MCGRATH RENTCORP
Form 10-Q
May 03, 2012

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, 2012

Commission file number 0-13292

McGRATH RENTCORP

(Exact name of registrant as specified in its Charter)

California	**94-2579843**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

5700 Las Positas Road, Livermore, CA 94551-7800

(Address of principal executive offices)

Registrant s telephone number: (925) 606-9200

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

Yes x No ¨

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

Yes x No ¨

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

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

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

Yes ¨ No x

As of May 2, 2012, 24,761,334 shares of Registrant s Common Stock were outstanding.

FORWARD LOOKING STATEMENTS

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

Management cautions that forward-looking statements are not guarantees of future performance and are subject to risks and uncertainties that could cause our actual results to differ materially from those projected in such forward-looking statements. Further, our future business, financial condition and results of operations could differ materially from those anticipated by such forward-looking statements and are subject to risks and uncertainties as set forth under Risk Factors in this form 10-Q.

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

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders

McGrath RentCorp

We have reviewed the accompanying condensed consolidated balance sheet of McGrath RentCorp and subsidiaries (collectively, the Company) as of March 31, 2012, and the related condensed consolidated statements of income and cash flows for the three-month periods ended March 31, 2012 and 2011. These interim financial statements are the responsibility of the Company s management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of McGrath RentCorp and Subsidiaries as of December 31, 2011, 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 29, 2012, 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, 2011, 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 Jose, California

May 3, 2012

McGRATH RENTCORP

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(in thousands, except per share amounts)	Three Months Ended March 31, 2012	2011
Revenues		
Rental	$ 59,520	$ 54,026
Rental Related Services	10,665	8,492
Rental Operations	70,185	62,518
Sales	8,106	9,934
Other	638	585
Total Revenues	78,929	73,037
Costs and Expenses		
Direct Costs of Rental Operations:		
Depreciation of Rental Equipment	15,401	14,595
Rental Related Services	8,553	6,741
Other	10,440	9,540
Total Direct Costs of Rental Operations	34,394	30,876
Costs of Sales	4,700	6,245
Total Costs of Revenues	39,094	37,121
Gross Profit	39,835	35,916
Selling and Administrative Expenses	21,361	18,622
Income from Operations	18,474	17,294
Interest Expense	2,173	1,482
Income Before Provision for Income Taxes	16,301	15,812
Provision for Income Taxes	6,390	6,198
Net Income	$ 9,911	$ 9,614
Earnings Per Share:		
Basic	$ 0.40	$ 0.40
Diluted	$ 0.39	$ 0.39
Shares Used in Per Share Calculation:		
Basic	24,639	24,258
Diluted	25,183	24,660
Cash Dividends Declared Per Share	$ 0.235	$ 0.230

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

McGRATH RENTCORP

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(in thousands)	**March 31, 2012**	**December 31, 2011**
Assets		
Cash	$ 365	$ 1,229
Accounts Receivable, net of allowance for doubtful accounts of $1,700 in 2012 and $1,500 in 2011	84,593	92,671
Rental Equipment, at cost:		
Relocatable Modular Buildings	541,357	539,147
Electronic Test Equipment	262,845	258,586
Liquid and Solid Containment Tanks and Boxes	223,797	201,456
	1,027,999	999,189
Less Accumulated Depreciation	(334,422)	(326,043)
Rental Equipment, net	693,577	673,146
Property, Plant and Equipment, net	94,616	94,702
Prepaid Expenses and Other Assets	21,326	17,170
Intangible Assets, net	12,105	12,311
Goodwill	27,700	27,700
Total Assets	$ 934,282	$ 918,929
Liabilities and Shareholders Equity		
Liabilities:		
Notes Payable	$ 292,118	$ 296,500
Accounts Payable and Accrued Liabilities	63,327	58,854
Deferred Income	27,056	25,067
Deferred Income Taxes, net	209,928	205,366
Total Liabilities	592,429	585,787
Shareholders Equity:		
Common Stock, no par value -		
Authorized 40,000 shares		
Issued and Outstanding 24,748 shares in 2012 and 24,576 shares in 2011	79,649	74,878
Retained Earnings	262,204	258,264
Total Shareholders Equity	341,853	333,142
Total Liabilities and Shareholders Equity	$ 934,282	$ 918,929

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

McGRATH RENTCORP

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(in thousands)	**Three Months Ended March 31, 2012**	**2011**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 9,911	$ 9,614
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	17,516	16,174
Provision for Doubtful Accounts	373	406
Non-Cash Stock-Based Compensation	994	1,024
Gain on Sale of Used Rental Equipment	(3,073)	(3,055)
Change In:		
Accounts Receivable	7,705	1,159
Income Taxes Receivable		6,131
Prepaid Expenses and Other Assets	(4,156)	(2,943)
Accounts Payable and Accrued Liabilities	(339)	(2,373)
Deferred Income	1,989	4,521
Deferred Income Taxes	4,562	4,742
Net Cash Provided by Operating Activities	35,482	35,400
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of Rental Equipment	(35,039)	(29,946)
Purchase of Property, Plant and Equipment	(1,823)	(6,972)
Proceeds from Sale of Used Rental Equipment	6,776	7,114
Net Cash Used in Investing Activities	(30,086)	(29,804)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net Borrowings (Repayments) Under Bank Lines of Credit	(4,382)	131
Proceeds from the Exercise of Stock Options	3,147	802
Excess Tax Benefit from Exercise and Disqualifying		
Disposition of Stock Options	630	185
Payment of Dividends	(5,655)	(5,454)
Net Cash Used in Financing Activities	(6,260)	(4,336)
Net Increase (Decrease) in Cash	(864)	1,260
Cash Balance, beginning of period	1,229	990
Cash Balance, end of period	$ 365	$ 2,250
Interest Paid, during the period	$ 1,071	$ 1,335
Net Income Taxes Paid (Refunds Received), during the period	$ 1,199	$ (5,067)
Dividends Accrued	$ 6,268	$ 5,590

Rental Equipment Acquisitions, not yet paid	$ 12,682	$ 10,631

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

McGRATH RENTCORP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2012

NOTE 1. CONDENSED CONSOLIDATED FINANCIAL INFORMATION

The condensed consolidated financial statements for the three months ended March 31, 2012 and 2011 have not been audited, but in the opinion of management, all adjustments (consisting of normal recurring accruals, consolidation and eliminating entries) necessary for the fair presentation of the consolidated financial positions, results of operations and cash flows of McGrath RentCorp (the Company) have been made. The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC). Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to those rules and regulations. The consolidated results for the three months ended March 31, 2012 should not be considered as necessarily indicative of the consolidated results for the entire fiscal year. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company s latest annual report on Form 10-K filed with the SEC on February 29, 2012.

