

MCGRATH RENTCORP
Form 10-Q
August 05, 2010

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 June 30, 2010

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

(Address of principal executive offices)

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

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

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 August 5, 2010, 23,930,191 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. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements.

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

PART I FINANCIAL INFORMATION

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

Board of Directors and Shareholders

McGrath RentCorp and Subsidiaries:

We have reviewed the accompanying condensed consolidated balance sheet of McGrath RentCorp and Subsidiaries as of June 30, 2010, and the related condensed consolidated statements of income for the three-month periods ended June 30, 2010 and 2009, and the condensed consolidated statements of income and cash flows for the six-month periods ended June 30, 2010 and 2009. 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, 2009, 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 26, 2010, 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, 2009, 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

August 5, 2010

MCGRATH RENTCORP

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(in thousands, except per share amounts)	Three Months Ended June 30, 2010		Six Months Ended June 30, 2009	
	2010	2009	2010	2009
REVENUES				
Rental	\$ 47,851	\$ 45,083	\$ 92,984	\$ 93,455
Rental Related Services	8,201	8,162	15,317	17,299
Rental Operations	56,052	53,245	108,301	110,754
Sales	9,958	12,580	18,895	21,535
Other	513	649	1,057	1,340
Total Revenues	66,523	66,474	128,253	133,629
COSTS AND EXPENSES				
Direct Costs of Rental Operations				
Depreciation of Rental Equipment	13,786	14,358	27,556	29,109
Rental Related Services	6,060	6,319	11,386	13,140
Other	9,777	8,047	18,749	16,577
Total Direct Costs of Rental Operations	29,623	28,724	57,691	58,826
Costs of Sales	6,372	8,799	12,252	15,472
Total Costs of Revenues	35,995	37,523	69,943	74,298
Gross Profit	30,528	28,951	58,310	59,331
Selling and Administrative Expenses	16,949	15,465	32,360	31,042
Income from Operations	13,579	13,486	25,950	28,289
Interest Expense	1,506	1,953	3,015	3,836
Income Before Provision for Income Taxes	12,073	11,533	22,935	24,453
Provision for Income Taxes	4,685	4,509	8,899	9,561
Net Income	\$ 7,388	\$ 7,024	\$ 14,036	\$ 14,892
Earnings Per Share:				
Basic	\$ 0.31	\$ 0.30	\$ 0.59	\$ 0.63
Diluted	\$ 0.31	\$ 0.30	\$ 0.58	\$ 0.62
Shares Used in Per Share Calculation:				
Basic	23,924	23,738	23,866	23,726
Diluted	24,201	23,804	24,136	23,827
Cash Dividends Declared Per Share	\$ 0.225	\$ 0.220	\$ 0.450	\$ 0.440

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

MCGRATH RENTCORP

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in thousands)	June 30, 2010	December 31, 2009
ASSETS		
Cash	\$ 533	\$ 1,187
Accounts Receivable, net of allowance for doubtful accounts of \$1,700 in 2010 and 2009	69,411	70,597
Income Taxes Receivable	1,176	6,251
Rental Equipment, at cost:		
Relocatable Modular Buildings	513,004	504,018
Electronic Test Equipment	243,479	239,152
Liquid and Solid Containment Tanks and Boxes	107,886	80,916
	864,369	824,086
Less Accumulated Depreciation	(292,559)	(276,848)
Rental Equipment, net	571,810	547,238
Property, Plant and Equipment, net	78,234	77,092
Prepaid Expenses and Other Assets	15,727	14,240
Intangible Assets, net	13,269	13,670
Goodwill	27,700	27,661
Total Assets	\$ 777,860	\$ 757,936
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities:		
Notes Payable	\$ 263,500	\$ 247,334
Accounts Payable and Accrued Liabilities	53,453	50,975
Deferred Income	20,777	24,744
Deferred Income Taxes, net	164,951	167,470
Total Liabilities	502,681	490,523
Shareholders' Equity:		
Common Stock, no par value -		
Authorized 40,000 shares		
Issued and Outstanding 23,930 shares in 2010 and 23,795 shares in 2009	55,395	50,869
Retained Earnings	219,784	216,544
Total Shareholders' Equity	275,179	267,413
Total Liabilities and Shareholders' Equity	\$ 777,860	\$ 757,936

