

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington DC 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended May 31, 2010

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number: 000-09061

ELECTRO RENT CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

CALIFORNIA
(State or Other Jurisdiction
of Incorporation or Organization)

95-2412961
(I.R.S. Employer
Identification No.)

6060 Sepulveda Boulevard
Van Nuys, California 91411-2512
(Address of Principal Executive Offices and Zip Code)

(818) 786-2525
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock without par value	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known season issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The aggregate market value of the registrant's stock held by non-affiliates of the registrant as of November 30, 2009, was \$190,191,550.

Number of shares of shares of the registrant's common stock outstanding as of August 6, 2010: 23,961,655.

DOCUMENTS INCORPORATED BY REFERENCE

The information contained in the Proxy Statement for the Annual Shareholders Meeting of Shareholders to be held on October 14, 2010 that is required by Part III of this Form 10-K is incorporated herein by reference.

FORWARD LOOKING STATEMENTS

This Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. You can find many (but not all) of these statements by looking for words such as “approximates,” “believes,” “expects,” “anticipates,” “estimates,” “intends,” “plans,” “would,” “may” or other similar expressions in this Report. We claim the protection of the safe harbor contained in the Private Securities Litigation Reform Act of 1995. We caution investors that any forward-looking statements presented in this Report, or that we may make orally or in writing from time to time, are based on the beliefs of, assumptions made by, and information currently available to, us. Such statements are based on assumptions, and the actual outcome will be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control or ability to predict. Although we believe that our assumptions are reasonable, they are not guarantees of future performance and some will inevitably prove to be incorrect. As a result, our actual future results can be expected to differ from our expectations, and those differences may be material. Accordingly, investors should use caution in relying on past forward-looking statements, which are based on known results and trends at the time they are made, to anticipate future results or trends.

Some of the risks and uncertainties that may cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include the following: common stock price fluctuations, fluctuations in operating results (including as a result of changing economic conditions), risks associated with technology changes, risks associated with customer solvency, competition, risks associated with international operations, risks associated with our manufacturers and suppliers, dependence on key personnel, control by management and others, risks associated with possible acquisitions and new business ventures and anti-takeover provisions. For further discussion of these and other factors, see Item 1A. “Risk Factors”, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations”; and Item 7A “Quantitative and Qualitative Disclosure About Interest Rates and Currency Rates,” in this Report, and our other filings with the Securities and Exchange Commission.

This Report and all subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances after the date of this Report.

Unless otherwise noted (1) the terms “we,” “us,” and “our,” refer to Electro Rent Corporation and its subsidiaries, and (2) the terms “Common Stock” and “shareholder(s)” refer to our common stock and the holders of that stock, respectively.

PART I

Item 1. Business.

We are one of the largest global organizations devoted to the rental, lease and sale of new and used electronic test and measurement (“T&M”) equipment. We purchase that equipment from leading manufacturers such as Agilent Technologies, Inc. (“Agilent”) and Tektronix primarily for use by our customers in the aerospace, defense, telecommunications, electronics, industrial and semiconductor industries. Although it represents only approximately 13% of our revenues in fiscal 2010, we believe our data products (“DP”) division is one of the largest rental companies in the United States for personal computers and servers from manufacturers including Dell, HP/Compaq, IBM and Toshiba. We have also recently expanded our efforts in the rental, lease and sale of industrial equipment such as electrical test equipment and inspection equipment.

The Electro Rent Approach. For the most part, customers who purchase or lease equipment from us place orders through our inside sales force, which has access to our proprietary computer system that is updated in real time for equipment availability and pricing. In the case of rentals and some leases, we generally use a pool of equipment we have previously purchased for that purpose or we may add equipment to that pool to fill a lease or rental order if the addition makes sense. Our equipment fulfillment team typically can arrange delivery of equipment from our pool to our customers within one or two days of a request. Most of our equipment is technically complex and must be calibrated and serviced when returned to us. We do most of that calibration in house, using a team of experienced technicians and our state of the art calibration laboratory.

Although our customers respond to equipment pricing and availabilities in making their decisions to choose to work with us, we believe that our success also depends on other factors:

- **Customer Responsiveness.** Our customer service, responsiveness and expert technical staff provide us a key competitive advantage. Our new Authorized Technology Partnership (“ATP”) sales agreement with Agilent, for the United States and Canada, has enabled us to substantially expand the number and technical expertise of our T&M sales force, which at approximately 73 persons is the largest among our principal competitors. Our management team is the most experienced and stable in the industry, averaging 25 years at Electro Rent. Forbes magazine named us as one of their “100 Most Trustworthy Companies” out of the more than 8,000 publicly traded companies for what Forbes termed “transparent and conservative accounting practices and solid corporate governance and management.”
- **Global Platform.** Although our customers represent a cross-section of the economy, much of our business is conducted with large companies in the aerospace and defense, semiconductor, electronics and telecommunications industries. As the largest T&M rental, leasing and sales company in North America, and one of the only rental companies in the world with a global platform and key locations in the US, Canada, China and Europe, our size and reach appeals to our multinational customers and assists us in maximizing our equipment utilization and inventory management across different geographic markets.
- **Multichannel Offerings.** In the last two years, we have expanded our business to offer customers a single source for their equipment acquisitions, whether they want to rent, lease or buy new or used equipment. We believe that we offer the greatest breadth of acquisition options in the industry, allowing our customers to match the appropriate option to their usage and capital and other factors, such as accounting rules and regulatory requirements. In addition, spreading costs over multiple channels allows us to maintain the largest sales force among our principal competitors, which in turn broadens and deepens our customer contacts and provides them more technical strength and assistance.
- **Deep Vendor Relationships.** We have worked to develop and maintain strong relationships with the major manufacturers of equipment, who are our principal suppliers. We build these relationships not only on our rental and leasing activities, which makes us one of the largest customers of these manufacturers, but also by partnering with our vendors to sell their products. By maintaining close relationships with multiple vendors, we can help our customers select the right equipment for their needs, better fill customer orders for equipment with long lead-times, and understand product development trends which tend to shape the nature of the demands of our rental and leasing customers as well as the prices for our used equipment.

- **Dynamic Inventory Management Systems.** To maximize our overall profit from the rental, leasing, and sales of equipment, we manage our equipment pool on an on-going basis by controlling the timing, pricing and mix of our purchases and sales. We acquire new and used equipment to meet current technological standards and current and anticipated customer demand, and we sell our used equipment where we believe that is the most lucrative option. We employ a complex equipment management strategy and our proprietary PERFECT™ software to adjust our inventory and pricing on a dynamic basis in order to maximize equipment availability, utilization and profitability. We manage each specific equipment class based on a separate assessment of that equipment's historical and projected life cycle and numerous other factors, including the U.S. and global economy, interest rates and new product launches.

Our Strategic Growth Initiatives. We believe that our resources and financial infrastructure remain capable of handling a significantly greater volume of business activity without a proportionate increase in expenses. Based on this belief, we have been seeking ways to increase revenues to leverage that infrastructure through internal growth and external acquisitions. These strategies include:

- **Sales and Distribution Channel Initiative.** Beginning in fiscal 2007, we have been expanding our business by adding new equipment sales channels to our rental, leasing and used equipment sales offerings. In addition to adding revenue and expanding our sales organization, we can capture related rental and lease opportunities and provide customers with a full range of equipment acquisition options. Our ATP agreement with Agilent, commencing in fiscal 2010, gives us the exclusive right to sell Agilent's more complex T&M equipment to small to medium size customers (who previously purchased directly from Agilent) in the United States and Canada.
- **Equipment Pool Expansion Initiatives.** Despite the global economic downturn, we have used our strong balance sheet to make significant equipment purchases to meet T&M rental demand, support areas of potential growth and keep our equipment pool technologically up-to-date. In response to increasing customer demand, we increased our purchases of equipment during fiscal 2010 by 54% compared to fiscal 2009, including \$22.9 million of equipment acquired in our purchase of the assets of Telogy, LLC ("Telogy") in March 2010. As a result, we have been able to expand and upgrade our equipment base with equipment that is limited in supply but growing in demand, enhancing our ability to meet the needs of a wide range of customers, as well as expand our equipment pool offerings in some related areas such as telecom and industrial products business.
- **Vendor Leasing Initiative.** In fiscal 2009, we began an initiative to develop a substantial worldwide T&M leasing program by partnering with Agilent, Ixia, JDSU and other major manufacturers. These relationships have expanded our leasing program and enhanced our ability to meet the needs of our customers by offering competitive finance and operating leases.

Our Markets and Competition. The North American general purpose test equipment rental market has generated in excess of \$200 million of annual rental and lease revenue in a normal economic environment, and is characterized by intense competition from several large competitors. Although no single competitor holds a dominant market share in North America, our primary competitors in the T&M rental area include McGrath Rent Corp., Continental Resources, Test Equity, and Microlease plc. We compete for rental business with Microlease plc and Livingston Group Ltd. in Europe and Orix Corporation in Asia. These entities also compete with us in leasing T&M equipment, as do banks, vendors and other financing sources. In addition, in selling our equipment, we may also compete with sales of new equipment by our suppliers, including Agilent and Tektronix, and their other distributors. Our competitors engage in aggressive pricing for both rentals and sales, as well as offering customers extended warranties in excess of the underlying manufacturers' warranties and other services. In order to maintain or increase our market share, we may choose to lower our prices, resulting in lower revenues and decreased profitability.

The market for the lease and rental of computers and servers is highly fragmented, although our principal competitors include SmartSource Computer & Audio Visual Rentals, Rent-A-Computer, ICC Rents, Source One Rentals, PC Rentals, Rentex and CRE Rentals. The computer rental market has been characterized by intense competition that has led to industry consolidation. We acquired two competitors during the last fifteen years and SmartSource, our largest competitor, has expanded primarily due to its eighteen acquisitions. While we have focused on the rental of large quantities of computers to unique customers, SmartSource concentrates more on audio visual and trade show technology rentals.

