

MCGRATH RENTCORP
Form 10-Q
May 08, 2008

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 March 31, 2008

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 is a large accelerated filer, an accelerated filer, or a non accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one).

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

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 May 8, 2008, 23,634,514 shares of Registrant's Common Stock were outstanding.

FORWARD LOOKING STATEMENTS

Statements contained in this Quarterly Report on 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 subject to risks and uncertainties that could cause our actual results to differ materially from those projected in such forward-looking statements including, without limitation, the following: the future prospects for and growth of the Company and the industries in which it operates, the level of the Company's future rentals and sales, customer demand and cost of raw materials, the Company's ability to maintain its business model; the Company's ability to retain and recruit key personnel; the Company's ability to maintain its competitive strengths and to effectively compete against its competitors; the Company's short-term decisions and long-term strategies for the future and its ability to implement and maintain such decisions and strategies, including its strategies: (i) to focus on rental revenue growth from an increasing base of rental assets, (ii) to actively maintain, repair, redeploy, manage and anticipate the need for various models of rental equipment cost-effectively and to maximize the level of proceeds from the sale of such products, and (iii) to create internal facilities and infrastructure capabilities that can provide prompt and efficient customer service, experienced assistance, rapid delivery and timely maintenance of the Company's equipment; the demand by the educational market (and the K-12 market in particular) for the Company's modular products; the effect of delays or interruptions in the passage of statewide and local facility bond measures on the Company's operations; the effect of changes in applicable law, and policies relating to the use of temporary buildings on the Company's modular rental and sales revenues, including with respect to class size and building standards; the effects of changes in the level of state funding to public schools and the use of classrooms that meet the Department of Housing requirements; the Company's ability to maintain and upgrade modular equipment to comply with changes in applicable law and customer preference; the Company's strategy to effectively implement its expansion into Florida, North Carolina, Georgia and other new markets in the U.S.; the Company's expectation that the first phase of its ERP upgrade project will be completed in late 2008 and the Company's reliance on its information technology systems; the Company's engaging in and ability to consummate future acquisitions; manufacturers' ability to produce products to the Company's specification on a timely basis; the Company's ability to maintain good relationships with school districts, manufacturers, and other suppliers; the impact of debt covenants on the Company's flexibility in running its business and the effect of an event of default on the Company's results of operations; the effect of interest rate fluctuations; the Company's ability to manage its credit risk and accounts receivable; the timing and amounts of future capital expenditures and the Company's ability to meet its needs for working capital including its ability to negotiate lines of credit; the Company's ability to track technology trends to make good buy-sell decisions with respect to electronic test equipment; the effect of changes to the Company's accounting policies and impact of evolving interpretation and implementation of such policies; the risk of litigation and claims against the Company; the impact of a change in the Company's overall effective tax rate as a result of the Company's mix of business levels in various tax jurisdictions in which it does business; the adequacy of the Company's insurance coverage; the impact of a failure by third parties to manufacture our products timely or properly; the level of future warranty costs of modular equipment that we sell; the effect of seasonality on the Company's business; the growth of the Company's business in international markets and the Company's ability to succeed in those markets; and the Company's ability to pass on increases in its costs of rental equipment, including manufacturing costs, operating expenses and interest expense through increases in rental rates and selling prices. Further, our future business, financial condition and results of operations could differ materially from those anticipated by such forward-looking statements and are subject to risks and uncertainties including the risks set forth above and the Risk Factors set forth in this Form 10-Q. Moreover, neither we assume nor any other person assumes responsibility for the accuracy and completeness of the forward-looking statements.

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

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of McGrath RentCorp and Subsidiaries:

We have reviewed the accompanying consolidated balance sheet of McGrath RentCorp and Subsidiaries as of March 31, 2008, and the related statements of income and cash flows for the three-month periods ended March 31, 2008 and 2007. These interim financial statements are the responsibility of the Company's management.

We conducted our review 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 United States Public Company Accounting Oversight Board, 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 review, we are not aware of any material modifications that should be made to the accompanying 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, 2007, 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, 2008, 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, 2007, 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
May 6, 2008

McGRATH RENTCORP
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

<i>(in thousands, except per share amounts)</i>	Three Months Ended March 31,	
	2008	2007
<u>REVENUES</u>		
Rental	\$ 48,236	\$ 43,308
Rental Related Services	7,342	7,422
Rental Operations	55,578	50,730
Sales	9,173	9,343
Other	664	680
Total Revenues	65,415	60,753
<u>COSTS AND EXPENSES</u>		
Direct Costs of Rental Operations:		
Depreciation of Rental Equipment	13,418	12,019
Rental Related Services	5,215	5,093
Other	8,090	7,598
Total Direct Costs of Rental Operations	26,723	24,710
Costs of Sales	5,798	6,526
Total Costs	32,521	31,236
Gross Profit	32,894	29,517
Selling and Administrative	13,544	11,648
Income from Operations	19,350	17,869
Interest	2,467	2,621
Income Before Provision for Income Taxes	16,883	15,248
Provision for Income Taxes	6,618	5,947
Income Before Minority Interest	10,265	9,301
Minority Interest in Loss of Subsidiary		(27)
Net Income	\$ 10,265	\$ 9,328
Earnings Per Share:		
Basic	\$ 0.43	\$ 0.37
Diluted	\$ 0.43	\$ 0.37
Shares Used in Per Share Calculation:		
Basic	23,978	25,114
Diluted	24,094	25,387
Cash Dividends Declared Per Share	\$ 0.20	\$ 0.18

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

McGRATH RENTCORP
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

<i>(in thousands)</i>	March 31, 2008	December 31, 2007
<u>Assets</u>		
Cash	\$ 333	\$ 5,090
Accounts Receivable, net of allowance for doubtful accounts of \$1,100 in 2008 and \$1,400 in 2007	60,378	67,061
Rental Equipment, at cost:		
Relocatable Modular Buildings	481,819	475,077
Electronic Test Equipment	242,755	232,349
	724,574	707,426
Less Accumulated Depreciation	(231,329)	(221,412)
Rental Equipment, net	493,245	486,014
Property, Plant and Equipment, net	72,637	66,480
Prepaid Expenses and Other Assets	16,596	17,591
Total Assets	\$ 643,189	\$ 642,236
<u>Liabilities and Shareholders' Equity</u>		
Liabilities:		
Notes Payable	\$ 218,755	\$ 197,729
Accounts Payable and Accrued Liabilities	48,489	55,642
Deferred Income	25,293	28,948
Deferred Income Taxes, net	121,641	115,886
Total Liabilities	414,178	398,205
Shareholders' Equity:		
Common Stock, no par value - Authorized 40,000 shares		
Issued and Outstanding 23,635 shares in 2008 and 24,578 shares in 2007	41,596	41,917
Retained Earnings	187,415	202,114
Total Shareholders' Equity	229,011	244,031
Total Liabilities and Shareholders' Equity	\$ 643,189	\$ 642,236