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

McGRATH RENTCORP

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)	Six Months Ended June 30,	
	2010	2009
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income	\$ 14,036	\$ 14,892
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	30,588	32,041
Provision for Doubtful Accounts	844	722
Non-Cash Stock-Based Compensation	2,086	1,953
Gain on Sale of Rental Equipment	(4,745)	(5,202)
Change In:		
Accounts Receivable	342	18,533
Income Taxes Receivable	5,075	5,940
Prepaid Expenses and Other Assets	(1,487)	629
Accounts Payable and Accrued Liabilities	2,900	(4,140)
Deferred Income	(3,967)	(7,700)
Deferred Income Taxes	(2,519)	7,997
Net Cash Provided by Operating Activities	43,153	65,665
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Payments related to Acquisition of Adler Tanks		(1,099)
Purchase of Rental Equipment	(59,207)	(33,673)
Purchase of Property, Plant and Equipment	(3,554)	(612)
Proceeds from Sale of Used Rental Equipment	10,965	15,175
Net Cash Used in Investing Activities	(51,796)	(20,209)
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Net Borrowings (Payments) Under Bank Lines of Credit	28,166	(24,917)
Principal Payments on Senior Notes	(12,000)	(12,000)
Proceeds from the Exercise of Stock Options	2,087	518
Excess Tax Benefit from Exercise and Disqualifying Disposition of Stock Options	352	34
Payment of Dividends	(10,616)	(9,962)
Net Cash Provided by (Used in) Financing Activities	7,989	(46,327)
Net Decrease in Cash	(654)	(871)
Cash Balance, beginning of period	1,187	1,325
Cash Balance, end of period	\$ 533	\$ 454
Interest Paid, during the period	\$ 3,138	\$ 4,271
Income Taxes Paid, during the period	\$ 6,199	\$ 1,537
Dividends Declared, not yet paid	\$ 5,414	\$ 5,225

Edgar Filing: MCGRATH RENTCORP - Form 10-Q

Rental Equipment Acquisitions, not yet paid	\$ 9,789	\$ 10,876
---	----------	-----------

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

McGRATH RENTCORP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2010

NOTE 1. CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The condensed consolidated financial statements for the six months ended June 30, 2010 and 2009 have not been audited, but in the opinion of management, all adjustments (consisting of normal recurring accruals, consolidation and eliminating entries) necessary for the fair presentation of the consolidated financial positions, results of operations and cash flows of McGrath RentCorp (the Company) have been made. The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. The consolidated results for the six months ended June 30, 2010 should not be considered as necessarily indicative of the consolidated results for the entire year. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's latest Form 10-K.

Certain prior period amounts have been reclassified to conform to current year presentation, including \$3.0 million of capital assets from rental equipment, net to property, plant and equipment, net. This reclassification had no impact on gross profit, net income, earnings per share or operating cash flows.

NOTE 2. NEW ACCOUNTING PRONOUNCEMENTS

In June 2009, the Financial Accounting Standards Board (FASB) issued new guidance to improve financial reporting by enterprises involved with variable interest entities (VIE). This new guidance amends current GAAP by: requiring ongoing reassessments of whether an enterprise is the primary beneficiary of a VIE; amending the quantitative approach previously required for determining the primary beneficiary of the VIE; modifying the guidance used to determine whether an entity is a VIE; adding an additional reconsideration event (e.g. troubled debt restructurings) for determining whether an entity is a VIE; and requiring enhanced disclosures regarding an entity's involvement with a VIE. The Company implemented these new requirements in its first quarter of fiscal 2010. The adoption of this accounting guidance did not have a significant impact on the Company's condensed consolidated financial statements.

In October 2009, the FASB amended revenue recognition guidance for arrangements with multiple deliverables. The guidance eliminates the residual method of revenue recognition and allows the use of management's best estimate of the selling price for individual elements of an arrangement when vendor specific objective evidence (VSOE) or third-party evidence (TPE) of selling price is unavailable. This guidance should be applied on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, with early adoption permitted. The Company does not expect the adoption of this accounting guidance to have a significant impact on the Company's 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 does not expect the adoption of this update to have a significant impact on its 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,

McGRATH RENTCORP**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****June 30, 2010**

including the dilutive effects of stock options and other potentially dilutive securities. Common stock equivalents result from dilutive stock options and other potentially dilutive securities computed using the treasury stock method and the average share price for the reported period. The effect of dilutive options and other potentially dilutive securities on the weighted average number of shares for the three months ended June 30, 2010 and 2009 was 277,037 and 66,271 shares, respectively, and for the six months ended June 30, 2010 and 2009 was 269,299 and 101,198 shares, respectively. For the three months ended June 30, 2010 and 2009, stock options to purchase 1,092,000 and 2,456,669 shares, respectively, and for the six months ended June 30, 2010 and 2009, stock options to purchase 1,328,700 and 2,472,669 shares, respectively, of the Company's common stock were not included in the computation of diluted EPS because the exercise price exceeded the average market price for the related periods and the effect would have been anti-dilutive.