Comprehensive income is equivalent to net income for all periods presented.

In order to conform to current year presentation, certain amounts in 2011 were reclassified from selling and administrative expenses to other revenues. This reclassification had no impact on net income, earnings per share or operating cash flows.

NOTE 2. EARNINGS PER SHARE

Basic earnings per share (EPS) is computed as net income divided by the weighted-average number of shares of common stock outstanding for the period. Diluted EPS is computed as net income divided by the weighted-average number of shares outstanding of common stock and common stock equivalents for the period, including the dilutive effects of stock options and other potentially dilutive securities. Common stock equivalents result from the number of dilutive options and are computed using the treasury stock method and the average share price for the reported period. The table below presents the weighted-average number of shares of common stock used to calculate basic and diluted earnings per share:

	Three Months Ended March 31,	
(in thousands)	**2012**	**2011**
Weighted-average number of shares of common stock for calculating basic earnings per share	24,639	24,258
Effect of potentially dilutive securities from equity-based compensation	544	402
Weighted-average number of shares of common stock for calculating diluted earnings per share	25,183	24,660

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

	Three Months Ended March 31,	
(in thousands)	2012	2011
Options to purchase shares of common stock	139	1,297

NOTE 3. RELATED PARTY TRANSACTIONS

The Company acquired liquid and solid containment tanks totaling $13.8 million during the three months ended March 31, 2012, from Sabre Manufacturing, LLC, which is controlled by the President of Adler Tank Rentals, LLC, a wholly-owned subsidiary of the Company. In addition, the Company receives certain support services from a company controlled by the President of Adler Tank Rentals, LLC, which were insignificant in the three months ended March 31, 2012. Amounts due to related parties at March 31, 2012 totaled $2.1 million.

NOTE 4. SEGMENT REPORTING

The Company s four reportable segments are (1) its modular building rental division (Mobile Modular); (2) its electronic test equipment rental division (TRS-RenTelco); (3) its containment solutions for the storage of hazardous and non-hazardous liquids and solids division (Adler Tanks); and (4) its classroom manufacturing division selling modular buildings used primarily as classrooms in California (Enviroplex). The operations of each of these segments are described in Part I Item 1, Business , and the accounting policies of the segments are described in Note 2 Significant Accounting Policies in the Company s annual report on Form 10-K for the year ended December 31, 2011. Management focuses on several key measures to evaluate and assess each segment s performance, including rental revenue growth, gross profit, income from operations and income before provision for income taxes. Excluding interest expense, allocations of revenue and expense not directly associated with one of these segments are generally allocated to Mobile Modular, TRS-RenTelco and Adler Tanks based on their pro-rata share of direct revenues. Interest expense is allocated among Mobile Modular, TRS-RenTelco and Adler Tanks based on their pro-rata share of average rental equipment at cost, intangible assets, accounts receivable, deferred income and customer security deposits. The Company does not report total assets by business segment. Summarized financial information for the three months ended March 31, 2012 and 2011 for the Company s reportable segments is shown in the following table:

(dollar amounts in thousands)	Mobile Modular	TRS-RenTelco	Adler Tanks	Enviroplex [1]	Consolidated
Three Months Ended March 31,					
2012					
Rental Revenues	$ 19,891	$ 23,412	$ 16,217	$	$ 59,520
Rental Related Services Revenues	6,120	829	3,716		10,665
Sales and Other Revenues	2,344	6,256	137	7	8,744
Total Revenues	28,355	30,497	20,070	7	78,929
Depreciation of Rental Equipment	3,474	9,284	2,643		15,401
Gross Profit (Loss)	12,481	14,054	13,306	(6)	39,835
Selling and Administrative Expenses	8,487	6,696	5,097	1,081	21,361
Income (Loss) from Operations	3,994	7,358	8,209	(1,087)	18,474
Interest Expense (Income) Allocation	1,103	578	531	(39)	2,173
Income (Loss) before Provision for Income Taxes	2,891	6,780	7,678	(1,048)	16,301
Rental Equipment Acquisitions	4,251	12,915	22,369		39,535
Accounts Receivable, net (period end)	40,895	21,785	18,752	3,161	84,593
Rental Equipment, at cost (period end)	541,357	262,845	223,797		1,027,999
Rental Equipment, net book value (period end)	382,930	106,982	203,665		693,577
Utilization (period end) [2]	65.7%	65.1%	72.9%		
Average Utilization [2]	66.5%	65.5%	76.5%		
2011					
Rental Revenues	$ 19,775	$ 22,058	$ 12,193	$	$ 54,026
Rental Related Services Revenues	5,540	617	2,335		8,492
Sales and Other Revenues	3,971	6,371	132	45	10,519
Total Revenues	29,286	29,046	14,660	45	73,037
Depreciation of Rental Equipment	3,419	9,391	1,785		14,595
Gross Profit	13,353	12,878	9,638	47	35,916
Selling and Administrative Expenses	7,757	6,398	3,604	863	18,622
Income (Loss) from Operations	5,596	6,480	6,034	(816)	17,294
Interest Expense (Income) Allocation	808	423	302	(51)	1,482
Income (Loss) before Provision for Income Taxes	4,788	6,057	5,732	(765)	15,812
Rental Equipment Acquisitions	6,438	16,056	12,695		35,189
Accounts Receivable, net (period end)	35,067	20,881	15,798	3,177	74,923
Rental Equipment, at cost (period end)	518,652	253,230	145,705		917,587
Rental Equipment, net book value (period end)	370,723	102,616	134,776		608,115
Utilization (period end) [2]	66.7%	66.2%	89.4%		
Average Utilization [2]	66.8%	65.2%	86.0%		

1. Gross Enviroplex sales revenues were $7 and $45 for the three months ended March 31, 2012 and 2011, respectively. There were no inter-segment sales to Mobile Modular in these periods, which require elimination in consolidation.
2. Utilization is calculated each month by dividing the cost of rental equipment on rent by the total cost of rental equipment excluding accessory equipment and for Mobile Modular and Adler Tanks excluding new equipment inventory. The Average Utilization for the period is calculated using the average costs of rental equipment.

