

MCGRATH RENTCORP  
Form 10-Q  
November 03, 2011

**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, 2011

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.)

(Address of principal executive offices)

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

## Edgar Filing: MCGRATH RENTCORP - Form 10-Q

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 3, 2011, 24,368,353 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. Further, our future business, financial condition and results of operations could differ materially from those anticipated by such forward-looking statements and are subject to risks and uncertainties as set forth under Risk Factors in this form 10-Q.*

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

**PART I FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**  
**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Board of Directors and Shareholders

McGrath RentCorp and Subsidiaries:

We have reviewed the accompanying condensed consolidated balance sheet of McGrath RentCorp and Subsidiaries as of September 30, 2011, and the related condensed consolidated statements of income for the three-month and nine-month periods ended September 30, 2011 and 2010, and cash flows for the nine-month periods ended September 30, 2011 and 2010. 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, 2010, 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, 2011, 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, 2010, 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 3, 2011

## McGRATH RENTCORP

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(in thousands, except per share amounts)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
<b>REVENUES</b>				
Rental	\$ 60,964	\$ 52,674	\$ 172,108	\$ 145,658
Rental Related Services	10,737	10,401	28,616	25,718
Rental Operations	71,701	63,075	200,724	171,376
Sales	32,783	19,640	55,206	38,535
Other	477	489	1,534	1,546
<b>Total Revenues</b>	<b>104,961</b>	<b>83,204</b>	<b>257,464</b>	<b>211,457</b>
<b>COSTS AND EXPENSES</b>				
Direct Costs of Rental Operations				
Depreciation of Rental Equipment	15,357	14,109	44,794	41,665
Rental Related Services	8,321	8,335	22,201	19,721
Other	10,274	12,097	30,479	30,846
<b>Total Direct Costs of Rental Operations</b>	<b>33,952</b>	<b>34,541</b>	<b>97,474</b>	<b>92,232</b>
Costs of Sales	23,622	14,613	37,392	26,865
<b>Total Costs of Revenues</b>	<b>57,574</b>	<b>49,154</b>	<b>134,866</b>	<b>119,097</b>
Gross Profit	47,387	34,050	122,598	92,360
Selling and Administrative Expenses	20,081	16,569	57,284	48,929
Income from Operations	27,306	17,481	65,314	43,431
Interest Expense	2,051	1,632	5,487	4,647
Income Before Provision for Income Taxes	25,255	15,849	59,827	38,784
Provision for Income Taxes	9,900	6,149	23,452	15,048
<b>Net Income</b>	<b>\$ 15,355</b>	<b>\$ 9,700</b>	<b>\$ 36,375</b>	<b>\$ 23,736</b>
<b>Earnings Per Share:</b>				
Basic	\$ 0.63	\$ 0.41	\$ 1.50	\$ 0.99
Diluted	\$ 0.62	\$ 0.40	\$ 1.47	\$ 0.98
<b>Shares Used in Per Share Calculation:</b>				
Basic	24,362	23,936	24,320	23,884
Diluted	24,719	24,173	24,702	24,138
Cash Dividends Declared Per Share	\$ 0.230	\$ 0.225	\$ 0.690	\$ 0.675

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

## McGRATH RENTCORP

## CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in thousands)	September 30, 2011	December 31, 2010
<b>ASSETS</b>		
Cash	\$ 652	\$ 990
Accounts Receivable, net of allowance for doubtful accounts of \$1,500 in 2011 and \$1,700 in 2010	89,641	76,488
Income Taxes Receivable		6,131
Rental Equipment, at cost:		
Relocatable Modular Buildings	534,109	514,548
Electronic Test Equipment	266,354	250,125
Liquid and Solid Containment Tanks and Boxes	178,805	133,095
	979,268	897,768
Less Accumulated Depreciation	(323,414)	(306,188)
Rental Equipment, net	655,854	591,580
Property, Plant and Equipment, net	94,717	83,861
Prepaid Expenses and Other Assets	14,053	13,944
Intangible Assets, net	12,527	12,868
Goodwill	27,700	27,700
Total Assets	\$ 895,144	\$ 813,562
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Liabilities:		
Notes Payable	\$ 289,573	\$ 265,640
Accounts Payable and Accrued Liabilities	60,786	49,612
Deferred Income	25,431	23,790
Deferred Income Taxes, net	198,944	179,543
Total Liabilities	574,734	518,585
Shareholders' Equity:		
Common Stock, no par value -		
Authorized 40,000 shares		
Issued and Outstanding 24,366 shares in 2011 and 24,235 shares in 2010	69,589	63,623
Retained Earnings	250,821	231,354
Total Shareholders' Equity	320,410	294,977
Total Liabilities and Shareholders' Equity	\$ 895,144	\$ 813,562

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

## McGRATH RENTCORP

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)	Nine Months Ended September 30,	
	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net Income	\$ 36,375	\$ 23,736
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	49,746	46,269
Provision for Doubtful Accounts	1,373	1,225
Non-Cash Stock-Based Compensation	3,709	3,155
Gain on Sale of Rental Equipment	(9,713)	(8,144)
Change In:		
Accounts Receivable	(14,526)	(19,540)
Income Taxes Receivable	6,131	5,147
Prepaid Expenses and Other Assets	(109)	(1,346)
Accounts Payable and Accrued Liabilities	10,467	6,750
Deferred Income	1,641	7,396
Deferred Income Taxes	19,401	1,461
<b>Net Cash Provided by Operating Activities</b>	<b>104,495</b>	<b>66,109</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of Rental Equipment	(120,699)	(93,408)
Purchase of Property, Plant and Equipment	(15,181)	(5,197)
Proceeds from Sale of Used Rental Equipment	21,502	19,791
<b>Net Cash Used in Investing Activities</b>	<b>(114,378)</b>	<b>(78,814)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net Borrowings (Payments) Under Bank Lines of Credit	(64,067)	37,166
Borrowings Under Private Placement	100,000	
Principal Payments on Senior Notes	(12,000)	(12,000)
Proceeds from the Exercise of Stock Options	1,848	2,454
Excess Tax Benefit from Exercise and Disqualifying		
Disposition of Stock Options	408	395
Payment of Dividends	(16,644)	(16,001)
<b>Net Cash Provided by Financing Activities</b>	<b>9,545</b>	<b>12,014</b>
<b>Net Decrease in Cash</b>	<b>(338)</b>	<b>(691)</b>
Cash Balance, beginning of period	990	1,187
<b>Cash Balance, end of period</b>	<b>\$ 652</b>	<b>\$ 496</b>
Interest Paid, during the period	\$ 3,705	\$ 4,530
Income Taxes Paid (Refunds Received), during the period	\$ (2,696)	\$ 8,030

Edgar Filing: MCGRATH RENTCORP - Form 10-Q

Dividends Accrued	\$ 5,772	\$ 5,435
Rental Equipment Acquisitions, not yet paid	\$ 5,545	\$ 10,592

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



---

**McGRATH RENTCORP**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**September 30, 2011**

**NOTE 1. CONDENSED CONSOLIDATED FINANCIAL INFORMATION**

The condensed consolidated financial statements for the three and nine months ended September 30, 2011 and 2010 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 (the SEC). Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to those rules and regulations. The consolidated results for the nine months ended September 30, 2011 should not be considered as necessarily indicative of the consolidated results for the entire fiscal year. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's latest Annual Report on Form 10-K filed with the SEC on February 25, 2011.

**NOTE 2. NEW ACCOUNTING PRONOUNCEMENTS**

In September 2011, the Financial Accounting Standards Board (FASB) issued an accounting standards update to permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test. This update is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011, with early adoption permitted. The Company does not expect the adoption of this update to have a significant impact on its condensed consolidated financial statements.

In April 2010, the FASB issued an accounting standards update to clarify that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades, should not be considered to contain a condition that is not a market, performance or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. This update is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2010. The Company implemented these new requirements in its first quarter of fiscal 2011. The adoption of this accounting guidance did not have a 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 the number of dilutive options and are computed using the treasury stock method and the average share price for the reported period. The table below presents the weighted-average number of shares of common stock used to calculate basic and diluted earnings per share:

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Weighted-average number of shares of common stock for calculating basic earnings per share	24,362	23,936	24,320	23,884
Effect of potentially dilutive securities from equity-based compensation	357	237	382	254
Weighted-average number of shares of common stock for calculating diluted earnings per share	24,719	24,173	24,702	24,138

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

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Options to purchase shares of common stock	1,175	1,359	1,168	1,349

#### NOTE 4. RELATED PARTY TRANSACTIONS

The Company acquired liquid and solid containment tanks totaling \$9.2 million and \$18.3 million, during the three and nine months ended September 30, 2011, 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 leased one operating facility and receives certain support services from companies controlled by the President of Adler Tank Rentals, LLC, which totaled \$0.1 million and \$0.2 million in the three and nine months ended September 30, 2011, respectively. Amounts due to the aforementioned related parties at September 30, 2011 totaled \$0.4 million.

