities and Shareholders' Equity	\$ 757,861	\$ 784,497

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

McGRATH RENTCORP

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

<i>(in thousands)</i>	Nine Months Ended September 30,	
	2009	2008
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income	\$ 24,421	\$ 31,922
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	47,611	44,143
Provision for Doubtful Accounts	1,099	1,428
Non-Cash Stock-Based Compensation	2,709	2,831
Gain on Sale of Rental Equipment	(8,024)	(8,790)
Change In:		
Accounts Receivable	7,263	(10,284)
Income Taxes Receivable	5,940	
Prepaid Expenses and Other Assets	3,692	(3,693)
Accounts Payable and Accrued Liabilities	(8,130)	2,305
Deferred Income	(656)	4,765
Deferred Income Taxes	13,612	16,644
Net Cash Provided by Operating Activities	89,537	81,271
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Payments related to Acquisition of Adler Tanks	(1,488)	
Purchase of Rental Equipment	(51,375)	(82,557)
Purchase of Property, Plant and Equipment	(1,365)	(12,723)
Proceeds from Sale of Rental Equipment	22,066	21,541
Net Cash Used in Investing Activities	(32,162)	(73,739)
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Net Borrowings (Payments) Under Bank Lines of Credit	(32,000)	36,621
Principal Payments on Senior Notes	(12,000)	(12,000)
Proceeds from the Exercise of Stock Options	711	894
Excess Tax Benefit from Exercise and Disqualifying Disposition of Stock Options	58	526
Repurchase of Common Stock		(24,418)
Payment of Dividends	(15,186)	(13,835)
Net Cash Used in Financing Activities	(58,417)	(12,212)
Net Decrease in Cash	(1,042)	(4,680)
Cash Balance, beginning of period	1,325	5,090
Cash Balance, end of period	\$ 283	\$ 410
Interest Paid, during the period	\$ 5,554	\$ 6,927
Income Taxes Paid, during the period	\$ 2,016	\$ 3,412
Dividends Declared, not yet paid	\$ 5,228	\$ 4,734

Edgar Filing: MCGRATH RENTCORP - Form 10-Q

Rental Equipment Acquisitions, not yet paid	\$ 8,545	\$ 5,833
---------------------------------------------	----------	----------

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

McGRATH RENTCORP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2009

NOTE 1. CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The condensed consolidated financial statements for the nine months ended September 30, 2009 and 2008 have not been audited, but in the opinion of management, all adjustments (consisting of normal recurring accruals, consolidation and eliminating entries) necessary for the fair presentation of the consolidated financial positions, results of operations and cash flows of McGrath RentCorp (the Company) have been made. The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. The consolidated results for the nine months ended September 30, 2009 should not be considered as necessarily indicative of the consolidated results for the entire year. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's latest Form 10-K.

Certain prior period amounts have been reclassified to conform to current year presentation. Such reclassifications did not affect total revenues, operating income or net income.

NOTE 2. NEW ACCOUNTING PRONOUNCEMENTS

In June 2009, the Financial Accounting Standards Board (FASB) established the FASB Accounting Standards Codification (the Codification or ASC) as the official single source of authoritative United States generally accepted accounting principles (GAAP) to be applied by nongovernmental entities. Rules and interpretive releases of the Securities and Exchange Commission (SEC) under authority of federal securities law are also sources of authoritative GAAP for SEC registrants. The Codification became effective for financial statements issued for interim and annual periods ending after September 15, 2009. On the effective date of the Codification all existing non-SEC accounting and reporting standards were superseded by the Codification and any accounting literature not included in the Codification is no longer authoritative. Following the Codification, the FASB will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issue Task Force abstracts. Instead, it will issue accounting standard updates which will serve to update the Codification, provide background information about guidance and provide the basis for conclusion on the changes to the Codification. Therefore, beginning with the quarter ending September 30, 2009, all references made to GAAP in the Company's notes to condensed consolidated financial statements use the new Codification numbering system. The Codification does not change or alter existing GAAP and, therefore, did not have an impact on the Company's condensed consolidated financial statements.

In June 2009, the FASB set forth certain requirements to improve financial reporting by enterprises involved with variable interest entities. These requirements, as codified in ASC 810, include the performance of a qualitative analysis to determine whether an entity's variable interest gives it controlling financial interest in a variable interest entity (VIE). This analysis identifies a primary beneficiary of a VIE as the entity that has both the power to direct the activities of a VIE that most significantly impact the entity's economic performance and the obligation to absorb losses or receive benefit from the entity that could potentially be significant to the VIE. It also requires ongoing reassessments of the primary beneficiary of a VIE. This update is effective for the Company's fiscal year beginning January 1, 2010. The Company is currently evaluating the potential impact of adoption on the Company's condensed consolidated financial statements.

Effective April 1, 2009, the Company adopted an accounting standard update regarding subsequent events. As codified in ASC 855, this updated guidance establishes general standards of accounting and disclosure of events that occur after the balance sheet date but before financial statements are issued. The adoption did not have a significant impact on the Company's condensed consolidated financial statements.

McGRATH RENTCORP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2009

Accounting and reporting standards for the noncontrolling interest of a subsidiary and for the deconsolidation of a subsidiary were included in the Codification under ASC 810. Principles and requirements for how a company recognizes and measures assets, liabilities and noncontrolling interests acquired or assumed in a business combination were included in the Codification under ASC 805. This new accounting guidance became effective for the Company on January 1, 2009 and the adoption did not have an impact on the Company's condensed consolidated financial statements.

Effective January 1, 2009, the Company adopted an accounting standard update regarding the determination of the useful life of intangible assets. As codified in ASC 350-30-35, this update amends the factors that should be considered in developing assumptions used to determine the useful life of a recognized intangible asset. The adoption did not have any significant impact on the Company's condensed consolidated financial statements.

NOTE 3. 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 as net income divided by the weighted average number of shares outstanding of common stock and common stock equivalents for the period, including the dilutive effects of stock options and other potentially dilutive securities. Common stock equivalents result from dilutive stock options computed using the treasury stock method and the average share price for the reported period. The effect of dilutive options on the weighted average number of shares for the three months ended September 30, 2009 and 2008 was 123,472 and 333,444 shares, respectively, and for the nine months ended September 30, 2009 and 2008 was 109,153 and 236,643 shares, respectively. For the three months ended September 30, 2009 and 2008, stock options to purchase 2,439,869 and 1,048,000 shares, respectively, and for the nine months ended September 30, 2009 and 2008, stock options to purchase 2,456,269 and 1,089,000 shares, respectively of the Company's common stock were not included in the computation of diluted EPS because the exercise price exceeded the average market price for the related periods and the effect would have been anti-dilutive.

The Company has in the past made purchases of shares of its common stock from time to time in the over-the-counter market (NASDAQ) and/or through privately negotiated, large block transactions under an authorization of the Company's board of directors. Shares repurchased by the Company are cancelled and returned to the status of authorized but unissued stock. During the nine months ended September 30, 2008, the Company repurchased 968,746 shares of common stock for an aggregate repurchase price of \$21.9 million, or an average price of \$22.61 per share. These repurchases occurred during the three months ended March 31, 2008. On May 14, 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. In connection with this authorization, the Board of Directors terminated its previous share repurchase authorization announced on March 21, 2003. There were no repurchases of common stock during the three and nine months ended September 30, 2009. As of September 30, 2009, 2,000,000 shares remain authorized for repurchase.

NOTE 4. RELATED PARTY TRANSACTIONS

The Company purchased liquid and solid containment tanks totaling \$2.3 million and \$10.5 million, during the three and nine months ended September 30, 2009, respectively, from Sabre Manufacturing, LLC, which is controlled by the President of Adler Tank Rentals, LLC, a wholly-owned subsidiary of the Company. In addition, the Company leases two operating facilities and receives certain support services from companies controlled by the President of Adler Tank Rentals, LLC, which totaled \$0.2 million and \$0.5 million in the three and nine months ended September 30, 2009, respectively. Amounts due to related parties at September 30, 2009 totaled \$0.1 million.

NOTE 5. SUBSEQUENT EVENTS

In accordance with ASC 855, the Company evaluated all events or transactions that occurred after September 30, 2009 through November 5, 2009, the date these condensed consolidated financial statements were issued. During this period the Company did not have any material subsequent events that require disclosure in these condensed consolidated financial statements.