Our Backlog. As of May 31, 2010, we had an order backlog of \$9.7 million, the result of sales in connection with our ATP sales agreement. There was no such backlog in fiscal 2009. We expect that a majority of the backlog will be delivered to customers within six months of our fiscal year end.

Backlog represents the cumulative balance, at a given point in time, of recorded customer sales orders that have not yet been shipped or recognized as sales. Backlog is increased when an order is received, and backlog is decreased when we recognize sales. Although backlog consists of firm orders for which goods and services are yet to be provided, customers can, and sometimes do, terminate or modify these orders. Backlog, on any particular date, while indicative of short-term revenue performance, is not necessarily a reliable indicator of medium or long-term revenue performance.

Other Information about Us. The following table shows, for each of the last three fiscal years, revenues from rentals and leases and sales of equipment and other revenues for our T&M and DP operating segments:

Years ended May 31,	T&M	DP	Total
2010			
Rentals and leases	\$ 77,874	\$ 16,327	\$ 94,201
Sales of equipment and other revenues	49,282	2,384	51,666
	\$ 127,156	\$ 18,711	\$ 145,867
2009			
Rentals and leases	\$ 77,430	\$ 20,965	\$ 98,395
Sales of equipment and other revenues	29,054	3,032	32,086
	\$ 106,484	\$ 23,997	\$ 130,481
2008			
Rentals and leases	\$ 85,209	\$ 23,552	\$ 108,761
Sales of equipment and other revenues	32,458	3,317	35,775
	\$ 117,667	\$ 26,869	\$ 144,536

The majority of our rental equipment inventory is located at our Van Nuys, California warehouse and is serviced by an ISO9001:2000 and AS9100 Revision B registered and compliant laboratory. We also service our customers through sales offices and calibration and service centers in the United States, Canada, China and Europe, which are linked by a proprietary on-line computer system. These centers also function as depots for the sale of used equipment. For risks relating to our foreign operations, see "Item 1A. Risk Factors — Risks Associated with International Operations."

For additional financial information about our segments and our geographic areas, see Note 16 to our consolidated financial statements included in this Form 10-K.

Our business is relatively non-seasonal except for the third quarter months of December, January and February, when rental activity declines due to extended holiday closings by a number of customers. In addition, because February is a short month, rental billing is reduced.

No single customer accounted for more than 10% of our total revenues during fiscal 2010, 2009 or 2008. We do not derive any significant portion of our revenues from direct United States Government contracts.

We have no material patents, trademarks, licenses, franchises or concessions.

At May 31, 2010, we employed approximately 335 individuals. None of these employees is a member of a labor union. We believe that our employee relations are satisfactory.

Electro Rent Corporation was incorporated in California in 1965 and became a publicly held corporation in 1980.

Obtaining Additional Information. Our Internet address is www.electrorent.com. Copies of our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available free of charge on our website via links to the Securities and Exchange Commission's website as soon as reasonably practicable after we electronically file those materials with the Securities and Exchange Commission. We provide paper copies of these reports to shareholders upon written request to Shareholder Relations, Electro Rent Corporation, 6060 Sepulveda Boulevard, Van Nuys, California 91411-2512.

Item 1A. Risk Factors.

Please carefully consider the following discussion of various risks and uncertainties. We believe these risk factors are the most relevant to our business and could cause our results to differ materially from the forward-looking statements made by us. The following risk factors are not the only risk factors that we face. Additional risks that we do not consider material, or of which we are not currently aware, may also have an adverse impact on us. Our business, financial condition and results of operations could be seriously harmed if any of these risks or uncertainties actually occurs or materializes. In that event, the market price for our common stock could decline, and our shareholders may lose all or part of their investment.

COMMON STOCK PRICE FLUCTUATIONS

Our Common Stock price has fluctuated significantly and may continue to do so in the future.

General Factors. We believe some of the reasons for past fluctuations in the price of our stock have included:

- announcements of developments related to our business;
- announcements concerning new products or enhancements in the equipment that we rent, or developments in our relationships with our customers;
- variations in our revenues, gross margins, earnings or other financial results from investors' expectations; and
- fluctuations in results of our operations and general conditions in the economy, our market, and the markets served by our customers.

In addition, prices in the stock market have been volatile in recent years. In many cases, the fluctuations have been unrelated to the operating performance of the affected companies. As a result, the price of our Common Stock could fluctuate in the future without regard to our operating performance.

Future Sales of our Common Stock. Sales of our Common Stock by our officers, directors and employees could adversely and unpredictably affect the price of our shares. Additionally, the price could be affected even by the potential for sales by these persons. In addition to the 23,961,655 shares outstanding as of August 6, 2010, as of such date, we are authorized to issue up to 315,536 shares of Common Stock upon exercise of stock options and conversion of our stock units previously granted under our equity incentive plans.

We cannot predict the effect that any future sales of our Common Stock, or the potential for those sales, will have on our share price.

FLUCTUATIONS IN OPERATING RESULTS

Historically, our operating results have fluctuated, and we expect that fluctuations could continue in the future. The fluctuations in our past results have resulted from many factors, some of which are beyond our control. In the future, these or other factors could have a material adverse impact on our operating results and cause our stock price to decrease.

Timing of Equipment Purchases and Sales and Equipment Pool Management. The profitability of our business depends in part on controlling the timing, pricing and mix of purchases and sales of equipment and on managing our equipment pool. We seek to acquire new and used equipment at attractive prices, from which we feel we can make a profit as a result of a combination of renting and/or selling that equipment. We base expenditures for equipment purchases, sales and marketing and other items on our expectations of future customer demand. In order to maximize overall profit from the rental, leasing, and sales of equipment, we manage our equipment pool on an on-going basis by analyzing our product strategy for each specific equipment class in light of that equipment's historical and projected lifecycle. In doing so, we compare our estimate of potential profit from rental with the potential profit from the product's immediate sale and replacement with new or other equipment.

Our overall equipment management is complex and our equipment strategy can change during the equipment's lifetime based upon numerous factors, including the U.S. and global economy, interest rates and new product launches. Our strategic equipment decisions are based on the following fundamentals:

- our acquisition cost;
- our estimates of current and future market demand for rentals;
- our estimates of current and future supply of equipment;
- the book value of the equipment after depreciation and other impairment;
- our estimates of the effect of interest rates on rental and leasing fees as well as capital financing; and
- our estimates of the potential current and future sale prices of equipment.

However, historical trends are not necessarily indicative of future trends. If our assumptions prove to be wrong, not only may our revenues fall short of our expectations, but we may not be able to adjust our inventory quickly enough to compensate for lower demand for one or more products in our inventory. In addition, as demand for a product falls, we may have difficulty in selling any of our excess equipment at a favorable price or at all. Both of these factors can compound the impact of any revenue shortfall and further affect our operating results and the price of our stock.

Risks Associated with Changing Economic Conditions. The U.S. economy and international markets that we serve are currently in a recession, which has resulted in more stringent credit requirements and reduced access to capital, and which may deepen and continue for the foreseeable future. Our customers historically have reduced their expenditures for electronic equipment during economic downturns. Accordingly, when the domestic and/or international economy weakens, demand for our services declines. A large part of our equipment pool is rented or leased to customers in the aerospace, defense, electronics and telecommunications industries. Continued slowdowns in the U.S. and global economy, or one or more of these specific industries, resulting in lower demand and price pressure, could have a material adverse effect on our operating results and stock price. In fact, in fiscal 2002 and fiscal 2003, the U.S. economy experienced a downturn and the core industries we serve were negatively impacted. As a result, we experienced a decline in revenues, and we recorded a loss on impairment of goodwill and intangibles. Beginning in fiscal 2009, the recession in the U.S. and global economy resulted in reduced revenues and a decline in our operating results.

Seasonal and Quarterly Fluctuations. Regardless of the overall economic outlook domestically and globally, December, January and February typically reflect lower rental activity. In addition, because February is a short month, revenue billing in that month is reduced. We cannot predict whether these seasonal factors or their effects will change in the future. The seasonal spending patterns of our customers are affected by factors such as:

- weather, holiday and vacation considerations; and
- budgetary considerations.

Additionally, our operating results are subject to quarterly fluctuations resulting from a variety of factors, including remarketing activities, product announcements by manufacturers, economic conditions and variations in the financial mix of new rentals and leases. The financial mix of new rentals and leases is a result of a combination of factors such as:

- changes in customer demands and/or requirements;
- new product announcements;
- price changes;
- changes in delivery dates;

- changes in maintenance policies and the pricing policies of equipment manufacturers; and
- price competition from other rental, leasing and finance companies.

Other Factors. Other factors that may affect our operating results include:

- competitive forces within our current and anticipated future markets;
- changes in interest rates;
- our ability to attract customers and meet their expectations;
- currency fluctuations and other risks of international operations;
- general economic conditions; and
- differences in the timing of our spending on acquiring equipment, renting or leasing that equipment and receiving revenues from our customers.

All or any of these and similar factors could result in our operating results differing substantially from the expectations of public market analysts and investors, which would likely have a material adverse impact on our stock price.

RISKS ASSOCIATED WITH TECHNOLOGY CHANGES

If we do not adequately anticipate or respond to changes in technology, it could have a material adverse effect on our operating results and stock price.

Technological Advancements. We must anticipate and keep pace with the introduction of new hardware, software and networking technologies and acquire equipment that will be marketable to our current and prospective customers. The equipment we rent can be the subject of rapid technological developments, evolving customer demands and frequent new product announcements and enhancements. If we fail to adequately anticipate or adapt to new technological developments or to recognize changing market conditions, our operating results and stock price could be materially and adversely affected.

Expenses Resulting from Technological Advancements. As a result of technology developments, we may have to make substantial and unanticipated expenditures to acquire new equipment or invest in further staff education on operating and servicing the equipment we deliver to our customers. Further, we may not adequately anticipate or respond successfully to technological changes for many reasons, including misjudging the impact of technological changes as well as financial, technological or other constraints. If we do not adequately anticipate or respond to changes in technological advancements or customer preferences, it would likely have a material adverse impact on our operating results and stock price.