No single customer accounted for more than 10% of total revenues for the three months ended March 31, 2012 and 2011. In addition, total foreign country customers and operations accounted for less than 10% of the Company s revenues and long-lived assets for the same periods.

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

This Form 10-Q, including the following Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A), contains forward-looking statements under federal securities laws. Forward-looking statements are not guarantees of future performance and involve a number of risks and uncertainties. Our actual results could differ materially from those indicated by forward-looking statements as a result of various factors. These factors include, but are not limited to, those set forth under this Item, those discussed in Part II Item 1A, Risk Factors and elsewhere in this Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the SEC on February 29, 2012 (the 2011 Annual Report) and those that may be identified from time to time in our reports and registration statements filed with the SEC.

This discussion should be read in conjunction with the Condensed Consolidated Financial Statements and related Notes included in Part I Item 1 of this Form 10-Q and the Consolidated Financial Statements and related Notes and the Management s Discussion and Analysis of Financial Condition and Results of Operations contained in our 2011 Annual Report. In preparing the following MD&A, we presume that readers have access to and have read the MD&A in our 2011 Annual Report, pursuant to Instruction 2 to paragraph (b) of Item 303 of Regulation S-K. We undertake no duty to update any of these forward-looking statements after the date of filing of this Form 10-Q to conform such forward-looking statements to actual results or revised expectations, except as otherwise required by law.

General

The Company, incorporated in 1979, is a leading rental provider of relocatable modular buildings for classroom and office space, electronic test equipment for general purpose and communications needs, and liquid and solid containment tanks and boxes. The Company s primary emphasis is on equipment rentals. The Company is comprised of four business segments: (1) its modular building rental division (Mobile Modular); (2) its electronic test equipment rental division (TRS-RenTelco); (3) its containment solutions for the storage of hazardous and non-hazardous liquids and solids division (Adler Tanks); and (4) its classroom manufacturing division selling modular buildings used primarily as classrooms in California (Enviroplex).

The Mobile Modular segment includes the results of operations of Mobile Modular Portable Storage, which represented less than 3% of the Company s total revenues in the three months ended March 31, 2012. Mobile Modular Portable Storage commenced operations in 2008 and offers portable storage units and high security portable office units for rent, lease and purchase in California, Texas and Florida. The TRS-RenTelco segment includes the results of operations of TRS-Environmental, which represented less than 2% of the Company s total revenues in the three months ended March 31, 2012. TRS-Environmental commenced operations in 2008 and offers a wide variety of environmental monitoring, environmental sampling, and field and safety supplies for rent, lease or purchase. In the three months ended March 31, 2012, Mobile Modular, TRS-RenTelco, Adler Tanks and Enviroplex contributed 18%, 41%, 47% and negative 6% of the Company s income before provision for taxes (the equivalent of pretax income), respectively, compared to 30%, 38%, 36% and negative 4% for the same period in 2011. Although managed as a separate business unit, Enviroplex s revenues, pretax income contribution and total assets are not significant relative to the Company s consolidated financial position. Accordingly, we have not presented a separate discussion of Enviroplex s results of operations in this MD&A.

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

The Company s modular revenues (consisting of revenues from Mobile Modular, Mobile Modular Portable Storage and Enviroplex) are derived from rentals and sales to education and commercial customers, with a majority of revenues generated by education customers. Modular revenues are primarily affected by demand for classrooms, which in turn is affected by shifting and fluctuating school populations, the levels of state funding to public schools, the need for temporary classroom space during reconstruction of older schools and changes in policies regarding class size. As a result of any reduced funding, lower expenditures by these schools may result in certain planned programs to increase the number of classrooms, such as those that the Company provides, to be postponed or terminated. However, reduced expenditures may also result in schools reducing their long-term facility construction projects in favor of using the Company s modular classroom solutions. At this time, the Company can provide no assurances as to whether public schools will either reduce or increase their demand for the Company s modular classrooms as a result of fluctuations in state funding of public schools. Looking forward, the Company believes that any interruption in the passage of facility bonds or contraction of class size reduction programs by public schools may have a material adverse effect on both rental and sales revenues of the Company. (For more information, see *Item 1. Business Relocatable Modular Buildings Classroom Rentals and Sales to Public Schools (K-12)* in the Company s 2011 Annual Report and *Item 1A. Risk Factors Significant reductions of, or delays in, funding to public schools have caused the demand and pricing for our modular classroom units to decline, which has in the past caused, and may cause in the future, a reduction in our revenues and profitability* in Part II Other Information of this Form 10-Q.)

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

Revenues of Adler Tanks are derived from the rental and sale of fixed axle tanks (tanks) and vacuum containers, dewatering containers and roll-off containers (collectively referred to as boxes). These tanks and boxes are rented to a broad range of industries and applications including oil and gas exploration and field services, refinery, chemical and industrial plant maintenance, environmental remediation and field services, infrastructures, building construction, marine services, pipeline construction and maintenance, tank terminals services, wastewater treatment, and waste management and landfill services for the containment of hazardous and non-hazardous liquids and solids. The liquid and solid containment tanks and boxes rental business was acquired through the acquisition of Adler Tank Rentals, LLC on December 11, 2008.

The Company s rental operations include rental and rental related service revenues which comprised approximately 89% and 86% of consolidated revenues in the three months ended March 31, 2012 and 2011, respectively. Of the total rental operations revenues for the three months ended March 31, 2012, Mobile Modular, TRS-RenTelco and Adler Tanks comprised 37%, 35% and 28%, respectively, compared to 41%, 36% and 23%, respectively, in the same period of 2011. The Company s direct costs of rental operations include depreciation of rental equipment, rental related service costs, impairment of rental equipment (if any), and other direct costs of rental operations, which include direct labor, supplies, repairs, insurance, property taxes, license fees, cost of subrentals and amortization of certain lease costs.