NOTE 4. RELATED PARTY TRANSACTIONS

The Company purchased liquid and solid containment tanks totaling \$4.7 million and \$9.2 million, during the three and six months ended June 30, 2010, respectively, from Sabre Manufacturing, LLC, which is controlled by the President of Adler Tank Rentals, LLC, a wholly-owned subsidiary of the Company. In addition, the Company leases two operating facilities and receives certain support services from companies controlled by the President of Adler Tank Rentals, LLC, which totaled \$0.1 million and \$0.3 million in the three and six months ended June 30, 2010, respectively. Amounts due to related parties at June 30, 2010 totaled \$1.1 million.

NOTE 5. SUBSEQUENT EVENTS

The Company evaluated all events or transactions that occurred after June 30, 2010. During this period, the Company did not have any material subsequent events that require disclosure in these condensed consolidated financial statements.

NOTE 6. 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 (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 latest Form 10-K. Management focuses on several key measures to evaluate and assess each segment's performance, including rental revenue growth, gross profit, income from operations and income before provision for income taxes. 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 six months ended June 30, 2010 and 2009 for the Company's reportable segments is shown in the following table:

MCGRATH RENTCORP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

June 30, 2010

(dollar amounts in thousands)	Mobile Modular	TRS-RenTelco	Adler Tanks	Enviroplex ¹	Consolidated
Six Months Ended June 30,					
2010					
Rental Revenues	\$ 41,006	\$ 38,319	\$ 13,659	\$	\$ 92,984
Rental Related Services Revenues	10,259	1,039	4,019		15,317
Sales and Other Revenues	6,161	10,648	52	3,091	19,952
Total Revenues	57,426	50,006	17,730	3,091	128,253
Depreciation of Rental Equipment	6,852	18,330	2,374		27,556
Gross Profit	28,075	18,774	10,239	1,222	58,310
Selling and Administrative Expenses	13,904	11,453	5,664	1,339	32,360
Income (Loss) from Operations	14,171	7,321	4,575	(117)	25,950
Interest Expense (Income) Allocation	1,730	877	507	(99)	3,015
Income (Loss) before Provision for Income Taxes	12,441	6,444	4,068	(18)	22,935
Rental Equipment Acquisitions	12,465	18,879	27,004		58,348
Accounts Receivable, net (period end)	37,641	17,871	10,533	3,366	69,411
Rental Equipment, at cost (period end)	513,004	243,479	107,886		864,369
Rental Equipment, net book value (period end)	371,526	98,287	101,997		571,810
Utilization (period end) ²	67.9%	67.0%	70.5%		
Average Utilization ²	67.9%	65.3%	65.5%		
2009					
Rental Revenues	\$ 48,389	\$ 37,301	\$ 7,765	\$	\$ 93,455
Rental Related Services Revenues	13,533	897	2,869		17,299
Sales and Other Revenues	10,785	11,258	69	763	22,875
Total Revenues	72,707	49,456	10,703	763	133,629
Depreciation of Rental Equipment	6,842	20,806	1,461		29,109
Gross Profit	38,505	14,817	5,999	10	59,331
Selling and Administrative Expenses	14,261	11,416	3,984	1,381	31,042
Income (Loss) from Operations	24,244	3,401	2,015	(1,371)	28,289
Interest Expense (Income) Allocation	2,274	1,215	447	(100)	3,836
Income (Loss) before Provision for Income Taxes	21,970	2,186	1,568	(1,271)	24,453
Rental Equipment Acquisitions	6,721	10,330	19,686		36,737
Accounts Receivable, net (period end)	40,560	20,529	4,741	926	66,756
Rental Equipment, at cost (period end)	503,137	248,069	66,095		817,301
Rental Equipment, net book value (period end)	371,673	113,960	64,247		549,880
Utilization (period end) ²	74.1%	58.6%	54.4%		
Average Utilization ²	76.8%	60.5%	58.7%		

1. Gross Enviroplex sales revenues were \$3,091 and \$1,002 for the six months ended June 30, 2010 and 2009, respectively. There were no inter-segment sales to Mobile Modular in 2010, which require elimination in consolidation. In 2009 there were \$239 of inter-segment sales to Mobile Modular, which were 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 six months ended June 30, 2010 and 2009. In addition, total foreign country customers and operations accounted for less than 10% of the Company's revenues and long-lived assets for the same periods.

