

MCGRATH RENTCORP
Form 10-Q
May 07, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2009

Commission file number 0-13292

McGRATH RENTCORP

(Exact name of registrant as specified in its Charter)

California
(State or other jurisdiction
of incorporation or organization)

5700 Las Positas Road, Livermore, CA 94551-7800

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

(Address of principal executive offices)

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

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

Yes No

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

Yes No

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

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

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

Yes No

As of May 7, 2009, 23,726,568 shares of Registrant's Common Stock were outstanding.

FORWARD LOOKING STATEMENTS

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

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

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

PART I - FINANCIAL INFORMATION

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

Board of Directors and Shareholders

McGrath RentCorp and Subsidiaries:

We have reviewed the accompanying consolidated balance sheet of McGrath RentCorp and Subsidiaries as of March 31, 2009, and the related consolidated statements of income and cash flows for the three-month period ended March 31, 2009 and 2008. These interim financial statements are the responsibility of the Company's management.

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

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

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

/s/ Grant Thornton LLP

San Francisco, California

May 5, 2009

McGRATH RENTCORP

CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

<i>(in thousands, except per share amounts)</i>	Three Months Ended March 31,	
	2009	2008
REVENUES		
Rental	\$ 48,372	\$ 48,236
Rental Related Services	9,137	7,342
Rental Operations	57,509	55,578
Sales	8,955	9,173
Other	691	664
Total Revenues	67,155	65,415
COSTS AND EXPENSES		
Direct Costs of Rental Operations:		
Depreciation of Rental Equipment	14,751	13,418
Rental Related Services	6,821	5,215
Other	8,530	8,090
Total Direct Costs of Rental Operations	30,102	26,723
Costs of Sales	6,673	5,798
Total Costs of Revenue	36,775	32,521
Gross Profit	30,380	32,894
Selling and Administrative Expenses	15,577	13,544
Income from Operations	14,803	19,350
Interest Expense	1,883	2,467
Income Before Provision for Income Taxes	12,920	16,883
Provision for Income Taxes	5,052	6,618
Net Income	\$ 7,868	\$ 10,265
Earnings Per Share:		
Basic	\$ 0.33	\$ 0.43
Diluted	\$ 0.33	\$ 0.43
Shares Used in Per Share Calculation:		
Basic	23,714	23,978
Diluted	23,829	24,094
Cash Dividends Declared Per Share	\$ 0.22	\$ 0.20

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

MCGRATH RENTCORP
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

<i>(in thousands)</i>	March 31, 2009	December 31, 2008
<u>ASSETS</u>		
Cash	\$ 248	\$ 1,325
Accounts Receivable, net of allowance for doubtful accounts of \$1,600 in 2009 and \$1,400 in 2008	73,354	86,011
Income Taxes Receivable	7,927	7,927
Rental Equipment, at cost:		
Relocatable Modular Buildings	505,415	503,678
Electronic Test Equipment	250,916	255,778
Liquid and Solid Containment Tanks and Boxes	57,185	46,288
	813,516	805,744
Less Accumulated Depreciation	(261,378)	(253,506)
Rental Equipment, net	552,138	552,238
Property, Plant and Equipment, net	75,682	76,763
Prepaid Expenses and Other Assets	16,322	18,633
Intangible Assets, net	13,942	14,136
Goodwill	27,661	27,464
Total Assets	\$ 767,274	\$ 784,497
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Liabilities:		
Notes Payable	\$ 293,666	\$ 305,500
Accounts Payable and Accrued Liabilities	47,555	55,471
Deferred Income	22,211	28,055
Deferred Income Taxes, net	150,160	145,590
Total Liabilities	513,592	534,616
Shareholders' Equity:		
Common Stock, no par value - Authorized 40,000 shares Issued and Outstanding 23,727 shares in 2009 and 23,709 shares in 2008	46,905	45,754
Retained Earnings	206,777	204,127
Total Shareholders' Equity	253,682	249,881
Total Liabilities and Shareholders' Equity	\$ 767,274	\$ 784,497

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,	
	2009	2008
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Net Income	\$ 7,868	\$ 10,265
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation	16,211	14,050
Provision for Doubtful Accounts	319	254
Non-Cash Stock-Based Compensation	975	932
Gain on Sale of Rental Equipment	(1,698)	(2,340)
Change In:		
Accounts Receivable	12,338	6,429
Prepaid Expenses and Other Assets	2,171	995
Accounts Payable and Accrued Liabilities	(4,962)	(7,085)
Deferred Income	(5,844)	(3,655)
Deferred Income Taxes	4,570	5,755
Net Cash Provided by Operating Activities	31,948	25,600
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Payments related to Acquisition of Adler Tanks	(1,049)	
Purchase of Rental Equipment	(20,412)	(21,605)
Purchase of Property, Plant and Equipment	(110)	(6,789)
Proceeds from Sale of Rental Equipment	4,942	5,374
Net Cash Used in Investing Activities	(16,629)	(23,020)
<u>CASH FLOWS FROM FINANCING ACTIVITIES:</u>		
Net Borrowings (Payments) Under Bank Lines of Credit	(11,834)	21,026
Proceeds from the Exercise of Stock Options	164	386
Excess Tax Benefit from Exercise and Disqualifying Disposition of Stock Options	16	25
Repurchase of Common Stock		(24,418)
Payment of Dividends	(4,742)	(4,356)
Net Cash Used in Financing Activities	(16,396)	(7,337)
Net Decrease in Cash	(1,077)	(4,757)
Cash Balance, beginning of period	1,325	5,090
Cash Balance, end of period	\$ 248	\$ 333
Interest Paid, during the period	\$ 1,803	\$ 2,160
Income Taxes Paid, during the period	\$ 467	\$ 838
Dividends Declared, not yet paid	\$ 5,220	\$ 4,727
Rental Equipment Acquisitions, not yet paid	\$ 5,260	\$ 9,482