Introduction of New Products and Services. The markets in which we operate are characterized by rapidly changing technology, evolving industry standards and declining prices of certain products. Our operating results will depend to a significant extent on our ability to continue to introduce new services and to control and/or reduce costs on existing services. Whether we succeed in our new offerings depends on several factors such as:

- proper identification of customer needs;
- our costs;
- timely completion and introduction of products and services as compared to our competitors;
- our ability to differentiate our equipment and services from our competitors; and
- market acceptance of our business.

RISKS ASSOCIATED WITH CUSTOMER SOLVENCY

If we do not collect on contracts with customers, it could have a material adverse effect on our operating results and stock price.

One of the reasons some of our customers find it more attractive to rent or lease electronic equipment than owning that equipment is the need to deploy their capital elsewhere. This can be particularly true in industries with high growth rates such as the telecommunications industry. However, some of our customers have liquidity issues, which have been compounded by the current economic recession, and ultimately cannot fulfill the terms of their agreements with us. If we are not able to manage credit risk issues, or if a large number of customers should have financial difficulties at the same time, our credit losses would increase above historical levels. If this should occur, our results of operations and stock price may be materially and adversely affected.

COMPETITION

If we do not effectively compete in our market, our operating results and stock price will be materially and adversely affected.

Our industry is characterized by intense competition from several large competitors, some of which have access to greater financial and other resources than we do. Although no single competitor holds a dominant market share, we face competition from both established entities and new entries in the market. Our primary competitors in the North American T&M rental area include McGrath Rent Corp., Continental Resources, Test Equity and Microlease plc. We compete for rental business with Microlease plc and Livingston Group Ltd. in Europe and Orix Corporation in Asia. These entities also compete with us in leasing T&M equipment, as do banks, vendors and other financing sources. In addition, in selling our equipment, we may also compete with sales of new equipment by our suppliers, including Agilent and Tektronix, and their other distributors.

The market for the lease and rental of computers and servers is highly fragmented, although our principal competitors include SmartSource Computer & Audio Visual Rentals, Rent-A-Computer, ICC Rents, Source One Rentals, PC Rentals, Rentex and CRE Rentals. The computer rental market has been characterized by intense competition that has led to industry consolidation. We acquired two competitors during the last fifteen years and SmartSource, our largest competitor, has expanded primarily due to its eighteen acquisitions.

Our competitors engage in aggressive pricing for both rentals and sales, as well as offering customers extended warranties in excess of the underlying manufacturers' warranties and other services. In order to maintain or increase our market share, we may choose to lower our prices, resulting in lower revenues and decreased profitability.

RISKS ASSOCIATED WITH INTERNATIONAL OPERATIONS

If we do not adequately anticipate and respond to the risks inherent in international operations, it could have a material adverse effect on our operating results and stock price.

Currency Risks. We generate a meaningful portion of our revenues from international operations. Our contracts to supply equipment outside of the U.S. are generally priced in local currency. However, our consolidated financial statements are prepared in U.S. dollars. Consequently, changes in exchange rates can unpredictably and adversely affect our consolidated operating results, and could result in exchange losses. Although we use foreign currency forward contracts to mitigate the risks associated with fluctuations in exchange rates, we may not be able to eliminate or reduce the effects of currency fluctuations. Thus, exchange rate fluctuations could have a material adverse impact on our operating results and stock price.

Other Risks Associated with International Operations. Additionally, our financial results may be adversely affected by other international risks, such as:

- international political and economic conditions;

- changes in government regulation in various countries;
- trade barriers;
- difficulty in staffing our foreign sales and service centers, and in training and retaining foreign employees;
- issues relating to the repatriation of any profits;
- adverse tax consequences; and
- costs associated with expansion into new territories.

We expect to continue our international operations and that the revenues we derive from these activities will continue to be a meaningful portion of our total revenues. If we do not anticipate and respond to the risks associated with international operations, it could have a material adverse effect on our operating results and stock price.

RISKS ASSOCIATED WITH OUR MANUFACTURERS AND SUPPLIERS

If we are not able to obtain equipment at favorable rates, it could have a material adverse effect on our operating results and stock price.

About 88% of our equipment portfolio at acquisition cost consists of general purpose T&M instruments purchased from leading manufacturers such as Agilent and Tektronix. The remainder of our equipment pool consists of personal computers and workstations, which include personal computers from Compaq, Dell, IBM, Apple, and Toshiba and workstations primarily from Sun Microsystems and Hewlett Packard. We depend on these manufacturers and suppliers to contract for our equipment. If, in the future, we are not able to purchase necessary equipment from one or more of these suppliers on favorable terms, we may not be able to meet our customers' demands in a timely manner or for a price that generates a profit. If this should occur, we can make no assurance that we will be able to secure necessary equipment from an alternative source on acceptable terms and our business and stock price may be materially and adversely affected.

DEPENDENCE ON KEY PERSONNEL

If we are unable to recruit and retain qualified personnel, it could have a material adverse effect on our operating results and stock price.

Our success depends in large part on the continued services of our executive officers, our senior managers and other key personnel, including, among others, our Chief Executive Officer, Daniel Greenberg, our President, Steven Markheim, and our Chief Financial Officer, Craig Jones. The loss of these people, especially without advance notice, could materially and adversely impact our results of operations. It is also very important that we attract and retain highly skilled personnel to accommodate growth and to replace personnel who leave. Competition for qualified personnel can be intense, especially in technology industries, and there are a limited number of people with the requisite knowledge and experience to market, sell and service our equipment. Under these conditions, we could be unable to recruit, train, and retain employees. If we cannot attract and retain qualified personnel, it could have a material adverse impact on our operating results and stock price.

CONTROL BY MANAGEMENT AND OTHERS

Senior management has significant influence over our policies and affairs and may be in a position to determine the outcome of corporate actions.

As of August 6, 2010, our executive officers and directors collectively own approximately 21.7% of our Common Stock.

As of that date, (i) Mr. Daniel Greenberg, our Chairman and Chief Executive Officer, beneficially owns approximately 20.1% of our outstanding shares of Common Stock, and (ii) one other shareholder controls 16.2% of our outstanding

shares of Common Stock. Consequently, these shareholders may have significant influence over our policies and affairs and may be in a position to determine the outcome of corporate actions requiring shareholder approval. These may include, for example, the election of directors, the adoption of amendments to our corporate documents and the approval of mergers and sales of our assets.

RISKS ASSOCIATED WITH POSSIBLE ACQUISITIONS AND NEW BUSINESS VENTURES

If we cannot successfully implement any recent or future acquisitions or new business ventures, it could have a material adverse effect on our operating results and stock price.

On occasion, we evaluate business opportunities that appear to fit within our overall business strategy. In fiscal 2006, we acquired Rush Computer Rentals, Inc., a private company based in Wallingford, Connecticut that rents and sells a wide range of DP equipment. In fiscal 2010, we acquired certain assets and select post-closing liabilities of Telogy, a private company headquartered in Union City, California, and a leading provider of electronic T&M equipment. In fiscal 2010, we entered into an agreement with Agilent to sell new T&M equipment through our new ATP sales agreement in the U.S. and Canada, resulting in the hiring of additional sales and support staff. We could decide to pursue one or more other opportunities by acquisition or internal development. Acquisitions and new business ventures, both domestic and foreign, involve many risks, including:

- the difficulty of integrating acquired operations and personnel with our existing operations;
- the difficulty of developing and marketing new products and services;
- the diversion of our management's attention as a result of evaluating, negotiating and integrating acquisitions or new business ventures;
- our exposure to unforeseen liabilities of acquired companies; and
- the loss of key employees of an acquired operation.

In addition, an acquisition or new business venture could adversely impact cash flows and/or operating results, and dilute shareholder interests, for many reasons, including:

- charges to our income to reflect the impairment of acquired intangible assets, including goodwill;
- interest costs and debt service requirements for any debt incurred in connection with an acquisition or new business venture; and
- any issuance of securities in connection with an acquisition or new business venture that dilutes or lessens the rights of our current shareholders.

Additionally, we have implemented various new business ventures in the past, and not all of such ventures have been successful. The risks associated with acquisitions and new business ventures could have a material adverse impact on our operating results and stock price.

RISKS ASSOCIATED WITH FLUCTUATING INTEREST RATES

Interest rate fluctuations could have a material adverse effect on our operating results and stock price.

Our leasing yields generally directly correlate with market interest rates: When interest rates are higher, our leasing terms incorporate a higher financing charge. However, in times of relatively lower interest rates our financing charges also decrease, and some of our customers choose to purchase new equipment, rather than leasing equipment at all. Lower leasing yields are reflected in lower rental and lease revenues.

ANTI-TAKEOVER PROVISIONS

The anti-takeover provisions contained in our Articles of Incorporation and Bylaws and in California law could materially and adversely impact the value of our Common Stock.

Certain provisions of our Articles of Incorporation, our Bylaws and California law could, together or separately, discourage, delay or prevent a third party from acquiring us, even if doing so might benefit our shareholders. This may adversely impact the interests of our shareholders with respect to a potential acquisition and may also affect the price investors would receive for their shares of Common Stock. Some examples of these provisions in our Articles of Incorporation and Bylaws are:

- the right of our board of directors to issue preferred stock with rights and privileges that are senior to the Common Stock, without prior shareholder approval; and
- certain limitations of the rights of shareholders to call a special meeting of shareholders.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We own a building that houses our corporate headquarters and Los Angeles sales office located at 6060 Sepulveda Boulevard, Van Nuys, California. The building contains approximately 84,500 square feet of office space. Approximately 40,500 square feet are currently leased to others. These tenant arrangements provide for all of the leased property to be available for our future needs.

We own a facility in Wood Dale, Illinois, containing approximately 30,750 square feet. This facility houses our Illinois warehouse and service center.