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

This Form 10-Q, including the following Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), contains forward-looking statements under federal securities laws. Forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties. Our actual results could differ materially from those indicated by forward-looking statements as a result of various factors. These factors include, but are not limited to, those set forth under this Item, those discussed in Part II Item 1A, Risk Factors and elsewhere in this Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the Securities and Exchange Commission on February 26, 2010 (the 2009 Annual Report) and those that may be identified from time to time in our reports and registration statements filed with the Securities and Exchange Commission.

This discussion should be read in conjunction with the Condensed Consolidated Financial Statements and related Notes included in Part I Item 1 of this Form 10-Q and the Consolidated Financial Statements and related Notes and the Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our 2009 Annual Report. In preparing the following MD&A, we presume that readers have access to and have read the MD&A in our 2009 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 (Adler Tanks); and (4) its classroom manufacturing business selling modular buildings used primarily as classrooms in California (Enviroplex). In the six months ended June 30, 2010, Mobile Modular, TRS-RenTelco, Adler Tanks and Enviroplex contributed 54%, 28%, 18% and 0% of the Company's income before provision for taxes (the equivalent of pretax income), respectively, compared to 90%, 9%, 6% and negative 5% for the same period in 2009. 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.

In 2008, the Company began operations in three new areas: (1) the portable storage business, under the name Mobile Modular Portable Storage, offers portable storage units and high security portable office units for rent, lease and purchase in Northern California, which in 2009 was extended to Southern California, Texas and Florida; (2) the environmental test equipment rental business, under the name TRS-Environmental, offers a wide variety of environmental monitoring, environmental sampling, and field and safety supplies for rent, lease or purchase; and (3) the liquid and solid containment tanks and boxes rental business through the acquisition of Adler Tank Rentals, LLC on December 11, 2008. 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 six months ended June 30, 2010. 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 six months ended June 30, 2010.

Revenues of Mobile Modular are derived from the rental and sale of modular buildings and portable storage units to fulfill customers' temporary and permanent classroom, office space and storage needs in California, Texas, Florida, North Carolina, Georgia, Maryland, Virginia and Washington, D.D., 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 the lease agreements with the customers and related costs are recognized on a straight-line basis over the terms of the leases. Sales revenue

and related costs are recognized upon delivery and installation of the equipment to customers. Sales revenues are less predictable and can fluctuate from quarter to quarter and year to year depending on customer demands and requirements. Generally, rental revenues recover the equipment's capitalized cost in a short period of time relative to the equipment's potential rental life and when sold, sale proceeds usually recover a high percentage of its capitalized cost.

The Company's modular revenues are 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 level of state funding to public schools, the need for temporary classroom space during reconstruction of older schools and changes in policies regarding class size. As a result of any reduced funding, lower expenditures by these schools may result in certain planned programs to increase the number of classrooms, such as those that the Company provides, to be postponed or terminated. However, reduced expenditures may also result in schools reducing their long-term facility construction projects in favor of using the Company's modular classroom solutions. At this time, the Company can provide no assurances as to whether public schools will either reduce or increase their demand for the Company's modular classrooms as a result of fluctuations in state funding of public schools. Looking forward, the Company believes that any interruption in the passage of facility bonds or contraction of class size reduction programs by public schools may have a material adverse effect on both rental and sales revenues of the Company. (For more information, see *Item 1. Business Relocatable Modular Buildings Classroom Rentals and Sales to Public Schools (K-12)* in the Company's 2009 Annual Report and *Item 1A. Risk Factors A significant reduction of, or delay in, funding to public schools could cause the demand for our modular classroom units to decline, which could result in a reduction in our revenues and profitability* in Part II Other Information of this Form 10-Q.)