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

McGRATH RENTCORP

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009

NOTE 1. CONSOLIDATED FINANCIAL INFORMATION

The consolidated financial statements for the three months ended March 31, 2009 and 2008 have not been audited, but in the opinion of management, all adjustments (consisting of normal recurring accruals, consolidation and eliminating entries) necessary for the fair presentation of the consolidated results of operations, financial position, and cash flows of McGrath RentCorp (the Company) have been made. The accompanying unaudited condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. The consolidated results for the three months ended March 31, 2009 should not be considered as necessarily indicative of the consolidated results for the entire year. These condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's latest Form 10-K.

NOTE 2. NEW ACCOUNTING PRONOUNCEMENTS

The Company adopted the provision of Statement of Financial Accounting Standard (SFAS) No. 141(R), Business Combination and SFAS No. 160, Accounting and Reporting of Noncontrolling Interest in Consolidated Financial Statements as of January 1, 2009. The adoption did not have any significant impact on the Company's consolidated financial statements.

In April 2008, FASB Staff Position 142-3, Determination of the Useful Life of Intangible Assets (FSP 142-3) was issued. This standard amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The adoption of FSP 142-3 did not have any significant impact on the Company's consolidated financial statements.

NOTE 3. EARNINGS PER SHARE

Basic earnings per share (EPS) is computed as net income divided by the weighted average number of shares of common stock outstanding for the period. Diluted EPS is computed as net income divided by the weighted average number of shares outstanding of common stock and common stock equivalents for the period, including the dilutive effects of stock options and other potentially dilutive securities. Common stock equivalents result from dilutive stock options computed using the treasury stock method and the average share price for the reported period. The effect of dilutive options on the weighted average number of shares for the three months ended March 31, 2009 and 2008 was 114,506 and 115,637 shares, respectively. For the three months ended March 31, 2009 and 2008, stock options to purchase 2,493,269 and 1,133,575 shares, respectively, of the Company's common stock were not included in the computation of diluted EPS because the exercise price exceeded the average market price for the related periods and the effect would have been anti-dilutive.

On May 14, 2008, the Company's Board of Directors authorized the Company to repurchase an aggregate of 2,000,000 shares of the Company's outstanding common stock. In connection with this authorization, the Board of Directors terminated its previous share repurchase authorization announced on March 21, 2003. 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. There were no repurchases of common stock during the three months ended March 31, 2009. 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. As of March 31, 2009, 2,000,000 shares remain authorized for repurchase.

NOTE 4. RELATED PARTY TRANSACTIONS

During the first quarter 2009, the Company purchased liquid and solid containment tanks totaling \$5.0 million from Sabre Manufacturing, LLC, which is controlled by the President of Adler Tank Rentals, LLC (Adler Tanks). In addition, the Company leases two operating facilities and receives certain support services from companies controlled by the President of Adler Tanks, which totaled \$0.2 million in the first quarter 2009. Amounts due to related parties at March 31, 2009 totaled \$0.4 million.

NOTE 5. 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 four reportable segments are Mobile Modular, TRS-RenTelco, Adler Tanks 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, income from operations and income before provision for income taxes. As separate corporate entities, Adler Tanks and Enviroplex, Inc. revenues and expenses are maintained separately from Mobile Modular and TRS-RenTelco. Excluding interest expense, allocations of revenue and expense not directly associated with one of these segments are generally allocated to Mobile Modular, TRS-RenTelco and Adler Tanks, based on their pro-rata share of direct revenues. Interest expense is allocated between Mobile Modular, TRS-RenTelco and Adler Tanks based on their pro-rata share of average rental equipment at cost, intangible assets, accounts receivable, deferred income and customer security deposits. The Company does not report total assets by business segment. Summarized financial information for the three months ended March 31, 2009 and 2008 for the Company's reportable segments is shown in the following table:

<i>(dollar amounts in thousands)</i>	Mobile Modular	TRS- RenTelco	Adler Tanks	Enviroplex ¹	Consolidated
Three Months Ended March 31, 2009					
Rental Revenues	\$ 24,855	\$ 19,498	\$ 4,019	\$	\$ 48,372
Rental Related Services Revenues	7,193	471	1,473		9,137
Sales and Other Revenues	3,608	5,466	7	565	9,646
Total Revenues	35,656	25,435	5,499	565	67,155
Depreciation of Rental Equipment	3,430	10,640	681		14,751
Gross Profit	19,285	7,799	3,283	13	30,380
Selling and Administrative Expenses	7,197	5,777	1,852	751	15,577
Income (Loss) from Operations	12,088	2,022	1,431	(738)	14,803
Interest Expense (Income) Allocation	1,120	602	209	(48)	1,883
Income (Loss) before Provision for Income Taxes					