#### NOTE 5. NOTES PAYABLE

On April 21, 2011, the Company entered into a Note Purchase and Private Shelf Agreement (the *Note Purchase Agreement*) with Prudential Investment Management, Inc., The Prudential Insurance Company of America and Prudential Retirement Insurance and Annuity Company (collectively, the *Purchaser*), pursuant to which the Company agreed to sell an aggregate principal amount of \$100 million of its 4.03% Series A Senior Notes (the *Notes*) to the Purchaser. The Notes are an unsecured obligation of the Company, due on April 21, 2018. Interest on these notes is due semi-annually in arrears and the principal is due in five equal annual installments, with the first payment due on April 21, 2014. Proceeds from the offering were used to repay outstanding borrowings under the Company's revolving credit facilities. In addition, the Note Purchase Agreement allows for the issuance and sale of additional senior notes to the Purchaser (the *Shelf Notes*) in the aggregate principal amount of \$100 million, to mature no more than 12 years after the date of original issuance thereof, to have an average life of no more than 10 years and to bear interest on the unpaid balance.

#### NOTE 6. SUBSEQUENT EVENTS

The Company evaluated all events or transactions that occurred after September 30, 2011. During this period, the Company did not have any material subsequent events that require disclosure in these condensed consolidated financial statements.

**NOTE 7. SEGMENT REPORTING**

The Company's four reportable segments are (1) its modular building rental division ( Mobile Modular ); (2) its electronic test equipment rental division ( TRS-RenTelco ); (3) its containment solutions for the storage of hazardous and non-hazardous liquids and solids division ( Adler Tanks ); and (4) its classroom manufacturing business selling modular buildings used primarily as classrooms in California ( Enviroplex ). The operations of each of these segments are described in Part I Item 1, Business , and the accounting policies of the segments are described in Note 2 Significant Accounting Policies in the Company's Annual Report on Form 10-K for the year ended December 31, 2010. Management focuses on several key measures to evaluate and assess each segment's performance, including rental revenue growth, gross profit, income from operations and income before provision for income taxes. Excluding interest expense, allocations of revenue and expense not directly associated with one of these segments are generally allocated to Mobile Modular, TRS-RenTelco and Adler Tanks based on their pro-rata share of direct revenues. Interest expense is allocated among Mobile Modular, TRS-RenTelco and Adler Tanks based on their pro-rata share of average rental equipment at cost, intangible assets, accounts receivable, deferred income and customer security deposits. The Company does not report total assets by business segment. Summarized financial information for the nine months ended September 30, 2011 and 2010 for the Company's reportable segments is shown in the following table:

Edgar Filing: MCGRATH RENTCORP - Form 10-Q

(dollar amounts in thousands)	Mobile Modular	TRS-RenTelco	Adler Tanks	Enviroplex <sup>1</sup>	Consolidated
<b>Nine Months Ended September 30,</b>					
<b>2011</b>					
Rental Revenues	\$ 59,689	\$ 70,370	\$ 42,049	\$	\$ 172,108
Rental Related Services Revenues	17,886	2,273	8,457		28,616
Sales and Other Revenues	16,835	19,149	341	20,415	56,740
Total Revenues	94,410	91,792	50,847	20,415	257,464
Depreciation of Rental Equipment	10,306	28,561	5,927		44,794
Gross Profit	40,970	41,561	35,053	5,014	122,598
Selling and Administrative Expenses	24,027	18,966	11,704	2,587	57,284
Income from Operations	16,943	22,595	23,349	2,427	65,314
Interest Expense (Income) Allocation	2,935	1,544	1,174	(166)	5,487
Income before Provision for Income Taxes	14,008	21,051	22,175	2,593	59,827
Rental Equipment Acquisitions	27,556	47,454	45,846		120,856
Accounts Receivable, net (period end)	45,199	22,409	18,839	3,194	89,641
Rental Equipment, at cost (period end)	534,109	266,354	178,805		979,268
Rental Equipment, net book value (period end)	381,669	110,444	163,741		655,854
Utilization (period end) <sup>2</sup>	67.0%	66.3%	90.5%		
Average Utilization <sup>2</sup>	67.1%	65.4%	86.4%		
<b>2010</b>					
Rental Revenues	\$ 61,889	\$ 60,083	\$ 23,686	\$	\$ 145,658
Rental Related Services Revenues	17,206	1,622	6,890		25,718
Sales and Other Revenues	15,487	15,607	122	8,865	40,081
Total Revenues	94,582	77,312	30,698	8,865	211,457
Depreciation of Rental Equipment	10,291	27,527	3,847		41,665
Gross Profit	41,126	30,631	18,404	2,199	92,360
Selling and Administrative Expenses	21,239	16,798	8,750	2,142	48,929
Income from Operations	19,887	13,833	9,654	57	43,431
Interest Expense (Income) Allocation	2,664	1,349	782	(148)	4,647
Income before Provision for Income Taxes	17,223	12,484	8,872	205	38,784
Rental Equipment Acquisitions	19,070	32,613	41,539		93,222
Accounts Receivable, net (period end)	49,721	19,865	13,267	6,059	88,912
Rental Equipment, at cost (period end)	514,597	250,063	122,382		887,042
Rental Equipment, net book value (period end)	370,971	101,157	115,021		587,149
Utilization (period end) <sup>2</sup>	67.4%	67.4%	77.4%		
Average Utilization <sup>2</sup>	67.8%	66.1%	73.1%		

1 Gross Enviroplex sales revenues were \$20,512 and \$9,150 for the nine months ended September 30, 2011 and 2010, respectively, which includes inter-segment sales to Mobile Modular of \$97 and \$285, respectively, which have been 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.

No single customer accounted for more than 10% of total revenues for the nine months ended September 30, 2011 and 2010. 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 the 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, 2010, as filed with the Securities and Exchange Commission (the SEC ) on February 25, 2011 (the 2010 Annual Report ) and those that may be identified from time to time in our reports and registration statements filed with the SEC.*

*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 2010 Annual Report. In preparing the following MD&A, we presume that readers have access to and have read the MD&A in our 2010 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 conform 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) its modular building rental division ( Mobile Modular ); (2) its electronic test equipment rental division ( TRS-RenTelco ); (3) its containment solutions for the storage of hazardous and non-hazardous liquids and solids division ( Adler Tanks ); and (4) its classroom manufacturing business selling modular buildings used primarily as classrooms in California ( Enviroplex ).

The Mobile Modular segment includes the results of operations of Mobile Modular Portable Storage, which represented less than 2% of the Company's total revenues in the nine months ended September 30, 2011. Mobile Modular Portable Storage commenced operations in 2008 and offers portable storage units and high security portable office units for rent, lease and purchase in California, Texas and Florida. The TRS-RenTelco segment includes the results of operations of TRS-Environmental, which represented less than 2% of the Company's total revenues in the nine months ended September 30, 2011. TRS-Environmental commenced operations in 2008 and offers a wide variety of environmental monitoring, environmental sampling and field and safety supplies for rent, lease or purchase. In the nine months ended September 30, 2011, Mobile Modular, TRS-RenTelco, Adler Tanks and Enviroplex contributed 24%, 35%, 37% and 4% of the Company's income before provision for taxes (the equivalent of pretax income ), respectively, compared to 44%, 32%, 23% and 1% for the same period in 2010. 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. Accordingly, we have not presented a separate discussion of Enviroplex's results of operations in this MD&A.

Revenues of Mobile Modular are derived from the rental and sale of modular buildings (under the Mobile Modular trade name) and portable storage units (under the Mobile Modular Portable Storage trade name) to fulfill customers' temporary and permanent classroom, office space and storage needs in California, Texas, Florida, North Carolina, Georgia, Maryland, Virginia and Washington, D.C., with a majority of revenues generated in California. The Company generates its revenue primarily 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 lease agreements with 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 (consisting of revenues from Mobile Modular, Mobile Modular Portable Storage and Enviroplex) are derived from rentals and sales to education and commercial customers, with a majority of revenues generated by education customers. Modular revenues are primarily affected by demand for classrooms, which in turn is affected by shifting and fluctuating school populations, the levels 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, planned programs to increase the number of classrooms, such as those that the Company provides, may be postponed or terminated. However, decreased 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. The Company believes that any future 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 2010 Annual Report and *Item 1A. Risk Factors Significant reductions of, or delays in, funding to public schools have caused the demand for our modular classroom units to decline, which has resulted in a reduction in our revenues and profitability* in Part II Other Information 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, as well as communication infrastructure installation and maintenance.

Revenues of Adler Tanks are derived from the rental and sale of fixed axle tanks ( tanks ) and 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, as well as waste management and landfill services for the containment of hazardous and non-hazardous liquids and solids. The liquid and solid containment tanks and boxes rental business was acquired through the acquisition of Adler Tank Rentals, LLC on December 11, 2008.

The Company's rental operations include rental and rental related service revenues which comprised approximately 78% and 81% of consolidated revenues in the nine months ended September 30, 2011 and 2010, respectively. Of the total rental operations revenues for the nine months ended September 30, 2011, Mobile Modular, TRS-RenTelco and Adler Tanks comprised 39%, 36% and 25%, respectively, compared to 46%, 36% and 18%, respectively, in the same period of 2010. 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, cost of subrentals and amortization of certain lease costs.