The Company s Mobile Modular, TRS-RenTelco and Adler Tanks business segments sell modular units, electronic test equipment and liquid and solid containment tanks and boxes, respectively, which are either new or previously rented. In addition, Enviroplex sells new modular buildings used primarily as classrooms in California. For the three months ended March 31, 2012 and 2011, sales and other revenues of modular, electronic test equipment and liquid and solid containment tanks and boxes comprised approximately 11% and 14%, respectively, of the Company s consolidated revenues. Of the total sales and other revenues for the three months ended March 31, 2012 and 2011, Mobile Modular and Enviroplex together comprised 27% and 39%, respectively, and TRS-RenTelco comprised 71% and 60%, respectively. Adler Tanks sales and other revenues for the three months ended March 31, 2012 and 2011 were not significant. The Company s cost of sales includes the carrying value of the equipment sold and the direct costs associated with the equipment sold, such as delivery, installation, modifications and related site work.

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

Adjusted EBITDA

To supplement the Company s financial data presented on a basis consistent with accounting principles generally accepted in the United States of America (GAAP), the Company presents Adjusted EBITDA , which is defined by the Company as net income before interest expense, provision for income taxes, depreciation, amortization, and non-cash stock-based compensation. The Company presents Adjusted EBITDA as a financial measure as management believes it provides useful information to investors regarding the Company s liquidity and financial condition and because management, as well as the Company s lenders, use this measure in evaluating the performance of the Company.

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

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

Reconciliation of Net Income to Adjusted EBITDA

	Three Months Ended March 31,		**Twelve Months Ended March 31,**	
(dollar amounts in thousands)	**2012**	**2011**	**2012**	**2011**
Net Income	$ 9,911	$ 9,614	49,899	$ 39,446
Provision for Income Taxes	6,390	6,198	31,648	24,555
Interest	2,173	1,482	8,297	6,159
Income from Operations	18,474	17,294	89,844	70,160
Depreciation and Amortization	17,516	16,174	68,737	63,494
Non-Cash Stock-Based Compensation	994	1,024	5,191	4,231
Adjusted EBITDA [1]	$ 36,984	$ 34,492	$ 163,772	$ 137,885
Adjusted EBITDA Margin [2]	47%	47%	47%	46%

Reconciliation of Adjusted EBITDA to Net Cash Provided by Operating Activities

	Three Months Ended March 31,		Twelve Months Ended March 31,	
(dollar amounts in thousands)	**2012**	**2011**	**2012**	**2011**
Adjusted EBITDA [1]	$ 36,984	$ 34,492	$ 163,772	$ 137,885
Interest Paid	(1,071)	(1,335)	(6,613)	(6,421)
Net Income Taxes Paid (Refunds Received)	(1,199)	5,067	(4,786)	(3,115)
Gain on Sale of Rental Equipment	(3,073)	(3,055)	(12,462)	(12,615)
Change in certain assets and liabilities:				
Accounts Receivable, net	7,705	1,565	(10,043)	(11,882)
Prepaid Expenses and Other Assets	(4,156)	(2,943)	(4,439)	(4,562)
Accounts Payable and Other Liabilities	(1,697)	(2,912)	5,219	(846)
Deferred Income	1,989	4,521	(1,255)	8,945
Net Cash Provided by Operating Activities	$ 35,482	$ 35,400	$ 129,393	$ 107,389

1. Adjusted EBITDA is defined as net income before interest expense, provision for income taxes, depreciation, amortization, and non-cash stock-based compensation.
2. Adjusted EBITDA Margin is calculated as Adjusted EBITDA divided by total revenues for the period.

Adjusted EBITDA is a component of two restrictive financial covenants for the Company s unsecured line of credit and senior notes. These instruments contain financial covenants requiring the Company to not:

Permit the Consolidated Fixed Charge Coverage Ratio of Adjusted EBITDA to fixed charges as of the end of any fiscal quarter to be less than 2.00 to 1 under the line of credit and under 2.50 to 1 under the senior notes. At March 31, 2012, the actual ratio for the line of credit and the senior notes was 5.17 to 1 and 4.30 to 1, respectively.

Permit the Consolidated Leverage Ratio of funded debt to Adjusted EBITDA at any time during any period of four consecutive quarters to be greater than 2.50 to 1. At March 31, 2012, the actual ratio for the line of credit and the senior notes was 1.78 to 1.

At March 31, 2012, the Company was in compliance with each of the aforementioned covenants. There are no anticipated trends that the Company is aware of that would indicate non-compliance with these covenants, though, significant deterioration in our financial performance could impact the Company s ability to comply with these covenants.

Recent Developments

In February 2012, the Company announced that the Board of Directors declared a quarterly cash dividend of $0.235 per common share for the quarter ended March 31, 2012, an increase of 2% over the prior year s comparable quarter.

Results of Operations

Three Months Ended March 31, 2012 Compared to

Three Months Ended March 31, 2011

Overview

Consolidated revenues for the three months ended March 31, 2012 increased 8% to $78.9 million, from $73.0 million for the same period in 2011. Consolidated net income for the three months ended March 31, 2012 increased 3% to $9.9 million, from $9.6 million for the same period in 2011. Earnings per diluted share were flat at $0.39 for the three months ended March 31, 2012 and 2011.

For the three months ended March 31, 2012, on a consolidated basis:

Gross profit increased $3.9 million, or 11%, to $39.8 million, which was comprised of an increase in Adler Tanks gross profit of $3.7 million, or 38%, primarily due to higher gross profit on rental and rental related services revenues, an increase in TRS-RenTelco gross profit of $1.2 million, or 9%, primarily due to higher gross profit on rental revenues, partly offset by a decrease in gross profit of Mobile Modular of $0.9 million, or 7%, due to lower gross profit on rental, rental related services and sales revenues, and a decrease in gross profit of Enviroplex of $0.1 million, primarily due to lower sales revenues.

Selling and administrative expenses increased 15% to $21.4 million from $18.6 million in the same period in 2011, primarily due to higher personnel and employee benefit costs.

Interest expense increased 47% to $2.2 million from $1.5 million in the same period in 2011, due to 32% higher net average interest rates (2.9% in 2012 compared to 2.2% in 2011) and higher average debt levels of the Company.

Pre-tax income contribution by Mobile Modular, TRS-RenTelco and Adler Tanks was 18%, 41% and 47%, respectively, compared to 30%, 38% and 36%, respectively, for the comparable 2011 period. These results are discussed on a segment basis below. Enviroplex pre-tax income contribution was a negative 6% compared to a negative 4% in 2011.

Adjusted EBITDA increased 7% to $37.0 million, compared to $34.5 million in 2011.