McGRATH RENTCORP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2009

NOTE 6. SEGMENT REPORTING

ASC 280, Disclosure about Segments of an Enterprise and Related Information, establishes 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 ASC 280, the Company's four reportable segments are (1) Mobile Modular Management Corporation, its modular building rental division (Mobile Modular); (2) TRS-RenTelco, its electronic test equipment rental division; (3) Adler Tank Rentals, LLC, its wholly-owned subsidiary providing containment solutions for the storage of hazardous and non-hazardous liquids and solids (Adler Tanks) and (4) Enviroplex, Inc., its wholly-owned subsidiary classroom manufacturing business selling modular buildings used primarily as classrooms in California (Enviroplex). The operations of each of these segments are described in Note 1 Organization and Business, and the accounting policies of the segments are described in Note 2 Significant Accounting Policies in the Company's latest Form 10-K. Management focuses on several key measures to evaluate and assess each segment's performance including rental revenue growth, gross profit, income from operations and income before provision for income taxes. As separate corporate entities, Adler Tanks and Enviroplex revenues and expenses are recorded separately from Mobile Modular and TRS-RenTelco. 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 between Mobile Modular, TRS-RenTelco and Adler Tanks based on their pro-rata share of average rental equipment at cost, intangible assets, accounts receivable, deferred income and customer security deposits. The Company does not report total assets by business segment. Summarized financial information for the nine months ended September 30, 2009 and 2008 for the Company's reportable segments is shown in the following table:

McGRATH RENTCORP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

September 30, 2009

(dollar amounts in thousands)

Nine Months Ended September 30,	Mobile Modular	TRS- RenTelco	Adler Tanks	Enviroplex ¹	Consolidated
2009					
Rental Revenues	\$ 70,867	\$ 55,769	\$ 12,717	\$	\$ 139,353
Rental Related Services Revenues	20,393	1,498	4,567		26,458
Sales and Other Revenues	21,400	16,034	78	5,806	43,318
Total Revenues	112,660	73,301	17,362	5,806	209,129
Depreciation of Rental Equipment	10,264	30,622	2,336		43,222
Gross Profit	57,323	22,909	9,786	947	90,965
Selling and Administrative Expenses	20,994	16,124	6,266	1,958	45,342
Income (Loss) from Operations	36,329	6,785	3,520	(1,011)	45,623
Interest Expense (Income) Allocation	3,272	1,734	666	(149)	5,523
Income (Loss) before Provision for Income Taxes	33,057	5,051	2,854	(862)	40,100
Rental Equipment Acquisitions	9,539	16,346	26,746		52,631
Accounts Receivable, net (period end)	48,603	20,816	6,117	2,113	77,649
Rental Equipment, at cost (period end)	502,643	245,972	73,008		821,623
Rental Equipment, net book value (period end)	368,971	108,190	70,201		547,362
Utilization (period end) ²	69.5%	61.8%	65.6%		
Average Utilization ²	74.8%	60.6%	60.4%		
2008					
Rental Revenues	\$ 77,317	\$ 69,788	\$	\$	\$ 147,105
Rental Related Services Revenues	22,691	1,495			24,186
Sales and Other Revenues	20,948	19,812		13,632	54,392
Total Revenues	120,956	91,095		13,632	225,683
Depreciation of Rental Equipment	9,876	32,234			42,110
Gross Profit	60,510	37,384		4,569	102,463
Selling and Administrative Expenses	21,779	18,604		2,294	42,677
Income from Operations	38,731	18,780		2,275	59,786
Interest Expense (Income) Allocation	4,935	2,690		(342)	7,283
Income before Provision for Income Taxes	33,796	16,090		2,617	52,503
Rental Equipment Acquisitions	30,810	50,178			80,988
Accounts Receivable, net (period end)	49,551	23,288		3,078	75,917
Rental Equipment, at cost (period end)	498,164	262,853			761,017
Rental Equipment, net book value (period end)	373,702	138,439			512,141
Utilization (period end) ²	80.8%	68.0%			
Average Utilization ²	81.8%	68.8%			

1. Gross Enviroplex sales revenues were \$6,489 and \$15,732 for the nine months ended September 30, 2009 and 2008, respectively, which includes inter-segment sales to Mobile Modular of \$683 and \$2,100, respectively, which are eliminated in consolidation.
2. Utilization is calculated each month by dividing the cost of rental equipment on rent by the total cost of rental equipment excluding accessory equipment and for Mobile Modular and Adler Tanks excluding new equipment inventory. The Average Utilization for the period is calculated using the average costs of rental equipment.

Edgar Filing: MCGRATH RENTCORP - Form 10-Q

No single customer accounted for more than 10% of total revenues for the nine months ended September 30, 2009 and 2008. In addition, total foreign country customers and operations accounted for less than 10% of the Company's revenues and long-lived assets for the same periods.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Form 10-Q, including the following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), contains forward-looking statements under federal securities laws. Forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties. Our actual results could differ materially from those indicated by forward-looking statements as a result of various factors. These factors include but are not limited to, those set forth under this Item, those discussed in Part II Item 1A, Risk Factors and elsewhere in this Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2008 as filed with the Securities and Exchange Commission on February 25, 2009 (the 2008 Annual Report) and those that may be identified from time to time in our reports and registration statements filed with the Securities and Exchange Commission.

This discussion should be read in conjunction with the Condensed Consolidated Financial Statements and related Notes included in Part I Item 1 of this Form 10-Q and the Consolidated Financial Statements and related Notes and the Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our 2008 Annual Report. In preparing the following MD&A, we presume that readers have access to and have read the MD&A in our 2008 Annual Report, pursuant to Instruction 2 to paragraph (b) of Item 303 of Regulation S-K. We undertake no duty to update any of these forward-looking statements after the date of filing of this Form 10-Q to confirm such forward-looking statements to actual results or revised expectations, except as otherwise required by law.

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 business segments: (1) Mobile Modular Management Corporation, its modular building rental division (Mobile Modular); (2) TRS-RenTelco, its electronic test equipment rental division; (3) Adler Tank Rentals, LLC, its wholly-owned subsidiary providing containment solutions for the storage of hazardous and non-hazardous liquids and solids (Adler Tanks) and (4) Enviroplex, Inc., its wholly-owned subsidiary classroom manufacturing business selling modular buildings used primarily as classrooms in California (Enviroplex). In the nine months ended September 30, 2009, Mobile Modular, TRS-RenTelco and Enviroplex contributed 82%, 13%, and negative 2% of the Company's income before provision for taxes (the equivalent of pretax income), respectively, compared to 64%, 31% and 5% for the same period in 2008. In the nine months ended September 30, 2009, Adler Tanks' contribution to the Company's pretax income was 7%. Adler Tanks was acquired on December 11, 2008 and had no contribution to pretax income of the Company for the nine months ended September 30, 2008. Although managed as a separate business unit, Enviroplex's revenues, pretax income contribution and total assets are not significant relative to the Company's consolidated financial position.

The Company generates the majority of its revenue from the rental of its equipment on operating leases and from sales of equipment occurring in the normal course of business. The Company requires significant capital outlay to purchase its rental inventory and recovers its investment through rental and sales revenues. Rental revenue and certain other service revenues negotiated as part of the lease agreements with the customers and related costs are recognized on a straight-line basis over the terms of the leases. Sales revenue and related costs are recognized upon delivery and installation of the equipment to customers. Sales revenues are less predictable and can fluctuate from quarter to quarter and year to year depending on customer demands and requirements. Generally, rental revenues recover the equipment's capitalized cost in a short period of time relative to the equipment's potential rental life and when sold, sale proceeds usually recover a high percentage of its capitalized cost.

The Company's modular revenues are primarily affected by demand for classrooms which in turn is affected by shifting and fluctuating school populations, the level of state funding to public schools, the need for temporary classroom space during reconstruction of older schools and changes in policies regarding class size. As a result of any reduced funding, lower expenditures by these schools may result in certain planned programs to increase the number of classrooms, such as those the Company provides, to be postponed or terminated. However, reduced expenditures may also result in schools reducing their long-term facility construction projects in favor of

using the Company's modular classroom solutions. At this time, the Company can provide no assurances as to whether public schools will either reduce or increase their demand for the Company's modular classrooms as a result of fluctuations in state funding of public schools. Looking forward, the Company believes that any interruption in the passage of facility bonds or contraction of class size reduction programs by public schools may have a material adverse effect on both rental and sales revenues of the Company. (For more information, see *Item 1. Business Relocatable Modular Buildings Classroom Rentals and Sales to Public Schools (K-12)* in the Company's 2008 Annual Report and *Item 1A. Risk Factors* *A significant reduction of, or delay in, funding to public schools could cause the demand for our modular classroom units to decline, which could result in a reduction in our revenues and profitability*, in Part II Other Information section of this Form 10-Q.)

Revenues of TRS-RenTelco are derived from the rental and sale of general purpose, communications and environmental test equipment to a broad range of companies, from Fortune 500 to middle and smaller market companies primarily in the electronics, communications, aerospace and defense industries. Electronic test equipment revenues are primarily affected by the business activity within these industries related to research and development, manufacturing, and communication infrastructure installation and maintenance.

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

The Company's rental operations include rental and rental related service revenues which comprised approximately 79% and 76% of consolidated revenues in the nine months ended September 30, 2009 and 2008, respectively. Of the total rental operations revenues for the nine months ended September 30, 2009, Mobile Modular, TRS-RenTelco and Adler Tanks comprised 55%, 35% and 10%, respectively. Of the total rental operations revenues for the nine months ended September 30, 2008, Mobile Modular and TRS-RenTelco comprised 58% and 42%, respectively. The Company's direct costs of rental operations include depreciation of rental equipment, rental related service costs, impairment of rental equipment (if any), 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's Mobile Modular, TRS-RenTelco and Adler Tanks business segments sell new or previously rented modular units, electronic test equipment and liquid and solid containment tanks and boxes, respectively. In addition, Enviroplex sells new modular buildings used primarily as classrooms in California. The renting and selling of some modular equipment requires a dealer's license, which the Company has obtained from the appropriate governmental agencies. For the nine months ended September 30, 2009, sales and other revenues of modular, electronic test equipment and liquid and solid containment tanks and boxes comprised approximately 21%, of the Company's consolidated revenues. For the nine months ended September 30, 2008, sales and other revenues of modular and electronic test equipment comprised approximately 24% of the Company's consolidated revenues. Of the total sales and other revenues for the nine months ended September 30, 2009 and 2008, Mobile Modular and Enviroplex comprised 63% and 64%, respectively, and TRS-RenTelco comprised 37% and 36%, respectively. Adler Tanks sales and other revenues for the nine months ended September 30, 2009 were not significant. The Company's cost of sales includes the carrying value of the equipment sold and the direct costs associated with the equipment sold such as delivery, installation, modifications and related site work.