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

McGRATH RENTCORP

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

<i>(in thousands)</i>		Three Months Ended March 31,	
		2008	2007
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>			
Net Income		\$ 10,265	\$ 9,328
Adjustments to Reconcile Net Income to Net Cash			
Provided by Operating Activities:			
Depreciation		14,050	12,588
Provision for Doubtful Accounts		254	20
Non-Cash Stock Compensation		932	850
Gain on Sale of Rental Equipment		(2,340)	(2,057)
Change In:			
Accounts Receivable		6,429	(420)
Prepaid Expenses and Other Assets		995	334
Accounts Payable and Accrued Liabilities		(7,085)	(4,809)
Deferred Income		(3,655)	(4,293)
Deferred Income Taxes		5,755	4,882
Net Cash Provided by Operating Activities		25,600	16,423
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>			
Purchase of Rental Equipment		(21,605)	(27,295)
Purchase of Property, Plant and Equipment		(6,789)	(815)
Proceeds from Sale of Rental Equipment		5,374	5,181
Net Cash Used in Investing Activities		(23,020)	(22,929)
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>			
Net Borrowings Under Bank Lines of Credit		21,026	8,660
Proceeds from the Exercise of Stock Options		386	1,407
Excess Tax Benefit from Exercise and Disqualifying			
Disposition of Stock Options		25	471
Repurchase of Common Stock		(24,418)	
Payment of Dividends		(4,356)	(4,016)
Net Cash Provided by (Used in) Financing Activities		(7,337)	6,522
Net Increase (Decrease) in Cash		(4,757)	16
Cash Balance, beginning of period		5,090	349
Cash Balance, end of period		\$ 333	\$ 365
Interest Paid, during the period		\$ 2,160	\$ 1,904
Income Taxes Paid, during the period		\$ 838	\$ 594
Dividends Declared, not yet paid		\$ 4,727	\$ 4,533
Rental Equipment Acquisitions, not yet paid		\$ 9,482	\$ 8,847

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

McGRATH RENTCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2008

NOTE 1. CONSOLIDATED FINANCIAL INFORMATION

The consolidated financial information for the three months ended March 31, 2008 and 2007 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 results of operations, financial position, and cash flows of McGrath RentCorp (the Company) have been made. The consolidated results for the three months ended March 31, 2008 should not be considered as necessarily indicative of the consolidated results for the entire year. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's latest Form 10-K.

NOTE 2. NEW ACCOUNTING PRONOUNCEMENTS

The Company adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 157, Fair Value Measurement (SFAS No. 157) on January 1, 2008. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosure about fair value measurements. The adoption of SFAS No. 157 did not have an impact on the Company's financial condition, or results of operations.

SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS No. 159) became effective on January 1, 2008. SFAS No. 159 permits entities to choose to measure financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The Company did not choose to measure any financial instruments or other items in accordance with the provisions of SFAS 159.

In December 2007, Financial Accounting Standards Board (FASB) issued SFAS No. 141(R), Business Combinations, and SFAS No. 160, Accounting and Reporting of Noncontrolling Interest in Consolidated Financial Statements, an Amendment of Accounting Research Bulletin (ARB) No. 51. These new standards will significantly change the accounting for and reporting of business combination transactions and noncontrolling (minority) interests in consolidated financial statements. SFAS Nos. 141(R) and 160 are effective for financial statements issued for fiscal years beginning on or after December 15, 2008. SFAS No. 141(R) will be applied by the Company to business combinations occurring on or after January 1, 2009. The Company does not currently have any noncontrolling interest in subsidiaries and does not believe the adoption of SFAS No. 160 will materially impact the presentation of the financial results of the Company.

NOTE 3. EARNINGS PER SHARE

Basic earnings per share (EPS) is computed as net income divided by the weighted average number of shares of common stock outstanding for the period. Diluted EPS is computed as net income divided by the weighted average number of shares outstanding of common stock and common stock equivalents for the period, including the dilutive effects of stock options and other potentially dilutive securities. Common stock equivalents result from dilutive stock options computed using the treasury stock method and the average share price for the reported period. The effect of dilutive options on the weighted average number of shares for the three months ended March 31, 2008 and 2007 was 115,637 and 273,170, respectively. As of March 31, 2008 and 2007, stock options to purchase 1,133,575 and 479,000 shares, respectively, of the Company's common stock were not included in the computation of diluted EPS because the exercise price exceeded the average market price for the quarter and the effect would have been anti-dilutive.

The Company's Board of Directors has authorized the Company to repurchase shares of the Company's outstanding common stock. These purchases are made in the over-the-counter market (NASDAQ) and/or through privately negotiated, large block transactions at such repurchase price as the officers of the Company deem appropriate and desirable on behalf of the Company. All shares repurchased by the Company are canceled and

returned to the status of authorized but unissued shares of common stock. During the three months ended March 31, 2008, the Company repurchased 968,746 shares of common stock for an aggregate repurchase price of \$21.9 million, or an average price of \$22.61 per share. There were no repurchases of common stock during the three months ended March 31, 2007. As of March 31, 2008, 210,878 shares remain authorized for repurchase.

NOTE 4. SEGMENT REPORTING

SFAS No. 131, Disclosure about Segments of an Enterprise and Related Information, establishes annual and interim reporting standards for an enterprise's operating segments and related disclosures about its products, services, geographic areas and major customers. In accordance with SFAS No. 131, the Company's three reportable segments are Mobile Modular, TRS-RenTelco, and Enviroplex. The operations of each of these segments are described in Note 1 - Organization and Business, and the accounting policies of the segments are described in Note 2 - *Significant Accounting Policies* in the Company's latest Form 10-K. Management focuses on several key measures to evaluate and assess each segment's performance including rental revenue growth, gross profit, and income before provision for income taxes. As a separate corporate entity, Enviroplex revenues and expenses are maintained separately from Mobile Modular and TRS-RenTelco. Excluding interest expense, allocations of revenue and expense not directly associated with Mobile Modular or TRS-RenTelco are generally allocated to these segments based on their pro-rata share of direct revenues. Interest expense is allocated between Mobile Modular and TRS-RenTelco based on their pro-rata share of average rental equipment, accounts receivable, deferred income and customer security deposits. The Company does not report total assets by business segment. Summarized financial information for the three months ended March 31, 2008 and 2007 for the Company's reportable segments is shown in the following table:

<i>(in thousands)</i>	Mobile Modular	TRS-RenTelco	Enviroplex ¹	Consolidated
Three Months Ended March 31,				
2008				
Rental Revenues	\$ 25,915	\$ 22,321	\$	\$ 48,236
Rental Related Services Revenues	6,901	441		7,342
Sales and Other Revenues	3,017	4,997	1,823	9,837
Total Revenues	35,833	27,759	1,823	65,415
Depreciation of Rental Equipment	3,240	10,178		13,418
Gross Profit	20,311	11,952	631	32,894
Interest Expense (Income) Allocation	1,679	894	(106)	2,467
Income before Provision for Income Taxes	11,705	5,165	13	16,883
Rental Equipment Acquisitions	8,295	15,389		23,684
Accounts Receivable, net (period end)	35,860	21,114	3,404	60,378
Rental Equipment, at cost (period end)	481,819	242,755		724,574
Rental Equipment, net book value (period end)	362,094	131,151		493,245
Utilization (period end) 2	82.3%	68.4%		
Average Utilization 2	82.5%	68.8%		
2007				
Rental Revenues	\$ 23,836	\$ 19,472	\$	\$ 43,308
Rental Related Services Revenues	7,049	373		7,422
Sales and Other Revenues	4,328	4,609	1,086	10,023
Total Revenues	35,213	24,454	1,086	60,753
Depreciation of Rental Equipment	2,929	9,090		12,019
Gross Profit	19,531	9,927	59	29,517
Interest Expense (Income) Allocation	1,893	878	(150)	2,621
Income (Loss) before Provision for Income Taxes	11,182	4,288	(222)	15,248
Rental Equipment Acquisitions	9,280	17,431		26,711
Accounts Receivable, net (period end)	32,586	23,213	4,435	60,234
Rental Equipment, at cost (period end)	459,184	199,699		658,883
Rental Equipment, net book value (period end)	348,689	114,221		462,910
Utilization (period end) 2	81.5%	66.9%		
Average Utilization 2	81.3%	66.6%		