Mobile Modular

For the three months ended March 31, 2012, Mobile Modular s total revenues decreased $0.9 million to $28.4 million compared to the same period in 2011, primarily due to lower sales revenues, partly offset by higher rental related services and rental revenues. The revenue decrease, together with lower gross margin on rental and rental related services, partly offset by higher gross margin on sales revenues, and higher selling and administrative expenses, resulted in a 40% decrease in pre-tax income to $2.9 million for the three months ended March 31, 2012, from $4.8 million for the same period in 2011.

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

Mobile Modular Three Months Ended 3/31/12 compared to Three Months Ended 3/31/11 (Unaudited)

(dollar amounts in thousands)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Increase (Decrease) $	Increase (Decrease) %
Revenues				
Rental	$ 19,891	$ 19,775	$ 116	1%
Rental Related Services	6,120	5,540	580	10%
Rental Operations	26,011	25,315	696	3%
Sales	2,227	3,873	(1,646)	- 42%
Other	117	98	19	19%
Total Revenues	28,355	29,286	(931)	-3%
Costs and Expenses				
Direct Costs of Rental Operations:				
Depreciation of Rental Equipment	3,474	3,419	55	2%
Rental Related Services	4,891	4,216	675	16%
Other	5,941	5,403	538	10%
Total Direct Costs of Rental Operations	14,306	13,038	1,268	10%
Costs of Sales	1,568	2,895	1,327	-46%
Total Costs of Revenues	15,874	15,933	59	0%
Gross Profit				
Rental	10,476	10,953	(477)	-4%
Rental Related Services	1,229	1,324	(95)	-7%
Rental Operations	11,705	12,277	(572)	-5%
Sales	659	978	(319)	- 33%
Other	117	98	19	19%
Total Gross Profit	12,481	13,353	(872)	-7%
Selling and Administrative Expenses	8,487	7,757	730	9%
Income from Operations	3,994	5,596	(1,602)	-29%
Interest Expense Allocation	1,103	808	295	37%
Pre-tax Income	$ 2,891	$ 4,788	$ (1,897)	-40%

Other Information				
Average Rental Equipment [1]	$ 516,720	$ 497,104	$ 19,616	4%
Average Rental Equipment on Rent	$ 343,464	$ 332,265	$ 11,199	3%
Average Monthly Total Yield [2]	1.28%	1.33%		-4%
Average Utilization [3]	66.5%	66.8%		0%
Average Monthly Rental Rate [4]	1.93%	1.98%		-3%
Period End Rental Equipment [1]	$ 517,864	$ 497,725	$ 20,139	4%
Period End Utilization [3]	65.7%	66.7%		-1%

1. Average and Period End Rental Equipment represents the cost of rental equipment excluding new equipment inventory and accessory equipment.
2. Average Monthly Total Yield is calculated by dividing the averages of monthly rental revenues by the cost of rental equipment, for the period.
3. Period End Utilization is calculated by dividing the cost of rental equipment on rent by the total cost of rental equipment excluding new equipment inventory and accessory equipment. Average utilization for the period is calculated using the average cost of 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, 2012 decreased 7%, to $12.5 million from $13.4 million for the same period in 2011. For the three months ended March 31, 2012 compared to the same period in 2011:

Gross Profit on Rental Revenues Rental revenues increased $0.1 million, or 1%, compared to 2011, primarily due to 3% higher average rental equipment on rent, partly offset by 3% lower average monthly rental rates in 2012 as compared to 2011. As a percentage of rental revenues, depreciation was 17% in 2012 and 2011, and other direct costs were 30% in 2012 compared to 28% in 2011, which resulted in gross margin percentages of 53% in 2012 and 55% in 2011. The lower rental margin partly offset by higher rental revenues resulted in gross profit on rental revenues decreasing $0.5 million, or 4%, to $10.5 million in 2012.

Gross Profit on Rental Related Services Rental related services revenues increased $0.6 million, or 10%, compared to 2011. Most of these service revenues are negotiated with the initial lease and are recognized on a straight-line basis with the associated costs over the initial term of the lease. The increase in rental related services revenues was primarily attributable to the change in the mix of leases and amortization of associated service revenues in 2012 as compared to 2011 and higher delivery and return delivery revenues at Mobile Modular Portable Storage. The higher revenues, offset by a lower gross margin percentage of 20% in 2012 compared to 24% in 2011 resulted in rental related services gross profit decreasing by 7%.

Gross Profit on Sales Sales revenues decreased $1.6 million, or 42%, compared to 2011. Lower sales revenues, partly offset by higher gross margin percentage of 30% in 2012 compared with 25% in 2011, due to a higher mix of used equipment sales having higher margins compared to new equipment sales, resulted in gross profit on sales decreasing 33% to $0.7 million. Sales occur routinely as a normal part of Mobile Modular s rental business; however, these sales and related gross margins can fluctuate from quarter to quarter and year to year depending on customer requirements, equipment availability and funding.

For the three months ended March 31, 2012, selling and administrative expenses increased 9%, to $8.5 million from $7.8 million in the same period in 2011, primarily as a result of increased investment in our Portable Storage growth initiative.

TRS-RenTelco

For the three months ended March 31, 2012, TRS-RenTelco s total revenues increased $1.5 million, or 5%, to $30.5 million compared to the same period in 2011, primarily due to higher rental revenues. Pre-tax income increased 12% to $6.8 million for the three months ended March 31, 2012 from $6.1 million for the same period in 2011, primarily due to higher gross profit on rental revenues, partly offset by lower gross profit on rental related services revenues and higher selling and administrative expenses.