Selling and administrative expenses primarily include personnel and benefit costs, which include non-cash stock-based compensation, depreciation and amortization, bad debt expense, advertising costs, and professional service fees. The Company believes that sharing of common facilities, financing, senior management, and operating and accounting systems by all of the Company's operations, results in an efficient use of overhead. Historically, the Company's operating margins have been impacted favorably to the extent its costs and expenses are leveraged over a large installed customer base. However, there can be no assurance as to the Company's ability to maintain a large installed customer base or ability to sustain its historical operating margins.

To supplement the Company's financial data presented on a basis consistent with generally accepted accounting principles (GAAP), the Company presents Adjusted EBITDA which is defined by the Company as net income before minority interest in income of subsidiary, interest expense, provision for income taxes, depreciation, amortization, and non-cash stock-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 the Company's period-to-period operating performance and evaluate the Company's ability to meet future capital expenditure and working capital requirements. Management believes the exclusion of non-cash charges, including stock-based compensation, is useful in measuring the Company's cash available to operations and the performance of the Company. Because the Company 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 in the United States 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 stock-based compensation charges and income from the former minority interest that previously existed in the Company's Enviroplex subsidiary. 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. Therefore, Adjusted EBITDA should only be used to evaluate the Company's results of operations in conjunction with the corresponding GAAP measures. The presentation of Adjusted EBITDA is not meant to be considered in isolation or as a substitute for the most directly comparable 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. Since Adjusted EBITDA is a non-GAAP financial measure as defined by the Securities and Exchange Commission, the Company includes in the tables below reconciliations of Adjusted EBITDA to the most directly comparable financial measures calculated and presented in accordance with accounting principles generally accepted in the United States.

Reconciliation of Net Income to Adjusted EBITDA

(dollar amounts in thousands)

	Three Months Ended		Nine Months Ended		Twelve Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Net Income	\$ 9,529	\$ 11,568	\$ 24,421	\$ 31,922	\$ 33,702	\$ 44,042
Minority Interest in Loss of Subsidiary						(13)
Provision for Income Taxes	6,118	7,458	15,679	20,581	21,595	28,503
Interest	1,687	2,525	5,523	7,283	8,216	9,887
Income from Operations	17,334	21,551	45,623	59,786	63,513	82,419
Depreciation and Amortization	15,571	15,395	47,611	44,143	63,884	58,212
Non-Cash Stock-Based Compensation	756	912	2,709	2,831	3,645	3,709
Adjusted EBITDA ¹	\$ 33,661	\$ 37,858	\$ 95,943	\$ 106,760	\$ 131,042	\$ 144,340
Adjusted EBITDA Margin ²	45%	44%	46%	47%	46%	49%

Reconciliation of Adjusted EBITDA to Net Cash Provided by Operating Activities*(dollar amounts in thousands)*

	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,	
	2009	2008	2009	2008	2009	2008
Adjusted EBITDA ¹	\$ 33,661	\$ 37,858	\$ 95,943	\$ 106,760	\$ 131,042	\$ 144,340
Interest Paid	(1,284)	(1,868)	(5,554)	(6,927)	(8,700)	(10,273)
Income Taxes Paid	(6,419)	(997)	(2,016)	(3,412)	(3,185)	(8,422)
Gain on Sale of Rental Equipment	(2,822)	(3,966)	(8,024)	(8,790)	(10,419)	(11,574)
Change in certain assets and liabilities:						
Accounts Receivable, net	(10,893)	(7,200)	8,362	(8,856)	3,877	3,114
Income Taxes Receivable	5,940		5,940		5,940	
Prepaid Expenses and Other Assets	3,064	(1,587)	3,692	(3,693)	4,910	(2,415)
Accounts Payable and Other Liabilities	(4,420)	3,983	(8,150)	1,424	(10,153)	4,805
Deferred Income	7,044	9,691	(656)	4,765	(6,314)	2,399
Net Cash Provided by Operating Activities	\$ 23,871	\$ 35,914	\$ 89,537	\$ 81,271	\$ 106,998	\$ 121,974

1 Adjusted EBITDA is defined as net income before minority interest in income of subsidiary, interest expense, provision for income taxes, depreciation, amortization, and non-cash stock-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 line of credit and senior notes. These instruments contain financial covenants requiring the Company to not:

Permit the Consolidated Fixed Charge Coverage Ratio of Adjusted EBITDA (as defined) to fixed charges as of the end of any fiscal quarter to be less than 2.00 to 1.00 under the line of credit and the senior notes. At September 30, 2009 the actual ratio for the line of credit and the senior notes was 3.41 to 1.00 and 3.59 to 1.00, respectively.

Permit the Consolidated Leverage Ratio of funded debt to Adjusted EBITDA (as defined) at any time during any period of four consecutive quarters to be greater than 2.50 to 1.00. At September 30, 2009 the actual ratio for the line of credit and the senior note was 1.95 to 1.00.

At September 30, 2009, 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 our financial performance could impact the Company's ability to comply with these covenants.

Recent Developments

On August 4, 2009 the Company executed an amendment to the 5.08% senior notes due in 2011 to amend and restate the Consolidated Leverage Ratio of funded debt to EBITDA (as defined) to 2.50 to 1.00 from 2.25 to 1.00. In addition, EBITDA shall now be calculated on a pro forma basis to give effect, as of the first day of the relevant period, to any approved acquisition or disposition of a Subsidiary or business division which was effected during the relevant period. Also, the limit of Priority Debt (as defined) was modified to an amount not to exceed \$30.0 million, from an amount not to exceed 15% of Tangible Net Worth (as defined).

On September 29, 2009, the Company announced that the board of directors declared a quarterly cash dividend of \$0.22 per common share for the quarter ended September 30, 2009, an increase of 10% over the prior year's comparable quarter.

Results of Operations

Three Months Ended September 30, 2009 Compared to

Three Months Ended September 30, 2008

Overview

Consolidated revenues for the three months ended September 30, 2009 decreased 13% to \$75.5 million, from \$86.3 million for the same period in 2008. Consolidated net income for the three months ended September 30, 2009 decreased \$2.0 million, or 18%, to \$9.5 million from \$11.6 million for the same period in 2008. Earnings per diluted share decreased 17% to \$0.40 for the three months ended September 30, 2009 compared to \$0.48 for the same period in 2008.

For the three months ended September 30, 2009, on a consolidated basis:

Gross profit decreased \$4.8 million, or 13%, to \$31.6 million, with gross profit of TRS-RenTelco decreasing \$5.0 million, or 38%, primarily due to lower gross profit on rental and sales revenues and Mobile Modular gross profit decreasing \$2.4 million, or 11%, primarily due to lower gross profit on rental, rental related services and sales revenues. Enviroplex gross profit decreased \$1.2 million primarily due to \$2.1 million lower sales revenues. Adler Tanks gross profit was \$3.8 million in 2009.

Selling and administrative expenses decreased 4% to \$14.3 million from \$14.9 million in the same period in 2008, primarily due to lower personnel costs and lower bad debt expense, partly offset by the selling and administrative expenses of Adler Tanks not present in 2008 and higher depreciation expense.

Interest expense decreased \$0.8 million, or 33% to \$1.7 million due to 43% lower net average interest rates (2.5% compared to 4.4% in 2008) partly offset by higher average debt levels of the Company.

Pre-tax income contribution by Mobile Modular and TRS-RenTelco was 71% and 18%, respectively, compared to 62% and 31%, respectively, for the comparable 2008 period. Pre tax income contribution by Adler Tanks was 8% in 2009. These results are discussed on a segment basis below. Pre-tax income contribution by Enviroplex decreased to 3% in 2009 from 7% in 2008.

Adjusted EBITDA decreased \$4.2 million, or 11%, to \$33.7 million compared to \$37.9 million in 2008, with Mobile Modular, TRS-RenTelco and Enviroplex decreasing \$1.2 million, \$5.0 million and \$0.8 million, respectively. Adler Tanks Adjusted EBITDA was \$2.8 million in 2009.

Mobile Modular

For the three months ended September 30, 2009, Mobile Modular's total revenues decreased \$7.8 million to \$40.0 million compared to the same period in 2008, primarily due to lower rental, rental related services and sales revenues during the quarter. The revenue decrease, partly offset by higher gross margin on rental operations and sales revenues, lower selling and administrative expenses and lower interest expense, resulted in a decrease in pre-tax income of \$0.7 million, or 6%, to \$11.1 million for the three months ended September 30, 2009, from \$11.8 million for the same period in 2008.