The Company's Mobile Modular, TRS-RenTelco and Adler Tanks business segments sell modular units, electronic test equipment and liquid and solid containment tanks and boxes, respectively, which are either new or previously rented. In addition, Enviroplex sells new modular buildings used primarily as classrooms in California. For the nine months ended September 30, 2011 and 2010, sales and other revenues of modular, electronic test equipment and liquid and solid containment tanks and boxes comprised approximately 22% and 19%, respectively, of the Company's consolidated revenues. Of the total sales and other revenues for the nine months ended September 30, 2011 and 2010, Mobile Modular and Enviroplex together comprised 66% and 61%, respectively, and TRS-RenTelco comprised 34% and 39%, respectively. Adler Tanks sales and other revenues for the nine months ended September 30, 2011 and 2010 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.

**Adjusted EBITDA**

To supplement the Company's financial data presented on a basis consistent with accounting principles generally accepted in the United States of America (GAAP), the Company presents Adjusted EBITDA which is defined by the Company as net income before interest expense, provision for income taxes, depreciation, amortization, 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 period-to-period operating performance, compliance with financial covenants in the Company's revolving lines of credit and senior notes and the Company's ability to meet future capital expenditure and working capital requirements. Management believes the exclusion of non-cash charges, including stock-based compensation, is useful in measuring the Company's cash available for operations and performance of the Company. Because management finds Adjusted EBITDA useful, the Company believes its investors will also find Adjusted EBITDA useful in evaluating the Company's performance.

Adjusted EBITDA should not be considered in isolation or as a substitute for net income, cash flows, or other consolidated income or cash flow data prepared in accordance with GAAP or as a measure of the Company's profitability or liquidity. Adjusted EBITDA is not in accordance with or an alternative for GAAP, and may be different from non-GAAP measures used by other companies. Unlike EBITDA, which may be used by other companies or investors, Adjusted EBITDA does not include stock-based compensation charges. The Company believes that Adjusted EBITDA is of limited use in that it does not reflect all of the amounts associated with the Company's results of operations as determined in accordance with GAAP and does not accurately reflect real cash flow. In addition, other companies may not use Adjusted EBITDA or may use other non-GAAP measures, limiting the usefulness of Adjusted EBITDA for purposes of comparison. The Company's presentation of Adjusted EBITDA should not be construed as an inference that the Company will not incur expenses that are the same as or similar to the adjustments in this presentation. Therefore, Adjusted EBITDA should only be used to evaluate the Company's results of operations in conjunction with the corresponding GAAP measures. The Company compensates for the limitations of Adjusted EBITDA by relying upon GAAP results to gain a complete picture of the Company's performance. Because Adjusted EBITDA is a non-GAAP financial measure, as defined by the SEC, the Company includes in the tables below reconciliations of Adjusted EBITDA to the most directly comparable financial measures calculated and presented in accordance with GAAP.

**Reconciliation of Net Income to Adjusted EBITDA**

(dollar amounts in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,		Twelve Months Ended September 30,	
	2011	2010	2011	2010	2011	2010
Net Income	\$ 15,355	\$ 9,700	\$ 36,375	\$ 23,736	\$ 49,118	\$ 32,637
Provision for Income Taxes	9,900	6,149	23,452	15,048	30,975	20,016
Interest	2,051	1,632	5,487	4,647	7,026	6,230
Income from Operations	27,306	17,481	65,314	43,431	87,119	58,883
Depreciation and Amortization	17,110	15,681	49,746	46,269	66,054	61,788
Non-Cash Stock-Based Compensation	1,582	1,069	3,709	3,155	4,781	4,049
Adjusted EBITDA <sup>1</sup>	\$ 45,998	\$ 34,231	\$ 118,769	\$ 92,855	\$ 157,954	\$ 124,720
Adjusted EBITDA Margin <sup>2</sup>	44%	41%	46%	44%	47%	45%

**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,	
	2011	2010	2011	2010	2011	2010
Adjusted EBITDA <sup>1</sup>	\$ 45,998	\$ 34,231	\$ 118,769	\$ 92,855	\$ 157,954	\$ 124,720
Interest Paid	(1,048)	(1,392)	(3,705)	(4,530)	(5,481)	(6,483)
Net Income Taxes (Paid) Refunds Received	(902)	(2,063)	2,696	(8,030)	1,384	(8,634)
Gain on Sale of Used Rental Equipment	(3,217)	(3,399)	(9,713)	(8,144)	(13,296)	(11,013)
Change in certain assets and liabilities:						
Accounts Receivable, net	(10,811)	(19,501)	(13,153)	(18,315)	(730)	(11,263)
Income Taxes Receivable		72	6,131	5,147	1,103	5,147
Prepaid Expenses and Other Assets	8,712	141	(109)	(1,346)	1,536	(1,139)
Accounts Payable and Other Liabilities	(136)	3,504	1,938	1,076	3,186	2,844
Deferred Income	(5,550)	11,363	1,641	7,396	(6,710)	4,742
Net Cash Provided by Operating Activities	\$ 33,046	\$ 22,956	\$ 104,495	\$ 66,109	\$ 138,946	\$ 98,921

1 Adjusted EBITDA is defined as net income before 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 in the Credit facility and Note Purchase Agreement discussed below) to fixed charges as of the end of any fiscal quarter to be less than 2.00 to 1 under the line of credit and 2.50 to 1 under the senior notes. At September 30, 2011, the actual ratio for the line of credit and the senior notes was 5.48 to 1 and 4.37 to 1, respectively.

Permit the Consolidated Leverage Ratio of funded debt to Adjusted EBITDA (as defined in the Credit Facility and Note Purchase Agreement discussed below) at any time during any period of four consecutive quarters to be greater than 2.50 to 1. At September 30, 2011, the actual ratio for the line of credit and the senior notes was 1.83 to 1.

At September 30, 2011, the Company was in compliance with each of the aforementioned covenants. There are no anticipated trends that the Company is aware of that would indicate non-compliance with these covenants, although significant deterioration in our financial performance could impact the Company's ability to comply with these covenants.

**Recent Developments**

On September 14, 2011, the Company announced that the Board of Directors declared a quarterly cash dividend of \$0.23 per common share for the quarter ended September 30, 2011, an increase of 2% over the prior year's comparable quarter.

On April 21, 2011, the Company entered into a Note Purchase and Private Shelf Agreement (the "Note Purchase Agreement") with Prudential Investment Management, Inc., The Prudential Insurance Company of America and Prudential Retirement Insurance and Annuity Company (collectively, the "Purchaser"), pursuant to which the Company agreed to sell an aggregate principal amount of \$100 million of its 4.03% Series A Senior Notes (the "Notes") to the Purchaser. The Notes are an unsecured obligation of the Company, due on April 21, 2018. Interest on these notes is due semi-annually in arrears and the principal is due in five equal annual installments, with the first payment due on April 21, 2014. Proceeds from the offering were used to repay outstanding borrowings under the Company's revolving credit facilities. In addition, the Note Purchase Agreement allows for the issuance and sale of additional senior notes to the Purchaser (the "Shelf Notes") in the aggregate principal amount of \$100 million, to mature no more than 12 years after the date of original issuance thereof, to have an average life of no more than 10 years and to bear interest on the unpaid balance.





*Results of Operations*

**Three Months Ended September 30, 2011 Compared to**

**Three Months Ended September 30, 2010**

**Overview**

Consolidated revenues for the three months ended September 30, 2011 increased 26% to \$105.0 million, from \$83.2 million for the same period in 2010. Consolidated net income for the three months ended September 30, 2011 increased 58% to \$15.4 million, from \$9.7 million for the same period in 2010. Earnings per diluted share for the three months ended September 30, 2011 increased 55% to \$0.62 from \$0.40 for the same period in 2010.

For the three months ended September 30, 2011, on a consolidated basis:

Gross profit increased \$13.3 million, or 39%, to \$47.4 million, with an increase in the gross profit of Adler Tanks of \$5.7 million, or 70%, primarily due to higher gross profit on rental revenues and an increase in TRS-RenTelco gross profit of \$2.7 million, or 23%, primarily due to higher gross profit on rental and sales revenues. Enviroplex gross profit increased more than threefold from \$1.0 million to \$4.4 million, primarily due to higher sales revenues. Gross profit of Mobile Modular increased \$1.5 million, or 11%, primarily due to higher gross profit on rental and sales revenues.

Selling and administrative expenses increased \$3.5 million, or 21%, to \$20.1 million from \$16.6 million in the same period in 2010, primarily due to higher personnel, salary and employee benefit costs.

Interest expense increased 26% to \$2.1 million, due to 21% higher net average interest rates (2.9% in 2011 compared to 2.4% in 2010) and higher average debt levels of the Company.

Pre-tax income contributions by Mobile Modular, TRS-RenTelco and Adler Tanks were 20%, 30% and 36%, respectively, compared to 30% and 38% and 31%, respectively, for the comparable 2010 period. These results are discussed on a segment basis below. Pre-tax income contribution by Enviroplex was 14% compared to 1% in 2010.

Adjusted EBITDA increased 34% to \$46.0 million, compared to \$34.2 million in 2010.

**Mobile Modular**

For the three months ended September 30, 2011, Mobile Modular's total revenues decreased \$1.9 million to \$35.3 million compared to the same period in 2010, primarily due to lower rental, rental related services and sales revenues. The revenue decrease, higher selling and administrative expenses and higher interest expense, offset by higher gross margin on rental, rental related services and sales revenues, resulted in a 5% increase in pre-tax income to \$5.0 million for the three months ended September 30, 2011, from \$4.8 million for the same period in 2010.