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

TRS-RenTelco Three Months Ended 3/31/12 compared to Three Months Ended 3/31/11 (Unaudited)

	Three Months Ended March 31,		Increase (Decrease)	
(dollar amounts in thousands)	2012	2011	$	%
Revenues				
Rental	$ 23,412	$ 22,058	$ 1,354	6%
Rental Related Services	829	617	212	34%
Rental Operations	24,241	22,675	1,566	7%
Sales	5,765	5,913	(148)	-3%
Other	491	458	33	7%
Total Revenues	30,497	29,046	1,451	5%
Costs and Expenses				
Direct Costs of Rental Operations:				
Depreciation of Rental Equipment	9,284	9,391	(107)	-1%
Rental Related Services	843	501	342	68%
Other	3,239	2,999	240	8%
Total Direct Costs of Rental Operations	13,366	12,891	475	4%
Costs of Sales	3,077	3,277	(200)	-6%
Total Costs of Revenues	16,443	16,168	275	2%
Gross Profit (Loss)				
Rental	10,889	9,668	1,221	13%
Rental Related Services	(14)	116	(130)	-112%
Rental Operations	10,875	9,784	1,091	11%
Sales	2,688	2,636	52	2%
Other	491	458	33	7%
Total Gross Profit	14,054	12,878	1,176	9%
Selling and Administrative Expenses	6,696	6,398	298	5%
Income from Operations	7,358	6,480	878	14%
Interest Expense Allocation	578	423	155	37%
Pre-tax Income	$ 6,780	$ 6,057	$ 723	12%
Other Information				

Average Rental Equipment [1]	$ 260,578	$ 251,477	$ 9,101	4%
Average Rental Equipment on Rent	$ 170,688	$ 164,068	$ 6,620	4%
Average Monthly Total Yield [2]	3.00%	2.92%		3%
Average Utilization [3]	65.5%	65.2%		0%
Average Monthly Rental Rate [4]	4.57%	4.48%		2%
Period End Rental Equipment [1]	$ 262,218	$ 252,274	$ 9,994	4%
Period End Utilization [3]	65.1%	66.2%		-2%

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

TRS-RenTelco s gross profit for the three months ended March 31, 2012 increased 9% to $14.1 million from $12.9 million for the same period in 2011. For the three months ended March 31, 2012 compared to the same period in 2011:

Gross Profit on Rental Revenues Rental revenues increased $1.4 million, or 6%, as compared to 2011, with depreciation expense decreasing $0.1 million, or 1%, resulting in increased gross profit on rental revenues of $1.2 million, or 13%, to $10.9 million as compared to 2011. As a percentage of rental revenues, depreciation was 40% in 2012 compared to 43% in 2011 and other direct costs were 14% in 2012 and 2011, which resulted in gross margin percentage of 47% in 2012 and 44% in 2011. The rental revenues increase was due to 4% higher average rental equipment on rent and 2% higher average monthly rental rates in 2012 as compared to 2011.

Gross Profit on Sales Sales revenues decreased 3% to $5.8 million in 2012, primarily due to lower used equipment sales. Gross margin percentage was 47% in 2012, compared to 45% in 2011, primarily due to higher margins on used equipment sales resulting in gross profit on sales increasing 2% to $2.7 million. Sales occur as a normal part of TRS-RenTelco s rental business; however, these sales and related gross margins can fluctuate from quarter to quarter depending on customer requirements and related mix of equipment sold, equipment availability and funding.

For the three months ended March 31, 2012, selling and administrative expenses increased 5%, to $6.7 million from $6.4 million in the same period in 2011, primarily due to increased salary and benefit costs.

Adler Tanks

For the three months ended March 31, 2012, Adler Tanks total revenues increased $5.4 million, or 37%, to $20.1 million compared to the same period in 2011, primarily due to higher rental and rental related services revenues. The revenue increase, partly offset by higher selling and administrative expenses, resulted in a $1.9 million increase in pre-tax income to $7.7 million for the three months ended March 31, 2012, compared to the same period in 2011.

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

Adler Tanks Three Months Ended 3/31/12 compared to Three Months Ended 3/31/11 (Unaudited)

(dollar amounts in thousands)	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011	Increase (Decrease) $	Increase (Decrease) %
Revenues				
Rental	$ 16,217	$ 12,193	$ 4,024	33%
Rental Related Services	3,716	2,335	1,381	59%
Rental Operations	19,933	14,528	5,405	37%
Sales	107	103	4	4%
Other	30	29	1	3%
Total Revenues	20,070	14,660	5,410	37%
Costs and Expenses				
Direct Costs of Rental Operations:				
Depreciation of Rental Equipment	2,643	1,785	858	48%
Rental Related Services	2,819	2,024	795	39%
Other	1,260	1,138	122	11%
Total Direct Costs of Rental Operations	6,722	4,947	1,775	36%
Costs of Sales	42	75	(33)	-43%
Total Costs of Revenues	6,764	5,022	1,742	35%
Gross Profit				
Rental	12,314	9,270	3,044	33%
Rental Related Services	897	311	586	189%
Rental Operations	13,211	9,581	3,630	38%
Sales	65	28	37	135%
Other	30	29	1	5%
Total Gross Profit	13,306	9,638	3,668	38%
Selling and Administrative Expenses	5,097	3,604	1,493	41%
Income from Operations	8,209	6,034	2,175	36%
Interest Expense Allocation	531	302	229	76%
Pre-tax Income	$ 7,678	$ 5,732	$ 1,946	34%
Other Information				

Average Rental Equipment [1]	$ 201,203	$ 133,862	$ 67,341	50%
Average Rental Equipment on Rent	$ 153,814	$ 115,079	$ 38,735	34%
Average Monthly Total Yield [2]	2.69%	3.04%		-12%
Average Utilization [3]	76.5%	86.0%		-11%
Average Monthly Rental Rate [4]	3.51%	3.53%		-1%
Period End Rental Equipment [1]	$ 210,022	$ 139,551	$ 70,471	50%
Period End Utilization [3]	72.9%	89.4%		-18%

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

Adler Tanks gross profit for the three months ended March 31, 2012 increased 38% to $13.3 million from $9.6 million for the same period in 2011. For the three months ended March 31, 2012 compared to the same period in 2011:

Gross Profit on Rental Revenues Rental revenues increased $4.0 million, or 33%, compared to 2011, due to 34% higher average rental equipment on rent, partly offset by 1% lower average rental rates in 2012 as compared to 2011. As a percentage of rental revenues, depreciation was 16% and 15% in 2012 and 2011, respectively, and other direct costs were 8% in 2012 compared to 9% in 2011, which resulted in gross margin percentages of 76% in 2012 and 2011. The higher rental revenues and comparable rental margins resulted in gross profit on rental revenues increasing $3.0 million, or 33%, to $12.3 million in 2012.

Gross Profit on Rental Related Services Rental related services revenues increased $1.4 million, or 59%, compared to 2011. The higher revenues and higher gross margin percentage of 24% in 2012 compared to 13% in 2011 resulted in rental related services gross profit increasing 189% to $0.6 million in 2012.

For the three months ended March 31, 2012, selling and administrative expenses increased 41%, to $5.1 million from $3.6 million in the same period in 2011 primarily due to increased salary and benefit costs and bad debt expense.