1 Gross Enviroplex sales revenues were \$2,523 and \$1,103 for the three months ended March 31, 2008 and 2007, respectively, which includes inter-segment sales to MMC of \$700 and \$17, respectively, which are eliminated in consolidation.

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

No single customer accounted for more than 10% of total revenues for the three months ended March 31, 2008 and 2007. 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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations 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, including but not limited to those set forth under this Item, as well as those discussed in Part II Item 1A, Risk Factors, and elsewhere in this document 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 Consolidated Financial Statements and related Notes included in Part I Item 1 of this Quarterly Report on 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 Annual Report on Form 10-K as filed with the Securities and Exchange Commission on February 25, 2008.

General

The Company, incorporated in 1979, is a leading rental provider of relocatable modular buildings for classroom and office space, and electronic test equipment for general purpose and communications needs. The Company's primary emphasis is on equipment rentals. The Company is comprised of three business segments: (1) Mobile Modular Management Corporation, its modular building rental division (Mobile Modular); (2) TRS-RenTelco, its electronic test equipment rental division and; (3) Enviroplex, Inc., its wholly-owned subsidiary classroom manufacturing business selling modular buildings used primarily as classrooms in California (Enviroplex). In the three months ended March 31, 2008, Mobile Modular, TRS-RenTelco and Enviroplex contributed 69%, 31% and 0% of the Company's income before provision for taxes (the equivalent of pretax income), respectively, compared to 73%, 28% and negative 1% for the same period in 2007. Although managed as a separate business unit, Enviroplex's revenues, pretax income contribution and total assets are not significant relative to the Company's consolidated financial position.

The Company generates the majority of its revenue from the rental of relocatable modular buildings and electronic test equipment on operating leases with sales of equipment occurring in the normal course of business. The Company requires significant capital outlay to purchase its rental inventory and recovers its investment through rental and sales revenues. Rental revenue and other services negotiated as part of the lease agreement with the customer and related costs are recognized on a straight-line basis over the term of the lease. Sales revenue and related costs are recognized upon delivery and installation of the equipment to the customer. 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 rental life and when sold, sale proceeds recover a high percentage of its capitalized cost.

Significant risks of rental equipment ownership are borne by the Company, which include, but are not limited to, uncertainties in the market for its products over the equipment's useful life, use limitations for modular equipment related to updated building codes or legislative changes, technological obsolescence of electronic test equipment, and rental equipment deterioration. The Company believes it mitigates these risks by continuing advocacy and collaboration with governing agencies and legislative bodies for ongoing use of its modular product, staying abreast of technology trends in order to make good buy-sell decisions of electronic test equipment, and ongoing investment in repair and maintenance programs to insure both types of rental equipment are maintained in good operating condition.

The Company's modular revenues are primarily affected by demand for classrooms which in turn is affected by shifting and fluctuating school populations, the level of state funding to public schools, the need for temporary classroom space during reconstruction of older schools and changes in policies regarding class size. In particular, public schools in the State of California from time to time experience fluctuations in funding from the state. As a result of any reduced funding, lower expenditures by these schools may result in certain planned programs, and the demand for classrooms such as the Company provides, to be postponed or terminated. However,

reduced expenditures may in fact 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 make 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 funding of public schools by the State of California. 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 Annual Report on Form 10-K for the year ended December 31, 2007 and *Item 1A. Risk Factors A significant reduction of funding to public schools could cause the demand for our modular classroom units to decline, which could result in a reduction in our revenues and profitability*, in Part II Other Information section of this Form 10-Q.)

Revenues of TRS-RenTelco are derived from the rental and sale of general purpose and communications 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.

The Company's rental operations include rental and rental related service revenues which comprised approximately 85% and 84% of consolidated revenues in the three months ended March 31, 2008 and 2007, respectively. Of the total rental operations revenue for the three months ended March 31, 2008 and 2007, Mobile Modular and Enviroplex comprised 59% and 61%, respectively and TRS-RenTelco comprised 41% and 39%, respectively. The Company's direct costs of rental operations include depreciation of rental equipment, rental related service costs, impairment of rental equipment (if any), and other direct costs of rental operations which include direct labor, supplies, repairs, insurance, property taxes, license fees and amortization of certain lease costs.

The Company also sells modular and electronic test equipment that is new, previously rented, or manufactured by Enviroplex. 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 three months ended March 31, 2008 and 2007, sales and other revenues of modular and electronic test equipment comprised approximately 15% and 16%, respectively, of the Company's consolidated revenues. Of the total sales and other revenues for the three months ended March 31, 2008 and 2007, Mobile Modular and Enviroplex comprised 49% and 54%, respectively, and TRS-RenTelco comprised 51% and 46%, respectively. The Company's cost of sales includes the carrying value of the equipment sold and the direct costs associated with the equipment sold such as delivery, installation, modifications and related site work.

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

To supplement the Company's financial data presented on a basis consistent with Generally Accepted Accounting Principles (GAAP), the Company presents Adjusted EBITDA which is defined by the Company as net income before minority interest in income of subsidiary, interest expense, provision for income taxes, depreciation, amortization, and non-cash stock-based compensation.

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

Management uses Adjusted EBITDA as a supplement to GAAP measures to further evaluate the Company's period-to-period operating performance and evaluate the Company's ability to meet future capital expenditure and working capital requirements. Management believes the exclusion of non-cash charges, including stock-based compensation, is useful in measuring the Company's cash available to operations and the performance of the Company. Because the Company finds Adjusted EBITDA useful, the Company believes its investors will also find Adjusted EBITDA useful in evaluating the Company's performance.