We own a building at 15385 Oxnard Street, Van Nuys, California, containing approximately 68,200 square feet. We use all of this space, except for 5,500 square feet that are currently being leased to others. This building houses our California warehouse and equipment calibration center.

As of May 31, 2010 we had sales offices in the metropolitan areas of Atlanta and Los Angeles. We also have service centers in Chicago, Dallas, Los Angeles, New York/Newark, San Francisco, Charlotte, Orlando, Toronto and Washington/Baltimore. We have foreign sales offices and warehouses in both Mechelen, Belgium and Tianjin, China.

Our facilities aggregate approximately 269,000 square feet as of May 31, 2010. Except for the corporate headquarters, the Wood Dale, Illinois facilities and the Oxnard Street building, each of which we own, all of our facilities are rented pursuant to leases for up to seven years for aggregate annual rentals of approximately \$1.1 million in fiscal 2010. We do not consider any rented facility essential to our operations. We consider our facilities to be in good condition, well maintained and adequate for our needs.

Item 3. Legal Proceedings.

Other than ordinary routine litigation incidental to our business, we are not involved in any legal proceedings that we believe could reasonably be expected to have a material adverse effect on our business, financial condition or results of operations.

Item 4. Reserved.

None.

PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Market for Common Stock; Holders.

Our common stock is quoted on the NASDAQ stock market under the symbol ELRC. There were approximately 335 shareholders of record at August 6, 2010. During fiscal 2010, we repurchased 44,114 shares of our common stock for an aggregate price of \$395,000, at an average price of \$8.94 per share. The following table sets forth, for the period shown, the high and low closing sale prices as reported by NASDAQ.

	Fiscal Year 2010		Fiscal Year 2009	
	High	Low	High	Low
First Quarter	\$ 10.61	\$ 8.76	\$ 14.77	\$ 11.05
Second Quarter	11.95	9.90	16.00	9.35
Third Quarter	12.26	10.22	12.44	7.45
Fourth Quarter	15.50	11.62	10.64	6.81

Sales of Unregistered Securities.

We did not make any unregistered sales of our securities during the quarter ended May 31, 2010.

Securities Authorized for Issuance Under Equity Compensation Plans.

The following table provides information as of May 31, 2010 with respect to shares of our Common Stock that may be issued under our existing stock incentive plans, all of which were approved by our shareholders:

EQUITY COMPENSATION PLAN INFORMATION

Number of shares of common stock to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of shares of common stock remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a)) (c)
56,659	\$15.46	771,990

Stock Repurchases.

We have from time to time repurchased shares of our common stock under an authorization from our Board of Directors. Shares repurchased by us are retired and returned to the status of authorized but unissued stock.

We did not repurchase any shares in the fourth quarter of fiscal 2010. We may choose to make additional open market or other purchases of our common stock in the future, but we have no commitment to do so.

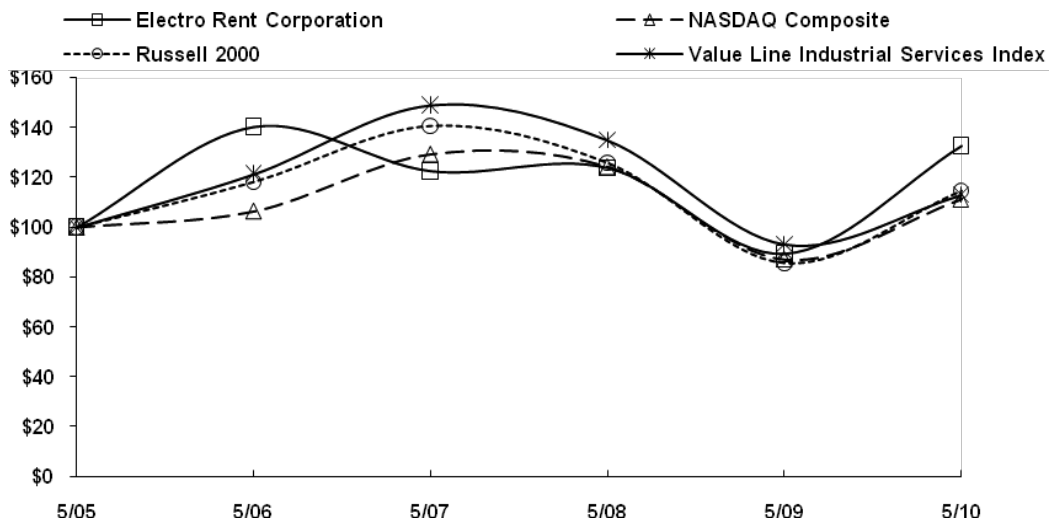
Dividends.

Since July 2007, we have been paying quarterly dividends in each January, April, July and October. Our quarterly dividend was initially set at \$0.10 per common share but was raised to \$0.15 per common share effective with our April 2008 dividend. For fiscal 2010 and 2009, we paid aggregate dividends of \$14.4 million and \$15.0 million, respectively. We expect to continue paying a quarterly dividend in future quarters, although the amount and timing of dividends, if any, will be made by our Board of Directors in each quarter, subject to compliance with applicable law.

Performance Graph.

This graph compares our total shareholder return with (1) the NASDAQ (US) Index, (2) the Russell 2000 Index, and (3) the composite prices of the companies listed by Value Line, Inc. in its Industrial Services Industry Group. Our Common Stock is listed in both the Russell 2000 Index and the Industrial Services Industry Group. The comparison is over a five year period, beginning May 31, 2005 and ending May 31, 2010. The total shareholder return assumes \$100 invested at the beginning of the period in our Common Stock and in each index. It also assumes reinvestment of all dividends.

**Cumulative Five Year Total Return
Value of \$100 Invested on May 31, 2005
Fiscal Years Ended May 31**



	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Electro Rent Corporation	100	140	123	124	89	133
NASDAQ Composite	100	106	129	124	87	111
Russell 2000	100	118	141	126	86	115
Value Line Industrial Services	100	121	149	135	93	113

Item 6. Selected Financial Data.

(in thousands, except per share amounts)

The following selected consolidated financial data should be read in conjunction with our audited consolidated financial statements and the accompanying notes included in Item 8. Financial Statements and Supplementary Data below and other financial and statistical information included in this Form 10-K.

	Fiscal year ended May 31,				
	2010 (1)	2009	2008	2007	2006
Operations data:					
Revenues	\$ 145,867	\$ 130,481	\$ 144,536	\$ 126,859	\$ 116,212
Costs of revenues and depreciation	81,666	68,630	69,901	55,848	49,350
Selling, general and administrative expenses	46,447	44,456	43,940	42,000	35,161
Bargain purchase gain (2)	(679)	—	—	—	—
Interest and other, net	(1,599)	(1,507)	(3,292)	(5,440)	(2,705)
Income before income taxes	20,032	18,902	33,987	34,451	34,406
Income tax provision	8,435	7,150	12,883	13,402	12,222
Net income	\$ 11,597	\$ 11,752	\$ 21,104	\$ 21,049	\$ 22,184
Earnings per share:					
Basic	\$ 0.48	\$ 0.47	\$ 0.81	\$ 0.82	\$ 0.87
Diluted	\$ 0.48	\$ 0.47	\$ 0.81	\$ 0.81	\$ 0.86
Shares used in per share calculation:					
Basic	23,932	24,899	25,910	25,716	25,359
Diluted	24,004	24,980	26,079	26,053	25,762
Balance sheet data (at end of year):					
Total assets	\$ 276,068	\$ 271,334	\$ 293,082	\$ 284,819	\$ 260,936
Shareholders' equity	\$ 229,962	\$ 228,753	\$ 256,108	\$ 243,479	\$ 221,841
Shareholders' equity per common share	\$ 9.60	\$ 9.55	\$ 9.87	\$ 9.43	\$ 8.68
Cash dividends declared per common share	\$ 0.45	\$ 0.75	\$ 0.35	\$ 0.10	\$ —

(1) Includes the operating results and balance sheet information of the assets acquired from Telogy from March 31, 2010, the closing date of the acquisition (see Note 4 to the consolidated financial statements included in this Form 10-K).

(2) The estimated fair value of the net assets acquired from Telogy exceeded the acquisition cost, resulting in a bargain purchase gain with respect to this transaction.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

(in thousands, except per share amounts)

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and the notes thereto and the other financial and statistical information appearing elsewhere in this Form 10-K.

Overview

We are one of the largest global organizations devoted to the rental, lease and sale of new and used electronic T&M equipment. We purchase that equipment from leading manufacturers such as Agilent and Tektronix primarily for use by our customers in the aerospace, defense, telecommunications, electronics, industrial and semiconductor industries. Although it represents only approximately 13% of our revenues in fiscal 2010, we believe our DP division is one of the largest rental companies in the United States for personal computers and servers from manufacturers including Dell, HP/Compaq, IBM and Toshiba. We have also recently expanded our efforts in the rental, lease and sale of industrial equipment such as electrical test equipment and inspection equipment. Our ATP agreement with Agilent, effective December 1, 2009 gives us the exclusive right to sell Agilent's more complex T&M equipment to small to medium size customers (who previously purchased directly from Agilent) in the United States and Canada. (In connection with this

agreement, we terminated our prior distribution agreement with Agilent.) We have added approximately 40 people to our sales and support staff to serve these customers, and we expect this agreement to be material to our operations. We began selling T&M equipment under the ATP sales agreement during our third fiscal quarter ended February 28, 2010.

On March 31, 2010, we completed the acquisition of certain assets (including accounts receivable and rental equipment but excluding certain designated assets) and select post-closing liabilities of Telogy, for \$24.7 million in cash, subject to post-closing adjustments. Telogy, headquartered in Union City, California, is a leading provider of electronic T&M equipment in North America. We accounted for the acquisition under Accounting Standards Codification (“ASC”) 805, *Business Combinations*.