Liquidity and Capital Resources

The Company s rental businesses are capital intensive and generate significant cash flows. The Company finances its working capital and capital expenditure requirements through cash flow from operations, proceeds from the sale of rental equipment and borrowings from banks and institutional lenders. Cash flows for the Company for the three months ended March 31, 2012 compared to the same period in 2011 are summarized as follows:

Cash Flows from Operating Activities: The Company s operations provided net cash flow of $35.5 million compared to $35.4 million in 2011. The 1% increase in net cash provided by operating activities was primarily attributable to higher income from operations, partly offset by other balance sheet changes.

Cash Flows from Investing Activities: Net cash used in investing activities was $30.1 million in 2012, compared to $29.8 million in 2011. The $0.3 million increase was primarily due to $5.1 million higher purchases of rental equipment of $35.0 million in 2012, compared to $29.9 million in 2011 and $0.3 million lower proceeds from sale of used rental equipment, partly offset by $5.1 million lower purchases of property, plant and equipment.

Cash Flows from Financing Activities: Net cash used in financing activities was $6.3 million in 2012, compared to $4.3 million in 2011. The $2.0 million change in net cash flows from financing activities was primarily due to $4.5 million higher net repayments on the Company s bank lines of credit, partly offset by $2.8 million higher proceeds and excess tax benefit from the exercise of stock options.

Significant capital expenditures are required to maintain and grow the Company s rental assets. During the last three years, the Company has financed its working capital and capital expenditure requirements through cash flow from operations, proceeds from the sale of rental equipment and from bank borrowings. Sales occur routinely as a normal part of the Company s rental business. However, these sales can fluctuate from period to period depending on customer requirements and funding. Although the net proceeds received from sales may fluctuate from period to period, the Company believes its liquidity will not be adversely impacted from lower sales in any given year because it believes it has the ability to increase its bank borrowings and conserve its cash in the future by reducing the amount of cash it uses to purchase rental equipment, pay dividends, or repurchase the Company s common stock.

Unsecured Revolving Lines of Credit

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

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

At March 31, 2012, under the Credit Facility and the Sweep Service Facility, the Company had unsecured lines of credit that permit it to borrow up to $355.0 million of which $192.1 million was outstanding, and had capacity to borrow up to an additional $162.9 million. The Credit Facility contains financial covenants requiring the Company to not:

Permit the Consolidated Fixed Charge Coverage Ratio (as defined in the Credit Facility) as of the end of any fiscal quarter to be less than 2.00 to 1 under the Company s credit facilities. At March 31, 2012, the actual ratio was 5.17 to 1.

Permit the Consolidated Asset Coverage Ratio (as defined in the Credit Facility) as of the end of any fiscal quarter to be less than 1.50 to 1 under the Company s credit facilities. At March 31, 2012, the actual ratio was 2.99 to 1.

Permit the Consolidated Leverage Ratio (as defined in the Credit Facility) at any time during any period of four consecutive quarters to be greater than 2.50 to 1 under the Company s credit facilities. At March 31, 2012, the actual ratio was 1.78 to 1.

At March 31, 2012, the Company was in compliance with each of the aforementioned covenants. There are no anticipated trends that the Company is aware of that would indicate non-compliance with these covenants, although significant deterioration in our financial performance could impact the Company s ability to comply with these covenants.

4.03% Senior Notes Due in 2018

On April 21, 2011, the Company entered into a Note Purchase and Private Shelf Agreement (the Note Purchase Agreement) with Prudential Investment Management, Inc., The Prudential Insurance Company of America and Prudential Retirement Insurance and Annuity Company (collectively, the Purchaser), pursuant to which the Company agreed to sell an aggregate principal amount of $100 million of its 4.03% Series A Senior Notes (the Senior Notes) to the Purchaser. The Senior Notes are an unsecured obligation of the Company, due on April 21, 2018. Interest on these notes is due semi-annually in arrears and the principal is due in five equal annual installments, with the first payment due on April 21, 2014. In addition, the Note Purchase Agreement allows for the issuance and sale of additional senior notes to the Purchaser (the Shelf Notes) in the aggregate principal amount of $100 million, to mature no more than 12 years after the date of original issuance thereof, to have an average life of no more than 10 years and to bear interest on the unpaid balance. Among other restrictions, the Note Purchase Agreement, under which the Senior Notes were sold, contains financial covenants requiring the Company to not:

Permit the Consolidated Fixed Charge Coverage Ratio of EBITDA (as defined in the Note Purchase Agreement) to fixed charges as of the end of any fiscal quarter to be less than 2.50 to 1. At March 31, 2012, the actual ratio was 4.30 to 1.

Permit the Consolidated Leverage Ratio of funded debt to EBITDA (as defined in the Note Purchase Agreement) at any time during any period of four consecutive quarters to be greater than 2.50 to 1. At March 31, 2012, the actual ratio was 1.78 to 1.

Permit tangible net worth, calculated as of the last day of each fiscal quarter, to be less than the sum of (i) $229.0 million, plus (ii) 25% of net income for such fiscal quarter subsequent to December 31, 2010, plus (iii) 90% of the net cash proceeds from the issuance of the Company s capital stock after December 31, 2010. At March 31, 2012, such sum was $251.4 million and the actual tangible net worth of the Company was $339.8 million.

At March 31, 2012, the Company was in compliance with each of the aforementioned covenants. There are no anticipated trends that the Company is aware of that would indicate non-compliance with these covenants, although significant deterioration in our financial performance could impact the Company s ability to comply with these covenants.

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

Common Stock Purchase

The Company has in the past made purchases of shares of its common stock from time to time on the NASDAQ and/or through privately negotiated, large block transactions under an authorization of the Company s Board of Directors. Shares repurchased by the Company are cancelled and returned to the status of authorized but unissued stock. On May 14, 2008, the Company s Board of Directors authorized the Company to repurchase an aggregate of 2,000,000 shares of the Company s outstanding common stock. There were no repurchases of common stock during the three months ended March 31, 2012 and 2011. As of March 31, 2012, 2,000,000 shares remain authorized for repurchase.

Contractual Obligations

We do not believe that our contractual obligations have changed materially from those included in our 2011 Annual Report.

Off-Balance Sheet Arrangements

We had no material off-balance sheet arrangements as of March 31, 2012.