Adjusted EBITDA should not be considered in isolation or as a substitute for net income, cash flows, or other consolidated income or cash flow data prepared in accordance with generally accepted accounting principles in the United States or as a measure of the Company's profitability or liquidity. Adjusted EBITDA is not in accordance with or an alternative for GAAP, and may be different from non-GAAP measures used by other companies. Unlike EBITDA which may be used by other companies or investors, Adjusted EBITDA does not include stock-based compensation charges and income from the minority interest in the Company's Enviroplex subsidiary. The Company believes that Adjusted EBITDA is of limited use in that it does not reflect all of the amounts associated with the Company's results of operations as determined in accordance with GAAP and does not accurately reflect real cash flow. In addition, other companies may not use Adjusted EBITDA or may use other non-GAAP measures, limiting the usefulness of Adjusted EBITDA. Therefore, Adjusted EBITDA should only be used to evaluate the Company's results of operations in conjunction with the corresponding GAAP measures. The presentation of Adjusted EBITDA is not meant to be considered in isolation or as a substitute for the most directly comparable GAAP measures. The Company compensates for the limitations of Adjusted EBITDA by relying upon GAAP results to gain a complete picture of the Company's performance. Since Adjusted EBITDA is a non-GAAP financial measure as defined by the Securities and Exchange Commission, the Company includes in the tables below reconciliations of Adjusted EBITDA to the most directly comparable financial measures calculated and presented in accordance with accounting principles generally accepted in the United States.

Reconciliation of Net Income to Adjusted EBITDA

	Three Months Ended March 31,		Twelve Months Ended March 31,	
	2008	2007	2008	2007
<i>(dollar amounts in thousands)</i>				
Net Income	\$ 10,265	\$ 9,328	\$ 43,347	\$ 42,569
Minority Interest in Income (Loss) of Subsidiary		(27)	91	285
Provision for Income Taxes	6,618	5,947	28,009	25,165
Interest	2,467	2,621	10,565	11,028
Income from Operations	19,350	17,869	82,012	79,047
Depreciation and Amortization	14,050	12,588	55,465	48,666
Non-Cash Stock-Based Compensation	932	850	3,538	3,147
Adjusted EBITDA ¹	\$ 34,332	\$ 31,307	\$ 141,015	\$ 130,860
Adjusted EBITDA Margin ²	52%	52%	49%	49%

Reconciliation of Adjusted EBITDA to Net Cash Provided by Operating Activities

	Three Months Ended March 31,		Twelve Months Ended March 31,	
	2008	2007	2008	2007
<i>(dollar amounts in thousands)</i>				
Adjusted EBITDA ¹	\$ 34,332	\$ 31,307	\$ 141,015	\$ 130,860
Interest Paid	(2,160)	(1,904)	(10,973)	(10,913)
Income Taxes Paid	(838)	(594)	(14,668)	(14,493)
Gain on Sale of Rental Equipment	(2,340)	(2,057)	(10,309)	(10,080)
Change in certain assets and liabilities:				
Accounts Receivable, net	6,683	(400)	(144)	(9,150)
Prepaid Expenses and Other Assets	995	334	(1,057)	(261)
Accounts Payable and Other Liabilities	(7,417)	(5,970)	(3,527)	3,976
Deferred Income	(3,655)	(4,293)	3,734	1,099
Net Cash Provided by Operating Activities	\$ 25,600	\$ 16,423	\$ 104,070	\$ 91,038

Edgar Filing: MCGRATH RENTCORP - Form 10-Q

- 1 Adjusted EBITDA is defined as net income before minority interest in income of subsidiary, interest expense, provision for income taxes, depreciation, amortization, and other 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. Under these agreements, the Company is subject to the following financial covenants:

Maintain a leverage ratio of funded debt to Adjusted EBITDA (as defined) not to exceed 2.25. At March 31, 2008 the actual ratio was 1.55.

Maintain a fixed charge coverage of Adjusted EBITDA to fixed charges of at least 2.00. At March 31, 2008 the actual ratio was 3.26. At March 31, 2008, the Company was in compliance with these covenants. There are no anticipated trends that the Company is aware of that would indicate non-compliance with these covenants, though, significant deterioration in our financial performance could impact the Company's ability to comply with these covenants.

Recent Developments

On February 21, 2008, the Company announced that the board of directors declared a cash dividend of \$0.20 per common share for the quarter ended March 31, 2008, and increase of 11% over the prior year's comparable quarter.

Results of Operations

Three Months Ended March 31, 2008 Compared to

Three Months Ended March 31, 2007

Overview

Consolidated revenues for the three months ended March 31, 2008 increased 8% to \$65.4 million, from \$60.8 million for the same period in 2007. Consolidated net income for the quarter increased \$0.9 million, or 10% to \$10.3 million, or \$0.43 per diluted share, from \$9.3 million, or \$0.37 per diluted share, for the same period in 2007.

For the three months ended March 31, 2008, on a consolidated basis:

Gross profit increased \$3.4 million, or 11%, to \$32.9 million, with gross profit of Mobile Modular increasing \$0.8 million, or 4%, and TRS-RenTelco increasing \$2.0 million, or 20%, primarily due to higher gross profit on rental revenues in each division. Enviroplex gross profit increased by \$0.6 million.

Selling and administrative expenses increased \$1.9 million, or 16% to \$13.5 million from \$11.6 million in the same period in 2007, primarily due to higher personnel and employee benefit costs, increased bad debt expense and higher travel and advertising costs.

Interest expense decreased \$0.1 million, to \$2.5 million due to 23% lower net average interest rates (4.7% compared to 6.1% in 2007) partly offset by higher average debt levels of the Company.

Pre-tax income contribution by Mobile Modular and TRS-RenTelco was 69% and 31%, respectively, compared to 73% and 28%, respectively, for the comparable 2007 period. These results are discussed on a segment basis below.

Adjusted EBITDA increased \$3.0 million, or 10%, to \$34.3 million compared to \$31.3 million in 2007, with Mobile Modular and TRS-RenTelco increasing \$0.7 million and \$2.1 million, respectively.

Mobile Modular

For the three months ended March 31, 2008, Mobile Modular's total revenues increased \$0.6 million, or 2%, to \$35.8 million from the same period in 2007, due to \$1.9 million higher rental and rental related services revenues, partly offset by \$1.3 million lower sales revenues during the quarter. The revenue increase and higher gross margin on rental revenues and sales resulted in an increase in pre-tax income of \$0.5 million, or 5%, to \$11.7 million for the quarter ended March 31, 2008, from \$11.2 million for the same period in 2007.

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

Mobile Modular Q1 2008 compared to Q1 2007 (Unaudited)

<i>(dollar amounts in thousands)</i>	Three Months Ended March 31,		Increase (Decrease)	
	2008	2007	\$	%
<u>Revenues</u>				
Rental	\$ 25,915	\$ 23,836	\$ 2,079	9%
Rental Related Services	6,901	7,049	(148)	-2%
Rental Operations	32,816	30,885	1,931	6%
Sales	2,872	4,166	(1,294)	-31%
Other	145	162	(17)	-11%
Total Revenues	\$ 35,833	\$ 35,213	\$ 620	2%
<u>Gross Profit</u>				
Rental	\$ 17,167	\$ 15,742	\$ 1,425	9%
Rental Related Services	2,069	2,320	(251)	-11%
Rental Operations	19,236	18,062	1,174	7%
Sales	930	1,307	(377)	-29%
Other	145	162	(17)	-11%
Total Gross Profit	\$ 20,311	\$ 19,531	\$ 780	4%
Pre-tax Income	\$ 11,705	\$ 11,182	\$ 523	5%
<u>Other Information</u>				
Depreciation of Rental Equipment	\$ 3,240	\$ 2,929	\$ 311	11%
Interest Expense Allocation	\$ 1,679	\$ 1,893	\$ (214)	-11%
Average Rental Equipment ¹	\$ 451,325	\$ 412,202	\$ 39,123	10%
Average Rental Equipment on Rent ¹	\$ 372,186	\$ 335,017	\$ 37,169	11%
Average Monthly Total Yield ²	1.91%	1.93%		-1%
Average Utilization ³	82.5%	81.3%		1%
Average Monthly Rental Rate ⁴	2.32%	2.37%		-2%
Period End Rental Equipment ¹	\$ 452,801	\$ 413,227	\$ 39,574	10%
Period End Utilization ³	82.3%	81.5%		1%
Period End Floors ¹	26,460	24,910	1,550	6%

Edgar Filing: MCGRATH RENTCORP - Form 10-Q

Average and Period End Rental Equipment represents the cost of rental equipment excluding new equipment inventory and accessory equipment. Period End Floors excludes new equipment inventory.

