

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 September 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 November 8, 1995, 7,760,247 shares of Registrant's Common Stock were outstanding.

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PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

STATEMENTS OF INCOME  
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	1995	1994	1995	1994
<b>REVENUES:</b>				
Rental operations-				
Rental	\$11,928,853	\$11,893,560	\$34,524,914	\$34,132,016
Rental related services	3,032,306	2,987,235	6,832,034	7,543,279
	14,961,159	14,880,795	41,356,948	41,675,295
Sales and related services	4,106,228	5,209,924	11,480,755	11,017,317
Total revenues	19,067,387	20,090,719	52,837,703	52,692,612
<b>COSTS &amp; EXPENSES:</b>				
Direct costs of rental operations-				
Depreciation	2,930,235	2,821,373	8,532,567	8,241,503
Rental related services	1,925,257	2,186,591	4,325,845	5,181,846
Other	1,256,333	1,160,627	3,593,837	3,536,903
	6,111,825	6,168,591	16,452,249	16,960,252
Cost of sales and related services	2,793,706	3,695,405	7,698,983	7,526,844
	8,905,531	9,863,996	24,151,232	24,487,096
Gross margin	10,161,856	10,226,723	28,686,471	28,205,516
Selling and administrative expenses	3,534,800	3,440,105	9,967,180	9,949,302
Income from operations	6,627,056	6,786,618	18,719,291	18,256,214
Interest expense	759,920	582,180	2,122,581	1,535,557
Income before provision for income taxes	5,867,136	6,204,438	16,596,710	16,720,657
Provision for income taxes	2,361,414	2,404,220	6,649,630	6,479,254
Net income	\$ 3,505,722	\$ 3,800,218	\$ 9,947,080	\$10,241,403
Net income per share	\$ 0.44	\$ 0.45	\$ 1.22	\$ 1.22

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

BALANCE SHEETS  
(Unaudited)

	September 30, 1995	December 31, 1994
	-----	-----
<b>ASSETS</b>		
Cash	\$ 267,336	\$ 1,151,648
Accounts receivable, less allowance for doubtful accounts of \$805,000 in 1995 and \$1,400,000 in 1994	15,169,994	12,662,213
Rental equipment, at cost:		
Relocatable modular offices	147,339,101	144,674,027
Electronic test instruments	33,124,432	29,541,687
Accessory equipment	3,683,888	3,627,776
	-----	-----
	184,147,421	177,843,490
Less - Accumulated depreciation	(55,839,105)	(50,599,702)
	-----	-----
	128,308,316	127,243,788
Land	19,489,300	19,484,550
Improvements, furniture and equipment, at cost, less accumulated depreciation of \$2,548,258 in 1995 and \$2,348,664 in 1994	11,296,420	7,276,411
Prepaid expenses and other assets	2,533,267	2,103,913
	-----	-----
	\$177,064,633	\$169,922,523
	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Liabilities:</b>		
Notes payable	\$ 39,925,000	\$ 35,950,000
Accounts payable and accrued liabilities	12,532,115	9,603,107
Deferred income	7,108,195	7,247,647
Deferred income taxes	34,698,070	33,282,281
	-----	-----
Total liabilities	94,263,380	86,083,035
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<b>Shareholders' equity:</b>		
Common stock, no par value -		
Authorized - 20,000,000 shares		
Outstanding - 7,760,247 shares in 1995 and 8,158,687 in 1994	8,782,132	15,999,633
Retained earnings	74,019,121	67,839,855
	-----	-----
Total shareholders' equity	82,801,253	83,839,488
	-----	-----
	\$177,064,633	\$169,922,523
	=====	=====