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

Mobile Modular Three Months ended 9/30/09 compared to Three Months Ended 9/30/08 (Unaudited)

(dollar amounts in thousands)

	Three Months Ended September 30,		Increase (Decrease)	
	2009	2008	\$	%
Revenues				
Rental	\$ 22,478	\$ 26,125	\$ (3,647)	-14%
Rental Related Services	6,860	8,761	(1,901)	-22%
Rental Operations	29,338	34,886	(5,548)	-16%
Sales	10,471	12,782	(2,311)	-18%
Other	144	129	15	12%
Total Revenues	\$ 39,953	\$ 47,797	\$ (7,844)	-16%
Gross Profit				
Rental	\$ 13,974	\$ 15,706	\$ (1,732)	-11%
Rental Related Services	2,135	2,474	(339)	-14%
Rental Operations	16,109	18,180	(2,071)	-11%
Sales	2,565	2,925	(360)	-12%
Other	144	129	15	12%
Total Gross Profit	18,818	21,234	(2,416)	-11%
Selling and Administrative Expenses	6,733	7,715	(982)	-13%
Income from Operations	12,085	13,519	(1,434)	-11%
Interest Expense Allocation	998	1,715	(717)	-42%
Pre-tax Income	\$ 11,087	\$ 11,804	\$ (717)	-6%
Other Information				
Depreciation of Rental Equipment	\$ 3,422	\$ 3,388	\$ 34	1%
Average Rental Equipment ¹	\$ 477,175	\$ 465,965	\$ 11,210	2%
Average Rental Equipment on Rent ¹	\$ 339,317	\$ 377,969	\$ (38,652)	-10%
Average Monthly Total Yield ²	1.57%	1.87%		-16%
Average Utilization ³	71.1%	81.1%		-12%
Average Monthly Rental Rate ⁴	2.21%	2.30%		-4%
Period End Rental Equipment ¹	\$ 480,053	\$ 473,336	\$ 6,717	1%
Period End Utilization ³	69.5%	80.8%		-14%

Edgar Filing: MCGRATH RENTCORP - Form 10-Q

Period End Units ¹	27,927	27,344	583	2%
-------------------------------	--------	--------	-----	----

- 1 Average and Period End Rental Equipment represents the cost of rental equipment excluding new equipment inventory and accessory equipment. Period End Units includes modular building floors and portable storage containers and excludes new equipment inventory.
- 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 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 the three months ended September 30, 2009 decreased 11% to \$18.8 million from \$21.2 million for the same period in 2008. For the three months ended September 30, 2009 compared to the same period in 2008:

Gross Profit on Rental Revenues Rental revenues decreased \$3.6 million, or 14%, over 2008, primarily due to the decline in demand for commercial buildings and higher returns of classroom buildings in our education markets. The rental revenues decrease was due to 4% lower average monthly rental rates and a 10% decrease in average rental equipment on rent in 2009 as compared to 2008. As a percentage of rental revenues, depreciation was 15% and 13% in 2009 and 2008, respectively, and other direct costs decreased to 23% in 2009 from 27% in 2008, which resulted in gross margin percentages of 62% in 2009 compared to 60% in 2008. The lower rental revenues, partly offset by higher rental margins resulted in gross profit on rental revenues decreasing \$1.7 million, or 11%, to \$14.0 million in 2009.

Gross Profit on Rental Related Services Rental related services revenues decreased \$1.9 million, or 22%, compared to 2008. 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 decrease in rental related services revenues was primarily attributable to the mix of leases and associated service revenues within the initial lease term, lower revenues from services rendered during the lease and lower repair revenues during 2009 as compared to 2008. The lower revenues, partly offset by higher gross margin percentage of 31% in 2009 compared to 28% in 2008, resulted in rental related services gross profit decreasing 14%, to \$2.1 million from \$2.5 million in 2008.

Gross Profit on Sales Sales revenues decreased \$2.3 million, or 18%, compared to 2008. Sales occur routinely as a normal part of Mobile Modular's rental business; however, these sales and related gross margins can fluctuate from quarter to quarter and year to year depending on customer requirements, equipment availability and funding. Lower sales revenues, partly offset by a higher gross margin percentage of 25% in 2009 compared with 23% in 2008, resulted in gross profit on sales decreasing 12% in 2009.

For the three months ended September 30, 2009, selling and administrative expenses decreased 13% to \$6.7 million, as lower personnel and marketing costs were partly offset by higher depreciation expense.

TRS-RenTelco

For the three months ended September 30, 2009, TRS-RenTelco's total revenues decreased \$7.5 million, or 24%, to \$23.8 million compared to the same period in 2008, due to lower rental and sales revenues. Pre-tax income decreased 51% to \$2.9 million for the three months ended September 30, 2009 from \$5.9 million for the same period of 2008, primarily due to lower gross profit on rental and sales revenues, partly offset by lower selling and administrative expenses and lower interest expense.

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

TRS-RenTelco Three Months Ended 9/30/09 compared to Three Months Ended 9/30/08 (Unaudited)

(dollar amounts in thousands)

	Three Months Ended September 30,		Increase (Decrease)	
	2009	2008	\$	%
Revenues				
Rental	\$ 18,468	\$ 23,898	\$ (5,430)	-23%
Rental Related Services	601	593	8	1%
Rental Operations	19,069	24,491	(5,422)	-22%
Sales	4,361	6,402	(2,041)	-32%
Other	415	465	(50)	-11%
Total Revenues	\$ 23,845	\$ 31,358	\$ (7,513)	-24%
Gross Profit				
Rental	\$ 5,960	\$ 9,559	\$ (3,599)	-38%
Rental Related Services	123	75	48	64%
Rental Operations	6,083	9,634	(3,551)	-37%
Sales	1,594	2,989	(1,395)	-47%
Other	415	465	(50)	-11%
Total Gross Profit	8,092	13,088	(4,996)	-38%
Selling and Administrative Expenses	4,708	6,274	(1,566)	-25%
Income from Operations	3,384	6,814	(3,430)	-50%
Interest Expense Allocation	519	944	(425)	-45%
Pre-tax Income	\$ 2,865	\$ 5,870	\$ (3,005)	-51%
Other Information				
Depreciation of Rental Equipment	\$ 9,816	\$ 11,260	\$ (1,444)	-13%
Average Rental Equipment ¹	\$ 246,927	\$ 257,874	\$ (10,947)	-4%
Average Rental Equipment on Rent ¹	\$ 149,073	\$ 176,847	\$ (27,774)	-16%
Average Monthly Total Yield ²	2.49%	3.09%		-19%
Average Utilization ³	60.4%	68.6%		-12%
Average Monthly Rental Rate ⁴	4.13%	4.50%		-8%
Period End Rental Equipment ¹	\$ 245,999	\$ 262,054	\$ (16,055)	-6%

Edgar Filing: MCGRATH RENTCORP - Form 10-Q

Period End Utilization ³	61.8%	68.0%	-9%
-------------------------------------	-------	-------	-----

- 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 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.

TRS-RenTelco's gross profit for the three months ended September 30, 2009 decreased 38% to \$8.1 million from \$13.1 million for the same period in 2008. For the three months ended September 30, 2009 compared to the same period in 2008:

Gross Profit on Rental Revenues Rental revenues decreased \$5.4 million, or 23%, as compared to 2008, with depreciation expense decreasing \$1.4 million, or 13%, resulting in decreased gross profit on rental revenues of \$3.6 million, or 38%, to \$6.0 million as compared to 2008. The rental revenues decrease was due to 8% lower average monthly rental rates and 16% lower rental equipment on rent in 2009 as compared to 2008. The utilization decrease was due to lower average rental equipment on rent due to higher equipment returns and weaker market demand. The rental rate decrease was due to account penetration and other competitive pressures, and to a lesser extent the phasing out of equipment acquired in the 2004 TRS acquisition having lower original cost compared to new equipment purchases and a greater mix of general purpose test equipment that typically has lower rental rates, but longer depreciable lives, compared to communications test equipment.

Gross Profit on Sales Sales revenues decreased 32% to \$4.4 million in 2009, as compared to \$6.4 million in 2008 due to lower new and used equipment sales. Gross margin percentage was 37% in 2009, compared to 47% in 2008, primarily due to lower gross margin on new and used equipment sales resulting in gross profit on sales decreasing \$1.4 million to \$1.6 million from \$3.0 million in 2008. Sales occur routinely as a normal part of TRS-RenTelco's rental business; however, these sales and related gross margins can fluctuate from quarter to quarter depending on customer requirements and related mix of equipment sold, equipment availability and funding.

For the three months ended September 30, 2009, selling and administrative expenses decreased \$1.6 million, or 25%, to \$4.7 million from \$6.3 million in the same period in 2008, primarily due to lower personnel costs and lower bad debt expense.

Adler Tanks

For the three months ended September 30, 2009, Adler Tanks reported pre-tax income of \$1.3 million, which resulted from rental revenues of \$5.0 million, with gross profit on rental revenues of \$3.4 million. Selling and administrative expenses were \$2.3 million in 2009.