- 2 Average Monthly Total Yield is calculated by dividing the averages of monthly rental revenues by the cost of rental equipment, for the period.
- 3 Period End Utilization is calculated by dividing the cost of rental equipment on rent by the total cost of rental equipment excluding new equipment inventory and accessory equipment. Average utilization for the period is calculated using the average costs of the rental equipment.
- 4 Average Monthly Rental Rate is calculated by dividing the averages of monthly rental revenues by the cost of rental equipment on rent, for the period.

Mobile Modular's gross profit for the three months ended March 31, 2008 increased \$0.8 million, or 4%, to \$20.3 million from \$19.5 million for the same period in 2007. For the three months ended March 31, 2008 compared to the same period in 2007:

Gross Profit on Rental Revenues - Rental revenues increased \$2.1 million, or 9%, over 2007, primarily due to the continued education market demand for classrooms. The rental revenues increase was due to a 10% increase in average rental equipment, partly offset by lower average total yield as lower rental rate was partly offset by higher average utilization. As a percentage of rental revenues, depreciation was 13% in 2008 and 12% in 2007 and other direct costs decreased from 22% in 2007 to 21% in 2008, which resulted in gross margin percentage of 66% in 2008 and 2007. The higher rental revenues and comparable rental margins, resulted in gross profit on rental revenues increasing \$1.4 million, or 9%, to \$17.2 million in 2008.

Gross Profit on Rental Related Services Rental related services revenues decreased \$0.1 million, or 2%, compared to 2007. Most of these service revenues are negotiated with the initial lease and are recognized on a straight-line basis with the associated costs over the initial term of the lease. The decrease in rental related services revenues was primarily attributable to the mix of leases and associated service revenues within the initial lease term and lower revenues from services rendered during the lease during 2008 as compared to 2007. The lower revenues and lower gross margin percentage resulted in rental related services gross profit decreasing \$0.2 million, or 11%, to \$2.1 million from \$2.3 million in 2007.

Gross Profit on Sales Sales revenues decreased \$1.3 million, or 31%, compared to 2007. Sales occur routinely as a normal part of Mobile Modular's rental business; however, these sales and related gross margins can fluctuate from quarter to quarter and year to year depending on customer requirements, equipment availability and funding. Lower sales revenues were partly offset by a higher gross margin percentage, 32% in 2008 compared to 31% in 2007, which resulted in gross profit on sales decreasing \$0.4 million, or 29%, to \$0.9 million in 2008 from \$1.3 million in 2007.

For the three months ended March 31, 2008, selling and administrative expenses increased \$0.5 million, or 7%, to \$6.9 million from \$6.4 million in the same period in 2007, primarily due to headcount additions to support business growth and higher personnel and employee benefit costs.

TRS-RenTelco

For the three months ended March 31, 2008, TRS-RenTelco's total revenues increased \$3.3 million, or 14%, to \$27.8 million compared to the same period in 2007, due to higher rental and sales revenues. Pre-tax income increased \$0.9 million, or 21%, for the three months ended March 31, 2008 to \$5.2 million from \$4.3 million for the same period of 2007, primarily due to higher gross profit on rental and sales revenues.

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

TRS-RenTelco Q1 2008 compared to Q1 2007 (Unaudited)

<i>(dollar amounts in thousands)</i>	Three Months Ended March 31,		Increase (Decrease)	
	2008	2007	\$	%
<u>Revenues</u>				
Rental	\$ 22,321	\$ 19,472	\$ 2,849	15%
Rental Related Services	441	373	68	18%
Rental Operations	22,762	19,845	2,917	15%
Sales	4,478	4,091	387	10%
Other	519	518	1	0%
Total Revenues	\$ 27,759	\$ 24,454	\$ 3,305	14%
<u>Gross Profit</u>				
Rental	\$ 9,561	\$ 7,949	\$ 1,612	20%
Rental Related Services	58	9	49	nm
Rental Operations	9,619	7,958	1,661	21%
Sales	1,814	1,451	363	25%
Other	519	518	1	0%
Total Gross Profit	\$ 11,952	\$ 9,927	\$ 2,025	20%
Pre-tax Income	\$ 5,165	\$ 4,288	\$ 877	21%
<u>Other Information</u>				
Depreciation of Rental Equipment	\$ 10,178	\$ 9,090	\$ 1,088	12%
Interest Expense Allocation	\$ 894	\$ 878	\$ 16	2%
Average Rental Equipment ¹	\$ 235,122	\$ 191,574	\$ 43,548	23%
Average Rental Equipment on Rent ¹	\$ 161,658	\$ 127,567	\$ 34,091	27%
Average Monthly Total Yield ²	3.16%	3.39%		-7%
Average Utilization ³	68.8%	66.6%		3%
Average Monthly Rental Rate ⁴	4.60%	5.09%		-10%
Period End Rental Equipment ¹	\$ 238,960	\$ 197,980	\$ 40,980	21%
Period End Utilization ³	68.4%	66.9%		2%

¹ Average and Period End Rental Equipment represents the cost of rental equipment excluding accessory equipment.

Edgar Filing: MCGRATH RENTCORP - Form 10-Q

- 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.

nm = Not Meaningful

TRS-RenTelco's gross profit for the three months ended March 31, 2008 increased \$2.0 million, or 20% to \$11.9 million from \$9.9 million for the same period in 2007. For the quarter ended March 31, 2008 compared to the same period in 2007:

Gross Profit on Rental Revenues Rental revenues increased \$2.8 million, or 15%, as compared to 2007, with depreciation expense increasing \$1.1 million, or 12%, resulting in increased gross profit on rental revenues of \$1.6 million, or 20%, to \$9.6 million as compared to 2007. The increase in gross profit on rental revenues is primarily due to 23% higher average rental equipment as compared to 2007, partly offset by lower average monthly yield as average rental rates decreased 10% and utilization of rental equipment increased 3% in 2008 compared to 2007. The rental rate decrease was due to account penetration and other competitive pressures, and to a lesser extent the phasing out of TRS acquired equipment having lower original cost compared to new equipment purchases and a greater mix of general purpose test equipment that typically has lower rental rates, but longer depreciable lives, compared to communications test equipment.