Our financial results for fiscal 2010 were impacted by competitive pressure on rental rates due in large part to the recession in the U.S. and our major international markets, although our utilization rates improved due to an increase in demand and equipment on rent. The recession in the U.S. and global economy, resulting in more stringent credit requirements and reduced access to capital, is adversely affecting our customers and competitors. Consequently, while we continue to work at initiatives to expand revenue, including growth through acquisitions, we must also focus on remaining profitable in the current conditions, as well as being prepared for the possibility that the recession may deepen and continue in future periods.

In fiscal 2010, 83% of our rental and lease revenues were derived from T&M equipment, compared to 79% in fiscal 2009. This increase was due to a decline in our DP rental revenues in fiscal 2010, while our T&M rental revenues were essentially unchanged from fiscal 2009. Our T&M and DP rental rates have declined, reflecting competitive pressures and the recession in the United States and the international markets that we serve. This decline was offset, in part, by an increase in T&M rental activity in the second half of fiscal 2010 and by the T&M revenues acquired from Telogy in our fourth fiscal quarter.

In fiscal 2010, rental revenues were 86% of our rental and lease revenue. Although that percentage increased slightly from the prior fiscal year due to an increase in T&M rental activity and rental revenues acquired from Telogy, both our rental and lease revenues declined.

The profitability of our business depends in part on controlling the timing, pricing and mix of purchases and sales of equipment. To maximize our overall profit from the rental, leasing, and sales of equipment, we manage our equipment pool on an on-going basis by controlling the timing, pricing and mix of our purchases and sales. We acquire new and used equipment to meet current technological standards and current and anticipated customer demand, and we sell our used equipment where we believe that is the most lucrative option. We employ a complex equipment management strategy and our proprietary PERFECT™ software to adjust our inventory and pricing on a dynamic basis in order to maximize equipment availability, utilization and profitability. We manage each specific equipment class based on a separate assessment of that equipment’s historical and projected life cycle and numerous other factors, including the U.S. and global economy, interest rates and new product launches. If we do not accurately predict market trends, or if demand for the equipment we supply declines, we can be left with inventory that we are unable to rent or sell for a profit. We assess the carrying value of the equipment pool on a quarterly basis or more frequently when factors indicating impairment are present.

Profitability and key business trends

Comparing fiscal 2010 to fiscal 2009, our revenues increased by 11.8% to \$145.9 million, our operating profit increased 6.0% to \$18.4 million (including \$0.7 million from the bargain purchase gain in connection with our acquisition of Telogy) and our net income decreased by 1.3% to \$11.6 million. Our rental and lease revenues decreased in our DP segment, while they remained essentially unchanged from fiscal 2009 for our T&M segment. Rental rates for both our T&M and DP businesses have declined, reflecting the global recession and competitive pressures. This decline was partially offset by an increase in equipment on rent, particularly in our T&M segment, and \$1.7 million in additional T&M revenues from Telogy. The decline in rental and lease revenues was offset by an increase in T&M sales activity, due to an increase in used equipment sales, finance leases and new equipment sales in connection with our new ATP sales agreement.

Some of our key profitability measurements are presented below:

	Fiscal 2010	Fiscal 2009	Fiscal 2008
Net income per diluted common share (EPS)	\$ 0.48	\$ 0.47	\$ 0.81
Net income as a percentage of average assets	4.2%	4.2%	7.3%
Net income as a percentage of average equity	5.2%	4.9%	8.6%

The increase in our operating profit is due primarily to increased sales of new and used equipment and finance lease activity in fiscal 2010. The increase was partly offset by moderate growth in our selling, general and administrative expenses of \$2.0 million, or 4.5%. Our investment in the infrastructure necessary to support our new ATP sales agreement, and the Telogy acquisition related costs, were partially offset by several cost cutting measures that we introduced at the beginning of fiscal 2010 to control or reduce our selling, general and administrative expenses in response to the recession in the U.S. and our major international markets.

The amount of our equipment on rent, based on acquisition cost, increased 35.4% to \$199.5 million at May 31, 2010 from \$147.3 million at May 31, 2009. Acquisition cost of equipment on lease increased 2.4% to \$28.6 million at May 31, 2010 from \$27.9 million at May 31, 2009. Average rental rates and lease rates declined by 2.8% and 2.4%, respectively, from May 31, 2009 to May 31, 2010. Utilization for our T&M equipment pool, based on acquisition cost of equipment on rent and lease compared to the total equipment pool, was 71.2% at May 31, 2010, compared to 55.8% at May 31, 2009 due to an increase in both rental utilization and demand for leases. Over the same period, utilization of our DP equipment pool increased to 44.5% from 42.5% due to an increase in rental utilization, partially offset by a decline in equipment on lease.

RESULTS OF OPERATIONS

Fiscal 2010 Compared with Fiscal 2009

Total Revenues: Total revenues for fiscal 2010 and 2009 were \$145.9 million and \$130.5 million, respectively. The 11.8% increase in total revenues was due to a 61.0% increase in sales of equipment and other revenues, partially offset by a decrease in rental and lease revenues of 4.3%.

Rental and lease revenues in fiscal 2010 were \$94.2 million, compared to \$98.4 million in fiscal 2009. The decrease reflected a decline in our DP lease revenues, primarily due to lower demand for leases, and a decrease in DP rental revenues, while our T&M rental and lease revenues remained essentially unchanged from fiscal 2009. Rental rates have decreased for both our DP & T&M businesses, reflecting competitive pressures and the global recession. This decrease was partially offset by an increase in our T&M rental and lease activity, due in part to the Telogy acquisition.

Sales of equipment and other revenues increased to \$51.7 million for fiscal 2010 from \$32.1 million in fiscal 2009. The increase was primarily due to an increase in used equipment sales in our T&M business, increased finance lease activity, resulting from a large sale to a customer and continued development of our vendor leasing program that provides customers with flexible financing alternatives, and sales of T&M equipment through our new ATP sales agreement. Our unfilled orders for T&M equipment relating to our ATP sales agreement was \$9.7 million at May 31, 2010. Distribution sales in fiscal 2010 declined as a result of the termination of our Agilent distribution agreement on January 31, 2010.

Depreciation of Rental and Lease Equipment: Depreciation of rental and lease equipment decreased in fiscal 2010 to \$42.6 million, or 45.2% of rental and lease revenues, from \$46.1 million, or 46.8% of rental and lease revenues, in fiscal 2009. The decreased depreciation expense in fiscal 2010 was due to the sale of excess T&M equipment, while the decreased depreciation ratio, as a percentage of rental and lease revenues, reflected the lower equipment level during most of the year and higher utilization.

Costs of Revenues Other Than Depreciation: Costs of revenues other than depreciation increased 73.0% to \$39.1 million in fiscal 2010 from \$22.6 million in fiscal 2009. Costs of revenues other than depreciation primarily includes the cost of equipment sales, which increased as a percentage of equipment sales to 73.2% in fiscal 2010 from 67.3% in fiscal 2009. This increase reflected a decline in our used equipment sales margin, resulting from competitive pressures and the global recession, and an increase in our lower margin finance leases. In addition, fiscal 2010 includes sales of T&M equipment through our new ATP sales agreement, which generally carry a lower margin. Our sales margin is expected to continue to

decline as a result of anticipated growth in our finance leases and sales in connection with our new ATP sales agreement. Our sales margin is also impacted by competition, the global recession, and customer requirements and funding.

Selling, General and Administrative Expenses: Selling, general and administrative expenses increased 4.5% to \$46.4 million in fiscal 2010 compared to \$44.5 million in fiscal 2009. Our selling, general and administrative expenses increased primarily due to additional sales and support staff in connection with our new ATP sales agreement, and \$0.2 million in transition costs related to the Tology acquisition, partially offset by several cost cutting measures that we introduced at the beginning of fiscal 2010 to control or reduce our selling, general and administrative expenses in response to the recession in the U.S. and our major international markets. As a percentage of total revenues, selling, general and administrative expenses decreased to 31.8% in fiscal 2010 from 34.1% in fiscal 2009, due to an increase in total revenues.

Operating Profit: As a result of significant growth in our sales of equipment and other revenues and a gain on bargain purchase of \$0.7 million as a result of the Tology acquisition, operating profit increased 6.0% to \$18.4 million, or 12.6% of total revenues, in fiscal 2010, compared to an operating profit of \$17.4 million, or 13.3% of total revenues, in fiscal 2009.

Interest Income, Net: Interest income, net, was \$1.6 million in fiscal 2010, compared to \$1.5 million in fiscal 2009. Interest income, net, includes \$0.7 million of unrealized losses on our put option to UBS AG ("UBS") which were offset by a related \$0.7 million of unrealized gains on our investments, trading.

Income Tax Provision: Our effective tax rate was 42.1% for fiscal 2010, compared to 37.8% for fiscal 2009. The increase was due primarily to changes in tax estimates, a valuation allowance on tax benefits for certain foreign subsidiary losses and a reduction of the benefit from tax-advantaged investments.

Fiscal 2009 Compared with Fiscal 2008

Total Revenues: Total revenues for fiscal 2009 and 2008 were \$130.5 million and \$144.5 million, respectively. The 9.7% decrease in total revenues was due to a 9.5% decrease in rental and lease revenues and a 10.3% decrease in sales of equipment and other revenues.

Rental and lease revenues in fiscal 2009 were \$98.4 million, compared to \$108.8 million in fiscal 2008. This reflected a decline in our T&M and DP lease revenues, primarily due to lower demand, and a decrease in T&M and DP rental revenues, reflecting decreased rental activity and rental rates due to competitive pressures and the global recession.

Sales of equipment and other revenues decreased to \$32.1 million in fiscal 2009 from \$35.8 million in fiscal 2008. Our used equipment sales decline reflected lower customer demand partly offset by an increase in distribution sales and increased finance lease activity. This increase was due to the continued development, both in terms of personnel and marketing, of our distribution channel and our vendor leasing program that provides customers with flexible financing alternatives.