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

**Mobile Modular Three Months Ended 9/30/11 compared to Three Months Ended 9/30/10 (Unaudited)**

(dollar amounts in thousands)	Three Months Ended September 30,		Increase (Decrease)	
	2011	2010	\$	%
<b>Revenues</b>				
Rental	\$ 20,123	\$ 20,883	\$ (760)	-4%
Rental Related Services	6,565	6,947	(382)	-5%
Rental Operations	26,688	27,830	(1,142)	-4%
Sales	8,485	9,199	(714)	-8%
Other	109	127	(18)	-14%
<b>Total Revenues</b>	<b>35,282</b>	<b>37,156</b>	<b>(1,874)</b>	<b>-5%</b>
<b>Costs and Expenses</b>				
Direct Costs of Rental Operations:				
Depreciation of Rental Equipment	3,457	3,439	18	1%
Rental Related Services	5,115	5,642	(527)	-9%
Other	5,873	7,672	(1,799)	-23%
<b>Total Direct Costs of Rental Operations</b>	<b>14,445</b>	<b>16,753</b>	<b>(2,308)</b>	<b>-14%</b>
Costs of Sales	6,296	7,352	(1,056)	-14%
<b>Total Costs of Revenues</b>	<b>20,741</b>	<b>24,105</b>	<b>(3,364)</b>	<b>-14%</b>
<b>Gross Profit</b>				
Rental	10,793	9,772	1,021	10%
Rental Related Services	1,450	1,305	145	11%
Rental Operations	12,243	11,077	1,166	11%
Sales	2,189	1,847	342	19%
Other	109	127	(18)	-14%
<b>Total Gross Profit</b>	<b>14,541</b>	<b>13,051</b>	<b>1,490</b>	<b>11%</b>
Selling and Administrative Expenses	8,428	7,335	1,093	15%
Income from Operations	6,113	5,716	397	7%
Interest Expense Allocation	1,081	934	147	16%
Pre-tax Income	\$ 5,032	\$ 4,782	\$ 250	5%

**Other Information**

Edgar Filing: MCGRATH RENTCORP - Form 10-Q

Average Rental Equipment <sup>1</sup>	\$ 506,130	\$ 493,553	\$ 12,557	3%
Average Rental Equipment on Rent	\$ 339,594	\$ 334,529	\$ 5,065	2%
Average Monthly Total Yield <sup>2</sup>	1.33%	1.41%		-6%
Average Utilization <sup>3</sup>	67.1%	67.8%		-1%
Average Monthly Rental Rate <sup>4</sup>	1.98%	2.08%		-5%
Period End Rental Equipment <sup>1</sup>	\$ 508,669	\$ 495,333	\$ 13,336	3%
Period End Utilization <sup>3</sup>	67.0%	67.4%		-1%

- 1 Average and Period End Rental Equipment represents the cost of rental equipment excluding new equipment inventory and accessory equipment.
- 2 Average Monthly Total Yield is calculated by dividing the averages of monthly rental revenues by the cost of rental equipment for the period.
- 3 Period End Utilization is calculated by dividing the cost of rental equipment on rent by the total cost of rental equipment excluding new equipment inventory and accessory equipment. Average utilization for the period is calculated using the average 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, 2011 increased 11%, to \$14.5 million from \$13.1 million for the same period in 2010. For the three months ended September 30, 2011 compared to the same period in 2010:

**Gross Profit on Rental Revenues** Rental revenues decreased \$0.8 million, or 4%, primarily due to higher returns of classroom buildings compared to shipments in our education markets. This decrease was due to 5% lower average monthly rental rates, partly offset by a 2% increase in average rental equipment on rent in 2011. As a percentage of rental revenues, depreciation was 17% and 16% in 2011 and 2010, respectively, and other direct costs were 29% in 2011 compared to 37% in 2010, which resulted in gross margin percentages of 54% in 2011 and 47% in 2010. The higher rental margins, partly offset by lower rental revenues, resulted in gross profit on rental revenues increasing \$1.0 million, or 10%, to \$10.8 million in 2011.

**Gross Profit on Rental Related Services** Rental related services revenues decreased \$0.4 million, or 5%, compared to 2010. 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 fewer services performed during the lease as compared to 2010. The higher gross margin percentage of 22% in 2011 compared to 19% in 2010, partly offset by lower revenues, resulted in rental related services gross profit increasing \$0.1 million, or 11%, to \$1.5 million in 2011.

**Gross Profit on Sales** Sales revenues decreased \$0.7 million, or 8%, compared to 2010. Higher gross margin percentage of 26% in 2011 compared with 20% in 2010, primarily due to higher margins on new building sales, partly offset by lower sales revenues resulted in gross profit on sales increasing 19% to \$2.2 million. 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.

For the three months ended September 30, 2011, selling and administrative expenses increased 15%, to \$8.4 million from \$7.3 million in the same period in 2010, primarily as a result of increased investment in our portable storage growth initiative.

**TRS-RenTelco**

For the three months ended September 30, 2011, TRS-RenTelco's total revenues increased \$4.4 million, or 16%, to \$31.7 million compared to the same period in 2010, primarily due to higher rental and sales revenues. Pre-tax income increased \$1.6 million, or 26%, to \$7.6 million for the three months ended September 30, 2011 from \$6.0 million for the same period in 2010, primarily due to higher gross profit on rental and sales revenues.

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

**TRS-RenTelco Three Months Ended 9/30/11 compared to Three Months Ended 9/30/10 (Unaudited)**

(dollar amounts in thousands)	Three Months Ended September 30,		Increase (Decrease)	
	2011	2010	\$	%
<b>Revenues</b>				
Rental	\$ 24,759	\$ 21,764	\$ 2,995	14%
Rental Related Services	871	583	288	49%
Rental Operations	25,630	22,347	3,283	15%
Sales	5,699	4,612	1,087	24%
Other	331	347	(16)	-5%
<b>Total Revenues</b>	<b>31,660</b>	<b>27,306</b>	<b>4,354</b>	<b>16%</b>
<b>Costs and Expenses</b>				
Direct Costs of Rental Operations:				
Depreciation of Rental Equipment	9,725	9,197	528	6%
Rental Related Services	856	494	362	73%
Other	3,327	3,341	(14)	0%
<b>Total Direct Costs of Rental Operations</b>	<b>13,908</b>	<b>13,032</b>	<b>876</b>	<b>7%</b>
Costs of Sales	3,192	2,417	775	32%
<b>Total Costs of Revenues</b>	<b>17,100</b>	<b>15,449</b>	<b>1,651</b>	<b>11%</b>
<b>Gross Profit</b>				
Rental	11,707	9,226	2,481	27%
Rental Related Services	15	89	(74)	-83%
Rental Operations	11,722	9,315	2,407	26%
Sales	2,507	2,195	312	14%
Other	331	347	(16)	-5%
<b>Total Gross Profit</b>	<b>14,560</b>	<b>11,857</b>	<b>2,703</b>	<b>23%</b>
Selling and Administrative Expenses	6,360	5,345	1,015	19%
Income from Operations	8,200	6,512	1,688	26%
Interest Expense Allocation	572	472	100	21%
Pre-tax Income	\$ 7,628	\$ 6,040	\$ 1,588	26%

**Other Information**

Edgar Filing: MCGRATH RENTCORP - Form 10-Q

Average Rental Equipment <sup>1</sup>	\$ 264,980	\$ 245,706	\$ 19,274	8%
Average Rental Equipment on Rent	\$ 173,439	\$ 166,290	\$ 7,149	4%
Average Monthly Total Yield <sup>2</sup>	3.11%	2.95%		6%
Average Utilization <sup>3</sup>	65.5%	67.7%		-3%
Average Monthly Rental Rate <sup>4</sup>	4.76%	4.36%		9%
Period End Rental Equipment <sup>1</sup>	\$ 268,351	\$ 248,247	\$ 20,104	8%
Period End Utilization <sup>3</sup>	66.3%	67.4%		-2%

- 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, 2011 increased 23% to \$14.6 million from \$11.9 million for the same period in 2010. For the three months ended September 30, 2011 compared to the same period in 2010:

**Gross Profit on Rental Revenues** Rental revenues increased \$3.0 million, or 14%, with depreciation expense increasing \$0.5 million, or 6%, and other direct costs were flat at \$3.3 million, resulting in increased gross profit on rental revenues of \$2.5 million, or 27%, to \$11.7 million. As a percentage of rental revenues, depreciation was 39% in 2011 compared to 42% in 2010 and other direct costs were 14% in 2011 compared to 16% in 2010, which resulted in gross margin percentage of 47% in 2011 and 42% in 2010. The rental revenues increase was due to 9% higher average monthly rental rates and 4% higher average rental equipment on rent in 2011. The rental rate increase was primarily due to improved market conditions.

**Gross Profit on Sales** Sales revenues increased 24% to \$5.7 million in 2011 due to higher new and used equipment sales. Gross margin percentage was 44% in 2011, compared to 48% in 2010, due to lower margins on new and used equipment sales resulting in gross profit on sales increasing 14% to \$2.5 million from \$2.2 million in 2010. 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, 2011, selling and administrative expenses increased 19%, to \$6.4 million from \$5.3 million in the same period in 2010, primarily due to increased salary and benefit costs.



