

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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QUARTERLY REPORT UNDER SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended June 30, 1995  
Commission File No. 0-13292

McGRATH RENTCORP

(Exact name of registrant as specified in its Charter)

California 94-2579843

(State or other jurisdiction (I.R.S. Employer  
of incorporation or organization) Identification No.)

2500 Grant Avenue  
San Lorenzo, California 94580

(Address of principal executive offices)

Registrant's telephone number: (510) 276-2626

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

Yes  No

At August 9, 1995, 7,842,137 shares of Registrant's Common Stock were outstanding.

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PART 1. FINANCIAL INFORMATION

Item 1. Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)

Three months ended  
June 30,

Six months ended  
June 30,

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	1995 -----	1994 -----	1995 -----	1994 -----
<b>REVENUES:</b>				
Rental operations-				
Rental	\$11,521,962	\$11,413,947	\$22,596,061	\$22,238,456
Rental related services	1,768,990	2,099,138	3,799,728	4,556,044
	-----	-----	-----	-----
	13,290,952	13,513,085	26,395,789	26,794,500
Sales and related services	3,829,895	2,737,598	7,374,527	5,807,393
	-----	-----	-----	-----
Total revenues	17,120,847	16,250,683	33,770,316	32,601,893
	-----	-----	-----	-----
<b>COSTS &amp; EXPENSES:</b>				
Direct costs of rental operations-				
Depreciation	2,847,952	2,756,567	5,602,332	5,420,130
Rental related services	1,224,937	1,379,486	2,400,588	2,995,255
Other	1,185,086	1,115,829	2,337,504	2,376,276
	-----	-----	-----	-----
	5,257,975	5,251,882	10,340,424	10,791,661
Cost of sales and related services	2,576,378	1,802,191	4,905,277	3,831,439
	-----	-----	-----	-----
	7,834,353	7,054,073	15,245,701	14,623,100
	-----	-----	-----	-----
Gross margin	9,286,494	9,196,610	18,524,615	17,978,793
	-----	-----	-----	-----
Selling and administrative expenses	3,129,694	3,308,301	6,432,380	6,509,197
	-----	-----	-----	-----
Income from operations	6,156,800	5,888,309	12,092,235	11,469,596
	-----	-----	-----	-----
Interest expense	687,207	495,232	1,362,661	953,377
	-----	-----	-----	-----
Income before provision for income taxes	5,469,593	5,393,077	10,729,574	10,516,219
	-----	-----	-----	-----
Provision for income taxes	2,205,204	2,089,817	4,288,216	4,075,034
	-----	-----	-----	-----
Net income	\$ 3,264,389	\$ 3,303,260	\$ 6,441,358	\$ 6,441,185
	-----	-----	-----	-----
Net income per share	\$0.39	\$0.39	\$0.78	\$0.76
	-----	-----	-----	-----

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

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CONSOLIDATED BALANCE SHEETS  
(Unaudited)

	June 30, 1995 -----	December 31, 1994 -----
Assets		
Cash	\$ 342,119	\$ 1,151,648
Accounts receivable, less allowance for doubtful accounts of \$1,005,000 in 1995 and \$1,400,000 in 1994	13,634,077	12,662,213

Rental equipment, at cost:		
Relocatable modular offices	146,069,782	144,674,027
Electronic test instruments	32,331,674	29,541,687
Accessory equipment	3,677,130	3,627,776
	-----	-----
	182,078,586	177,843,490
Less - Accumulated depreciation	(54,177,730)	(50,599,702)
	-----	-----
	127,900,856	127,243,788
Land	19,484,550	19,484,550
Improvements, furniture and equipment, at cost,		
less accumulated depreciation of \$2,454,662		
in 1995 and \$2,348,664 in 1994	10,770,358	7,276,411
Prepaid expenses and other assets	2,408,512	2,103,913
	-----	-----
	\$174,540,472	\$169,922,523
	=====	=====

Liabilities and Shareholders' Equity

Liabilities:		
Notes payable	\$ 37,315,000	\$ 35,950,000
Accounts payable and accrued liabilities	11,391,939	9,603,107
Deferred income	6,805,920	7,247,647
Deferred income taxes	33,757,354	33,282,281
	-----	-----
Total liabilities	89,270,213	86,083,035
	-----	-----

Shareholders' equity:

Common stock, no par value -		
Authorized - 20,000,000 shares		
Outstanding - 8,052,937 shares in 1995		
and 8,158,687 in 1994	13,825,627	15,999,633
Retained earnings	71,444,631	67,839,855
	-----	-----
Total shareholders' equity	85,270,258	83,839,488
	-----	-----
	\$174,540,471	\$169,922,523
	=====	=====