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

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

	Nine months ended September 30,	
	----- 1995	1994 -----
Cash flows from operating activities:		
Net income	\$ 9,947,080	\$ 10,241,403
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	9,274,334	8,519,374
Gain on sale of rental equipment	(2,325,868)	(3,033,305)
Change in:		
Accounts receivable	(2,507,781)	(2,974,500)
Prepays and other assets	(429,354)	(1,109,466)
Accounts payable and accrued liabilities	2,113,140	2,268,574
Deferred income	(139,452)	918,280
Deferred income taxes	1,415,789	1,897,251
Net cash provided by operating activities	----- 17,347,888	16,727,611 -----
Cash flows from investing activities:		
Purchase of rental equipment	(13,587,246)	(17,621,990)
Purchase of land	(4,750)	----
Purchase of improvements, furniture and equipment	(4,761,776)	(98,924)
Proceeds from sale of rental equipment	6,316,019	8,695,223
Net cash used in investing activities	----- (12,037,753)	(9,025,691) -----
Cash flows from financing activities:		
Net borrowings	3,975,000	(3,075,000)
Payment of dividends	(2,836,584)	(2,660,352)
Repurchase of common stock	(7,374,279)	(1,464,243)
Proceeds from the exercise of stock options	41,416	11,753
Net cash provided (used) by financing activities	----- (6,194,447)	(7,187,842) -----
Net increase (decrease) in cash	(884,312)	514,078
Cash balance, beginning of period	1,151,648	432,009
Cash balance, end of period	----- \$ 267,336	\$ 946,087 ----- =====
Interest paid during period	\$ 2,110,541	\$ 1,516,185 =====
Income taxes paid during period	\$ 4,750,000	\$ 4,640,000 =====
Dividends declared but not yet paid	\$ 931,230	\$ 904,007 =====

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

NOTES TO FINANCIAL STATEMENTS  
September 30, 1995

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1. The consolidated financial information for the nine months ended September 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 nine months ended September 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: September 30, 1995	7,958,848	7,960,787
September 30, 1994	8,379,533	8,385,926
Nine months ended: September 30, 1995	8,158,890	8,166,221
September 30, 1994	8,365,696	8,372,976

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.

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

Three and Nine Months Ended September 30, 1995 and 1994

Rental revenues for the three and nine months ended September 30, 1995 increased slightly over the same periods in 1994. For the nine month period, the \$1,508,566 increase in rental revenues from electronics was offset by a \$1,115,668 decline in rental revenues from relocatable modular offices. The rental revenue decline for modulars was primarily 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 nine months declined for modular equipment, from 79.1% to 74.6%, and remained the same for electronic equipment (55.2%), as compared to the same period in 1994.

Rental related services for the three and nine months ended September 30, 1995 increased \$45,071 (2%) and decreased \$711,245 (9%), respectively, over the same periods in 1994. The nine month decrease was due to fewer site work requirements experienced in 1995 offset by an adjustment of incentive fees recognized by the Company for equipment management. For the nine 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.

Sales and related services for the three and nine months ended September 30, 1995 decreased \$1,103,696 (21%) and increased \$463,438 (4%), respectively, over the same periods in 1994. The sales volume in the first nine months is higher than in 1994 due to the sales contribution of the Company's majority owned subsidiary, Enviroplex, Inc. which had sales in the first nine months of 1995 of \$4,079,049. Sales and related services from quarter to quarter have fluctuated depending on customer requirements. Gross margins on sales and related services for the nine month period increased from 31.7% in 1994 to 33.0% in 1995.

Interest expense for the three and nine months ended September 30, 1995 increased \$177,740 (31%) and \$587,024 (38%), respectively, over the same periods in 1994 as a result of higher borrowing levels combined with a higher average interest rate.

Net income for the three and nine months ended September 30, 1995 decreased \$294,496 (5%) and \$294,323 (3%), respectively, over the same periods in 1994 with earnings per share remaining approximately the same for the comparative periods as a result of fewer outstanding shares in 1995.

#### Liquidity and Capital Resources.

The debt (notes payable) to equity ratio was 0.48 to 1 at September 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 1.14 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), 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) and during the third quarter 1995, it repurchased an additional 293,800 shares at an aggregate purchase price of \$5,058,044 (average price of \$17.22 per share). Shares repurchased by the Company are cancelled and returned to the status of authorized but unissued stock. As of November 8, 1995, the Company had made no further repurchases of its shares and was still authorized to purchase an additional 495,000 shares of its common stock under an authorization from its Board of Directors given on August 28, 1995.

During the first nine months of 1995, the Company paid \$2,836,584 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.

PART II. OTHER INFORMATION

ITEM 5. OTHER INFORMATION

On August 28, 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.



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: November 8, 1995

McGRATH RENTCORP

By: /s/ Delight Saxton

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Delight Saxton, Chief Financial  
Officer and Vice President of  
Administration



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

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9-MOS	DEC-31-1995	JAN-01-1995	SEP-30-1995
			267
		0	
	15,975		
	805		
	0		
		184,147	
	55,839		
	177,065		
	0		0
		8,782	
	0		
		0	
		74,019	
177,065			
		52,838	
	52,838		
		24,151	
	24,151		
	6,432		
	0		
	2,123		
	16,597		
	6,650		
	0		
	0		
	0		
		0	
	9,947		
	1.22		
	0		