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

Adler Tanks Three Months Ended 9/30/09 (Unaudited)

(dollar amounts in thousands)

	Three Months Ended		Increase (Decrease)	
	September 30, 2009	2008	\$	%
Revenues				
Rental	\$ 4,952	\$	\$ 4,952	<i>nm</i>
Rental Related Services	1,698		1,698	<i>nm</i>
Rental Operations	6,650		6,650	<i>nm</i>
Sales				<i>nm</i>
Other	9		9	<i>nm</i>
Total Revenues	\$ 6,659	\$	\$ 6,659	<i>nm</i>
Gross Profit				
Rental	\$ 3,365	\$	\$ 3,365	<i>nm</i>
Rental Related Services	413		413	<i>nm</i>
Rental Operations	3,778		3,778	<i>nm</i>
Sales				<i>nm</i>
Other	9		9	<i>nm</i>
Total Gross Profit	3,787		3,787	<i>nm</i>
Selling and Administrative Expenses	2,282		2,282	<i>nm</i>
Income from Operations	1,505		1,505	<i>nm</i>
Interest Expense Allocation	219		219	<i>nm</i>
Pre-tax Income	\$ 1,286	\$	\$ 1,286	<i>nm</i>
Other Information				
Depreciation of Rental Equipment	\$ 875	\$	\$ 875	<i>nm</i>
Average Rental Equipment ¹	\$ 62,933	\$	\$ 62,933	<i>nm</i>
Average Rental Equipment on Rent ¹	\$ 38,660	\$	\$ 38,660	<i>nm</i>
Average Monthly Total Yield ²	2.62%			
Average Utilization ³	61.4%			
Average Monthly Rental Rate ⁴	4.27%			
Period End Rental Equipment ¹	\$ 67,121	\$	\$ 67,121	<i>nm</i>
Period End Utilization ³	65.6%			

Edgar Filing: MCGRATH RENTCORP - Form 10-Q

- 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 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

Nine Months Ended September 30, 2009 Compared to

Nine Months Ended September 30, 2008

Overview

Consolidated revenues for the nine months ended September 30, 2009 decreased 7%, to \$209.1 million from \$225.7 million for the same period in 2008. Consolidated net income for the nine months ended September 30, 2009 decreased \$7.5 million, or 23% to \$24.4 million from \$31.9 million for the same period in 2008. Earnings per diluted share decreased 23% to \$1.02 for the nine months ended September 30, 2009 compared to \$1.33 for the same period in 2008.

For the nine months ended September 30, 2009, on a consolidated basis:

Gross profit decreased \$11.5 million, or 11%, to \$91.0 million, with gross profit of TRS-RenTelco decreasing \$14.5 million, or 39%, due to lower gross profit on rental and sales revenues. Mobile Modular gross profit decreased \$3.2 million, or 5% as lower gross profit on rental and rental related services revenues were partly offset by higher gross profit on sales revenues. Enviroplex gross profit decreased \$3.6 million primarily due to \$7.8 million lower sales revenues. Adler Tanks gross profit was \$9.8 million in 2009.

Selling and administrative expenses increased 6% to \$45.3 million from \$42.7 million for the same period in 2008, primarily due to selling and administrative expenses of Adler Tanks not present in 2008 and higher depreciation expense, partly offset by lower personnel costs at Mobile Modular and TRS-RenTelco.

Interest expense decreased \$1.8 million, or 24% to \$5.5 million, primarily due to 42% lower average interest rates (2.6% in 2009 compared to 4.4% in 2008) partly offset by higher average debt levels of the Company.

Pre-tax income contribution by Mobile Modular and TRS-RenTelco was 82% and 13%, respectively, compared to 64% and 31%, respectively, for the comparable 2008 period. Pre-tax income contribution by Adler Tanks was 7% in 2009. These results are discussed on a segment basis below. Pre-tax income contribution by Enviroplex decreased to negative 2% in 2009 from 5% in 2008.

Adjusted EBITDA decreased \$10.8 million, or 10%, to \$95.9 million compared to \$106.8 million in 2008, with TRS-RenTelco decreasing \$13.7 million, Mobile Modular decreasing \$1.1 million and Enviroplex decreasing \$3.3 million. Adler Tanks adjusted EBITDA was \$7.3 million in 2009.

Mobile Modular

For the nine months ended September 30, 2009, Mobile Modular's total revenues decreased \$8.3 million, or 7%, to \$112.7 million compared to the same period in 2008, primarily due to lower rental and rental related services revenues, partly offset by higher sales revenues during the period. The revenue decrease, partly offset by higher gross margin on rental and sales revenues, lower selling and administrative expenses and lower interest expense, resulted in a decrease in pre-tax income of \$0.7 million, or 2%, to \$33.1 million for the nine months ended September 30, 2009, from \$33.8 million for the same period in 2008.

The following table summarizes nine months results for each revenue and gross profit category, pre-tax income, and other selected data.

Mobile Modular Nine Months Ended 9/30/09 compared to Nine Months Ended 9/30/08 (Unaudited)

(dollar amounts in thousands)

	Nine Months Ended September 30,		Increase (Decrease)	
	2009	2008	\$	%
Revenues				
Rental	\$ 70,867	\$ 77,317	\$ (6,450)	-8%
Rental Related Services	20,393	22,691	(2,298)	-10%
Rental Operations	91,260	100,008	(8,748)	-9%
Sales	20,951	20,515	436	2%
Other	449	433	16	4%
Total Revenues	\$ 112,660	\$ 120,956	\$ (8,296)	-7%
Gross Profit				
Rental	\$ 45,769	\$ 48,382	\$ (2,613)	-5%
Rental Related Services	5,537	6,513	(976)	-15%
Rental Operations	51,306	54,895	(3,589)	-7%
Sales	5,568	5,182	386	7%
Other	449	433	16	4%
Total Gross Profit	57,323	60,510	(3,187)	-5%
Selling and Administrative Expenses	20,994	21,779	(785)	-4%
Income from Operations	36,329	38,731	(2,402)	-6%
Interest Expense Allocation	3,272	4,935	(1,663)	-34%
Pre-tax Income	\$ 33,057	\$ 33,796	\$ (739)	-2%
Other Information				
Depreciation of Rental Equipment	\$ 10,264	\$ 9,876	\$ 388	4%
Average Rental Equipment ¹	\$ 476,997	\$ 457,707	\$ 19,290	4%
Average Rental Equipment on Rent ¹	\$ 356,804	\$ 374,465	\$ (17,661)	-5%
Average Monthly Total Yield ²	1.65%	1.88%		-12%
Average Utilization ³	74.8%	81.8%		-9%
Average Monthly Rental Rate ⁴	2.21%	2.29%		-3%
Period End Rental Equipment ¹	\$ 480,053	\$ 473,336	\$ 6,717	1%

Edgar Filing: MCGRATH RENTCORP - Form 10-Q

Period End Utilization ³	69.5%	80.8%	-14%
Period End Units ¹	27,927	27,344	583 2%

- 1 Average and Period End Rental Equipment represents the cost of rental equipment excluding new equipment inventory and accessory equipment. Period End Units excludes new equipment inventory.
- 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 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 the nine months ended September 30, 2009 decreased \$3.2 million, to \$57.3 million from \$60.5 million for the same period in 2008. For the nine months ended September 30, 2009 compared to the same period in 2008:

Gross Profit on Rental Revenues Rental revenues decreased \$6.5 million, or 8%, over 2008, primarily due to the decline in demand for commercial buildings and higher returns of classroom buildings in our education markets. The rental revenues decrease was due to 3% lower average monthly rental rates and 5% lower average rental equipment on rent. As a percentage of rental revenues, depreciation was 14% in 2009 and 13% in 2008 and other direct costs were 21% in 2009 compared to 24% in 2008, which resulted in gross margin percentage of 65% in 2009 and 63% in 2008. The lower rental revenues, partly offset by higher rental margins, resulted in gross profit on rental revenues decreasing \$2.6 million, or 5%, to \$45.8 million from \$48.4 million in 2008.

Gross Profit on Rental Related Services Rental related services revenues decreased \$2.3 million, or 10%, compared to 2008. 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 decrease in rental related services revenues was primarily attributable to the mix of leases and associated service revenues within the initial lease term, lower revenues from services rendered during the lease, partly offset by higher repair revenues during 2009 as compared to 2008. The lower revenues combined with lower gross margin percentage of 27% in 2009 compared to 29% in 2008, resulted in rental related services gross profit decreasing 15%, to \$5.5 million from \$6.5 million in 2008.

Gross Profit on Sales Sales revenues increased \$0.4 million, or 2%, compared to 2008. Sales occur routinely as a normal part of Mobile Modular's rental business; however, these sales and related gross margins can fluctuate from quarter to quarter and year to year depending on customer requirements, equipment availability and funding. Higher sales revenues combined with higher gross margin percentage of 27% in 2009 compared with 25% in 2008, resulted in sales gross profit increasing 7%, to \$5.6 million from \$5.2 million in 2008.

For the nine months ended September 30, 2009, selling and administrative expenses decreased \$0.8 million, or 4%, to \$21.0 million from \$21.8 million in the same period in 2008, primarily due to lower personnel costs partly offset by increased depreciation expense.

TRS-RenTelco

For the nine months ended September 30, 2009, TRS-RenTelco's total revenues decreased \$17.8 million, or 20%, to \$73.3 million compared to the same period in 2008, due to lower rental and sales revenues. Pre-tax income decreased \$11.0 million to \$5.1 million for the nine months ended September 30, 2009 from \$16.1 million for the same period in 2008, primarily due to lower gross profit on rental and sales revenues, partly offset by lower selling and administrative expenses and lower interest expense.

The following table summarizes nine months results for each revenue and gross profit category, pre-tax income, and other selected data.