Gross Profit on Sales Sales revenues increased 10% to \$4.5 million in 2008, as compared to \$4.1 million in 2007. Gross margin percentage was 40% in 2008, compared to 35% in 2007, primarily due to higher gross margin on used equipment sales resulting in gross profit on sales increasing 25% to \$1.8 million from \$1.5 million in 2007. 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 three months ended March 31, 2008, selling and administrative expenses increased \$1.1 million, or 24%, to \$5.9 million from \$4.8 in the same period in 2007 due to headcount additions to support business growth, higher personnel and employee benefit costs and higher marketing and administrative costs.

Liquidity and Capital Resources

This section contains statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. See the statements at the beginning of this Item for cautionary information with respect to such forward-looking statements.

The Company's rental businesses are capital intensive and generate significant cash flows. Cash flows for the Company for the three months ended March 31, 2008 compared to the same period in 2007 are summarized as follows:

Cash Flow from Operating Activities: The Company's operations provided net cash flow of \$25.6 million, an increase of 56% in 2008 as compared to \$16.4 million in 2007. The \$9.2 million increase in net cash provided by operating activities was primarily attributable to the reduction of accounts receivable and improved results of operations in 2008, partly offset by other balance sheet changes.

Cash Flow from Investing Activities: Net cash used in investing activities was \$23.0 million in 2008 compared to \$22.9 million in 2007. The \$0.1 million increase was primarily due to the \$6.0 million increase in construction in progress offset by \$5.7 million lower rental equipment purchases of \$21.6 million compared to \$27.3 million in 2007.

Cash Flow from Financing Activities: Net cash used in financing activities was \$7.3 million in 2008, compared to net cash provided by financing activities of \$6.5 million in 2007. The \$13.8 million increase in net cash used in financing activities was primarily due to \$12.4 million increased borrowings under the Company's bank lines of credit during 2008 compared to 2007 primarily due to payment for repurchase of common stock of \$24.4 million, partly offset by \$9.2 million higher cash flows provided by operations in 2008 compared to 2007.

The Company had total liabilities to equity ratios of 1.81 to 1 and 1.63 to 1 as of March 31, 2008 and December 31, 2007, respectively. The debt (notes payable) to equity ratios were 0.96 to 1 and 0.81 to 1 as of March 31, 2008 and December 31, 2007, respectively. The Company's credit facility related to its cash management services facilitates automatic borrowings and repayments with the bank on a daily basis depending on the Company's cash position and allows the Company to maintain minimal cash balances. At March 31, 2008, the Company had unsecured lines of credit that permit it to borrow up to \$195.0 million of which \$170.8 million was outstanding and has capacity to borrow up to an additional \$24.2 million. These unsecured lines of credit expire June 30, 2008. The Company is currently working with its lenders and other financial institutions to replace and extend the term of its credit facility.

The Company has in the past made purchases of shares of its common stock from time to time in the over-the-counter market (NASDAQ) and/or through privately negotiated, large block transactions under an authorization of the Company's board of directors. Shares repurchased by the Company are cancelled and returned to the status of authorized but unissued stock. During the three months ended March 31, 2008, the Company repurchased 968,746 shares of common stock for an aggregate repurchase price of \$21.9 million, or an average price of \$22.61 per share. There were no repurchases of common stock in the three months ending March 31, 2007. As of May 8, 2008, 210,878 shares remain authorized for repurchase.

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

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 Annual Report on Form 10-K for the year ended December 31, 2007.

ITEM 4. CONTROLS AND PROCEDURES

The Company's management, under the supervision and with the participation of the Company's Chief Executive Officer (the "CEO") and Chief Financial Officer (the "CFO"), performed an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of March 31, 2008. 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. The following risk factors are not the only risk factors facing our Company. Additional risks that we do not consider material, or of which we are not currently aware, may also have an adverse impact on us. Our business, financial condition, and results of operations could be seriously harmed if any of these risks or uncertainties actually occurs or materializes. In that event, the market price for our common stock could decline, and you may lose all or part of your investment.

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

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

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

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

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

the stock price performance of competitors or other comparable companies;

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

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

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

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

In addition, in recent years the stock market has experienced significant price and volume fluctuations. These fluctuations are often unrelated to the operating performance of particular companies. These broad market fluctuations may cause declines in the market price of our common stock and are based upon factors that have little or nothing to do with our Company or its performance, and these fluctuations 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 states and countries where we rent and sell our products;

legislative and educational policies where we rent and sell our products;

seasonality of our rental businesses and our end-markets;

success of our strategic growth initiatives;

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 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. Currently, we do not have any long-term purchase contracts with any third-party supplier. In the future, we may not be able to negotiate arrangements with these third parties on acceptable terms, if at all. If we cannot negotiate arrangements with these third parties to produce our products or if the third parties fail to produce our products to our specifications or in a timely manner, our reputation and financial condition could be harmed.

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

Our information technology systems facilitate our ability to monitor and control our operations and adjust to changing market conditions. Any disruption in any of our information technology systems or the failure of these systems to operate as expected could, depending on the magnitude of the problem, adversely affect our operating results by limiting our capacity to effectively monitor and control our operations and adjust to changing market conditions in a timely manner.

Edgar Filing: MCGRATH RENTCORP - Form 10-Q

During June 2005, we entered into an agreement with Rental Result, a rental software application provider, to support the transition of our modular business, certain aspects of our electronic test equipment business and our accounting systems to their platform. This is a multi-year project and we expect the first phase of the project to be completed in late 2008. The new ERP and upgrades to our IT infrastructure will result in higher selling and administrative costs in 2008 and beyond. These information system upgrades are important to serve and support our strategic growth.

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

We 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. 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;

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 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;

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.

Edgar Filing: MCGRATH RENTCORP - Form 10-Q

Acquisitions are inherently risky, and no assurance can be given that our future acquisitions will be successful or will not adversely affect our business, operating results, or financial condition. Failure to manage and successfully integrate acquisitions we make could harm our business and operating results in a material way. In addition, if we consummate one or more significant future acquisitions in which the consideration consists of stock or other securities, our existing shareholders' ownership could be diluted significantly. If we were to proceed with one or more significant future acquisitions in which the consideration included cash, we could be required to use a substantial portion of our available credit line, or we may be required to seek additional debt or equity financing.

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 related equipment not returned by customers has not been significant and, in each of the last five years has been less than 1% of total revenues. 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 and electronics 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. For both our modular and electronic test equipment 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 exposes us to the risk of litigation and liability under environmental, health and safety and products liability laws.

Certain aspects of our businesses involve risks of liability. In general, litigation in our industry, including class actions that seek substantial damages, arises with increasing frequency. Claims may be asserted under environmental, labor, health and safety or product liability laws. Litigation is invariably expensive, regardless of the merit of the plaintiffs' 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.

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

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

Our debt instruments contain covenants that restrict or prohibit our ability to enter into a variety of transactions and may limit our ability to finance future operations or capital needs.