**Adler Tanks**

For the three months ended September 30, 2011, Adler Tanks total revenues increased \$6.6 million, or 51%, to \$19.6 million compared to the same period in 2010, primarily due to higher rental revenues. The revenue increase, combined with higher gross margin on rental revenues, partly offset by higher selling and administrative expenses, resulted in a \$4.2 million increase in pre-tax income to \$9.0 million for the three months ended September 30, 2011, compared to the same period in 2010.

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

**Adler Tanks Three Months Ended 9/30/11 compared to Three Months Ended 9/30/10 (Unaudited)**

(dollar amounts in thousands)	Three Months Ended September 30,		Increase (Decrease)	
	2011	2010	\$	%
<b>Revenues</b>				
Rental	\$ 16,082	\$ 10,027	\$ 6,055	60%
Rental Related Services	3,301	2,871	430	15%
Rental Operations	19,383	12,898	6,485	50%
Sales	134	55	79	144%
Other	37	15	22	147%
<b>Total Revenues</b>	<b>19,554</b>	<b>12,968</b>	<b>6,586</b>	<b>51%</b>
<b>Costs and Expenses</b>				
Direct Costs of Rental Operations:				
Depreciation of Rental Equipment	2,175	1,473	702	48%
Rental Related Services	2,350	2,199	151	7%
Other	1,074	1,084	(10)	-1%
<b>Total Direct Costs of Rental Operations</b>	<b>5,599</b>	<b>4,756</b>	<b>843</b>	<b>18%</b>
Costs of Sales	79	47	32	68%
<b>Total Costs of Revenues</b>	<b>5,678</b>	<b>4,803</b>	<b>875</b>	<b>18%</b>
<b>Gross Profit</b>				
Rental	12,833	7,470	5,363	72%
Rental Related Services	951	672	279	42%
Rental Operations	13,784	8,142	5,642	69%
Sales	55	8	47	nm
Other	37	15	22	147%
<b>Total Gross Profit</b>	<b>13,876</b>	<b>8,165</b>	<b>5,711</b>	<b>70%</b>
Selling and Administrative Expenses	4,387	3,086	1,301	42%
Income from Operations	9,489	5,079	4,410	87%
Interest Expense Allocation	457	275	182	66%
Pre-tax Income	\$ 9,032	\$ 4,804	\$ 4,228	88%

**Other Information**

Edgar Filing: MCGRATH RENTCORP - Form 10-Q

Average Rental Equipment <sup>1</sup>	\$ 164,415	\$ 109,157	\$ 55,258	51%
Average Rental Equipment on Rent	\$ 144,728	\$ 85,429	\$ 59,299	69%
Average Monthly Total Yield <sup>2</sup>	3.26%	3.06%		7%
Average Utilization <sup>3</sup>	88.0%	78.3%		13%
Average Monthly Rental Rate <sup>4</sup>	3.70%	3.91%		-5%
Period End Rental Equipment <sup>1</sup>	\$ 173,926	\$ 116,987	\$ 56,939	49%
Period End Utilization <sup>3</sup>	90.5%	77.4%		17%

- 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

Adler Tanks gross profit for the three months ended September 30, 2011 increased 70%, to \$13.9 million from \$8.2 million for the same period in 2010. For the three months ended September 30, 2011 compared to the same period in 2010:

**Gross Profit on Rental Revenues** Rental revenues increased \$6.1 million, or 60%, primarily due to the broad based growth across our market areas. As a percentage of rental revenues, depreciation was 13% and 14% in 2011 and 2010, respectively, and other direct costs were 7% in 2011 compared to 11% in 2010, which resulted in gross margin percentages of 80% in 2011 and 75% in 2010. The higher rental revenues, combined with higher rental margins, resulted in gross profit on rental revenues increasing \$5.4 million, or 72%, to \$12.8 million in 2011.

**Gross Profit on Rental Related Services** Rental related services revenues increased \$0.4 million, or 15%, compared to 2010. The higher revenues and higher gross margin percentage of 29% in 2011 compared to 23% in 2010 resulted in rental related services gross profit increasing 42%, to \$1.0 million from \$0.7 million in 2010.

For the three months ended September 30, 2011, selling and administrative expenses increased 42%, to \$4.4 million from \$3.1 million in the same period in 2010 primarily due to higher personnel and benefit costs and bad debt expense.

**Nine Months Ended September 30, 2011 Compared to**

**Nine Months Ended September 30, 2010**

**Overview**

Consolidated revenues for the nine months ended September 30, 2011 increased 22%, to \$257.5 million from \$211.5 million for the same period in 2010. Consolidated net income for the nine months ended September 30, 2011 increased 53% to \$36.4 million, from \$23.7 million for the same period in 2010. Earnings per diluted share for the nine months ended September 30, 2011 increased 50% to \$1.47 from \$0.98 for the same period in 2010.

For the nine months ended September 30, 2011, on a consolidated basis:

Gross profit increased \$30.2 million, or 33%, to \$122.6 million from \$92.4 million for the same period in 2010. Adler Tanks gross profit increased \$16.6 million, or 90% to \$35.1 million, primarily due to higher gross profit on rental revenues. TRS-RenTelco gross profit increased \$10.9 million, or 36%, due to higher gross profit on rental and sales revenues. Enviroplex gross profit increased \$2.8 million, or 128%, primarily due to \$11.6 million higher sales revenues. Gross profit of Mobile Modular decreased \$0.1 million due to lower gross profit on rental and rental related services revenues, partly offset by higher gross profit on sales revenues.

Selling and administrative expenses increased 17% to \$57.3 million from \$48.9 million for the same period in 2010, primarily due to higher personnel, salary and employee benefit costs and increased information technology licensing, consulting and maintenance expenses.

Interest expense increased \$0.8 million, or 18%, to \$5.5 million, primarily due to 12% higher average interest rates (2.7% in 2011 compared to 2.4% in 2010) and higher average debt levels of the Company.

Pre-tax income contribution by Mobile Modular, TRS-RenTelco and Adler Tanks was 24%, 35% and 37%, respectively, compared to 44%, 32% and 23%, respectively, for the comparable 2010 period. These results are discussed on a segment basis below. Pre-tax income contribution by Enviroplex was 4% in 2011 compared to 1% in 2010.

Adjusted EBITDA increased \$25.9 million, or 28%, to \$118.8 million compared to \$92.9 million in 2010.

**Mobile Modular**

For the nine months ended September 30, 2011, Mobile Modular's total revenues decreased \$0.2 million to \$94.4 million compared to the same period in 2010, primarily due to lower rental revenues, partly offset by higher sales and rental related services revenues during the period. The revenue decrease, combined with higher selling and administrative expenses, and lower gross margin on rental related services, partly offset by higher gross margin on sales revenues, resulted in a 19% decrease in pre-tax income to \$14.0 million for the nine months ended September 30, 2011, from \$17.2 million for the same period in 2010.

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

**Mobile Modular - Nine Months Ended 9/30/11 compared to Nine Months Ended 9/30/10 (Unaudited)**

(dollar amounts in thousands)	Nine Months Ended September 30,		Increase (Decrease)	
	2011	2010	\$	%
<b>Revenues</b>				
Rental	\$ 59,689	\$ 61,889	\$ (2,200)	-4%
Rental Related Services	17,886	17,206	680	4%
Rental Operations	77,575	79,095	(1,520)	-2%
Sales	16,521	15,142	1,379	9%
Other	314	345	(31)	-9%
<b>Total Revenues</b>	<b>94,410</b>	<b>94,582</b>	<b>(172)</b>	<b>0%</b>
<b>Costs and Expenses</b>				
Direct Costs of Rental Operations:				
Depreciation of Rental Equipment	10,306	10,291	15	0%
Rental Related Services	13,788	12,900	888	7%
Other	17,263	18,503	(1,240)	-7%
<b>Total Direct Costs of Rental Operations</b>	<b>41,357</b>	<b>41,694</b>	<b>(337)</b>	<b>0%</b>
Costs of Sales	12,083	11,762	321	3%
<b>Total Costs of Revenues</b>	<b>53,440</b>	<b>53,456</b>	<b>(16)</b>	<b>0%</b>
<b>Gross Profit</b>				
Rental	32,120	33,095	(975)	-3%
Rental Related Services	4,098	4,306	(208)	-5%
Rental Operations	36,218	37,401	(1,183)	-3%
Sales	4,438	3,380	1,058	31%
Other	314	345	(31)	-9%
<b>Total Gross Profit</b>	<b>40,970</b>	<b>41,126</b>	<b>(156)</b>	<b>0%</b>
Selling and Administrative Expenses	24,027	21,239	2,788	13%
<b>Income from Operations</b>	<b>16,943</b>	<b>19,887</b>	<b>(2,944)</b>	<b>-15%</b>
Interest Expense Allocation	2,935	2,664	271	10%
<b>Pre-tax Income</b>	<b>\$ 14,008</b>	<b>\$ 17,223</b>	<b>\$ (3,215)</b>	<b>-19%</b>