Depreciation of Rental and Lease Equipment: Depreciation of rental and lease equipment increased in fiscal 2009 to \$46.1 million, or 46.8% of rental and lease revenues, from \$45.0 million, or 41.4% of rental and lease revenues, in fiscal 2008. The increased depreciation expense in fiscal 2009 was due to a higher average rental and lease equipment pool, while the increased depreciation ratio, as a percentage of rental and lease revenues, was due primarily to a decline in our rental and lease revenues, reflecting lower rental rates and lower demand for leases, as well as lower utilization rates.

Costs of Revenues Other Than Depreciation: Costs of revenues other than depreciation decreased 9.4% to \$22.6 million in fiscal 2009 from \$24.9 million in fiscal 2008. Costs of revenues other than depreciation primarily includes the cost of equipment sales, which increased as a percentage of equipment sales to 67.3% in fiscal 2009 from 65.2% in fiscal 2008. This increase reflected a decline in our higher-margin used equipment sales due to lower customer demand, reflecting competitive pressures and the global recession, and increased finance leases and distribution sales, which carry a lower margin. Our cost of revenues other than depreciation decreased primarily due to a decline in our used equipment sales.

Selling, General and Administrative Expenses: Selling, general and administrative expenses increased 1.2% to \$44.5 million in fiscal 2009, compared to \$43.9 million in fiscal 2008. Our selling, general and administrative expenses increased due to a foreign currency loss of \$0.6 million for fiscal 2009, compared to a foreign currency gain of \$0.4 million for fiscal

2008, as a result of a strengthening of the U.S. dollar against key currencies. Excluding foreign currency effects, our selling, general and administrative expenses decreased due to a decline in personnel and benefit related costs. As a percentage of total revenues, selling, general and administrative expenses increased to 34.1% in fiscal 2009 from 30.4% in fiscal 2008, due primarily to a decline in revenue.

Operating Profit: As a result of the decrease in revenues and increase in selling, general and administrative expenses, operating profit decreased 43.3% to \$17.4 million, or 13.3% of total revenues, in fiscal 2009, compared to an operating profit of \$30.7 million, or 21.2% of total revenues, in fiscal 2008.

Interest Income, Net: Interest income, net, was \$1.5 million in fiscal 2009, compared to \$3.3 million in fiscal 2008. The decrease reflected decreases in prevailing interest rates and a lower cash balance. Interest income, net, for fiscal 2009 included \$1.6 million of unrealized gains on our put option and \$1.6 million of unrealized losses on our investments, trading, including \$999 transferred from accumulated other comprehensive loss as of May 31, 2008. There were no such amounts for fiscal 2008.

Income Tax Provision: Our effective tax rate decreased slightly to 37.8% for fiscal 2009, compared to 37.9% for fiscal 2008. Although fiscal 2009 included a release of reserves as a result of changes in estimated tax exposures, this was partially offset by a valuation allowance relating to certain deferred tax assets of our foreign operations.

Liquidity and capital resources

Capital Expenditures. During the last three fiscal years, our primary capital requirements have been purchases of rental and lease equipment. We generally purchase equipment throughout each year to replace equipment that has been sold and to maintain adequate levels of rental equipment to meet existing and expected customer demands. To meet T&M rental demand, support areas of potential growth for both T&M and DP equipment and to keep our equipment pool technologically up-to-date, we made payments for the purchase of \$79.8 million of rental and lease equipment during fiscal 2010, \$52.0 million in fiscal 2009, and \$81.0 million in fiscal 2008. In response to increasing customer demand beginning in the second half of fiscal 2010, purchases of equipment were 53.6% higher than fiscal 2009. Capital expenditures for fiscal 2010 include \$22.9 million of rental and lease equipment acquired from Telogy.

Share Repurchases and Dividends. We periodically repurchase shares of our common stock under an authorization from our board of directors. Shares we repurchase are retired and returned to the status of authorized but unissued stock. During fiscal 2010, 2009 and 2008, we repurchased 44, 2,138, and 12 shares of our common stock, respectively, for \$0.4 million, \$22.8 million, and \$0.2 million, respectively, at an average price per share of \$8.94, \$10.67, and \$12.96, respectively. We may make repurchases of our common stock in the future through open market transactions or otherwise, but we have no commitments to do so.

For fiscal 2010, 2009 and 2008, we paid aggregate dividends of \$14.4 million, \$15.0 million and \$11.7 million, respectively. We expect to continue paying a quarterly dividend in future quarters, although the amount and timing of dividends, if any, will be made at the discretion of our board of directors in each quarter, subject to compliance with applicable law.

Dividend and Repurchase Summary

(in thousands, except per share information)	Fiscal Year Ended May 31,			
	Three Year Totals	2010	2009	2008
Cash dividends paid	\$ 41,049	\$ 14,360	\$ 15,030	\$ 11,659
Shares repurchased	2,194	44	2,138	12
Average price per share	\$ 10.86	\$ 8.94	\$ 10.67	\$ 12.96
Aggregate purchase price	\$ 23,360	\$ 395	\$ 22,813	\$ 152
Total cash returned to shareholders	\$ 64,409	\$ 14,755	\$ 37,843	\$ 11,811

Cash and Cash Equivalents and Investments. Despite the \$64.4 million in cash we have returned to our shareholders over the past three fiscal years, and the \$24.7 million we paid in connection with the Telogy acquisition in fiscal 2010, we continue to maintain substantial cash and cash equivalents and investments. We expect that the level of our cash and

cash equivalents and investments may decrease as we pay dividends in future quarters, or if we decide to buy back additional shares of our common stock, increase equipment purchases in response to demand, finance another acquisition, or pursue other opportunities. We invest our cash balance in money market funds, and corporate and government bond funds.

At May 31, 2010, we held \$14.3 million, at cost, in auction rate securities ("ARS"), which we classify as investments, trading.

On November 6, 2008, we accepted an offer from UBS providing us with rights related to our ARS (the "Rights"). The Rights permitted us to require UBS to purchase our ARS at par value, defined as the price equal to the liquidation preference of the ARS plus accrued but unpaid dividends or interest, at any time between June 30, 2010 and July 2, 2012. During June and July 2010, UBS purchased our remaining ARS of \$14.3 million at par value. (See Note 18 to the consolidated financial statements included in this Form 10-K.)

During the second quarter of fiscal 2010, we sold our investments available-for-sale for \$28.8 million, including a realized gain of \$0.8 million, included in interest income, net, in our consolidated statements of operations.

Cash Flows and Credit Facilities. The acquisition cost of our rental and lease equipment portfolio at May 31, 2010 totaled \$351.0 million, an increase of \$13.4 million from the prior fiscal year end. During the past three fiscal years, we made payments for equipment purchases totaling \$189.8 million, excluding the rental and lease equipment purchased from Telogy of \$22.9 million, and recorded an aggregate increase in the acquisition cost of our equipment portfolio, net of the liquidation of used equipment, of \$49.1 million. We have three principal sources of liquidity: cash flows provided by our operating activities, proceeds from the sale of equipment from our portfolio, and external funds that historically have been provided by bank borrowings.

During fiscal 2010, 2009, and 2008 net cash provided by operating activities was \$34.2 million, \$59.0 million and \$54.2 million, respectively. The decrease in operating cash flow for fiscal 2010 compared to fiscal 2009 was due primarily to: a \$7.5 million increase in accounts receivable for fiscal 2010, primarily due to higher revenues in fiscal 2010; a decrease in our deferred tax liability of \$2.8 million for fiscal 2010, resulting from an increase in used equipment sales in fiscal 2010; an increase in other assets of \$4.3 million for fiscal 2010, due to a large finance lease transaction in the second quarter of fiscal 2010; an increase in accrued expenses of \$2.5 million in fiscal 2010 due to an increase in current taxes payable as a result of the change in deferred taxes noted above; a dividend accrual in fiscal 2009 that was paid in fiscal 2010; and an increase in deferred revenue of \$1.1 million in fiscal 2010, resulting from an increase in revenues in our fourth fiscal quarter of 2010, due in part to the Telogy acquisition. The decrease also includes a decline in net income to \$11.6 million for fiscal 2010 from \$11.8 million in fiscal 2009.

The increase in operating cash flow for fiscal 2009 compared to fiscal 2008 was due primarily to: a \$6.2 million decrease in accounts receivable for fiscal 2009, primarily due to a decline in revenues and the timing of collections of accounts receivable; an increase in our deferred tax liability of \$4.6 million for fiscal 2009, resulting from increased tax depreciation expense; an increase in other assets of \$1.8 million for fiscal 2009, due to an increase in finance leases; and a decrease in accrued expenses of \$1.0 million in fiscal 2009, excluding a non-cash dividend accrual of \$3.6 million in fiscal 2009. The increases were partially offset by a decline in net income to \$11.8 million for fiscal 2009 from \$21.1 million in fiscal 2008.

During fiscal 2010, 2009, and 2008 net cash used in investing activities was \$9.5 million, \$50.8 million and \$50.3 million, respectively. Fiscal 2010 includes redemptions of investments, available-for-sale of \$28.7 million, compared to purchases of investments, available-for-sale of \$27.9 million and \$3.5 million for fiscal 2009 and 2008, respectively. Redemptions of investments, trading, were \$7.3 million, \$2.0 million and \$3.5 million for fiscal 2010, 2009 and 2008, respectively. Proceeds from sale of rental and lease equipment increased to \$36.7 million for fiscal 2010 compared to \$27.3 million for fiscal 2009 and \$31.1 million for fiscal 2008. Payments for equipment purchases were \$56.9 million, \$52.0 million and \$81.0 million for fiscal 2010, 2009 and 2008, respectively. Fiscal 2010 includes cash paid for the acquisition of Telogy of \$24.7 million.

Net cash flows used in financing activities were \$14.2 million in fiscal 2010, compared to \$36.5 million in fiscal 2009 and \$10.3 million in fiscal 2008. Proceeds from issuance of common stock were \$0.5 million for fiscal 2010, compared to \$1.3

million and \$1.4 million for fiscal 2009 and 2008, respectively. Payments for the repurchase of common stock declined to \$0.4 million in fiscal 2010, compared to \$22.8 million in fiscal 2009 and \$0.2 million in fiscal 2008. Payments for dividends were \$14.4 million, \$15.0 million and \$11.7 million for fiscal 2010, 2009 and 2008, respectively.