TRS-RenTelco Nine Months Ended 9/30/09 compared to Nine Months Ended 9/30/08 (Unaudited)

(dollar amounts in thousands)

	Nine Months Ended		Increase (Decrease)	
	September 30, 2009	September 30, 2008	\$	%
Revenues				
Rental	\$ 55,769	\$ 69,788	\$ (14,019)	-20%
Rental Related Services	1,498	1,495	3	0%
Rental Operations	57,267	71,283	(14,016)	-20%
Sales	14,599	18,371	(3,772)	-21%
Other	1,435	1,441	(6)	0%
Total Revenues	\$ 73,301	\$ 91,095	\$ (17,794)	-20%
Gross Profit				
Rental	\$ 16,783	\$ 28,822	\$ (12,039)	-42%
Rental Related Services	64	117	(53)	-45%
Rental Operations	16,847	28,939	(12,092)	-42%
Sales	4,627	7,004	(2,377)	-34%
Other	1,435	1,441	(6)	0%
Total Gross Profit	22,909	37,384	(14,475)	-39%
Selling and Administrative Expenses	16,124	18,604	(2,480)	-13%
Income from Operations	6,785	18,780	(11,995)	-64%
Interest Expense Allocation	1,734	2,690	(956)	-36%
Pre-tax Income	\$ 5,051	\$ 16,090	\$ (11,039)	-69%
Other Information				
Depreciation of Rental Equipment	\$ 30,622	\$ 32,234	\$ (1,612)	-5%
Average Rental Equipment ¹	\$ 249,797	\$ 247,178	\$ 2,619	1%
Average Rental Equipment on Rent ¹	\$ 151,489	\$ 170,161	\$ (18,672)	-11%
Average Monthly Total Yield ²	2.48%	3.14%		-21%
Average Utilization ³	60.6%	68.8%		-12%
Average Monthly Rental Rate ⁴	4.09%	4.56%		-10%
Period End Rental Equipment ¹	\$ 245,999	\$ 262,054	\$ (16,055)	-6%
Period End Utilization ³	61.8%	68.0%		-9%

- 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 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.

TRS-RenTelco's gross profit for the nine months ended September 30, 2009 decreased \$14.5 million, or 39%, to \$22.9 million from \$37.4 million for the same period in 2008. For the nine months ended September 30, 2009 compared to the same period in 2008:

Gross Profit on Rental Revenues Rental revenues decreased \$14.0 million, or 20%, as compared to 2008, resulting in decreased gross profit on rental revenues of \$12.0 million, or 42%, to \$16.8 million as compared to the same period in 2008. The rental revenues decrease was due to 10% lower average monthly rental rates and 11% lower average rental equipment on rent as compared to 2008. The rental rate decrease was due to account penetration and other competitive pressures, and to a lesser extent the phasing out of TRS acquired equipment having lower original cost compared to new equipment purchases and a greater mix of general purpose test equipment that typically has lower rental rates, but longer depreciable lives, compared to communications test equipment.

Gross Profit on Sales Sales revenues decreased 21% to \$14.6 million in 2009 as compared to \$18.4 million in 2008. Gross margin percentage was 32% in 2009, compared to 38% in 2008, primarily due to lower gross margin on new and used equipment sales resulting in gross profit on sales decreasing \$2.4 million, or 34%, to \$4.6 million from \$7.0 million in 2008. Sales occur routinely as a normal part of TRS-RenTelco's rental business; however, these sales and related gross margins can fluctuate from quarter to quarter depending on customer requirements, equipment availability and funding.

For the nine months ended September 30, 2009, selling and administrative expenses decreased 13%, to \$16.1 million from \$18.6 million in the same period in 2008 due to lower personnel costs and lower marketing expense.

Adler Tanks

For the nine months ended September 30, 2009, Adler Tanks reported pre-tax income of \$2.9 million, which resulted from rental revenues of \$12.7 million, with gross profit on rental revenues of \$8.5 million. Sales revenues in the nine months ended September 30, 2009 were \$0.1 million. Selling and administrative expenses were \$6.3 million in 2009.

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

Adler Tanks Nine Months Ended 9/30/09 (Unaudited)

(dollar amounts in thousands)

	Nine Months Ended		Increase (Decrease)	
	September 30, 2009	2008	\$	%
Revenues				
Rental	\$ 12,717	\$	\$ 12,717	nm
Rental Related Services	4,567		4,567	nm
Rental Operations	17,284		17,284	nm
Sales	54		54	nm
Other	24		24	nm
Total Revenues	\$ 17,362	\$	\$ 17,362	nm
Gross Profit				
Rental	\$ 8,516	\$	\$ 8,516	nm
Rental Related Services	1,229		1,229	nm
Rental Operations	9,745		9,745	nm
Sales	17		17	nm
Other	24		24	nm
Total Gross Profit	9,786		9,786	nm
Selling and Administrative Expenses	6,266		6,266	nm
Income from Operations	3,520		3,520	nm
Interest Expense Allocation	666		666	nm
Pre-tax Income	\$ 2,854	\$	\$ 2,854	nm
Other Information				
Depreciation of Rental Equipment	\$ 2,336	\$	\$ 2,336	nm
Average Rental Equipment ¹	\$ 55,255	\$	\$ 55,255	nm
Average Rental Equipment on Rent ¹	\$ 33,382	\$	\$ 33,382	nm
Average Monthly Total Yield ²	2.56%			
Average Utilization ³	60.4%			
Average Monthly Rental Rate ⁴	4.23%			
Period End Rental Equipment ¹	\$ 67,121	\$	\$ 67,121	nm
Period End Utilization ³	65.6%			

Edgar Filing: MCGRATH RENTCORP - Form 10-Q

- 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 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

Liquidity and Capital Resources

The Company's rental businesses are capital intensive and generate significant cash flows. The Company finances its working capital and capital expenditure requirements through cash flow from operations, proceeds from the sale of rental equipment and from bank borrowings. Cash flows for the Company for the nine months ended September 30, 2009 compared to the same period in 2008 are summarized as follows:

Cash Flows from Operating Activities: The Company's operations provided net cash flow of \$89.5 million, an increase of 10% in 2009 as compared to \$81.3 million in 2008. The \$8.2 million increase in net cash provided by operating activities was primarily attributable to reduced accounts receivable and income taxes receivable and other balance sheet changes, partly offset by lower income from operations.

Cash Flows from Investing Activities: Net cash used in investing activities was \$32.2 million in 2009 compared to \$73.7 million in 2008. The \$41.6 million decrease was primarily due to \$31.2 million lower purchases of rental equipment of \$51.4 million in 2009 compared to \$82.6 million in 2008 and \$11.4 million lower purchases of property, plant and equipment in 2009.

Cash Flows from Financing Activities: Net cash used in financing activities was \$58.4 million in 2009, compared to \$12.2 million in 2008. The \$46.2 million change in net cash flows from financing activities was primarily due to borrowings and repayments on the Company's bank lines of credit, partly offset by the \$24.4 million repurchase of common stock in 2008 that did not recur in 2009.

Revolving Lines of Credit

In May 2008, the Company entered into a credit facility with a syndicate of banks (the Credit Facility). The Credit Facility provides for a \$350.0 million unsecured revolving credit facility and requires the Company to pay interest determined by reference to the Consolidated Leverage Ratio (as defined). In addition, the Company pays a commitment fee on the daily unused portion of the available facility. The Credit Facility matures on May 14, 2013.

In June 2008, the Company entered into a Credit Facility Letter Agreement with Union Bank, N.A. and a Credit Line Note in favor of Union Bank, N.A., extending its \$5.0 million line of credit facility related to its cash management services (Sweep Service Facility). The Sweep Service Facility matures on the earlier of May 14, 2013, or the date the Company ceases to utilize Union Bank, N.A. for its cash management services.

At September 30, 2009, under the Credit Facility and the Sweep Service Facility, the Company had unsecured lines of credit that permit it to borrow up to \$355.0 million of which \$237.5 million was outstanding and had capacity to borrow up to an additional \$117.5 million. The Credit Facility contains financial covenants requiring the Company to not:

Permit the Consolidated Fixed Charge Coverage Ratio (as defined) as of the end of any fiscal quarter to be less than 2.00 to 1 under the Company's credit facilities. At September 30, 2009 the actual ratio was 3.41 to 1.00.

Permit the Consolidated Asset Coverage Ratio (as defined) as of the end of any fiscal quarter to be less than 1.50 to 1.00 under the Company's credit facilities. At September 30, 2009 the actual ratio was 2.68 to 1.00.

Permit the Consolidated Leverage Ratio (as defined) at any time during any period of four consecutive quarters to be greater than 2.50 to 1.00 under the Company's credit facilities. At September 30, 2009 the actual ratio was 1.95 to 1.00.

At September 30, 2009, 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 our financial performance could impact the Company's ability to comply with these covenants.

5.08% Senior Notes Due in 2011

In June 2004, the Company completed a private placement of \$60 million of 5.08% senior notes due in 2011. Interest on these notes is due semi-annually in arrears and the principal is due in five equal annual installments, with the third payment made on June 2, 2009 which reduced the principal balance to \$24.0 million. Among other restrictions, the Note Agreement, under which the senior notes were sold, contains financial covenants requiring the Company to not:

Permit the Consolidated Fixed Charge Coverage Ratio of EBITDA (as defined) to fixed charges as of the end of any fiscal quarter to be less than 2.00 to 1.00. At September 30, 2009 the actual ratio was 3.51 to 1.00.

Permit the Consolidated Leverage Ratio of funded debt to EBITDA (as defined) at any time during any period of four consecutive quarters to be greater than 2.50 to 1.00. At September 30, 2009 the actual ratio was 1.95 to 1.00.

Permit tangible net worth calculated as of the last day of each fiscal quarter to be less than the sum of \$127.5 million, plus 50% of net income for such fiscal quarter, plus 90% of the net cash proceeds from the issuance of the Company's capital stock after December 31, 2003, excluding the first \$2.0 million of such proceeds from the exercise of stock options after December 31, 2003. At September 30, 2009, such sum was \$249.6 million and the actual tangible net worth of the Company was \$260.3 million.