The agreements governing our 5.08% senior notes due in 2011 and our unsecured revolving line of credit facility contain various covenants that may limit our discretion in operating our business. In particular, we are limited in our ability to merge, consolidate, reorganize or transfer substantially all of our assets, 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 \$1.7 million per year for each 1% increase in the average interest rate we pay, based on the \$170.8 million balance of variable rate debt outstanding at March 31, 2008. 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 Florida, North Carolina and Georgia and expansion through acquisition of TRS. Since the Company's effective tax rate depends on business levels, personnel and assets located in various jurisdictions, further expansion into new markets or acquisitions may change the effective tax rate in the future and may make it and consequently our earnings less predictable going forward. In addition, the enactment of tax law changes by federal and state taxing authorities may impact the Company's current period tax provision and its deferred tax liabilities.

Changes in financial accounting standards may cause lower than expected operating results and affect our reported results of operations.

Changes in accounting standards and their application may have a significant effect on our reported results on a going forward basis and may also affect the recording and disclosure of previously reported transactions. New accounting pronouncements and varying interpretations of accounting pronouncements have occurred and may occur in the future. Changes to existing rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business.

Failure to comply with internal control attestation requirements could lead to loss of public confidence in our financial statements and negatively impact our stock price.

As a public reporting company, we are required to comply with the Sarbanes-Oxley Act of 2002, including Section 404, and the related rules and regulations of the Securities and Exchange Commission, including expanded disclosures and accelerated reporting requirements. Compliance with Section 404 and other requirements has and will continue to increase our costs and require additional management resources. We may need to continue to implement additional finance and accounting systems, procedures and controls to satisfy new reporting requirements. While we completed a favorable assessment as to the adequacy of our internal control over financial reporting for our fiscal year ended December 31, 2007, there is no assurance that future assessments of the adequacy of our internal control 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 controls over financial reporting, which could adversely affect our stock price.

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

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

equipment and facilities in Florida are located in areas subject to hurricanes and other tropical storms. In addition to customers' insurance on rented equipment, we carry property insurance on our rental equipment in inventory and operating facilities as well as business interruption insurance. We believe our insurance policies are adequate with the appropriate limits and deductibles to mitigate the potential loss exposure of our business. We do not have financial reserves for policy deductibles and we do have exclusions under our insurance policies that are customary for our industry, including earthquakes, flood and terrorism. If any of our facilities or a significant amount of our rental equipment were to experience a catastrophic loss, it could disrupt our operations, delay orders, shipments and revenue recognition and result in expenses to repair or replace the damaged rental equipment and facility not covered by insurance.

SPECIFIC RISKS RELATED TO OUR RELOCATABLE MODULAR BUILDINGS BUSINESS SEGMENT:

A significant reduction of funding to public schools could cause the demand for our modular classroom units to decline, which could result in a reduction in our revenues and profitability.

Rentals and sales of modulars 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. In California, our largest education market, state and local budgetary constraints have also affected the amount of funding received by public school districts.

To the extent public school districts' funding is reduced for the rental and purchase of modulars, 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, changes in legislative or educational policies at either the state or local level including the contraction or elimination of class size reduction programs, a lack or insufficient amount of fiscal 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 and may have a material adverse effect on both rental and sales revenue of the Company.

Public policies that create demand for our products and services may change.

California and Florida have passed legislation to limit the number of students that may be grouped in a single classroom for certain grade levels. School districts with class sizes in excess of these limits have been and continue to be a significant source of our demand for modular classrooms. Further, in California, efforts to address aging infrastructure and deferred maintenance have resulted in a significant increase in modernization and reconstruction projects by public school districts including seismic retrofitting, asbestos abatement and various building repairs and upgrades. If educational priorities and policies shift away from class-size reduction or modernization and reconstruction projects, demand for our products and services may decline, not grow as quickly as or reach the levels that we anticipate. Significant equipment returns may result in lower utilization until equipment can be redeployed or sold, which may cause rental rates to decline and negatively affect our revenues and operating income.

Failure to comply with applicable regulations could harm our business and financial condition, resulting in lower operating results and cash flows.

Similar to conventionally constructed buildings, the modular building industry, including the manufacturers and lessors of portable classrooms, are subject to regulations by multiple governmental agencies at the federal, state and local level relating to environmental, zoning, health, safety and transportation matters, among other matters. Failure to comply with these laws or regulations could impact our business or harm our reputation and result in higher capital or operating expenditures or the imposition of penalties or restrictions on our operations.

As with conventional construction, typically new codes and regulations are not retroactively applied. Nonetheless, new governmental regulations in these or other areas may increase our acquisition cost of new rental equipment, limit the use of or make obsolete some of our existing equipment, or increase our general and administrative costs.

Building codes are generally reviewed every three years. All aspects of a given code are subject to change including but not limited to such items as structural specifications for earthquake safety, energy efficiency and environmental standards, fire and life safety, transportation, lighting and noise limits. On occasion, state agencies have undertaken studies of indoor air quality and noise levels with a focus on permanent and modular classrooms. These results could impact our existing modular equipment, and affect the future construction of our modular product.

Compliance with building codes and regulations entail a certain amount of risk as municipalities do not necessarily interpret these building codes and regulations in a consistent manner, particularly where applicable regulations may be unclear and subject to interpretation. These regulations often provide broad discretion to governmental authorities that oversee these matters, which can result in unanticipated delays or increases in the cost of compliance in particular markets. The construction and modular industries have developed many best practices which are constantly evolving. Some of our peers and competitors may adopt practices that are more or less stringent than the Company's. When, and if, regulatory standards are clarified, the effect of the clarification may be to impose rules on our business and practices retroactively, at which time, we may not be in compliance with such regulations and we may be required to incur costly remediation. If we are unable to pass these increased costs on to our customers, our profitability, operating cash flows and financial condition could be negatively impacted.

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

We have established modular operations in California, Texas and Florida and launched operations in North Carolina and Georgia in late 2007. We have identified several U.S. markets that we believe will be attractive long-term opportunities for our educational and commercial modular business and continue to consider opportunities for growth of our modular business. There are risks inherent in the undertaking of such expansion, including the risk of revenue from the business in these markets not meeting our expectations, higher than expected costs in entering these new markets, risk associated with compliance with applicable state laws and regulations, response by competitors and unanticipated consequences of expansion. In addition, expansion in new markets may be affected by local economic and market conditions. Expansion of our operations into these new markets will require a significant amount of attention from our management, a commitment of financial resources and will require us to add qualified management in these markets.

We are subject to laws and regulations governing government contracts. These laws and regulations make these government contracts more favorable to government entities than other third parties and any changes in these laws and regulations, or the failure to comply with these laws and regulations could harm our business.

We have agreements relating to the sale of our products to government entities and, as a result, we are subject to various statutes and regulations that apply to companies doing business with the government. The laws governing government contracts can differ from the laws governing private contracts. For example, many government contracts contain pricing terms and conditions that are not applicable to private contracts such as clauses that allow government entities not to perform on contractual obligations in the case of a lack of fiscal funding. Also, in the educational markets we serve, we are able to utilize piggyback contracts in marketing our products and services and ultimately to book business. The term piggyback contract refers to contracts for portable classrooms or other products entered into by public school districts following a formal bid process that allows for the use of the same contract terms and conditions with the successful vendor by other public school districts. As a result, piggyback contracts allow us to more readily book orders from our government customers, primarily public school districts, and to reduce the administrative expense associated with booking these orders. The governmental statutes and regulations that allow for use of piggyback contracts are subject to change or elimination in their entirety. A change in the manner of use or the elimination of piggyback contracts would likely negatively impact our ability to book new business from these government customers and could cause our administrative expenses related to processing these orders to increase significantly. In addition, any failure to comply with these laws and regulations might result in administrative penalties or even in the suspension of these contracts and as a result, the loss of the related revenues which would harm our business and results from operations.