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

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CONSOLIDATED STATEMENTS OF CASH FLOWS  
Increase (decrease) in cash  
(Unaudited)

	Six months ended	
	June 30,	
	-----	-----
	1995	1994
	-----	-----
Cash flows from operating activities:		
Net income	\$ 6,441,358	\$ 6,441,185
Adjustments to reconcile net income to net cash		
provided by operating activities:		
Depreciation	6,170,130	5,588,790

Gain on sale of rental equipment	(1,588,298)	(1,850,835)
Change in:		
Accounts receivable	(971,864)	(646,634)
Prepays and other assets	(304,599)	(194,615)
Accounts payable and accrued liabilities	945,895	828,399
Deferred income	(441,727)	(306,863)
Deferred income taxes	475,073	2,885,035
	-----	-----
Net cash provided by operating activities	10,725,968	12,744,462
	-----	-----
Cash flows from investing activities:		
Purchase of rental equipment	(8,693,762)	(13,058,578)
Purchase of improvements, furniture and equipment	(4,061,745)	(86,788)
Proceeds from sale of rental equipment	4,022,660	5,212,791
	-----	-----
Net cash used in investing activities	(8,732,847)	(7,932,575)
	-----	-----
Cash flows from financing activities:		
Net borrowings	1,365,000	(2,825,000)
Payment of dividends	(1,878,282)	(1,745,807)
Repurchase of Common Stock	(2,316,235)	---
Proceeds from the exercise of stock options	26,867	11,753
	-----	-----
Net cash used in financing activities	(2,802,650)	(4,559,054)
	-----	-----
Net increase (decrease) in cash	(809,529)	252,833
	-----	-----
Cash balance, beginning of period	1,151,648	432,009
	-----	-----
Cash balance, end of period	\$ 342,119	\$ 684,842
	=====	=====
Interest paid during period	\$ 1,341,546	\$ 933,771
	=====	=====
Income taxes paid during period	\$ 3,372,576	\$ 1,240,000
	=====	=====
Dividends declared but not yet paid	\$ 958,300	\$ 914,545
	=====	=====

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
June 30, 1995

1. The consolidated financial information for the six months ended June 30, 1995 has not been audited, but in the opinion of management, all adjustments (consisting only of normal recurring accruals, consolidation and eliminating entries) necessary for the fair presentation of the consolidated results of operations, financial position, and cash flows of McGrath RentCorp (the "Company") have been made. The consolidated results of the six months ended June 30, 1995 should not be considered as necessarily indicative of the results for the entire year. It is suggested that these consolidated financial statements be read in conjunction with the financial statements and notes thereto included in the Company's latest Form 10-K.

2. The number of outstanding shares and equivalent shares used in the earnings per common share calculations were as follows:

	Primary -----	Fully Diluted -----
Three months ended: June 30, 1995	8,266,920	8,213,431
June 30, 1994	8,456,998	8,452,006

Six months ended: June 30, 1995	8,279,073	8,222,935
June 30, 1994	8,463,369	8,463,214

3. On January 1, 1995, McGrath RentCorp converted a \$300,000 note receivable to 73.171% ownership of Enviroplex, Inc. Enviroplex, Inc. manufactures portable classrooms built to the requirements of the Division of State Architect ("DSA") and sells primarily to school districts. In June 1995, Enviroplex established a \$1,000,000 revolving line of credit with a bank which is guaranteed by McGrath RentCorp. The accompanying consolidated financial statements include the accounts of the Company and its majority owned subsidiary. All intercompany accounts and transactions have been eliminated in consolidation.

4. In April 1995, 6,786 shares of common stock were issued under the Long Term Bonus Plan to certain key employees for achieving an average return on equity during the three years ended December 31, 1994. The liability of \$115,362 for these shares was reflected in the 1994 Financial Statements and in April 1995 was reclassified to equity (common stock) upon issuance.

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

Three and Six Months Ended June 30, 1995 and 1994

Rental revenues for the three and six months ended June 30, 1995 increased \$108,015 (1%) and \$357,605 (2%), respectively, over the same periods in 1994. For the six month period, the \$947,626 increase in rental revenues from electronics was offset by a \$590,021 decline in rental revenues from relocatable modular offices. The rental revenue decline for modulars was due to the return of a significant amount of equipment (220 unit complex) from a single customer which had generated rental billings of \$322,464 per quarter. Average utilization during the first six months declined for modular equipment, from 78.1% to 75.1%, and improved slightly for electronic equipment, from 53.7% to 54.4%, as compared to the same period in 1994.