On August 4, 2009 the Company executed an amendment to the 5.08% senior notes due in 2011 to amend and restate the Consolidated Leverage Ratio of funded debt to EBITDA (as defined) to 2.50 to 1.00 from 2.25 to 1.00. In addition, EBITDA shall now be calculated on a pro forma basis to give effect, as of the first day of the relevant period, to any approved acquisition or disposition of a subsidiary or business division which was effected during the relevant period. Also, the limit of Priority Debt (as defined) was modified to an amount not to exceed \$30.0 million, from an amount not to exceed 15% of Tangible Net Worth (as defined).

At September 30, 2009, 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 our financial performance could impact the Company's ability to comply with these covenants.

The Company has in the past made purchases of shares of its common stock from time to time in the over-the-counter market (NASDAQ) and/or through privately negotiated, large block transactions under an authorization of the Company's board of directors. Shares repurchased by the Company are cancelled and returned to the status of authorized but unissued stock. During the nine months ended September 30, 2008, the Company repurchased 968,746 shares of common stock for an aggregate repurchase price of \$21.9 million, or an average price of \$22.61 per share. These repurchases occurred during the three months ended March 31, 2008. On May 14, 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. In connection with this authorization, the Board of Directors terminated its previous share repurchase authorization announced on March 21, 2003. There were no repurchases of common stock during the three and nine months ended September 30, 2009. As of September 30, 2009, 2,000,000 shares remain authorized for repurchase.

Although no assurance can be given, the Company believes it will continue to be able to negotiate general bank lines of credit adequate to meet capital requirements not otherwise met by operational cash flows and proceeds from sales of rental equipment.

Contractual Obligations

We do not believe that our contractual obligations have changed materially from those included in our 2008 Annual Report.

Off-Balance Sheet Arrangements

We had no material off-balance sheet arrangements as of September 30, 2009.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the Company's market risk exposures from those reported in our 2008 Annual Report.

ITEM 4. CONTROLS AND PROCEDURES

The Company's management, under the supervision and with the participation of the Company's Chief Executive Officer (the CEO) and Chief Financial Officer (the CFO), performed an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of September 30, 2009. Management's evaluation excluded the business of Adler Tanks, which business was acquired pursuant to an asset purchase transaction which was closed in December 2008. Adler Tanks is a wholly-owned subsidiary of the Company whose total assets and total net revenues represented less than 16% of consolidated total assets and less than 9% of consolidated net revenues, respectively, of the Company as of and for the nine month period ended September 30, 2009. Companies are allowed to exclude acquisitions from their evaluation of internal control over financial reporting during the first year of an acquisition while integrating the acquired company under guidelines established by the Securities and Exchange Commission. Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective. There have been no significant changes in the Company's internal controls or in other factors that have materially affected, or would reasonably be likely to materially affect, the Company's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is subject to various legal proceedings and claims arising in the ordinary course of business. The Company's management does not expect that the outcome in the current proceedings, individually or collectively, will have a material adverse effect on the Company's financial condition, operating results or cash flows.

ITEM 1A. RISK FACTORS

You should carefully consider the following discussion of various risks and uncertainties. We believe these risk factors are the most relevant to our business and could cause our results to differ materially from the forward-looking statements made by us. Our business, financial condition, and results of operations could be seriously harmed if any of these risks or uncertainties actually occur or materialize. In that event, the market price for our common stock could decline, and you may lose all or part of your investment.

The effects of a recession in the United States and other countries and the continuing financial and credit crisis may adversely impact our business and financial condition and may negatively impact our ability to access financing.

The U.S. economy is currently in a recession which may deepen and continue for the foreseeable future. Demand for our rental products depends on continued industrial and business activity and state government funding. The continuation of the U.S. recession and general global economic downturn could adversely affect our customers, including local school districts, which could result in decreased demand for the products we rent. Reduced demand for our rental products and deflation could increase price competition. This lowered demand and price pressure could have a material adverse effect on our revenue and profitability.

The continued credit crisis and related instability in the global financial system may also have an impact on our business and our financial condition. General economic conditions and the tightening credit markets have significantly affected the ability of many companies to raise new capital or refinance existing indebtedness. While we intend to finance expansion with cash flow from operations and borrowing under our existing unsecured revolving line of credit facility, we may require additional financing to support our continued growth. Due to constriction in the capital markets, should we need to access the market for additional funds or to refinance our existing indebtedness, we may not be able to obtain such additional funds on terms acceptable to the Company or at all. All of these factors could impact our business, resulting in lower revenues and lower levels of earnings in future periods. At the current time we are uncertain as to the magnitude, if any, of such changes in our business.

Our stock price is subject to fluctuations and the value of your investment may decline.

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;

changes in general conditions in the economy, the industries in which we operate or the financial markets;

investor's reaction to our press releases, public announcements, or filings with the SEC;

the stock price performance of competitors or other comparable companies;

Edgar Filing: MCGRATH RENTCORP - Form 10-Q

changes in research analysts' coverage, recommendations or earnings estimates for us or for the stocks of other companies in our industry;

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 stock market has experienced significant price and volume fluctuations. These fluctuations are often unrelated to the operating performance of particular companies. More recently, the global credit crisis has adversely affected the prices of publicly traded stocks across the board as stockholders have become more willing to divest their stock holdings at lower values to increase their cash flow and reduce exposure. These broad market fluctuations and recent negative economic trends may cause declines in the market price of our common stock and are 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 future operating results may fluctuate, fail to match past performance or fail to meet expectations.

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;

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.

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, Dennis Kakures 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 when turnover occurs.

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. We may also experience supply problem as a result of shortages, and discontinuations resulting from product obsolescence or other shortages or allocations by suppliers. Current 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.

Disruptions in our information technology systems could limit our ability to effectively monitor and control our operations and adversely affect our operations.

Our information technology systems facilitate our ability to monitor and control our operations and adjust to changing market conditions. Any disruption in any of 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 monitor and control our operations and adjust to changing market conditions in a timely manner.

In June 2005, we entered into an agreement with Rental Result, a rental software application provider, to support the transition of our modular business, certain aspects of our electronic test equipment business and our accounting systems to their platform. These information system upgrades are important to serve and support our strategic growth. The first and largest phase of this multi-year project was implemented in October 2008. We expect the continuing upgrades to our IT infrastructure will result in higher ongoing selling and administrative costs in 2009.

The delay or failure to implement these 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.

In 2004, we acquired TRS, an electronic test equipment rental business and in 2008 we acquired 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 the business;

difficulties in entering markets in which we have no or limited direct prior experience and where competitors in such markets have stronger market positions;

difficulties in complying with regulations, 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, 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 which may erode employee morale;

Edgar Filing: MCGRATH RENTCORP - Form 10-Q

potential loss of key employees, including costly litigation resulting from the termination of those employees. In connection with acquisitions we may:

assume liabilities or acquire damaged assets, some of which may be unknown at the time of such acquisitions;

record goodwill and non-amortizable intangible assets that will be subject to future impairment testing and potential periodic impairment charges;

incur amortization expenses related to certain intangible assets; or

become 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. Failure to manage and successfully integrate acquisitions we make could harm our business and operating results in a material way.

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 a substantial portion of our available credit line. 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.

We could have difficulty integrating the operations of Adler Tanks and other businesses that we may acquire, which could adversely affect our results of operations.

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. In December 2008, we acquired Adler Tanks. The integration of the Adler Tanks business is ongoing and could disrupt our business by diverting management's attention from day-to-day operations and requiring significant financial resources that would otherwise be used for the ongoing development of our 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, we could be unable to retain key employees or customers of the combined businesses. We could face integration issues pertaining to the internal controls and operational functions of the acquired companies and we also could fail to realize cost efficiencies or synergies that we anticipated when selecting our acquisition candidates. Any of these items could adversely affect our results of operations.

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 sell to customers on 30-day terms, individually perform credit evaluation procedures on our customers on 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, in each of the last five years have been less than 1% of total revenues. If economic conditions continue to worsen, we may see an increase in bad debt relative to historical levels, which may materially and adversely affect our operations. Failure to manage our credit risk and receive timely payments on our customer accounts receivable may result in the write-off of customer receivables and loss of equipment, particularly electronic test equipment. If we are not able to manage credit risk issues, or if a large number of customers should have financial difficulties at the same time, our credit and equipment losses would 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.

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. Modular asset management requires designing and building the product for a long life that anticipates the needs of our customers, including anticipating 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.

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.

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 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 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 owned or leased and newly acquired or leased properties may have resulted in undiscovered soil or groundwater contamination or historical non-compliance. 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, 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 remain in compliance 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 commercially reasonable liability coverage, 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.

Conducting our routine businesses exposes us to risk of litigation from employees, vendors and other third parties.

We are subject to claims arising from disputes with employees, vendors and other third parties in the normal course of 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 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. If our senior executives were named in any lawsuit, our indemnification obligations could magnify the costs of these suits.

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.

The agreements governing our 5.08% senior notes due in 2011 and our unsecured revolving line of credit facility contain various covenants that may 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. 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 the 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 the required accelerated payments. If we default on our indebtedness, our business financial condition and results of operation 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.

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 will be reset at varying periods. These interest rate adjustments could expose our operating results and cash flows to periodic fluctuations. Our annual debt service obligations will increase by approximately \$2.6 million per year for each 1% increase in the average interest rate we pay, based on the \$261.5 million balance of variable rate debt outstanding at September 30, 2009. If interest rates rise in the future, and particularly, if they rise significantly, our income will be negatively affected.