As the following table illustrates, aggregate cash flows from operating activities and proceeds from the sale of equipment have been more than sufficient to fund our operations during the last three fiscal years.

(in thousands)	Three Years Ended			
	May 31, 2010	2010	2009	2008
Cash flows from operating activities ¹	\$ 147,328	\$ 34,173	\$ 58,977	\$ 54,178
Proceeds from sale of equipment	95,140	36,661	27,342	31,137
Total	242,468	70,834	86,319	85,315
Payments for equipment purchases	(189,822)	(56,891)	(51,956)	(80,975)
Equipment purchased from Telogy	(22,923)	(22,923)		
Net increase in equipment portfolio at acquisition cost	49,057	13,457	3,915	31,685

¹ For the components of cash flows from operating activities see the consolidated statements of cash flows.

As indicated by the table, cash flows from operating activities and proceeds from sale of equipment provided 114% of the funds required for equipment purchased during the past three fiscal years.

We have a \$10.0 million revolving line of credit with an institutional lender, subject to certain restrictions, to meet equipment acquisition needs as well as working capital and general corporate requirements. We had no bank borrowings outstanding or off balance sheet financing arrangements during the last three fiscal years.

We believe that cash and cash equivalents, cash flows from operating activities, proceeds from the sale of equipment and our borrowing capacity will be sufficient to fund our operations for at least the next twelve months.

Inflation. Inflation generally has favorably influenced our results of operations by enhancing the sale prices of our used equipment. However, lower inflation rates and the continued availability of newer, less expensive equipment with similar or better specifications over a period of several years could result in lower relative sale prices for used electronic equipment, which could reduce margins and earnings. Prices of new and used electronic test equipment have not consistently followed the overall inflation rate, while prices of new and used personal computers and servers have consistently declined. Because we are unable to predict the advances in technology and the rate of inflation for the next several years, it is not possible to estimate the impact of these factors on our margins and earnings.

CONTRACTUAL OBLIGATIONS

We lease certain facilities under various operating leases. Most of the lease agreements provide us with the option of renewing the lease at the end of the initial lease term, at the fair rental value, for periods of up to five years. In most cases, we expect that facility leases will be renewed or replaced by other leases in the normal course of business.

The table below presents the amount of payments due under our contractual obligations. The table reflects expected payments due as of May 31, 2010 and does not reflect changes that could arise after that time.

Contractual Obligations (in thousands)	Total	Payments due by period			
		Less than 1 year	1-3 years	3-5 years	More than 5 years
Facility lease payments, not including property taxes and insurance	\$ 988	\$ 577	\$ 342	\$ 69	\$ —
Total	\$ 988	\$ 577	\$ 342	\$ 69	\$ —

The exact timing of reversal or settlement of our ASC 740, *Income Taxes*, liabilities of \$7.1 million could not be reasonably estimated at the end of the current fiscal year.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”) requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On a regular basis, we review these estimates, including those related to asset lives and depreciation methods, impairment of long-lived assets (including rental and lease equipment), impairment of goodwill and definite lived intangible assets, investments, allowance for doubtful accounts and income taxes. These estimates are based on our historical experience and on various other assumptions we believe to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect the more significant judgments and estimates used in the preparation of our financial statements:

Asset Lives and Depreciation Methods: Our primary business involves the purchase and subsequent rental and lease of long-lived electronic equipment. We have chosen asset lives that we believe correspond to the economic lives of the related assets. We have chosen depreciation methods that we believe generally match our benefit from the assets with the associated costs. These judgments have been made based on our expertise in each equipment type that we carry. If the asset life and depreciation method chosen do not reduce the book value of the asset to at least our potential future cash flows from the asset, we would be required to record an impairment loss. Depreciation methods and useful lives are periodically reviewed and revised as deemed appropriate.

Investments in Debt Securities: Our investment portfolio may at any time contain direct obligations of the United States government, securities issued by agencies of the United States government, money market or cash management funds, corporate and government bond funds, and ARS. ASC 820, *Fair Value Measurements*, establishes three levels of inputs that may be used to measure fair value (see Note 3 to our consolidated financial statements included in this Form 10-K). Each level of input has different levels of subjectivity and difficulty in determining fair value.

Level 1 — Observable inputs, such as quoted prices in active markets for identical assets or liabilities. Determining fair value for Level 1 investments generally does not require significant management judgment.

Level 2 — Inputs, other than the quoted prices in active markets, that are observable either directly or through corroboration with observable market data.

Level 3 — Unobservable inputs, for which there is little or no market data for the assets or liabilities, such as internally-developed valuation models. The determination of fair value for Level 3 investments requires the most management judgment and subjectivity.

All of the securities classified as Level 3 investments are ARS. At May 31, 2010, we held \$14.3 million, at cost, of ARS. During fiscal 2010, we sold \$7.3 million of our ARS at par value. During June and July 2010 we sold all of our remaining ARS to UBS at par value, for \$14.3 million in cash. (See Note 18 to our consolidated financial statements included in this Form 10-K.) Our ARS were long-term debt instruments backed by student loans, a substantial portion of which was guaranteed by the United States government. Prior to their sale, we valued the ARS from quotes received from our broker, UBS, which were derived from UBS’s internally developed model. In determining a discount factor for each ARS, the model weighted various factors, including assessments of credit quality, duration, insurance wraps, portfolio composition, discount rates, overall capital market liquidity and comparable securities, if any.

Impairment of Long-Lived Assets: On a quarterly basis, we review the carrying value of our rental and lease equipment to determine if the carrying value of the assets may not be recoverable due to current and forecasted economic conditions. This requires us to make estimates related to future cash flows from the assets and to determine whether any deterioration is other than temporary. If these estimates or the related assumptions change in the future, we may be required to record additional impairment charges.

Allowance for Doubtful Accounts: We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of customers to pay our invoices. The estimated losses are based on historical collection experience in conjunction with an evaluation of the status of the existing accounts. If the financial condition of our customers were to deteriorate, then additional allowances could be required that would reduce income. Conversely, if the financial condition of our customers were to improve or if legal remedies to collect past due amounts were more successful than expected, then the allowance for doubtful accounts might need to be reduced and income would be increased.

Goodwill Impairment: Goodwill is the excess of the acquisition cost of a business over the fair value of the identifiable net assets acquired. We recognized goodwill of \$3.1 million on the acquisition of Rush Computer Rentals in January 2006. Impairment testing for goodwill is performed annually, on May 31, or more frequently if indications of potential impairment exist under the provisions of ASC 350, *Intangibles — Goodwill and Other* ("ASC 350"). The impairment test for goodwill uses a two-step approach, which is performed at the reporting unit level. We have separate operating segments (reporting units) for T&M and DP equipment, although these two segments are aggregated into a single reportable segment in accordance with ASC 280, *Segment Reporting*. Step one of the impairment test compares the fair value of the reporting unit using a market approach to its carrying value. If the carrying value exceeds the fair value, there is a potential impairment and step two must be performed. Step two compares the carrying value of the reporting unit's goodwill to its implied fair value (i.e., fair value of reporting unit less the fair value of the unit's assets and liabilities, including identifiable intangible assets). If the implied fair value of goodwill is less than the carrying amount of goodwill, impairment is recognized.

Definite-lived Intangible Assets: Definite-lived intangible assets consist of customer lists and covenants not-to-compete. The assets are amortized over their useful lives and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable in accordance with ASC 350. If any indications of impairment are present, then we test for recoverability by comparing the carrying amount of the asset to the net undiscounted cash flows expected to be generated from the asset. If the net undiscounted cash flows indicate the asset is not recoverable, we determine the fair value of the asset and record any impairment. We reevaluate the useful life determinations for these intangible assets each reporting period to determine whether events and circumstances warrant a revision in their remaining useful lives.

Income Taxes: We are required to estimate income taxes in each of the jurisdictions in which we operate. Significant judgment is required in determining the provision for income taxes and deferred tax assets and liabilities. This process involves us estimating actual current tax exposure and assessing temporary differences resulting from differing treatment of items, such as depreciation and amortization, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We then assess the likelihood that our deferred tax assets will be recovered. To the extent management believes that recovery is not likely, we establish a valuation allowance. We determined that a valuation allowance was required in fiscal 2010 and 2009 of \$0.5 million and \$0.3 million, respectively, for our deferred tax asset related to certain foreign net operating loss carry forwards and other related timing differences. There was no valuation allowance required for fiscal 2008.

Effective January 1, 2007, the Financial Accounting Standards Board issued new accounting guidance regarding uncertain income tax positions. This guidance found under ASC 740, *Income Taxes*, provides that the tax effects of a position be recognized only if it is "more-likely-than-not" to be sustained based solely on its technical merits as of the reporting date. The more-likely-than-not threshold represents a positive assertion by us that our company is entitled to the economic benefits of a tax position. If a tax position is not considered more-likely-than-not to be sustained based solely on its technical merits, no benefits of the position are to be recognized. Moreover, the more-likely-than-not threshold must continue to be met in each reporting period to support continued recognition of a benefit. At adoption, companies must adjust their financial statements to reflect only those tax positions that are more-likely-than-not to be sustained as of the adoption date. Any necessary adjustment would be recorded directly to retained earnings in the period of adoption and reported as a change in accounting principle. Pursuant to our adoption of this guidance on June 1, 2007, we recorded a net decrease of \$0.4 million to retained earnings.

Off BALANCE SHEET TRANSACTIONS

As of May 31, 2010 we did not have any “off-balance-sheet arrangements,” as defined in Item 303(a)(4)(ii) of Regulation S-K.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

We could be exposed to market risks related to changes in interest rates and foreign currency exchange rates.

Interest Rate and Market Risk.

While we have the ability to draw on our revolving credit line, we have not had any borrowings under that credit facility for several years.