Seasonality of our educational business may have adverse consequences for our business.

A significant portion of the modular sale and rental revenues are derived from the educational market. Typically, during each calendar year, our highest 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. These factors may impact the quarterly revenues and earnings of each year's second, third and fourth quarters. The differences in quarterly revenues and earnings may also be subject to fluctuations in state funding. In the past, impaired levels of funding available to the school districts from the states in which we do business have caused 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. Any reductions in funding available to school districts from the states in which we do business could result in a lower volume of orders for our products which could reduce our revenues and operating income and consequently harm our financial condition.

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 times. 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, formed in 2007 by the combination of the former GE Capital Modular Space and Resun Space Solutions, 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 equipment returning from leases.

As of March 31, 2008, 61% of our modular portfolio had equipment on rent for periods exceeding the original committed term. Generally, when a customer continues to rent the modular equipment 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 equipment 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 equipment. 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 equipment and increase the repair and maintenance costs of our fleet. We also maintain a fleet of service trucks and use subcontractor companies for delivery, set-up, return delivery and dismantle of 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 equipment 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 2007, Mobile Modular purchased 33% of its modular product from one manufacturer. The Company believes that the loss of its primary manufacturer 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 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, incur significant capital expenditures to acquire new modular product to serve demand and accordingly experience reduction of 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 equipment and one-year warranties on equipment manufactured by our Enviroplex subsidiary. Historically, our warranty costs have not been significant, and we monitor the quality of our products closely. If a defect were to arise in the installation of our equipment at the customer's facilities or in the equipment acquired from our suppliers or by our Enviroplex subsidiary, we may experience increased warranty claims. Such claims could disrupt our sales operations, damage our reputation and require costly repairs or other remedies, negatively impacting revenues and operating income.

SPECIFIC RISKS RELATED TO OUR ELECTRONIC TEST EQUIPMENT BUSINESS SEGMENT:

Market risk and cyclical downturns in the industries using test equipment may result in periods of low demand for our product resulting in excess inventory, impairment charges and reduction of our operating results and cash flows.

TRS-RenTelco's revenues are derived from the rental and sale of general purpose and communications test equipment to a broad range of companies, from Fortune 500 to middle and smaller market companies, in the aerospace, defense, communications, manufacturing and semiconductor industries. Electronic test equipment rental and sales revenues are primarily affected by the business activity within these industries related to research and development, manufacturing, and communication infrastructure and maintenance. Historically, these industries have been cyclical and have experienced periodic downturns, which have a material adverse impact on the industry's demand for equipment, including the electronic test equipment rented by us. We experienced this in

2002, as a result of a significant and prolonged downturn in the telecommunications industry, and recorded non-cash impairment charges of \$24.1 million resulting from the depressed and low projected demand for the rental products coupled with high inventory levels, especially communications equipment.

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 while at the same time motivating and retaining key employees. While the market demand for communications test equipment has improved from 2002 levels as the telecommunications industry has recovered, no assurance can be given regarding the length or extent of the recovery, and no assurance can be given that our rental utilization rates, operating results and cash flows will not be adversely impacted by the reversal of any current trends or any future downturns or slowdowns in the rate of capital investment in this industry.

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.

Electronic test equipment is characterized by changing technology and evolving industry standards that may render our existing equipment obsolete through new product introductions, or enhancements, before the end of its anticipated useful life, causing us to incur impairment charges. We must anticipate and keep pace with the introduction of new hardware, software and networking technologies and acquire equipment that will be marketable to our current and prospective customers.

Additionally, some manufacturers of our equipment may be acquired or cease to exist, resulting in a future lack of support for equipment purchased from those manufacturers. This could result in the remaining useful life to shorten, causing us to incur an impairment charge. We monitor our manufacturers' capacity to support their products, the introduction of new technologies, and acquire equipment that will be marketable to our current and prospective customers. Failure to properly select, manage and respond to the technological needs of our customers and changes of our products through their technology life cycle may cause certain electronic test equipment to become obsolete, resulting in impairment charges and may negatively impact operating results and cash flows.

If we do not effectively compete in the rental equipment market, our operating results will be materially and adversely affected.

The electronic test equipment rental business is characterized by intense competition from several competitors, including Electro Rent Corporation, Telogy and Continental Resources, some of which may have access to greater financial and other resources than we do. Although no single competitor holds a dominant market share, we face intensifying competition from these established entities and new entrants in the market. We believe that we anticipate and keep pace with the introduction of new products and acquire equipment that will be marketable to our current and prospective customers. We compete on the basis of a number of factors, including product availability, price, service and reliability. Some of our competitors may offer similar equipment for lease, rental or sale at lower prices and may offer more extensive servicing, or financing options. Failure to adequately forecast the adoption of, and demand for, new or existing products may cause us not to meet our customers' equipment requirements and may materially and adversely affect our operating results.

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

The majority of our rental equipment portfolio is comprised of general-purpose test and measurement instruments purchased from leading manufacturers such as Agilent Technologies and Tektronix, a division of Danaher Corporation. We depend on purchasing equipment from these manufacturers and suppliers for use as our rental equipment. If, in the future, we are not able to purchase necessary equipment from one or more of these suppliers on favorable terms, we may not be able to meet our customers' demands in a timely manner or for a rental rate that generates a profit. If this should occur, we may not be able to secure necessary equipment from an alternative source on acceptable terms and our business may be materially and adversely affected.

If we are not able to anticipate and mitigate the risks associated with operating internationally, there could be a material adverse effect on our operating results.

Currently, total foreign country customers and operations account for less than 10% of the Company's revenues and long-lived assets. In recent years some of our customers have expanded their international operations faster than domestic operations, and this trend may continue. Over time, we anticipate the amount of international business may increase if our focus on international market opportunities continues. Operating in foreign countries subjects the Company to additional risks, any of which may adversely impact our future operating results, including:

international political, economic and legal conditions including tariffs and trade barriers;

our ability to comply with customs, import/export and other trade compliance regulations of the countries in which we do business, together with any unexpected changes in such regulations;

greater difficulty in our ability to recover rental equipment and obtain payment of the related trade receivables;

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

language and cultural barriers;

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

difficulty with the integration of foreign operations;

longer payment cycles;

currency fluctuations; and

potential adverse tax consequences.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS
None

ITEM 5. OTHER INFORMATION
Dividends

On February 21, 2008 the Company declared a quarterly dividend on its Common Stock; the dividend was \$0.20 per share. Subject to its continued profitability and favorable cash flow, the Company intends to continue the payment of quarterly dividends.

ITEM 6. EXHIBITS

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

SIGNATURES

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

Date: May 8, 2008

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