Edgar Filing: MCGRATH RENTCORP - Form 10-Q

**Other Information**

Average Rental Equipment <sup>1</sup>	\$ 501,323	\$ 489,748	\$ 11,575	2%
Average Rental Equipment on Rent	\$ 336,468	\$ 332,204	\$ 4,264	1%
Average Monthly Total Yield <sup>2</sup>	1.32%	1.40%		-6%
Average Utilization <sup>3</sup>	67.1%	67.8%		-1%
Average Monthly Rental Rate <sup>4</sup>	1.97%	2.07%		-5%
Period End Rental Equipment <sup>1</sup>	\$ 508,669	\$ 495,333	\$ 13,336	3%
Period End Utilization <sup>3</sup>	67.0%	67.4%		-1%

- 1 Average and Period End Rental Equipment represents the cost of rental equipment excluding new equipment inventory and accessory equipment.
- 2 Average Monthly Total Yield is calculated by dividing the averages of monthly rental revenues by the cost of rental equipment for the period.
- 3 Period End Utilization is calculated by dividing the cost of rental equipment on rent by the total cost of rental equipment excluding new equipment inventory and accessory equipment. Average utilization for the period is calculated using the average 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, 2011 decreased \$0.1 million, to \$41.0 million from \$41.1 million for the same period in 2010. For the nine months ended September 30, 2011 compared to the same period in 2010:

**Gross Profit on Rental Revenues** Rental revenues decreased \$2.2 million, or 4%, primarily due to higher returns of classroom buildings compared to shipments in our education markets. The rental revenues decrease was due to 5% lower average monthly rental rates, partly offset by 1% higher average rental equipment on rent. As a percentage of rental revenues, depreciation was 17% in 2011 and 2010 and other direct costs were 29% in 2011 compared to 30% in 2010, which resulted in gross margin percentage of 54% in 2011 compared to 53% in 2010. The lower rental revenues, partly offset by higher rental margins, resulted in gross profit on rental revenues decreasing \$1.0 million, or 3%, to \$32.1 million from \$33.1 million in 2010.

**Gross Profit on Rental Related Services** Rental related services revenues increased \$0.7 million, or 4%, compared to 2010. Most of these service revenues are negotiated with the initial lease and are recognized on a straight-line basis with the associated costs over the initial term of the lease. The increase in rental related services revenues was primarily attributable to the mix of leases and associated service revenues within the initial lease term. The lower gross margin percentage of 23% in 2011 compared to 25% in 2010, partly offset by higher revenues, resulted in rental related services gross profit decreasing 5%, to \$4.1 million from \$4.3 million in 2010.

**Gross Profit on Sales** Sales revenues increased \$1.4 million, or 9%, compared to 2010. Higher sales revenues combined with higher gross margin percentage of 27% in 2011 compared with 22% in 2010, resulted in sales gross profit increasing 31%, to \$4.4 million from \$3.4 million in 2010. 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

For the nine months ended September 30, 2011, selling and administrative expenses increased \$2.8 million, or 13%, to \$24.0 million from \$21.2 million in the same period in 2010, primarily as a result of increased investment in our portable storage growth initiative.

**TRS-RenTelco**

For the nine months ended September 30, 2011, TRS-RenTelco's total revenues increased \$14.5 million, or 19%, to \$91.8 million compared to the same period in 2010, due to higher rental, rental related services and sales revenues. Pre-tax income increased 69% to \$21.1 million for the nine months ended September 30, 2011 compared to \$12.5 million for the same period in 2010, primarily due to higher gross profit on rental and sales revenues.

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

**TRS-RenTelco Nine Months Ended 9/30/11 compared to Nine Months Ended 9/30/10 (Unaudited)**

(dollar amounts in thousands)	Nine Months Ended September 30,		Increase (Decrease)	
	2011	2010	\$	%
<b>Revenues</b>				
Rental	\$ 70,370	\$ 60,083	\$ 10,287	17%
Rental Related Services	2,273	1,622	651	40%
Rental Operations	72,643	61,705	10,938	18%
Sales	18,033	14,446	3,587	25%
Other	1,116	1,161	(45)	-4%
<b>Total Revenues</b>	<b>91,792</b>	<b>77,312</b>	<b>14,480</b>	<b>19%</b>
<b>Costs and Expenses</b>				
Direct Costs of Rental Operations:				
Depreciation of Rental Equipment	28,561	27,527	1,034	4%
Rental Related Services	2,014	1,454	560	39%
Other	9,902	9,337	565	6%
<b>Total Direct Costs of Rental Operations</b>	<b>40,477</b>	<b>38,318</b>	<b>2,159</b>	<b>6%</b>
Costs of Sales	9,754	8,363	1,391	17%
<b>Total Costs of Revenues</b>	<b>50,231</b>	<b>46,681</b>	<b>3,550</b>	<b>8%</b>
<b>Gross Profit</b>				
Rental	31,907	23,219	8,688	37%
Rental Related Services	259	168	91	54%
Rental Operations	32,166	23,387	8,779	38%
Sales	8,279	6,083	2,196	36%
Other	1,116	1,161	(45)	-4%
<b>Total Gross Profit</b>	<b>41,561</b>	<b>30,631</b>	<b>10,930</b>	<b>36%</b>
Selling and Administrative Expenses	18,966	16,798	2,168	13%
Income from Operations	22,595	13,833	8,762	63%
Interest Expense Allocation	1,544	1,349	195	14%
Pre-tax Income	\$ 21,051	\$ 12,484	\$ 8,567	69%

**Other Information**



Edgar Filing: MCGRATH RENTCORP - Form 10-Q

Average Rental Equipment <sup>1</sup>	\$ 257,593	\$ 242,317	\$ 15,276	6%
Average Rental Equipment on Rent	\$ 168,379	\$ 160,192	\$ 8,187	5%
Average Monthly Total Yield <sup>2</sup>	3.04%	2.76%		10%
Average Utilization <sup>3</sup>	65.4%	66.1%		-1%
Average Monthly Rental Rate <sup>4</sup>	4.64%	4.17%		11%
Period End Rental Equipment <sup>1</sup>	\$ 268,351	\$ 248,247	\$ 20,104	8%
Period End Utilization <sup>3</sup>	66.3%	67.4%		-2%

- 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, 2011 increased 36% to \$41.6 million from \$30.6 million for the same period in 2010. For the nine months ended September 30, 2011 compared to the same period in 2010:

**Gross Profit on Rental Revenues** Rental revenues increased \$10.3 million, or 17%, with depreciation expenses increasing \$1.0 million, or 4%, and other direct costs increasing \$0.6 million, or 6%, resulting in increased gross profit on rental revenues of \$8.7 million, or 37%, to \$31.9 million. As a percentage of rental revenues, depreciation was 41% in 2011 compared to 46% in 2010 and other direct costs was 14% in 2011 and 15% in 2010, which resulted in gross margin percentage of 45% in 2011 and 39% in 2010. The rental revenues increase was due to 11% higher average monthly rental rates and 5% higher average rental equipment on rent compared to 2010.

**Gross Profit on Sales** Sales revenues increased 25% to \$18.0 million in 2011, compared to \$14.4 million in 2010. Gross margin percentage was 46% in 2011, compared to 42% in 2010, primarily due to higher gross margin on used equipment sales resulting in gross profit on sales increasing \$2.2 million, or 36%, to \$8.3 million from \$6.1 million in 2010. 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, 2011, selling and administrative expenses increased 13%, to \$19.0 million from \$16.8 million in the same period in 2010, primarily due to increased salary and benefit costs.

**Adler Tanks**

For the nine months ended September 30, 2011, Adler Tanks total revenues increased \$20.1 million, or 66%, to \$50.8 million compared to the same period in 2010, primarily due to higher rental and rental related services revenues during the period. The revenue increase and higher gross margin on rental revenues resulted in pre-tax income of \$22.2 million for the nine months ended September 30, 2011, an increase of 150% compared to the pre-tax income for the same period in 2010.