Rental related services for the three and six months ended June 30, 1995 decreased \$330,148 (16%) and \$756,316 (17%), respectively, over the same periods in 1994. The six month decrease was due to fewer site work requirements experienced in 1995 offset by a one time adjustment of incentive fees recognized by the Company for equipment management. For the six month comparative period in 1994, \$739,000 of rental related service revenues was for site work for three projects, one of which was directly related to the Northridge, California earthquake. Gross margins for rental related services for the six month period increased from 34% in 1994 to 37% in 1995.

Sales and related services for the three and six months ended June 30, 1995 increased \$1,092,297 (40%) and \$1,567,134 (27%), respectively, over the same periods in 1994. The increases in sales volume for each comparative period is due to the sales volume of the Company's majority owned subsidiary, Enviroplex, Inc. which had sales in the first six months of 1995 of \$2,668,573. Sales and related services from quarter to quarter have fluctuated depending on customer requirements. Gross margins on sales and related services for the six month period declined from 34.0% in 1994 to 33.5% in 1995.

Selling and administrative expenses for the three and six months ended June 30, 1995 decreased \$178,607 (5%) and \$76,817 (1%), respectively, over the same periods in 1994. The six month decrease is primarily due to net reductions in bad debt, insurance and freight-in expenses amounting to \$743,824 offset by the addition of Enviroplex, Inc. expenses of \$338,569 and the acceleration of the recognition of a leasehold improvement expense of \$330,000.

Interest expense for the three and six months ended June 30, 1995 increased \$191,975 (39%) and \$409,284 (43%), respectively, over the same periods in 1994 as a result of higher borrowing levels combined with a higher average interest rate.

Income before provision for income taxes for the three and six months ended June 30, 1995 increased \$76,516 (1%) and \$213,355 (2%), respectively, over the same periods in 1994 with net income remaining the same for each reported period as a result of a slightly higher effective tax rate for 1995.

#### Liquidity and Capital Resources.

The debt (notes payable) to equity ratio was 0.44 to 1 at June 30, 1995 compared to 0.43 to 1 at December 31, 1994. The debt (total liabilities) to equity ratio at the end of the current period was 1.05 to 1 as compared to 1.03 to 1 as of December 31 1994.

The Company's primary use of funds is to purchase rental equipment, and funds will continue to be used for this purpose in the future. Additionally, the Company has used substantial funds to make improvements to its inventory facilities located in Southern California, Northern California and the Houston area, and funds will continue to be used for this purpose.

From time to time, the Company has repurchased shares of its issued and outstanding common stock in the over-the-counter market (NASDAQ) and/or through privately negotiated, large block transactions. The Board of Directors believes the Company's shares are currently undervalued by the market and that the repurchase of its shares is a good investment for the Company under such circumstances. During the year ended December 31, 1994, the Company repurchased 158,354 shares of its issued and outstanding common stock for an aggregate purchase price of \$2,532,591 (average price of \$15.99 per share). During the first quarter of 1995, the Company repurchased 45,700 shares of its common stock for an aggregate purchase price of \$714,038 (average price of \$15.62 per share), and during the second quarter 1995, it repurchased 96,566 shares for an aggregate purchase price of \$1,602,197 (average price of \$16.59 per share). During the period from July 1 through August 9, 1995, the Company has repurchased an additional 211,800 shares at an aggregate purchase price of \$3,654,294 (average price of \$17.25 per share). Shares repurchased by the Company are cancelled and returned to the status of authorized but unissued stock. As of August 9, 1995, the Company was still authorized to purchase an additional 341,634 shares of its common stock under an authorization from its Board of Directors given on March 30, 1995.

During the first six months of 1995, the Company paid \$1,878,282 in cash quarterly dividends to its shareholders. Subject to its continued profitability and favorable cash flow, the Company intends to continue the payment of quarterly dividends to its shareholders.

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## PART II. OTHER INFORMATION

### ITEM 5. OTHER INFORMATION

In June 1995, the Company declared a quarterly dividend on its Common Stock; the dividend was \$0.12 per share. Subject to its continued profitability and favorable cash flow, the Company intends to continue the payment of quarterly dividends. The Company's loan agreement with the Bank prohibits payment of dividends in excess of 50% of net income in any one year without the bank's consent.

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS. No exhibits included.

(b) REPORTS ON FORM 8-K. No reports on form 8-K have been filed during the quarter for which this report is filed.

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SIGNATURES

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

Date: August 9, 1995

McGRATH RENTCORP

By: /s/ Delight Saxton

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Delight Saxton, Chief Financial  
Officer and Vice President  
of Administration

<ARTICLE> 5

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM MCGRATH,  
RENTCORP'S QUARTERLY REPORT (10Q) FOR THE QUARTER ENDING JUNE 30, 1995 AND IS  
QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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