Our effective tax rate may change and become less predictable as our business expands.

We continue to consider expansion opportunities domestically and internationally for our rental businesses, such as our organic expansion of our modular business in North Carolina, Georgia, Maryland and Virginia, recent expansion into the portable storage and environmental test equipment businesses and in 2008 our expansion into the liquid and solid containment business through the acquisition of Adler Tank Rentals. 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 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 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 Securities and Exchange Commission, including expanded disclosures and accelerated reporting requirements. Compliance with Section 404 and other requirements has and will continue to increase our costs and 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 we completed a favorable assessment as to the adequacy of our internal controls over financial reporting for our fiscal year ended December 31, 2008, 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 controls over financial reporting, investors could lose confidence in the reliability of our internal controls over financial reporting, which could adversely affect our stock price.

If we suffer loss to our facilities, equipment or distribution system due to catastrophe, our operations could be seriously harmed.

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, we have our headquarters, three operating facilities, and rental equipment in California, which are located in areas with above average seismic activity and could be subject to a 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 are adequate with the appropriate limits and deductibles to mitigate the potential loss exposure of our business. We do not have financial reserves for policy deductibles and we do have exclusions under our insurance policies that are customary for our industry, including 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.

SPECIFIC RISKS RELATED TO OUR RELOCATABLE MODULAR BUILDINGS BUSINESS SEGMENT:

A significant reduction of, or delay in, funding to public schools could cause the demand for our modular classroom units to decline, which could result in 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 kindergarten through grade twelve 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 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 could reduce our revenues and operating income, and consequently have a material adverse effect on the Company's financial condition.

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, a lack of 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.

In California a law was enacted in 1996 to provide funding for school districts for the reduction of class sizes for kindergarten through third grade. In Florida a state constitutional amendment was passed in 2002 to limit the number of students that may be grouped in a single classroom for pre-kindergarten through grade twelve. 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. Further, in California, efforts to address aging infrastructure and deferred maintenance have resulted in a significant increase in modernization and reconstruction projects by public school districts including seismic retrofitting, asbestos abatement and various building repairs and upgrades. If educational priorities and policies shift away from class-size reduction or modernization and reconstruction projects, demand for our products and services may decline, not grow as quickly as or 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 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 general and administrative costs.

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 entail 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.

Our planned expansions of our modular operations into new markets will affect our operating results.

We have established modular operations in California, Texas and Florida and launched operations in North Carolina and Georgia in late 2007 and in Maryland and Virginia during 2008. We have identified several U.S. markets that we believe will be attractive long-term opportunities for our educational and commercial modular business and continue to consider opportunities for growth of our modular business. There are risks inherent in the undertaking of such expansion, including the risk of revenue from the business in these 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 in new markets may be affected by local economic and market conditions. Expansion of our operations into these 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.

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 the 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 can 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 are derived from the educational market. Typically, during each calendar year, our highest number 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. These factors may impact the quarterly revenues and earnings of each year's second, third and fourth quarters.

We face strong competition in our modular building markets.

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 believe 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 Williams Scotsman International, Inc. and Modspace, have a greater range of products and services, greater financial and marketing resources, larger customer bases, and greater name recognition than we have. These larger 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 buildings returning from leases.

As of September 30, 2009, 63% of our modular portfolio had equipment on rent for periods exceeding the original committed term. Generally, when a customer continues to rent the modular units beyond the contractual term, the equipment rents on a month-to-month basis. If a significant number of our rented modular units were returned during a short period of time, particularly those units that are rented on a month-to-month basis, a large supply of units would need to be remarketed. Our failure to effectively remarket a large influx of units returning from leases could negatively affect our financial performance and our ability to continue expanding our rental fleet.

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

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

We are dependent on third parties to manufacture our products even though we are able to purchase products from a variety of third-party suppliers. Mobile Modular purchases new modulares from various manufacturers who build to Mobile Modular's design specifications. With the exception of Enviroplex, none of the principal suppliers are affiliated with the Company. During 2008, Mobile Modular purchased 21% of its modular product from one manufacturer. The Company believes that the loss of its primary manufacturer of modulares 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 or incur significant capital expenditures to acquire new modular product to serve demand. In addition, these 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.

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, communications and environmental 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 and maintenance. 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 electronic test equipment rented by us. We experienced this in 2002, as a result of a significant and prolonged downturn in the telecommunications industry, and recorded non-cash impairment charges of \$24.1 million resulting from the depressed and low projected demand for the rental products coupled with high inventory levels, especially communications equipment. We expect the current U.S. recession and global economic downturn will have an adverse effect on these industries' demand for equipment in 2009, including the electronic test equipment rented by us, resulting in a reduction of our operating results and cash flows. 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. 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.

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 may impact quarterly results in each year's first and fourth quarter.

Our rental test equipment may become obsolete, which could result in an impairment charge or may no longer be supported by a manufacturer.

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 to shorten, causing us to incur an impairment charge. We monitor our manufacturers' capacity to

support their products, the introduction of new technologies, and acquire equipment that will be marketable to our current and prospective customers, however, the 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 of our products through their technology life cycle may cause certain electronic test equipment to become obsolete, resulting in impairment charges and 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, Telogy and Continental Resources, 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 intensifying 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.

The majority of our rental equipment portfolio is comprised of general-purpose test and measurement instruments purchased from leading manufacturers such as Agilent Technologies and Tektronix, a division of Danaher 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 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 and long-lived assets. 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 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, import/export and other trade compliance regulations of the countries in which we do business, 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;

difficulties in attracting and retaining staff and business partners to operate internationally;

language and cultural barriers;

seasonal reductions in business activities in the countries where our international customers are located;

difficulty with the integration of foreign operations;

longer payment cycles;

currency fluctuations; and

potential adverse tax consequences.

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

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

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

We may be brought into tort or environmental litigation or held responsible for cleanup of spills if an accident occurs in the use of our rental products or the customer fails to perform, 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 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 and regardless we cannot be sure this amount 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 that an inherent flaw in a tank or box contributed to the 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 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 claims of personal injury, property damage, and resource damage claims caused by the use of various products. While we try to take 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, liability could adversely impact our profitability.

The liquid and solid storage and 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 sell equipment at favorable prices.

The liquid and solid storage and containment rental industry is highly competitive. We compete against national, regional and local companies, including BakerCorp and Rain For Rent, both of which are significantly larger than we are and both of which 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. We may in the future encounter increased competition in the markets that we serve from existing competitors or from new market entrants.

We believe that equipment quality, service levels, rental rates and fleet size are key competitive factors in the liquid and solid containment storage 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 the 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 decreased operating income.

Market risk, commodity price volatility and cyclical downturns in the industries using tanks and boxes 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.

Adler Tanks' revenues are derived from the rental of tanks and boxes to companies involved in oil and gas exploration and refinement, environmental remediation and wastewater/groundwater treatment, infrastructure 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 tank and boxes business if the price reduction causes customers to limit or stop exploration, extraction or refinement activities, resulting in lower demand for renting Adler Tank's products. In addition, the recession in the U.S. may negatively impact infrastructure construction and industrial activity, which may also adversely affect our business.

Seasonality of the liquid and solid storage and 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 may impact quarterly results in each year's first and fourth quarter.

Significant increases in raw material, the price of 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 storage containment tanks and boxes would increase the cost of acquiring new equipment. These price increases could materially adversely impact our financial condition and results of operations if we were 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. We have not been able to mitigate the expense impact of higher fuel costs through surcharges, and do not intend to do so in the future. During periods of rising fuel and labor costs, and in particular when prices increase rapidly, we may not be able to recoup these costs from our customers, which would reduce our profitability.

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

We are dependent on a variety of third party companies to manufacture equipment to be used in our rental fleet. With the exception of Sabre Manufacturing, LLC, which is owned by the President of our Adler Tanks division, none of the manufacturers are affiliated with the Company. 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. In particular, we have seen weather-related slowdowns of manufacturing activity in New England in past winters. If demand for new equipment increases significantly, especially during a seasonal 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.

We derive a significant 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.

A significant portion of our revenue in our liquid and solid containment tank and boxes business is generated from a few major customers, including Republic Services, Inc. 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 significant customer, the failure to collect a significant receivable from a significant customer, any material reduction in orders by a significant customer or the cancellation of a significant customer order could significantly reduce our revenues and consequently harm our financial condition and our ability to fund our operations and service our debt.

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 industrial plant services, environmental remediation, infrastructure construction, and oil and gas 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. Actions in these circumstances by our competitors may also depress the market price for rental units. These delays and price pressures would adversely affect equipment utilization levels and total revenues, which would reduce our profitability.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ITEM 5. OTHER INFORMATION

Dividends

On September 29, 2009 the Company declared a quarterly dividend on its common stock; the dividend was \$0.22 per share. Subject to its continued profitability and favorable cash flow, the Company intends to continue the payment of quarterly dividends.

ITEM 6. EXHIBITS

- 15.1 Awareness Letter From Grant Thornton LLP
- 31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 5, 2009

MCGRATH RENTCORP

By: /s/ KEITH E. PRATT
Keith E. Pratt
Senior Vice President and Chief Financial Officer

By: /s/ DAVID M. WHITNEY
David M. Whitney
Vice President, Controller and Principal Accounting Officer