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

**Adler Tanks Nine Months Ended 9/30/11 compared to Nine Months Ended 9/30/10 (Unaudited)**

(dollar amounts in thousands)	Nine Months Ended September 30,		Increase (Decrease)	
	2011	2010	\$	%
<b>Revenues</b>				
Rental	\$ 42,049	\$ 23,686	\$ 18,363	78%
Rental Related Services	8,457	6,890	1,567	23%
Rental Operations	50,506	30,576	19,930	65%
Sales	237	82	155	190%
Other	104	40	64	160%
Total Revenues	50,847	30,698	20,149	66%
<b>Costs and Expenses</b>				
Direct Costs of Rental Operations:				
Depreciation of Rental Equipment	5,927	3,847	2,080	54%
Rental Related Services	6,399	5,367	1,032	19%
Other	3,314	3,006	308	10%
Total Direct Costs of Rental Operations	15,640	12,220	3,420	28%
Costs of Sales	154	74	80	108%
Total Costs of Revenues	15,794	12,294	3,500	28%
<b>Gross Profit</b>				
Rental	32,808	16,833	15,975	95%
Rental Related Services	2,058	1,523	535	35%
Rental Operations	34,866	18,356	16,510	90%
Sales	83	8	75	nm
Other	104	40	64	160%
Total Gross Profit	35,053	18,404	16,649	90%
Selling and Administrative Expenses	11,704	8,750	2,954	34%
Income from Operations	23,349	9,654	13,695	142%
Interest Expense Allocation	1,174	782	392	50%
Pre-tax Income	\$ 22,175	\$ 8,872	\$ 13,303	150%

**Other Information**

Edgar Filing: MCGRATH RENTCORP - Form 10-Q

Average Rental Equipment <sup>1</sup>	\$ 148,939	\$ 94,155	\$ 54,784	58%
Average Rental Equipment on Rent	\$ 128,721	\$ 68,862	\$ 59,859	87%
Average Monthly Total Yield <sup>2</sup>	3.14%	2.80%		12%
Average Utilization <sup>3</sup>	86.4%	73.1%		18%
Average Monthly Rental Rate <sup>4</sup>	3.63%	3.82%		-5%
Period End Rental Equipment <sup>1</sup>	\$ 173,926	\$ 116,987	\$ 56,939	49%
Period End Utilization <sup>3</sup>	90.5%	77.4%		17%

- 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

Adler Tanks gross profit for the nine months ended September 30, 2011 increased 90% to \$35.1 million from \$18.4 million for the same period in 2010. For the nine months ended September 30, 2011 compared to the same period in 2010:

**Gross Profit on Rental Revenues** Rental revenues increased \$18.4 million, or 78%, primarily due to the broad based growth across our market areas. As a percentage of rental revenues, depreciation was 14% and 16% in 2011 and 2010, respectively, and other direct costs were 8% in 2011 compared to 13% in 2010, which resulted in gross margin percentages of 78% in 2011 and 71% in 2010. The higher rental revenues, combined with higher rental margins resulted in gross profit on rental revenues increasing \$16.0 million, or 95%, to \$32.8 million in 2011.

**Gross Profit on Rental Related Services** Rental related services revenues increased \$1.6 million, or 23%, compared to 2010. The higher revenues and higher gross margin percentage of 24% in 2011 compared to 22% in 2010 resulted in rental related services gross profit increasing 35%, to \$2.1 million from \$1.5 million in 2010.

For the nine months ended September 30, 2011, selling and administrative expenses increased 34%, to \$11.7 million from \$8.8 million in the same period in 2010, primarily due to higher personnel and benefit costs.

---

**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 borrowings from banks and institutional lenders. Cash flows for the Company for the nine months ended September 30, 2011 compared to the same period in 2010 are summarized as follows:

*Cash Flows from Operating Activities:* The Company's operations provided net cash flow of \$104.5 million, an increase of 58% in 2011, compared to \$66.1 million in 2010. The increase in net cash provided by operating activities was primarily attributable to increased deferred taxes in 2011 and other balance sheet changes, together with higher income from operations. The increased deferred taxes were primarily due to the impact of additional federal bonus depreciation deductions related to the Company's capital expenditures in 2011.

*Cash Flows from Investing Activities:* Net cash used in investing activities was \$114.4 million in 2011, compared to \$78.8 million in 2010. The \$35.6 million increase was primarily due to \$27.3 million higher purchases of rental equipment of \$120.7 million in 2011, compared to \$93.4 million in 2010, primarily as a result of increased purchases at TRS-RenTelco and Adler Tanks to meet market demand, partly offset by \$1.7 million higher proceeds from sale of used rental equipment. In addition, purchase of property, plant and equipment increased \$10.0 million in 2011, primarily due to the acquisition of an operating facility in New Jersey, information technology projects and the expansion of the Company's inventory center in Livermore, California.

*Cash Flows from Financing Activities:* Net cash provided by financing activities was \$9.5 million in 2011, compared to \$12.0 million in 2010. The \$2.5 million change in net cash flows from financing activities was primarily due to borrowings and repayments on the Company's bank lines of credit. On April 21, 2011, the Company issued \$100.0 million of 4.03% Senior Notes, the proceeds of which were used to repay outstanding borrowings under the Company's bank lines of credit.

**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 the Credit Facility). 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 September 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, 2011, 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 \$189.6 million was outstanding, and had capacity to borrow up to an additional \$165.4 million. The Credit Facility contains financial covenants requiring the Company to not:

Permit the Consolidated Fixed Charge Coverage Ratio (as defined in the Credit Facility) 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, 2011, the actual ratio was 5.48 to 1.

Permit the Consolidated Asset Coverage Ratio (as defined in the Credit Facility) as of the end of any fiscal quarter to be less than 1.50 to 1 under the Company's credit facilities. At September 30, 2011, the actual ratio was 2.90 to 1.

Permit the Consolidated Leverage Ratio (as defined in the Credit Facility) at any time during any period of four consecutive quarters to be greater than 2.50 to 1 under the Company's credit facilities. At September 30, 2011, the actual ratio was 1.83 to 1.

At September 30, 2011, the Company was in compliance with each of the aforementioned covenants. There are no anticipated trends that the Company is aware of that would indicate non-compliance with these covenants, although significant deterioration in our financial performance could impact the Company's ability to comply with these covenants.

*4.03% Senior Notes Due in 2018*

On April 21, 2011, the Company entered into a Note Purchase and Private Shelf Agreement (the *Note Purchase Agreement*) with Prudential Investment Management, Inc., The Prudential Insurance Company of America and Prudential Retirement Insurance and Annuity Company (collectively, the *Purchaser*), pursuant to which the Company agreed to sell an aggregate principal amount of \$100 million of its 4.03% Series A Senior Notes (the *Senior Notes*) to the Purchaser. The Senior Notes are an unsecured obligation of the Company, due on April 21, 2018. Interest on these notes is due semi-annually in arrears and the principal is due in five equal annual installments, with the first payment due on April 21, 2014. In addition, the Note Purchase Agreement allows for the issuance and sale of additional senior notes to the Purchaser (the *Shelf Notes*) in the aggregate principal amount of \$100 million, to mature no more than 12 years after the date of original issuance thereof, to have an average life of no more than 10 years and to bear interest on the unpaid balance. Among other restrictions, the Note Purchase 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 in the Note Purchase Agreement) to fixed charges as of the end of any fiscal quarter to be less than 2.50 to 1. At September 30, 2011, the actual ratio was 4.37 to 1.

Permit the Consolidated Leverage Ratio of funded debt to EBITDA (as defined in the Note Purchase Agreement) at any time during any period of four consecutive quarters to be greater than 2.50 to 1. At September 30, 2011, the actual ratio was 1.83 to 1.

Permit tangible net worth, calculated as of the last day of each fiscal quarter, to be less than the sum of (i) \$229.0 million, plus (ii) 25% of net income for such fiscal quarter subsequent to December 31, 2010, plus (iii) 90% of the net cash proceeds from the issuance of the Company's capital stock after December 31, 2010. At September 30, 2011, such sum was \$239.7 million and the actual tangible net worth of the Company was \$318.3 million.

At September 30, 2011, the Company was in compliance with each of the aforementioned covenants. There are no anticipated trends that the Company is aware of that would indicate non-compliance with these covenants, although significant deterioration in our financial performance could impact the Company's ability to comply with these covenants.

*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. The final principal payments of \$12.0 million was made in June 2011, and the balance is zero as of September 30, 2011.

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.

*Common Stock Repurchase*

The Company has in the past made purchases of shares of its common stock from time to time on the 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. 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 nine months ended September 30, 2011 and September 30, 2010. As of September 30, 2011, 2,000,000 shares remain authorized for repurchase.

#### **Contractual Obligations**

We do not believe that our contractual obligations have changed materially from those included in our 2010 Annual Report, except for the issuance of the 4.03% senior notes due in 2018 explained above.

#### **Off-Balance Sheet Arrangements**

We had no material off-balance sheet arrangements as of September 30, 2011.

#### **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 2010 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"), the Company's principal executive officer and principal financial officer, respectively, performed an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of September 30, 2011. 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 and tightened credit markets in the United States and other countries may adversely impact our business and financial condition and may negatively impact our ability to access financing.**

The U.S. economy has been impacted by a severe recession. Demand for our rental products depends on continued industrial and business activity and state government funding. The effects of the U.S. recession and general global economic downturn have adversely affected our customers, including local school districts that are subject to budgetary constraints, 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 recent 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, or duration, of such changes in our business.

**Our stock price has fluctuated and may continue to fluctuate in the future, which may result in a decline in the value of your investment in our common stock.**

The market price of our common stock fluctuates on the NASDAQ Global Select Market and is likely to be affected by a number of factors including but not limited to:

our operating performance and the performance of our competitors, and in particular any variations in our operating results or dividend rate from our stated guidance or from investors' expectations;

any changes in general conditions in the 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

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

any sales of common stock by our directors, executive officers and our other large shareholders, particularly in light of the limited trading volume of our stock;

any merger and acquisition activity that involves us or our competitors; and

other announcements or developments affecting us, our industry, customers, suppliers or competitors.

In addition, in recent years the 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 adversely affected the prices of publicly traded stocks across the board as many 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 any negative economic trends may cause declines in the market price of our common stock and may be based upon factors that have little or nothing to do with our Company or its performance, and these fluctuations and trends could materially reduce our stock price.