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

Revenues of Adler Tanks are derived from the rental and sale of fixed axle tanks (tanks) 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, and waste management and landfill services for the containment of hazardous and non-hazardous liquids and solids.

The Company's rental operations include rental and rental related service revenues which comprised approximately 84% and 83% of consolidated revenues in the six months ended June 30, 2010 and 2009, respectively. Of the total rental operations revenues for the six months ended June 30, 2010, Mobile Modular, TRS-RenTelco and Adler Tanks comprised 47%, 37% and 16%, respectively, compared to 56%, 34% and 10%, respectively, in the same period of 2009. 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, that are either new or previously rented. In addition, Enviroplex sells new modular buildings used primarily as classrooms in California. The renting and selling of some modular equipment requires a dealer's license, which the Company has obtained from the appropriate governmental agencies. For the six months ended June 30, 2010 and 2009, sales and other revenues of modular, electronic test equipment and liquid and solid containment tanks and boxes comprised approximately 16% and 17%, respectively, of the Company's consolidated revenues. Of the total sales and other revenues for the six months ended June 30, 2010 and 2009, Mobile Modular and Enviroplex together comprised 46% and 50%, respectively, and TRS-RenTelco comprised 54% and 50%, respectively. Adler Tanks sales and other revenues for the six months ended June 30, 2010 and 2009 were not significant. The Company's cost of sales includes the carrying value of the equipment sold and the direct costs associated with the equipment sold, such as delivery, installation, modifications and related site work.

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

To supplement the Company's financial data presented on a basis consistent with generally accepted accounting principles (GAAP), the Company presents Adjusted EBITDA which is defined by the Company as net income before interest expense, provision for income taxes, depreciation, amortization, and non-cash stock-based compensation.

The Company presents Adjusted EBITDA as a financial measure as management believes it provides useful information to investors regarding the Company's liquidity and financial condition and because management, as well as the Company's lenders, use this measure in evaluating the performance of the Company.

Management uses Adjusted EBITDA as a supplement to GAAP measures to further evaluate the Company's period-to-period operating performance and evaluate the Company's ability to meet future capital expenditure and working capital requirements. Management believes the exclusion of non-cash charges, including stock-based compensation, is useful in measuring the Company's cash available to operations and the performance of the Company. Because 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 in the United States or as a measure of the Company's profitability or liquidity. Adjusted EBITDA is not in accordance with or an alternative for GAAP, and may be different from non-GAAP measures used by other companies. Unlike EBITDA, which may be used by other companies or investors, Adjusted EBITDA does not include stock-based compensation charges. 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 Securities and Exchange Commission, the Company includes in the tables below reconciliations of Adjusted EBITDA to the most directly comparable financial measures calculated and presented in accordance with accounting principles generally accepted in the United States.

Reconciliation of Net Income to Adjusted EBITDA

(dollar amounts in thousands)	Three Months Ended June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,	
	2010	2009	2010	2009	2010	2009
Net Income	\$ 7,388	\$ 7,024	\$ 14,036	\$ 14,892	\$ 32,467	\$ 35,741
Provision for Income Taxes	4,685	4,509	8,899	9,561	19,985	22,936
Interest	1,506	1,953	3,015	3,836	6,284	9,055
Income from Operations	13,579	13,486	25,950	28,289	58,736	67,732
Depreciation and Amortization	15,332	15,830	30,588	32,041	61,678	63,708
Non-Cash Stock-Based Compensation	1,067	978	2,086	1,953	3,736	3,801
Adjusted EBITDA ¹	\$ 29,978	\$ 30,294	\$ 58,624	\$ 62,283	\$ 124,150	\$ 135,241
Adjusted EBITDA Margin ²	45%	46%	46%	47%	46%	45%

Reconciliation of Adjusted EBITDA to Net Cash Provided by Operating Activities

(dollar amounts in thousands)	Three Months Ended June 30,		Six Months Ended June 30,		Twelve Months Ended June 30,	
	2010	2009	2010	2009	2010	2009
Adjusted EBITDA ¹	\$ 29,978	\$ 30,294	\$ 58,624	\$ 62,283	\$ 124,150	\$ 135,241
Interest Paid	(1,919)	(2,468)	(3,138)	(4,271)	(6,375)	(9,285)
Net Income Taxes Paid	(4,807)	(1,070)	(5,967)	(1,537)	(7,049)	(3,703)
Gain on Sale of Used Rental Equipment	(2,577)	(3,504)				