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 2011 Annual Report.

ITEM 4. CONTROLS AND PROCEDURES

The Company s management, under the supervision and with the participation of the Company s Chief Executive Officer (the CEO) and Chief Financial Officer (the CFO), the Company s principal executive officer and principal financial officer, respectively, performed an evaluation of the effectiveness of the design and operation of the Company s disclosure controls and procedures as of March 31, 2012. Based on that evaluation, the CEO and CFO concluded that the Company s disclosure controls and procedures were effective. There have been no significant changes in the Company s internal controls or in other factors that have materially affected, or would reasonably be likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

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

The effects of a recession and tightened credit markets in the U.S. and other countries may adversely impact our business and financial condition and may negatively impact our ability to access financing.

Demand for our rental products depends on continued industrial and business activity and state government funding. The effects of a U.S. recession and general global economic downturn may adversely affect our customers, including local school districts that are subject to budgetary constraints, which could result in decreased demand for the products we rent. Reduced demand for our rental products and deflation could increase price competition. This lowered demand and price pressure could have a material adverse effect on our revenue and profitability. In 2011 we experienced decreased demand and lower pricing in our California modular operations.

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

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

The market price of our common stock fluctuates on the NASDAQ Global Select Market and is likely to be affected by a number of factors including but not limited to: our operating performance and the performance of our competitors, and in particular any variations in our operating results or dividend rate from our stated guidance or from investors expectations;

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

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

the stock price performance of our competitors or other comparable companies;

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

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

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

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

In addition, in recent years the U.S. stock market has experienced significant price and volume fluctuations. These fluctuations are often unrelated to the operating performance of particular companies. More recently, the global credit crisis adversely affected the prices of publicly traded stocks across the board as many stockholders have become more willing to divest their stock holdings at lower values to increase their cash flow and reduce exposure to such fluctuations. These broad market fluctuations and any other negative economic trends may cause declines in the market price of our common stock and may be based upon factors that have little or nothing to do with our Company or its performance, and these fluctuations and trends could materially reduce our stock price.

Our future operating results may fluctuate, fail to match past performance or fail to meet expectations, which may result in a decrease in our stock price.

Our operating results may fluctuate in the future, may fail to match our past performance or fail to meet the expectations of analysts and investors. Our results and related ratios, such as gross margin, operating income percentage and effective tax rate may fluctuate as a result of a number of factors, some of which are beyond our control including but not limited to:

- general economic conditions in the geographies and industries where we rent and sell our products;
- legislative and educational policies where we rent and sell our products;
- the budgetary constraints of our customers;
- seasonality of our rental businesses and our end-markets;
- success of our strategic growth initiatives;
- costs associated with the launching or integration of new or acquired businesses;
- the timing and type of equipment purchases, rentals and sales;
- the nature and duration of the equipment needs of our customers;
- the timing of new product introductions by us, our suppliers and our competitors;
- the volume, timing and mix of maintenance and repair work on our rental equipment;
- our equipment mix, availability, utilization and pricing;
- the mix, by state and country, of our revenues, personnel and assets;
- rental equipment impairment from excess, obsolete or damaged equipment;

- movements in interest rates or tax rates;
- changes in, and application of, accounting rules;
- changes in the regulations applicable to us; and
- litigation matters.

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

Our 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.

Failure by third parties to manufacture and deliver our products to our specifications or on a timely basis may harm our reputation and financial condition.

We depend on third parties to manufacture our products even though we are able to purchase products from a variety of third-party suppliers. In the future, we may be limited as to the number of third-party suppliers for some of our products. Although in general we make advance purchases of some products to help ensure an adequate supply, currently we do not have any long-term purchase contracts with any third-party supplier. We may experience supply problems as a result of financial or operating difficulties or failure of our suppliers, or shortages and discontinuations resulting from product obsolescence or other shortages or allocations by our suppliers. Unfavorable economic conditions may also adversely affect our suppliers or the terms on which we purchase products. In the future, we may not be able to negotiate arrangements with third parties to secure products that we require in sufficient quantities or on reasonable terms. If we cannot negotiate arrangements with third parties to produce our products or if the third parties fail to produce our products to our specifications or in a timely manner, our reputation and financial condition could be harmed.

Disruptions in our information technology systems or failure to protect these systems against security breaches could adversely affect our business and results of operations. Additionally, if these systems fail, become unavailable for any period of time or are not upgraded, this could limit our ability to effectively monitor and control our operations and adversely affect our operations.

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

In addition, because of recent advances in technology and well-known efforts on the part of computer hackers and cyber terrorists to breach data security of companies, we face risks associated with potential failure to adequately protect critical corporate, client and employee data, which, if released, could adversely impact our client relationships, our reputation, and even violate privacy laws. As part of our business, we develop, receive and retain confidential data about our company and our customers.

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

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

In 2004, we acquired TRS, an electronic test equipment rental business and in 2008 we acquired Adler Tanks, a liquid and solid containment rental business. We anticipate that we will continue to consider acquisitions in the future that meet our strategic growth plans. We are unable to predict whether or when any prospective acquisition will be completed. Acquisitions involve numerous risks, including the following:

- difficulties in integrating the operations, technologies, products and personnel of the acquired companies;
- diversion of management s attention from normal daily operations of our business;
- difficulties in entering markets in which we have no or limited direct prior experience and where competitors in such markets may have stronger market positions;
- difficulties in complying with regulations applicable to any acquired business, such as environmental regulations, and managing risks related to an acquired business;
- timely completion of necessary financing and required amendments, if any, to existing agreements;
- an inability to implement uniform standards, controls, procedures and policies;
- undiscovered and unknown problems, defects, damaged assets liabilities, or other issues related to any acquisition that become known to us only after the acquisition;

negative reactions from our customers to an acquisition;

disruptions among employees related to any acquisition which may erode employee morale;

loss of key employees, including costly litigation resulting from the termination of those employees;

an inability to realize cost efficiencies or synergies that we may anticipate when selecting acquisition candidates;

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

incur amortization expenses related to certain intangible assets; and

become subject to litigation.

Acquisitions are inherently risky, and no assurance can be given that our future acquisitions will be successful or will not adversely affect our business, operating results, or financial condition. The success of our acquisition strategy depends upon our ability to successfully complete acquisitions and integrate any businesses that we acquire into our existing business. The difficulties of integration