**Our 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;

the budgetary constraints of our customers;

seasonality of our rental businesses and our end-markets;

success of our strategic growth initiatives;

costs associated with the launching or integration of new or acquired businesses;

the timing and type of equipment purchases, rentals and sales;

the nature and duration of the equipment needs of our customers;

the timing of new product introductions by us, our suppliers and our competitors;

the volume, timing and mix of maintenance and repair work on our rental equipment;

our equipment mix, availability, utilization and pricing;

the mix, by state and country, of our revenues, personnel and assets;

rental equipment impairment from excess, obsolete or damaged equipment;

movements in interest rates or tax rates;

changes in, and application of, accounting rules;

changes in the regulations applicable to us; and

litigation matters.

As a result of these factors, our historical financial results are not necessarily indicative of our future results.

**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 problems as a result of shortages, and discontinuations resulting from product obsolescence or other shortages or allocations by suppliers. Unfavorable economic conditions may also adversely affect our

suppliers or the terms on which we purchase products. In the future, we may not be able to negotiate arrangements with third parties to secure products that we require in sufficient quantities or on reasonable terms. If we cannot negotiate arrangements with third parties to produce our products or if the third parties fail to produce our products to our specifications or in a timely manner, our reputation and financial condition could be harmed.

**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 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.

The delay or failure to implement information system upgrades and new systems effectively could disrupt our business, distract management's focus and attention from our business operations and growth initiatives, and increase our implementation and operating costs, any of which could negatively impact our operations and operating results.

**We have engaged in acquisitions and may engage in future acquisitions that could negatively impact our results of operations, financial condition and business.**

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; and

## 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, to the extent available, a substantial portion of our 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 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. 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 determine that our goodwill and intangible assets have become impaired, we may incur impairment charges, which would negatively impact our operating results.**

At September 30, 2011, we had \$40.2 million of goodwill and intangible assets, net on our consolidated balance sheets. Goodwill represents the excess of cost over the fair value of net assets acquired in business combinations. We assess potential impairment of our goodwill and intangible assets at least annually. Impairment may result from significant changes in the manner of use of the acquired asset, negative industry or economic trends and significant underperformance relative to historic or projected operating results.

**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 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.

**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.

**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 4.03% Senior Notes due in 2018 issued April 21, 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 \$1.9 million per year for each 1% increase in the average interest rate we pay, based on the \$189.6 million balance of variable rate debt outstanding at September 30, 2011. 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, Virginia and Washington, D.C., 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 Tanks.

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 our management concluded that our internal control over financial reporting as of September 30, 2011 was effective, there is no assurance that future assessments of the adequacy of our internal controls over financial reporting will be favorable. If we are unable to obtain future unqualified reports as to the effectiveness of our internal control over financial reporting, investors could lose confidence in the reliability of our internal control over financial reporting, which could adversely affect our stock price.

**SPECIFIC RISKS RELATED TO OUR RELOCATABLE MODULAR BUILDINGS BUSINESS SEGMENT:**

**Significant reductions of, or delays in, funding to public schools have caused the demand for our modular classroom units to decline, which has resulted 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. Furthermore, even if voters have approved facility bond measures and the state has raised bond funds, there is no guarantee that individual school projects will be funded in a timely manner.

As a consequence of the recent economic recession, many states and local governments have experienced large budget deficits resulting in severe budgetary constraints among public school districts. To the extent public school districts' funding is reduced for the rental and purchase of modular buildings, our business could be harmed and our results of operations negatively impacted. We believe that interruptions or delays in the passage of facility bond measures or completion of state budgets, a lack or 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 modernization and reconstruction projects by public school districts including seismic retrofitting, asbestos abatement and various building repairs and upgrades. The recent economic recession has caused state and local budget shortfalls, which have reduced school districts funding and their ability to comply with state class size reduction requirements in California and Florida. 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 expansions of our modular operations into new markets will affect our operating results.**

We have established modular operations in California, Texas and Florida. We launched operations in North Carolina and Georgia in late 2007 and in Maryland, Virginia and Washington, D.C. during 2008. 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 is derived from the educational market. Typically, during each calendar year, our highest numbers of classrooms are shipped for rental and sale orders during the second and third quarters for delivery and installation prior to the start of the upcoming school year. The majority of classrooms shipped in the second and third quarters have rental start dates during the third quarter, thereby making the fourth quarter the first full quarter of rental revenues recognized for these transactions.

**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 units returning from leases.**

As of September 30, 2011, 59% 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 the delivery, set-up, return delivery and dismantle of modulars for our customers. We rely on our subcontractor service companies to meet customer demands for timely shipment and return, and the loss or inadequate number of subcontractor service companies may cause prices to increase, while negatively impacting our reputation and operating performance. During periods of rising prices for labor, raw materials or fuel, and in particular, when the prices increase rapidly or to levels significantly higher than normal, we may incur significant increases in our acquisition costs for new modular units and incur higher operating costs that we may not be able to recoup from our customers, which would reduce our profitability.

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

We are dependent on third parties to manufacture our products even though we are able to purchase products from a variety of third-party suppliers. Mobile Modular purchases new modulars from various manufacturers who build to Mobile Modular's design specifications. With the exception of Enviroplex, none of the principal suppliers are affiliated with the Company. During 2010, Mobile Modular purchased 38% of its modular product from one manufacturer. The Company believes that the loss of any of its primary manufacturers of modulars could have an adverse effect on its operations since Mobile Modular could experience higher prices and longer delivery lead times for modular product until other manufacturers were able to increase their production capacity.

**Failure to properly design, manufacture, repair and maintain the modular product may result in impairment charges, potential litigation and reduction of our operating results and cash flows.**

We estimate the useful life of the modular product to be 18 years with a residual value of 50%. However, proper design, manufacture, repairs and maintenance of the modular product during our ownership is required for the product to reach the estimated useful life of 18 years with a residual value of 50%. If we do not appropriately manage the design, manufacture, repair and maintenance of our modular product, or otherwise, delay or defer such repair or maintenance, we may be required to incur impairment charges for equipment that is beyond economic repair 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. 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 and the introduction of new technologies, and we acquire equipment that will be marketable to our current and prospective customers. However, an economic downturn could result in unexpected bankruptcies or reduced support from our manufacturers. Failure to properly select, manage and respond to the technological needs of our customers and changes to our products through their technology life cycle may cause certain electronic test equipment to become obsolete, resulting in impairment charges 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, Continental Resources, Microlease and TestEquity, some of which may have access to greater financial and other resources than we do. Although no single competitor holds a dominant market share, we face competition from these established entities and new entrants in the market. We believe that we anticipate and keep pace with the introduction of new products and acquire equipment that will be

marketable to our current and prospective customers. We compete on the basis of a number of factors, including product availability, price, service and reliability. Some of our competitors may offer similar equipment for lease, rental or sale at lower prices and may offer more extensive servicing, or financing options. Failure to adequately forecast the adoption of, and demand for, new or existing products may cause us not to meet our customers' equipment requirements and may materially and adversely affect our operating results.

**If we are not able to obtain equipment at favorable rates, there could be a material adverse effect on our operating results.**

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.**

## Edgar Filing: MCGRATH RENTCORP - Form 10-Q

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



---

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

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

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

In the event of a spill or accident, we may be brought into a lawsuit or enforcement action by either our customer or a third party on numerous potential grounds, including 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 upon claims of personal injury, property damage, and resource damage 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 rent, or 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, regulatory changes or interruptions and cyclical downturns in the industries using tanks and boxes may result in periods of low demand for our products resulting in excess inventory, impairment charges and reduction of our operating results and cash flows.**

Adler Tanks' revenues are derived from the rental of tanks and boxes to companies involved in oil and gas exploration, extraction and refinement, environmental remediation and wastewater/groundwater treatment,

infrastructure 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. Also, a weak U.S. economy may negatively impact infrastructure construction and industrial activity, which may also adversely affect our business.

**Changes in regulatory, or governmental, oversight of hydraulic fracturing could materially adversely affect the demand for our rental products and reduce our operating results and cash flows.**

Oil and gas exploration and extraction (including use of tanks for hydraulic fracturing of gas and oil shale) are subject to numerous local, state and federal regulations. The hydraulic fracturing method of extraction has come under scrutiny in several states and by the Federal government due to the potential adverse effects that hydraulic fracturing, and the liquids and chemicals used, may have on water quality and public health. In addition, the disposal of wastewater from the hydraulic fracturing process into injection wells may increase the rate of seismic activity near drill sites and could result in regulatory changes, delays or interruption of future activity. Changes in these regulations could limit, interrupt, or stop, exploration and extraction activities, which would negatively impact the demand for our rental products. Finally, it is possible that changes in the technology utilized in hydraulic fracturing could make it less dependent on liquids and therefore lower the related requirements for the use of our rental products.

**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, 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 always 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 the Northeast region of the U.S. 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. 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. [REMOVED AND RESERVED.]**

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

- 15.1 Awareness Letter From Grant Thornton LLP.
- 31.1 Certification of Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Chief Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Chief Executive Officer pursuant to Title 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to Title 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101\* The following materials from McGrath RentCorp's Quarterly report on Form 10-Q for the quarter ended September 30, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Statement of Income, (ii) the Condensed Consolidated Balance Sheet, (iii) the Condensed Consolidated Statement of Cash Flows, and (iv) Notes to Condensed Consolidated Financial Statements.

\* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for the purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

**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 3, 2011

**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**