The primary objective of our investment activities is to preserve principal while at the same time maximizing the income we receive from our investments without significantly increasing risk. To achieve this objective, we maintain our portfolio of cash equivalents and investments in a variety of high quality securities, including direct obligations of the United States government, securities issued by agencies of the United States government, AAA-rated money market or cash management funds, corporate and government bond funds and ARS. A hypothetical increase in interest rates by 10% would not have a material impact on our financial condition or results of operations.

At May 31, 2010, our only investments held for trading purposes were ARS with a par value of \$14.3 million, all of which were subsequently purchased by UBS at par during June and July 2010 pursuant to an agreement with UBS entered into on November 6, 2008. (See Note 18 to the consolidated financial statements included in this Form 10-K.)

Changes in Foreign Currencies.

We have wholly owned Chinese and European subsidiaries. In addition, we have revenues, cash and cash equivalents and accounts receivable in other foreign currencies, primarily the Canadian dollar. Our international operations subject us to foreign currency risks (i.e., the possibility that the financial results could be better or worse than planned because of changes in foreign currency exchange rates). During fiscal 2010 we began using forward contracts to hedge our economic exposure with respect to assets, liabilities and firm commitments denominated in foreign currencies. Although there can be no assurances, given the extent of our international operations and our hedging, we do not expect a 10% change in foreign currency rates to have a material impact on our consolidated balance sheet.

Item 8. Financial Statements and Supplementary Data.

See Consolidated Financial Statements beginning on page F-1 of this Form 10-K.

Supplemental Financial Information regarding quarterly results is contained in Note 17 — *Quarterly Information (unaudited)*, in the Notes to our Consolidated Financial Statements on page F-27 of this Form 10-K.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

Not Applicable

Item 9A. Controls and Procedures.

As of May 31, 2010, the end of the period covered by this Annual Report on Form 10-K, we have, with the participation of our Chief Executive Officer and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures, as such terms are defined in Rule 13a-15(e) and Rule 15d-15(e) under the Securities and Exchange Act of 1934 as amended (the “Exchange Act”). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934). Our management assessed the effectiveness of our internal control over financial reporting as of May 31, 2010. In making this assessment, our management used the criteria set forth in Internal Control Integrated Framework by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Our management has concluded that, as of May 31, 2010, our internal control over financial reporting is effective based on these criteria.

Deloitte & Touche LLP, an independent registered public accounting firm, who audited our consolidated financial statements included in this Form 10-K has issued an attestation report on our internal control over financial reporting, which is included below.

Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during our fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures or our internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Electro Rent Corporation
Van Nuys, California

We have audited the internal control over financial reporting of Electro Rent Corporation and subsidiaries (the "Company") as of May 31, 2010, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Management's Report on Internal Control Over Financial Reporting." Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of May 31, 2010, based on the criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) the consolidated financial statements as of and for the year ended May 31, 2010 of the Company and our report dated August 12, 2010 expressed an unqualified opinion on those financial statements.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California
August 12, 2010

Item 9B. Other Information.

Not Applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this Item is incorporated by reference to our definitive Proxy Statement with respect to our Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission not later than September 28, 2010.

Item 11. Executive Compensation.

The information required by this Item is incorporated by reference to our definitive Proxy Statement with respect to our Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission not later than September 28, 2010.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this Item is incorporated by reference to our definitive Proxy Statement with respect to our Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission not later than September 28, 2010.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this Item is incorporated by reference to our definitive Proxy Statement with respect to our Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission not later than September 28, 2010.

Item 14. Principal Accountant Fees and Services.

The information required by this Item is incorporated by reference to our definitive Proxy Statement with respect to our Annual Meeting of Shareholders, which will be filed with the Securities and Exchange Commission not later than September 28, 2010.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) Financial Statements.

1. *Index to Financial Statements:*

	<u>Page</u>
See Consolidated Financial Statements included as part of this Form 10-K. Pursuant to Rule 7-05 of Regulation S-X, the schedules have been omitted as the information to be set forth therein is included in the notes of the audited consolidated financial statements.	F-1

All other schedules have been omitted since the required information is not present or is not present in amounts sufficient to require submission of a schedule, or because the information required is included in the financial statements or related notes.

(b) Exhibits.

Number	Document Description
3.1	Restated Articles of Incorporation, filed October 3, 1984 (11)
3.2	Certificate of Amendment of Restated Articles of Incorporation, filed October 24, 1988 (11)
3.3	Certificate of Amendment of Restated Articles of Incorporation, filed October 15, 1997 (5)
3.4	Bylaws of Registrant, adopted February 6, 1979 (11)
3.5	Amendment of Bylaws of Registrant, adopted October 6, 1994 (1)
3.6	Amendment of Bylaws of Registrant, adopted November 15, 1996 (3)
3.7	Amendment of Bylaws of Registrant, adopted July 11, 2002 (11)
4.1	Form of Common Stock Certificate (11)
10.1	Electro Rent Corporation Supplemental Retirement Plan (11) **
10.2	Executive Employment Agreement (Amended and Restated as of July 15, 1992) between Registrant and Daniel Greenberg (11) **
10.3	Amendment No. 1 to Executive Employment Agreement (Amended and Restated as of July 15, 1992) between Registrant and Daniel Greenberg, dated October 12, 2001 (6) **
10.4	Employment Agreement between Registrant and Steven Markheim, dated as of October 31, 2005 (8) **
10.5	Employment Agreement between Registrant and Craig R. Jones, dated as of October 31, 2005 (8) **
10.6	1996 Stock Option Plan (2) **
10.7	Form of Stock Option Agreement (Incentive Stock Option) (1996 Plan) (2) **
10.8	Form of Stock Option Agreement (Nonstatutory Stock Option) (1996 Plan) (2) **
10.9	Amendment Number One to 1996 Stock Option Plan, adopted November 1, 1996 (4) **

Number	Document Description
10.10	Amendment No.1 to 1996 Stock Option Plan, 1996 Director Option Plan, and 2002 Employee Stock Option Plan (7) **
10.11	2005 Equity Incentive Plan (9) **
10.12	Form of 2005 Stock Option Agreement (9) **
10.13	Form of Stock Unit Award Agreement (Employee) (10) **
10.14	Form of Stock Unit Award Agreement (Director) (11) **
10.15	Form of Indemnification Agreement (11) **
10.16	Commercial Credit Agreement dated as of September 29, 2008 between Electro Rent Corporation (the "Company") and Union Bank of California, N.A. (12)
10.17	First Amendment to Commercial Credit Agreement dated as of March 4, 2009 between the Company and Union Bank of California, N.A (12)
10.18	Second Amendment to Commercial Credit Agreement dated as of September 16, 2009 between the Company and Union Bank of California, N.A. (12)
10.19	Asset Purchase Agreement between Registrant and Telogy, LLC dated as of March 16, 2010 (13)
10.20	Agreement between the Company and UBS regarding Auction Rate Securities (12)
14	Code of Business Conduct and Ethics (11)
21	<u>Subsidiaries of the Registrant.</u> <ul style="list-style-type: none"> • Genstar Rental Electronics, Inc., a Canadian corporation • ER International, Inc., a Delaware corporation • Electro Rent Asia, Inc., a California corporation • Electro Rent (Tianjin) Rental Co., Ltd., a Chinese wholly foreign-owned enterprise • Electro Rent Europe NV, a Belgium corporation • Electro Rent, LLC, a Delaware limited liability company
23	Consent of Deloitte & Touche LLP, the Company's independent registered public accounting firm (14)
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer (14)
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer (14)
32.1	Section 1350 Certification by Principal Executive Officer (14)
32.2	Section 1350 Certification by Chief Financial Officer (14)

** This exhibit is a management contract, compensatory plan or arrangement.

- (1) Incorporated by reference from Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 1995.
- (2) Incorporated by reference from Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 1996.
- (3) Incorporated by reference from Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 1997.

- (4) Incorporated by reference from Registrant's Registration Statement on Form S-8 filed December 5, 1996 (Registration No. 333-17295).
- (5) Incorporated by reference from Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 1998.
- (6) Incorporated by reference from Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2003.
- (7) Incorporated by reference from Registrant's Proxy Statement on Form DEF 14A filed December 2, 2003.
- (8) Incorporated by reference from Registrant's Current Report on Form 8-K filed November 1, 2005.
- (9) Incorporated by reference from Registrant's Registration Statement on Form S-8 filed December 20, 2005 (File No. 333-130487).
- (10) Incorporated by reference from Registrant's Current Report on Form 8-K filed July 21, 2009.
- (11) Incorporated by reference from Registrant's Annual Report on Form 10-K for the fiscal year ended May 31, 2009.
- (12) Incorporated by reference from Registrant's Quarterly Report on Form 10-Q For the quarterly period ended February 28, 2010.
- (13) Incorporated by reference from Registrant's Current Report on Form 8-K filed March 22, 2010.
- (14) Filed herewith.

(c) Schedule of Financial Statements

None.

SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Electro Rent Corporation

Dated: August 12, 2010.

By /s/ Daniel Greenberg
Daniel Greenberg
Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
<u>/s/ Daniel Greenberg</u> Daniel Greenberg	Chairman of the Board and Chief Executive Officer	August 12, 2010
<u>/s/ Craig R. Jones</u> Craig R. Jones	Chief Executive Officer (Principal Financial and Accounting Officer)	August 12, 2010
<u>/s/ Gerald D. Barrone</u> Gerald D. Barrone	Director	August 12, 2010
<u>/s/ Nancy Y. Bekavac</u> Nancy Y. Bekavac	Director	August 12, 2010
<u>/s/ Karen J. Curtin</u> Karen J. Curtin	Director	August 12, 2010
<u>/s/ Joseph J. Kearns</u> Joseph J. Kearns	Director	August 12, 2010
<u>/s/ James S. Pignatelli</u> James S. Pignatelli	Director	August 12, 2010
<u>/s/ Suzan K. DelBene</u> Suzan K. DelBene	Director	August 12, 2010